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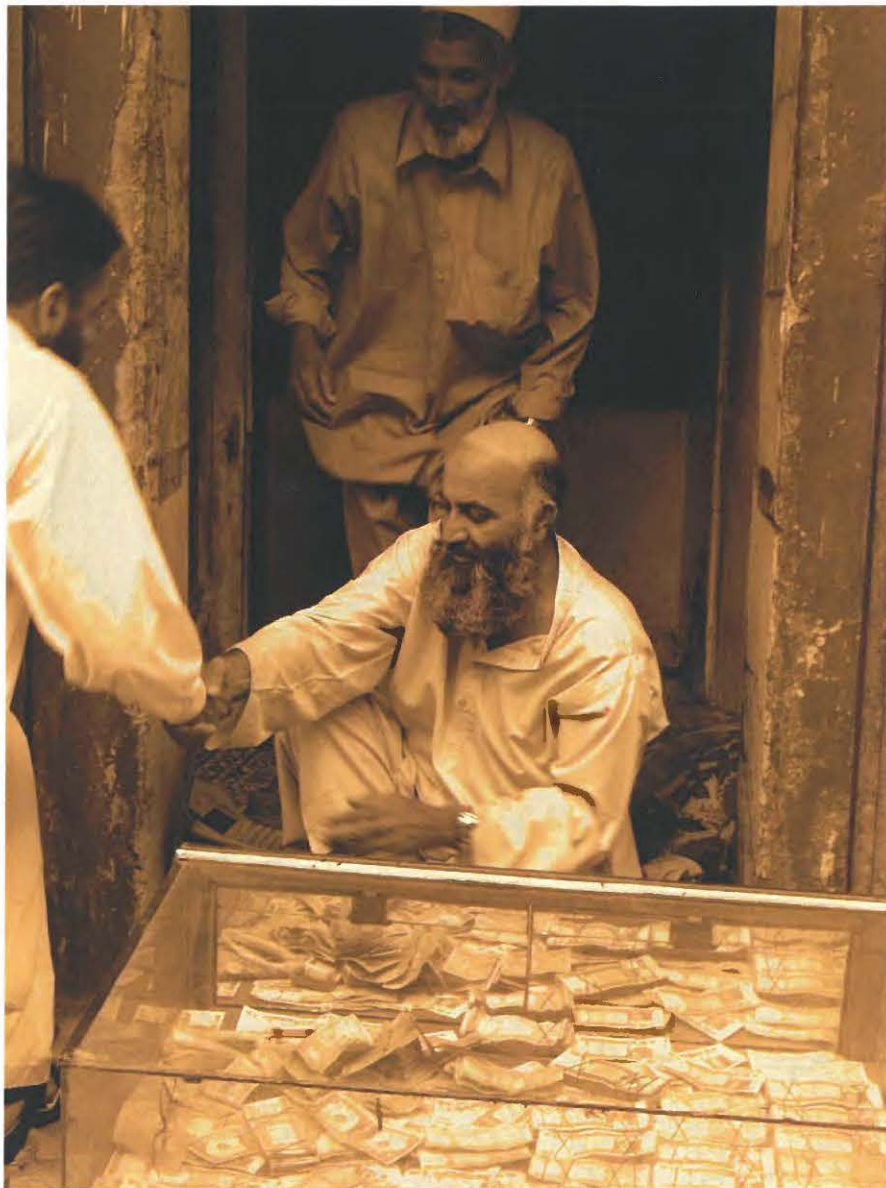
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ECONOMIC GOVERNANCE IN FAILED STATES

A Study of the Money Men in Afghanistan



EDWINA A. THOMPSON

A thesis submitted for the degree of
Doctor of Philosophy of the Australian National University
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I certify that this thesis is entirely my own work.

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Abstract

Can transitive state-building and post-conflict reconstruction models ever exist in a vacuum, or must they always be crafted to specific circumstances? Much of the current discourse and practice around state-building and war economies seeks to understand how change can be achieved through an analytic lens that poses dichotomies of formal versus informal institutions, public versus private authority, and legal versus illegal or morally unacceptable activity. Through an examination of the ‘money men’, or *hawala* networks, in Afghanistan, this thesis reflects on the political, social, and economic mechanisms of institutional change that tend to be excluded from such thinking on post-conflict states. It argues that the above dichotomies not only begin to dissolve when considering the predicament of local money dealers, but that more important dynamics emerge around the *legitimacy* of change and the challenge of how to reconcile broad models with specific and unique contexts.

For all the media and policy attention given to the ‘money men’ of Afghanistan in the wake of 9/11, little remains known about the institutions that support these groups, how they have survived and adapted throughout the centuries, and why they continue to persist into the present day despite state collapse and subsequent efforts to regulate, disrupt, or replace them with formal structures. Using a dynamic bottom-up approach, this study combines archival and qualitative research methods to unravel the money dealer’s unique predicament in Afghanistan.

As prospects for security and development worsen in major parts of Afghanistan, and opium trafficking – supported by informal financial mechanisms – is consistently identified as one of the major obstacles to a durable peace, it seems timely to improve on current examinations of how powerful socio-economic networks like those of the money men persist and function under strain. There are clear implications for aid and regulation in the context of post-conflict reconstruction; hence the study addressees these two areas throughout, framing the analysis with a critique of the ‘liberal peace’ paradigm.

In providing a bottom-up perspective, this thesis draws extensively on interviews conducted in and around the money bazaars of Afghanistan and NWFP in Pakistan where it was necessary to employ the use of sociological, anthropological, psychological, and political science concepts to enhance the excessively macro-level, state-focused debate that dominates thinking on economic governance systems in ‘failed states’ within the field of politics and international relations. The melding of both new and existing concepts across disciplines permits a fresh and more rigorous examination of what form economic governance can take when chaos supposedly reigns. Boundaries between peace and war, the legal and illegal, cultural and rational economic, criminal and benign, and the pressures of survival and profit, are found to meet and blur in ways that inspire both a revision of the widespread criminalisation accounts of ‘informal economies’ and closer focus on the burgeoning question of ‘legitimacy contests’ in transition.

Overall, in response to the challenge facing ‘state-builders’ of how to reconcile broad models with unique contexts, the thesis examines what key mechanisms of political, social and economic change are revealed when the typical IR view of state-building is adjusted to consider the institutions that not only support society during periods of instability, but also have the potential to be harnessed for greater international stability.

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Abbreviations & Glossary

ANP	Afghan National Police
ATTA	Afghan Transit Trade Agreement
AusAID	Australian Agency for International Development
BCCI	Bank of Credit and Commerce International
CIA	Central Intelligence Agency
CPEF	Central Poppy Eradication Force
DAB	Da Afghanistan Bank (Central Bank of Afghanistan)
DUCAMZ	Dubai Cars and Automotive Zone
FATA	Federally Administered Tribal Areas
FZA	Free Zone Authorities
ICRC	International Committee of the Red Cross
IDP	Internally Displaced Person or People
INGO	International Non-Governmental Organisation
ISAF	International Security Assistance Force
ISI	Inter-Services Intelligence
JAFZA	Jebel Ali Free Zone Authority
KYC	Know Your Customer
NGO	Non-Governmental Organisation
NWFP	North West Frontier Province
PATA	Provincially Administered Tribal Areas
PRT	Provincial Reconstruction Team
SWIFT	Society for World Wide Interbank Funds Transfer
TABSF	Transnational Afghan Border Security Force
TT	Telegraphic Transfer
UAE	United Arab Emirates
UK	United Kingdom
US	United States of America
UNDP	United Nations Development Fund
UNHCR	United Nations High Commission for Refugees
UNODC	United Nations Office for Drugs and Crime

<i>badal</i>	revenge
<i>burqa</i>	loose garment with mesh grid over the eyes, worn by Afghan women
<i>hawala</i>	informal banking system that facilitates domestic and international monetary transfers
<i>hawaladar*</i>	money service provider, or ‘money-dealer’, who conducts hawala
<i>Hazara</i>	minority ethnic group in Afghanistan
<i>drug hawaladar</i>	money service provider who facilitates the transfer of drug proceeds
<i>gurudwara</i>	Sikh temple
<i>malmastai</i>	hospitality
<i>mudaraba</i>	limited liability commercial partnership
<i>mufawada</i>	unlimited liability commercial partnership
<i>mujahideen</i>	warrior
<i>Pashto</i>	native language of Pashtun ethnic group
<i>Pashtun</i>	majority ethnic group in Afghanistan
<i>pashtunwali</i>	tribal code specific to the Pashtuns
<i>qawm</i>	social network or affiliation
<i>sarāf</i> [†]	foreign exchange dealer or ‘money-changer’
<i>Sarai Shahzada</i>	Kabul’s currency exchange market
<i>shalwar kameez</i>	traditional dress worn by men in Afghanistan
<i>sharia</i>	Islamic law
<i>suftaja</i>	promissory note, letter of credit, or bill of exchange
<i>suud</i>	financial interest (money paid for use of money borrowed)
<i>tarboorwali</i>	agnatic rivalry (between patrilineal cousins of same generation)

[†] These terms are used interchangeably.

Introduction

At first sight local money dealer Abdul Haq seems as far removed from global capitalism as it is possible to imagine. Clad in the traditional *shalwar kameez*¹, he and others like him in Afghanistan's local bazaars are better known for leaning in the open doorways of small shop fronts or sitting cross-legged sipping tea and cracking walnuts in back rooms than for their great displays of disposable wealth. Few would therefore guess that their understanding of the world's forex market might rival that of any broker found on the trading floors of Wall Street or the City of London.

Competition is certainly fierce in downtown Kabul, where crowds of money changers and market traders pack the three floors of the Sarai Shahzada, bargaining furiously over rates of exchange amid the knee-high stacks of crumpled currency – local afghanis, Pakistani rupees, US dollars, Iranian rials, and the United Arab Emirates dirhams. The din of the thronging courtyard only periodically intrudes, however, on the relative calm of Abdul Haq's shop which is preserved instead for 'hawala', an ancient form of money dealing and funds transfer that spans the globe and has re-emerged broadly in competition with state-governed finance across fragile regions.² The Pashto scrawl across a pile of lever arch files in the shop betrays both an impressive range of clientele and geographical reach in the business, from international organisations based in New York, to private companies and individuals in the Gulf and Middle East.

¹ While the 'shalwar' (loose trousers) and 'kameez' (long shirt) is the traditional dress of both men and women in Pakistan and India, it is worn by men only in Afghanistan. There are no female 'hawaladars', or money dealers, in Afghanistan so the male pronoun will be used throughout the thesis.

² The classical Arabic term *hawala* is used in Afghanistan and the Middle East, while *hawilaad* is commonly employed by Somalis to denote the same practice in the African continent. Foreign terms that are not assimilated into English will be italicised throughout the thesis, with the exception of *hawala* because of its frequent use. While originating in the Middle East and Indian subcontinent, *hawala* networks now link up to most of the world's major trading and financial centres due to the steady reduction of regulatory and other obstacles to cross-border flows of goods, capital, and people in the global economy.

Although not publicised widely, humanitarian workers are among the first to recognise the indispensable service of hawaladars for the delivery of funds in war-torn areas and states-in-crisis. Indeed, over the past five years in Afghanistan alone, money dealers have facilitated the movement of hundreds of millions of dollars of ‘humanitarian money’ to ensure the smooth running of the first national democratic elections in more than three decades, the construction of hundreds of kilometres of road that had fallen into disrepair, the implementation of agricultural assistance programmes, and the building of educational facilities in a country suffering from some of the lowest literacy rates in the world and where less than half the children aged 7-12 years are enrolled in school.³

In cases where formal structures have all but collapsed, such as in Iraq and throughout the refugee and internally displaced peoples’ (IDP) camps in Africa and South Asia,⁴ variations of the hawala system regularly provide people with the most effective, reliable and *only* method to move money.⁵ In early 2005 after the tsunami wave hit Aceh, for example, money dealers reportedly established an emergency communications system using the *flexsi* local mobile phone network to help migrants locate their families and arrange for the delivery of funds either to functioning bank accounts or directly to the camps themselves.⁶ Hence, from the perspective of humanitarian agencies and victims of war or natural disaster, money dealers across the globe most crucially deploy the mechanisms of hawala for the remittance of ‘benign’ tranches of cash inbound to some of the world’s remotest areas both during protracted conflict or emergency relief.

On the flipside, the very location of hawala and its networks in fragile regions of the world, coupled with the invisible nature of their transactions to the officially regulated world of finance, have sparked suspicion among Western policymakers regarding their role in providing terrorists with a ready-made funds transfer apparatus.⁷ As a result, the spotlight has turned on the previously under-researched position of peripheral actors like Abdul Haq in the global political economy.

³ UNICEF & Central Statistics Office of Afghanistan (2004) *Afghanistan. Progress of Provinces: Multiple Indicator Cluster Survey 2003* (May), 64-66. Despite this, it is important to note that Afghanistan is experiencing the highest primary net enrolment rates in its history, with more than 4.3 million children attending primary and secondary school in 2003. See Government of Afghanistan (2004) ‘Education: Technical Annexe,’ in *Securing Afghanistan’s Future. Accomplishments and the Strategic Path Forward* (January), 4.

⁴ Information gleaned from the head of a private security company in Iraq who uses hawala daily, and the United Nations World Food Programme’s Regional Public Information Officer for West Africa, who has observed the system operating in Chad, Somalia, and Sudan (November - December 2006).

⁵ Importantly, hawala is also the value transfer system of *choice* in some developed countries not experiencing crisis, particularly among migrant workers who either lack access to formal banks in the host country or require low rates and convenience in transferring small tranches of money abroad.

⁶ Wu, Treena (2006) ‘The Role of Remittances in Crisis: An Aceh Research Study,’ *Humanitarian Policy Group*, Overseas Development Institute (August), 21

⁷ The terrorist attacks on US soil in September 2001 were certainly a catalyst for further suspicion and alarm regarding these financial networks.

Zealous commitment to the 'war on terrorist finance' and the alleged success of attempts to 'clean up' the formal financial system appear to have produced a somewhat distorted image on the one hand of money dealers in the local bazaar as belonging exclusively to the murky world of underground or criminal finance, and Western bankers on the other as occupying 'the normal and legitimate space of international finance'.⁸ Within this spirit, President Bush famously asserted on the basis of flimsy evidence that the 'foreign scourge' of money dealers in the United States collectively present themselves as 'legitimate businesses' on the surface, while enabling 'the proceeds of crime in one country to be transferred to pay for terrorist acts in another ... all at the service of mass murderers'.⁹

The disjuncture between the implicit endorsement of Abdul Haq and the role that the money men play in emergency relief or state-building practice and the explicit negative construction of hawala in the policy world brings into focus an uncomfortable paradox surrounding approaches to informal remittance systems in the West. Such a paradox, however, remains hidden due to the political discomfort caused in allowing them to surface. Just as those holding the reins of the global war on terror tend to employ a rapid, knee-jerk response to issues deemed threatening to Western security, humanitarians are also driven by rapid responses in their imperative to deliver food, shelter and supplies to those most in need during an emergency. The finer details of the local players that regulators and aid workers are hoping either to smite or engage in the field become lost to expedience.

At the policy level, sufficient resources are perhaps unavailable to such a task. At the academic level, one of the major gaps in covering this topic lies in the lack of interdisciplinary research devoted to local level structures that have global impacts. While each discipline in the social sciences concentrates predominantly, and in some cases exclusively, on the global, national, or local dynamics of a given issue area, rarely are the strands brought together. The danger in disciplinary isolation is that a subject such as hawala, which covers multiple areas and scales of social and political concern, is misrepresented as a 'one-sided coin', and in this case with a decidedly criminal face, while in reality it exerts rather extreme effects that are necessarily at least two different sides of the same coin.

It is nevertheless helpful to use an academic discipline to guide the direction of the research. The research therefore takes as its starting point the field of international relations (IR) because it not only provides the most common touchstone for thinking about the global

⁸ de Goede, Marieke (2003) 'Hawala Discourse and the War on Terrorist Finance,' *Environment and Planning D: Society and Space* 21(5): 513-532

⁹ Bush, George (2001) 'Bush Announces *Al-Qaeda* Crackdown: Transcript of an Address to the White House,' *The Washington Post* (7 November)

architecture and state reconstruction within it, but its work on state formation and war economies is also attempting to learn new information about non-Western systems like hawala.¹⁰ Recent research that appraises the course of critical IR theory reveals the challenges, however, in overcoming the Eurocentrism in the literature that tends to reinforce the view that Western civilisation and imperialism are superior to alternative governance structures.¹¹ An additional challenge can be found in IR's traditional focus on the behaviour of states and their security-seeking behaviour given an anarchical international environment, which positions the state and formal authority as the world's exclusive and rightful repositories of power and creates rigid binaries that reflect much of Western thinking on local order in failed states.¹² The thesis reflects on how such dichotomous reasoning obscures the friction and legitimacy contests occurring between the state and informal institutions in the context of intervention and reconstruction of 'failed' states.

The remainder of this introductory chapter will present an outline of the importance of hawala to the study of world politics, situating it briefly within the literature on global regulation and post-conflict reconstruction. Secondly, it will survey the three key theoretical contributions of the study. And thirdly, it aims to provide guidance on terminology and fundamental concepts used in the thesis. It concludes with a discussion of the scope and method of inquiry for the procedure that follows.

1.1 Importance of the study

With at least two thirds of the world's poorest countries either experiencing active conflict or an insecure peace, and having a major part of their economies unregulated by the state,¹³ it appears especially timely to investigate the issue of local economic governance where the rule of public institutions remains fragile. The study's focus on hawala in particular also serves as a compass for directing attention to broader concerns at the global level, such as global economic governance and security, and challenges at the national and

¹⁰ See Morton, Adam (2005) 'The "Failed State" of International Relations,' *New Political Economy* 10(3): 371-379 for a useful critique of the deficiencies in IR's treatment of 'failed' states.

¹¹ See Hobson, John M. (2007) 'Is Critical Theory Always For the White West and For Western Imperialism? Beyond Westphalian, Towards a Post-Racist, Critical IR,' *Review of International Studies* 33(1): 91-116 for a recent attempt to steer the literature in new non-Eurocentric directions.

¹² Feminist research has largely emerged from a deep scepticism about 'universal' knowledge claims and the dichotomies produced in the male-dominated literature of IR. See Hine, Michelle (ed.) (1992) *Disruptive Voices: The Transgressive Possibilities of Feminist Research* (Ann Arbor, University of Michigan Press); Westmarland, Nicole (2001) 'The Quantitative/Qualitative Debate and Feminist Research: A Subjective View of Objectivity,' *Forum: Qualitative Sozialforschung/Forum: Qualitative Social Research* 2(1) (February), available at <<http://www.qualitative-research.net/fqs-texte/1-01/1-01westmarland-e.htm>>.

¹³ Harriss-White, 'Globalization, Insecurities and Responses: An Introductory Essay' in Harriss-White, Barbara (ed.) (2002) *Globalization and Insecurity: Political, Economic and Physical Challenges* (Hampshire, New York: Palgrave)

local levels related to post-conflict reconstruction and humanitarian action in ‘failed’ states. To demonstrate the wider applicability of the study, the two areas are discussed briefly below in light of the literatures that support them.

1.1.1 Global economic governance

At the global level, the ‘problem’ of hawala feeds into broad economic governance concerns regarding the trillions of dollars that move outside legal reckoning in the world economy each year. The total average daily turnover alone is well over USD 2 trillion, which includes approximately 500,000 separate transactions in electronic transfers by the Federal Reserve (Fedwire) and the Clearinghouse Interbank Payments System (CHIPS).¹⁴ One important consequence of the recent drive towards ‘money on the move’ or a ‘new monetary geography’,¹⁵ which can be simply understood as a shift from the modern state-centric political economy towards a less territorial world order, is that governments share authority over money with private groups to a much greater extent than before.¹⁶ These groups can range from relatively benign actors to those at the heart of the criminal marketplace. Not surprisingly, it is those within the latter camp that receive the most sensationalised treatment.

In an attractive simile, economic geographer Gordon Clark suggests that ‘today’s money flows like mercury’.¹⁷ Recognised for its speed and slipperiness by the ancient Greeks and Romans, mercury’s chemical properties are such that it requires careful treatment and meticulous supervision. Lurking close to the surface, then, is the fact that mercury is ‘both of great value and can impose great harm if poorly managed’.¹⁸ Capital flight, tax evasion, and the movement and laundering of criminal funds are just some of the possible harms available to those wishing to exploit the enhanced ability to hide, invest, and transport

¹⁴ See United Nations Office for Drug Control and Crime Prevention (1998) ‘Financial Havens, Banking Secrecy, and Money-Laundering’ (29 May); Swyngedouw, Erik, ‘Producing Futures: Global Finance as a Geographical Project,’ in Daniels, Peter W. & William F. Lever (1996) *The Global Economy in Transition* (Oxford & London: Longman), 135-163.

¹⁵ These terms were coined by Robert Solomon in (1999) *Money on the Move: The Revolution of International Finance since 1980* (Princeton University Press) and Benjamin J. Cohen in (2004) *The Future of Money* (Princeton; Oxford: Princeton University Press), respectively.

¹⁶ See Hall, Stuart, David Held & Anthony G. McGrew (eds) (1992) *Modernity and its Futures* (Cambridge: Polity Press/Open University); Ruggie, John G. (1993) ‘Territoriality and Beyond: Problematizing Modernity in International Relations,’ *International Organization* 47(1): 139-174; Agnew, John & Stuart Corbridge (1995) *Mastering Space: Hegemony, Territory and International Political Economy* (London & New York: Routledge).

¹⁷ Clark, Gordon L. (2005) ‘Money Flows Like Mercury: The Geography of Global Finance,’ *Geografiska Annaler Series B: Human Geography* 87(2) (June): 99-112

¹⁸ *Ibid.*, 104-5. Clark warns further that unregulated or ungoverned finance ‘may be poisonous for the whole system of accumulation and especially for those charged with the responsibility of its management’.

funds through international financial institutions since this mercurial deregulation of cross-border capital flows.¹⁹ The current value of laundered money, estimated to be in the order of USD 500 billion - 2.8 trillion,²⁰ is a reflection of this growing criminal power.²¹

Law enforcement agencies and multilateral regulation bodies, such as the Financial Action Task Force (FATF) of the G7, Interpol, and the United Nations argue that one of the best ways to prove a case against an individual who trafficks illegal or contraband goods is to follow the money and make the perpetration of crime more costly by severing the vital link between profits and criminal activity, known colloquially as the 'life-blood' of crime. As a result they have attempted, with varied success, to coordinate mechanisms to interdict criminal and terrorist finance. Thirty-three countries and territories have now pledged support for the FATF's basic framework of an anti-money laundering regime, which aims to 'safeguard the global financial system against money laundering and terrorist financing' and 'ensure global compliance' with its standards, of which there are 49 recommendations.²² While it is virtually impossible to measure either the actual compliance of FATF members or the overall success in combating the problem of money laundering, the taskforce has expressed a certain level of confidence that 'the formal financial system [is becoming] increasingly closed to terrorists and criminals'.²³ Its aim since this perceived victory has been to 'enhance its focus on informal and non-traditional methods of financing terrorism and money laundering, including through cash couriers, alternative remittance systems, and the abuse of non-profit organisations'.²⁴ This has placed the previously under-researched role of weaker, non-state actors in the global political economy under increased scrutiny. But due to their 'unofficial' and sometimes clandestine nature, the available information on

¹⁹ Winer, Jonathan M. (2002) 'Globalization, Terrorist Finance, and Global Conflict: Time for a White List?' *European Journal of Law Reform* 4(2): 255-290

²⁰ This amounts to 25 per cent of the world's money supply. The estimate was provided by Lorena Martin and John Roth, former Chief of the US Department of Justice Criminal Division's Asset Forfeiture and Money Laundering Section, at the National Association of Judiciary Interpreters and Translators 26th Annual Conference, Washington D.C., 14 May 2005. Others remain sceptical of such estimates. Peter Reuter and Edwin Truman report that even a sustained effort by the FATF between 1996 and 2000 to substantiate current projections yielded no usable figures. 'How Much Money is Laundered,' in Reuter, Peter & Edwin M. Truman (2004) *Chasing Dirty Money: Progress on Anti-Money Laundering* (Institute for International Economics), 9-24

²¹ Notable statistics include the more than USD320 billion that the global drug trade generates in revenues each year, and the fifty-fold increase in the size of cocaine markets over the last 20 years. United Nations Office for Drugs and Crime (2005) *World Drug Report*, accessed in August 2005 at <<http://stopthedrugwar.org/chronicle/393/320billions.html>>

²² Financial Action Task Force (2004) 'FATF Mandate Renewed for Eight Years' (14 May, Paris), accessed in November 2004 at <<http://www.fatf-gafi.org/dataoecd/46/33/35065565.pdf>>. Money laundering is the act of converting money gained from illegal activity into assets that cannot be traced to the underlying crime.

²³ *Ibid.*

²⁴ *Ibid.*

these activities remains limited, vague, and contradictory, causing emergent policy to be based on an inadequate understanding of the processes at work.

The focus on ‘hawala’ in particular has become distorted in light of the aforementioned negative policy discourse on global terrorist finance, which appears to construct Western banking as legitimate, and designates ‘unknown’ or less familiar banking practices to the sphere of illegitimacy or criminality.²⁵ This has not been helped by the recent adoption of an explicitly normative posture in the policy statements of several international financial institutions that are hoping to extend their usually neutral and expertise-driven function to one that assists in governing the ‘legitimate’ parameters of the international financial system. This is most prominently reflected in the new institutional vocabulary of the World Bank and International Monetary Fund – ‘good financial citizenship’, ‘civility’, and ‘civilising globalisation’²⁶ – that invokes a somewhat eerie overtone of Enlightenment or neo-colonial thinking.²⁷

Perhaps this shift in emphasis signals an attempt to regain control over the direction of capitalist development,²⁸ which in recent years has prompted conceptualisations of the political economy as a new ‘space of flows’ in a world spinning somewhat out of control.²⁹ People and capital are depicted as floating in ‘a planet-spanning ... virtual ... arena of activity’, dislodged from any loyalty to or constraint from states, while money is conceived of as a homogenous, impersonal instrument that replaces personal associations with purely calculative ties.³⁰

Contrary to the ‘ultraglobalist’ perspective, this study works from the economic anthropological and historical sociological premise that some ‘human hands have always

²⁵ As above, de Goede, ‘Hawala Discourse and the War on Terrorist Finance,’ 513-532.

²⁶ Best, Jacqueline (2003) ‘From the Top-Down: The New Financial Architecture and the Re-embedding of Global Finance,’ *New Political Economy* 8(3) (November): 363-384

²⁷ The Enlightenment vision of modernity that was articulated throughout Western Europe in the eighteenth and nineteenth centuries considered science, universalism, and reason to be the combined driving force that would transport humanity into an improved, ‘enlightened’ and progressive state. Refer to Chapter 2 for thoughts from the peacebuilding literature on this parallel with colonial-era beliefs.

²⁸ This is largely determined by three decades of financial deregulation, improved transportation and communications infrastructures, expanded distribution networks, and intensified cross-border exchange.

²⁹ Manuel Castells introduced the term ‘space of flows’ to characterise the new spatial form around which our societies are constructed, i.e. the flows of capital, information, technology, organisational interactions, images, sounds and symbols that are sustained by the real-time interaction of distributed social actors. Castells, Manuel (1996) *The Rise of the Network Society* (Oxford: Blackwell), 412

³⁰ Vertovec, Steven (1999) ‘Conceiving and Researching Transnationalism,’ *Ethnic & Racial Studies* 22(2) (March): 448; Bhattacharyya, Gargi (2005) *Traffick: The Illicit Movement of People and Things* (London: Pluto Press)

been at the controls of money,' and that these in all probability have 'neither exclusively nor consistently belonged to economic creatures'.³¹

1.1.2 Post-conflict reconstruction

While their operations might be small, the above section has demonstrated that there is nothing petty about the money dealer's significance for the operation of the global economy. This is also the case in the context of reconstruction and development. Here, however, the view of policymakers tends to be that disorder reigns where the core functions of the state are fatally weakened; hence it is the responsibility of international organisations and institutions to create order out of the chaos. This precludes any serious examination of whatever order might exist in 'failed' states.

Frustrations in the field and criticisms of aid practice over recent years have prompted a debate within the literature that represents at least the first step in redressing impoverished conceptions of local level agency and legitimacy dynamics. The community is broadly divided between those who stress the need for more 'local participation' – which involves 'engaging' host populations – and those who argue for a return to the original beliefs and doctrine of humanitarianism – the primary imperative being that of 'saving' lives through the principles of neutrality and impartiality. The promise of 'engaging' local populations is that their unique systems of governance will no longer be dismissed, but rather incorporated into the overall development strategy.

Further benefits accrue from such an approach. In the case of unravelling hawala – just one part of economic order in 'failed' states – it is possible to locate several layers of inquiry and insight into the local context, such as what fragile state rule reveals about a local population's capacity for adaptation and survival, and how local perceptions of legitimacy and legality are altered through the reordering of political and economic relations. At the national level, it crystallises the realities of relief and development in transition to peace; for example, what constitutes acceptable economic practice in a war zone given the 'reputational risks' associated with involvement in informal economy networks, and the many grey areas surrounding them. Additional questions arise in the process, such as whether it is possible to treat local institutions and practices as *tabula rasae* awaiting the imprimatur of the liberal democratic core, while at the same time relying on them for the smooth functioning of external assistance missions; whether the regulator's aim to disrupt informal economic networks can be reconciled with the aid community's willingness to work with them; and at

³¹ Bretton, Henry L. (1980) *The Power of Money: A Political-Economic Analysis with Special Emphasis on the American Political System* (Albany: State University of New York Press), xxxii

what point different logics of action in the development-relief context become hypocrisy.³² Chapter 2 surveys the theoretical tools available to explore questions such as these. For our present purpose, it appears sufficient to underline that the agenda for new research should be to question the blind acceptance of international institutions' modernising or civilising power, and to move towards a more rigorous analysis which includes an assessment of local institutions and the basis for their legitimisation.

Taken together, the above sections have made clear that hawala is an important issue which warrants closer analysis due to its implications for both global regulation and peacebuilding. Because it traverses these distinct yet overlapping fields, it offers a unique window onto various scales of economic politics operating in the world today. This makes it an important case study for the traditional study of IR whose critics widely agree that it is overly preoccupied with top-down, statist concerns.

Overall, the thesis makes three broad contributions to the literature in IR through the study of money men in Afghanistan. First, it demonstrates the need for a revision of the way private authority and legitimacy are dealt with in IR. Secondly, it contributes to theoretical development in the peacebuilding and war economies literature. And thirdly, it uses interdisciplinary insights to reveal how economic order paradoxically exists under the rubble of a 'failed' state. These points are expanded upon in Chapter 2.

Before progressing to the scope and method of inquiry, a brief note on the terminology of informal economies and failed states is in order since these are central themes of this study.

1.2 Note on terminology

The 'informal economy' has been employed since the 1960s to describe systems that are outside the formal regulatory control of states. This becomes problematic in contexts where there is no clear public or formal authority. Hence, where possible, the thesis uses the term 'economic order' to denote the locally developed economic practices of Afghanistan, rather than 'informal economic order'. Because alternatives in the literature, such as the 'irregular economy', the 'subterranean economy,' the 'underground economy', the 'black economy', the 'shadow economy', and the 'second economy',³³ are somewhat loaded and

³² See Van Rooy, Alison (2004) *The Global Legitimacy Game: Civil Society, Globalisation, and Protest* (New York: Palgrave Macmillan).

³³ Ferman, Louis A. & Louise E. Berndt, 'The Irregular Economy,' in Henry, Stuart (ed.) (1981) *Informal Institutions: Alternative Networks in the Corporate State* (New York: St Martin's Press), 26-42; Gutmann, Peter M. (1977) 'The Subterranean Economy,' *Financial Analysis Journal* 33 (November/December): 24-27; Tanzi, Vito (1982) *The Underground Economy in the United States and Abroad* (Lexington Books); Feige, Edgar L. (1989) *The Underground Economies: Tax Evasion*

mean different things to labour economists, criminologists, fiscal experts, macroeconomists, development specialists, and national income accountants, they will also be avoided.³⁴ When it is necessary to differentiate between formal banking and informally regulated financial systems, terms related to informality will however be used.

It is important to note that there have been attempts to disassociate hawala from its popular linkages with terrorism and Islamic fundamentalism and universalise the practice because of its occurrence in contexts outside the Arab or Muslim world by labelling it an 'Informal Value Transfer System' (IVTS).³⁵ While this is a helpful advance in terms of policy and destigmatisation, the study prefers to use the term hawala because the money dealer's operations are widely recognised by that label in the local and global contexts under investigation in this study. Chapter 2 provides an extensive discussion of the 'war' or 'shadow' economy literature which should act as a reference for the more specific choice of terminology used in the empirical discussion.

Another term that recurs throughout the thesis is 'failing' or 'failed' states, the characteristics and effects of which have encouraged a growing academic industry to join the ranks of governments, UN departments, and NGOs in uncovering their alleged 'menace'. Failed states emerge 'where conflict, poverty, ethnic and racial tensions, exploitation, corruption, poor governance, malign interference from outside or just plain neglect have brought about the collapse of responsible government and civil society'.³⁶ While recognising the value in applying such a label to states such as Afghanistan, which indeed fulfils most of the above criteria, it appears with inverted commas throughout the thesis because of its controversial use by external interveners as a pretext for liberal democratic development in fragile regions.

The following section concludes with a discussion of the method of inquiry, which is further elaborated on in Chapter 3, and the procedure that follows.

and Information Distortion (Cambridge: Cambridge University Press); Frey, Bruno S. & Hannelore Weck (1983) 'Estimating the Shadow Economy: A 'Naïve' Approach,' *Oxford Economic Papers*, New Series 35(1) (March): 23-44; Hart, Keith (1970) 'Small Scale Entrepreneurs in Ghana and Development Planning,' *Journal of Development Studies* 6: 104-120

³⁴ Feige, *The Underground Economies*, 3

³⁵ Passas, Nikos (1999) *Informal Value Transfer Systems and Criminal Organizations: A Study into So-Called Underground Banking Networks* (The Hague: Ministry of Justice)

³⁶ Former UK Foreign Secretary Jack Straw provides the examples of Cambodia in the 1970s, Mozambique and Angola in the 1980s, Yugoslavia, Rwanda, the Democratic Republic of the Congo and Sierra Leone in the 1990s, and Afghanistan today. Global Policy Forum (2001) 'UK Foreign Secretary Straw Views 'Rebuilding of Afghanistan',' Foreign & Commonwealth Office (22 October) accessed in April 2006 at <<http://www.globalpolicy.org/wtc/analysis/1022straw.htm>>

1.3 The scope and method of inquiry

Using a snowballing sample, the thesis examines economic order in crisis and the legitimacy dynamics surrounding it from the perspective of those who use hawala, run the system, or try to regulate it. The majority of interviews were conducted in and around the money bazaars of Afghanistan in order to build an unprecedented picture from first-hand accounts of how the hawala system operates on the ground. The selection of a limited target population is a deliberate attempt to move beyond the macro-level focus characteristic of studies on Afghanistan and the problem of terrorist finance. The scope of the thesis still remains broad because it is proposed that a more rigorous analysis of local level structures will be helpful in revealing theoretical oversights at the global and national level.

The accessibility of information varied greatly among provinces within Afghanistan. Since it proved more effective to interview hawaladars outside of Kabul where researchers are treated with less suspicion, the amount of information presented from sources in other provincial centres is biased accordingly.³⁷ Interviews were conducted with staff of UN agencies, NGOs, and governmental bodies, but preference is accorded to published sources over verbal testimony in citations in the text where the same or a similar point is made in available documents; thus few interviews of development aid officials are included in the final text although they influenced the overall project.

The field inquiry was undertaken primarily in Afghanistan because of its strategic importance in current debates on aid practice in ‘failed’ states and financial regulation in the ‘war on terror’. The extreme nature of the case also brings the issues into sharper relief, which in turn demands a more scrupulous examination of the highly complex and integral role of private economic governance in ‘post-conflict’ reconstruction.

The Indian Institute and other libraries of the Bodleian at Oxford University were widely consulted for the historical analysis and background on Afghanistan, while Kabul’s Afghanistan Research and Evaluation Unit provided extensive assistance in locating out of print material on Afghanistan.

In regard to the theoretical framework, an adapted version of Grabher and Stark’s institutional problematic of ‘legacies’, ‘linkages’, and ‘localities’ loosely serves as the organising principle of the thesis because of its call for a more nuanced examination of ‘transition’ than the short-term rationality of replacing one set of economic institutions with another set of institutions of proven efficiency elsewhere. Grabher and Stark argue from an

³⁷ This was helped by the fact I was able to live with Afghan families in most provincial locations, which endorsed the visit and enabled introductions to more local people.

‘evolutionary’ perspective that although such institutional homogenisation might foster *adaptation* in the short run, the consequent loss of institutional diversity will impede *adaptability* in the long run.³⁸ The tendency of those at the helm of ‘post-conflict’ reconstruction to purge organisational ‘legacies’, disregard social ‘linkages’, and dismiss the ‘localities’ in which existing institutions are embedded can therefore come at the cost of undermining dynamic efficiency and the ability of local-level structures to respond to unpredictable changes in the future.³⁹

A supplementary conceptual framework is borrowed from Suchman’s typology of legitimacy to test the input of broader Afghan society, regional trading groups, and the international community in the persistence and legitimisation of hawala. By weaving theories of private authority and legitimacy into Grabher and Stark’s overarching frame, the thesis proposes that a better understanding of how local economic order becomes legitimate will assist in the task of unravelling the war economy as a complex site of economic transformation and negotiation. The theoretical basis of the thesis is presented in more detail in Chapter 2. We will now turn a brief outline of the chapters.

1.3.1 Thesis outline

Recognising that much of the thinking within policy circles and IR research takes the international system of states as its starting point, Chapter 2 is organised along a descending scale from the global to local level with the aim of demonstrating why a better appreciation of the sub-state level is necessary for reconstruction attempts to gain legitimacy in ‘failed’ states. It introduces the ‘participatory engagement’ discourse as a counterpoise to the prevailing doctrine of ‘liberal peace’, which provides strong justifications for exploring the benefits of incorporating a local perspective in areas of ‘post-conflict’ market- and state-building. Insights from social network theory, organisational sociology, and research on the issue of trust lead to several hypotheses that will guide the discussion of the institutional basis and legitimacy dynamics of hawala.

Chapter 3 provides the methodological framework used to negotiate the research process, with particular emphasis on the approach taken in the field. The chapter explains why a primarily qualitative approach was adopted to facilitate a deeper understanding of economic governance in Afghanistan, and ends with a discussion of the difficulties faced in the field.

³⁸ Grabher, Gernot & David Stark, ‘Organizing Diversity: *Evolutionary Theory, Network Analysis, and Post-socialism*,’ in Grabher, Gernot & David Stark (eds) (1997b) *Restructuring Networks in Post-socialism: Legacies, Linkages and Localities* (Oxford: Oxford University Press), 1

³⁹ *Ibid.*, 5

Chapter 4 begins tracing the institutional ‘legacies’ of hawala within the historical context of world commerce and the territory specific to modern-day Afghanistan. The particular aim is to distinguish between the myth and reality surrounding the concept of hawala. A more accurate portrayal of money men like Abdul Haq will help dispel any existing confusions in the literature and provide a sounder basis for the discussion in the empirical chapters that follow regarding whether their current economic success is grounded in commercial or criminal acumen. The chapter examines the conventional wisdom on hawala by departing from existing work on the subject and looking for answers on its origins in both pre-Islamic and Islamic sources.

Chapter 5 shifts the focus of attention just to Afghanistan, where it surveys the impact of the politics of empire and past foreign interventions on the economic capacities and pragmatic legitimacy of localised economic networks. It explores the role of the ‘bazaar’ and ‘family firm’ in contributing to the endogenous regulatory structure that underpins hawala, and charts the gradual transformation of the system into a cognitively legitimate institution in an effort to explain why ‘informal’ economic order is likely to persist in a war-ravaged state such as Afghanistan despite attempts to regulate, disrupt, or replace it with ‘formal’ structures.

Chapter 6 begins the empirical discussion on the contemporary local linkages forged by money dealers within Afghanistan. It uses an analysis of the progressive replacement of the Hindu-Sikh money dealers by the majority Pashtun financiers to assess the importance of cultural, political, and economic factors to the hawala system’s expansion and adaptation to a changed environment.

Chapter 7 explores the global linkages of the money men and unique regulatory context that the global political economy has created for those based in Afghanistan and the region. Drawing from Jonathan Goodhand’s work, the chapter identifies how the money dealer acts as a broker for competing actors operating across the ‘coping’, ‘shadow’, and ‘combat’ spheres of the war economy. It concludes with an assessment of the ways in which offshore financial spaces, international banks, and participants in the war economy converge to provide the conducive institutional environment and preconditions for the global integration of Afghanistan’s hawala system.

Chapters 8 and 9 bring the contemporary ‘localities’ of the money dealer into even sharper focus so that a better understanding of the ambiguous legalities and legitimacy dynamics surrounding his operations can be reached. Chapter 8 provides an unprecedented quantitative and qualitative picture of the linkages that exist between hawala dealers and the drivers of the opium economy. The overall purpose is to problematise the tendency within

mainstream IR literature to criminalise non-state economic governance. Specifically, an attempt is made to incorporate the notion of ‘informal economy’ into studies of ‘failed states’ and lend it more nuance in the hope that it may provide a useful theoretical connection between micro- and macro-level or state-centred analyses.

Chapter 9 turns to an analysis of hawala’s treatment within the liberal reform programme and elucidates the subtler legitimacy dynamics, labelled ‘the bargain’, that are occurring from the operational perspective of humanitarian assistance and regulation. The chapter considers the ways in which regulators and aid practitioners have adapted their approach in accordance with local constraints and the clear lack of incentives available to hawaladars in transferring their business to the legitimate sphere, respectively. It then speculates as to what kind of impact the resulting ‘bargaining games’ have on peacebuilding efforts in general and the working environment of the hawala system in particular, and concludes with a discussion of legitimacy, drawing some of the strands of previous chapters together.

The thesis concludes by offering an integrated model of private authority and war economies, which links the overlapping governance spheres of the economy and locates hawala at the intersection of both legitimate and criminal transactions. This is accompanied by an evaluation of the central research question that guides this study; namely, **in light of the current paradox in discourse and practice surrounding local governance structures in ‘post-conflict’ settings, what key mechanisms of political, social and economic change can be revealed when the typical IR view of state-building is adjusted to consider the institutions that not only support society during periods of instability, but also have the potential to be harnessed for greater international stability?**

PART I

THEORY & METHOD



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2 Economic Governance in Failed States

French anthropologist Georges Balandier once observed that, while disorder may become a negative thrust and generate a world which appears upside down, ‘the inversion of order does not cause its abolition; disorder can be used to reinforce order, or to allow it to be reborn under a new figure.’¹ The order that emerges out of the seeming chaos of states torn by internecine strife or disaster is certainly difficult to detect from the safe distance of headquarters in Geneva or Washington D.C. Development practitioners and international aid workers in the field are alternatively well positioned to discover the counterintuitive reality that Balandier depicts as they daily confront the resilient, and at times resistant, governance structures of local populations. Most would concur that these structures resemble the informal sector enterprises which Hans Singer likened in his experience to a giraffe: ‘hard to describe but you know one when you see one’.²

While there is a growing body of work in the social sciences on alternative governance and regulation beyond the state, only few attempts have been made to decipher the proverbial ‘giraffe’ that lies amidst the debris of war. As stated in the Introduction, this thesis attempts to remedy the literature’s neglect by challenging the traditional statist, ‘top-down’ view of world politics that continues to dominate thinking in policy and much of the academic debate surrounding global issues. It is hoped that a more nuanced approach to local-level concerns and governance will provide an important step in understanding better what type of ‘economic order’ might exist in a state deemed to be ‘failed’ and what kinds of challenges the specific and unique circumstances of this order present to the universal models of formal reconstruction.

The specific aim of this chapter is to survey the theoretical tools available to help overcome the barriers that have so far prevented a comprehensive analysis of the issues around economic governance in ‘failed’ states. Recognising that much of the thinking within policy circles and IR research takes the international system of states as its starting

¹ Balandier, Georges (1988) *Le Désordre: Éloge du Mouvement* (Paris: Fayard), 117

² Lubell, Harold (1991) *The Informal Sector in the 1980s and 1990s* (Paris: OECD Development Centre), 19

point, the chapter is organised along a descending scale from the global to local level with the aim of demonstrating why a better appreciation of the sub-state level is necessary for global ideas to have resonance and formal regulation to take hold in places that are considered critical for the maintenance of global security in the modern world.

The discussion begins with some background on the views that pervade the current security and development milieu, typified by the notion of ‘worlds in collision’. Within this paradigm, terms such as ‘failed states’ and ‘liberal peace’ have emerged almost as a euphemism for the source of and solution for all manner of political crises threatening the West, and are symbolic of a change in attitude from ambivalence to active engagement with the developing world. The analysis considers in more detail the basis for this position, the growing perception towards ‘failed’ states, the policy responses it has generated, and the critical academic literature that has grown out of it.

Criticisms are raised in the second section, devoted to unravelling the ‘liberal peace’ agenda, regarding the generic policies developed in relation to ‘failed’ states and the widespread inattention in Western policy to the local reality of conflict-torn states. Disagreement over whether non-Western perspectives should be incorporated into mainstream security and development policies prompts a return to an earlier debate between those who advocated the ‘triumph of liberalism’ and those who feared a ‘clash of civilizations’ in the wake of communism’s fall. The various ways that culture should be considered in assessing the demands of sound economic strategies in disrupted regions are subsequently explored.

The third section builds on the question of liberalism’s universality and addresses the way in which the concept of legitimacy has been treated in the absence of a concentrated focus on ‘micro-politics’ in IR. The discussion explores recent developments in the political economy literature, organizational sociology, and peacebuilding.

In the fourth section, the need for more fine-grained research at the local level encourages a deeper look at social network analysis and development theory. These form a central part of the thesis’ framework because of their diverse ability to capture local forms of organisation and governance that are responsible for helping collective life persist, even amid extreme difficulties. While social networks have long been discussed in disciplines such as sociology and anthropology, they are relatively new to the field of IR. The study will therefore introduce some of the relevant concepts to the discipline in a way that will enhance the recent advances made in the private authority, peacebuilding and war economy literatures. It is important to consider the conceptual models in combination for this will achieve a more layered and sounder basis for evaluating the persistence of economic order in

Afghanistan and the multi-faceted challenges facing the country's transition to a 'peace' economy.

The chapter concludes with a summary of the issues that the literature survey unveils and an outline of several new issues that will shape the direction of the ensuing analysis.

2.1 Worlds in collision

The twentieth century as a whole can be characterised by the greater interconnectedness of people and events at a global level. With high-speed communication and transportation networks in the forefront, few would dispute that technological innovations throughout the 1990s have played an emphatic role in this process. These innovations have converged to produce rapid, cost-effective systems of cross-border information transmission and transactions in goods and capital markets,³ and brought the world at all scales of the international system into unprecedented contact with alternative cultures, identities, nations, social crises, values, discontents, excesses and the like. As a consequence, some have been careful to emphasise that the world has simultaneously been subject to political processes of rupture and integration which have by no means brought about a truly unitary society; in the words of Ian Clark, 'it has been an age of globalisation and of fragmentation'.⁴

The United Nations General Assembly was clearly attuned to this duality when it announced in December 1999 that its members were in unequivocal support of the Islamic Republic of Iran's call a year earlier for 'dialogue among civilizations'. UN officials suggested that, by encouraging 'a first healing step towards better mutual comprehension: and hence, towards effecting real peace in the minds of men', such a dialogue would provide 'an appropriate and necessary answer to the notion of an inevitable clash of civilizations'.⁵

³ Herbert A. Simon suggested that the spread of information processing technology is the most recent of the 'three pulses of change powerful enough to alter Man in basic ways' (after agriculture and industrial development), cited in Masuda, Yoneji (1980) *The Information Society as Post-Industrial Society* (Transaction Publishers), 1. A growing number of observers have since applied similar revolutionary rhetoric to the idea of a movement to a third epochal phase in today's 'Information Society' or 'Information Age', which has been accompanied by a series of international conferences and action frameworks dedicated to the area, such as the G7 Information Society Conference in 1995 and the African Information Society Initiative launched at the 22nd meeting of the Economic Commission for Africa's Conference of Ministers in charge of social and economic development and planning in 1996.

⁴ Clark, Ian (1997) *Globalization and Fragmentation: International Relations in the Twentieth Century* (Oxford: Oxford University Press), 1

⁵ Speech by Kofi Annan, Secretary-General of the United Nations, at Seton Hall University's School of Diplomacy and International Relations, South Orange, New Jersey, 5 February 2001. Annan is referring here to Samuel P. Huntington's article on the 'clash of civilizations', which provoked much controversy among scholars debating the post-Cold War order. This is discussed in more detail below.

It is worth noting that, on the same afternoon of this announcement, Germany introduced to the General Assembly a draft resolution on emergency international assistance for peace, normalcy and reconstruction of war-stricken Afghanistan.⁶ Unlike the consensus achieved around the need for dialogue, however, the resolution on Afghanistan was delayed due to lack of agreement on the best course of action.⁷ It was perhaps beyond the stretch of the General Assembly's imagination that in 2001, the year dedicated precisely to Iran's vision, the two issues would collide in the cataclysmic events that befell 11 September.⁸ The terrorist attacks on US soil were indeed an extreme manifestation of the dangers wrought not just by the failure of dialogue but also by the entrenched 'mutual incomprehension' that exists between diverse groups in the modern world.⁹

The attacks were also a bloody reminder of important realities that increasingly entwine the predicaments of both 'North' and 'South'¹⁰ today. It is becoming well understood by Western politicians that the voracious consumption of societies in the North, marginalisation of the 'have-nots' through economic globalisation, the rapid spread of HIV/AIDS, rising numbers of refugees, societies crippled by debt, regional crises sustained by weapons surpluses from the Cold War, and escalating violence in the Middle East can no longer be dismissed as vulnerabilities accruing only to states on the periphery. Chilean economist, Jorge Nef, demonstrated through the use of indicators published in UNDP's annual Human Development Report that the growing differentials in 'well being' between North and South are indeed placing both worlds into an increasingly aggravated state of 'mutual vulnerability' – and the influences, argues Ivan Head, are far from incidental and spasmodic: 'they are major and they are persistent'.¹¹ Afghanistan's opium trade, which supplies Britain's streets with ninety per cent of its heroin, is just one instance where a wealthy nation is influenced directly by an unwieldy concoction of misrule, the steady rise in

⁶ UN Document A/54/L58

⁷ In a stroke of irony, most parties did however agree that the Taliban and other Afghan factions should cease fighting immediately and resume 'dialogue'.

⁸ The terms 11 September and 9/11 will be used interchangeably throughout the thesis to denote the 2001 attacks on the World Trade Centre in New York and The Pentagon in Washington D.C.

⁹ The risks involved in such an entrenched lack of understanding are nowhere more evident than in the Cold War period, where it was later discovered that the potential for mass destruction through nuclear warfare was based on an exaggerated threat perception. Ivan Head talks of the 'façade of 'monolithic communism' in Head, Ivan L. (1991) *On a Hinge of History: The Mutual Vulnerability of South and North* (Toronto: University of Toronto), 8. See also Allison, Graham T. & Philip Zelikow (1999) *Essence of Decision: Explaining the Cuban Missile Crisis* (New York: Longman).

¹⁰ A shorthand often used to distinguish the world's less developed states from the industrially and technologically advanced in the 'North'. It is not meant to delimit geographical spaces. The 'West' is employed deliberately in instances where it is important to differentiate between the policies of states that derive their dominant culture from Europe or Asia.

¹¹ Nef, Jorge (1999) *Human Security and Mutual Vulnerability: The Global Political Economy of Development and Underdevelopment* (IDRC Books); Head, *On a Hinge of History*, 6

cross-border traffic, unregulatable advances in information and communications technology, and of course the ‘gaping maw of poverty’¹² in the South.

From the North’s perspective, critically underdeveloped or failing states have over recent years become a key component in the heightened discourse of threat to the West because of their ability to provide the conditions for such events to take place. The exponential rise in the use of ‘failed’ states as a concept in world politics, and the concomitant issue of private actors using global spaces to defeat the boundaries of the nation-state, are explored briefly below.

2.1.1 Threat of failed states

After witnessing a literal collision of worlds with the collapse of the Twin Towers on 11 September, and discovering the calamitous effects of Afghanistan’s role in providing a safe haven for the terrorists involved,¹³ the US National Security Strategy concluded in 2002 that ‘failed’ states now pose a more serious danger to American, and by association global, security than the more traditional ‘conquering’ states, such as Russia or North Korea.¹⁴

The former UK Foreign Secretary, Jack Straw, underscored during his time in office that ‘whatever the historical reasons, where the basis of the state, its laws or its armies, are fatally weakened, *chaos* is the result.’¹⁵ Disrupted pockets of the world have thus been plotted increasingly as ‘actual or potential nodal points in global terrorist networks’ and diagnosed as a ‘virus’ in the newly imagined era of post-Cold War ‘disorder’¹⁶ because of the opportunities they present to mobile populations wishing to bridge the typically reified positions of ‘North’ and ‘South’. These populations include not only the obvious candidates, such as refugees and labour migrants,¹⁷ but also fundamentalist groups requiring space to

¹² Head, *On a Hinge of History*, 6

¹³ America’s role in supporting the Taliban financially via Pakistan during the Cold War is often forgotten.

¹⁴ See Rotberg, Robert, ‘The Challenge of Weak, Failing and Collapsed States,’ in Aall, Pamela, Chester A. Crocker & Fen Osler Hampson (eds) (2006) *Leashing the Dogs of War: Conflict Management in a Divided World* (United States Institute of Peace Press Books)

¹⁵ Global Policy Forum (2001) ‘UK Foreign Secretary Straw Views ‘Rebuilding of Afghanistan,’ italics added

¹⁶ Cooper, Neil (2005) ‘Picking out the Pieces of the Liberal Peaces: Representations of Conflict Economies and the Implications for Policy,’ *Security Dialogue* 36(4) (December): 472; Luke, Timothy & Gearóid Ó Tuathail (1997) ‘On Videocameralists: The Geopolitics of Failed States, the CNN International and (UN)governmentality,’ *Review of International Political Economy* 4(4): 709-733. For an influential account of the ‘new world disorder’, see Kaplan, Robert (1994) ‘The Coming Anarchy: How Scarcity, Crime, Overpopulation and Disease are Rapidly Destroying the Social Fabric of our Planet,’ *Atlantic Monthly* 273(2): 44-76.

¹⁷ Remarkably, one out of every 35 persons in the world is now classified as a migrant (see *World Migration 2003: Managing Migration – Challenges and Responses for People on the Move* (Geneva: IOM)).

foster support and mount counter-offensives against Western cultural and material hegemony, and serious organised criminals seeking the necessary cover to handle international trade in illicit goods under the radar of state regulation.

Part of the challenge in mitigating the spread of these threats is how to manage the issue of 'transnationalism' – arguably the new¹⁸ spatial context in which international relations are now taking place. With the 'interstitial emergence'¹⁹ of multiple formal and informal institutional arrangements engaging in activities beyond the state, the very nature of statehood is changing and so too, the literature urges, must the traditional state-centric view of international relations.²⁰ Some commentators suggest that neorealism's world of *states-as-billiard balls* is 'being transformed into a *global cobweb* of transactions that cuts across the increasingly porous boundaries of nation-states'²¹: the contemporary 'postinternational' epoch is therefore not so much 'dominated by states and national governments as a congeries of spheres of authority ... that are subject to considerable flux and not necessarily coterminous with the division of territorial space'.²² In a similar vein, the literature on nodal governance conceives of the world in terms of multi-layered networks of 'governing auspices' or 'governmental nodes' which disregard the boundaries of nation-states and 'relate to each other in a variety of ways that shift over time and space'.²³

Despite these developments in the literature, it is to the world of *states* that the policy attention and discourse on crisis areas repeatedly returns. The next section briefly reviews the political reasoning behind this drift.

¹⁸ In Mann, Michael (1986) *The Sources of Social Power*, Vol.1 of *A History of Power from the Beginning to A.D. 1760* (Cambridge: Cambridge University Press), 1, the author argues that world politics has always been about 'multiple overlapping and intersecting sociospatial networks of power,' while today's global forces are simply an acceleration of these complex relations and connections.

¹⁹ *Ibid.*, 15-19

²⁰ See Mitchell, Katharyne (2001) 'Transnationalism, Neo-liberalism, and the Rise of the Shadow State,' *Economy & Society* 30(2) (May): 165-189; Swyngedouw, Erik (2005) 'Governance Innovation and the Citizen: The Janus Face of Governance-beyond-the-State,' *Urban Studies* 42(11) (October): 1991-2006.

²¹ Hobson, John M. (2000) *The State and International Relations* (Cambridge: Cambridge University Press), 2

²² Rosenau, James N. (1997) *Along the Domestic-Foreign Frontier: Exploring Governance in a Turbulent World* (Cambridge: Cambridge University Press), 29

²³ Shearing, Clifford & Jennifer Wood (2003) 'Nodal Governance, Democracy and the New 'Denizens', *Journal of Law & Society* 30(3): 400-419; also see Burris, Scott, Peter Drahos & Clifford Shearing (2005) 'Nodal Governance,' *Australian Journal of Legal Philosophy* 30: 30-58.

2.1.2 Order out of disorder

In a keynote speech at the Labour Party Conference in October 2001, UK Prime Minister Tony Blair outlined a vision of what he thought could be achieved after world leaders had been ‘shocked out of complacency’ by the events of 9/11. He said:

‘This is a moment to seize. The kaleidoscope has been shaken. The pieces are in flux. Soon they will settle again. Before they do, let us re-order this world around us.’

Later that month Straw reinforced the idea that it was the responsibility of countries like Britain to create order out of the chaos that is being spawned by ‘distant and misgoverned parts of the world’.²⁴

Policy prescriptions at the state level have not, however, flowed so neatly from these consistent calls to restore order. Stanley Kurtz presented the options thus: ‘Realist restraint or democratic missionizing? Which shall it be?’²⁵ With the broad shift from either a ‘palliative’ or ‘preventive’ treatment of failed states to a ‘decidedly interventionist’ and thus more transformative approach, commentators have noted a leaning towards ‘democratic missionizing’ in Western policy.²⁶ The emphasis appears to be on exploiting opportunities to ‘re-cast’ whole societies anew; as Astri Suhrke points out, the amount of *construction* that post-conflict *reconstruction* actually involves in states emerging from conflict is thus hardly surprising.²⁷

Mark Duffield suggests that this posture is enabled by the aid community’s widespread framing of conflict as an extremely destructive phenomenon ending in complete societal breakdown. In places where a justification for intervention is required, such a representation both furnishes the aid agencies in question with an indomitable ‘mission statement’, which pleases the donor, and creates a *carte blanche* for the introduction of new – but not necessarily appropriate – forms of social cohesion, ownership, and identity in the host society.²⁸ Roland Paris submits that by approaching the reconstruction process in this

²⁴ Straw, Jack (2001) ‘Speech to the International Institute of Strategic Studies,’ London, 22 October 2001 accessed in April 2006 at <<http://www.guardian.co.uk/waronterror/story/0,,578767,00.html>>

²⁵ Kurtz, Stanley (2002) ‘The Future of ‘History’,’ *Policy Review* 113 (June/July), 43-57

²⁶ Van Hear, Nicholas (2005) ‘Re-casting Societies in Conflict,’ Centre on Migration, Policy and Society Working Paper 22 (University of Oxford), 6

²⁷ Suhrke, Astri (2006) ‘The Limits of Statebuilding: The Role of International Assistance in Afghanistan,’ Paper presented at the International Studies Association, San Diego, 21-24 March, 2

²⁸ Duffield, Mark (1999) ‘Globalization and War Economies: Promoting Order or the Return of History?’ *The Fletcher Forum of World Affairs* 23(2) (Fall): 32. Moore makes a similar point when he suggests that ‘The wake of war leaves the ‘level playing field’ so beloved by ... neo-liberal discourses’ (‘Levelling the Playing Fields,’ 13).

way peacebuilding is beginning to resemble ‘an updated (and more benign) version of the *mission civilisatrice*, or the colonial-era belief that the European imperial powers had a duty to ‘civilise’ dependent populations and territories’.²⁹ Robert Cooper draws a similar conclusion when he suggests that the depiction of states as beyond self-repair supports a ‘voluntary imperialism’ that encourages Northern states to ‘bring order and organisation’ to a pre-modern world where ‘chaos is the norm’.³⁰ The next section considers further criticisms that the ‘liberal peace’ agenda has generated within the academy.

2.2 Unravelling the ‘liberal peace’ agenda

2.2.1 Good governance

Spurred by the failure of past reconstruction attempts, there has been a search among the donor community – governments, multilateral agencies, and foundations – for generic templates that can be applied to efforts of achieving ‘good governance’ in weak, failing, or ‘failed’ states. The basis of this new agenda, termed by many the ‘liberal peace’,³¹ is the ambitious goal of investing post-conflict societies with qualities such as democratisation, state-building and economic liberalism, which are seen to create the conditions for a positive peace. These conditions are intended to exclude the possibility for ‘dark’ nodes and networks of instability, such as unregulated transborder migratory flows, insurgent populations, shadow economies, and violent networks, to disrupt societies further and threaten global security in their defiance of national boundaries.³²

An intensified linking of security and development concerns has underpinned the introduction of this ‘liberal peace’ into troubled states.³³ Although the ‘security-

²⁹ Paris, Roland (2002) ‘International Peacebuilding and the “Mission Civilisatrice”,’ *Review of International Studies* 28(4): 637

³⁰ Cooper, Robert (2002) ‘Why We Still Need Empires,’ *The Observer*, 7 April

³¹ Examples can be found in Diamond, Larry J. (2005) ‘Lessons from Iraq,’ *Journal of Democracy* 16(1): 9-23; Dobbins, James *et al.* (2003) *America’s Role in Nation Building: From Germany to Iraq* (Washington D.C.: RAND); and Orr, Robert C. (2004) *Winning the Peace: An American Strategy for Post-Conflict Reconstruction* (Washington D.C.: Center for Strategic and International Studies). For a critical review of the ‘liberal peace’ paradigm in Africa, see Fanthorpe, Richard (2005) ‘On the Limits of Liberal Peace: Chiefs & Democratic Decentralization in Post-War Sierra Leone,’ *African Affairs* 105/418: 27-49.

³² See Duffield, Mark (2005) ‘Getting Savages to Fight Barbarians: Development, Security and the Colonial Present,’ *Conflict, Security and Development* 5(2): 141-159. For a discussion of ‘dark networks’, see Raab, Jörg & H. Brinton Milward (2003) ‘Dark Networks as Problems,’ *Journal of Public Administration Research & Theory* 13(4): 413-439.

³³ See Van Hear, ‘Re-casting Societies in Conflict,’ for an exploration of the movement towards an interpenetration of policy fields concerning humanitarianism, development and security. Also see the following reports of the UN Secretary-General: (1992) *Agenda for Peace*; (1994) *Agenda for Development*; and (2004) *A More Secure World* (New York: United Nations). In (2007) *The Security-Development Nexus: Expressions of Sovereignty and Securitization in Southern Africa* (Nordic Africa

development' nexus, as it has come to be recognised, implies a mutually reinforcing relationship, some express concern that in the post-9/11 environment the hard security priorities of the great powers will increasingly set the agenda for both security and development, risking the 'securitization' of the latter.³⁴ Neil Cooper suggests that the way these twin influences have been inter-mixed in various contexts to date has produced 'a variable geometry approach to post-conflict reconstruction'; 'not so much a liberal peace but a variety of liberal peaces that treat the relative merits of welfare, representation and security in different ways'.³⁵ In instances where these 'liberal peaces' break down or fail to have the desired effect of rapid democratisation and market liberalisation, the popular policy response is to adopt what Suhrke identifies as the 'critical mass approach', whereby international conferences simply 'call for more of the same' – more aid, more political will, and more foreign troops.³⁶

Critics of the liberal peace programme, such as Suhrke, are contributing to a growing body of work within the field of 'peacebuilding' that challenges the salience of importing standardised models for social change.³⁷ The authors' primary concern is that such generic models fail to take into account the roots of social and political life of the state in question. Béatrice Pouligny is one of the staunchest critics in this regard, arguing that the economic and socio-political infrastructures and institutions created by outside forces become no more than 'empty boxes' when reconstruction efforts consider only the formal appearances of local politics and statehood, rather than their 'substantial' aspects.³⁸ The 'host of cultural meanings' that remain 'unremarked and unanalysed' make the mission, according to Pouligny, unsuited to local conditions and hence bound to fail in the long-term. In a similar fashion, Christopher Cramer and Jonathan Goodhand argue that the 'liberal peace' approach

Institute), Buur *et al.* challenge the extent to which this phenomenon constitutes a new phase *sui generis* in the history of development thinking and practice.

³⁴ This can certainly be seen in recent changes to AusAID's policy and funding base, which favours 'good governance' programmes over traditional health and education projects.

³⁵ Cooper, 'Picking out the Pieces of the Liberal Peaces,' 464

³⁶ Suhrke, Astri (2006) 'The Limits of Statebuilding: The Role of International Assistance in Afghanistan,' Paper presented at the International Studies Association, San Diego, 21-24 March, 5

³⁷ Parallel to the 'peacebuilding' literature which is specific to less developed or fragile contexts, constructivist analyses on the 'democratic peace' hypothesis in IR recognise that 'institutional qualities cannot simply be assumed to create a certain outcome; they do not 'speak for themselves', but rather mark a struggle over the meaning of democracy. Widmaier, Wesley W. (2005) 'The Democratic Peace is What States Make of It: A Constructivist Analysis of the US-Indian "Near Miss" in the 1971 South Asian Crisis,' *European Journal of International Relations* 11(3): 431-455

³⁸ Pouligny, Béatrice (2005) 'Civil Society and Post-Conflict Peacebuilding: Ambiguities of International Programmes Aimed at Building 'New' Societies,' *Security Dialogue* 36(4): 505

is a donor ‘fantasy’, impossible to realise in places such as Afghanistan that are ‘rooted in complex, context-specific, historical processes’.³⁹

2.2.2 Local ownership and participation

The peacebuilding literature looks alternatively at ways of garnering local-level legitimacy and incorporating ‘participation’ into the rebuilding of state institutions. It therefore encourages an inversion of the top-down blueprint approach, which is charged with transplanting unceremoniously ‘the values and institutions of the liberal democratic core into the affairs of the peripheral host states’,⁴⁰ and aims instead for a more context-specific methodology that builds upon existing institutions and capacities. These are termed variously ‘indigenous’ and ‘situated’ knowledge, and stand in contrast to the ‘universal’ knowledge of liberal peace.

A number of empirical studies underscore the often grim consequences of instances where situated knowledge is unaccounted for, and has resulted in the nullified ‘fantasy’ to which Cramer and Goodhand refer above.⁴¹ These works extend the broader ‘humanitarian critique’ of the 1990s, which highlighted the implication of aid, whether through inadvertent harm or reckless negligence, in the dynamics of conflict. The critique prompted introspection and self-questioning, followed by a search for new theoretical and practical approaches, which was particularly evident in the relief community.

Goodhand and Atkinson helpfully divide the approaches into two main camps.⁴² The first school consists of ‘humanitarian maximalists’ – those who argue for a deepening of the aid agenda to address the underlying causes of conflict, and a corresponding ‘broadening’ of the humanitarian mandate to include development (rebuilding livelihoods)

³⁹ Cramer, Christopher & Jonathan Goodhand (2002) ‘Try Again, Fail Again, Fail Better? War, the State and the ‘Post-Conflict’ Challenge in Afghanistan,’ *Development & Change* 33(5): 904. Also see Moore, David (2000) ‘Levelling the Playing Fields and Embedding Illusions: ‘Post-conflict’ Discourse and Neo-liberal ‘Development’ in War-torn Africa,’ *Review of African Political Economy* 27(83) (March): 11-28.

⁴⁰ Paris, ‘International Peacebuilding and the “Mission Civilisatrice”,’ 638

⁴¹ Notable studies in this regard include: Anderson, Mary B. (1996) *Do No Harm: Supporting Local Capacities for Peace through Aid* (Cambridge: Collaborative for Development Action Local Capacities Peace Project), which examines the connections between relief delivery and the potential for exacerbation of violence; Powers, Samantha (2001) ‘Bystanders to Genocide,’ *The Atlantic Monthly* (September 2001), which presents a chilling commentary of negligence in the Rwandan genocide; and Terry, Fiona (2002) *Condemned to Repeat?: The Paradox of Humanitarian Action* (Ithaca; London: Cornell University Press), which is structured around four examples of inadvertent harm caused by humanitarian action.

⁴² Goodhand, Jonathan & Phillipa Atkinson (2001) ‘Conflict and Aid: Enhancing the Peacebuilding Impact of International Engagement: A Synthesis of Findings from Afghanistan, Liberia and Sri Lanka’ (London: International Alert), 11

and conflict resolution (supporting reconciliation) considerations.⁴³ Within this framework, special attention is accorded to the ‘do no harm’ policy, which aims to protect the aid recipient from the kinds of perverse outcomes of humanitarian intervention that were visible in Rwanda, Somalia, the Balkans, and elsewhere. The second school, consisting of the ‘humanitarian minimalists’, stresses the need to reaffirm the original beliefs and doctrine of humanitarianism – the primary imperative being that of ‘saving lives’ through the principles of neutrality and impartiality.⁴⁴

Beyond these differences, a growing consensus is emerging among practitioners and implementing agencies around the need for a ‘conflict-sensitive’ approach that includes greater participation of the local people, or at least appreciation for the time, place, and circumstances that collectively contribute to a local population’s ‘situated’ knowledge and capacities. By taking into account how people understand their histories, social processes and worldviews, peacebuilding strategies formed within this model would proceed from specificities and work upward to comparative generalisations, rather than downward from *a priori* assumptions. Hence, borrowing the words of Rudolph:

universalistic theories project a single history common to mankind ...
[with] ... a common developmental path along which all humans will tread
... situated knowledge projects futures by reference to where a
culture/society/polity is coming from. Its specificities dictate the next
step.⁴⁵

Some commentators argue that the emphasis on ‘situated’ knowledge simply reveals the ‘anthropologically self-evident point’⁴⁶ that effective external assistance would benefit from some understanding of local institutions and practices.⁴⁷ Long-time development specialist Raymond Apthorpe maintains that, instead of representing a ‘cultural turn’ in the literature, the ‘participatory’ approach indicates a ‘re-turn’ to the practical, project-specific cultural analysis spawned, but then abandoned, during the 1950s-1970s. The most prominent among these approaches was Robert Chambers’ ‘Rapid Rural Appraisal’ (RRA)

⁴³ Goodhand & Atkinson, ‘Conflict and Aid,’ 12

⁴⁴ *Ibid.*, 14. The Red Cross and Red Crescent Movements have long been strong adherents of this view.

⁴⁵ Rudolph, Susanne Hoeber (2005) ‘Presidential Address – The Imperialism of Categories: Situating Knowledge in a Globalizing World,’ *Perspectives on Politics* 3(1) (March 2005), 12

⁴⁶ Sillitoe, Paul (1998) ‘The Development of Indigenous Knowledge: A New Applied Anthropology,’ *Current Anthropology* 39(2) (April): 223-252

⁴⁷ An important work in this respect is Paul Richards’ study of domestically generated innovations in food production in West Africa. Richards tests the occurrence of a ‘green revolution from within’ in which swamp rice farmers perfect their skills and techniques through a reliance on local knowledge systems and flexible social organisation (Richards, Paul (1985) *Indigenous Agricultural Revolution: Ecology and Food Production in West Africa* (London; Sydney: Unwin Hyman)).

that was initiated in the early 1980s to describe techniques that could bring about a ‘reversal of learning’ by putting the ‘last’ first.⁴⁸ While Chambers’ method began with rural development, it is now widely accepted across development initiatives to include local people in examining their own problems, setting their own goals, and monitoring their own achievements. By the mid 1990s, the term RRA was replaced by a number of other terms including ‘Participatory Rural Appraisal’ and ‘Participatory Learning and Action’.⁴⁹

The latest incarnation, or rather re-incarnation and adaptation, of RRA in development discourse is found in concepts such as ‘participatory intervention’, ‘local ownership’ and ‘empowerment’ which describe the optimal involvement of local people in a *legitimate* state-building enterprise.⁵⁰ Local ownership of the peace process has featured most heavily in reports by campaigning non-governmental organisations and official policy-oriented works on conflict and post-conflict societies. These include statements by the UN Secretary-General, which strongly urge that:

...peace operations must better assist national stakeholders to develop their own reform vision, their own agenda, their own approaches to transitional justice and their own national plans and projects...we must learn better how to respect and support local ownership, local leadership and a local constituency for reform, while at the same time remaining faithful to United Nations norms and standards.⁵¹

The apparent vigour for integrating the local perspective into the ‘liberal peace’ agenda has generally been welcomed as a significant advance in ‘mainstreaming’ conflict-sensitivity. But for those who remain sceptical, the flurry of new terminology and pronouncements regarding participatory action represents no more than a rhetorical commitment.

It appears that the advances in participatory methodologies have been slow to translate to practice or theoretical development in the aid world and accompanying IR scholarship. Apthorpe warns in this regard that by simply adding and stirring ‘culture’ in

⁴⁸ Chambers, Robert (1983) *Rural Development: Putting the Last First* (Longmans)

⁴⁹ See the Participatory Learning and Action series, published by International Institute for Environment and Development, which can be accessed at <http://www.iied.org/NR/agbioliv/pla_notes/about.html>.

⁵⁰ Chopra, Jarat & Tanja Hohe (2004) ‘Participatory Intervention,’ *Global Governance* 10: 289-305. The term ‘participatory governance’ was employed several years earlier by the Secretary-General. See Hurwitz, Agnès (2005) ‘Towards Enhanced Legitimacy of Rule of Law Programs in Multidimensional Peace Operations’ (New York: International Peace Academy), 14-15; and Chesterman, Simon, ‘The Trope of Ownership’ in Hurwitz, Agnès with Reyko Huang (eds) (2006) *Rule of Law & Conflict Management: Towards Security, Development and Human Rights?* (Boulder, C.O.: Lynne Rienner).

⁵¹ Report of the UN Secretary-General (2004) *The Rule of Law & Transitional Justice in Conflict & Post-conflict Societies*, UN Doc. S/2004/616 (3 August), para.17

current developmentalist writing, aid practitioners are still no closer to the kind of social anthropological scholarship necessary either to foster inter-cultural dialogue or realise the inter-disciplinary potential of such an exercise. Rather, the renewed focus on ‘culture’ serves to perpetuate the ‘charming and calibrated mix of thin description with thick prescription’ that is so pervasive in the literature.⁵²

Perhaps the intentions of those working in and commenting upon international organisations such as the UN are purer than these criticisms suggest; it is helpful to remember that the discourse and reflection on local ownership can only go so far as the real constitutional and organisational constraints of the institutions allow. Bearing this in mind, it is possible to discern a subtle yet significant caveat within Kofi Annan’s statement above. The level of local participation is repeatedly qualified by the non-negotiable proviso that it must remain ‘faithful to United Nations norms and standards’ and ‘in accordance with international standards’. Hence, the crucial aspect in Kofi Annan’s report thus becomes the belief that there is a set of values which can and should be universally observed *despite* the particularity of the local culture and traditions from which the persons due to respect these values come.⁵³ Some might argue that ‘universalist-speak’⁵⁴ is therefore *necessarily* employed in a way that dismisses other non-conformist values. However imperious this practice becomes depends as much on the audience as the implementers of the aid regime. All the same, it is a relatively straightforward historical exercise to determine who was involved in the creation of most international instruments and to trace the origin of the particular values that support these agreements – namely, Western liberalism.⁵⁵

By virtue of one of its principle ‘normative glories’, Rudolph argues that [neo]liberalism’s presumption of human homogeneity eliminates the need to comprehend the meaning system of ‘the other’.⁵⁶ In the reconstruction process, this attitude risks obscuring the very cultural markers that Pouligny and others underline as a crucial resource for information on how to adapt and adjust democratic models to local practices and customs. Practitioners and donors who retain a strictly universalist philosophy in their implementation of ‘liberal peace’ are thus considered by an increasing number of critics to bear a particularly

⁵² Apthorpe, Raymond (2005) “‘It’s [the] Culture, Stupid!’” Why ‘Adding Culture’ is Unlikely to Make Any Serious Difference to International Developmentalism,’ *The Asia Pacific Journal of Anthropology* 6(2) (August): 132

⁵³ Langlois, Anthony J. (2002) ‘Human Rights: The Globalisation and Fragmentation of Moral Discourse,’ *Review of International Studies* 28: 481

⁵⁴ *Ibid.*, 480

⁵⁵ While it is outside the scope of this thesis to evaluate the universality of human rights, the debate is nonetheless useful in framing some of the issues concerning an agenda based on ‘liberal peace’.

⁵⁶ Rudolph, ‘The Imperialism of Categories,’ 6

heavy intellectual burden as they approach the ‘alien other’ in whose name they are attempting to achieve ‘human security’⁵⁷ and meaningful reconstruction.

These criticisms bring into focus a larger query regarding the legitimacy of the liberal project and the direction of the post-Cold War order. Opinion in the early 1990s was deeply divided between those who believed that the ‘warm surrender’ of the Cold War⁵⁸ ushered in a more problematic era of fragmentation (with the failure of states on the periphery to consolidate after the removal of superpower funding) and those who believed it marked a resolution of conflict (through the victory of liberal democracy as a system of government). The first point of view, that saw multiple ‘worlds in collision’, accentuated the importance of identity and culture in the modern world order, while advocates of the second camp underlined the universality and political legitimacy of Western thought and the end of ‘colliding thought-worlds’ with the fall of communism.⁵⁹ It is worth devoting some attention to this debate as it forms an important backdrop to the subject of local economic governance and the current predicament of failed states.

2.2.3 Clash or consensus in liberalism

The question that appeared to be on everybody’s lips after the melting away of the perceived threat of communism to the West went thus: is the world heading ineluctably for a violent ‘clash of civilizations’ and a decline in Western power, as put forward by Samuel P. Huntington and feared by certain members represented in the General Assembly, or irresistibly towards what Francis Fukuyama proclaimed and others have promoted as the global triumph of democracy? It might seem strange to draw from the interpretations of just two men trying to make sense of the post-Cold War order, particularly when their work has been the object of an endless slew of criticisms; accusations range from one author seeking to ‘derange the public mind’ with his ‘crude, unblushing *falsification*’ of facts,⁶⁰ to the other being labelled a ‘pseudo-thinker’ and ‘sloppy academic’⁶¹. Harsh reviews from unforgiving critics, however, serve to dismiss the pair’s crucial contribution to political debate. The broad-brush with which Huntington and Fukuyama are charged with depicting the world is

⁵⁷ See Bellamy, Alex, Paul Williams & Stuart Griffin (2004) *Understanding Peacekeeping* (Cambridge: Polity Press), 34.

⁵⁸ Freedman, Lawrence (1993) ‘Weak States and the West: Warfare has a Future,’ *The Economist* Vol.328, Issue 7828 (11 September)

⁵⁹ Booth, Ken & Tim Dunne (2002) *Worlds in Collision: Terror and the Future of Global Order* Houndmills, Basingstoke; New York: Palgrave)

⁶⁰ Chaitkin, Anton (2004) ‘What Do You Mean, ‘We’?: Book Review of Samuel P. Huntington’s *Who Are We? The Challenges to America’s National Identity*,’ *Executive Intelligence Review* (21 May)

⁶¹ McNicoll, Arion (2006) ‘A Reformed Neocon: Book Review of Francis Fukuyama’s *After the Neocons*,’ *Times Online* (28 March), accessed in August 2006 at <<http://www.timesonline.co.uk/article/0,,923-2107089,00.html>>

precisely, argues Arion McNicoll, what lends them weight.⁶² While their ideas are admittedly simplistic and not entirely original, they capture the essence of important but opposing streams of thought regarding the world's most plausible future, and with them the political imagination. Moreover, the wealth of detailed critiques that have been generated within the academy in a knee-jerk response has prompted us to challenge not only the straw man in world politics that reifies the West and other groupings as if they were categorical and bounded realities,⁶³ but also the very question of the modern project.

In 1989 Francis Fukuyama published a journal article in which he argued that a remarkable consensus concerning the legitimacy of liberal democracy as a system of government had emerged throughout the world due to its triumph over rival ideologies like hereditary monarchy, fascism and, most recently, communism. This signalled 'not just the end of the Cold War, or a passing of a particular period of postwar history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government'.⁶⁴

Fukuyama's vision of the 'end of history' marked a return to one of the most critical rifts that has divided the discourse on modernity for centuries – that between the movement to (a) universalise the 'modern 'rational' model of the Enlightenment', and (b) preserve the particularistic visions 'construed as reflecting the more 'authentic' cultural traditions of specific societies'.⁶⁵ His debate aroused, therefore, an overwhelmingly hostile response from advocates of the latter camp who were by no means ready to accept that the post-Cold War era heralded such a consensual outlook. They saw the West's universalist pretensions increasingly bring it into conflict with other groups; a trend which came into sharp relief with the superpowers' withdrawal of external patronage from regimes on the periphery.

In the mid-1990s, Huntington's theories provided the primary counterpoint to Fukuyama's perspective. He argued that the idea of Western liberal democracy as the final form of human government inadequately accounts for the connections of blood, faith and instinct that move people to action as much as their reasonable calculation. In his 1993 article published in *Foreign Affairs*, Huntington famously envisaged a coming 'clash of civilizations', where culture and cultural identities, which at the broadest level are

⁶² McNicoll, 'A Reformed Neocon'

⁶³ See Booth & Dunne, *Worlds in Collision*, 7.

⁶⁴ Fukuyama employs the Hegelian use of the term 'history' here, which denotes the history of ideology, rather than the conventional 'random sequence of events'. Fukuyama, Francis (1989) 'The End of History?' (reprint) *Quadrant* 34(8) (August), 15. In 1992, Fukuyama expanded his argument to a book entitled *The End of History and the Last Man* (New York: Free Press).

⁶⁵ Eisenstadt, Shmuel Noah (2000) 'Multiple Modernities,' *Daedalus* 129(1) (Winter), 12

civilisations, will determine the new world disorder.⁶⁶ Distinct from Westernisation, he claimed, modernisation was producing neither a universal civilisation in any meaningful sense nor the Westernisation of non-Western societies; the newly 'multi-polar' world is defined more by patterns of cohesion, disintegration, and conflict.⁶⁷

Not surprisingly, following the events of 11 September, Fukuyama's claim that alternative cultural systems were conforming to liberal democracy came under heavy fire from the critics, while Huntington's theory of a 'clash of civilizations' gained currency. A month after the terrorist attacks on American soil, Fukuyama conceded in an article controversially entitled 'The West has Won' that 'there does seem to be something about Islam, or at least the fundamentalist versions of Islam ... that makes Muslim societies particularly resistant to modernity';⁶⁸ by concluding somewhat perfunctorily that the challenge is an inherently parochial phenomenon and that religious diversity is simply a temporary 'aberration' without any serious political implications, some sensed that his examination continued to overlook the seriousness with which non-Western movements pose a challenge to liberal assumptions of modernity.

Huntington's framework has offered a more helpful guide in exploring the cultural clash between 'the West and the Rest'. He defines three possible groupings for non-Western societies: assimilation, isolation, and confrontation;⁶⁹ societies that opt for the third strategy choose to 'modernise', but not to Westernise or isolate their culture further from the mainstream. This middle way, according to Huntington, enables the preservation of indigenous values and institutions in the modern project on condition that the strategy includes an enhancement of economic and military power, in addition to cooperation with other non-Western societies *against* the West.

A group of scholars debating the influence of identity politics and the possibility of multiple and contestable visions in the modern world have taken the discussion further. They argue that Huntington's reasoning is flawed due to his insistence on dealing with cultures as bounded wholes with defining 'essences' when there is ample evidence of less definite, interpenetrating hybrids as a result of modernity.⁷⁰ Amartya Sen's recent book, which offers a cursory historical, literary and cultural survey of a diverse set of supposedly

⁶⁶ Huntington, Samuel P. (1993) 'The Clash of Civilizations?' *Foreign Affairs* 72(3): 41. Huntington published his book-length elaboration, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster), in 1996.

⁶⁷ Huntington, *Clash of Civilizations*, 20. For a helpful critique of Huntington's argument, see 'The Man in the Baghdad Café,' *The Economist* Vol.34, Issue 7991 (11 September 1996).

⁶⁸ Fukuyama, Francis (2001) 'The West has Won,' *The Guardian* (11 October 2001)

⁶⁹ Huntington, *Clash of Civilizations*, 101

⁷⁰ Sen, Amartya Kumar (2006) *Identity and Violence: The Illusion of Destiny* (New York: W.W. Norton & Company)

monolithic civilisations, is but one example of a challenge to the ‘solitarist’ approach to human identity that a civilisational or religious partitioning of the world population yields. Seeing humans as members of exactly one group, he argues, ‘can be a good way of misunderstanding nearly everyone in the world’, for such a view ignores the numerous other factors that combine to make a person what he or she is.⁷¹

These scholars lower Huntington’s analytical gaze beneath the monolithic blocks of culture, such as Confucianism, the Islamic world and the West, towards the realm of personal and institutional freedom and activity that man’s autonomy, or ‘emancipation from the fetters of traditional political and central authority’ through modernity, implied.⁷² In doing so, the confrontation between Western and non-Western groups can be interpreted within a wider context than that of the sinister and foreboding clash envisaged by Huntington; one which involves the interaction and negotiated compromise of ‘multiple modernities’, or ‘new political, social, and civilizational visions’ of collective identity, that no longer see themselves as bound by the homogenising and hegemonising cultural premises laid by the classical model of the nation-state.⁷³ This view allows for the possibility that non-Western societies innovate and redefine modernity ‘in their own terms’ by appropriating specific themes and institutional patterns of modern Western societies,⁷⁴ and does not necessitate direct opposition to the West, *per se*. In her recent post-colonial literature within IR, Lily Ling explores this interaction between Asia and the West, and argues that the mutual borrowing and absorbing of cultural ideas ultimately transforms both in a constructive melding of the ‘self’ and ‘other’.⁷⁵

Building on Ulrich Beck’s idea of ‘reflexive modernisation’ in ‘new wars’, Mark Duffield proffers that some local contexts in developing and transitional countries interpret marginalisation in terms of social transformation, whereby the opportunities of liberal globalisation are ‘critically refashioned and transformed into new (and essentially non-liberal) forms of autonomy, protection, and social regulation’.⁷⁶ Rather than signalling exclusion and a failure of modernity, then, it is possible for a local system’s hidden potential and capacity for adaptation and survival to be revealed through conflict. The result, he

⁷¹ Sen, *Identity and Violence*

⁷² Eisenstadt, ‘Multiple Modernities,’ 2-5. German sociologist Ulrich Beck also recognised the possibility of ‘many modernities’ in ‘The Reinvention of Politics: Towards a Theory of Reflexive Modernization,’ in Beck, Ulrich *et al.* (eds) (1994) *Reflexive Modernization: Politics, Tradition and Aesthetics in the Modern Social Order* (Cambridge: Polity Press), 24.

⁷³ *Ibid.*, 24, 16

⁷⁴ *Ibid.*, 15, 24

⁷⁵ Ling, Lily H. M. (2001) *Postcolonial International Relations: Conquest and Desire between Asia and the West* (Basingstoke: Palgrave Macmillan)

⁷⁶ Duffield, Mark (2002) ‘Social Reconstruction & the Radicalization of Development: Aid as a Relation of Global Liberal Governance,’ *Development & Change* 33(5): 1055

argues, is usually the rise of ‘innovative extra-legal local-global networks linking local resources and international markets’.⁷⁷ Whether or not these networks are breeding grounds for organised crime, as has been promulgated by some commentators,⁷⁸ depends entirely on a case-by-case basis.

In general, the possibility of alternative visions of modernity does not sit well with policymakers in the West when it can most clearly be seen in the form of fundamentalist terrorist groups or enterprises that interfere with the running of Western states. People therefore tend to remain resistant to accepting the basic plurality of identities and assume that their form of legitimacy is universal. This attitude masks the actual nature and extent of the social changes that flow from the constant pressure on non-Western states to modernise – for example, what determines whether modernisation either blends or fails to blend with particular groups.⁷⁹

The stubborn insistence on maintaining a statist perspective when confronting global developments further blinds policymakers to the ‘multiple modernities’, or private forms of authority, at play. The following section thus surveys a number of possible ‘ways forward’ in the theoretical development of this area. In particular, it explores the prospects for using existing IR scholarship on the issue of private authority, and advances in other literatures on legitimate governance and social networks, to improve IR’s contribution to discussions of culture and ‘micro-politics’.

2.3 The way forward

2.3.1 Authority and legitimacy

While the retreat and demise of the state was extensively debated in the IR literature during the 1990s,⁸⁰ it remains for most in the discipline the chief feature of the international system and means of distributing power. Hence, ‘any other competing set of economic and political associations are by definition marginal’.⁸¹ Bottom-up processes or micro-politics

⁷⁷ Duffield, ‘Social Reconstruction & the Radicalization of Development, 1055-1059

⁷⁸ In Manuel Castells’ telling, ‘a new world, the Fourth World ... made up of multiple black holes of social exclusion throughout the planet’ has emerged at the periphery where the only notable export is organised crime. Castells, Manuel (1998) *End of Millennium, The Information Age: Economy, Society and Culture*, Vol. III (Oxford: Blackwell), 164

⁷⁹ Castells, *End of Millennium*, 164

⁸⁰ This thesis was most famously promulgated by political economists such as Susan Strange in (1996) *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press).

⁸¹ Nordstrom, Carolyn (2004) *Shadows of War: Violence, Power, and International Profiteering in the Twenty-First Century* (Berkeley, C.A.: University of California Press)

tend to be cast in terms of a 'state-society' contestation of power, which reduces much of the debate to an 'either-or' outcome.⁸²

Ultimate authority is assumed to lie with formal, 'public' state institutions, while 'private' authority is typically associated with large international organisations, transnational corporations, non-governmental organisations, and formal bodies that either challenge the authority of states or have authority ceded to them by states. By obstructing 'the possibility of analyzing [public authority's] relationship with other summing concepts such as nation, society, or territory',⁸³ the discipline runs the risk of committing itself either subconsciously or purposefully to what psychoanalyst Vic Blake calls 'theoretical monism'.⁸⁴ This occurs when what was originally intended as a device to discriminate categories through the formulation of binaries becomes the quite separate process of favouring the position of one set of actors who are able 'to control the discursive construction of the other player'.⁸⁵

Recent developments in the political economy literature have nevertheless begun to stress the fundamental reorientation of IR from the study of the relationship between fixed and given units of the state to the study of *encounters* between political entities and the attendant processes and implications of such interactions, which opens up the possibility of researching alternative repositories of power and authority in 'transnational' rather than 'inter-national' spaces.⁸⁶ This has prompted a renewed focus in the literature on the subject of non-state activity, which revives the earlier debates of liberal institutionalists, such as Robert Keohane & Joseph Nye,⁸⁷ who saw the autonomy of the state diminishing under trade and financial flows, along with transnational problems such as organised crime and environmental degradation. It promises to break new ground, however, by sharpening the analytical focus to how non-state actors matter beyond their challenge to the neo-realist mainstream position that emphasises the centrality of the state.

Most inquiries tend to explore the impact of private actors on state capacity, autonomy, and competence, while a select few seek to examine the less tangible and more

⁸² For a critique of the enduring nature of this duality in the literature, see Chowdhury, Supriya Roy (1999) 'Neo-Statism in Third World Studies: A Critique,' *Third World Quarterly* 20(6): 1089-1107.

⁸³ Nettl, J.P. (1968) 'The State as a Conceptual Variable,' *World Politics* 20(4): 559-92

⁸⁴ Blake, Vic (2006) 'In Two Minds: Some Theoretical Implications of Lynne Layton's Paper, "A Fork in the Royal Road",' *Psychoanalysis, Culture & Society* 11: 85

⁸⁵ Rudolph, Susanne Hoeber (2005) 'Presidential Address – The Imperialism of Categories: Situating Knowledge in a Globalizing World,' *Perspectives on Politics* 3(1) (March 2005), 8

⁸⁶ Ronen Palan's constructivist IPE work is exemplary in this respect. Palan, Ronen (2004) 'Constructivism and Globalisation: From Units to Encounters in International Affairs,' *Cambridge Review of International Affairs* 17(1) (April): 11-23

⁸⁷ Keohane, Robert O. & Joseph S. Nye (eds) (1971) *Transnational Relations and World Politics* (Cambridge, M.A.: Harvard University Press). See also Risse-Kappen, Thomas (ed.) (1995) *Bringing Transnational Relations Back In* (Cambridge: Cambridge University Press).

elusive aspects of statehood, such as authority and legitimacy.⁸⁸ The dedicated political economy scholars in this area have either declared a ‘pervasive authority crisis’ among states, or developed more critically the notion of ‘private authority’ vis-à-vis the state, where ‘private’ is defined as ‘neither states, state-based, nor state-created’ and ‘authority’ as ‘institutionalized forms or expressions of power’ that are *legitimate* in the sense that ‘there is some form of normative, un-coerced consent or recognition of authority on the part of the regulated or governed’.⁸⁹

The first volume published exclusively on private authority, edited by Cutler, Haufler & Porter (1999), confines the analysis to private economic governance.⁹⁰ In a second volume, edited by Rodney Bruce Hall & Thomas Biersteker (2002), the analysis moves beyond the strictly economic sphere with a comparative examination of private authority in ‘market’, ‘moral’ and ‘illicit’ domains.⁹¹ Non-governmental social and religious movements are explored within the ‘moral’ domain and the authority of actors that violate domestic or international legal norms, such as transnationally organised criminal groups, is explored within the ‘illicit’ sphere. Recognising that no single analytical framework can accommodate and explain the genesis, activities and impact of such a diverse set of non-state actors, the volumes emphasise that authority relationships can be examined empirically only in ‘recognisable issue domains’; analyses should therefore be case-specific and explore how private authority comes about; why it is considered to be legitimate; who is governed by it; and how it operates.

The discussion of private authority has provided a necessary step in the advancement of IR scholarship, and should be recognised as an achievement in itself. Nonetheless, it does suffer from several limitations pertinent to this study. Firstly, it fails to moor the twin concepts of authority and legitimacy to a more secure theoretical foundation, limiting the ability of the reader to examine fully why private authority comes about and how legitimacy functions beyond the state.

Secondly, it does not address the causes and consequences of governance through private authority, which is especially important in contexts of underdevelopment and

⁸⁸ See Mason, Ann C. (2005) ‘Constructing Authority Alternatives on the Periphery: Vignettes from Colombia,’ *International Political Science Review* 26(1): 37-54.

⁸⁹ Rosenau, James N. & Mary Durfee (2000) *Thinking Theory Thoroughly: Coherent Approaches to an Incoherent World* (Boulder: Westview Press); Hall, Rodney Bruce & Thomas J. Biersteker (eds) (2002) *The Emergence of Private Authority in Global Governance* (Cambridge: Cambridge University Press)

⁹⁰ Cutler, A. Claire, Virginia Haufler & Tony Porter (eds) (1999) *Private Authority in International Affairs* (Albany, N.Y.: SUNY Press)

⁹¹ Hall & Biersteker, *Emergence of Private Authority in Global Governance*

institutional collapse.⁹² In such cases, the state cannot be seen in opposition, *per se*, to private governance because it is experiencing a ‘crisis of functionality’, which prevents it from penetrating society, regulating social relationships, extracting resources, and appropriating or using resources in determined ways.⁹³ In addition, the early stage of a fragile state’s reconstruction involves an actual reliance on existing forms of private authority and non-state actors to facilitate its development into a legitimate state. A more complex contestation over authority than that explored in mainstream IR literature thus occurs in these situations as non-state actors either substitute state functions in the absence of any valid notion of public authority or support its formation. It could in fact be argued that in relying on these non-state structures for building and strengthening a functioning state system, the state and the international community are at the same time reinforcing a parallel non-state system.

Lastly, the current literature tends simply to modify the macro-level debate in IR to one which gives greater emphasis to the private share of *formal* authority in the international system, resulting in another study of the devolution of state authority and sovereign perquisites to private actors that include conglomerates such as the global economy (‘market’), global civil society (‘moral’), and transnational crime groups (‘illicit’).⁹⁴ As the conceptualisation of authority departs from top-down analyses and enters the sub-state or domestic level, the focus thus begins to blur rather than sharpen, much like the inverse of a lens – the more one zooms in, the less detail is revealed. It is therefore inadequate for the study of private authority at the more ‘informalised’ sub-state level.

In order to develop a more robust theoretical foundation for the concept of private authority, it is instructive to borrow from advances made in other literatures. Attempts by sociologists working within the field of management theory in the late 1960s systematised alternative perspectives to legitimacy and formed a useful vocabulary under ‘organisational legitimacy’ for the different dynamics at play. These works explored how organisations enact strategies to gain legitimacy,⁹⁵ and how ‘external’ or ‘social audiences’ in turn grant

⁹² This observation is also made by Tim Büthe in his review article, (2004) ‘Governance through Private Authority? Non-State Actors in World Politics,’ *Journal of International Affairs* 58(1) (Fall): 281-290.

⁹³ Migdal, Joel (1998) *Strong Societies and Weak States: State-society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press), 4-5 (italics in original)

⁹⁴ Transnational criminals and terrorists are the closest to being organised ‘informally’, however the approach taken by Phil Williams in particular, who contributes a chapter and a wealth of further material on the former, is to analyse its impact on the capacity of the nation-state. It thus lacks insights into the agency behind these groups and their diverse bases for ‘legitimacy’. See Chapter 9, entitled ‘Transnational Organized Crime and the State’ in Hall & Biersteker, *Emergence of Private Authority in Global Governance*.

⁹⁵ Dowling, John & Jeffrey Pfeffer (1975) ‘Organizational Legitimacy: Social Values and Organizational Behavior,’ *Pacific Sociological Review* 18(1) (January): 122-136; Mazza, Carmelo

legitimacy to organisations.⁹⁶ At the core of this intellectual transformation was the reconceptualisation of organisations as operating outside a purely rational realm where cultural norms, symbols, beliefs, and rituals do matter.

Among the divergent approaches to organisational legitimacy, Mark Suchman identifies three main strands of legitimacy that influence social audiences in their decision to be 'governed' by a certain authority: they are grounded in i) pragmatic assessments of the governance system's economic material benefits, ii) normative evaluations of moral propriety, and iii) cognitive definitions of appropriateness and interpretability.⁹⁷ Suchman labels these 'pragmatic legitimacy', 'moral legitimacy', and 'cognitive legitimacy', while reinforcing that all types share the following foundational level of legitimacy:

... a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.⁹⁸

Legitimacy is 'generalized' in the sense that it represents an umbrella evaluation that, to some extent, transcends instances of failure or adverse occurrences; 'thus, legitimacy is resilient to particular events, yet it is dependent on a history of events'.⁹⁹ The emphasis on 'perception or assumption' is important because it demonstrates that legitimacy affects not only how people act towards a given entity but also how they understand it.¹⁰⁰ Each type of legitimacy rests, therefore, on a somewhat different behavioural dynamic in both the audience, with its complex interplay of motivations, and the private authority in question.

For Suchman, pragmatic legitimacy is the most elementary form of authority in the trichotomy. It focuses on such issues as profit maximising behaviour and is usually based on short-term gains. Here the key to granting legitimacy rests on some type of *exchange*

(1999) *Claim, Intent, and Persuasion: Organizational Legitimacy and the Rhetoric of Corporate Mission Statements* (Springer)

⁹⁶ Ginzel, Linda E. *et al.* (1993) 'Organizational Impression Management as a Reciprocal Influence Process: The Neglected Role of the Organizational Audience,' in Straw, Barry M. & Larry L. Cummings (eds) *Research in Organizational Behaviour* Vol. 15 (Greenwich, C.T.: JAI Press), 227-266; Neilsen, Eric H. & M.V. Hayagreeva Rao (1987) 'The Strategy-Legitimacy Nexus: A Thick Description,' *Academy of Management Review* 12(3) (July): 523-533; Perrow, Charles (1970) *Organizational Analysis: A Sociological View* (Belmont, C.A.: Wadsworth); Suchman, 'Managing Legitimacy,' 571-610

⁹⁷ Suchman, 'Managing Legitimacy,' 572

⁹⁸ *Ibid.*, 574

⁹⁹ *Ibid.*, 574

¹⁰⁰ See Pfeffer, Jeffrey (1981) 'Management as Symbolic Action: The Creation and Maintenance of Organizational Paradigms,' in Straw & Cummings, *Research in Organizational Behaviour*, 14 for further insights into how meaning becomes attached to a governance system through a rationalisation of patterns of behaviour that develop over time.

between the grantor and the grantee that affects the audience's 'well-being' or larger interests, giving it a direct benefit.¹⁰¹

Moral legitimacy, on the other hand, reflects a positive normative evaluation of the organisation and its activities. In this case, the judgement rests not simply on addressing instrumental demands, but rather on principled ideals.¹⁰² This 'prosocial logic' is concerned with how the activity effectively promotes societal welfare in general, as defined of course by the audience's 'socially constructed value system'.¹⁰³ In addition to being judged according to what they accomplish, it is possible for an organisation to garner its own moral legitimacy through the manipulation of an audience and ritualistic embrace of socially accepted techniques and procedures. If, for example, the structural characteristics of an organisation locate it within a morally favoured taxonomic category, there is a strong likelihood that it will be vested with public confidence. Similarly, but in rarer instances, legitimacy can be gained by individual 'moral entrepreneurs' whose charisma and personal influence are seen to contribute positively to the audience's idea of what constitutes the 'right thing to do'. Regardless of the motivation, legitimacy derived from moral claims is considered to be more durable than that gained from pragmatic concerns because it implicates larger cultural and social norms.

Cognitive legitimacy is based neither on interests nor on moral motivations, but rather on 'comprehensibility' (popularisation) or 'taken-for-grantedness' (standardisation).¹⁰⁴ Suchman explains that 'theorists who focus on the role of comprehensibility in legitimation generally portray the social world as a chaotic cognitive environment, in which participants must struggle to arrange their experiences into coherent, understandable accounts'.¹⁰⁵ Cultural models created in response to this chaos are seen to provide the organisation with predictability and meaning; and in the absence of such models, 'activity will collapse'.¹⁰⁶ Those of the 'taken-for-grantedness' approach depict a more coherent cognitive outlook, where 'institutions not only render disorder manageable, they actually transform it into a set of intersubjective 'givens' that submerge the possibility of dissent'.¹⁰⁷ In these cases, it becomes virtually inconceivable that the social structure or form of authority could be

¹⁰¹ Suchman, 'Managing Legitimacy,' 578

¹⁰² *Ibid.*, 579

¹⁰³ *Ibid.*

¹⁰⁴ *Ibid.*, 583

¹⁰⁵ *Ibid.*

¹⁰⁶ *Ibid.* See also Scott, W. Richard, 'Unpacking Institutional Arguments,' in Powell, Walter W. & Paul J. DiMaggio (eds) (1991) *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press), 164-182

¹⁰⁷ Suchman, 'Managing Legitimacy,' 583

organised in any other way. Suchman identifies this as the most elusive and powerful source of legitimacy because it becomes self-sustaining and virtually unassailable, once established.

The issue of legitimacy is crucial to the research framework of this thesis because it fuses the considerations of both international and local governance by moving freely between different audiences¹⁰⁸ at global, national, and local levels, necessitating a better understanding of their separate domains and the politics of their interaction. Most importantly for development practitioners, a focus on legitimacy underscores the difficulties involved in replacing or superimposing another system upon local systems of governance.

As stated in the Introduction, the thesis hypothesises that these dynamics remain under explored in part due to the nature and effects of the binary frame within which much Western thinking on local governance structures in ‘post-conflict’ or ‘failed’ states takes place. While recognising the simple and necessary heuristic practice of setting up distinctions in the reasoning process,¹⁰⁹ it cautions against the quite separate processes of (a) giving the categories so-defined a distinctive ontological status, (b) ‘othering’ these categories, thereby setting them up as polarities of each other, and (c) fixing these polarities in an oppositional relationship that assumes one should take priority over the other.¹¹⁰

Rudolph argues that the persistent use of binaries by dominant peoples is often employed ‘to control the dominated by ranking and creating cultural asocial registers’.¹¹¹ This can be seen in the labels ascribed to failed states and the non-Western societies and practices that exist within them, such as ‘non-democratic’, ‘illegitimate’, ‘cultural’, ‘informal’, ‘local’, and indeed ‘failed’. The almost automatic tendency to assign what are essentially negative labels to unfamiliar practices and events goes some way to explaining why, in spite of theoretical advances in the literature, the unparalleled commentary and criticism leveled at Fukuyama’s thesis, and what seemed to be evidence of a ‘clash of civilizations’ of sorts on 11 September 2001, Fukuyama’s thinking on the salience of liberal

¹⁰⁸ See Mulligan, Shane (2004) ‘Questioning (the Question of) Legitimacy in IR: A Reply to Jens Steffek,’ *European Journal of International Relations* 10(3): 482 for a similar argument.

¹⁰⁹ The human tendency to approach life in terms of binaries is widely recognised by philosophers and anthropologists. Edmund Leach suggests that ‘Binary oppositions are intrinsic to the process of human thought. Any description of the world must discriminate categories in the form ‘p is what not-p is not’ (‘Genesis as Myth,’ in Middleton, John (ed.) (1967) *Myth and Cosmos* (New York: Natural History Press), 3), while others attribute this tendency to the influence of language on thought. See a discussion of Friedrich Nietzsche’s observations in this respect, and a fuller description of binary structuring and its flaws in Egan, Kieran (1998) *The Educated Mind: How Cognitive Tools Shape Our Understanding* (Chicago: University of Chicago Press), 38-41.

¹¹⁰ This is a slightly amended list of the concerns outlined by psychoanalyst Vic Blake, in (2006) ‘In Two Minds: Some Theoretical Implications of Lynne Layton’s Paper, “A Fork in the Royal Road”,’ *Psychoanalysis, Culture & Society* 11: 84-93.

¹¹¹ Rudolph, ‘The Imperialism of Categories,’ 6

democracy as a universal political concept reflects the ideological framework that continues to guide policy vis-à-vis failed states, and today's relief-driven approach to development.

2.3.2 Peacebuilding

At the most general level, by reintroducing a 'bottom-up' perspective to the excessively 'top-down' and functionalist approach currently guiding state-building agendas, 'peacebuilding' scholarship encourages an examination of the local contests occurring between universal and specific knowledge in fragile regions. The blueprint approach is widely criticised for transplanting unceremoniously 'the values and institutions of the liberal democratic core into the affairs of the peripheral host states',¹¹² while the preferred alternative promotes a more context-specific methodology that builds upon existing institutions and capacities and incorporates greater 'local ownership' or 'participation' of indigenous knowledge because of its potential to garner critical local-level legitimacy.

Although the peacebuilding literature alerts policymakers to the key contributions local people can make to their country's reconstruction, and provides important background for this study, it remains somewhat under theorised and muddled because of the lack of attention paid to earlier anthropological and development studies arguing similar points, and the dearth of fine-grained analysis that it in fact advocates at the local level. Explorations of economic governance have been the least forthcoming despite the recognition that peacebuilding 'requires not only political negotiations but transforming the war economy into a peace economy and creating institutions for accountability over economic and political decision making'.¹¹³ Hence, the sharp division drawn between the criminalised, local 'war economy' and the 'civil', imported model of a 'peace economy' appears to persist within the literature, while the legitimacy contests remain unexplored.¹¹⁴ The thesis searches for theories and frameworks in other disciplines that might assist in revealing the predicament of the weaker players in these contests and collapsing overly simplistic dichotomies. The aim is not to subvert analyses to prove the superior power of non-state and informal systems as opposed to state or formal ones, but to unravel the politics beyond the predominant discourse of 'failed' states.

¹¹² Paris, 'International Peacebuilding and the "Mission Civilisatrice",' 638

¹¹³ Rubin, Barnett R. (2000) 'The Political Economy of War and Peace in Afghanistan,' *World Development* 28(10): 1789. A notable exception is the work of the Political Economy and Markets group at the Afghanistan Research and Evaluation Unit. See, for example, Lister, Sarah & Adam Pain (2004) 'Trading in Power: The Politics of "Free" Markets in Afghanistan,' AREU Briefing Paper (June).

¹¹⁴ The work of Jonathan Goodhand is one notable exception in this regard. See, for example, Goodhand, Jonathan (2004) 'From War Economy to Peace Economy? Reconstruction and State Building in Afghanistan,' *Journal of International Affairs* 58(1) (Fall): 155-174.

2.3.3 War economies

The debate within the 'war economy' literature has until recently been dominated by works that dispute the explanatory power of economic, as opposed to political or social, variables in the causes of war. The most extreme position within the 'greed versus grievance' debate was that civil wars are essentially caused by the narrow, rational interests of 'loot-seeking rebels'.¹¹⁵ A notable advance in the current literature can be found in the rise of works and research groups aiming to problematise such clear divisions, including the traditional separation of the 'war' and 'peace' economies, because of their failure to capture the complexity and potentially dynamic core that constitutes the path to transition.¹¹⁶ The urgent need to improve theories regarding both the impact of 'war economies' on peaceful transitions in disrupted states, and the dynamics that affect the way these economies mutate in transition, is also now widely recognised among academics, field workers and policymakers.

In particular, the increasing awareness of complex interlinkages that exist between strictly licit and illicit forms of economic organisation in war has resulted in a search for more appropriate terminology to define the rather 'mixed' economy of transition. Terms such as 'shadow', 'invisible', or 'hidden' are gradually replacing labels such as 'black', 'illegal' or 'illicit' to denote activity that operates beyond the control of state and international authorities. But there are problems with these terms also, especially in a war zone where they run the risk of shrouding the actual normality of these 'extra-state' activities.

To date, perhaps the most effective attempt to define a war economy's complex interplay of actors, from the benign through to the ethically questionable and patently criminal, is Goodhand's mapping of economic systems in Afghanistan. He has developed, with various co-authors and in different publications, an evolving definition of the war economy that encompasses three types of interlinked economic systems; these are most recently represented schematically as 'combat', 'shadow', and 'coping' economies. Through a specific analysis of the opium economy, Goodhand helps to make sense of the challenges

¹¹⁵ Collier, Paul & Anke Hoeffler (2004) 'Greed and Grievance in Civil War,' *Oxford Economic Papers* 56(4): 563-595. This logic is used to explain protracted conflicts in mineral and timber-rich countries in particular, such as Angola, the Democratic Republic of Congo, Papua New Guinea, and Sierra Leone.

¹¹⁶ Examples include the Berghof Research Center for Constructive Conflict Management, which focused exclusively on 'Transforming War Economies: Dilemmas and Strategies' in its practitioner-scholar dialogue series (2005), and the University of Plymouth's research, funded by an Economic and Social Research Council grant (2004), on how to develop effective strategies for post-conflict economies.

involved in ‘civilising’ an economy after state breakdown;¹¹⁷ networks involved in war-making, profiteering, and survival, he argues, overlap with and to an extent reinforce one another.¹¹⁸

The ‘combat’ economy is based on economic transactions that directly sustain actual combat, and is dominated by actors in the state’s security apparatus, rebel groups, and ‘conflict entrepreneurs’. The ‘shadow’ economy encompasses those wishing to profit from the unregulated spaces in the economy that become more widespread with war. This often forms the basis of the combat economy because its informal economic relationships are well established before the outbreak of war and hence provide a ready-made structure for combatants to exploit. The ‘coping’ economy is made up of numerous economic interactions that benefit the civilian population, particularly the poor and most vulnerable, during conflict. It includes subsistence agriculture, petty trade, smuggling and diaspora remittances that help families survive.¹¹⁹

Goodhand’s research is important not only because it reveals the complexities involved in such an economy, but also because it urges post-conflict policymakers to appreciate how difficult the task of transforming war-spawned entrepreneurs will be, and warns them of the setbacks involved in marginalising these players in the peacebuilding process. Cramer and Goodhand’s suggestion that ‘historically labelled profiteers, economic criminals and greedy warlords’ might pose the best ‘builders of a basis for longer term, more legitimate economic success’¹²⁰ makes the task of unravelling the current dichotomies that both strictly define war and peace economies within the liberal peace paradigm, and exclude actors like the money dealers of Afghanistan from the peace process, imperative.

More attention is required to discover ways in which the above developments in theory can be applied to the field.

¹¹⁷ Richard Rose employed the terminology of ‘civilising’ in reference to ex-Soviet states recovering from fragmentation. He adopted the term ‘uncivil’ economy to define the predicament whereby markets operate without regard for law, and the state cannot extract the taxes that citizens are legally bound to pay. Rose, Richard (1992) ‘Toward a Civil Economy?’ *Journal of Democracy* 3(2): 13-26

¹¹⁸ Goodhand, Jonathan (2005) ‘Frontiers and Wars: The Opium Economy in Afghanistan,’ *Journal of Agrarian Change* 5(2): 191-216. Adapted from the concept of ‘war’, ‘black’, and ‘survival’ economy in Pain, Adam & Jonathan Goodhand (2002) ‘Afghanistan: Current Employment and Socio-economic Situation and Prospects,’ Infocus Programme on Crisis Response and Reconstruction, Working Paper 8 (March) (Geneva: International Labor Organisation).

¹¹⁹ For a fuller description, see Ballentine, Karen & Heiko Nitzschke ‘The Political Economy of Civil War and Conflict Transformation,’ in (2004) *The Berghof Handbook: Transforming Ethnopolitical Conflict* (Wiesbaden: VS Verlag), 16-19.

¹²⁰ Cramer & Goodhand, ‘Try Again, Fail Again, Fail Better?’, 888

2.3.4 Institutional analysis

American ethnographer, Carolyn Nordstrom, is one of the few authors who attempts literally to 'enter the shadows' of extra-state exchanges; hence it is useful to draw insights from her fine-grained research in the war zones of Sri Lanka, Mozambique, Angola, and South Africa.¹²¹ She poses a direct challenge to the traditional, dichotomous approaches in the war economy literature, revealing many flaws in the static conceptualisations of the formal and informal economic divide. Regarding illicit activity, her observations demonstrate the tendency of analyses to concentrate on discrete categories even within the latter; hence, illegal immigration, drug trafficking, mafias, and so on, are wrongly approached as distinct and bounded networks. To remedy this, Nordstrom focuses specifically on the intersections of power and different cultures that she finds at the heart of 'shadow networks'.

In this respect, Nordstrom is helpful in alerting readers to the socio-cultural aspects of these networks. Contrary to conventional assumptions, the networks do not, she protests, comprise 'haphazard collections of people in ad hoc groups circling like moths around the light of profit'; rather, they are 'governed by rules of exchange, codes of conduct, hierarchies of deference and power – in short, they are governed by social principles, not merely the jungle law of tooth and claw'.¹²² But by leaving the specific institutional arrangements of these networks undefined, the analysis suffers from a similar weakness to that found in the private authority literature.

Nordstrom's use of terminology poses further issues. The persistent appearance of words such as 'invisible', and her choice of 'shadow networks' to denote the vast structures that sustain international profiteering during war, detracts somehow from her ultimate goal of making these networks more perceptible. Despite her emphasis on the normality of shadow activity in war zones – '[t]his isn't the plot of a bad B-grade novel, but the reality of everyday life in war'¹²³ – shadows intrinsically signal mystery, hiding, and darkness. While this might at first appear to suit the murkiness of wartime, it is problematic in the context of institutional collapse where extra-state structures constitute the chief source of regulatory order. Inadvertently, then, Nordstrom's use of 'shadow' networks to define these structures risks perpetuating the stigma that is attached to informal economic networks and which shrouds them in further mystery. To clarify the specific institutional and regulatory

¹²¹ Nordstrom, Carolyn (2004) *Shadows of War: Violence, Power, and International Profiteering in the Twenty-First Century* (Berkeley: University of California Press)

¹²² Nordstrom, Carolyn (2000) 'Shadows and Sovereigns,' *Theory, Culture & Society* 17(4): 46, 37

¹²³ Nordstrom, *Shadows of War*, 87

capacities of Nordstrom's 'shadows', it is instructive to employ the theoretical tools available in development economics and social network analysis.

2.3.5 Social networks

In the former school, Barbara Harriss-White explains that, in '*not* being regulated by states, informal activity is not *unregulated*'.¹²⁴ Instead, as Nordstrom at least intimates above, order is produced through a multiplicity of regulatory means, such as family or the kin group, the search for consolidation of reputation, collective action, social norms and rules, and physical coercion. Drawing on the 'social structures of accumulation' approach that was developed in the late 1970s, Harriss-White analyses the matrix of political, cultural and economic institutions that support the process of capital accumulation in India's informal economy, in which 88 per cent of its population survives.¹²⁵ Through her intimate knowledge of the region's workforce dynamics, class, gender, religion, caste, and space, she focuses on the ideas and cultural practices attached to these factors that are crucial for accumulation and economic order.¹²⁶ Bryan Roberts reinforces that these personal relations:

... and the cultures that sustain them may, under certain conditions, prove more efficient in regulating economic activities than do formal structures giving those activities that are regulated socially a competitive edge over formally regulated ones.¹²⁷

Through its representation of economic informality as an *alternative* form of regulation, rather than a disorderly patchwork of cultural peculiarities, social network analysis¹²⁸ offers several approaches to examining such 'order without law'.¹²⁹ The broad

¹²⁴ Harriss-White, Barbara (2003) 'Unruly and Informal Globalisation and its Impact on Development: A Background Note,' For the Panel on *Meeting the Challenges of Globalisation: Opportunities and Threats for the Developing World*, 9 January 2003, Lund University Sweden, 3

¹²⁵ These include domestic factors, such as the role of the state in the economy, race and gender relations, and the character of the dominant culture or ideology, in addition to international arrangements, such as trade, investment, and political environments. See Gordon, David, Richard Edwards and Michael Reich (1982) *Segmented Work, Divided Workers* (Cambridge: Cambridge University Press) for the first comprehensive attempt to define the argument for SSA, and Kotz, David M., Terrence McDonough & Michael Reich (2006) *Social Structures of Accumulation: The Political Economy of Growth and Crisis* (Cambridge: Cambridge University Press) for the most recent edited volume on the diversity of work that has been covered within the approach.

¹²⁶ Harriss-White, Barbara (2003) *India Working: Essays on Society and Economy* (Cambridge: Cambridge University Press), 15

¹²⁷ Roberts, Bryan (1994) 'Informal Economy and Family Strategies,' *International Journal of Urban and Regional Research* 18, 8

¹²⁸ Ellickson, Robert C. (1991) *Order Without Law: How Neighbors Settle Disputes* (Cambridge, M.A.: Harvard University Press). For background on the rise of network theory, see Wellman, Barry, 'Structural Analysis: From Method and Metaphor to Theory and Substance,' in Wellman, Barry & S.D. Berkowitz (eds) (1988) *Social Structures: A Network Approach* (Cambridge: Cambridge University Press), 19-61.

'governance' perspective, which views social networks as 'revolutionary alternatives to market-based economic organization',¹³⁰ celebrates the flexibility of networks and ability to manage economic stability over the performance of more traditional market or hierarchical forms.¹³¹

The main approaches within social network theory, however, debate the differential capacities of networks based on 'strong' social ties arising from kinship, friendship, and ethnicity versus the capacities of networks based on 'weak' performance-based relationships. Proponents of the former camp stress the importance of 'embeddedness' in networks. The strength of dense ties, or 'embedded' networks, is ostensibly drawn from their closed nature, which enforces cooperation and creates trust through 'effective sanctions that can monitor and guide behaviour'.¹³² More recent research suggests that networks made up of 'weak' ties¹³³ are superior to 'strong' ties in responding to change because, while each single strand of a web might be weak, the whole fabric is made strong through their interaction.¹³⁴ Networks linked in such a way enjoy more immediate returns on investment due to their greater maneuverability and more varied access to resources.¹³⁵

Gernot Grabher and David Stark reiterate this point in the technical language of new institutional economics and agent-oriented sociology when they explain that weak ties connect actors by bridging the 'structural holes' and transforming them to become essential 'passage points' between isolated groups of actors.¹³⁶ This can therefore be called the

¹²⁹ This is in spite of the proliferation of the network concept and the 'terminological jungle' that has come to define it. Nohria, Nitin (1992) 'Is a Network Perspective a Useful Way of Studying Organizations?' in Nohria, Nitin & Robert G. Eccles (eds) *Networks and Organizations: Structure, Form and Action* (Boston: Harvard Business School Press), 1-22; Meagher, 'Social Capital or Analytical Liability?,' 217-8

¹³⁰ Meagher, Kate (2005) 'Social Capital or Analytical Liability? Social Networks and African Informal Economies,' *Global Networks* 5(3): 220

¹³¹ Powell, Walter W. & Laurel Smith-Doerr (1994) 'Networks and Economic Life,' in Smelser, Neil J. & Richard Swedberg (eds) *The Handbook of Economic Sociology* (Princeton, N.J.: Princeton University Press), 368-402

¹³² Coleman, James S. (1988) 'Social Capital in the Creation of Human Capital,' *American Journal of Sociology* 94: 107-108; see Barker, James R. (1993) 'Tightening the Iron Case: Concertive Control in Self-managing Teams,' *Administrative Science Quarterly* 38: 408-437, for an ethnographic account of enforcement in closed networks.

¹³³ For an early discussion of 'weak ties', see Granovetter, Mark (1973) 'The Strength of Weak Ties,' *American Journal of Sociology* 78(6): 1360-1379.

¹³⁴ Braithwaite, John & Peter Drahos (2000) *Global Business Regulation* (Cambridge; New York: Cambridge University Press)

¹³⁵ See Brian Uzzi on the blending of strong bonds with weaker ties in the diversification of networks, in Grabher, Gernot & Walter W. Powell (eds) (2004) *Networks* (Cheltenham: Edward Elgar), Ch.20.

¹³⁶ Grabher, Gernot & David Stark (1997) 'Organizing Diversity: Evolutionary Theory, Network Analysis and Postcolonialism,' *Regional Studies* 31(5): 538. They refer to Burt, Ron S. (1992) *Structural Holes* (Cambridge, M.A.: Harvard University Press) and Latour, Bruno (1998) *The Pasteurization of France* (Cambridge, M.A.: Harvard University Press).

'bridging and bonding' approach. In contrast to the above emphasis on network closure, networks within this approach are seen to contest institutional boundaries by 'using social roles' rather than 'roles using individuals'.¹³⁷ Economic development specialists place emphasis here on 'getting the social relations right' through the correct balance of cross-cutting webs that comprise both strong family ties and weak non-kinship ties.¹³⁸

An example of where views diverge on the methods by which this balance is achieved can be found in analyses of trade diasporas. Charles Tilly designates these to the category of 'trust networks' which, he explains, stand out from other sorts of social relations because members of the networks collectively carry out major long-term enterprises which demand a configuration of ties that exposes them to the 'malfeasance, mistakes, or failures of others' in the network, in addition to the mutual support of all members.¹³⁹ Tilly emphasises the dependence on an already existing identification among members, such as family or ethnicity, throughout the initial stages in the development of trust networks, which has come to be known in the literature as either 'characteristic-based'¹⁴⁰ or 'ascribed' trust. John Humphrey and Hubert Schmitz clarify that discrimination in instances of default, when the defaulter is part of a community with whom the agent also shares social ties, is based here on both the presumed ties of solidarity and the potential for redress.¹⁴¹ The networks are thus more susceptible than everyday social networks to the threats of shunning, shaming, and denial of reciprocity.¹⁴² This 'ascribed' trust, they argue, can then form the basis for 'process-based' trust, which extends more widely. Trust in this sense is not a raw commodity, but rather a product of institutionalised or regularised relationships, built through performance and common knowledge.¹⁴³

While these scholars emphasise the evolutionary path along which the above mixture of social relations is achieved, others focus on the structural differences among different types of networks that generate trust. In their contrast between West African and Central African diaspora trading networks, Janet MacGaffey and Remy Bazenguissa-Ganga

¹³⁷ Hannerz, Ulf (1980) *Exploring the City* (New York: Columbia University Press), 175 in Meagher, 'Social Capital or Analytical Liability?', 220

¹³⁸ Woolcock, Michael (1998) 'Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework,' *Theory & Society* 27: 187

¹³⁹ Tilly, Charles (2005) *Trust and Rule* (Cambridge: Cambridge University Press), 12

¹⁴⁰ Zucker, Lynne G. (1986) 'Production of Trust: Institutional Sources of Economic Structure 1840 to 1920,' *Research in Organizational Behaviour* 8: 53

¹⁴¹ Humphrey, John & Hubert Schmitz (1996) *Trust and Economic Development*, Discussion Paper 355, University of Sussex (Brighton: Institute of Development Studies), 14

¹⁴² Tilly, *Trust and Rule*, 13

¹⁴³ Humphrey & Schmitz, *Trust and Economic Development*, 15

distinguish between the 'structured' organisation of the former networks and the 'personal' networks of the latter:

Many West African traders are Muslims, for whom religion serves as a sanction for business transactions; Central Africans are mostly Christian, but religion plays no part in their business transactions. West African networks are highly structured; Central African ones are individually constructed, each trader must activate his or her personal relations to a specific end. West African networks often involve individuals from a common ethnic background; Congolese from both countries may have networks that include different ethnic identities, so that the boundaries of the network in which the actor devises strategies are not at all clear.¹⁴⁴

The widespread view in the literature regarding the forms of cohesion these different networks create is that 'personal networks' forged within the context of economic insecurity and social marginalisation meet immediate survival needs but lack the institutional depth of 'networks of accumulation' that are alternatively shaped by well-established trading practices.¹⁴⁵

In her meticulous research on African informal economies, Kate Meagher laments that the above social network approaches have become 'trapped' in a 'social capitalist' paradigm.¹⁴⁶ Its essentially functionalist concerns, she argues, have subsequently come to dominate the theory at the expense of more nuanced institutional analyses. Contemporary networks are perceived as either contributing positively to economic development, or negatively in the form of 'liabilities'. By way of example, the Bank's prescription to 'getting the social relations right' actually forms part of the liberal peace's transformative agenda, which assumes that it can manufacture by technique the necessary weak and strong ties within social capital to achieve economic development. This distorts the intention of 'participatory' approaches that stress the optimal inclusion of local perspectives, whatever their 'social capitalist' contribution.

When such approaches fail in practice, officials are quick to blame the criminal aspects of social networks. These are underscored most virulently in essentialist and cultural

¹⁴⁴ MacGaffey, Janet & Remy Bazenguissa-Ganga (2000) *Congo-Paris: Transnational Traders on the Margins of the Law* (Oxford & Bloomington, Indiana: The International African Institute), 14

¹⁴⁵ Lourenco-Lindell, Ilda (2002) 'Walking the Tightrope: Informal Livelihoods and Social Networks in a West African City,' Unpublished Ph.D. Thesis, Stockholm University. The 'personal' or 'survival' networks based on individual needs are described as 'broad multiplex networks' in a volume on southern African social networks in the late colonial and post-independence period (Mitchell, J. Clyde (1969) *Social Networks in Urban Situations: Analyses of Personal Relationships in Central African Towns* (Manchester: Manchester University Press)).

¹⁴⁶ Meagher, 'Social Capital or Analytical Liability?,' 219

determinist explanations for underdevelopment. Criminalisation theorist Jean-François Bayart goes as far as declaring that ‘the “social” capital of Africa appears to display a marked affinity with the spirit of criminality’.¹⁴⁷ This implies that social networks in less developed countries are inherently predisposed to clientism and corruption.

In an attempt to return social network theory to its original purpose, Meagher aims to recover the institutional dimension of social networks. In this respect, she usefully draws on Grabher and Stark’s institutional problematic of ‘legacies, linkages, and localities’, which loosely forms the overarching framework for this study.¹⁴⁸ Meagher summarises the main focus of the three notions as follows: ‘legacies’ highlight the institutional practices embedded in particular networks, which may have been organised around commercial, redistributive or subversive values, rather than path-dependent ‘cultural’ traits; ‘linkages’ encourage a dynamic assessment of the way in which social networks are deployed and restructured in response to changed circumstances; and lastly, ‘localities’ explore how the organisational capacities of networks are shaped by the local fabric of formal and informal institutions in which they are embedded.¹⁴⁹ The thesis takes this structure one step further by examining how the ‘localities’ might explain the ambiguous ‘legalities’ surrounding the money dealer’s operations in Afghanistan.

Meagher argues that Grabher and Stark’s problematic helps to move analyses beyond the essentialism of social capitalist approaches by focusing on the specificities of how particular types of networks operate. In particular, an examination of the social networks’ restructuring strategies enables the onlooker to identify more clearly the economic order that emerges from the rubble of protracted periods of social upheaval and change. The approach thus assists in the present dual-pronged task of subverting the prevailing view that formal institutional collapse transmutes its chaos to the informal realm, and exploring the implications of this discovery for the universalist paradigm that currently governs the formal reconstruction process.

By way of conclusion, it is important to summarise what issues the above exploration draws into focus, and what new issues they raise.

¹⁴⁷ Bayart, Jean-François *et al.* (1999) *The Criminalization of the State in Africa* (Oxford & Bloomington: James Currey & Indiana University Press), 34 in Meagher, ‘Social Capital or Analytical Liability,’ 224

¹⁴⁸ Grabher & Stark, *Restructuring Networks in Post-Socialism*

¹⁴⁹ Meagher, ‘Social Capital or Analytical Liability?’, 225

2.4 Implications

Overall, criticisms of the ‘liberal peace’ agenda have revealed that, by confining the issue of ‘failed states’ to national-level concerns, current policy risks overlooking key strategies and informal mechanisms that occur at a local level, along with their potential to assist in reinstating ‘order’ out of the ‘disorder’ at the state level. The review has demonstrated how, even where order is recognised to exist – for example, by those within the ‘participatory’ approach – insufficient research has been dedicated to the question of how lasting institutions can be transferred or developed in a way that is practicable and complementary to existing ‘locally legitimate’ structures. It is proposed that a closer investigation into what locally constructed order looks like in a particular issue domain will assist in progressing both the theory and practice in reconciling broad reconstruction models with the specific needs of a ‘post-conflict’ context.

Towards this end, a more nuanced understanding in the present case of hawala’s local processes in Afghanistan – such as its power relations and institutional environment – is absolutely fundamental. The IR literature on private authority has established that, with the growing and pervasive influence of non-state activity in the world today, it is time to look at structures beyond the state. This is especially pertinent in instances where public authority has either begun to break down or developed a dysfunctional character. Advances within organisational sociology enhance the discussions around private authority in ways that help crystallise what sustains alternative repositories of power. Legitimacy, as it develops in different contexts, due to various social processes, and over the passage of time, proves to be a crucial factor in the maintenance of such authority. Recent contributions within social network analysis reveal yet another series of factors that combine to form private authority, revealing informal institutions to be complex systems of governance, made up of varied types of structures and resultant forms of social cohesion.

A new set of questions arise from these combined insights which relate to gaps in the global and national level debates surveyed throughout the early part of this chapter. These are questions about the importance of culture and situated knowledge to the persistence of local governance; the constraints or opportunities that a particular context presents to non-state activity; and the impact of these factors on the perception of a local governance system’s legality. The theories point to the importance of unravelling the history, power relations, and local or global context within which private actors are embedded, reflecting the different areas of concern captured in Grabher and Stark’s typology of ‘legacies’, ‘linkages’, and ‘localities’.

Once this research is applied to hawala and other areas in the realm of development, it is hypothesised that practitioners will be able to speak genuinely of a shift in the paradigm from 'saving' to 'engaging' strangers. Hence, the research that follows, relating to hawala and the politics of survival ('legacies'), the emergence of new configurations of power and authority ('linkages'), and the realities of war and development ('localities' and 'legalities', approached here under the heading of 'legitimacy'), will now be explored throughout the thesis using and building upon the theories outlined above. They will be dealt with in this order, beginning with the local, turning briefly to the global, and returning once more to national and local-level concerns in the final part of the thesis.



3 From Theory to the Field

An introduction to the methodology was provided in section 1.3 of Chapter 1; this chapter aims to build on that introduction and to provide assurance that appropriate procedures were followed. The chapter is organised around four major topics: the research design, the sampling procedure and techniques, the study region, and limitations. By its nature, research involving Afghanistan is ‘always demanding, often difficult, and occasionally dangerous. However, it is possible’.¹ Particular emphasis will therefore be given to the methodology used in negotiating the research process in the field.² After providing a brief review of the overarching research design, a rationale is presented for the choice of case selection and location of the study primarily within the qualitative tradition. The validity of the research is then considered by looking at the methods of data collection, which is followed by a breakdown of the three phases of fieldwork. The chapter concludes with a reflection on the challenges and limitations of the research environment and how these were managed during the course of the research.

3.1 Research design

In the previous chapter, we saw that new theoretical approaches to social network theory and private authority open up fruitful avenues for research into how local economic order persists and is legitimised in situations of crisis. At present, however, most of the literature on the topic belongs to one of two extremes – the first is the criminalisation perspective that looks solely at the harmful or dysfunctional influence of local economic structures; the second is a more rose-tinted view that underscores the positive developmental impacts on the home society. Both of these camps offer only a partial view of the money dealer’s experience. Accordingly, considerable attention in this project was devoted to

¹ I borrow these three points from Wright *et al.*’s experience of researching within the underworld. See Wright, Richard T., Scott H. Decker, Allison K. Redfern & Dietrich L. Smith, ‘A Snowball’s Chance in Hell: Doing Field Research with Residential Burglars,’ *Journal of Research in Crime & Delinquency* 29(2): 148-157, 159-161.

² The term ‘methodology’ will refer to an epistemological position, while ‘method’ and ‘technique’ are used synonymously to refer to ways of gathering data. Buchler, Justus (1961) *The Concept of Method* (New York: Columbia University Press), 126

developing an appropriate methodology for redressing the lack of rigorous and balanced research on the *modus operandi* and significance of indigenous forms of economic governance in the absence of a functioning formal governance structures.

A ‘flexible design’³ and interpretivist research strategy, as opposed to a ‘fixed design’ or positivist framework⁴, was considered to be the most suitable approach, first because of its flexibility in allowing the research to develop during the process of data collection and analysis, which was especially fitting for both the nature of the research and its location in unpredictable and unstable environments such as that of Afghanistan; secondly, because of the interpretivist tradition’s metaphysical assumptions about the unavoidable involvement of the observer in the research and the corresponding inability to objectify social life in scientific terms; and thirdly, because of its sensible approach to tackling these challenges in the field.

In view of the interpretivist claim that the observer’s perspective is a factor in the selection and formulation of theory, the creation of hypotheses, the choices made in the research design process, and in both the selectiveness and process of observation, we will now turn to the rationale behind this project’s case study selection, beginning with the pre-fieldwork planning stage, so that the influences of the researcher are made plain.⁵ This is followed in section 3.2 by a discussion of the predominant research techniques employed throughout the study, drawing again from the interpretivist tradition.

3.1.1 Case study selection

While it is common practice for pre-fieldwork planning and research to be neglected once new insights are gained from the field, it is nevertheless helpful to examine this aspect of the research process because of its influence on both the theoretical framing of the project and the information that is initially sought in the field. My pre-fieldwork thesis project – based on readings in the amorphous globalisation and migration literature – was entitled *Networked Power in Diasporic Communities* and proposed to investigate the means through which members of a ‘victim’ or ‘refugee’ diaspora (a) contain and shape state action, and (b)

³ See Robson, Colin (2002) *Real World Research: A Resource for Social Scientists and Practitioner-researchers (Regional Surveys of the World)* (Blackwell Publishing), Chapter 6.

⁴ The positivist methodological framework, which is used as the predominant social science method for IR scholars in the US, assumes that ‘the social world is amenable to the kinds of regularities that can be explained by using causal analysis with tools borrowed from the natural sciences and that the way to determine the truth of statements is by appealing to neutral facts’. Tickner, ‘What Is Your Research Program?’, 2

⁵ Clarke, Roger (2003) ‘Invitation to Research: Interpretivist Research Techniques,’ Powerpoint presentation delivered at the Australian National University, Canberra, 16-18 January, Slide 2.

legitimise such an initiative.⁶ The project was opposite to much of the literature in IR which examines how states can or ought to regulate ‘uncivil’ or ‘illegitimate’ non-state activity. In their proven ability throughout history to move capital, resources and people freely across borders, diasporas provided an ideal case study to explore the different spheres of state power and claims against it, with the question of legitimacy as the one paper-thin slice of intersection between the two.

In the hope of discovering the methods by which members of the Afghan diaspora defied their asymmetrical power position vis-à-vis the state by creatively organising themselves in the interstices of the international system and sending collective funds to the homeland that would impinge upon issues of national identity, stability, and the state system in general, the purpose of the proposed fieldwork was thus to shed light on one of the primary mechanisms used to influence state action; namely, the use of money. In this respect, it aimed to populate the existing globalisation and political economy literatures, which concentrated too heavily on the hypermobility of capital and treated money as the ‘dead pledge of society’, with some of the human hands that are at the controls of money.⁷

From preliminary interviews with Afghans in Melbourne and London, however, it quickly became apparent that the ‘Afghan diaspora’ was not as easy to define and indeed locate. The majority of members in the diaspora, who are widely reported to have settled semi-permanently in neighbouring Iran and Pakistan, could be more accurately described as a rotating population of migrants. Alessandro Monsutti’s book that was released after completion of the fieldwork for this study suggests that migration in the Afghan context ‘cannot be one-sidedly defined as something forced’.⁸ Instead, he provides evidence that points to the strategic use of migration in both the economic diversification of networks and as a right of passage to adulthood – young Hazara males, he explains, migrate as an expression of personal autonomy and to aid the construction of their masculinity before marriage.⁹ While the refugee movements sparked by intermittent periods of fighting and heightened insecurity could be viewed in many cases as less strategic, the patterns of displacement and repatriation that they sparked made the task of tracing the influence of strictly diasporic financial flows similarly problematic.

⁶ Victim or refugee diasporas are those that are formed out of forced migration. Typically, the notion of the diaspora is associated with suffering, loss, and victimisation. Cohen expands the classical model to include imperial/colonial, labour/service, trade/business, and cultural/hybrid diasporas. See Cohen, Robin (1997) *Global Diasporas: An Introduction* (London: UCL Press).

⁷ See Bretton, Henry (1980) *The Power of Money* (Albany: State University of New York Press), xxxii

⁸ Monsutti, Alessandro (2005) *War and Migration: Social Networks and Economic Strategies of the Hazaras of Afghanistan*, trans. by Patrick Camiller (New York & London: Routledge), 34

⁹ *Ibid.*

The decision was therefore made to adapt the focus of the research to the professional money dealers, whose services constituted an indispensable basis of migrant strategies. These financiers had the benefit of comprising a much smaller research sample that could be followed with greater ease than Afghanistan's many different refugee and migrant groups scattered across the world, while providing a lens onto similar types of theoretical questions and larger phenomena relevant to peace building and intervention in a post-9/11 world. A glance at the hawala system's multiple users, for example, from refugees and migrants to aid organisations and criminal groups, revealed it to be a deeply complex site of governmental activity which shows not only how local processes can defy the state and persist in spite of insecurity and collapsed formal institutions, but also how the politics of survival, the pursuit of profit, and the realities of development meet in a way that complicates the usual demarcations drawn between legitimate public and illegitimate private, or non-state, authority.

By shifting the emphasis of research from the 'outside-in' focus on diasporas and their direct role in regulating and restructuring a state's internal territorial spaces to an 'inside-out' perspective that examines the localised legitimacy contests that emerge in failed states between indigenous and externally imposed forms of economic governance, the project was simply altered to begin from a local rather than global perspective. It did not aim, however, to privilege a single, circumscribed spatial scale over another; rather, its attention to the strategies of money dealers revealed what political, economic and human geographers label the 'glocalisation' of extra-state activity.¹⁰ The methodological implication of this was the simultaneous need for localised, ethnographically rich accounts that show how people experience these concepts in everyday life in combination with an awareness of processes taking place at the global level. The following section elaborates on the specific research techniques used to gather such data in the field.

3.2 Research techniques

The research methodology employed in this study was principally qualitative, and relied most heavily on in-depth interviews. It was originally intended that these would be supported by quantitative techniques,¹¹ such as the use of a questionnaire, so that

¹⁰ See, for example, Brenner, Neil (1999) 'Globalisation as Reterritorialisation: The Re-Scaling of Urban Governance in the European Union,' *Urban Studies* 36(3): 431-451.

¹¹ It is not uncommon for social scientists to argue at a technical level that a better view of reality is achieved through a 'triangulation' of strategies, or combination of qualitative and quantitative research methods, because of the ability to cross-check survey data and interview material. See, for example, Agar, Michael H. (1980) *The Professional Stranger* (New York: Academic Press), 53; Douglas, Jack D. (1976) *Investigative Social Research* (Beverly Hills: Sage), 30; Rusque-Alcaino, Juan & Ray Bromley, 'The Bottle Buyer: An Occupational Biography,' in Bromley, Ray & Chris Gerry (eds.) (1979) *Casual Work and Poverty in Third World Cities* (Chichester: John Wiley & Sons),

inconsistencies in the data could be checked and more 'objective' and 'replicable' results produced.¹² The idea was raised with several long-established hawala dealers in Kabul's Sarai Shahzada (money market), two of whom consented to disseminate a questionnaire on my behalf to the 150 person sample. A simple, three-part anonymous survey was subsequently composed and translated along with a letter of personal authentication for the research.¹³ After reviewing the questionnaire, however, the dealers no longer deemed it an appropriate method for eliciting accurate or comprehensive responses. They argued that the dealers were likely to lie about their behaviour,¹⁴ or simply refuse to participate on the grounds that such a venture might attract unnecessary attention to their collective group's activities. An additional risk was that it might arouse suspicion among the money dealer community that could affect the rest of my stay in Afghanistan.

A qualitative approach was accordingly adopted because of its specific 'preference for meanings rather than behaviour',¹⁵ and due to my personal strengths which lie in generating good data from one-to-one meetings and participant observation. The following is an outline of the various interviewing and observation techniques used in the course of the research, coupled with an overview of the benefits and disadvantages of relying on such a qualitative approach.

3.2.1 Interviewing and observation

Within the study's 'flexible research' design strategy, a 'snowball' or 'chain referral' sampling method was employed to locate those most appropriate for interview. As described in the literature, such a strategy begins with the identification of several initial contacts who are willing to provide an introduction to the subject under analysis, and is followed by the

185; Sieber, Sam D. (1973) 'The Integration of Fieldwork and Survey Methods,' *American Journal of Sociology* 78(6) (May): 1335-59. At the epistemological level, however, it is important to note that the overall methodology may remain qualitative, as in this project, because the underlying tenets of each approach relate to fundamentally different views about the way in which verifiable or warrantable knowledge is accumulated in relation to the social world.

¹² The literature on quantitative methodologies, representing the 'positivist' approach, emphasises that objectivity can be maintained by the distance between observer and observed, coupled with the possibility of external secondary analyses of the questionnaire, and that replication can be carried out by employing the same research instrument in another context. Bryman, Alan (1984) 'The Debate about Quantitative and Qualitative Research: A Question of Method or Epistemology?' *The British Journal of Sociology* 35(1) (March): 77

¹³ These can be reviewed in Appendices I and II. Many thanks go to Faraidoon Shariq for his generosity and patience in translating the documents under pressured conditions.

¹⁴ Several researchers arrive at a similar conclusion in their studies of criminals and activities marginal to the law. See Irwin, John, 'Participant Observation of Criminals,' in Jack D. Douglas (ed.) (1972) *Research on Deviance* (New York: Random House), 117 and MacGaffey, Janet & Remy Bazenguissa-Ganga (2000) *Congo-Paris: Transnational Traders on the Margins of the Law* (Oxford: James Currey), 19.

¹⁵ Hammersley, Martyn (1992) *What's Wrong with Ethnography?* (London: Routledge), 165; Silverman, David (2000) *Doing Qualitative Research: A Practical Handbook* (London: Sage), 8

establishment of enough trust to gain referrals by this second contact to further willing participants, and so on, until a suitable sample emerges.¹⁶ While this strategy can be effective and efficient, it evidently has its pitfalls.

In the early stages of the research one of the biggest frustrations was encountered throughout the process of locating subjects. Overall, the Afghans I met were forthcoming with their desire to assist in introductions. This was both a reflection of their general hospitality, a central value and source of pride in Afghan society, and perhaps an indication of the prestige associated with locals introducing others to a foreigner. These factors presented certain challenges. Problems arose, for example, when contacts that initially appeared to be promising proved to be unproductive and had to be dropped. Despite their inappropriateness for the study, a significant amount of time had to be spent with these individuals out of courtesy to both parties. These situations diminished, however, as the research progressed and a more solid rapport was built with a number of key local people who helped focus the interview sample.

One method employed to optimise reaching the 'right' people for the research was to build a connection with former money dealers, or at least individuals who had dabbled in the money business or were familiar with it, and were respected and trusted within that community. A parallel strategy is used within the field of criminology which advocates working with 'ex-offenders' for access to difficult or sensitive areas in 'snowballing' exercises.¹⁷ This approach offers the advantage that such a person already has contacts, is familiar with the culture of the business, and can vouch for the legitimacy of the research. Due to the significance of opium to the flow of money within Afghanistan, an additional consideration in locating a former participant in the Afghan money business was their level of access to people involved in opium trafficking and the laundering of its proceeds or their openness to talking about the trade.

The main criticism levelled at the 'snowballing' technique is that its reliance on a few core contacts does not necessarily produce a balanced representation of the group under analysis. I found that a good strategy for counteracting this pitfall was to diversify, or triangulate, the methods and leads used as much as possible. Hence, in addition to locating former money dealers with unique insight into the business and contacts, I also engaged in more casual fact-finding under less contrived circumstances. This involved asking almost everyone I met what their perceptions were of the hawala business, and where appropriate if

¹⁶ Sudman, Seymour (1976) *Applied Sampling* (New York: Academic Press); Watters, John & Patrick Biernacki (1989) 'Targeted Sampling: Options for the Study of Hidden Populations,' *Social Problems* 36: 416-430

¹⁷ Taylor, Laurie (1985) *In the Underworld* (London: Unwin); Wright *et al.*, 'A Snowball's Chance in Hell,' 148-157

they could introduce me to their money dealer. These sources ranged from humanitarian workers at international organisations, friends of different ethnic groups, opium dealers, and legal traders, to national workers remitting money to family in Pakistan, and locals receiving money from overseas. The strategy led to a sample of money dealers that ranged in size from small, medium, to large operators.

Within these categories, the next step was to focus on the nodes in a specific network and trace those contacts throughout the hawala business, with each interview building on the last in the hope that cross-examining the data would validate the information collected and highlight areas where different perceptions existed on a topic within the same business. The inclusion of these different groups and referrals from a diverse source strengthened the research because it offered a wider representation of those in the money business.

The various drawbacks of qualitative interviewing, such as potential for bias, error, misunderstanding or misdirection,¹⁸ were lessened by complementing the formal interviews with more informal discussions.¹⁹ These discussions often revealed more than the interviews themselves, particularly in cases where the 'friend' who introduced me to the informant and I would exchange thoughts on the issues that had arisen out of the latest interview. Hence, in instances where the initial focus was the money dealer, it was possible that the referrer became the more beneficial contact because of their stories, ability to comment on the individual's history and prejudices, and frankness. This research method built on an ability to develop a rapport with the people in Afghanistan. Fortunately, there were no significant problems in this respect, with the exception of the personal dilemma of having to immerse oneself in the social lives of people and then explain why it was necessary to depart for a lengthy write-up period, detached from the very people on which the research focuses.

This was less of a challenge with the money dealers I interviewed formally. These meetings followed an unstructured or semi-structured format in the early stages of the fieldwork, which typically involved a broad agenda with a view to creating a balance between certain predetermined questions and improvisation. This method allowed for the necessary level of flexibility for the participant to offer new thoughts on matters that arose within the agenda.

¹⁸ Holstein, James A. & Jaber F. Gubrium, 'The Active Interview,' in Silverman, David (ed.) (2004) *Qualitative Research: Theory, Method and Practice* (Thousand Oaks: Sage), 141

¹⁹ Russell Bernard explains that these are characterised by a lack of control or structure. Bernard, H. Russell, 'Unstructured and Semistructured Interviewing,' in Bernard, H. Russell (1994) *Research in Anthropology: Qualitative and Quantitative Approaches*, 2nd Edition (Thousand Oaks: Sage), 209

The order and way in which the agenda was followed varied according to the type of informant.²⁰ For example, if the informant was arranged through a contact because of his connections to the opium trade, there would be less hesitation to enquire openly about their view of the ways in which links to criminal groups have sustained the informal economic order. If, however, it was clear that the individual was connected to the opium business, but for whatever reason this was not made apparent in the introductions, the interview would be conducted very differently. Often such an informant would need to be interviewed on several occasions before the appropriate questions could be presented to them.

As knowledge and confidence in the subject matter increased, the interviews evolved into more structured questions.²¹ This occurred almost instinctively as a response to the central themes that consistently emerged from the unstructured interviews. The results also provided useful guidance on the reliability of information gathered either in a different geographical region or ethnic group, or indeed at an earlier stage in the fieldwork.

The principal informants involved a sample of 54 hawala dealers across the major financial centres of Afghanistan during a 9-month period, from January to October 2005. Comprising 6 per cent of the estimated 900 significant hawala shops in the country, it provided the study with a reasonable sample with which to work.²² The dealers were selected on the basis of the following criteria:

- i) recommendation by trusted informants or colleagues;
- ii) geographical spread;
- iii) category, i.e. small, medium, large;
- iv) type, i.e. those who dealt in money, goods, and/or opium;
- v) variation in ethnic group;
- vi) length of time spent in the business (most had 14-25 years' experience);
- vii) those with partners in the world's major trading centres.

In order to cross-check the claims made by the money dealers, the following groups were also interviewed on the basis of their expertise or knowledge of the system:

²⁰ Arthur, Sue & James Nazroo, 'Designing Fieldwork Strategies and Materials,' in Ritchie, Jane & Jane H. Lewis (eds.) (2003) *Qualitative Research Practice: A Guide for Social Science Students and Researchers* (London: Sage), 109-137

²¹ Fontana, Andrea & James H. Frey, 'The Interview from Structured Questions to Negotiated Texts,' in Denzin, Norman K. & Yvonna S. Lincoln (eds.) (2000) *The Handbook of Qualitative Research* 2nd edition (Thousand Oaks: Sage), 645-672

²² This estimate is based on my own observations of the significant hawala shops in the main financial centres.

- i) *users*: drug dealers, businessmen, traders, international aid workers;
- ii) *regulators*: Afghan government officials, Da Afghanistan Bank (Central Bank), the US Drug Enforcement Agency, Britain's Serious Organised Crime Agency;
- iii) *financial service providers*: private bankers, accountants.

It was believed that this type of approach would facilitate a deeper understanding of economic order in Afghanistan from the perspective of those who take part in it, or are affected by it, or try to regulate it.

The interviews within Afghanistan required a certain level of intimacy with the subjects of the study and their activities. In this respect, the methodological objective was to attain what Max Weber calls 'aktuelles Verstehen', or interpretive understanding.²³ Weber elucidates that for this 'Verstehen' to be achieved, the researcher must approach his or her subject with the intention of wanting to understand the 'meaning' with which they invest their actions. This is particularly important in instances where the subject's prejudices regarding ethnicity, gender, or religious disposition affect his responses and general attitudes to the topic. Attention to the broader complex of meaning ('Sinnzusammenhang') within which individuals act provides another way for researchers to increase their empathy with the subject. This is helpful to the study of the money dealer who might operate in a number of different local, national and international contexts, each with their own social worlds.

Once a certain level of interpretive understanding is achieved, Weber argues that it should be possible to gain a better 'erklärendes Verstehen', or explanatory understanding. This takes note of the more causally driven action of a subject, including his or her motivations, reasoning, or purpose. Weber uses the term 'orientation to' when describing how actions are social; individuals, he explains, need to 'orient' their behaviour to others, which requires the intention (or motivation) to do so.²⁴ In practice, this mental quality is not easily captured, especially when the actor is involved in economic enterprises. Richard Swedberg underscores this difficulty in a scenario where he first asks whether 'orientation to' means that 'the businessman treats men and women differently and perhaps even avoids doing business with people that he or she dislikes (say some minority)', and then indicates

²³ Weber, Max (1956) *Wirtschaft und Gesellschaft: Grundriss der verstehenden Soziologie* (4th edition) (Tübingen: J.C.B. Mohr), 3-4

²⁴ *Ibid.*, 4

that the answer is both clearly empirical and affected by the fact that businessmen not only have prejudices but also want to make money.²⁵

Weber's extension of the term 'orientation to' from individuals to what he calls an 'Ordnung' (order) is instructive here. Action, he explains, can also be oriented to a prescription for how to act with some kind of consistency; this includes phenomena such as norms (or conventions), laws, and organisations. In the case of a money dealer, his action may be oriented to a particular economic norm, type of economic regulation, or ethic.²⁶ It is important, therefore, to consider the possible interplay between economic activities and moral, cultural beliefs, or prejudices that motivate and sustain the subject's action.

These sorts of orientations are often very difficult to detect in interviews because they involve everyday beliefs and practices. A combination of standard 'participant observation' techniques was thus applied in an attempt to capture some of these factors.²⁷ Florence Kluckhohn defined the overarching research methodology in participant observation as 'a conscious and systematic sharing, insofar as circumstances permit, in the life-activities and, on occasion, in the interest and affects of a group of persons. Its purpose is to obtain data about behavior through direct contact and in terms of specific situations in which the distortion that results from the investigator's being an outside agent is reduced to a minimum'.²⁸ In practice, this involved monitoring how the subjects responded to incidents from the most banal to unique, and in the process paying attention to the impact of my obtrusiveness in the situation. To the extent that this kind of casual observation was possible, attempts were made to 'lurk' at the periphery of a situation, adopting a distracted, preoccupied, or sometimes disinterested demeanour,²⁹ and later to take note of the key observations in a sketch book. 'Lurking' was only achieved over a protracted period of time, once I had become accustomed to the surrounds of a money market and the rituals necessary in a certain social setting.

Although it is fair to say that I was certainly never 'invisible' to the local people, I found that I was ignored more than I had expected in public settings because of my position

²⁵ Swedberg, Richard (2005) 'Interpretive Economic Sociology/*Verstehende Wirtschaftssociologie*: On the Relationship between Max Weber's 'Basic Sociological Terms' and His Economic Sociology,' Center for the Study of Economy & Society Working Paper 29 (March), 12

²⁶ *Ibid.*, 13

²⁷ David Silverman cautioned researchers against adopting interviews as the primary source of data collection. He asks, 'couldn't you observe what people do there instead of asking them what they think about it?'. Silverman, *Doing Qualitative Research*, 36

²⁸ Kluckhohn, Florence R. (1940) 'The Participant-observer Technique in Small Communities,' *American Journal of Sociology*, 46(2): 331

²⁹ Strickland, D.A. & L.E. Schlesinger (1969) "'Lurking" as a Research Method,' *Human Organization* 28(3): 248-9

as a woman, which offered opportunities for free or casual observations. It appears likely that this was because of their observance of Islamic precepts regarding women,³⁰ but it is also possible that they were simply involved in their own form of ‘casual’ observation with a stranger in their midst.

The scrutiny was certainly less casual and distant within a formal interview scenario. In these instances, Berk and Adams’ experience with researching deviant groups was applicable: ‘[t]he investigator will be constantly watched and tested by the very people he is studying.’³¹ I was so conscious of this during one interview that I dipped my hand into a bowl of snacks handed to me and started eating whatever it was when the room erupted into laughter. I had crunched down and attempted to chew the entire thing, which was actually covered by a hard shell. Moments like this, of which there are several, helped create an informal atmosphere and demonstrated that I was at least trying to participate in the local setting.

3.2.2 Location of interviews

Another important consideration throughout the fieldwork was the location of interviews. Following Roger Sanjek’s advice that a researcher must select certain actors, activities, or locations as the anchor points for fieldwork,³² it became clear in the early stages of the investigation in Afghanistan that the protagonists of this study were not anchored to a specific location at all times. It was therefore necessary to use a methodological approach that allowed connections to be made between spatially dislocated centres of activity. A multi-sited ethnographic approach was taken because of its ability to trace ‘a cultural formation across and within multiple sites of activity’.³³ In practice, this entailed the careful

³⁰ In the *hadīth* literature, the Prophet Mohammed commands believers to ‘lower their gaze’ or rather abstain from looking at the faces of passers-by repeatedly, deliberately, or with a taint of pleasure and lust. The Prophet told ‘Ali ibn Abi Talib that unexpected glances would be forgiven: ‘Ali, do not let a second look follow the first. The first look is allowed to you but not the second’ (reported by Ahmad, Abu Daoud, and al-Tirmidhi). See Al-Qaradawi, Yusuf (1982) *The Lawful and Prohibited in Islam* (Islamic Book Service).

³¹ Berk, Richard A. & Joseph M. Adams (1970) ‘Establishing Rapport with Deviant Groups,’ *Social Problems* 18: 110

³² Sanjek, Roger (1978) ‘A Network Method and Its Uses in Urban Ethnography,’ *Human Organization* 37(3): 257

³³ Marcus, George E. (1995) ‘Ethnography in/of the World System: The Emergence of Multi-Sited Ethnography,’ *Annual Review of Anthropology* 24: 95-117, at 96. Margaret Rodman introduced a parallel term, ‘multilocality’, to anthropology in (1992) ‘Empowering Place: Multilocality and Multivocality,’ *American Anthropologist* 94(3): 640-656.

identification of a small number of players located in key nodes within the relevant financial flows.³⁴

Fieldwork within Afghanistan was thus conducted in the country's main financial centres where the hawala system is most active (see Figure 1). Five of the six regions of Afghanistan were visited, with particular emphasis on Faizabad (Badakhshan), Gardez (Paktya), Herat (Herat), Jalalabad (Nangarhar), Kabul (Kabul), Mazar-e-Sharif and Charsang village (Balkh). In Pakistan, most of the research was conducted around the money bazaar in Chowk Yadgar, Peshawar (the North West Frontier Province), while research in the UAE was carried out in Dubai and Sharjah. Due to time constraints and road insecurity, I travelled mainly by air to the provincial centres in Afghanistan.³⁵

With research taking place in several different geographical areas, there was the risk of dispersing effort and losing ethnographic depth. This risk was mitigated through the careful selection of informants and an attempt at participant observation in the habitat of the money dealers. A large number of interviews were thus conducted 'on site' in the participants' work surroundings. A recurring issue, however, was that the dealers were rarely ever 'alone'; it was almost guaranteed that meetings would not only involve the participant with whom the interview was arranged, but also a number of other people that were often not introduced. This proved difficult when gauging the appropriateness of questions. A more awkward scenario would emerge when it became clear that another individual in the room was more appropriately suited to responding to questions in the interview. For example, in one situation where I met regularly with several large money dealers in Kabul, the 'accountant' would sit in the corner of the room working at the 'books'. It was clear from various interjections, plus from the very nature of his role, that he was an important person with which to speak. He was reluctant, however, to involve himself in the interviews as he deferred to the authority of the other men. When the main money dealers would leave the room periodically, I used these opportunities to ask direct and short questions that the accountant would feel comfortable answering in the absence of the 'boss'.

³⁴ For a similar methodological approach in Afghanistan, see Edwards, David B. (1994) 'Afghanistan, Ethnography, and the New World Order,' *Cultural Anthropology* 9: 345-360 and Monsutti, *War and Migration*.

³⁵ An Afghan Red Crescent staff member and several non-governmental organisations were enormously helpful in giving me access to flights with the International Committee for the Red Cross.

Figure 1: Map of data collection sites in Afghanistan and Pakistan



It was also common for meetings in a public setting to attract a crowd. These interviews were used less for the content of the discussions, and more for the observational opportunities they presented. It became clear throughout the research that different information would be offered in a more private setting, such as the informant's home or a more neutral place. This had the added advantage of providing access to women and other family members. Out of a combination of courtesy and curiosity, I would always request to meet the informant's wife and thank her for the family's hospitality. This would mostly surprise the host, but often allowed me to develop a relationship with members of the family beyond the interviewee, which strengthened the overall rapport with the participant.

It should be remembered that, while the research garnered local level information using techniques borrowed from other fields, the point was not to conduct the sort of intensive ethnographic investigation found in the classical fieldwork of development studies, sociology, and anthropology, but rather to connect configurations of micro-level processes and events with their macro-level impacts and effects. It would have been impossible for a foreign, female researcher to fully 'immerse' herself in the scene and 'become' an actual member of that setting.³⁶

³⁶ Classical ethnographic methodologies require this level of submersion and submission to the field environment. See Lowies, Robert H. (1937) *The History of Ethnological Theory* (New York: Farrar & Rinehart), 232; Powdermaker, Hortense (1966) *Stranger and Friend: The Way of an Anthropologist* (New York: Norton); Evans-Pritchard, E. E. (1964) *Social Anthropology and Other Essays* (New York: Free Press), 77-79.

3.3 The three phases of fieldwork

3.3.1 Phase I: Arrival in the field

It is commonly understood that the success of qualitative research relies on both a safe and legitimate entry to the field and an ability to convince potential subjects to participate in the project. Most researchers in a foreign environment will admit that it is impossible to accomplish these tasks on one's own, especially in an arena that is defined by secrecy, indeterminate legal status, and resistance to direct observation. In this respect, 'the importance of a strong indigenous tie to the research setting at the beginning of field relations – as a way of vouching for the researcher – cannot be overstated.'³⁷ In the first two weeks of my stay in Kabul, the Afghanistan Research and Evaluation Unit not only allowed me the opportunity to meet several such local contacts, but also provided me with some desk space and an internet connection, which proved invaluable to the entire fieldtrip.³⁸ Within days of arriving, a distinguished national staff member agreed to introduce me to several hawala dealers in the city's money market. He contacted them by phone and I arranged to meet with them in their shop.

This meeting marked my initiation into Afghanistan's money business. It formed part of an exploratory period, in which I became acquainted with the money dealer's setting, rituals, and basic mechanics of his operations. The greatest lesson I learned was that it would take time to build enough trust for informants to allow me access to their lives. In the first case, I visited the shop five times, accepted invitations to eat with the hawala dealers, and offered gifts before gaining a fuller impression of the business. These meetings led to referrals to more money dealers, especially in Peshawar, which appeared to be the regional 'headquarters' for many of the local money dealers' operations. I thus made a preliminary fieldtrip to Pakistan during this time so that I could acquaint myself with the money market (Chowk Yadgar) there.

Overall, arrival in the field entailed much casual inspection, the establishment of logistical support, such as a translator, driver, telephone, and contact with internationals, the redefinition of my research questions, and making connections with locals in Kabul primarily for gaining a better understanding of the culture and secondarily for providing future links to the provinces.

³⁷ Jacobs, Bruce A., 'Researching Crack Dealers: Dilemmas and Contradictions,' in Farrell, Jeff & Mark S. Hamm (eds.) (1998) *Ethnography at the Edge: Crime, Deviance, and Field Research* (Boston: Northeastern University Press), 8 [reprint]

³⁸ My thanks go to Paul Fishstein, now director of the organisation, who trusted I would put his generosity to good use. The friendships that resulted from connections with AREU proved to be vital as I faced the many challenges involved in independent research in Afghanistan.

3.3.2 Phase II: Focused observations

A month into the research, I decided to move out to the provinces. Away from Kabul, the people's openness to talking about the money business enabled me to hone the research further. The introductions from friends in Kabul assisted greatly in assimilating to the provinces. I was invited to stay with families which had the added benefit of being able to immerse myself in the local environment and experience the famous Afghan hospitality beyond the interview room.

While contacts were established before arriving at a particular location, little else was prepared until arrival because I was unsure of what to expect of each new environment. Only on one occasion during this period was I somewhat flummoxed. I had arranged to meet a fellow researcher in Herat because he had organised several interviews with people whom I would also like to meet. He did not make the flight due to visa problems, and I arrived in the destination with no firm plans. Fortunately I recalled the details of an NGO worker in Herat whom I had sat next to on my first flight into Afghanistan. I therefore called her and she kindly agreed to help me once I had arranged a lift to her office.³⁹ This resulted in one of the most fortuitous moments in the research because I met a young man at the NGO who would become one of my most crucial contacts and support within the research. He successfully bridged my position as an outsider with people involved in the money business, and was invaluable in interviews due to the gentle application of his powers of persuasion and skills gained by identifying so well with his fellow countrymen. He also encouraged me to reconsider the use of a quantitative survey, which would be distributed via personal chains of contacts rather than in a mass questionnaire.

3.3.3 Phase III: Entry to the virtual field

While it was made clear in the early stage of the research that the survey technique was not the most appropriate method to gather information from the money dealers, it was decided during Phase II of the research that a variation of the survey would be used in a focused sample, if only because quantitative measures can be 'a feature of some good qualitative research', and estimates were being provided to me throughout the research.⁴⁰ While still recognising that statistics and numbers cannot adequately represent the views, attitudes, beliefs and experiences of the participants, they offered an opportunity to check for any major inconsistencies between the interview data and available records.

³⁹ My heartfelt thanks go to Melody McNeil and Paul Hicks for accommodating me at the Catholic Relief Services guesthouse when I was in need.

⁴⁰ Silverman, *Doing Qualitative Research*, 11

The decision came at the same time I was commissioned by the United Nations Office for Drugs and Crime to conduct an inaugural assessment of the nexus between opium trafficking and hawala in Afghanistan's economy. This necessitated certain quantitative methods to test the conventional wisdom that the hawala system is primarily driven by opium profits. The survey specifically addressed the hawala dealers' perception of his business' contribution to the movement or laundering of drug proceeds.⁴¹ This method allowed me to conduct research remotely in areas that I had previously been unable to access in person due to security and time constraints. I was exceptionally careful in choosing who would be responsible for delivering the questionnaires, and talked through with him exactly what kinds of responses I was looking for. On receiving the completed surveys, he agreed to sit with each dealer and clarify any points that were unclear. He also contacted the dealers at a later stage when I needed further clarification on either figures or statements made in the survey. This brings us to the next stage of the research, which involved a 'virtual' continuation of field research via the internet.

Over the past decade, the rapid worldwide diffusion of Internet use, which includes those from or in less developed countries,⁴² has prompted scholars to revisit the conventional boundaries of the 'field' site.⁴³ I experienced this broadening of the field to the virtual arena once I had left Afghanistan. Throughout the write-up, I was in sporadic email and phone contact with various friends or previous contacts who kindly cross-checked data for me and helped grapple with some of the issues that arose out of the interview material. This 'real-time' dialogue greatly assisted in ensuring the reliability of the data and sustained the empirical focus of the research during the difficult phase of returning to the theoretical objectives of the overall project. The use of virtual fieldwork in support of field visits in Afghanistan thus proved a beneficial technique. The final section of this chapter will review the challenges and limitations that in many ways determined the course of the research.

⁴¹ See Appendix II for a template of the survey.

⁴² While the size of the world's online population is widely debated, estimates suggest that it has surged from 4.4 million in 1991 to more than 700 million in 2005. See Chen, Wenhong & Barry Wellman (2004) 'The Global Digital Divide: Within and Between Countries,' *IT&Society* 1(7) (Spring/Summer): 40; Global Reach (2007) 'Global Internet Statistics,' accessed in January 2007 at <<http://www.glreach.com/globstats/index.php3>>. The Internet remains, however, a marginal medium in less developed countries. In 2001, it was reported that the offline population of Asia, Latin America, and Africa was in the vicinity of 98 per cent. *Socialist International*, 'Bridges Across the Digital Divide: The Role of Education in the 21st Century,' Meeting of the SI Committee on the Economy, Social Cohesion and the Environment, Mexico City, 1-2 October

⁴³ See Hine, Christine (2000) *Virtual Ethnography* (London, Thousand Oaks & New Delhi: Sage); Miller, Daniel & Don Slater (2000) *The Internet: An Ethnographic Approach* (Oxford: Berg).

3.4 Challenges and limitations

3.4.1 Sensitivity of subject matter

After researching in Afghanistan, I would agree with William Chambliss that it is easier to find and gain the confidence of people with indeterminate legal status and criminals than commonly is imagined: ‘All we really have to do is to get out of our offices and onto the street. The data are there; the problem is that too often [researchers] are not’.⁴⁴ As John Hagedorn has stated, ‘Any good field researcher ... willing to spend the long hours necessary to develop good informants can solve the problem of access’.⁴⁵ Nevertheless, one of the greatest challenges faced throughout the research continued to be the sensitivity of the subject matter.

While it is widely known that financiers across the world are reluctant to share with an outsider much of their business practices under the basic business principle that knowledge is power, the recent experiences of the money dealer in Afghanistan, which include raids by the Taliban and Coalition forces, and the volatile environment in which he operates, arguably deepens both the suspicion surrounding outside observers and reluctance to cooperate. One of the hawaladar’s most important survival strategies within a ‘trust network’ (to be explained further in Chapter 4) is also to resist direct observation.⁴⁶

To complicate matters, much confusion was generated surrounding the purpose of my research – was I a spy, journalist, businesswoman, or the most dreaded of all, a tax collector seeking to obtain incriminating evidence?⁴⁷ This ambiguity was sometimes laughed off by the subjects as they offered at the start of an interview open confessions of being a terrorist! On the recommendation of the interlocutors, it was decided that the most effective way of communicating what I was trying to accomplish was by informing the dealers I was writing a book on the way the money business has survived through the collapse of formal state institutions. Most could relate to this better than understand official

⁴⁴ Chambliss, William (1975) ‘On the Paucity of Research on Organized Crime: A Reply to Galliher and Cain,’ *American Sociologist* 10: 39

⁴⁵ Hagedorn, John, ‘Back in the Field Again: Gang Research in the Nineties,’ in C. Ronald Huff (ed.) (1990) *Gangs in America* (Newbury Park, C.A.: Sage), 251

⁴⁶ There is a large literature within sociology and criminology which addresses the issue of how to establish and maintain rapport with ‘deviant groups’ that operate in similar ways to trust networks. Berk and Adams underscore the particular challenge of gaining ongoing rapport where there exists a large gap in social or cultural background between the investigator and the subjects. Berk & Adams, ‘Establishing Rapport with Deviant Groups,’ 102

⁴⁷ For a similar research experience, see Sluka, Jeffrey A. (1990) ‘Participant Observation in Violent Social Contexts,’ *Human Organization* 49: 114.

letters from the university and my business card, which indicated that my research was located within the ‘*Regulatory Institutions Network*’.

Given that many money dealers were suspicious of my motives, it is reasonable to ask why they were willing to take part in the research. First, I decided not to use a tape recorder, and to record as few notes as possible during a meeting so that I was fully engaged and did not intimidate the subject. I found that as soon as I started writing, people would either freeze or become visibly self-conscious. This posed its difficulties because I had to spend time after each interview writing up my thoughts and key points from the interview and this was not always possible. Fortunately, I have been able to clarify points via email with the friends who accompanied me in the interviews.

While some were reluctant to talk, others were keen to share information, but mainly about others, and more specifically about their rivals. This posed a challenge in that it was difficult to distinguish fact from rumour. One way around this was to emphasise that it was not my prerogative to discover the activities of certain individuals. I was more interested in the overall picture and the subject under investigation’s impressions of his own business. Convincing them of this was difficult because Afghans are intensely political and could not fathom why I did not wish to learn more about which major politician was connected to which money dealer or opium trading network, and so on. To remedy this, I invested time at the start of each interview stressing the apolitical nature of my research.

3.4.2 Security

Danger is inherent in research in Afghanistan, if for no other reason than there is always the possibility of a suicide attack, car bomb, kidnapping attempt, or violent riot, to name but a few of the threats to personal security in the country. The emergence of such situations is largely unpredictable despite the security warnings and recommendations given to foreigners on a daily basis; avoiding them was therefore difficult.⁴⁸ At the time of research, there was also petty harassment, which – if accumulated over time – can wear a researcher down. This usually comprised verbal abuse or the throwing of rocks and was due to local resentment and frustration with the massive presence of foreigners in the country.

Jeffrey Sklua’s comment about research in violent contexts is pertinent to my experience of Afghanistan: ‘good luck can sometimes help overcome a lack of skill, and well-developed skills can go far to help overcome the effects of bad luck. But sometimes no amount of skill will save one from a gross portion of bad luck’.⁴⁹ Given the circumstances

⁴⁸ There are offices in Afghanistan, such as the Afghanistan NGO Security Office (ANSO), whose main task is to keep humanitarian field personnel informed of the latest security risks or events.

⁴⁹ Sklua, ‘Participant Observation in Violent Social Contexts,’ 124

and nature of the places I visited, it seems that I was dealt a fair portion of bad luck over the course of the fieldwork and survived as a result of a combination of skill, good luck and something beyond both these factors. May 2005 was a particularly testing month because of the string of attacks targeting foreigners in and around Kabul. These included an attempted abduction of a World Bank employee I had interviewed the day earlier outside the restaurant I ate at in the same evening (7 May), a suicide bomb at the internet café I visited the previous day (8 May), violent riots in Jalalabad, the capital of Nangahar province, where I had hoped to gather good data and find some respite from the high security alert in Kabul (11 May), and the kidnapping of a young female Italian aid worker by four gunmen in the street in which I was staying (16 May).⁵⁰

While I experienced a number of close-shave encounters, the most dangerous situation arose while conducting research in Jalalabad. I was one of two foreigners caught in the first of a series of violent riots that erupted throughout the country in response to reports that interrogators at the US military prison in Guantanamo Bay had desecrated the Qu'rān by flushing at least one copy down the toilet.⁵¹ Thousands of angry demonstrators ran along the streets, looking for foreigners and anyone working for non-governmental organisations. Unfortunately I was using an NGO office to interview an informant when the riot spewed onto the street and ambushed that building, burning and looting everything inside. It took 8 hours to extricate myself from the situation, which included an attempted kidnapping, and concluded with a hijacked ride with Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) on an Afghan military helicopter to Kabul in the early evening. Four protesters had been killed, over 70 people injured, and several international offices and the Pakistani embassy destroyed in the riots.

These events certainly proved an exception to the usual day-to-day security threats, but they nevertheless impacted on the research in irrevocable ways.⁵² Apart from the obvious inconvenience of not being able to return to Jalalabad for my planned interviews due to time and security constraints, it took considerable effort and initiative to return to the field.

⁵⁰ For press reports, see *Associated Press* (2005) 'Explosion at Kabul Internet Café Kills 3' (8 May); CNN (2005) 'Afghans Killed in Anti-US Riots' (11 May); BBC (2005) 'Abducted Italian 'Makes Contact'' (18 May).

⁵¹ Later, the US magazine *Newsweek* retracted its story on the basis of insufficient evidence. See Kurtz, Howard (2005) 'Newsweek Apologizes: Inaccurate Report on Koran Led to Riots,' *The Washington Post* (16 May), A01

⁵² Dennis Rodgers notes that, while it is an effort to sensitise to unexpected circumstances in the field, 'social reality can also actively force itself onto the researcher, sometimes in extremely brutal and traumatic manners, especially when the social phenomena are related to violence'. Rodgers, Dennis (2001) 'Making Danger a Calling: Anthropology, Violence and the Dilemmas of Participant Observation,' Development Research Centre, London School of Economics (September 2001), 6. I was fortunate enough to have prior field experience in Papua New Guinea, where I was acquainted first hand with experiences that prepared me for the worst.

My mobile phone, laptop batteries, and fieldnotes had been either stolen or destroyed in the building I left behind, and so I was faced with several challenges in retrieving important information such as contact details of informants and also the details from my notepad. In addition, on return to Kabul I had contracted a bout of the parasitic disease Giardia, which meant I was sick and out of action for over a week. The UN had also placed Kabul under 'White City' alert, which advises the highest level of security precautions next to extracting all international personnel. This included no movement within the city, which was impossible for me given the nature of the research. When I had recovered from Giardia, I therefore smuggled my way into Pakistan for a week both to recuperate further and conduct interviews at least around the money markets in Peshawar.

A positive outcome from the experience in Jalalabad was that the news of my treatment there travelled fast to the local people I encountered in the latter half of my research. Generally appalled that the household I relied on for protection when escaping the riot had attempted to collect ransom for me, they proved exceptionally sympathetic and determined to restore the reputation of Pashtun hospitality.⁵³ The compensatory treatment helped to build a bridge with the interview subjects and diverted the focus away from questions of the threat I posed as a foreign researcher.

It is important to underline that in Jalalabad and all other situations it was always crucial to defer first to the local peoples' judgment about the safety of a given set of circumstances. This is of course bearing in mind the reliability of the local person in question.⁵⁴ In exchange, I was entrusted to some degree with the security of my informants. An assurance of confidentiality was only the first step in fulfilling that obligation. It was often the case that I had to arrange meeting places where the individual would not be recognised by those with whom he or she worked. Both the money and opium businesses are highly competitive and divisive in some areas so it was important to strike the right balance between allowing certain people to know I met with an individual (so that further trust could develop or they might be encouraged to tell their 'side of the story') and omitting those details or acting ignorant.

It is fair to say, then, that as a field researcher I existed in a mutually dependent relationship with my subjects. On the one hand they needed to trust the integrity and confidentiality of my research, and on the other I needed to trust them for both the reliability

⁵³ *Melmastia*, or hospitality, is one of the major components of Pashtunwali, which requires Afghans to show hospitality to all visitors regardless of whom they are, *including* an 'enemy' seeking sanctuary.

⁵⁴ Phrases such as 'surely you will die if ... you enter the money market, drive to this place, fly there, meet this person' were a common cry of those in some urban areas who were alien to the people and places I was visiting, hence it was relatively easy to ignore these warnings.

of their information and awareness of safety issues. This was certainly the case with the more logistical support I received, such as drivers and translators, to whom we will now turn.

3.4.3 Logistics

The main logistical challenges that arose throughout the research occurred in Afghanistan and were related to language and transport. These challenges converged when trying to find a driver who either spoke adequate English or was literate in Dari or Pashto and had access to a vehicle. Surprisingly it was a challenge to locate someone who was able or willing to commit to the task within the budget of a doctoral student (the monthly rate was equivalent to an annual salary). After exploring many avenues, I committed to one driver on the recommendation of a foreign worker seconded to the Afghan government. I was assured of his integrity and went to lengths to explain that it would not be possible to extend the budget beyond what was negotiated. Therefore I did not anticipate the problems that were to come: the driver stopped the car several times and demanded additional payments such as the previous girl had given him and spread rumours that I was a spy. This forced me to break the informal contract with the driver. I then received a series of threatening phone calls, which included threats to my life if I left the country without paying him what he deemed appropriate. Although I did not take these too seriously, it was nevertheless a concern and I notified several male friends at NGOs in the event something might happen. Fortunately the problem with transport was only intermittent because it was not necessary to depend on an independent driver during the periods I was outside Kabul. In the provinces, the majority of logistical issues were solved by linking up with NGOs and relying on the support of the UN agency I was consulting during one period of the research. I also travelled by taxi on several long journeys when the driver was referred by a trusted local; this required a good dose of humour and *laissez-faire* sighs of *insh'allah* to the heavens.

Bruce Jacobs highlighted in his criminological research that problems such as the incident above 'are only compounded by the fact that researchers tend to be far more streetwise by the end of fieldwork than they are at the beginning. ... Where threats are often highest – at the beginning, when the researcher may be labelled a narc, a spy, or simply a suspicious character – the researcher may also be least capable of handling them.'⁵⁵ Whether it is the case that threats are greater at the beginning of fieldwork or not, it seems clear that one's ability to negotiate situations like this does improve over time. This was certainly my experience with the use of interpreters and translators, on whom I was forced to rely because of my lack of Dari and Pashto.

⁵⁵ Jacobs, 'Researching Crack Dealers,' 3

It is worth noting at this point the problem of inadequate translation, which was particularly apparent early in the research when individuals were referred by a friend who guaranteed the interpreter could speak good English. Understandably, these people tended to be unemployed family members in need of work. An additional difficulty arose when the informants would answer questions using proverbs or enchanting poetical language that was difficult to translate. One way to overcome the linguistic barriers throughout interaction with the informants was to rely on body language, facial expressions, or gestures, and engagement with the setting. The observational approach often offered valuable insights that did not require dialogue. In addition, I have ensured that I refer to the interpretation of Persian expressions by more experienced fieldworkers in Afghanistan such as anthropologist Alessandro Monsutti, whose work touches on key themes in the thesis.⁵⁶

During the course of the research, however, I learnt that the ideal situation was to use the friend or informant who introduced me to the next informant as the interpreter (this technique is mentioned above). While their English was rusty at times, I found this approach not only made the informant more at ease in the interview, but I was able to speak with the friend after the interview and ask him further questions regarding the subject's background and whether I had interpreted everything adequately. Due to the success of this technique, I relied most heavily on this approach.

Another great advantage was the improvement in my language skills over time, or at least my ability to decipher when matters were not being translated properly. This developed because I became accustomed to similar phrases and terminology that recurred in the interviews. Omissions were an interesting point of discussion after the interviews; it often transpired that the translator was either uncomfortable or too fearful to ask the question, or that he did not feel the need to translate matters that appeared self-evident to him. This helped to demonstrate how non-transferable certain academic concepts were to the local context and the importance of adjusting that thinking within the research. It also alerted me to the challenges of the basic role of the researcher within the interpretivist tradition.

3.4.4 Role of researcher

My awareness of the 'myth of the chameleon fieldworker, perfectly tuned to his exotic surroundings, a walking miracle of empathy, tact, patience and cosmopolitanism' was made all the more acute after conducting field research in places such as Afghanistan and the

⁵⁶ Monsutti's discussion of trust is particularly valuable. See Monsutti, *War and Migration*, 231.

North West Frontier province of Pakistan.⁵⁷ In an unfamiliar environment, one of the primary challenges is indeed the ability to recognise the potential for one's assumptions to interfere in some measure with a subject's responses. As Antonius Robben and Carolyn Nordstrom note with reference to Western anthropologists:

We depart for the field bowing under the weight of our own culture, propped up and propelled by Western assumptions we seldom question, shielded from the blaze of complex cultural diversity by a carefully crafted lens of cultural belief that determines as much as clarifies what we see.⁵⁸

Through the use of appropriate research techniques, such as those touched upon in this chapter, it is the responsibility of the researcher to counteract the weight of some of these cultural assumptions and reduce their negative impact. The most successful technique adopted in this research was the maintenance of a 'relaxed rapport' with the subjects that established 'a middle ground between the hurried visitor and the seasoned resident participant-observer in conducting research'.⁵⁹ By listening carefully, remaining flexible and opportunistic, and challenging the hidden assumptions about culture embedded in the research, it was possible to facilitate more meaningful exchange, gain understanding quickly, and enjoy the research.⁶⁰ Further efforts to reduce the impact of my different cultural background involved dressing appropriately, always eating food that was provided, drinking cup after cup of tea, learning basic terms in Dari early in the research, and so on. As mentioned above, these efforts were not always successful, but on the whole appreciated.

I did not suffer from any serious restrictions as a woman; in fact I was able to enter the world of both men and women which had its advantages. In this respect, I shared the same socially 'genderless' experience as other female researchers in Afghanistan, behaving neither entirely like a woman nor a man.⁶¹ While the local people were protective of me, I

⁵⁷ Geertz, Clifford, 'From the Native's Point of View: On the Nature of Anthropological Understanding,' in Geertz, Clifford (ed.) (1983) *Local Knowledge: Further Essays in Interpretive Anthropology* (New York: Basic Books), 56

⁵⁸ Robben, Antonius C.G.M. & Carolyn Nordstrom, 'The Anthropology and Ethnography of Violence and Sociopolitical Conflict,' in Nordstrom, Carolyn & Antonius C.G.M. Robben (eds) (1995) *Fieldwork Under Fire: Contemporary Studies of Violence and Survival* (Berkeley: University of California Press), 11

⁵⁹ Berardi, Gigi (2002) 'Commentary on the Challenge to Change: Participatory Research and Professional Realities,' *Society and Natural Resources* 15 (October): 847-852. On the method of 'relaxed rapport', see Chambers, Robert (1997) 'Relaxed and Participatory Appraisal: Notes on Practical Approaches and Methods,' Institute of Development Studies, University of Sussex, Brighton.

⁶⁰ Berardi, 'Commentary on the Challenge to Change,' 847-852

⁶¹ See Andersen, Erna (2005) 'An Anthropological Analysis of the Interface between Danish Committee for Aid to Afghan Refugees (DACAR) and the Traditional Community in Rural Afghanistan,' Field Report, Department of Anthropology and Ethnography, Aarhus University (April), 21.

believe they would treat foreign men in a similar manner because they feel a certain responsibility for people who are unfamiliar with the country and attempting to teach others about its present challenges.

An important technique that I failed to achieve was my removal from cultural immersion or engagement in the evenings so as to intellectualise or put the research into broader perspective.⁶² I found this almost impossible because of the lack of privacy afforded to me throughout the research. This was the disadvantage of staying with families where there were always people, distractions, and long dinners. In addition, I tended to take the opportunities when staying in NGO or UN guest houses to relax and talk to fellow internationals.

Perhaps the greatest challenge of all in the role of a researcher is managing the transition from the field back to theory. One is intensely reactive, adrenaline-fuelled, public, and unpredictable, while the other is more reflective, slow, reclusive, and predictable. It is left to the outsider to judge whether the researcher has been successful in marrying an appropriate research methodology with the central research agenda.⁶³ It is to this that we now turn in the substantive analysis of legitimacy and the presence of local economic governance in the supposed disorder of Afghanistan.

⁶² Bernard recommends this strategy of removal for the participant observer. See Bernard, H. Russell (1998) *Research Methods in Cultural Anthropology* (London: Sage).

⁶³ Kvale, Steinar (1996) *InterViews: An Introduction to Qualitative Research Interviewing* (Thousand Oaks & London: Sage), 302



4 Concept and Origins of Hawala

With its popular rise in debates on terrorist finance, hawala has come to be invoked more frequently than it is defined, and almost no attention has been directed to the historical circumstances surrounding its early development. This has spawned a perceptible measure of confusion over the practice as we now understand it and has perhaps lent disproportionate weight to its Islamic heritage, allowing critics within the current anti-Islamic discourse the opportunity to undermine its capacity to act as a tool for state reconstruction and international stability. Some remedial work is therefore required to clarify the current usage of the term in policy and academic discourse and to test the significance of religion in the early development of hawala. Before this is possible, it is necessary to devote some attention to the conventional wisdom on hawala and the conditions surrounding its emergence.

4.1 Conventional wisdom

'Hawala' exponentially entered the lexicon of world leaders and media at a time when policymakers were scrambling to lay blame for the brutal attacks on America in September 2001. In its fast-developing 'war on terrorism', the Bush administration conducted a search not only for the guilty terrorists but for a suitable accomplice in the world of finance. As a result, it aggressively executed a military campaign in Afghanistan in parallel with a war against terrorist finance that incorporated a focus on informal economic networks in the Muslim world.¹

The approval of Executive Order 13224 and launch of Operation Green Quest, a multi-agency terrorist financing task force, marked the first major step in the expansion of the US Treasury's authority in these matters. While financial sanctions were nothing new as a strategy to counter terrorism, the broadened scope of the sanctions' coverage from terrorists and terrorist organisations to individuals and organisations *associated with* terrorists was a new and somewhat worrying development, especially because evidence to

¹ Medani, Khalid (2002) 'Financing Terrorism or Survival? Informal Finance and State Collapse in Somalia and the US War on Terrorism,' *Middle East Report* 223: 2-9

support an order to block transactions and freeze assets may come from classified sources that do not have to be revealed to anyone other than a reviewing court.²

These new powers were accompanied by America's Counter-Terrorist Financing Public Awareness and Rewards Campaign in which individual rewards of up to five million dollars have been made available for any information leading to the dismantling of funding mechanisms that support terrorist activities. Figure 2 is an example of one of the posters used in the global advertising campaign.

The US Treasury Department Undersecretary for Enforcement announced during the campaign that:

We are calling on the front lines of this war on terrorist financing to unite against the common scourge of blood money. As President Bush has said, we're making progress in this different kind of war. The enemy we seek hides in caves and operates in the dark alleys of the world ... With the public's help, this program will help us protect the homeland by hunting these killers down, one at a time, and bringing them to justice.³

Statements such as these, of which there is no shortage, have arguably reduced the issue to a popular slogan for sound-bite consumption. By locating the 'enemy' in hidden caves and dark alleys, and associating him with the 'unknown' or less familiar banking practices emanating from non-Western states, any real understanding of systems such as hawala remain shrouded in mystery, while Western banking is implicitly constructed as 'the normal and legitimate space of international finance'.⁴

On the day of one hawala company's closure, the President proclaimed a certain victory for America's 'fight against evil'.⁵ Media accounts have been equally condemning in the years immediately following 9/11; one investigative reporter was so bold as to broadcast in a headline that hawala is quite simply 'A Banking System Built for Terrorism'.⁶

² Zagaris, Bruce 'US Court of Appeals Upholds Freeze of Global Relief Foundation,' *International Enforcement Law Reporter* 19(3); see also Buckley, Patrick D. & Michael J. Meese 'The Financial Front in the Global War on Terrorism,' Paper delivered to the US Military Academy, West Point, New York.

³ US Treasury Department, 'Press Statement by Treasury Department Undersecretary for Enforcement Jimmy Gurulé,' accessed in May 2005 at <<http://www.ustreas.gov/rewards/gurule.shtml>>

⁴ de Goede, Marieke (2003) 'Hawala Discourse and the War on Terrorist Finance,' *Environment & Planning D: Society and Space* 21(5): 513 - 532

⁵ Bush, George (2001) 'Bush Announces *Al-Qaeda* Crackdown: Transcript of an Address to the White House,' *The Washington Post* (7 November)

⁶ Ganguly, Meenakshi (2001) 'A Banking System Built for Terrorism,' *Time Magazine* (5 October)

Figure 2: US Treasury Department advertisement

STOP THE FLOW OF BLOOD MONEY!

International terrorism directed against Americans is financed by money sent to terrorists from sources around the world. To avoid future incidents, the U.S. Government is offering a reward of up to \$5 million for information leading to the dismantling of any system used to finance a terrorist organization and information leading to the arrest or conviction of those who planned or aided in any act of terrorism against U.S. persons or property.

If you have *any* information about individuals or organizations that finance terrorists, please call 1-866-867-8300 in the U.S.; outside the U.S. contact the nearest U.S. embassy or consulate.

A Campaign by the Departments of State and Treasury to combat terrorist financing.

www.treas.gov/rewards www.rewardsforjustice.net

Up to \$5 Million Reward • Responses Kept Strictly Confidential

In a study commissioned by the Dutch Ministry of Justice even before 9/11, the author commented on the extent to which erroneous statements about informal value transfer systems (IVTS) had begun to be uncritically reproduced in articles, government reports, academic publications, and United Nations documents, leading to the creation of ‘facts by

repetition'.⁷An important one of these 'facts', or received wisdom, assigned hawala a distinctly Islamic disposition. The citation below provides an example of where hawala is depicted as not only based on Islamic law, but entrenched in Muslim society and practiced exclusively, or predominantly, by Muslims:

Known for centuries in the Islamic world, fundamental Islamic groups [have] chosen the ancient system to become the backbone of their financial structure. But this usage of hawala is only one step in the evolution of hawala banking as a worldwide financial system based on the principles of Islamic banking laws and deeply embedded in the religious and social thinking of the Islamic community.⁸

The sheer repetition of the reference to Islam in Western accounts such as these, and the present popular association of Islam with fundamentalism and terrorism, has further entrenched the stigmatism surrounding hawala. It has also served to position hawala as an *external threat*⁹ and deflected calls for more diligent regulation of the Western financial system which, in a profound irony, was found to provide the actual vehicles – i.e. international banks – for *al-Qaeda* to move its money across some of the world's largest financial trading centres.¹⁰

For all the attention and relentless stereotyping, little remains known about the true origins of hawala, how it has survived and adapted throughout the centuries, and why it continues to persist into the present day despite state collapse and subsequent efforts to regulate, disrupt, or replace the system. This chapter addresses the concept and origins of hawala – where, for example, the term originates, what it was originally intended to describe, and how this relates to the financial practices of those to whom such a label is attached today. Only once these basic questions are resolved can we judge the relevance of examining the case of hawala in Afghanistan from the perspective of religion or other cultural forms.

⁷ Passas, Nikos (1999) *Informal Value Transfer Systems and Criminal Organizations: A Study into So-Called Underground Banking Networks* (The Hague: Ministry of Justice), 20

⁸ Schramm, Matthias & Markus Taube (2003) 'Evolution and Institutional Foundation of the Hawala Financial System,' *International Review of Financial Analysis* 12: 405; see also Burger, Christofer (2003) 'Religion, Ethnicity and Trust – Institutional Foundations of the Hawala Informal Funds Transfer System,' Unpublished Thesis, Institut für Islamwissenschaft, Freien Universität Berlin.

⁹ Berdal 2002: 202. [Must be seen not to exist within or interact with US institutions and practices]

¹⁰ See the official findings of *The 9/11 Commission Report: Final Report of the National Commission on Terrorist Attacks Upon the United States* (Washington D.C.: Government Printing Office), 237

The following analysis departs from existing work on the subject by looking for answers on the origins of hawala in both pre-Islamic and medieval Islamic times. Before presenting the evidence, however, a note on the available historical records is required. Some suggest, with good reason, that it remains virtually impossible to establish when credit instruments were first used as a lubricant of business and commerce, or indeed to provide a continuous uninterrupted account of their evolution.¹¹ Here it is instructive to draw from Muhammad Akbar's general comments on the bias in historical accounts:

Although we hear a great deal about the valiant deeds of the kings and the remarkable feats of the veteran soldiers, the amorphous mass of mankind is enwrapped in mystery and our notions about it are quite dim and hazy. The explanation of all this is to be sought in the fact that to the historians of the time man as man was quite insignificant; it was only when he rose much above the common level that he came to have some meaning. So it was a king, a warrior, a savant, or a saint that attracted their notice and not men in the street.¹²

This helps to explain the more specific problem of finding sufficient data on the expansive area within which non-elite trade and financial networks have been connected throughout history. In a similar sense, classical international relations scholars today are as guilty of generating myopia or at least haze around non-elites as the grand historians throughout history. One noteworthy exception in the latter camp was Sima Qian, or Ssuma Ch'ien (司馬遷), who succeeded his father as China's Grand Historian in 110 B.C. at the Han court. He departed from the conventional listing of court appointments and events of the imperial family by presenting history in a series of biographies divided into particular subjects, rather than historical sequence. The aim was to reveal the values of the societies being remembered from over two thousand years of history between the reign of the Yellow Emperor and Emperor Han Wudi. One such biographical sketch was of the 'huozhi' (literally 'wealth increasing'), or 'Money-makers'.¹³ Sima Qian explains:

¹¹ Orsingher, Robert (1967) *Banks of the World*, trans. [from the French] by D.S. Ault (London: Macmillan), 1

¹² Akbar, Muhammad J. (1948) *The Punjab under the Mughals* (Lahore: Ripton Print Press), 235

¹³ Taken from Confucius' remark about his disciple Zigong. See Confucius (1937) *The Analects* (trans.) William Edward Soothill (London: Oxford University Press), XI: 17.

Though only commoners with no special ranks or titles, they were able, without interfering with the government or hindering the activities of the people, to increase their wealth by making the right moves at the right time. Wise men will find something to learn from them. Thus I made 'The Biographies of the Money-makers'.¹⁴

Elevated to the worthy status of 'great men' in China's history, Sima Qian not only admired the 'special aptness in the way [the money-makers] adapted to the times', but saw them as integral to the way society worked, especially in light of human nature's apparently natural desire for wealth:

Jostling and joyous,
The whole world comes after profit;
Racing and rioting,
After profit the whole world goes!¹⁵

Because this type and style of historical recording is very rare, the present chapter should be viewed within these limitations. It nevertheless offers an unprecedented analysis of hawala's position in the Islamic legal texts and touches on the broader historical context surrounding its emergence within world commerce.¹⁶

4.2 Etymology of hawala

Scholars attempting to search for the origins of hawala tend to begin with Islam. Etymologically this indeed makes sense. 'Hawala' (حوالة) is an Arabic term¹⁷ that commonly denotes a 'transfer', and in commercial terms the practice of transferring money and value from one place to another through service providers, known as 'hawaladars'. Hawala is understood in Arabic legal commentaries as the 'exchange of debt', particularly in its historical context of long distance trade. When adopted into Hindi and Urdu (हवाला / حوالہ) – the national languages of India and Pakistan – the term retained this sense but gained the additional meanings of 'trust' and 'reference', which reflect the code by

¹⁴ Sima Qian [Ssuma Chi'en], *Records of the Grand Historian of China*, Vol. II (trans.) Burton Watson (New York & Hong Kong: Columbia University Press, 1961), *Shi ji* 129 (史記, 'history record'), 436

¹⁵ *Ibid.*, 453, 436

¹⁶ I am grateful to Sheikh Afifi al-Akiti at the Oxford Centre for Islamic Studies for his help in navigating the classical Islamic texts cited in this chapter.

¹⁷ *H-w-l* root, meaning 'transform', or 'change'.

which the hawala system functions. Afghans involved in the trade tend to call themselves *sarafi*, or the singular, *saraf* (صراف), which means ‘money changer’.¹⁸

In recent times, a number of scholars have attempted to redress the lack of clarity surrounding the origins of hawala. Divya Sharma makes the latest attempt in an article that compares hawala with the *hundi* – a longstanding Indian credit instrument.¹⁹ She asserts that:

The origins of Hawala could be traced back to the past seven or eight decades or so, although it is virtually impossible to trace the origins of Hundi. Hawala is more recent and could be seen as an offshoot of Hundi. The Hundi, a bill of exchange, was an integral part of indigenous banking in the Indian subcontinent, but Hawala came into being with a formal banking system already in place and therefore carried an illegal connotation since its inception.²⁰

This statement is representative of the tendency in current Indian literature on hawala to disassociate local financial practices there from those that are tainted with the brush of terrorism in neighbouring Pakistan and Afghanistan. As will become clear, this ahistorical perspective on the connections between India and Afghanistan’s financial systems shrouds the origins of hawala in further mystery.

Matthias Schramm and Markus Taube were among the first academics to investigate exclusively the historical origins of the concept and etymology of hawala. They took a different approach by examining the classical Islamic sources, and conclude that the earliest reference to hawala as a legal concept appears in 1327 in a text written by legal scholar Abu Bakr b. Maseud al-Kasani.²¹ A review of some of the original literature in the *hadīth* reveals, however, that Schramm and Taube stopped their search prematurely. It transpires that, in the early part of the seventh century A.D., Abu Huraira recalls the following instruction given by his companion, the Prophet Mohammed: *Sahīh al-Buhārī, kitāb al-hawālāt*,²² which can be translated thus:

¹⁸ Throughout the thesis, bankers in Afghanistan who conduct hawala will be referred to as ‘hawaladars’ rather than ‘sarafi’ in order to avoid confusing them with the ordinary currency exchange dealers.

¹⁹ Reserve Bank of India (1995) ‘Chapter 2: Evolution of Payment Systems in India’ (12 December 1998), accessed in May 2006 at <<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=155>>

²⁰ Sharma, Divya (2006) ‘Historical Traces of Hundi, Sociocultural Understanding, and Criminal Abuses of Hawala,’ *International Criminal Justice Review* 16(2) (September): 99-121

²¹ Schramm & Taube, ‘Evolution and Institutional Foundation of the Hawala Financial System,’ 407

²² Sahih Bukhari [810-870 A.D.] Vol. 3, Book 41, No.585. Abu Huraira is literally named ‘father of cats’ because of his fondness for them.

Procrastination by the wealthy [in paying debts] is unjust, and when one of you is transferred [the claim for his debt] to a wealthy person, he should accept [the transfer].²³

Soon after Mohammed's death, the Islamic jurists prescribed this concept of delegation of debt, identifying the practice as *al-hawāla*. While it appears likely that the practice existed well before its codification in Islamic law, it should now be clear from his prophetic sayings that Mohammed himself was familiar with the technique.

But what was hawala originally intended to describe, and how does this relate to the financial practices of those to whom such a label is attached today? According to the classical definition, hawala as a financial term refers to the payment of a debt through the transfer of a claim. For example, if A is indebted to B, but has a claim against C, he can settle his debt by transferring his claim against C to the benefit of B. Figure 3 provides an illustration of this exchange among a group of traders as reported by a tenth century merchant from Alexandria. He says:

The purchasers of the pearls transferred the payment to those to whom they had sold aromatic balls ...

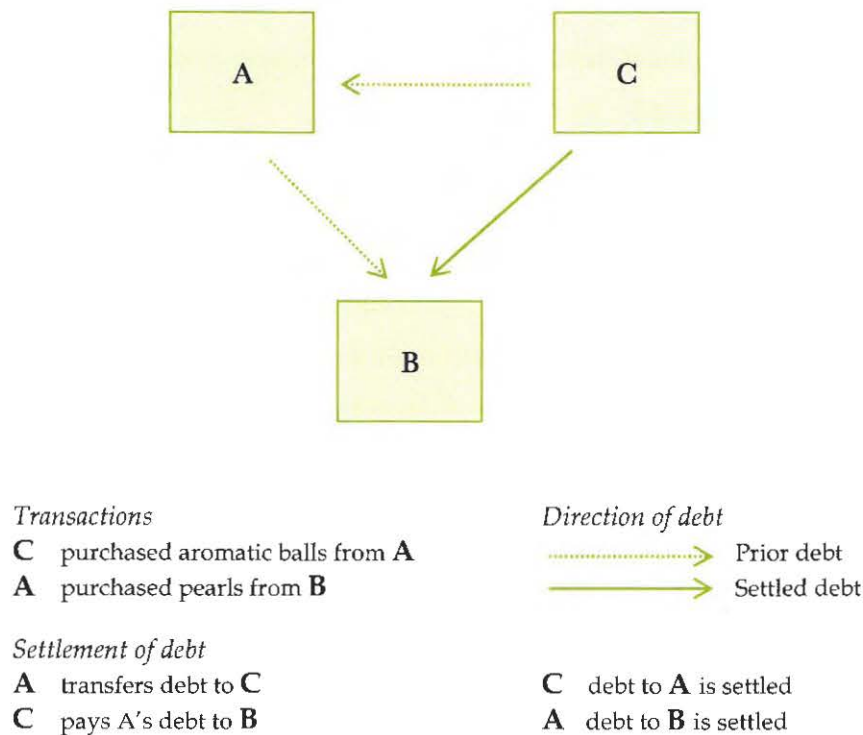
and complains that one of his business friends had succeeded only partially in collecting debts from the latter, while on his side he was slow in paying the 40 *dinars* owed to the writer.²⁴ In seeking to settle the payment for an assignment of pearls, this merchant delegated his debt to the man to whom he had previously sold aromatic balls on credit. Hence, as indicated in Figure 3, the purchasers of the pearls (A) settle their debt to the vendor (B) by transferring their claim to a third (C) against whom they have a prior claim. In such a transaction, no physical transfer of money takes place; only a delegation of debt.

²³ Ibn Rushd [1126-1198 A.D.] 'The Book of Hawala,' XLII, in (2001) *The Distinguished Jurist's Primer: Bidayat Al-Mujtahid* (Intl Specialized Book Service), 360-363

²⁴ Goitein, Shelomo D. (1993) *A Mediterranean Society: The Jewish Communities of the Arab World as Portrayed by the Documents of the Cairo Geniza* (Berkeley: University of California Press, 1967-1993), 242

Today's understanding of the mechanics behind a hawala transaction is quite different. Virtually every current user of the system and commentator on it provides the following explanation of how hawala operates: a customer (C) wishes to send money to a person at another destination (D), so pays a small fee to a remittance agent (A), who in turn contacts a local agent in the destination (B) with instructions detailing the amount and the identity of the intended recipient. Within 24 hours, this person (D) can collect the money from the agent (B), within the local currency if required.

Figure 3: Debt settlement in an early hawala transaction



Simplified to the most basic level, Figure 4 demonstrates this perspective of the customer, from which value can be transferred between distant locations, while avoiding the inconvenience and risk of transporting money.²⁵

²⁵ This is the service that Afghan, Pakistani, and Somali hawaladars have been accused of providing to members of *al-Qaeda* and other fundamental Islamist groups in support of terrorism.

Figure 4: Customer view of a hawala transaction



The Islamic legal and religious texts reveal this kind of value transfer mechanism to be more analogous to a financial instrument called *suftaja*.²⁶ In the *Da'a'im al-Islam*, composed by al-Qadi al Nu'man in roughly 960 A.D., one of Mohammed's companions is reported to have said:

He gave a certain sum of money in a particular town (*min madīnat*) and received it back in another place (*bi-ard ukhrā*).

...He permitted the use of bills of credit (*safātij*), and this means that a man obtains a loan at one place, and receives it at another place.²⁷

The bills enabled the safe transfer of money without carrying actual specie from one place to another and made it possible to raise short term credit repayable at another place. Although the pronoun in the first passage actually refers to the *sarāf* (money dealer), archival evidence of the period suggests that in practice the *sarāf* could be substituted for the customer. There were thus two modes of transfer: the first was for the customer to draw money from a *sarāf* against a promise to pay him in another town when the written note was produced there; the alternative was to pay money down with a promise from the *sarāf* that the money would be recovered in the other town once the note was produced, resembling the function of the *hundī* to which Divya Sharma refers above.

The classical Islamic legal view of the *suftaja* was nevertheless a delegation of credit between three parties, whereby 'one party extends a loan to another, whose agent repays the loan to the first party or his agent in a different country'.²⁸ There are relatively few mentions of this mechanism in the legal texts, which is curious in light of its apparently widespread use. In the tenth century A.D., for example, the 'Abbāsīd financial administration made full

²⁶ *Saftaja* or *suftaja*, pl. *safātij*, is an Arabicized form of Persian *sufta* meaning promissory note, letter of credit, or bill of exchange. See Steingass, F. J. (1963) *A Comprehensive Persian-English Dictionary* (London: Routledge & Kegan Paul).

²⁷ 'Book of Business Transactions and Rules Concerning Them,' in (2004) *The Pillars of Islam: Da 'A' Im Al-Islam* of Al-Qadi Al-Nu'Man Vol. II (trans.) Asaf A.A. Fyzee. Revised and annotated by Ismail Kurban Husein Poonawala (New Delhi: Oxford University Press), 47

²⁸ El-Gamal, Mahmoud, 'Translation of Dr. Wahba Al-Zuhayli's: *Al-Fiqh Al-Islamic wa Adillatuh*, Vol. 5,' *Financial Transactions in Islamic Jurisprudence* 1, (in press)

use of the *suftaja* in transferring its funds between the provincial treasuries of Baghdad.²⁹ Arab historian Ibn Miskawaihi records that the central treasury received bills of exchange from the provinces to the amount of 900,000 *dirhams* in 928 A.D.,³⁰ while others remarked on the relative imperviousness of merchants to the boundaries of the 'Abbasid Caliphate (750-945 A.D.) (see Figure 5 below):

Moreover, what glory is there in a bill drawn on a commercial house being accepted in enemies' country? If this is to be considered a source of pride, then the merchants are more powerful than the *viziers* in East and West; as they draw bills for vast sums on their correspondents and they are taken more readily than tribute and land-tax.³¹

In a similar vein, British Lieutenant-Colonel Sir Alexander Burnes expresses the ease with which the *hundī* operated during the British colonial period. He recalls in particular the time he possessed a letter of credit for the sum of five thousand rupees, payable from the public treasuries of Lodiana or Delhi:

... the Cabool merchants did not hesitate to accept it. They expressed their readiness either to discharge it on the spot with gold, or give bills on Russia at St. Macaire (Nijnei Novogorod), Astracan, or Bokhara, which I had no reason to question: I took orders on the latter city. The merchants enjoined the strictest secrecy; and their anxiety was not surpassed by that of our own to appear poor; for the possession of so much gold would have ill tallied with the coarse and tattered garments which we now wore. But what a gratifying proof have we here of the high character of our nation, to find the bills of those who almost appeared as beggars cashed, without hesitation, in a foreign and far distant capital! *Above all, how much is our wonder excited to find the ramifications of commerce extending uninterruptedly over such vast and*

²⁹ Lieber, Alfred E. (1968) 'Eastern Business Practices and Medieval European Commerce,' *The Economic History Review* 21(2) (August): 233. The Abbasids were the second of the two great Sunni dynasties of the Islamic empire that overthrew the Umayyad caliphs and held loose control over Afghan territory by the ninth century.

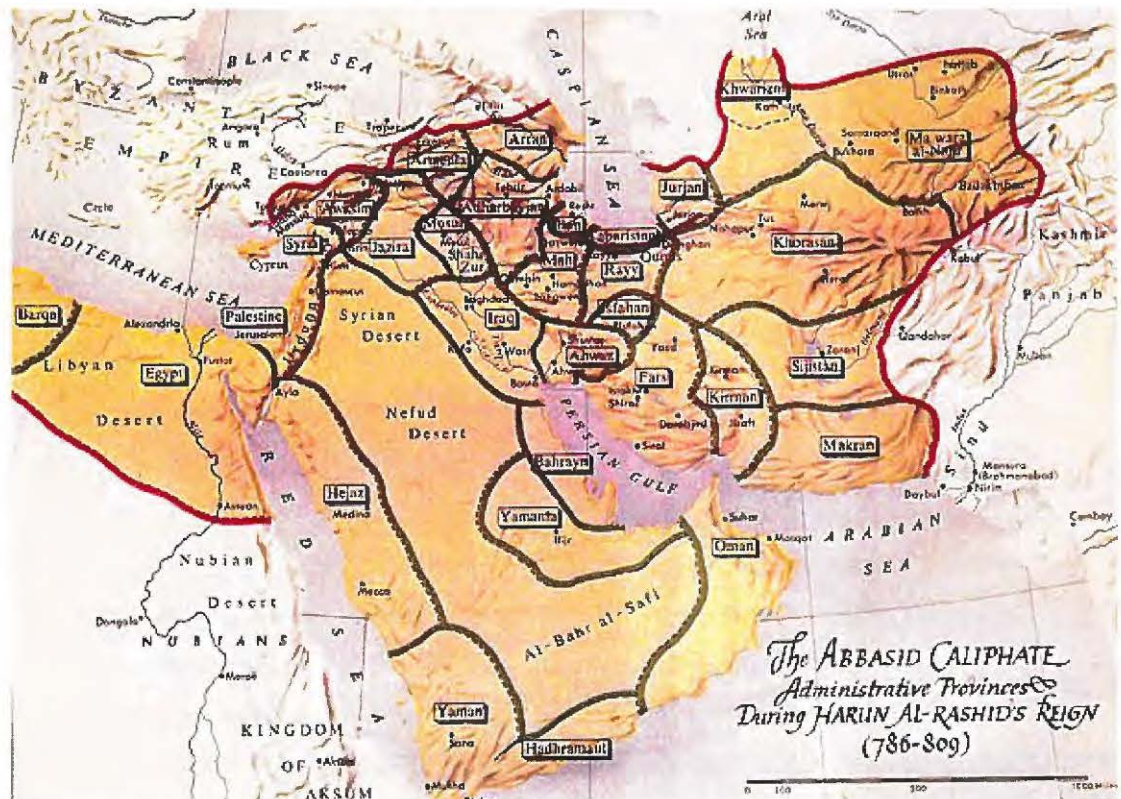
³⁰ Recorded in Amedroz, H.F. & D.S. Margoliouth (1920-1) (eds) (trans.) *The Eclipse of the 'Abbāsīd Caliphate* (Oxford: Oxford University Press), 186

³¹ Ahmad ibn Muhammad ibn Miskawayh [d.1030] (1920-21) *The Eclipse of the 'Abbasid Caliphate: Original Chronicles of the Fourth Islamic Century* (ed., trans., and elucidated) Henry F. Amedroz & David Samuel Margoliouth (Oxford: Blackwell), 138

remote regions, differing as they do from each other in language, religion, manners, and laws!³²

Other first-hand accounts of *hundīs* from this period consistently reveal the preference among travellers for the letter of credit to the alternative of sewing golden ducats in one's belt, turban, or even slippers, which were vulnerable to theft as they were routinely left at the door of every house.³³

Figure 5: Map of the 'Abbasid Caliphate



Courtesy of University of Pennsylvania

The fact that evidence of such transactions left barely a trace in the official local records could be partly explained by the strict repudiation of the practice by the Islamic jurists. Three of the four major *madāhib* (schools of law) ruled that the *suftaja* is reprehensible to the point of prohibition (*karāha tahrīmiyyah*) if the benefit of avoidance of risk in transportation to another country was a stipulated condition:

³² Burnes, Alexander (1835) *Travels into Bokhara* (London: John Murray, Albemarle Street), 145-6 (italics added)

³³ A notable exception is the experience of East India Company official George Forster, who was unfortunate in his encounter with *hundīs*. On arrival in Kabul from Kashmire, he endeavoured in vain to procure payment on an 'injured bill'. Having been lodged in a canvas belt that served him as a girdle, he found the writing on the note 'so much obliterated by perspiration' from the almost 'flammable' heat of Peshawar, 'that no one could read, or even conjecture its subject; from beginning to end, it had literally a black appearance'. Unsurprisingly, 'not a merchant of the city, and all were applied to, would even attempt to decipher the paper, when he understood it contained an order of payment'. Forster, George (1798) *A Journey From Bengal to England, through the Northern Part of India, Kashmire, Afghanistan, and Persia, ...* Vol. II (London: R. Faulder), 91, 51, 64

Al-Mirghīnānī said in this regard: ‘Letters of credit are reprehensible since they are loans that give the lender the benefit of avoiding the dangers of the road, thus rendering it as one of the types of loans that result in a benefit to the lender forbidden by the Messenger of Allāh’.³⁴

Because of the classical jurists’ hostile attitude towards the *suftaja*, current legal scholars maintain that the practice became obsolete before it could develop into a more sophisticated credit instrument. Richard Grasshoff argues otherwise in an invaluable but unfortunately neglected doctoral study.³⁵ He puts forward a convincing case based on etymological studies that the bill of exchange was invented by the Arabs, subsequently adopted by Italian and Aragonian traders, and then re-imported to the Orient in a Europeanized version.³⁶

Regardless of whether one subscribes to Grasshoff’s conclusion on this point, his overall conceptual clarification of *hawala* and *suftaja* is important for an account of the origins of these commercial instruments. Grasshoff demonstrates that *hawala* refers to the legal concept of delegation of debt, rather than to a concrete application, while the term *suftaja*, by contrast, refers to a bill of exchange as one of the possible commercial instruments based on *hawala*.³⁷ This, according to Grasshoff, is why the *suftaja* is rarely mentioned in legal texts and the term *hawala* is inconsistently used in commercial language to describe a variety of functions.

Modern-day *hawala* departs somewhat from the earlier practice in that the debt settlement occurs only among banking agents, while the liquidity is supplied by another series of networks that engage the system. These belong to a variety of actors, from labour migrants and refugees, to foreign traders and aid agencies, and will be explored later in the thesis. Technically speaking, it could therefore be argued that customers operate at the level of the *suftaja*, while dealers more accurately operate a *hawala*-based system. In back office terms, the *suftaja* thus becomes far more complex than a straightforward transfer of funds through bills of exchange. Its execution entails a long-standing relationship of debt between the *sarāf* who honours the payment instruction and his distant partner who issued the

³⁴ ‘Chapter 12: The Loan Contract (*Aqd al-Qard*),’ in El-Gamal’s translation of Dr. Wahba Al-Zuhayli’s *Al-Fiqh Al-Islamic wa Adillatuh*.

³⁵ Grasshoff, Richard (1899) *Das Wechselrecht der Araber: Eine rechtsvergleichende Studie über die Herkunft des Wechsels* (Berlin: Otto Liebmann). I am grateful to Christofer Burger for his help on explaining these concepts in the original German text.

³⁶ While the *suftaja* is closest to the modern bill of exchange in function, the earliest examples found in the Geniza records were distinct in that the value transferred kept its identity and payment was made in the same currency as the original imbursement.

³⁷ Goitein also suggests that payment through a third party in another city fell under the general category of transfer of debt. Goitein, *A Mediterranean Society*, 242

instrument in the first place, in addition to linkages with additional *sarāfi* with whom it is propitious to do business. Roger Ballard describes this as ‘a multi-nodal network of value transmission’, whereby each participant stands in a ‘constantly shifting position of debit and credit with respect to each of the other members of the network’.³⁸

The interconnected grid of credit relations is perhaps more visible within the *hundī* market because of its official exchange of credit notes. Sanjay Subrahmanyam explains that a ‘resale market’ used to exist in *hundī*, which meant that the bills did not have to be cashed by those initially partaking in their issue.³⁹ He argues that, from the mid-sixteenth century, the patterns involved in the use of these grew more and more complex as the socio-economic networks proliferated. Major transfers became possible not only within a region (such as western India), or between the port and inland administrative city, but between more distant regions. This situation was described in the mid-eighteenth century by Muhammad ‘Ali Khan, in his Persian chronicle *Mirāt-I Ahmadī*, as one where the possessor of the *hundī* could give it to one of his own debtors and ‘so free himself from that obligation’.⁴⁰ Not only this: ‘Similarly, he may transfer it to another, until it reaches a person against whom the drawee of the *hundī* has claims, and who therefore, surrendering to the latter, relieves himself of his debt. But cash is not used throughout’.⁴¹

Hawala operates in essentially the same spirit as the *hundī* transactions which ‘Ali Khan describes. Nevertheless, without the use of credit notes, the lack of physical evidence has encouraged its reputation as an ‘invisible’ banking system, ‘structured like a financial archipelago with connections hidden beneath the surface’.⁴² Oversimplified accounts of both the various sets of relations that feed into the system and the religious disposition of the dealers have followed which have in turn been used to support the idea that all hawaladars exist to cater for the needs of Islamist terrorists. Despite this, the similarities between hawala and *hundī* raise important questions surrounding the Islamic or Arab origins of the practice. The next section will therefore turn to the available historical records for evidence of the origins of hawala and related trade practices within the broader context of world commerce.

³⁸ Ballard, Roger (2005) ‘System Security in Hawala Networks: An Analysis of the Operational Dynamics of Contemporary Developments,’ CASAS Papers (University of Manchester), 8

³⁹ Subrahmanyam, Sanjay (1994) *Money and the Market in India 1100-1700* (Delhi: Oxford University Press), 34

⁴⁰ ‘Ali Muhammad Khan [1760] (1965) *Mirāt-I Ahmadī (A Persian History of Gujarat)* (ed.) Syed Nawab Ali (Baroda: Oriental Institute), 411

⁴¹ *Ibid.*

⁴² Freedman, Michael (2005) ‘The Invisible Bankers,’ *Forbes* (17 October); Eichenwald, Kurt (2001) ‘Terror Money Hard to Block, Officials Find,’ *The New York Times* (10 December)

4.3 World commerce

A survey of the fragmentary historical evidence available reveals that assorted efforts to develop credit mechanisms in support of commercial exchange were made by the world's earliest civilisations across major trade routes. The various peoples of Mesopotamia, in around 3000 B.C., are the first for which there is obtainable archaeological evidence of commercial operations. Sophisticated credit transactions can be deciphered from thousands of tablets unearthed in ancient Sumerian and Babylonian temple compounds, proving that the bureaucrats of Sumer had developed a complex commercial system, including contracts, grants of credit, loans with interest, and business partnerships.⁴³

While there is not the same level of archaeological evidence for the 'Indus Valley Civilization' (also known as 'Harappan Civilization') that covered the area of modern-day Pakistan, India, and Afghanistan, historians believe that it similarly reached its most prosperous phase in 2600 B.C. by way of commerce and agricultural trade, and that local commercial practices reflected coincident developments in neighbouring foreign lands such as Mesopotamia.⁴⁴ Artefacts excavated during this period certainly reveal an extensive international trade between the Indus Valley and the greater region. One example is the appearance in the royal Sumerian tombs of Ur, located near the Euphrates River in lower Iraq, of the ultramarine lapis lazuli, an opaque gemstone found in the rugged Kokcha Valley of northern Afghanistan.⁴⁵ The tombs contained more than 6,000 intricately executed lapis lazuli statuettes of birds, deer, and rodents as well as dishes, beads, and cylinder seals.⁴⁶

After the decline of the Indus Civilization between the ninth and seventeenth century B.C., the next available evidence of the region's economic activity seems to appear between 200 B.C. and 200 A.D. Economic historian Shyamsunder Nigam finds that commercial partnerships and credit were considered an important economic phenomenon in support of the trade, urban markets, fairs, and exhibitions that were organised on a systematic basis at

⁴³ Robert Guiseppi and Roy Willis explain that a commercial transaction was recorded, in an artistic fashion, by using small cylinder seals to roll one's signature into the wet clay of a tablet. These instruments suggest that the bureaucrats of Sumer had developed a complex commercial system, including contracts, grants of credit, loans with interest, and business partnerships. Guiseppi, Robert A. with portions contributed by F. Roy Willis (2005) 'The History of Ancient Sumeria including its Cities, Kings and Religions,' accessed in December 2005 at <<http://history-world.org/sumeria.htm>>

⁴⁴ Abdelkader Chachi suggests that an obstacle to discovering more about the banking practices of the Indus Civilization is the lack of progress made in deciphering the Harappan scripts. Chachi, Abdelkader (2005) 'Origin and Development of Commercial and Islamic Banking Operations,' *Journal of Research in Islamic Economics* 18(2): 6

⁴⁵ Peter Bancroft notes that Pliny the Elder described the stone as 'a fragment of the starry firmament'. Furthermore, he notes that powdered lapis was favoured by Egyptian ladies as a cosmetic eye shadow and in later years used as a pigment for ultramarine paints. Bancroft, Peter (1984) *Gem and Crystal Treasures* (Fallbrook, C.A.: Western Enterprises/ Mineralogical Record)

⁴⁶ *Ibid.*

the time.⁴⁷ The earliest recorded evidence available from India regarding its credit instruments supports this finding. Kautilya's *Arthashastra* (also spelt *Arthasastra*) is an ancient treatise on economics and politics written some time between the fourth century B.C. and 150 A.D. and explores the demands of statecraft in the prosperous but unsettled territory controlled by Chandragupta Maurya, the founder of the Mauryan Empire (r. 322–298 B.C.). An entire chapter within Book III is devoted to financial matters, including a section on *adēsa* which was an 'order' on a banker desiring him to pay money to a third person.⁴⁸ This corresponds to the aforementioned *hundī* or bill of exchange. The Reserve Bank of India confirms that during the Buddhist period there was considerable use of this instrument with merchants in large towns routinely exchanging letters of credit with one another.⁴⁹

Several hundred years later in the early Roman Empire, scripts found on Arabic papyri reveal that a variety of credit techniques were used to meet the needs of senators and equestrians who wished to repatriate earnings made on investments in Asia. The following is a translation of one of the scripts in 155 A.D.:

*Paid into the bank of Titus Flavius Eutychedes by Eudaemon, son of Sarapion, and partners, overseers ... for the rent of the 17th year, one talent and four thousand drachmae, on condition that an equivalent amount should be paid at Alexandria to the official in charge of the stemmata, total of 1 tal., 400 dr.*⁵⁰

Evidence from Cicero in *Pro lege Manilia* lends weight to the view that the world's financial markets were interconnected during this early period. Describing conditions in 66 B.C. by reference to events twenty years earlier, Cicero comments that, 'coinciding with the loss by many people of large fortunes in Asia, we know that there was a collapse of credit at Rome owing to suspension of payment'.⁵¹ And again, 'this system of credit and finance which

⁴⁷ Nigam, Shyamsunder (1975) *Economic Organisation in Ancient India (200 B.C. – 200 A.D.)* (New Delhi: Manoharlal Publishers), 305-11

⁴⁸ Kautilya, *The Arthashastra* (ed., trans. [from Sanskrit]) L.N. Rangarajan (New Delhi: Penguin Books India, 1992)

⁴⁹ Reserve Bank of India, 'Chapter 2: Evolution of Payment Systems in India'. Brijkishore Bhargava suggests that Indian merchants and bankers employed bills of exchange as early as the Vedic period (c.1500-500 B.C.), even prior to the seventh century B.C., however his evidence is flimsy. Bhargava, Brijkishore (1934) *Indigenous Banking in Ancient and Medieval India* (Bombay: D.B. Taraporevala Sons & Co.), 131-2

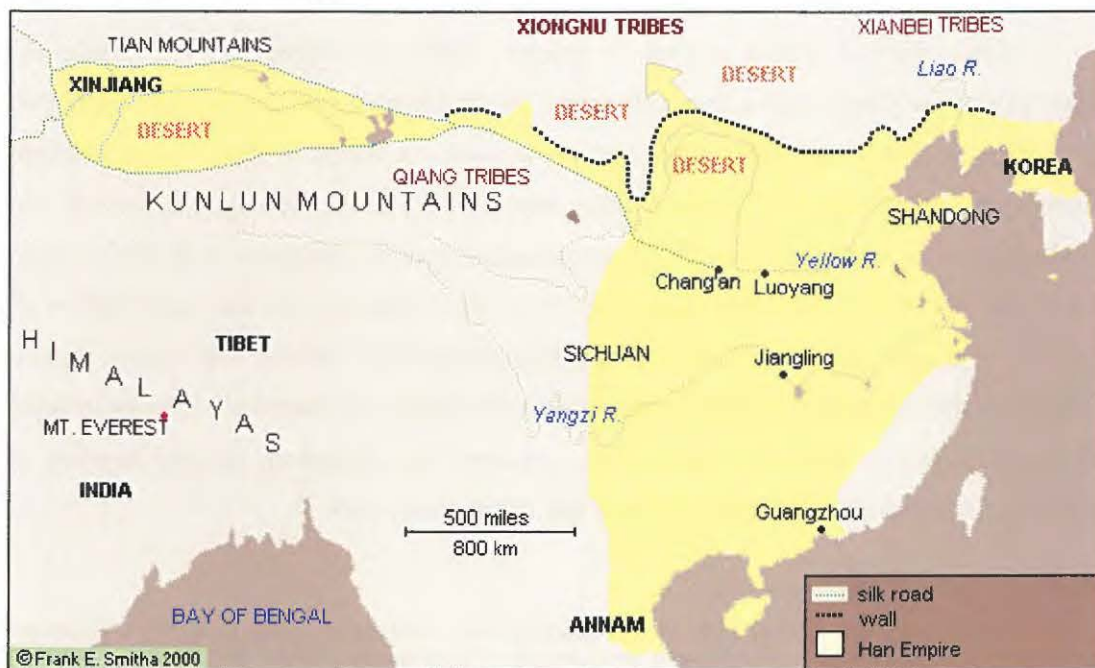
⁵⁰ Grenfell, Bernard P., Arthur S. Hunt, & David G. Hogarth (1900) *Fayūm Towns and Their Papyri* (London: Egypt Exploration Fund), 220-222

⁵¹ From Cicero's *Pro lege Manilia*, cited in Temin, Peter (2004) 'Financial Intermediation in the Early Roman Empire,' *Journal of Economic History* 64(3) (September): 705-733.

operates at Rome, in the Forum, is bound up in, and depends on capital invested in Asia; the loss of the one inevitably undermines the other and causes its collapse'.⁵²

It appears that when Roman dominance in the Mediterranean region was replaced by that of the Arabs, the scale and interpenetration of trade networks across the Indian Ocean expanded further along the coast of East Africa, in Malaysia and Indonesia, as well as in numerous Chinese ports, which allowed for intensified mutual development of trade and commercial techniques across distant regions. Although we learn almost nothing from the historical records on the prolific private commercial intercourse that existed between the Chinese and Indians at least as early as the Han dynasty,⁵³ it would be by no means impossible to surmise from these interactions that the long-standing Indian practice of *adēsa* or *hundī* may have influenced the decision of the Chinese merchants to develop a parallel practice, aptly named *fei-ch'ien* ('flying money') or *pien-huan* ('credit exchange').⁵⁴ Furthermore, as the map in Figure 8 illustrates, the Silk Road connected China commercially with what is now recognised as North Eastern Afghanistan through the province of Xinjiang.

Figure 6: Map of Han Empire 100 B.C.



⁵² *Ibid.*

⁵³ Yü, Yingshi (1967) *Trade and Expansion in Han China: A Study in the Structure of Sino-barbarian Economic Relations* (Berkeley: University of California Press), 153

⁵⁴ It is common for recent commentators on hawala to attribute its origins to these Chinese financial practices, despite often being referred to inaccurately. I argue that this is a somewhat lazy interpretation of the available evidence.

The earliest evidence of China's credit system nevertheless appears during T'ang China (618-907 A.D.) when there was reportedly a great increase in trade and an accompanying need to remit large sums of currency between the northern and southern parts of China.⁵⁵ The tea trade generated profits from the sale of tea in northern China that needed to be remitted back to the tea-producing south, but the shipment of cash was both cumbersome and perilous. The same problem of transfer faced the provincial authorities who were obliged to send monetary tribute and gifts to the imperial court. A solution was found in supplying the merchants with a place to deposit their cash in return for vouchers guaranteeing reimbursement in designated provinces.⁵⁶ Thereby a double transfer was realised between the two regions without the physical movement of funds. Because the first mention of this practice in China appears only when the government attempted to prohibit its use by private citizens in 811 A.D., the literature assumes that *fei-ch'ien* was created purely as a response to the needs of the tea merchants and officials in the ninth century. However, as Walter Scheidel conveys, we cannot rule out the possibility that the merchants of earlier dynasties operated similar private credit systems that have left no trace in the aristocratic, and often anti-mercantilist, sources.⁵⁷

The medieval period presents a greater wealth of material, at least since the discovery of the Cairo Geniza in which over 250,000 fragments of commercial documents from between 1000 and 1250 A.D. have now been recovered. With 'its unmediated descriptions from real life'⁵⁸, the Geniza records reflect the commercial life of the Mediterranean in the eleventh to thirteenth centuries from the perspective of Jewish Arab merchants, whom S.D. Goitein fondly refers to as 'those most Jewish and most Arab of all Jews'.⁵⁹ It is thus an exceptionally rare example of historical material that records day-to-day details about ordinary people's lives, rather than those of momentous events or nations. Written evidence of actual business activity uncovers the widespread use and function of credit and debt transfer instruments in local and international trade.⁶⁰

⁵⁵ For two of the rare descriptions of the practice, see Twitchett, Denis C. (1970) *Financial Administration under the T'ang Dynasty* (Cambridge: Cambridge University Press), 72 and Yang, Lien-Sheng (1971) *Money and Credit in China: A Short History* (Cambridge, M.A.: Harvard University Press), 51.

⁵⁶ This was done with a 'memorial-presenting court', or liaison office. Yang, *Money and Credit in China*, 52

⁵⁷ Scheidel, Walter (2004) 'The Monetary Systems of the Han and Roman Empires,' Version 1.0, *Princeton/Stanford Working Papers in Classics* (November), 39

⁵⁸ Cohen, M. R. (2006) 'Goitein, the Geniza, and Muslim History,' accessed in January 2006 at <<http://www.dayan.org/mel/cohen.htm>>

⁵⁹ In Ashkenazi, Daniella (1997) 'A Window into Jewish Medieval Life,' *Tel Aviv University News* (Spring 1997), accessed in January 2006 at <<http://www.tau.ac.il/taunews/97spring/medieval.html>>.

⁶⁰ The term *hawala* is not, however, to be found in the Geniza records. See Greif, Avner (2006) *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade* (Cambridge:

Joseph and Frances Gies offer a rich description of neighbouring Europe's newly developed paper economy, which is most visible from the six-week Champagne Fairs in medieval France, where native and foreign merchants met to exchange their wares with those travelling in opposite directions. Among the 'noisy, lively, many-languaged Babel' of the bazaar, with 'gawking peasants and knights as audience for the show', they explain how the final week of the Fair was reserved for the *pagamentum*, or settling of accounts:

...not only to the jingle of silver Provins pennies, but to the scratch of quills and styluses, for credit transactions grew steadily in volume, helping shape a significant element of the commercial future.⁶¹

While some point to evidence that suggests every merchant kept an account with a banker or money-changer on which he issued payment-orders for his purchases in the bazaar,⁶² others argue that 'Banking activities went hand in hand with regular commercial operations, and they were invariably subsidiary to the merchant's endeavours in the more traditional aspects of trade such as buying, selling, exporting, importing'.⁶³ In this respect, Udovitch asserts that:

... banking activities of [medieval] merchants were qualitatively but an extension of his commercial operations and were but one more service and skill, among many others, which any enterprising merchant would be expected to possess.⁶⁴

Strategically, this made sense because of the need to cooperate for capital and the complex nature of banking operations.⁶⁵ An additional point to draw from the observation that transactions tended to be confined to merchants is that debt settlement occurred in tight-knit socio-economic circles. This fostered strong trust relations between merchants, particularly in an environment where formal enforcement mechanisms were often absent.

Cambridge University Press) for a unique analysis of medieval trade drawing from the available material.

⁶¹ Gies, Joseph & Francis Gies (1972) *Merchants and Moneymen: The Commercial Revolution, 1000-1500* (London: Arthur Barker Limited), 78

⁶² Mez, Adam (1922) *Die Renaissance des Islam* (Heidelberg), 448. There is, however, no evidence from the medieval records of an individual whose exclusive operation was banking.

⁶³ Udovitch, Abraham L. (1975) 'Reflections on the Institutions of Credits and Banking in the Medieval Islamic Near East,' *Studia Islamica* 41, 18-19

⁶⁴ *Ibid.* See also Goitein, *A Mediterranean Society*, 248.

⁶⁵ Some scholars capture the rationale behind cooperation between groups in game-theoretic terms, such as the role of reputation and the logic of exchange. Uzzi, Brian (1996) 'The Sources and Consequences of Embeddedness for the Economic Performance of Organisations: The Network Effect,' *American Sociological Review* 61, 674-698; Raub, W. & J. Weesie (1990) 'Reputation and Efficiency in Social Interactions: An Example of Network Effects,' *American Sociological Review* 96: 626-654

The above survey of trade across distant regions suggests that merchants have long been confronted with these types of enforcement problems. It also suggests that relatively sophisticated commercial instruments were in practice well before the European trade fairs and the even earlier arrival of Islam. The need for capital in an environment where both bullion was sparse and the long distances between trading destinations required cross-cultural exchanges, meant that close mutual acquaintance and cooperation among merchants was absolutely fundamental. Hence, in spite of etymology and the epistemological packing around labels, shared commercial techniques and instruments among various merchant communities reveal an intensely interactive social economic and cultural base that overrides the delimited space of political boundaries.

The influence of both Islam and Europe on the increased uniformity of world commerce has, however, led some scholars to argue that a 'commercial revolution'⁶⁶ took place in the thirteenth century with the introduction of credit institutions. From the above evidence it conversely appears that commerce was being widely conducted on systems that are variations of the single principle of debt transfer well before this period.⁶⁷ The next section investigates why, if this is indeed the case, there is such a heavy emphasis in the literature on religion in the normative development of hawala.

4.4 Role of Islam

Subhi Labib asserts that, '[e]verywhere that Islam entered, it activated business life, fostered an increasing exchange of goods and played an important part in the development of credit'.⁶⁸ Islam, it appears, made true socio-economic cooperation and integration possible because it brought with it an unprecedented potential to flatten out previous cultural and logistical barriers to trade.⁶⁹ Some argue, therefore, that the moment of the key cities in a trading cluster converted it was in the best interest of traders to follow suit in order to enhance personal ties and provide a common basis in Muslim law to regulate business deals.

Conversion to Islam linked trading centres culturally as well as economically to the merchants and ports of India, the Middle East, and the Mediterranean, which made it an appealing opportunity for Arabs, Jews, Armenians, and Hindus to exploit when operating in

⁶⁶ Raymond de Roover, a proponent of the view that European institutions provided the foundation for modern credit relations, defines a commercial revolution as 'a complete or drastic change in the methods of doing business', cited in Pounds, Norman John Greville (1974) *An Economic History of Medieval Europe* (New York: Longman), 403.

⁶⁷ See also evidence provided by Nāsir-i-Chosrau, an intrepid Persian traveller, who acquaints us with the merchants of eleventh century Basra and their commerce that he discovered was no longer ruled by specie (in Charles Schefer's French translation of *Sefer Nameh*, 86).

⁶⁸ Labib, Subhi (1969) 'Capitalism in Medieval Islam,' *Journal of Economic History* 29(1) (Mar): 80

⁶⁹ See Lieber, 'Eastern Business Practices and Medieval European Commerce,' 230.

the wider trade circuits.⁷⁰ The rise in importance of religious pilgrimages to the holy places in Arabia, on which a great body of men converged each year from all over the world, offered ideal occasions for these merchants from far-distant lands to meet, exchange information, and market local products along the route.⁷¹ In commercial terms, it could therefore be argued that Islam consolidated a framework of institutionalised behaviour that allowed trust to develop among spatially dislocated traders who had no recourse to formal enforcement. Banking historian Rodney Wilson supports this view:

The sudden eruption of the Arab (Muslim) people in the seventh century is something unique in history. In three generations a collection of scattered tribes, some settled, some nomadic, living by trade and subsistence farming, had transformed itself into a rich and powerful empire dominating the whole of southern Mediterranean and the Near-East from Afghanistan to Spain... They had succeeded in welding together peoples of diverse beliefs and languages into a unified society based on a common religion, a common language and common institutions.⁷²

Alfred Lieber maintains that the ability of Arab merchants to read and write also played an important part in the unification of trade patterns among previously disconnected groups.⁷³ From an analysis of tenth century Arabic papyri and papers, Lieber concludes that the comparative literacy of Muslim merchants meant that large-scale commercial operations could be conducted from the counting house for the first time, easing the merchant's duty to move constantly with his wares. The double entry accounting method, which allowed the merchant to monitor not only the flow of single values but also the circulation of capital, was particularly important for the management of business in the early medieval period.⁷⁴ Somewhat ironically today, the common perception is that the transfer of debt among Muslims is paperless.⁷⁵ It is clear, however, that the practice has conversely grown out of a long tradition of careful recording. While Islamic law stipulates that all transactions with future financial obligations ought to be recorded in writing (Qur'ān 2: 281), there is

⁷⁰ Guiseppi, 'The History of Ancient Sumeria including its Cities, Kings and Religions,' 7

⁷¹ *Ibid.*

⁷² Wilson, Rodney (1983) *Banking and Finance in the Arab Middle East* (Surrey: Macmillan), 40-53

⁷³ Lieber, 'Eastern Business Practices and Medieval European Commerce,' 232

⁷⁴ *Ibid.*, 92. This does not include the use of credit notes such as the *hundī* mentioned above.

⁷⁵ See Huang, Reyko (2002) 'The Financial War Against Terrorism,' CDI Terrorism Project <<http://www.cdi.org/terrorism/financial-pr.cfm>>; Reich, Christopher (2003) *The Devil's Banker* (London: Headline), Bariek Testimony (2001) 'Prepared Statement of Mr. Rahim Bariek, Bariek Money Transfer, A Hawala Broker,' at the Hearing on 'Hawala and Underground Terrorist Financing Mechanisms, Subcommittee on International Trade & Finance,' US Senate Committee on Banking, Housing, & Urban Affairs (14 November).

nevertheless no available evidence to suggest that the motivation behind the use of written records for transferring funds can be attributed to religious adherence.⁷⁶

It seems worthwhile at this stage to recall a question posed by David Landes in *Wealth and Poverty of Nations*:

Does an early society choose its religion to justify institutions already selected, or does it select its institutions according to pre-received religious values, or is the causation mutual?⁷⁷

An important place to turn for answers to this question in the case of hawala and Islam is the social setting of medieval Arab economic life – how, for example, the early society organised itself, and what role it perceived commercial institutions to play in framing socio-economic affairs. By the sixth century A.D., Mecca was controlled by the Koraysh tribe, to which Mohammed belonged, and whose rulers organised themselves into syndicates of merchants and wealthy businessmen. The Koraysh held lucrative trading agreements with Byzantine and Persian contacts, as well as with the southern Arabian tribes and the Abyssinians (Ethiopians) across the Red Sea. In addition, a number of neighbouring merchant fairs, such as one usually held at Ukaz, were overtaken by the Koraysh to extend the economic influence of Mecca. Guisepi suggests that the Koraysh were also concerned with protecting the pagan shrine of the Ka'aba, a holy place of annual pilgrimage for the Arabic tribes and a focal point of Arabic cultural and linguistic unity, to ensure that the pilgrimage would continue as a source of revenue for the merchants of the city.⁷⁸ A commercial, or at least mercantile, mentality and profit motive thus permeated all elements of Arab society in the pre-Islamic period.

It was into the merchant republic of Mecca that Mohammed (c.570-632 A.D.) was born, and which was to become the cradle of Islam. The Prophet himself was a practising merchant, after having spent his early years helping a mercantile uncle, Abu Talib, in the caravan trade.⁷⁹ The number of words borrowed from contemporaneous commercial usage that appear in the Qur'ān,⁸⁰ along with the various prophetic sayings (*hadīth*) devoted to

⁷⁶ See Burger, 'Religion, Ethnicity and Trust,' 65. Grasshoff argues that the consensus among Shi'a jurists is that the validity of *hawala* transactions depended on its written form. Grasshoff, *Das Wechselrecht der Araber*, 59

⁷⁷ Landes, David S. (1999) *The Wealth and Poverty of Nations: Why Some are so Rich and Some so Poor* (London: Abacus)

⁷⁸ Guisepi, 'The History of Ancient Sumeria including its Cities, Kings and Religions,' 1

⁷⁹ *Ibid.*, 2

⁸⁰ See Torrey, Charles C. (1892) *The Commercial-Theological Technical Terms in the Koran* (Leiden) for explorations of the way in which the Prophet's language is suffused with commercial metaphors, especially in connection with spiritual reward and punishment.

economic principles, reflect the ubiquitous role of commerce in the earliest stages of Islam's development and leaves 'no doubt that the believers were engaged in, indeed preoccupied with, trade'.⁸¹ Qur'anic approval of buying and selling afforded the merchant an unusually highly honoured place in society, which is amplified in a large number of sayings attributed to Mohammed and to the leading figures of early Islam.⁸² In *Kitāb al-Kasb* ('On Earning'), for example, the earliest known Muslim work on economic ethics written by a Syrian of Iraqi *mawlā* ancestry (d.804 A.D.), it is argued that money earned by commerce or crafts is more pleasing in God's eyes than money received from the government.⁸³ Several years later, in an essay entitled, 'In praise of merchants and in condemnation of officials,' al-Jāhiz (d.869 A.D.) stresses 'the security, dignity and independence of merchants' in contrast with 'the uncertainty, humiliation and sycophancy of those who serve the ruler'.⁸⁴ Hence, Islam grew out of a highly conducive trading environment, where economic concerns were central in the minds of the first converts.

This reality is often overlooked by analysts who cite the prohibition against interest as a key instance where Islamic thinking did challenge and depart from the ancient Arabian standards of mercantile behaviour. Interest was seen to concentrate more and more money in the hands of those who lend, while decreasing the prosperity of those who take loans: '[t]he result is that a people who accept interest as the basis of their economic system come to have two classes: enormously rich who lend and enormously poor who cannot afford even the immediate necessities of life – of course with every grade of middle class in between'.⁸⁵ Accordingly, the *hadīth* literature warns:

One dirham of *ribā* [interest] that a man devours, while knowing it is *ribā*, is more severe [in crime] than thirty-six acts of fornication [or adultery].⁸⁶

Kjetil Bjorvatn explains that terms of credit in the Arabian Peninsula during Mohammed's time could be very harsh, with the commercial elite taking advantage of their market power by doubling the debt if loans were not repaid on time, and suggests that this is

⁸¹ Crone, Patricia (2005) 'How Did the Quranic Pagans Make a Living?' *Bulletin of the School of Oriental and African Studies* 68: 398

⁸² Cook, M.A. (ed.) (1970) *Studies in the Economic History of the Middle East from the Rise of Islam to the Present Day* (London: Oxford University Press), 87

⁸³ Shaybānī, Muhammad ibn al-Hasan [ca.750-804] (1997) *Kitāb al-Kasb* (Halab: Maktab al-Matb'ū'at al-Islāmīyah; Bayrūt: D'ar al-Bash'a'ir al-Islāmīyah)

⁸⁴ Cook, *Studies in the Economic History of the Middle East*, 88

⁸⁵ Ahmad, Shaikh Mahmud (1947) *Economies of Islam (A Comparative Study)* (Lahore: Muhammad Ashraf Printing), 42

⁸⁶ Ahmad with a Sahih chain of narration in Shaykh Abū Bakr Jābir al-Jazā'iry, 'Ar-Riba' ('Usury and Interest') <<http://www.islaam.net/main/display.php?id=1231&category=7>>.

why usury is made the focus of attention several times in Islamic writings.⁸⁷ In much the same way that the medieval Christian Church placed restrictions on interest-bearing activity among its followers, Islamic law clearly attempted to set limits on commercial behaviour and create frameworks around existing institutions in the Muslim world.⁸⁸ Shaikh Mahmud Ahmad confidently proclaims that Islam, however, has been the more successful of the two in excluding the possibility of money becoming a measure of success among its followers because of its consistent 'abolition of interest'.⁸⁹ This may well reflect the legal and religious theory of Islam, but I would argue that it is far removed from any real understanding of commercial practices of the time and even now.

The task of finding information in the Islamic sources on the extent to which the anti-usury laws were observed in actual practice is, however, difficult. Nonetheless, as Udovitch wryly points out, the 'frequent, copious, and vehement reiteration of the prohibition against usury in medieval Islamic religious writing' could be interpreted 'as indirect testimony to its equally frequent violation in practice'.⁹⁰ In search of practical evidence to support this, Ronald Jennings has devoted considerable energy to mining the 1,400 entries registered in Ottoman judicial records in central and eastern Anatolia between 1600 and 1625 A.D. He discovered that, contrary to the popular opinion that Jewish merchants dominated the credit business, approximately 80 per cent of credit was both given and received by Muslims.⁹¹ In addition, throughout the 20-year period under investigation, Jennings found no examples of large money-lenders. In fact, very few creditors appeared more than once.⁹² Instead, Jennings uncovered a widespread profusion of partnerships among the traders and the highly developed legal institutions that supported them.⁹³

Scholars such as Jacques Le Goff suggest that the distorted picture has emerged due to the tendency of historians studying medieval commerce to devote excessive attention to

⁸⁷ Bjorvatn, Kjetil (1998) 'Islamic Economics and Economic Development,' *Forum for Development Studies* 2: 231

⁸⁸ Similarly coarse language to that in the Qur'an was used centuries later by those who lamented the presence of the usurious Lombard bankers at the European trade fairs: 'The Lombard monster not only devours man and beast, but also mills, castles, woods and forests, he drinks the marshes and dries up the rivers. ... They never bring a ducat with them, nothing but a sheet of paper in one hand and a pen in the other; with that, they fleece the townsmen and then lend them their own money', cited in Bautier, Robert-Henri (1971) *The Economic Development of Medieval Europe* (trans. [from French]) Heather Karolyi (London: Thames Hudson), 153.

⁸⁹ Ahmad, *Economies of Islam*, 42

⁹⁰ Udovitch, Abraham L., 'Bankers without Banks: The Islamic World,' in Chiappelli, Fredi (ed.) (1979) *The Dawn of Modern Banking* (New Haven; London: Yale University Press), 257

⁹¹ Jennings, Ronald C. (1973) 'Loans and Credit in early 17th Century Ottoman Judicial Records: The Sharia Court of Anatolian Kayseri,' *Journal of Economic and Social History of the Orient* 16(Parts II-III): 182

⁹² Jennings, 'Loans and Credit in early 17th Century Ottoman Judicial Records,' 177

⁹³ *Ibid.*, 180

the abstraction ‘usury’ – ‘the merchant’s satanic alter ego’, without taking sufficient account of the historical reality, the ‘usurer’.⁹⁴ This also obscures the positive stress on the profit motive that can be found at the core of Islam. While the Prophet Mohammed emphasised that believers should always remember that nothing could be more important than God and His Messenger – true believers are men for ‘whom neither commerce nor buying and selling can divert from the remembrance of God, the performance of prayer, and the giving of alms’ (Qur’ān 24:37) – he was supportive of competitive trade as long as it did not further disadvantage the poor. Within this field, he and his contemporaries understood firsthand the need for generating profit in a business; hence, flexibility was built into the Islamic systems of commerce through the *hiyal* (literally ‘devices’) to circumvent the problem of interest.⁹⁵ The jurists endorsed these legal deviations from the law as long as they were debated and resolved in one of the legal traditions.

Commercial associations or partnerships based primarily on debts and credit purchases rather than cash or goods are a prominent example of the *hiyal*. Eleventh century legal scholar Sarakhsī explains the Hanafi interpretation of these forms of commercial arrangement:

As for credit partnership, it is also called the partnership of the penniless (*sharikat al-mafālīs*). It comes about when people form a partnership without any capital in order to buy on credit and then sell. It is designated by the name partnership of good reputations⁹⁶ (lit. ‘faces’) because the capital of the partners consists of their status and good reputations; for credit is extended only to him who has a good reputation.⁹⁷

Abraham Udovitch points out that the above designations for the credit partnership – the ‘partnership of the penniless’ and the ‘partnership of those with status and good reputations’ – reflect two of the major functions of credit in trade.⁹⁸ In the first instance, traders seek finance due to insufficient resources of their own. In the second instance, capital seeks an investment outlet, and thus hires the trader. In some of the earliest Islamic legal works, such as the ‘Book of Partnership’ of Shaybānī’s *Kitāb al-asl* (late eighth or early ninth century A.D.), provisions entitling each of the parties to a partnership to buy and

⁹⁴ Le Goff, Jacques, ‘The Usurer and Purgatory,’ in *The Dawn of Modern Banking*, 26-7

⁹⁵ Bernard Lewis explains that these allowed merchants to organise credit, investment, partnerships, and banking, while formally respecting the law. Lewis, Bernard (1995) *The Middle East* (New York: Scribner), 173

⁹⁶ The Arabic term for ‘partnership of those with good reputations’ is *sharikat at-wujūh*.

⁹⁷ Sarakhsī, *Al-Mabsūt* Vol. II (Cairo 1324-1331), 152, cited in Udovitch, Abraham L. (1975) ‘Reflections on the Institutions of Credits and Banking in the Medieval Islamic Near East,’ *Studia Islamica* No.41: 11

⁹⁸ Udovitch, ‘Reflections on the Institutions of Credits and Banking,’ 12

sell on credit are constantly asserted as though they were 'self-evident'.⁹⁹ Sarakhsī was among the early jurists who recognised that credit sales were the surest way of securing a good profit: 'An object is sold on credit for a larger sum than it would be sold for cash,' he explains, in that it entails a return to the creditor for the risks involved in the transaction, and as compensation for the absence of his capital. Thus, while the difference in the price for which one sells on credit and the price for which one sells on cash does not formally or legally constitute interest, it does fulfil the same role and provides one way of 'licitly' fulfilling the economic function of an interest-bearing loan while remaining within the confines of Islamic law.¹⁰⁰ 'No doubt,' suggests Robert Lopez:

... it was an open secret that in long-distance exchange, entailing a delay for transportation, a premium would be worked in by doctoring up the rate of conversion; it was equally obvious that the changer's stock in trade would be largely borrowed and lent at interest rates not openly declared.¹⁰¹

The use of these various forms of commercial association goes some way to explaining why the prohibition against interest did little to shackle the development of capitalism in the Arab world, and also explains the large number of small partnerships that Jennings located in his research. Some might argue that the *hiyal* also provided merchants with a 'legitimate' method to lighten their guilt.

It is worth noting that the credit partnerships were justified not only on legal grounds or by virtue of the general economic function of partnership (which Kāsānī epitomises as 'a method for augmenting or creating capital'¹⁰²), but also on grounds of precedent and thus usage. Kāsānī (d.1191) argues that people have been engaging in these two forms of partnership for centuries without rebuke, and so surely, as the Prophet himself said, his community would not unanimously agree upon an error. German Orientalist Joseph Schacht attributes this general tendency in Islam to submit to pre-ordained custom to the reassertion of the ancient Arab idea of *sunna* – precedent or normative custom – in Islam's early period. 'Whatever was customary was right and proper, whatever their forefathers had done deserved to be imitated'.¹⁰³ Goitein's view of the position of the *wakil*, or economic agent, which is generally considered a religiously prescribed office, concurs with Schacht's premise. He explains:

⁹⁹ Udovitch, 'Reflections on the Institutions of Credits and Banking,' 8

¹⁰⁰ *Ibid.*

¹⁰¹ Lopez, Robert S., 'The Dawn of Medieval Banking,' in *The Dawn of Modern Banking*, 7

¹⁰² Cited in Udovitch, 'Reflections on the Institutions of Credits and Banking,' 13

¹⁰³ Schacht, Joseph (1970) 'Law and Justice,' *Cambridge Encyclopaedia of Islam* Vol. II (Cambridge: Cambridge University Press), Pt. VIII, Chapter 8, 543

...the office of Wakil was a position acquired first *de facto* and confirmed afterwards by secular and religious authorities *de jure*, rather than a post to which a man was elected by some formal procedure.¹⁰⁴

It seems fair to suggest from both the above survey of Islam's medieval economic history (as far as it can be reconstructed from the sporadic historical sources) and the context out of which Islam emerged that Muslim teachings had a dual effect: in general, they reflected the spirit of the commercial world of their time, rather than set radically new foundations for economic conduct, and yet they also created a unique institutional environment out of which various commercial partnerships and techniques were consolidated to provide traders with the necessary framework to cooperate more efficiently across different cultures.

A possible answer to Landes' question then is that pre-Islamic and early Islamic society in the Arab world chose religion to suit its existing institutions, using it either strategically or morally to delimit rules around commercial conduct (including the means by which those rules could be bypassed). The causation could thus be interpreted to some degree as 'mutual'. Schacht's comment is helpful here:

Islamic law was created by Islam, but the raw material out of which it was formed was to a great extent non-Islamic. This raw material, itself of varied provenance, was tested by religious and ethical standards, and gained a uniform character in the process.¹⁰⁵

It appears only natural, as Schacht's comment suggests, for the commercial practices of the Islamic period to embody borrowings from elsewhere for its 'raw material' was of non-Islamic provenance. In addition, commercial communities were perhaps by necessity the most pragmatic and eclectic of all segments of a medieval society because of their need for international linkages and travel.

By way of conclusion, this chapter has clarified the usage and origin of the term hawala and established that, while it has strong connections with the Islamic legal tradition, its practice was widespread among the merchant communities throughout the ancient and medieval periods. This challenges the current conventional wisdom that the system is exclusively Islamic and, as such, discredits the current tendency within the literature to

¹⁰⁴ Goitein, Shelomo D. (1954) 'From the Mediterranean to India: Documents on the Trade to India, South Arabia, and East Africa from the Eleventh and Twelfth Centuries,' *Speculum* 29(2), Part 1 (April): 191. The *wakil* remains an important figure in the resolution of financial disputes among hawaladars in Afghanistan today.

¹⁰⁵ Schacht, Joseph, 'Pre-Islamic Background and Early Development of Jurisprudence', in Khadduri, Majid & Herbert J. Liebesny (eds) (1955) *Law in the Middle East I: Origin and Development of Islamic Law* (Washington, D.C.: The Middle East Institute), 28

undermine hawala's capacity to act as a tool for state reconstruction and fostering international stability because of its apparently heavy association with Islam.

The findings also open up the possibility of testing the significance of religion and other cultural factors to the use of hawala in a modern setting. Accordingly, the next chapter sharpens the analytic focus to the conditions out of which hawala has developed across the region of modern-day Afghanistan. It attempts to demonstrate how it has survived and adapted throughout the centuries, and asks whether traders use religious identities as a normative prescription for their behaviour within the system, or more as a strategy for coordinating action across previously unexplored social groups. The Indian merchant diaspora will be the focus of a large part of the discussion because of its central role in Afghan trade from at least the sixteenth century.

5 Hawala and the Politics of Survival

The most critical situation facing hawala operators across Afghan territory has long been the question of how to survive as a group. Their ability to persist beyond the fractured rule of competing empires over the centuries is a testament not only to their intrinsic adaptability but also to their generalised base of legitimate support, which to this day remain the sticking points for those wishing to regulate or replace them in today's environment. In light of the contested terrain between locally grown and externally imposed strategies for economic recovery in present-day Afghanistan, it appears timely to give consideration to the dynamics behind the historical emergence of hawala as a local governance system and the conditions under which it has gained authority. This chapter reviews the distinctive historical processes – or institutional 'legacies' – that both contribute to the evolution of the system and underpin the politics of survival that appears to have defined hawala from its earliest appearance. Its framework draws on insights from development studies, social network theory, and organisational sociology first to assist in an analysis of the economic practices, values, and artisanal traditions that have become encoded in the money men's social relations, and second to explore how these factors have contributed to the legitimisation of the system by outsiders.¹ The findings are then measured against the background of Suchman's theory of 'pragmatic', 'moral', and 'cognitive' legitimacy, outlined in Chapter 2.

The first part of the chapter charts the nature of the 'politics of state involvement' in the hawala system, such as the influence of foreign interventions and internal upheavals on the economic capacities of hawala networks, and the legacy of negotiated connections that were forged with ruling elites over time. It demonstrates how at different periods the

¹ More specifically, the chapter is structured in the same spirit as Gordon White's paper on 'political analysis of markets', which takes up Karl Polanyi's criticism of the economist's neglect of 'social embeddedness', or in White's terminology 'power relations', that influence the structure and operation of 'real' markets. Polanyi, Karl, 'The Economy as Instituted Process,' in Karl Polanyi, Conrad M. Arensberg, & Harry W. Pearson (eds) (1957) *Trade and Market in the Early Empires: Economies in History and Theory* (New York: Free Press), 243-270. White classifies the 'politics of markets' into at least four major forms: the politics of state involvement; the politics of market organisation; the politics of market structure; and the politics of social embeddedness. White, Gordon (2003) 'Towards a Political Analysis of Markets,' *Institute of Development Studies Bulletin* 24(3): 1-15

insinuation of the networks into political structures have made them indispensable to the operation of empires, but at the same time helped them to generate enough resources to reproduce themselves and cleave from the state once their legitimacy was firmly granted by the public. Archival material that contains sporadic references to trade across Afghanistan is consulted as the primary source of information in this section.

The second part of the chapter explores the underlying dynamics, or ‘the politics of market organisation and structure’, in the hawala system. The mechanics of the ‘bazaar’ are the main focal point, with a special emphasis on the consolidation of trust across the different layers of social networks participating in the bazaar. The discussion suggests that each hawala company is guided by a unique and ‘endogenous’ regulatory structure, comprising shared meanings, rules, practices, and social relations, and that these represent an ‘attempt to achieve ‘organisational transcendence’ of the market through various forms of collective action’.² Strategies explored include gender, trust networks, and religion.

A discussion of the Indian trade diaspora follows in the third section of the chapter, including an analysis of the Indian ‘family firm’, as it relates to the institutional foundation of present-day hawala. In light of the evidence presented in Chapters 4 and 5, the present chapter concludes with a critical reappraisal of the conventional wisdom that dominates the view of hawala in the hope that this will assist in a more accurate representation of the system in the ensuing empirical analysis.

But first, it is important to make a note on the sources available to such a task. Given the strategic location of Afghanistan’s main urban centres at the juncture of former world trade routes, one might assume that tracing the historical development of socio-economic networks across the region is straightforward. But to build a general history that predates the demarcation of Afghanistan’s modern borders in the mid-eighteenth century³ is decidedly complicated in light of the ‘contentious medley of peoples’⁴ that have swept through Afghan territory over the centuries. Such a chronicle requires the amalgamation of a

² White, ‘Towards a Political Analysis of Markets,’ 6

³ While Afghanistan’s consolidation into an independent political entity in 1747 is relatively recent, its present frontiers were agreed upon as late as the twentieth century. Vartan Gregorian records that the frontier with the Indian subcontinent was determined in 1893 by the Durand Line; the frontier with Russia was settled in 1896 (with adjustments up until 1948); the final corrections along the Irano-Afghan frontier, originally defined in 1903-5, were made in 1935; and the border with China was demarcated in 1964 (in (1969) *The Emergence of Modern Afghanistan: Politics of Reform and Modernisation, 1880-1946* (Stanford, C.A.: Stanford University Press), 10).

⁴ Meyer, Karl E. (2003) *The Dust of Empire: The Race for Mastery in the Asian Heartland* (New York: PublicAffairs), 119

vast amount of disparate material, most of which is kept hidden from researchers without the requisite language skills and ability to travel to the various archives.⁵

A further obstacle that is met in the archives is the propensity among historians to insinuate ‘the histories of states ... in the place that might have been occupied by a history of peoples’, thereby diverting attention away from ‘the amorphous mass of mankind’.⁶ As mentioned in Chapter 4, this poses particular problems when attempting to recover traces of society’s more dispersed and mobile groups, such as itinerant money dealers, for ‘regardless of their sophistication and trading networks, and despite being more populous,’ they spread their ‘debris’, or physical evidence, even more widely.⁷ James Scott’s anthropological fieldwork in mainland Southeast Asia provides evidence of the distorting effects that result from such a lop-sided emphasis on *political* history in contexts where state rule has been radically unstable, tenuous, fragmented, and seldom outlasted by its founder for long.

While these factors make information on the conditions specific to money dealers in Afghan territory scarce, especially during the ancient period, the dominant commercial presence of Indians, ‘Hindoos’, or ‘Hindkis’, in Afghanistan’s urban and rural centres throughout the past four hundred years is immediately observable from the historical accounts of foreign travellers and diplomats. Due to the intermittent nature of their visits, however, the result is not the steady stream of comparable information which we should like, but ‘the sort of irregular flashes of illumination which [former British Prime Minister] Lloyd George associated with lighthouses and Lord Kitchener’.⁸

The following analysis attempts to capture the irregular flashes that go some way to elucidating how this ‘trade of atomised men’⁹ developed into an integrated web of socio-economic networks across the difficult terrain of Afghanistan. With several cataclysmic

⁵ To give some idea of the constraints facing the researcher, the material gathered for this section of the thesis was sourced in the following libraries of the Bodleian at Oxford University: the Indian Institute, the Institute for Chinese Studies, the Oriental Institute, the History Faculty, the Oxford Centre for Islamic Studies, the Geography and the Environment Library, the Refugee Studies Centre, the Social Sciences Library, and of course the archives on the main site of the Bodleian itself. For a rare attempt at building a comprehensive history of Afghanistan, see Ewans, Martin (2002) *Afghanistan: A Short History of Its Peoples and Politics* (New York: Perennial).

⁶ Scott, James C. (2006 – forthcoming) ‘Introduction’, 15

⁷ *Ibid.*, 15

⁸ Yapp, Malcolm E. ‘The India Office Records as a Source for the Economic History of the Middle East,’ in Cook, Michael A. (ed.) (1970) *Studies in the Economic History of the Middle East from the Rise of Islam to the Present Day* (London: Oxford University Press), 510. Lloyd George said of Kitchener: ‘He was like a great revolving lighthouse. Sometimes the beam of his mind used to shoot out, showing one Europe and the assembled armies in a vast and illimitable perspective, till one felt that one was looking along into the heart of reality – and then the shutter would turn and for weeks there would be nothing but a blank darkness.’

⁹ Dasgupta, Ajit K. (1993) *A History of Indian Economic Thought* (London & New York: Routledge), 12

exceptions, such as the Hephthalite Huns and the Mongols that brought about the wholesale destruction of economic and social infrastructure in the region, and hence significantly affected the range of their operations, these networks appear to have continued their operations across the same areas even after they endured momentous political changes. We will now turn to a consideration of the collective strategies developed over time by hawala networks in response to the experience of empire and state spaces in the territory of modern-day Afghanistan. A fuller appreciation of this interaction will provide the first step to understanding how hawala has evolved as a form of private authority vis-à-vis the state.

5.1 Empire and state regulation

From ancient to modern times, Afghan territory has been dominated on the one hand by relatively benign public authorities that have afforded economic trust networks autonomy and religious freedom and on the other by a series of unscrupulous rulers that have attempted to break them apart, seize their resources, or submit them to tightly supervised forms of intervention. The subordinate position of these financial networks does not, however, imply that they have remained powerless in the face of public authority. In fact, while they are responsive to whatever actions are taken towards them,¹⁰ their level of interaction with systems of rule is also determined by the ‘social distance’ they wish to place between themselves and the public authority.¹¹ Their orientation can range from postures of ‘deference’, which include cooperation and commitment, to ‘defiance’, such as withdrawal, ‘side-stepping’ or ‘game playing’.¹²

Tilly’s theory of trust networks expands on the strategies available to defiant players. When faced with an aggressor, he suggests that members of a network can either opt for *concealment*, which entails the avoidance of detection and manipulation by authorities; *dissimulation*, which involves feigning conformity through the adoption of some available public identity, but minimising both compliance and visibility of internal operations and resources; or *clientage*, which seeks protection by intermediate authorities, thus reducing

¹⁰ Braithwaite, Valerie *et al.* (1994) ‘Regulatory Styles, Motivational Postures and Nursing Home Compliance,’ *Law & Policy* 16: 363-94

¹¹ This term was originally a psychological concept used to describe ‘a state of mind in which we become conscious of the distances that separate, or seem to separate, us from classes and races whom we do not fully understand’ (Park, Robert E. (1924) ‘The Concept of Social Distance,’ *Journal of Applied Sociology* 7 (July-August): 399-44). See also Bogardus, Emory S. (1928) *Immigration and Race Attitude* (New York: D.C. Heath).

¹² These terms have been incorporated into the tax compliance literature that examines the ‘motivational postures’ of individuals towards state regulation. In respect to tax law, ‘game players’ mould the prescribed limits to suit their own purposes. See McBarnet, Doreen, ‘When Compliance is Not the Solution but the Problem: From Changes in Law to Changes in Attitude,’ in Braithwaite, Valerie (ed.) (2003) *Taxing Democracy* (Aldershot: Ashgate), 229-244.

compliance and visibility, but usually at a price.¹³ While *concealment* and *dissimulation* appear to fall squarely within the category of defiance, *clientage* could be viewed either as a defiant move of ‘game playing’ or in a more cooperative light as an act of deference. In what follows, the most prominent position taken by the trust networks will be examined in light of their treatment by the ruling authority.

5.1.1 Empire

In a lecture delivered on the legacy of empire in Western Asia, Malcolm Yapp argued that empires ‘could accommodate many different cultures, expressed in a variety of languages, religions, habits and customs’ because of their unique form of minimal government.¹⁴ Bearing this in mind, it appears that the empires that ruled over Afghan territory and beyond did not perceive the relative autonomy of merchant communities to be a high level threat. Yapp emphasises that empires in Western Asia were especially accommodating in regards to religious communities, even to the point where within the Soviet system traditional institutions flourished and Turkish and Muslim social customs were tolerated despite being regarded with contempt.¹⁵ While Russian Orientalist V. V. Bartold once remarked that these were the ideal conditions for cultural rapprochement, for Yapp they simply allowed people the freedom to continue living in their tight, social, economic and even political compartments and hence avoid inter-group conflict.¹⁶

The evidence gleaned here suggests that, of the more benign empires that jostled for political power across Afghan territory in the ancient and medieval periods, the Kushan Empire (first century B.C. to third century B.C.) and Shahi Kings (650-1013 A.D.) were the most notable for their leniency towards the local people, and in particular socio-economic networks. The Kushan tribe of the Yuezhi people, who migrated from modern Xinjiang in China, established diplomatic contacts with Rome, Sassanian Persia, and China along with strings of flourishing urban centres across Afghanistan, making it central to commercial exchange between the East and the West.¹⁷ But while the dynasty stretched over vast distances (from Tajikistan to the Caspian Sea and across Afghanistan, Pakistan, and into the

¹³ Tilly, Charles (2005) *Trust and Rule* (Cambridge: Cambridge University Press), 34

¹⁴ Yapp is referring here to the small ruling elite, the reasonably efficient bureaucracy that would usually manage the ordinary and limited affairs of the state, and the sufficiently powerful military that provided coercion and protection to the empire when necessary. Yapp, Malcolm E. (1992) ‘The Legacy of Empire in Western Asia,’ *Asian Affairs* 23(3) (Nov), 260.

¹⁵ *Ibid.*, 266. The Islamic conquests are clearly an exception to the rule here, as shall be seen with the Ghaznavids.

¹⁶ Yapp, ‘The Legacy of Empire in Western Asia,’ 261

¹⁷ Adhya, Govinda Lal (1966) *Early Indian Economics: Studies in the Economic Life of Northern and Western India c.200 B.C. - 300 A.D.* (Bombay; London: Asia Publishing House), 17

Ganges river valley in northern India – see Figure 7), it crucially maintained loose control over the territory. Despite this, the twin capitals created by the Kushans at Kapisa and Pushklavati (Purushapura in the map below) have retained their central political and economic significance for Afghanistan in their present-day forms of Kabul and Peshawar (now in Pakistan).

Figure 7: Map of the Kushan Dynasty



The empires that achieved a balance between territorial control and local economic freedom appear to have used a strategy that relied on the maintenance, among other things, of a multicultural domain. While Kushan rule was characterised by a blend of mainly Hellenistic and Buddhist culture, the baffling assortment of deities found on the coins issued by Kaniska (r. 78 - 144 A.D.) and other Kushan rulers reflects a wider tolerance for religious diversity and perhaps even a willingness to satisfy traders of different faiths who participated in the international trade.¹⁸ Similarly, the Shahi Kings of Kabul and Udabhandapura, though Hindu, were rulers of a predominantly Buddhist and Zoroastrian population and patrons of numerous faiths, which is also reflected in the coins that they minted. Under such conditions, it seems fair to deduce that it was not necessary for the merchants to develop defensive or defiant strategies vis-à-vis these types of regimes. Nonetheless, the extent to which the region's 'money men' proactively engaged with these empires remains unclear.

¹⁸ Adhya, *Early Indian Economics*, 18

In direct contrast, the ‘political predators and greedy rulers’¹⁹ that prevailed over empires employing a more aggressive approach demanded a clever manoeuvring around the regime. The Ghaznavid dynasty, whose warriors were renowned for raiding deep into Afghan territory from 963 A.D.,²⁰ and contributing to the ‘most dynamic power known to eastern Islam since the Arab conquests’,²¹ is a case in point. In order to meet the high administrative expenses of its expansion by conquest, a regular and extensive inflow of treasure was required. The Ghaznavids resorted to rapacious methods of gathering funds, including the collection of war plunder from Indian temples in neighbouring Punjab, Sind and northern India – considered to be lawfully gained goods from the idolaters (*mal-i halāl*) – and money from taxpaying Muslim subjects, which almost certainly had, according to historian Clifford Edmund Bosworth, ‘the taint of violence and oppression on it’.²²

Under these conditions, the merchants compensated for a lack of autonomy by recourse to various bottom-up strategies that included shortening their ‘social distance’ to the regime. Historical accounts indicate that at least a small group of Hindu and Jain merchants formed a class of capitalised intermediaries that provided much-needed expertise to the ruling elites of the Ghaznavid empire. Their contribution to the regime indicates that they opted for a strategy of *clientage*, which is understood here in the broader context of ‘clientelism’: ‘the structuring of political power through networks of informal dyadic relations that link individuals of unequal power in relationships of exchange’.²³ While the ultimate power to distribute resources is vested in the top individual within clientelistic structures of authority, the weaker player is certainly not powerless. This can be seen in the case of merchants under the Ghaznavids who proved capable of subverting their subordinate position to some degree by assisting in the innovative development of techniques for revenue collection. One notable example was the *iqta*’ system, employed first by Sultan ‘Ala’-ud-Din Khilji (r.1296-1316 A.D.), which measured land and assigned portions to military officers as either a reward or pension for their services rendered.²⁴

¹⁹ Tilly, *Trust and Rule*, 50

²⁰ Baynard, Sally Ann, ‘Historical Setting,’ in Nyrop, Richard F. & Donald M. Seekins (eds) (1986) *Afghanistan: A Country Study* (Washington, D.C.: American University), 10

²¹ Bosworth, Clifford E. (1963) *The Ghaznavids: Their Empire in Afghanistan and Eastern Iran 994:1040* (Edinburgh University Press), 65

²² *Ibid.*, 78

²³ Brachet-Marquez, Viviane (1992) ‘Explaining Socio-Political Change in Latin America,’ *Latin American Research Review* 3: 94

²⁴ There is a large literature on what *iqta*’ precisely means, the touchstone of which is still the basic article of Cahen, Claude (1953) ‘L’évolution de l’iqta’ du IX-XIII siècles,’ *Annales E.S.C.* 8: 23-52

It appears that, as the Ghaznavid administrators grew more ‘sensible of their value’²⁵ in acting as an important intermediary class between producers and the market, state protection was increasingly offered to the Hindu merchant communities in exchange for their skills, which also included the attraction of much-needed investment capital and of course tax-farming in the districts.²⁶ Levi notes the widespread dependence of Delhi Sultanate nobility on intermediary financiers several hundred years later, which similarly ensured the Hindu traders a dominant and safe position in the north-Indian money-lending industry.²⁷ Mountstuart Elphinstone underscored the ongoing mutual benefit that resulted from a favourable treatment of Hindus in Durrani Afghan territory hundreds of years later again:

The bankers must derive much security from the great Dooraunees putting money into their hands to be employed to the best advantage, a practice which identifies the interests of the bankers and the nobility. Needy nobles also afford their protection to bankers, and treat them with great attention, in the hope of being able to borrow money from them; and, like all other classes of industrious people, they derive benefit from the obvious interest which the King has in protecting them against individuals of his own nation.²⁸

Supportive linkages with the state such as these allowed for the semi-permanent settlement of some Hindu communities throughout Afghan territory, especially in Kandahar, Herat and Kabul, throughout the eighteenth and nineteenth centuries.²⁹ On a visit to Herat in the late 1700s, world traveller and explorer George Forster reported that there were roughly one hundred Hindu Multanis living in two *caravanserais*, conducting ‘a brisk commerce, and extending a long chain of credit’.³⁰ Five decades later, soldier-explorer J.P. Ferrier came

²⁵ Christie, Charles, ‘Abstract of Captain Christie’s Journal,’ in Pottinger, Henry (1816) *Travels in Beloochistan and Sindh* (London), 415

²⁶ West African scholars also note the vital provision of security provided to commercial networks along trade route by pre-colonial states, in addition to dispute regulation in key markets, and government assistance to large merchants and key trading groups (Lovejoy 1982; Christelow 1987).

²⁷ Levi, Scott C. (2001) *The Indian Diaspora in Central Asia and its Trade 1550-1900* (Leiden; Boston; Koln: Brill), 200 & 150. Levi notes that this was especially the case with the Multanis. The successive Turko-Afghan dynasties that ruled from Delhi after the Ghaznavids were collectively referred to as the Delhi Sultanate (1206-1555).

²⁸ Elphinstone, Mountstuart [1815] (1972) *An Account of the Kingdom of Caubul*, Vol. I (Karachi: Oxford University Press), 335. Elphinstone was the infamous Scotsman who led Britain’s first mission in Kabul.

²⁹ Hanifi estimates that ‘Hindkis’ comprised between 6 and 12 per cent of the population in nineteenth-century Afghanistan. Hanifi, Shah Mahmoud (2004) ‘Impoverishing a Colonial Frontier: Cash, Credit, and Debt in Nineteenth Century Afghanistan,’ *Iranian Studies* 37(2) (June): 201, fn. 7

³⁰ Forster, *A Journey From Bengal to England*, 134-5. Rajat Kanta Ray explains that merchants and bankers who commanded an extensive line of credit differed from the local moneylender in the sense that they ‘belonged to a wider network of mobile paper credit which was supra-local in character and vulnerable to the wider national and international business cycles’. Ray, Rajat Kanta (1995) ‘Asian

across a community of Hindu merchants from Shikarpur in the same city, all of whom reported to have lived in that town 'upwards of twenty years, without ever leaving it'.³¹ Some had earned such favour from the state that the circumstances following the assassination of one money dealer, 'Chatroo by name', under the brutal leadership of Yar Mohamed, induced the Vezir ('ruler') to try 'every means in his power to discover the murderer, and would certainly have put him to death if he had succeeded'.³²

It seems fair to deduce that the 'clear communal distinction' of Hindus, Jains and other minorities from their host societies 'equipped them with a strategic advantage over local merchant groups as it allowed them to act in ways inconsistent with indigenous social norms, especially notable in terms of their money-lending ventures'.³³ Remarkably, even within some of Afghanistan's most oppressive Muslim regimes, it is reported that the minority dealers were permitted to operate within institutions governed by their own social mores because of their status as the cultural 'other'.³⁴ By way of example, it has been suggested that Amir 'Abd al-Rahman Khan's motivation to facilitate the creation of a secular tribunal (or *panchayat* – an Indian term referring to a council ideally of five elders) in Kabul was attributable to an effort to improve Afghanistan's commerce by removing the Hindu merchants from the jurisdiction of the Islamic courts.³⁵ This implies that it was in the interests of the ruling elite to provide the necessary conditions for the minority to operate in an autonomous commercial space.

While the minority status accrued many benefits for the Hindus in Afghanistan, it also made them a vulnerable target if and when the ruling elites decided that they failed to fulfil certain expectations, their services were no longer of value, or they exerted too much control over state finances. In the first instance, under the tenure of the Ghaznavids, the merchant-cum-tax collector is described in the literature as having to extort large sums from 'luckless subjects', and to face an ugly fate in cases where it was no longer possible either to

Capital in the Age of European Domination: The Rise of the Bazaar, 1800-1914,' *Modern Asian Studies* 29(3) (July): 499

³¹ Ferrier, Joseph P. (1857) *Caravan Journeys and Wanderings in Persia, Afghanistan, Turkistan, and Beloochistan* (trans.) Capt. William Jesse (London: John Murray, Albemarle Street), 454. Shikarpur is a town located in modern-day India.

³² *Ibid.*

³³ Levi, *The Indian Diaspora in Central Asia and its Trade*, 176. See the minority literature for further information on these dynamics. Christine Dobbin, for example, explores 'microscopic' commercial communities that control large amounts of capital despite their size. See Dobbin, Christine (1996) *Asian Entrepreneurial Minorities: Conjoint Communities in the Making of the World-Economy 1570-1940* (Richmond, Surrey: Curzon Press).

³⁴ Dale, Stephen F. (1994) *Indian Merchants and Eurasian Trade, 1600-1750* (Cambridge: Cambridge University Press), 104

³⁵ Gregorian, *The Emergence of Modern Afghanistan*, 136, 183

squeeze more funds from the people or make up from his own pocket the revenue deficiency. With the prospect of dismissal being followed by 'violent death', Bosworth reflects that 'the life of a tax-collector could never be a happy one'.³⁶ This is reflected in the rare poem of a Jain merchant in the seventeenth century, whose movements were necessitated by flight from oppression rather than the pursuit of profit.³⁷ On the other hand, if the financiers were able to deliver what was required of them to the regime's satisfaction, what might have begun as an uneasy symbiosis with the authority could be transformed into a more sanguine exchange. In this sense, the strategic use of *clientage* towards the less sympathetic empires tended to work in the Hindu and other minority merchants' favour.

5.1.2 State regulation

In the case of state powers, matters were not as straightforward because of the perceived threat of financiers exerting too much control. This was especially acute in the early stages of Afghanistan's development as an independent state because of the pressure for it to consolidate and convince the people that a strong central government existed in Kabul. In direct contradiction to Gregorian's view of 'Abd al-Rahman Khan, the 'founder of modern Afghanistan', as a facilitator of Indian trade, the historical evidence suggests that during his reign from 1880 to 1901 he actually sought to displace Indians from commercial life in Afghanistan because he felt threatened by their control over the people's money and resented the idea of them remitting their profits made from the 'exploitation' of ordinary Afghans to 'their own lands'³⁸. He consequently took a number of steps to replace the capital controlled by the Indian merchants with Durrani state funds. These, he had hoped, would become the source of large-scale commercial loans to merchants and small-scale cash advances to producers and other ordinary residents of the country.³⁹

Part of 'Abd al-Rahman Khan's grand strategy was to take extraordinary measures to extract British Indian rupees from his subjects. He imported several new minting machines which were used to replace all silver currencies in circulation with a new machine-minted silver rupee of the Durrani state. But already in 1885, well before the arrival of the new machinery, 'Abd al-Rahman's penchant for the confiscation of silver led to seizures of such a magnitude that the British Agent in Kandahar commented, 'If this state of things continues no money will be left with anybody in the whole of Afghanistan, and Government

³⁶ Bosworth, *The Ghaznavids*, 71

³⁷ Snell, Rupert (2005) 'Confessions of a 17th Century Jain Merchant: The *Ardhakathānak* of Banārasīdās,' *South Asia Research* 25(1) (May): 84

³⁸ See Khan ([1900] 1980: 76) for 'Abd al-Rahman's remonstrance against Indians for this reason.

³⁹ Hanifi, 'Impoverishing a Colonial Frontier,' 215

coffers will overflow with money'.⁴⁰ As the citation below from a government report in 1891 shows, bizarre justifications were offered to explain the arbitrary seizures of capital that started taking place in Kandahar⁴¹ after the new mints went into service:

Heavy fines are being inflicted and recovered now-a-days for trivial offenses, e.g., a fine of rupees twenty one thousand has been imposed on some villagers, shop keepers, and a camel driver, residents of Deh-I Khwaja, on the ground that the wife of a servant of Sardar Sher Ali Khan, ex-Wali of Kandahar, has gone to Karachi without their knowledge. The camel driver's offense lay in the fact that he hired out his camel to this woman. The villagers were fined for not reporting her departure to the authorities prior to her leaving for Karachi, and the shopkeepers were fined because they were related to this woman.⁴²

Needless to say that 'Abd al-Rahman's strategy was unsuccessful in the long term. The confiscation of private capital and the devaluation of the Durrani currency as a result of the state minting practices contributed to the increasing indebtedness of Afghan society. Hence, while 'Abd al-Rahman Khan planned to ease the debt of ordinary Afghans by transferring the fiscal responsibilities of the Indians to the state, he inadvertently created a burden that overwhelmed the bureaucratic apparatus he controlled. He quite simply had not foreseen the difficulty in absorbing and managing a large portion of the widespread debt burden of Afghan society that was formerly handled by the Indian bankers. Unlike the Durrani state, the Indians were able to disperse and circulate the debt of this region to other markets and economic zones through their extensive inter-regional *hundi*-based commercial networks. The state thus proved far less adept than the Indian merchant bankers to redistribute, delay, and refinance debt burdens with the ease and fluidity of its declared adversaries.

This failure, combined with 'Abd al-Rahman Khan's arbitrary taxation policy, alienated the state more and more from the people. It also reinforced the confidence that Afghan society shared in the money changers over the state, for throughout the centuries preceding 'Abd al-Rahman Khan's rule, Indian bankers were relied upon for cash advances, credit-provisioning, and debt-servicing by a great many ordinary Afghans, local chiefs, and

⁴⁰ Kakar, Hasan Kawun (1979) *Government and Society in Afghanistan: The Reign of Amir 'Abd al-Rahman Khan* (Austin: University of Texas Press), 205

⁴¹ It is important to appreciate that all kinds of people in all other localities in Afghanistan were subject to similar random confiscatory practices.

⁴² Published in the *Kandahar Newletters, 1880-1905* (ed.) Government of Baluchistan (Pakistan), (Quetta: Directorate of Archives Department, 8 June 1891), 25 (cited in Hanifi, 'Impoverishing a Colonial Frontier,' 212).

even state authorities. Collectively these 'social audiences' conferred a high level of pragmatic legitimacy to the merchant bankers which the state was lacking, and in desperate need of acquiring.⁴³ In this sense, the private authority of the banking networks evolved in indirect proportion to the state's delegitimation.

A similar pattern is discernible among the British Indian colonialists, despite the popular belief that the economic systems they brought with them rendered local practices redundant. British Indian colonialism, however, experienced more masked failures in its attempts to regulate parts of the local markets. Because Afghanistan was a growing receptacle for British Indian currency, its economy became increasingly integrated with and dependent upon colonial capital and markets, which provided the British with some fiscal leverage.⁴⁴ But while the extension of Company capital into the region was relatively successful during the first British occupation of Kabul and Kandahar, one important factor could not be altered. The British could not evade the controlling influence exercised by the Hindu bankers over the availability and interaction of different currency forms in the city.

During October and November of 1840, roughly a year before the occupation's end, the British Political Agent in Kandahar, Henry Rawlinson, exchanged letters with his superior in Kabul about plans to institute a shift in the exchange-rate between a local currency, the Kandahar rupee, and the Company rupee. While Rawlinson's plan was carefully prepared, his dilemma lay in his inability to avoid engaging Kandahar's hawala-based money market. After several complications, the local bankers learned of the impending change, and re-valuated the local currency ahead of time. Rawlinson suffered huge losses as he found himself with a batch of suddenly devalued rupees that his troops returned to him unexpectedly.

In the 1930s, the government of Afghanistan made fresh attempts to regulate and replace the local exchange dealers. A fixed exchange rate system was adopted, free market dealings were prohibited, and the national bank – Bank Millie – exercised its monopoly rights in foreign exchange.⁴⁵ Lastly, it opened exchange departments in Kabul and Kandahar, which were to replace the indigenous 'bazaars'. That the repression of the money bazaars was not altogether successful is evinced by the fact that by 1938 Bank Millic was

⁴³ Ruling elites with similarly pernicious interventionary tactics, such as the aforementioned Ghaznavids, shared a comparably dismal fate. In comparison to 'Abd al-Rahman's rule, the Ghaznavids' taxation and repeated conquests in India brought incalculable wealth and a steady flow of money and goods into Afghanistan (Gregorian 1969: 15). But the financial exploitation, militarization, and 'creeping disease of orthodoxy' that characterised its rule prevented it from securing the loyalty of the people and gave the empire only an artificial and ephemeral prosperity.

⁴⁴ Hanifi, 'Impoverishing a Colonial Frontier,' 200

⁴⁵ Fry, Maxwell J. (1973) *Kabul and Kandahar Money Bazaars: Their Role in Afghanistan's Foreign Trade* (Kabul: United States Agency for Development, June), 2

forced to recognise and even place its own dealers in the bazaar. Da Afghanistan Bank was then established in 1939 to centralise control over all exchange. Again, this attempt failed, forcing the new Central Bank to revert to the previous free market system that proved impossible to eliminate. A series of decrees were then introduced, but they have generally fallen to 'a dead letter', with no control over capital movements in practice.⁴⁶

Therefore, despite a series of attempted interventions, states and empires have proved unable either to usurp the function of regional and local money dealers or contain them within state spaces. The networks have rather persisted into the present and formed a critical infrastructure for the informal financial structures that have re-emerged with the advent of war in modern Afghanistan, albeit in an adapted form. This has been possible largely due to their strategies for survival and accumulation and subsequent ability over time to deliver much-needed services to the public, which in turn has provided them with a robust portion of pragmatic legitimacy.

The discussion thus far has established that the locally or regionally grown hawala networks have proven exceptionally difficult to displace in practice. The following two sections look more closely at the underlying dynamics or politics of hawala market organisation and structure, beginning with an analysis of the 'bazaar' and the mechanisms used to foster cooperation in decentralised exchange. This is accompanied by an overview of the various market strategies employed to assist in the evolution of hawala from a pragmatic source of finance among the people into a 'morally' legitimate form of private authority in Afghanistan.

5.2 The bazaar

The integration of indigenous trading and financial networks into 'a distinct world known as the bazaar'⁴⁷ has been central to the money dealers' strategy for survival and adaptation. This should not be mistaken for the kind of 'bazaar economy' that Western socio-economic and anthropological theorists, such as Clifford Geertz, imagined, which comprises 'a multitude of small enterprises conducting fragmented person-to-person transactions with clumsy, unanalytical accounting methods'.⁴⁸ Following Rajat Kanta Ray,

⁴⁶ Fry, *Kabul and Kandahar Money Bazaars*, 3

⁴⁷ Ray, 'Asian Capital in the Age of European Domination,' 452

⁴⁸ Geertz, Clifford (1963) *Peddlers and Princes: Social Change and Economic Modernization in Two Indonesian Towns* (Chicago: Chicago University Press), 28; 'Suq: The Bazaar Economy in Seffrou,' in Geertz, Clifford, Hildred Geertz & Lawrence Rosen (1979) *Meaning and Order in Moroccan Society: Three Essays in Cultural Analysis* (Cambridge: Cambridge University Press), 214. Much empirical historical research that refutes such simplified notions of the bazaar is now available. For a

this study reverts to the meaning that the term holds for those who use it within Asia, which in the abstract singular refers to the indigenous money market that effects credit transfers for the wholesale and forward trade across long distances.⁴⁹ Ray defines the bazaar as the overlooked 'intermediate sector of long-distance Asian credit and trade' that falls between the higher tier of superimposed European capitalism, and the lower tier of the peasant, pedlar and pawnbroker's subsistence economy that operated on metallic currency rather than paper credit.⁵⁰

Nowhere is the bazaar more visible than along the Silk Route, which has for over 3,000 years carried commerce, culture, and religion between the East and West. With its strategic location at the crossroads connecting India, Persia, Central Asia, and the Mediterranean world, the territory of modern-day Afghanistan has long been the focal point for this trade. Operated almost entirely on paper credit, the bazaar transactions handled within some of its main urban centres have been critical for the smooth traffic of goods across those great distances. In the view of 'world system' theorists, these urban nodes create 'a string of conglomerations or relay points'⁵¹ whose interconnections can be seen to form the spine of the bazaar and contribute significantly to the 'interrelated processes of a single unified, albeit diverse, stream of world history', dating back to the early ancient period.⁵² The previous chapter's cursory historical glance at the 'relay points' connecting trade across Afghanistan's region corroborates this view and grasps the syncretic institutional basis of the bazaar economy.

Close mutual acquaintance and cooperation were crucial to the smooth functioning of the bazaar, particularly in light of the merchants' syncretism. As the previous chapter

landmark study, see Bayly, Christopher (1983) *Rulers, Townsmen, and Bazaars: North Indian Society in the Age of British Expansion 1770-1870* (Cambridge: Cambridge University Press).

⁴⁹ Ray, 'Asian Capital in the Age of European Domination,' 452

⁵⁰ *Ibid.* For a similar view of the misplaced sense of European 'superiority' within the IR literature, see Hobson's work on civilisations. Hobson, John M. (2004) *The Eastern Origins of Western Civilisation* (Cambridge: Cambridge University Press). Both authors suggest that global practices and economic advancement came first from Asia to Europe, rather than vice-versa.

⁵¹ Beaujard, Philippe (2005) 'The Indian Ocean in Eurasian and African World-Systems before the Sixteenth Century,' *Journal of World History* 16(4) (December), 414

⁵² This is the approach taken by Frank and Gills, who argue further that the process of capital accumulation 'played a, if not the, central role in the world system for several millennia'. Frank, Andre Gunder (1994) 'World System History,' Paper presented at the annual meeting of the New England Historical Association, Bentley College, Waltham, M.A., 23 April 1994; Frank, Andre Gunder & Barry K. Gills (eds) (1993) *The World System: Five Hundred Years or Five Thousand?* (London: Routledge). Instead of horizontal relay points, other authors consider the 'international system' to be characterised since the formation of state units in 1648 by 'hierarchical sub-systems', each with their own social logic connected with identity-formation processes that govern their reproduction. Hobson, John M. & Jason C. Sharman (2005) 'The Enduring Place of Hierarchy in World Politics: Tracing the Social Logics of Hierarchy and Political Change,' *European Journal of International Relations* 11(1): 63-98

revealed in relation to trade fairs, an important strategy in this respect was for merchants to combine their commercial operations with banking activities. Such cooperation allowed for the pooling of liquidity which helped to reduce the need for settlement and increase the efficiency of the system as a whole. But what incentives drove the networks to overcome the 'fundamental problem of exchange',⁵³ namely the problem of contract enforcement among decentralised groups in transactions that involve a time lag between the quid and the quo? What were the '*sub rosa* organizational forms' that underpin such cooperation?⁵⁴

It appears that a crucial aspect to market organisation in the bazaar was the ability to promote a generalised form of trust between agents. Trust in this sense becomes not only a characteristic of individual behaviour, but also a characteristic of the broader system of exchange – much like the aforementioned 'trust networks' which Tilly identifies in medieval exchange.⁵⁵ Within this framework, opportunism can be constrained by conventions, 'cultural beliefs', or indeed 'moral norms' regarding the appropriate behaviour between partners in an exchange.⁵⁶ This study identifies at least three aspects of morality in the bazaar – that working *between* funds transfer networks, or hawala companies, in the system; that located between hawala companies and *external* users of the system, such as customers; and that found *within* each network. These relationships are indicated below in Figure 7 by the orange arrows, while the circular boundary in the first and second diagrams represents the commercial system or overarching 'trust network'⁵⁷ as a whole, and in the third indicates the boundary of a singular firm. As can be seen, the actors are therefore located in one of a variable number of exchanges, each with their own demands.

In the case of explicit network-market interactions between funds transfer operators, conscious calculation becomes less urgent as exchange is built on generalised perceptions of how the system should function. Conventions that resolve issues of 'contractual trust' (obedience to rules), 'competence trust' (the ability to perform properly and keep promises), and 'goodwill trust' (confidence that unfair advantage will not be deliberately employed) all contribute to the smooth functioning of these relations and the formation of a conglomerated trust network. The configuration of ties within this network not only exposes financiers to

⁵³ Greif, Avner (2000) 'A Fundamental Problem of Exchange: A Research Agenda in Historical Institutional Analysis,' *European Review of Economic History* 4: 251-284

⁵⁴ See Grabher & Stark, *Restructuring Networks in Post-socialism*.

⁵⁵ Humphrey, John & Hubert Schmitz (1996) *Trust and Economic Development*, Discussion Paper 355, University of Sussex (Brighton: Institute of Development Studies), 10-11

⁵⁶ Greif, Avner (1994) 'Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies,' *The Journal of Political Economy* 102(5) (October): 912-950; Platteau, Jean Philippe (1994) 'Behind the Market Stage Where Real Societies Exist, Part I: The Role of Moral Norms,' *Journal of Development Studies* 30(4): 753-817

⁵⁷ Sako, Mari (1992) *Prices, Quality and Trust: Inter-firm Relations in Britain and Japan* (Cambridge: Cambridge University Press), 37-38

the malfeasance, mistakes, and failures of others but also assures them of support when required.⁵⁸

Strong defences at the boundaries of the bazaar prevent the outsider from entering the inner sanctum of the hawala business. Perhaps the most important strategy used in this respect by the hawaladars is that of *concealment* – concealment of both their modus operandi, and of any faults or failures in the system. While it is unclear to what extent this strategy assisted in defending networks from predatory political rulers in the past, a culture of secrecy now pervades the modern-day hawala system which helps sustain the impression of impenetrability to public and regulatory authorities. This was underscored by the hawaladars in this study who regularly cited ‘business secrets’ as the main reason why it would be difficult for me to investigate the system.

The boundary of the trust networks is fortified further by concealing failures. In general, hawaladars step in to indemnify a client if another agent does not have the sufficient liquidity to pay the amount – an alien concept within Western capitalism where success is ostensibly guaranteed by rational *self-interest*. One could view the behaviour of hawaladars as a reflection of unconditional solidarity among the dealers; alternatively, it could be interpreted as an indication of their desire to preserve the collective reputation of money lending and hawala as a professional category and the generalised trust that pervades the system.⁵⁹ The basis of collective efficiency here resembles that of modern industrial clusters, where ‘[w]hat they make individually is useless to the outside world, [and] what they make together conquers distant markets’.⁶⁰

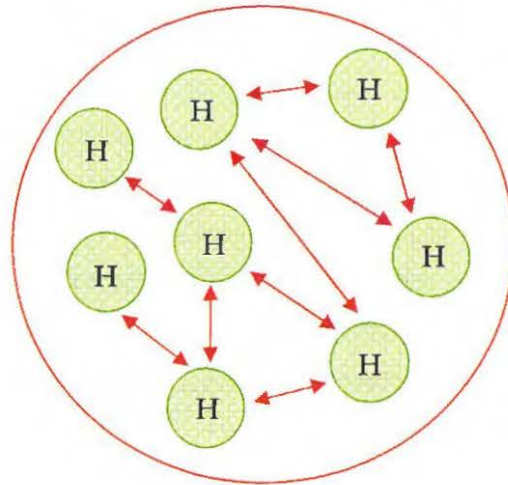
While the technical properties of trust networks remain difficult to decipher from an outsider’s perspective, the social audience can revert to evaluations based on ‘pragmatic’ and ‘moral’ legitimacy. It is reasonable to assume that the importance of garnering such legitimising support from the public merely increased with the evolution of hawala’s market structure from a predominantly merchant-banker base in the medieval period to one that encompassed players external to the debt settlement process in the modern period (refer here to the second diagram in Figure 8).

⁵⁸ Tilly, *Trust and Rule*, 12

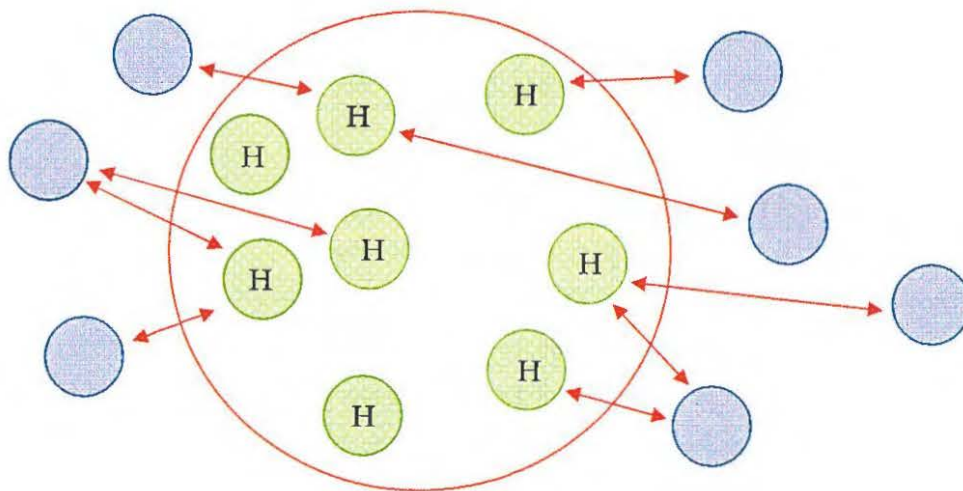
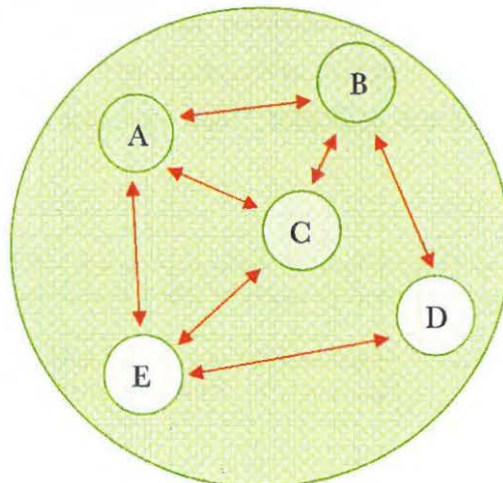
⁵⁹ In order to prevent the free rider problem inherent to collective goods, the dealers also ensure that the offender is aware that there will be social consequences, such as ostracism, if the same sin is committed again. Often, however, this is not necessary because a regular failure to deliver payments tends to lead to bankruptcy, and the natural exclusion of the player from the system.

⁶⁰ Humphrey & Schmitz, *Trust and Economic Development*, 28

Figure 8: Trust in the bazaar

Trust working *between* hawala companies (H) in the system

Trust located between hawala companies and external players

Trust working *within* each hawala company

Although not directly involved in the settlement of payments, these groups – which today include refugees and migrants, aid agencies, criminal groups, and traders – furnish the networks with an important source of liquidity, which sharpens the money men's awareness of the need to make the system appear legitimate beyond its traditionally delimited boundaries.

The most elementary form of legitimacy – 'pragmatic' – allows the public to judge an entity on the basis of what it accomplishes.⁶¹ Hence, where there is a commendable record of delivering public goods and a robust reputation mechanism in place, such as in the case of hawala in the Afghan bazaar, it is possible for generalised trust to develop in the system as a whole, and in turn encourage its persistence. This can alternatively be labelled 'consequential' legitimacy, which is in Suchman's reckoning also a sub-type of 'moral legitimacy'.

'Structural' legitimacy – another sub-type of the latter – occurs where the actors situate themselves within a larger institutional ecology that the public can evaluate and identify with, such as religion. It is possible that in a country such as Afghanistan, where Muslims comprise 99 per cent of the population,⁶² Islam would provide the hawala system with a key legitimising component, supplying it with a collective identity that could also govern the establishment and defence of its reputation.

According to Suchman's theory, the public's 'pragmatic' and 'moral' legitimacy granted to an entity has the potential to transform into 'cognitive' legitimacy, where the practice becomes accepted as necessary or inevitable based on a comprehensible cultural and historical account.⁶³ Over time, it is possible to see this play out in the case of hawala. For example, outward signals such as working from a shop in the bazaar are virtually enough to evoke the impression of trustworthiness in a hawala dealer in Afghanistan. This has been made even more acute during periods of instability where communities are forced to rely solely on local money lenders and hawaladars for their transactions.

Benjamin Cashore identifies an implicit 'durability' pendulum in Suchman's view of legitimacy, with 'pragmatic legitimacy revealed to be the least durable owing to its emphasis on short-term material interests, moral legitimacy "more resistant to self-interested

⁶¹ Scott, W. Richard, 'Effectiveness of Organizational Effectiveness Studies,' in Goodman, P.S. & J.M. Pennings (eds) (1977) *New Perspectives on Organizational Effectiveness* (San Francisco, C.A.: Jossey-Bass), 75

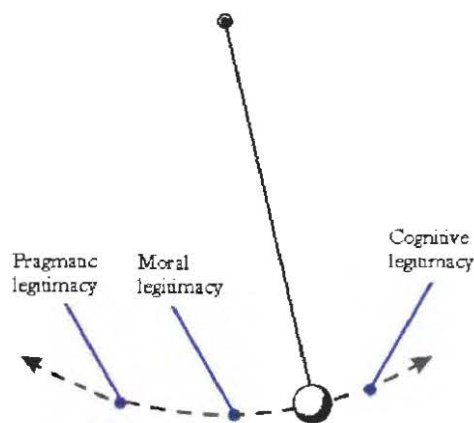
⁶² Of this population, 75-80 per cent is Sunni Muslim, while the remainder comprises Shiite followers. Pearson, Tony (2002) *The Hazara People of Afghanistan: A Century of Persecution* (Printed by the Aboriginal Catholic Ministry, Adelaide), 5.

⁶³ Suchman, 'Managing Legitimacy,' 582

manipulation”, and cognitive legitimacy asserted to be the most durable’ (see Figure 9).⁶⁴ This is helpful to the extent that it depicts the forward progression from pragmatic to cognitive legitimacy in the case of informal institutions like hawala in Afghanistan: money dealers perform functional tasks to serve the material interests of the people and hence gain ‘pragmatic legitimacy’, but through the routinisation of public service provision may garner a sense of ‘cognitive legitimacy’ over time.

The pendulum’s natural swing under the influence of gravity back to the point where the initial push is made might, however, appear problematic in light of the implication that the most durable – ‘cognitive legitimacy’ – is reversible or interchangeable with the least durable – ‘pragmatic legitimacy’. In addition, while Suchman is clear in his view of the unassailability of cognition, Cashore proposes that the ease with which pragmatic legitimacy is *granted* to a particular organisation does not automatically indicate that it is as easily *withdrawn*.⁶⁵ In this respect, while pragmatic legitimacy may have been easily granted to the hawala system in Afghanistan due to a lack of alternative or secure means to exchange and transfer funds, it is not necessarily easily withdrawn when another system enters the market because of its ‘taken-for-granted’ nature among the local people.

Figure 9: The ‘durability’ pendulum



Cashore further suggests that the durability of legitimacy may be a function as much of the *type of external audience* granting the legitimacy as of the *type of legitimacy* itself.⁶⁶ Time or degree of pressure may also be factors in understanding which type of legitimacy is stronger. For example, during the relief phase of a humanitarian intervention, the pragmatic

⁶⁴ Cashore, Benjamin (2002) ‘Legitimacy and the Privatization of Environmental Governance: How Non State Market-Driven (NSMD) Governance Systems (Eco-labeling Programs) Gain Rule Making Authority,’ *Governance* 15(4) (October): 521

⁶⁵ Cashore, ‘Legitimacy and the Privatization of Environmental Governance,’ 521

⁶⁶ *Ibid.*, 521

legitimacy granted to hawala by development practitioners may be more durable than the moral legitimacy granted by them, despite the fact that aid is purportedly driven by moral or ethical concerns, because of hawala's superior ability to facilitate funds transfers.

While it is clear that public or external legitimisation plays a potentially large role in the persistence of hawala, the high levels of cooperation and trust that are achieved *across* the boundaries of the hawala system and *between* networks in the bazaar are complemented by a third type of morality that can be found *within* each group (see the third diagram in Figure 7). Some call these exclusionary practices 'persistent parochialism', while others view social networks that forge 'within-group' trust as a product of 'mixed embeddedness', involving the interpenetration of ties of identity, socio-structural location, and the existing regulatory environment.⁶⁷ The next section considers the significance of 'mixed embeddedness' to the survival of hawala networks operating across Afghan territory in the pre-modern period. This requires a more detailed analysis of the Indian trade diaspora and the 'family firm' because of their contribution to the institutional basis of Afghanistan's hawala system.

5.3 The Indian trade diaspora and 'family firm'

American General Josiah Harlan reported in the beginning of nineteenth century that, 'wherever there is a bazaar Hindoos are a necessary part of the establishment! These people are always found amongst the buyers and sellers in all the cities of Central Asia and constitute the bankers or money changers in all commercial communities there'.⁶⁸ The Indian trade diaspora's epicentre was the city of Multan (in current day Pakistan), replaced by Shikarpur⁶⁹ at the beginning of the nineteenth century, and reclaimed by the former in the wake of Sikh conquest at the end of the century.⁷⁰ Although some of the earliest accounts of

⁶⁷ Kloosterman, Robert, Joanne van der Leun & Jan Rath (1999) 'Mixed Embeddedness: (In)formal Economic Activities and Immigrant Businesses in the Netherlands,' *International Journal of Urban & Regional Research* (June): 253-267

⁶⁸ Harlan, Josiah [1799-1871] (1939) *Central Asia: Personal Narrative of General Josiah Harlan, 1832-1841* (ed.) Frank E. Ross (London: Luzac), 65. Levi estimates that the total number of individuals involved in the Indian trade diaspora across major early modern commercial centres throughout Eurasia was in excess of 35,000. Levi, *The Indian Diaspora in Central Asia and its Trade*, 122

⁶⁹ Burnes mentions that the merchants in Kabul always spoke of Shikarpur (and Dera Ghazee Khan) as 'the gates of Khorrassan, by which name they here distinguish the kingdom of Cabul', while Masson refers to it as 'the great money-mart of Central Asia' during his travels in the 1820s. Burnes, Alexander (1839) 'On the Commerce of Shikarpoor and Upper Sindh...', (Bombay), 23; Masson, Charles [1800-1853] (1844) *Narrative of Various Journeys in Balochistan, Afghanistan, the Panjab, & Kalât, ...*, Vol. I (London: Richard Bentley), 353.

⁷⁰ Claude Markovits (2000) *The Global World of Indian Merchants, 1750-1947* (Cambridge: Cambridge University Press) and Levi, *The Indian Diaspora in Central Asia and its Trade*, 117 differ in their opinion on the interchangeability of the two cities. For more information on Multan's history,

Multanis and other Indian merchants in the Indian subcontinent appear around the mid-sixteenth century, it is unlikely that the groups mentioned in the sources were the first to establish themselves in distant commercial centres. In his impressive study on Indian merchant diasporas, Scott Levi uncovers an early fourteenth century reference to the Multanis' large-scale textile trade in the *History of King Feroz* by Zia-ud-Din Barani (1284-1356 A.D.),⁷¹ which suggests that their commercial scope extended beyond the immediate region during this earlier period.

Colonial reports indicate that cities located on key transregional trade routes across Afghan territory, such as Kabul, Kandahar, Herat, and Balkh, hosted communities of several hundred to thousands of Indian merchants.⁷² The early seventeenth century English diplomat Sir Thomas Herbert characterised Kabul's population in particular as mostly *Banias* (Indian traders), reporting further that, aside from two forts, *caravanserais* (walled shelters accommodating foreign merchants) were the only notable structures in this important commercial centre.⁷³ Several hundred years later, on a visit to Kabul, British Lieutenant-Colonel Sir Alexander Burnes of the India Company's Service detects at least eight 'great houses of agency' (Indian family firms) operated by some 300 families in the city.⁷⁴

Oliver William describes the 'firm' as the most fundamental form of social closure within the market; but when 'family' is added to the equation, some might argue that the level of internal regulation is strengthened further due to the concentration of 'dense social ties'.⁷⁵ Kinship and ethnicity can be viewed in this respect as 'a kind of "combat unit" designed for battle in the market'.⁷⁶ The literature that explores the market organisation of Indian firms is currently divided between two extremes. At one pole is the *Gemeinschaft*

see Nabi Khan, Ahmad (1983) *Multan: History and Architecture* (Islamabad: Institute of Islamic History, Culture & Civilization, Islamic University). Find distance of Multan from Shikarpur.

⁷¹ Levi, *The Indian Diaspora in Central Asia and its Trade*, 167

⁷² Further sources observe the commercial dominance of Hindu merchants in cities such as Faizabad, Ghazni, Jalalabad, Kandahar, Maimana, and Mazar-i Sharif. See Adamec, Ludwig W. (1972-1985) *Historical and Political Gazetteer of Afghanistan IV* (Graz, Austria: Akademische Druck, Verlagsanstalt), 398 & 412; Noelle, Christin (1997) *State and Tribe in Nineteenth-Century Afghanistan* (RoutledgeCurzon), 17, 63-4 & n.22, 184; Moorcroft, William & George Trebeck (1979) *Travels in the Himalayan Provinces of Hindustan and the Panjab from 1819 to 1825*, II (Karachi; New York: Oxford University Press), 413 & 451; and Hamilton, Angus (1906) *Afghanistan* (London: William Heinemann), 194.

⁷³ Herbert, Thomas [1606-1682] (1677) *Some Years Travels into Divers Parts of Africa, and Asia the Great* (London: Printed by R. Everingham for R. Scot, T. Basset, J. Wright, and R. Chiswell), 77

⁷⁴ Burnes, *Travels into Bokhara*, 145. See also Elphinstone, *An Account of the Kingdom of Caubul*, 413.

⁷⁵ William, Oliver E. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: Free Press); Granovetter, Mark, 'The Economic Sociology of Firms and Entrepreneurs,' in Portes, Alejandro (ed.) (1995) *The Economic Sociology of Immigration: Essays on Ethnic Entrepreneurship* (Russell Sage Foundation)

⁷⁶ White, 'Towards a Political Analysis of Markets,' 7

(‘community’) thesis, which characterises economic exchange in the firm as based on kinship and *redistributive* values. There is seldom a need to enforce social control here because individuals are regulated by ‘strong ties’ of family or common mores and beliefs about appropriate behaviour.⁷⁷ Scholars in the orientalist tradition claim that, while these ties can facilitate engagement in trade and survival activities, they also undermine productive investment and innovation by entrenching parochialism and limiting ties across ethnic boundaries.⁷⁸ Interestingly, the risk of not ‘widening the radius of trust’ was recently raised by the head of one of India’s largest family business groups on the occasion of the second ‘Family Business Conclave’ of the Confederation of Indian Industry.⁷⁹

At the other extreme, scholars and practitioners underline the *market-oriented* nature of the firm, which has impersonal connections and economic rational utility maximisation as the basis for business. This is more closely aligned to the *Gesellschaft* (‘society’) thesis where social cohesion derives from an elaborate division of labour and secondary relationships than from familial or community ties. Frustrated with what he believes to be an overly cultural interpretation of the firm in the first camp, Claude Markovits falls into this second category. An authority on the Indian merchant diaspora of the Sind, he uses the distinct example of the Shikarpuri trading organisations to demonstrate how the role of both caste⁸⁰ and kin relationships in diaspora commerce is exaggerated. The Shikarpuris’ trade, he contends, was primarily organised around the less familial *shah-gumāshā* (‘creditor-agent’) relationship, derived from the Islamic *mudaraba* commercial partnership. The *mudaraba* is essentially a limited liability partnership, whereby one party brings capital and the other personal effort.⁸¹ The loss, if any, is borne only by the owner of the capital, in which case the entrepreneur receives nothing for his labour.

⁷⁷ Tönnies [1887] (2001: 22) calls this a ‘unity of will’. In *Trust, Ethnicity, and Identity: Beyond the New Institutional Economics of Ethnic Trading Networks, Contract Law, and Gift-exchange* (Ann Arbor: University of Michigan Press), Janet Landa argues that ethnically delimited trading groups are best placed to lower transaction costs in exchange because of their membership in ‘optimal trust clubs’.

⁷⁸ For one of the most extreme views in this regard, see Julius Boeke who developed the idea of the ‘dual economy’ that distinguished Eastern ‘pre-capitalism’ from ‘the capitalism of the West’ (Boeke, Julius H. (1953) *Economics and Economic Policy of Dual Societies, as exemplified by Indonesia* (New York: International Secretariat, Institute of Pacific Relations), 12-14).

⁷⁹ Harriss, John (2003) ‘Widening the Radius of Trust’: Ethnographic Explorations of Trust and Indian Business,’ *Journal of Royal Anthropological Institute* 9: 756

⁸⁰ Levi argues that the caste system provided Indian merchants with a crucial way of compartmentalising ethics surrounding the problem of usury. He comments, ‘although commercial techniques developed to circumvent the prohibition on usury, there was still residual immorality associated with moneylending for profit’. Hence, the early Indian religious and legal texts that validated the practice of lending money for interest among certain Indian communities were helpful in managing this. Levi, *The Indian Diaspora in Central Asia and its Trade*, 189

⁸¹ The proportionate share in profit is determined by mutual agreement (Islamic Banking Glossary, accessed in January 2006 at <<http://www.albaraka.com.pk/glossary.html>>).

Markovits explains that the *shah-gumāshṭā* system was organised in such a way that ensured a regular supply of capital for long-distance commercial ventures.⁸² Shikapuries would leave their native town with a partnership agreement, as *gumāshṭās*, while the main capitalists would spend most of the year in the network centre.⁸³ There was no limit to the potential number of partnerships a trader could enter into – the system simply replicated itself as men who had begun as *gumāshṭās* started their own businesses in other towns, becoming the principle *shah* to further budding agents. This resulted in an intricate and shifting web of networks that stretched across the subcontinent's many regions, towns, and cities and enabled effective communication of information about political developments and newly emerged or untapped markets to directors of the firm.⁸⁴

While the *mudaraba* concept can indeed describe the above set of partnerships, it does not satisfactorily explain the firm's internal form of business association, which I argue comprises a series of *unlimited* liability partnerships. This is closer to the *mufawada* partnership, in which each partner delegates mutual responsibility for buying and selling. Concerning the partners in such an arrangement, Kasani, a twelfth century Islamic jurist, declares: 'They are in reality two persons, but from the standpoint of the principles of commerce, they are like a single person'.⁸⁵ Much like the Western concept of a corporate entity, the *mufawada* partnership illustrates well how the identities of individual members in a financial network collapse under the weight of the firm's overall objectives. It could be argued that this form of partnership is better suited to describing the relations at the network's centre, while the limited partnerships of the *mudaraba* adequately reflect the mechanics of the centre's relationship with its distant outposts. Hence a compromise of sorts can be reached between the opposing supporters of the *Gemeinschaft* and *Gesellschaft* theses.

An important aspect of the family firms was their ability to defy political boundaries and the limits prescribed by changing regimes – in this respect, their approach can be likened to that of the people in Scott's anthropological history of Southeast Asia: 'the economic, political, and cultural organisation of such people is, in large part, a strategic adaptation to avoid incorporation in state spaces'.⁸⁶ The Indian firms ensured that their merchants circulated regularly⁸⁷ and employed the use of the *hundī*, or bill of exchange, which enabled

⁸² Markovits, *The Global World of Indian Merchants*, 159

⁸³ *Ibid.*, 291

⁸⁴ Levi, *The Indian Diaspora in Central Asia and its Trade*, 121

⁸⁵ Al-Kasani (1910) *Bada'i' al-Sana'i' fi Tartib al-Shara'i'* Vol. VI (Cairo), 73

⁸⁶ Scott, 'Introduction'

⁸⁷ Markovits, *The Global World of Indian Merchants*, 292. See discussion in Chapter 4.

inter-market transactions and network communication across borders and between firms.⁸⁸ While the importance of diversifying the bankers' portfolio cannot be forgotten, some argue that the prosperity of a firm in fact relied on its ability to issue negotiable commercial instruments and have them tendered by other unaffiliated agencies.

As was discussed in Chapter 4, it is a less straightforward task that at first meets the eye. Hawala operates in essentially the same spirit as the *hundi* transactions, where each participant stands in a 'constantly shifting position of debit and credit with respect to each of the other members' in the network'.⁸⁹ Development economists discover a 'rich field of micropolitics – of authority, control, cooperation and domination' at the centre of these networks and family firms⁹⁰ where, at least in the case of Jain mercantile practice in India, issues such as gender, social position, reputation and 'the moral and religious as well as the business conduct of all [a family firm's] members' play an essential role.⁹¹ Marriage and alliances, by way of example, are important both to the Jains' social standing and as a basis for capital accumulation. While women were important influences on the business, they were never drawn into the firms in an active role. It was the relations between *men* that regulated the basic social structure of accumulation in the firm. This is applicable to today's hawala businesses where highly centralised decision-making by senior male members of the family determines the division of labour for the cooperative control of the business, while tasks such as accounting, diversification of economic assets and the negotiation of deals tend to be matched to the skills of each individual.

Reinforcing the strategic role of factors such as gender and kinship within Indian family firms, Barbara Harriss-White cites a comment made by Richard Fox on the Tezibazaar *baniyas*, that these are 'business families' as well as 'family businesses'.⁹² This offers an interesting perspective on the *Gemeinschaft* versus *Gesellschaft* theses – it indicates that a balance can be struck between the two. For example, while kinship relations are used as a strategy to develop business, just like any other market instrument, they also provide unique communitarian ideals that further cement trust within the firm. The models of

⁸⁸ See Hanifi, 'Impoverishing a Colonial Frontier,' 215. For contemporaneous descriptions of how *sarāfs* drew bills on the merchants' *gumāshṭās*, see Sujān Rāi Bhandārī [1695-6] (1987) *Khulāsat ut-Tawārīkh* (ed.) Zafar Hasan (Delhi), and Ibn Mubarak, Abu al-Fazl [1551-1602] (1989) *The Akbarnamah of Abu-l-Fazl*, (trans. from Persian) H. Beveridge, Vol. III, Reprint (Delhi; Calcutta: Asiatic Society of Bengal, Printed at the Baptist Mission Press), 1139.

⁸⁹ Ballard, Roger (2005) 'System Security in Hawala Networks: An Analysis of the Operational Dynamics of Contemporary Developments,' CASAS Papers (University of Manchester), 8

⁹⁰ White, 'Towards a Political Analysis of Markets,' 7

⁹¹ Laidlaw, James (1995) *Riches and Renunciation: Religion, Economy, and Society Among the Jains* (Oxford: Clarendon Press), 355-6

⁹² Fox, Robert (1969) *From Zamindar to Ballot Box* (Ithaca: Cornell University Press), 143 cited in Harriss-White, Barbara (2005) 'India's Socially Regulated Economy,' Queen Elizabeth House Working Paper 133 (June): 6

Giancarlo Spagnolo and Masahiko Aoki capture this idea in rational economic terms through the concept of ‘linked games’.⁹³ Spagnolo looks at a situation where pairs of players are engaged in two simultaneous games, ‘the production game’ and ‘the social game’ and suggests that cooperation in one area of exchange can be supported by a threat of ostracism in another area of exchange because there is a ‘slack of enforcing power’ in the social game. Participation in the ‘social game’ also opens up the possibility for engendering a widespread belief in the public that the organisation is ‘morally legitimate’, in that it shares its values and operates beyond the narrow provision of a common good. Unlike pragmatic legitimacy, moral legitimacy reflects a positive normative evaluation of the organisation and its activities and rests on judgments about whether its outputs, techniques, structures, and representatives are appropriate.⁹⁴

In the case of ‘structural legitimacy’ – the aforementioned subset of ‘moral legitimacy’ – audiences see the organisation as valuable and worthy of support because its structural characteristics locate it within a morally favoured taxonomic category. Accordingly, Meyer and Rowan assert that institutionally prescribed structures convey the message that an organisation ‘is acting on collectively valued purposes in a proper and adequate manner’.⁹⁵ Where the strategies and goals of hawaladars are less visible targets of evaluation, these kinds of structures become easily monitored proxies. The hawaladars therefore have the option of locating their networks within a larger institutional ecology that attracts public confidence. The adoption or display of religious rituals is certainly one way of engendering such moral legitimacy.

During the reign of the Delhi Sultanate, religious conversion also won local merchants legitimacy in the eyes of the fresh line of Muslim rulers, which in turn bred real material incentives. Some scholars caution against prescribing too much importance, however, to the epistemological shift within some of the trading networks:

It may be said that the [Indian] agrarian system which we find in operation in the fourteenth century was, in its essential features, in harmony with the law of Islam, and also with the Sacred Law of Hinduism, so that the (Islamic) conquerors had little more to do than

⁹³ Spagnolo, Giancarlo (1999) ‘Social Relations and Cooperation in Organizations,’ *Journal of Economic Behavior and Organization* 38(1): 1-25; Aoki, Masahiko (2001) *Toward a Comparative Institutional Analysis* (Cambridge; London: MIT University Press)

⁹⁴ Suchman, ‘Managing Legitimacy,’ 579

⁹⁵ Meyer, J.W. & B. Rowan, ‘Institutionalized Organizations: Formal Structure as Myth and Ceremony,’ in Powell & DiMaggio, *The New Institutionalism in Organizational Analysis*, 50

give Arabic or Persian names to the institutions which they found in existence, and even this process was not carried out consistently.⁹⁶

While Islamic principles commit Muslims to a code of ethical commercial and personal behaviour that affects both the structuring and financing of business affairs, Moreland is correct to point out that conversion to Islam was not as great an adjustment as it might have first appeared. Examples in the literature certainly demonstrate the flexibility with which Arabs, Jews, Armenians, and Hindus – the traditional money dealers – viewed their conversion and the historically syncretic creed that pervaded the bazaar. While the first record of Muslim traders in India appears within twenty years of Mohammed's death in 632 A.D. when the Arathali temple was converted into the first *Jama Masjid* (Friday Mosque) on the Malabar Coast, it is worth noting that it took centuries before Afghanistan and the eastern half of the Indian Ocean were drawn decisively into the Muslim sphere.⁹⁷ As the name of India's southwest coastline suggests – Malabar, which comes from the word *ma'abar*, Hebrew for 'crossing-place' or 'transit' – Indian ports had accommodated a mêlée of Middle Eastern traders (Jewish, Arab, and Armenian) wishing to exchange goods with merchants from far-eastern territories, such as China, for hundreds of years prior to the arrival of Islam. The expansion of Middle Eastern trade along the west coast of India could thus be seen to have involved a shift simply in the identity of traders from Hindu and Buddhist *Indians* to Arab, Persian, and Indian *Muslims*.⁹⁸

It appears from the brief analysis of gender, kinship, and religion above that a combination of cultural and rational economic principles, or 'mixed embeddedness', defines the arrangement of the family firm (which can also be translated to other cultures).

5.4 Conventional wisdom unravelled

This chapter has reinforced the view of the previous discussion that hawala networks are 'a product of institutional development involving the progressive adaptation of indigenous economic institutions to socio-economic and political change' from the ancient to modern period.⁹⁹ Their ability to survive and indeed thrive despite the pressure of foreign

⁹⁶ Moreland, William Harrison (1929) *The Agrarian System of Moslem India: A Historical Essay with Appendices* (Cambridge: W. Heffer & Sons), 17-18

⁹⁷ See Jha, Saumitra (2005) 'Trade, institutions and religious conflict in India,' Draft paper for the Laboratory in Comparative Ethnic Processes graduate workshop, Stanford University, 7; Risso, Patricia (1995) *Merchants and Faith: Muslim Commerce and Culture in the Indian Ocean* (Boulder; San Francisco; Oxford: Westview Press), 29. It was not until the Mughal empire (1526 - 1707) that Muslim rule officially dominated in India.

⁹⁸ Risso, *Merchants and Faith*, 24

⁹⁹ Meagher, Kate (2004) *Identity Economics: Informal Manufacturing and Social Networks in South-Eastern Nigeria*, Thesis (D.Phil) University of Oxford, 56

interventions is reflective of this institutional development. Most importantly perhaps for the discussion of hawala within the contemporary context is the legacy of negotiated connections forged with ruling elites over time, in addition to the external signals employed to generate legitimacy from outsiders.

It is helpful to take note of one area in which external parties or interveners have made headway on an ideological front. While hawala networks have displayed a de facto ability to supersede the economic function of powers operating across Afghan territory, their status as legitimate sources of market authority began to be challenged with the arrival of Europeans to the Indian subcontinent. Existing economic and political systems were 'informalised' and delegated at least in theory to the inferior sphere of 'pre-capitalism'. This was in spite of British India's official recognition of the bazaar in practice.¹⁰⁰ Therefore, what had existed for centuries as the dominant commercial practice was suddenly deemed 'uncivil' and in need of the 'rationalising' influence of 'Western' capitalism. This has important implications for the study's exploration of the contested terrain between local and externally imposed strategies for economic recovery.

The following three chapters provide an extension of the analysis conducted here regarding hawala and the politics of survival in the face of such challenges. They turn to the contemporary context and the linkages formed in response to the pressure and opportunities arising out of war, migration, organised crime, economic globalisation, and the transition to a 'peace' economy.

¹⁰⁰ The largest indigenous bankers regularly reported the monthly bazaar rates to official monetary authorities. During the colonial period these were published annually by the Controller of Currency and from 1935 by the Reserve Bank of India (Ray, 'Asian Capital in the Age of European Domination,' 551).



PART III

LINKAGES



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6 Ritual and Rationality

In a meeting with several leading financial crimes experts in the British Government, the following question was put to the author: ‘if you could sum up how the hawala system operates, would you say it is 60 per cent strictly economic, and 40 per cent culturally determined, or the other way around?’¹ While such a proposition is likely to grate on the ears of those attempting to deconstruct the rarefied categories of conventional economic analysis, the question is useful in that it sets the ‘hawala’ problem facing regulators and development practitioners today rather forcefully; namely, how to approach such a complex, non-Western system of economic governance. It also touches on the the major point of disjuncture raised in Chapter 2 between ‘universalist’ and ‘participatory’ perspectives to post-conflict reconstruction; whether cultural considerations are important for the recovery of socio-economic institutions.

The preceding chapter’s exploration of the institutional practices or ‘legacies’ embedded in Afghanistan’s hawala system established the groundwork for a more dynamic perspective of hawala than the typically static assessments of solidarity and path dependence that exist on the subject. Its findings suggest that it is advisable to incorporate the above duality, as perceived by the financial crimes experts, into a larger picture that highlights the ways in which cultural and economic factors are *combined* in the hawala system to assist its survival in response to changing circumstances. Jens Beckert’s theoretical reworking of ‘intentional rationality’ argues that both ‘instrumental’ and ‘value’ forms of rationality are entwined within a local system of meaning, which determines how economic actors interpret and respond to a contingent situation rather than make decisions from the background of a purely instrumental calculus.² Theories such as this are useful in the context of Afghanistan

¹ Meeting with the Serious Organised Crime Agency, British Home Office, London, September 2006. SOCA was established in April 2006 to bring together the National Criminal Intelligence Service, the National Crime Squad, the investigative and intelligence work of Her Majesty’s Customs and Excise on serious drug trafficking and the recovery of related criminal assets, and the responsibilities for organised immigration crime.

² Beckert, Jens (2000) ‘Economic Action and Embeddedness: The Problem of the Structure of Action,’ Center for Culture, Organization, and Politics Working Paper 2000-01 (University of California, Berkeley), 10

where internecine political strife has necessitated a high level of flexibility within local groups, particularly over the past three decades. It is argued here that only once a better picture of the Afghan money dealer's local system of meaning is formed will it be possible to appreciate the significance of 'linkages' forged by hawala operators.

In an extension of the previous discussion, this chapter analyses the implications of the progressive replacement during the mid-1990s of the Hindu-Sikh minority dealers by the Pashtun majority within Afghanistan. Contrary to the common perception in policy and IR discourse that the rupture of state institutions leads to a vacuum of political and economic power, the discussion also tests how local order can in fact persist and undergo transformation under conditions of war and political instability.³

The chapter begins with a brief survey of war and the causes of forced or voluntary migration within Afghanistan. This leads to an overview of the construction and instrumentalisation of ethnicity and its impact on the contemporary restructuring strategies of hawala networks. In assessing the transfer of power to Pashtun currency exchange dealers within the contemporary system, the analysis makes use of prevailing cultural stereotypes that exist in the literature on Pashtun character. The chapter concludes with an analysis of inter-ethnic cooperation and the presence of anonymous and face-to-face trust during the transition to peace.

6.1 War and migration

It is difficult to imagine Afghanistan without raising the spectre of war. The destruction of roads, buildings, and countryside by heavy mortar shelling and gunshot certainly bear witness to its more recent ravages. On Abdul Shakoor's return to his homeland after over two decades of asylum in Australia, he recorded his first impressions in the following journal entry:

Today we got taken to JUNGALAK, it was our old house on the outskirts of Kabul. It was my birthplace, my parents' house, my grandparents' house, there were so many stories that have come from that place. As we entered the place memories started to come back. The apple tree that I used to pick, the balcony that I fell from, the window that my dad threw the

³ This finding is in line with recent political economy literature that stresses how networks are 'adjusted by war' (Goodhand 2005:210; Ballentine, Karen & Heiko Nitzschke, 'The Political Economy of Civil War and Conflict Transformation,' in (2004) *The Berghof Handbook: Transforming Ethnopolitical Conflict* (Wiesbaden: VS Verlag), 16-19; Keen 1998; Le Billion 2000; Duffield 2001; Chesterman, Simon, Michael Ignatieff & Ramesh Thakur (eds) (2004) *Making States Work: From State Failure to State-building* (New York: International Peace Academy).

heater in flames out of. As we walked through it, I couldn't believe the devastation that had occurred; the electricity wires had been stripped off the walls, doors, taps, windows and switches had been ripped off the hinges, anything of value was stolen. Bullet holes decorated every single room, nook and cranny. Three missiles had gone straight through the house leaving craters two metres wide; the roof was only holding on by a few nails. The exterior and yard was also littered by bullets, some of them still indented in the mud brick wall.⁴

Ordinary Afghans live with daily reminders of the layer upon layer of protracted conflict that has been imposed on their country to a large extent by outside forces. Photographer Simon Norfolk provides an evocative montage of this destruction as he finds evidence of the Soviet invasion of the 1980s in the abandoned tanks and troop carriers that 'litter the countryside like agricultural scrap' or appear as footings for embankments and bridges, 'poking from the earth like malevolent fossils'; fighting in the early 1990s among *mujahideen* factions, which brought major destruction to Kabul, in 'skeletons' for buildings; and the latest US and British aerial bombardment in 'twisted metal and charred roof timbers'.⁵



Source: Fieldwork photograph, Kabul, January 2005.

⁴ Shakoor, Abdul (2002) 'Diary entry: Saturday, 8 June' (Kabul). I am deeply indebted to Abdul Shakoor for sharing his diary with me and allowing parts of it to be transcribed in the thesis.

⁵ Norfolk, Simon (2002) 'Afghanistan: Chronotopia,' accessed in November 2006 at <http://www.cofc.edu/halseygallery/PalimpsestAfghanistan/sn_chronotopia.htm>. Norfolk's observations of Afghanistan's accumulated ruins are reflected further in his landscape photography taken in commemoration of the one-year anniversary of 9/11.

The main factions that dominated political and military activity in the 1990s were led by self-elected members of one of the four major ethnic groups recognised in Afghanistan today: Pashtuns, Tajiks, Uzbeks, and Hazaras.⁶ Conrad Schetter explains that the leaders used ethnicity as a basis for mobilisation of support and as an instrument of political demands. Ethnic cleansing of minorities that occurred between 1992 and 2001 in Kabul, the Shomali plains, Hazarajat, and Mazar-e Sharif, reinforced the boundaries between ethnic groupings and helped to instil fear that the survival of one group was endangered by the opposing presence of another.⁷

The indeterminacy of the 'ethnic' concept should be noted for it goes some way to explaining the way in which it can be used as an instrument for advancing personal agendas, particularly in the context of war. Questions surrounding Tajik ethnic identity provide a pointed example of the divergence in opinion that the subject provokes in the academy. At one extreme Schetter argues that the term 'Tajik' was used in social interactions only in a negative sense for a person who did not belong to one of the other major social categories, such as Pashtun or Hazara.⁸ From this view, the 'Tajik' concept thus implies an 'anti-ethnic' notion by its very nature, as it was attached to the residual group of all Sunni, Persian-speaking Afghans without a tribal background.

Scholars like Nazif Shahrani would alternatively argue that such an attitude is symptomatic of the success that the Afghan elites' longstanding 'ethnic policy of oppression and internal colonialism' has had on people's perception and subsequent underestimation of ethnic minorities in Afghanistan, particularly in the North: 'Indeed, from 1930 to about 1980, for nearly half a century, the identity, social visibility and cultural presence of Central Asian exiles ... and those of their northern co-ethnics, the Uzbeks and Tajiks, diminished in Afghan national political life'.⁹ In support of his claim, Shahrani refers to the systematic settlement of Pashtun tribesmen from the southern frontier areas in Afghan Turkestan that began in the 1930s, and goes on to argue that in the face of land appropriations, demographic aggression, and the destruction of considerable local cultural heritage, the victimised groups adopted a strategy of self-censorship and minimised expressions of their personal and cultural differences.¹⁰ Some argue that this self-censorship and purposeful undermining of

⁶ While the breakdown of Afghan identity into ethnic categories is valid in some instances, such a classification is not sufficient in other areas where geographical, sectarian, and other indicators are equally important factors. We will return to this point at the end of this chapter.

⁷ Schetter, 'Ethnicity and the Political Reconstruction in Afghanistan,' 4

⁸ *Ibid.*, 2

⁹ Shahrani, M. Nazif (2000) 'Resisting the Taliban and Talibanism in Afghanistan: Legacies of a Century of Internal Colonialism and Cold War Politics in a Buffer State,' *Perceptions: Journal of International Affairs* 4: 121-140

¹⁰ *Ibid.*

minority groups in Afghanistan has surfaced only in recent times because of the dominant 'fiction of national homogeneity' that has been espoused since the foundation of the modern state under the Durrani Pashtuns.

The 'Pashtun'¹¹ label (or 'Pakhtun' and 'Pukhtun' in Pakistan, originally meaning modesty, shame, or integrity) is a term that has long been almost synonymous with the concept of 'Afghan' identity. While it is clear from the literature on minority groups that such a label far from represents the entirety of the Afghan population,¹² the tendency to subsume all dominant groups with a tribal background under this label is also grossly misleading. The Ghilzai Pashtuns who were victim to the brutal state-building efforts in the late nineteenth century would testify to the fault lines that divide tribes. The important point to consider in the context of emerging Pashtun dominance in the hawala business, however, is that Pashtun identity is profoundly linked to elite politics¹³ and the distrust wrought by several hundred years of sectarian division.

6.1.1 Refugee flows

Against the background of mounting ethnic instrumentalism in the more recent past, each new conflict has been the cause of major cross-border movements in the region; in fact, within the space of only two decades, Afghanistan became the world's largest producer of refugees. By the end of 2005, 1.9 million Afghan refugees were reported by 72 asylum countries, constituting 23 per cent of the global refugee population.¹⁴ Today, the United Nations High Commission for Refugees (UNHCR) officially recognises the same number (see Table 1).

It is now widely understood, however, that current refugee figures for Afghanistan fall well short of the actual number. This is partly because official statistics for Pakistan are

¹¹ This is the native pronunciation which is now favoured in the literature. Ahmed, Akbar S. (1977) *Pieces of Green: The Sociology of Change in Pakistan (1964-1974)* (Karachi: Royal Book Company), 112

¹² Hanifi suggests that 'it is likely that non-Pakhtuns comprise the majority of the people of the country,' in (2004) 'Editing the Past: Colonial Production of Hegemony through the "Loya Jerga" in Afghanistan,' *Iranian Studies* 37(2): 306. For a landmark study on the Hazara people, see Mousavi, Sayed Askar (1997) *The Hazaras of Afghanistan: An Historical, Cultural, Economic and Political Study* (Palgrave Macmillan); for a study of how Uzbeks mobilised along ethno-political lines in recent conflict, see Rasuly-Paleczek, Gabriele (1998) 'Ethnic Identity versus Nationalism: The Uzbeks of North-Eastern Afghanistan and the Afghan state,' in Atabaki, Touraj & John O'Kane (eds) *Post-Soviet Central Asia* (London: Tauris Academic Studies).

¹³ Hanifi argues that the rulers of Afghanistan over the centuries have co-opted Pashtun identity and accompanying symbols of tribal identity such as the *jirga* in order to legitimise their domination and intimidation of non-elites. Hanifi, 'Editing the Past,' 295-322

¹⁴ UNHCR (2006a) *2005 Global Refugee Trends: Statistical Overview of Populations of Refugees, Asylum-Seekers, Internally Displaced Persons, Stateless Persons, and Other Persons of Concern to UNHCR* (9 June) (Geneva: UNHCR), 4.

based only on those registered with the UNHCR in camps; UNHCR recently conceded that a 2005 government census of Afghans in Pakistan, and subsequent repatriation movements, suggest an additional 1.5 million Afghans, some of whom may be refugees, live outside those camps.¹⁵ In addition, Leila Jazayery notes that ‘there have been large influxes of refugees that remain undocumented either because of unwillingness to be identified for fear of being repatriated, or the incapacity or unwillingness of UNHCR and host governments to offer assistance to new waves of refugees’.¹⁶ Beyond the accuracy of official statistics, the critical point worth noting is that *one in every two Afghans* has experienced massive social dislocation *at least once* in their lifetime.¹⁷

Table 1: Origin of ten largest refugee populations – 1 January 2006

Origin	Main Countries of Asylum	Total ¹
Afghanistan	Pakistan / Iran / Germany / Netherlands / UK	1,908,100 ²
Sudan	Chad / Uganda / Kenya / Ethiopia / Central African Rep.	693,300
Burundi	Tanzania / DR Congo / Rwanda / South Africa / Zambia	438,700
DR Congo	Tanzania / Zambia / Congo / Rwanda / Uganda	430,600
Somalia	Kenya / Yemen / UK / USA / Ethiopia	394,800
Viet Nam	China / Germany / USA / France / Switzerland	358,200
Palestinians	Saudi Arabia / Egypt / Iraq / Libya / Algeria	349,700 ³
Iraq	Iran / Germany / Netherlands / Syria / UK	262,100
Azerbaijan	Armenia / Germany / USA / Netherlands / France	233,700
Liberia	Sierra Leone / Guinea / Côte d'Ivoire / Ghana / USA	231,100

Source: Adapted from UNHCR (2006b).

¹ This table includes UNHCR estimates for nationalities in industrialized countries on the basis of recent refugee arrivals and asylum-seeker recognition.

² See the above comment regarding figures for Pakistan. The figure for Iran has been revised upwards since 1 January.

³ This figure does not include some 4.3 million Palestinian refugees who come under the separate mandate of the UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

As the summary in Table 2 demonstrates, the first wave of refugees left Afghanistan in 1978 after the takeover of power by the Marxist PDPA government, while the arrival of Soviet troops in 1979 sparked a mass exodus of people into neighbouring countries. This

¹⁵ UNHCR (2006b) *Refugees by Numbers 2006 Edition* (Geneva: UNHCR), 8

¹⁶ Jazayery, Leila (2002) ‘The Migration-Development Nexus: Afghanistan Case Study,’ *International Migration* 40(5): 240

¹⁷ Ask Bill for citation.

included many of the landed rural and educated urban elites whose positions were insecure with the new regime.¹⁸ From Pakistan and Iran, a large number of this first group then moved on to the Middle East, Europe, and the United States, but the majority of refugees remained closer to home. By the 1980s, there were some three million Afghan refugees in Pakistan and Iran, soaring to a peak of over six million by the Soviet withdrawal from Afghanistan in 1989.

Table 2: Number of Afghan refugees between 1979 and 2007

1978	---	Marxist coup
1979	0.6m	Soviet occupation of Afghanistan
1983	3.9m	Civil war intensifies as mujahideen receives arms
1987	5.1m	Babrak Karmal is replaced by Najibullah
1988	5.9m	Geneva Accord calls for withdrawal of Soviet troops
1990	6.2m	Peak of refugee outflow as Najibullah remains in power
1992	6.0m	Najibullah government falls
1992-1997	2.7m	Mujahideen in power; up to 4m refugees return
1997-2001	3-5m	As the Taliban captures most of the country, many new refugees flee.* Plus 1m internally displaced persons in Afghanistan
2006	3.5m	Since major repatriation operations to Afghanistan resumed in 2002, more than 4.8 million Afghans have returned, mostly from Pakistan and Iran. Another 0.5m internally displaced people have gone back home. However, approximately 3.5 million Afghans still remain in the two neighbouring countries alone.

Source: Adapted from UNHCR (2001) & (2007).¹⁹

*There is a vast gap between official and unofficial numbers here.

Jazayery observes that, although large-scale repatriation was expected with the Soviet withdrawal in 1989, the unanticipated survival of the Najibullah regime into 1992 meant that not only did the refugees fail to return but numbers reached probably their highest level. While refugees did begin to return once the *mujahideen* took control of government in 1992, this trend was short-lived as the outbreak of fighting between rival *mujahideen* groups deterred many other aspiring returnees. Throughout the early 1990s, there were relatively regular cross-border movements of people as some refugees whose homes were not under

¹⁸ Pain & Goodhand, 'Afghanistan: Current Employment and Socio-Economic Situation and Prospects,' 14

¹⁹ UNHCR (2001) 'Crisis in Afghanistan' (Geneva: UNHCR); UNHCR (2007) 'Return to Afghanistan' (25 February) accessed in February 2007 at <<http://www.unhcr.org/cgi-bin/texis/vtx/afghan?page=intro>>

direct attack returned, while new refugee movements were created as the fighting shifted across Afghanistan.²⁰

The arrival of the Taliban, following the retreat of the Rabbani government in September 1996, sparked similar patterns of displacement and repatriation. But large-scale massacres carried out by the Taliban in Mazar-e Sharif, Bamiyan city, Yakaolang, and Shomali in 1998-2000, together with the worst drought to hit Afghanistan for thirty years, took the number of refugees once again to levels witnessed in the mid-1980s and early-1990s during the conflicts in Kabul.²¹ By June 2001, all regions of the country, with the exception of the South, included active conflict zones and the 850,000 newly displaced people represented three times the number seen in 1999.²²

During this period, large segments of the population were forced into unemployment²³ and had to abandon their professions due to the impact of drought, instability, and deprivation of human rights. The money exchange business grew rapidly in popularity as people learnt that it offered the potential for subsistence and even substantial profit, despite the devastating and corrosive impact of war and displacement. Whether due to flight from persecution or out of search for work, Pakistan became the country of choice for a significant proportion of the Afghan male population seeking employment in this field. This was in part to cater for the large diaspora population in Peshawar which, without access to the formal banking system, required a trustworthy method for the transfer of funds to and from relatives and friends.²⁴

Iran has also played an important role in providing a sanctuary for Afghan refugees. In contrast to Pakistan, however, there has been comparatively little international assistance and no large refugee camps. The dispersion of almost 2 million refugees in small pockets across border towns and in the capital Tehran clearly made it more difficult to create a sense of community amongst the refugees. This factor, in addition to the importance of people

²⁰ Marsden, Peter, 'Repatriation and Reconstruction: The Case of Afghanistan,' in Black, Richard & Khalid Koser (eds) (1999) *The End of the Refugee Cycle? Refugee Repatriation and Reconstruction* (New York & Oxford: Berghahn Books), 57. By the end of 1995, an estimated 2.4 million refugees had returned to Afghanistan from Pakistan, and 1.2 million from Iran. UNHCR (1997) 'Focus: Afghanistan,' *Refugees* 108 (Geneva: UNHCR), 2

²¹ United Nations Security Council (2001) 'Report of the Secretary-General on the Humanitarian Implications of the Measures imposed by Security Council Resolutions 1267 (1999) and 1333 (2000) on Afghanistan,' UN Report S/2001/695 (13 July); Jazayery, 'The Migration-Development Nexus,' 233 & 240

²² UN Report S/2001/695

²³ Between 1999 and 2001, 100,000 public sector workers lost their jobs. The unemployment rate in Faizabad reached 66 per cent, and even prosperous Herat had 36 per cent unemployment (*ibid.*).

²⁴ The importance of this emerging, but constantly shifting, refugee and migrant population will be explored in more detail in Chapter 7.

smuggling to the movement of refugees into Iranian territory, heightened the problem of trust in an already insecure environment.

At Kabul University, Professor Saihoon's description of the structure of smuggling networks from Northern Afghanistan to Iran revealed much about the precarious predicament of these people during episodes of war. He explained that, at least in the past, an initial contact or 'guide' escorted people in groups of ten from the beginning of their journey to the Iranian border; another person connected to the smuggling ring might then take over and help the illegal migrants find jobs, mainly in masonry or cleaning, and reappear maybe once or twice again with more arrivals. Commonly, migrants have entrusted the smuggler with money intended for relatives in the home town:

'... but the money isn't delivered. They make business. The migrant people are uneducated and know no better. They don't know where to look for hawala dealers. It doesn't work as well as it does in Pakistan because the networks of people are scattered and they're unable to pool resources and generate community. USD 10,000 or 20,000 was lost at any one time because of undelivered promises.'²⁵

Professor Saihoon could recall several notable cases where families lost entire fortunes, particularly during the *mujahideen* struggle. There were also cases of money being swindled in Central Asian countries, such as Tajikistan and Uzbekistan:

'What people didn't realise is that these people were smugglers, *not* hawala dealers. One friend lost 30,000 roubles in Uzbekistan. He sent it through Saigon Ltd in the district of Badakhshan. When his relatives tried to find the company in Faizabad, it didn't exist. The same often happened to other people.'²⁶

It would often take months, or sometimes up to a year, before a family might discover their loss due to the difficulties of staying in touch. The situation was not helped by the fact that migrants continued to rely on those closest to them, such as people from the same village, without suspecting that they would be vulnerable to exploitation at a time when traditional institutions and trust networks were being eroded through war.

²⁵ Interview with Professor Saifuddin Saihoon, Head of Department of Economics, Kabul University, May 2005.

²⁶ *Ibid.*

6.1.2 Migratory flows

It should not be forgotten that, due to being a landlocked country with limited economic opportunities, migration and the broader ability to cross borders has long been a vital factor in the economic survival, subsistence, and prospects of people within Afghanistan. The following overview outlines briefly the directions and material outcomes of some of the major pre-war migratory flows.

Before the political upheavals of 1978 - 2001, and the attending mass displacement of people, there is ample evidence to suggest that countries neighbouring Afghanistan hosted large numbers of transient migrants. In Iran, for example, Barnett Rubin estimates that there were already several hundred thousand Afghan labour migrants before the Soviet occupation, and that in the 1970s, Afghans working in Iran or the Gulf states remitted USD 100 - 300 million per year.²⁷ Currently, the average amount of financial remittances received by households with a family member in Iran is USD 500 - 1,500 per year. Although small in number per transaction, the remittances amount to a large inflow of funds to the country in aggregate.²⁸ On the information made available during fieldwork, it appears that the inflow of funds remitted to Afghanistan from abroad is approximately USD 1 - 1.5 billion, which includes regular remittances from migrants and refugees in Pakistan and Iran, and irregular foreign direct investment from the diaspora.²⁹

The combination of regular remittances to Afghanistan and fluid cross-border movement prompted Monsutti to observe during his anthropological fieldwork among the Hazara people that migration in the Afghan context 'cannot be one-sidedly defined as something forced'.³⁰ Instead, even during war, migration can involve strategic, dynamic processes that include the diversification of networks and at times a right of passage to adulthood.³¹ This certainly appeared to be the case with several groups of Afghans who saw

²⁷ Rubin, *Fragmentation of Afghanistan*, 62-75. See also Fry, Maxwell (1974) *The Afghan Economy: Money, Finance, and the Critical Constraints to Economic Development* (Leiden: E. J. Brill), 135-62. The Middle East oil boom in 1973, with its associated prospects for employment, was the main catalyst for significant outflows of both the newly educated and growing rural populations before the wars. Severe drought was also a contributing factor to rural migration.

²⁸ Some commentators have been so bold as to suggest that remittances to Afghanistan are considerably larger and much better distributed through the hawala system than much of the humanitarian aid that enters the country (see, for example, Stigter, Elca & Alessandro Monsutti (2005) 'Transnational Networks: Recognising a Regional Reality,' *Afghanistan Evaluation and Research Unit* (Peshawar: AREU).

²⁹ Iran accounts for a range of between USD 250 and 750 million with its estimated 500,000 transitory labour migrants moving back and forth across the Afghan border. These are only estimates, however, and should be viewed with caution.

³⁰ Monsutti, *War and Migration*, 34

³¹ *Ibid.* As noted in Chapter 3, Monsutti records that young Hazara males migrate as an expression of personal autonomy and to aid the construction of their masculinity before marriage.

an economic opportunity in the outpouring of Afghan refugees and asylum seekers, particularly from the 1980s onwards. Prior to this time, money transfers took place predominantly in the hands of the Hindu and Sikh minorities.³² The following section explores the reasons behind the progressive departure of these groups, and the implications of their replacement by the Pashtun majority.

6.2 Ethnicity

6.2.1 Exit of Hindu-Sikhs from the money markets

Hindus and Sikhs represented roughly 1 per cent of the population, or about 200,000 people before the Soviet occupation in Afghanistan.³³ This figure dwindled to around 4,000 after the Taliban regime.³⁴ In some cities, such as Jalalabad to the East, the number of Sikh and Hindu families dropped from 4,000 Sikhs and 800-900 Hindus before the war to just fifty Sikh families and three Hindu families in the mid-1990s.³⁵

As outlined in the previous chapter, the minority Hindu and Sikh communities provided the original institutional foundation for Afghanistan's informal trading and currency exchange system. Remnants of impressive Hindu temples and Sikh *gurudwaras* found in or around the central bazaars of major Afghan cities today reflect the importance of these groups to the country's trade and commerce. Before the *mujahideen* troops began to target Kabul in the early 1990s, the city boasted eight towering *gurudwaras* and three Hindu temples. They were set apart from the assembly of mud houses that dominate the city because of their immensity and solid concrete structures – these were the qualities, however, that made them vulnerable to exploitation during war. Stories of commanders and resistance fighters taking *gurudwaras* hostage echo throughout the streets of the Shor Bazar, once the hub of Kabul's cloth and dry fruit trade.³⁶ It is well known, for example, that legendary Ahmad Shah Massoud, leader of the Afghan resistance against the Soviet occupation, entrenched himself in the *gurudwaras* with basements serving as bunkers, while Uzbek

³² There is also evidence to suggest that a small Jewish community in Kabul and Herat handled money transfers and exchange. See Dupree, Louis (1975) 'Settlement and Migration Patterns in Afghanistan: A Tentative Statement,' *Modern Asian Studies* 9(3): 410.

³³ Andar (2003) 'Hindus and Sikhs in Kabul: A Fact Sheet,' *Foundation for Culture and Civil Society* (6 September), accessed in July 2006 at <<http://www.afghanfccc.org/general-file/hindus-and-sikh.htm>>

³⁴ Randhawa, Gurinder (2005) 'Afghanistan: Sikhs Rebuilding Gurdwaras,' *Indo-Asian News Service* (25 August)

³⁵ Melwani, Lavina (1994) 'Hindus Abandon Afghanistan,' *Hinduism Today* (New York), accessed in October 2005 at <<http://www.hinduismtoday.com/archives/1994/4/1994-4-02.shtml>>

³⁶ I am indebted to many Kabuli friends for these observations during visits to Sarai Shahzada.

warlord Abdur Rashid Dostum shelled from the higher elevation of the fort Bala Hissar. 'Massoud won the battle,' reported one observer, 'but the *gurdwaras* lost'.³⁷

Fighting in 1992 destroyed five of the seven temples jointly used by Hindus and Sikhs in Kabul.³⁸ Some argue that the temples were already empty due to progressive population movements out of the country in response to increased discrimination. The first arousal of tensions between the Muslim and Hindu communities appeared in 1986 with the destruction of the Baburi mosque in India by Hindu extremists at a Vishwa Hindu Parishad rally. Several years later, a number of similar incidents took place within India against sacred Muslim sites that elicited a strong retaliatory response from Muslim communities within Afghanistan. In 1992, for example, three members of an influential family of Hindus were brutally murdered by Muslim fundamentalists. Because many of the Hindus and Sikhs were often prosperous merchants dealing in pharmaceuticals, dry fruits, clothes, currency exchange, and Indian tea and spices, they were also the targets of looting and attempted kidnapping for ransom. It could be argued then that, despite the minorities reporting to a delegation for the International League for Human Rights in January 1994 that they 'do not suffer continuing harassment',³⁹ these escalating events compelled the Hindu-Sikh population to flee the country.

By 2001 the situation had clearly worsened. The Taliban regime created a new decree that instructed non-Muslims to dress differently from the Muslims: 'Hindu women can go to markets,' reported one journalist, 'but they should wear an iron necklace and their body should be wrapped in yellow *chadder*'.⁴⁰ The yellow sharply distinguished them from the Muslim women covered in the muted blue-grey *burqua*. The men were already distinguishable by their turbans (see Figure 10). In addition to the directions on personal dress, a Hindu household was required to make its identity known by pinning a two metre yellow cloth at its door.

³⁷ Randhawa, 'Afghanistan: Sikhs Rebuilding Gurdwaras'

³⁸ Middle East News Online (2001) 'The Taliban's Islam,' accessed in October 2005 at <http://www.beliefnet.com/story/79/story_7979_1.html>

³⁹ Cited in Melwani, 'Hindus Abandon Afghanistan'.

⁴⁰ *The Pioneer* (2001) 'Taliban Issue Decrees for Hindus in Afghanistan' (20 May); CNN (2001) 'Taliban to Mark Afghan Hindus' (22 May)

Figure 10: An Afghan's impression of Hindu money dealer⁴¹



Irrespective of what would appear to be mounting discrimination against the minority groups, the current consensus within the sample of Hindus and Sikhs interviewed is that the majority fled the country in early 1992 with the collapse of the state, and subsequent factional fighting in Kabul.⁴² To corroborate this view, Afghan Hindus settled in Delhi claim that they remained content and prosperous during the Soviet occupation, and that even during the regimes of Babrak Karmal and Dr Najibullah they faced no real problems.⁴³

The important point to draw from this brief exposition of the Hindu and Sikhs' flight from Afghanistan is that their departure signalled the arrival of a new set of actors. Men from the Pashtun majority came to occupy the important positions in trade and commerce vacated by the Hindu-Sikh population, employing old strategies used by their predecessors whilst also forging new links that were previously inaccessible to the minority groups. A significant proportion of the money dealers interviewed in this study are Pashtun males who started operating between ten and fifteen years ago. This tends to support the view that the replacement of Hindu and Sikh traders began in the early 1990s.

6.2.2 Treatment of ethnic groups

While the departure of Hindus and Sikhs created space for a plurality of ethnicities to participate in the money market, the foreboding presence of the Taliban restricted the ease with which non-Pashtuns could operate. This explains why there was little contestation over control between the ethnic groups at the time of the transition. Interviews with hawaladars of different ethnicity in Afghanistan confirmed that very different working conditions were experienced under the Taliban, with the Pashtuns enjoying the most favourable treatment.

⁴¹ Illustrated by Amu Wais, Mazar-e Sharif, October 2006.

⁴² Information gathered from interviews with Hindus in Afghanistan, March 2005.

⁴³ Melwani, 'Hindus Abandon Afghanistan'

While not condoning the Taliban leadership's overarching policies, many of the Pashtuns recalled their experience of improved security under Taliban rule.⁴⁴

Statements such as the following made by one large Tajik hawaladar in the North of Afghanistan substantiates this view: 'the Taliban jailed us, the Hazaras and the Uzbeks, but not often the Pashtuns. They demanded huge bail, knowing we were money dealers'.⁴⁵ Reasons for the imprisonment of hawaladars from minority groups were related to religious offences, like the length of a man's beard, failing to answer interrogations on religious issues, or simply 'not being such a good Muslim'. According to the same hawaladar, these reasons were 'only a disguise for their discrimination because the Pashtuns were not dealt the same treatment. They targeted us for our money and got away with it because bullying minorities was acceptable'.⁴⁶ When asked if he could give an example of the negative conditions suffered by minority groups, he told the story of his brother:

'In late 1999, my brother was jailed for two years in Kabul. During this time, I paid the Taliban a lot of money for his release. I was a businessman before I began my money business, so I was an easy target. My brother was never released and disappeared in the end. His two children and wife now live with me in my house.'⁴⁷

A large percentage of hawaladars (43 out of 52) interviewed throughout the research on this topic had lost a family member or close friend in similar circumstances.

Now that we have established that the money business recently came to be dominated by the Pashtuns, the following section considers what can be inferred from this occupational transfer. It reviews the stereotypes surrounding the Pashtun ethnic group and the possible implications of these stereotypes in the transfer of roles. But before examining in more detail the unique characteristics that the Pashtuns might bring to the money business, it may be useful first to consider how the Hindu and Sikh money dealers were perceived by the local Afghan population.

⁴⁴ This was the widespread view of Pashtuns interviewed at Sarai Shahzada in Kabul.

⁴⁵ Interview with hawaladar, Badakhshan, June 2005.

⁴⁶ *Ibid.*

⁴⁷ Interview with hawaladar, Badakhshan, June 2005.

6.3 Stereotypes and Social Organisation

6.3.1 Hindu-Sikh commercial stereotype

Commercial relations between the Pashtuns and Hindus in Afghanistan actually began with the exchange of trade and skills during Ahmad Shah's reign in the eighteenth century. Discussions with traders of the Pashtun Afridi clan reveal that, while their forefathers were indeed some of the most powerful traders, they relied predominantly on the Hindus to facilitate their financial transactions.⁴⁸ The traders explained that money exchange and funds transfer mechanisms were often identified scathingly with 'the grasping moneylending and banker class of Afghanistan'.⁴⁹ In the words of one senior Afghan:

'The Hindus taught us, the Pashtuns, about interest. That was all that they were interested in. It's against Islamic law, but we learned from them and now conduct business with interest, or what is called *suud*.'⁵⁰

Despite deriding the Hindu's alleged penchant for *suud*, which was indeed expressly forbidden under Islamic *sharia* law, the overarching stereotype of the money dealers as an occupational group has reportedly always been that they could be trusted. Pashtun participants in the study explained that the minority position of the Hindus ensured that they remained trustworthy: to defect would quite simply be too dangerous and commercially unsound in the long-term.⁵¹

While there is a tendency in the literature on psychology to emphasise the preferential bias of an 'in-group' stereotype, the Pashtuns in this study conversely characterised their group as comprising a predominantly untrustworthy mob. Interviews thus reveal an interesting dynamic in the transfer of the money business to the Pashtuns. It was expected that within the interview setting a money dealer might overestimate the negative traits of his competitors in order to aggrandise his own sense of trustworthiness and honour. Instead, however, there appeared to be a widespread belief among participants in and observers of the hawala system that the minority economic groups were on the whole more trustworthy than the majority operators. This was in spite of the Pashtuns' individual sense

⁴⁸ Interviews with traders of the Afridi clan, February – June 2005.

⁴⁹ While this is a direct quote from *The Gordon Creed in Afghanistan (1839 and 1878-79)* (London 1984), 126-128, it encapsulates the sentiment of the traders interviewed for the study.

⁵⁰ Interview with Engineer Jawed, Head of Help the Afghan Farmers Organisation, Kabul, May 2005.

⁵¹ Interviews with dealers in Sarai Shahzada, Kabul, 2005. The director of an NGO commented on the separate behaviour of Hindus and Sikhs in this respect: 'The Sikhs were troublemakers, resisters. The Hindus knew the consequences if they didn't pay the money back to their clients'. Interview with Engineer Jawed, Head of Help the Afghan Farmers Organisation, Kabul, May 2005.

that they themselves could in fact be trusted as exceptions to the rule. Saenger and Flowerman note a similar pattern in their psychological sampling of Jewish communities who, while not considering *themselves* clannish or shrewd, considered Jews *in general* to be both shrewd and clannish.⁵² It remains to be seen how the negative ‘in-group’ prejudice among the Pashtuns might influence the basis of trust that is so important for the efficient functioning of the hawala system.

The next section explores some of the potential reasons behind the pronounced mistrust felt between Pashtuns conducting hawala. It turns largely to the external stereotypes that characterise much of the information available on the Pashtuns, and examines a number of specific cultural institutions to elaborate on why such stereotypes might exist. Following the approach of Paul Titus, the cultural stereotypes are regarded worthy of consideration due to their reflection of, albeit in distorted ways, ‘aspects of the history, social position, and route to mobilisation of the group to which they refer’.⁵³ Therefore, the colonial descriptions should be viewed at times through the lens of war; a situation where the judgment and methods of interaction between officers and the tribes were defined in terms of ‘enemy’ or adversarial action.

6.3.2 ‘The Moneylender of the Pathan Type’

In 1931, several decades before the secession of modern-day Pakistani territory from India, an expert committee was established within the Indian Central Bank to determine how ‘indigenous banking’ practices might be incorporated into the formal banking system. While generally sympathetic to the longstanding Indian traditional banking methods, the report was rather less accommodating of the Pashtuns. In a class of their own, the committee identified the techniques of ‘The Moneylender of the Pathan Type’ as barbaric and undesirable. Resorting to ‘violence’ as their primary strategy for solving disputes, the debt recovery methods of the ‘Pathans’ are summarised as follows:

Terrorism is part of the mechanism, which these foreign moneylenders generally use. The problem, therefore, is more a social problem than a banking problem ... Cases of suicide through their terrorism have been known ...⁵⁴

⁵² Saenger, Gerhart & Samuel Flowerman (1954) ‘Stereotyping and Prejudiced Attitudes,’ *Human Relations* 7: 217-238

⁵³ Titus, ‘Honour the Baluch, Buy the Pashtun,’ 658

⁵⁴ The Indian Central Banking Enquiry Committee (1931) ‘The Indigenous Bankers,’ Vol.I, Part II, Chapter IX (Calcutta: Government of India Central Publication Branch), 106

The report concludes by implying that there is some foundation in the popular idea that ‘once in the clutches of a Pathan, one can never get free’.⁵⁵ The conceited calm depicted in the money-lending Pashtun class by anthropologist James Spain presents an equally harrowing image:

You will find Pathans all over Pakistan and India. ... For a hundred years there has been scarcely a village in all the subcontinent that did not know the Pathan money-lender, with his bag of coins, his long knife, his wicked smile, and his interest rates ranging upwards from fifty per cent a month.⁵⁶

The theory of the Afghans interviewed – that the Hindus’ dependent minority status in Afghanistan contributed significantly to their impressive trustworthiness in business – does not appear to ring true in the case of the Pashtun minority dealers. ‘Pathans’ in India were instead accused of a level of treachery and violence not found in the other socio-economic groups. While these accusations may indeed have reflected the behaviour of notable Pashtun money dealers, it is important to view the stereotype against the background of the fraught and fluctuating history of Indian-Afghan interaction. The long reign of the Moghul empire is a case in point; while thousands of Indians were brought by raiders across the 800km long, 240km wide mountain range of the *Hindu Kush* to serve the Muslim courts, many of them did not survive the bitter journey, hence the range’s name ‘Hindu Killer’ or ‘Killer of Hindus’⁵⁷ – at the other extreme, the Indians also experienced positive engagement with various Moghul kings.

It is also helpful to consider the wider institutional conditions to which Pashtuns have been traditionally wedded, as these might give some indication of the underpinning values that have lent such a treacherous appearance to Pashtun behaviour.

6.3.3 Pashtunwali

For centuries, the Pashtun tribes – now contributing to a population of over 40 million – have been ruled by their customary code of *pashtunwali*. Honour, or *nang*, is the

⁵⁵ *Ibid.*

⁵⁶ Spain, James (1962) *The Way of the Pathans* (London: Robert Hale), 22-3

⁵⁷ Douglas, William O. (1958) ‘West of Khyber Pass,’ *National Geographic Magazine* 114(1) (July): 13-23. The Persian-English dictionary indicates that the word *Kush* is derived from the verb *kushtar* - to slaughter or carnage, while it is also related to the verb *koshtan*, meaning to kill. Boyle, J. A. (1949 ed.) *A Practical Dictionary of the Persian Language* (Luzac & Co.), 129. The local guide in Sylvester Stallone’s movie *Rambo III* recites a prayer that reflects well the fear felt by the Indians and other ‘ancient’ enemies of Afghanistan: ‘May God deliver us from the venom of the cobra, teeth of a tiger, and wrath of an Afghan’. Stallone, Sylvester (1986) *Movie Script: Rambo III* (23 December, USA)

code's sine qua non, while the loss of honour involves complete ostracism: as one long-beard of the Mangal tribe in Paktia province explains it, 'No one would congratulate [such a person] on the birth of child. No one would attend his funeral. His disgrace will endure for generations. He and his family must move away'.⁵⁸ The most common ways to slight a Pashtun's honour are *zar*, *zan*, or *zamin*: gold, women, or land. Once a man's honour is besmirched in any of these areas, he is obliged to take his revenge, or *badal*: 'He is not a Pukhtun who does not give a blow for a pinch'.⁵⁹

Taboorwali – a 'secondary law' of *pashtunwali*, so to speak – signals the common 'agnatic rivalry' found between patrilineal cousins of the same generation, and the vengeance associated with blood feuds.⁶⁰ Through his observations of Swati Pashtuns, Charles Lindholm suggests that *tarboorwali* creates an atmosphere in which 'honour lies in vengeance, not in keeping a trust'.⁶¹ Titus observes that this gives rise to destructive feuds between kin and a pattern of betrayal which, in turn, fosters the sense of treachery attached to Pashtun character. Colonel Sir T. H. Holdich's rather disturbing representation from the nineteenth century A.D. is a case in point:

[the] Pathan will make use of any stratagem or subterfuge that suits his purpose. He will shoot his own relations just as soon as his enemy, possibly sooner – and he will shoot them from behind.⁶²

In addition to recalling the military context out of which such an observation emerged, it should be pointed out that kinship relations are marked by rivalry in many cultures. Monsutti notes the fundamental ambiguity in Afghan and, more generally, Middle Eastern society that 'the circle of solidarity is also the one in which violence is most common'.⁶³ He goes on to explain that these societies are 'shot through with tendencies to fusion and fission that depend upon the relationship between the group in question and the

⁵⁸ *The Economist* (2006) 'Honour Among Them' (Gardez and Peshawar, 23 December), 37

⁵⁹ Ahmed, Akbar S. (1975) *Mataloona: Pukhto Proverbs* (Karachi: Oxford University Press), 57

⁶⁰ Ahmed suggests that *badal* provides the 'primary law' of *pashtunwali*. Ahmed, Akbar S. (1980) *Pukhtun Economy and Society: Traditional Structure and Economic Development in a Tribal Society* (London: Routledge & Kegan Paul), 90

⁶¹ Lindholm, Charles (1982) *Generosity and Jealousy: The Swat Pukhtun of Northern Pakistan* (New York: Columbia University Press), 84

⁶² Holdich, T. Hungerford (1909) *The Indian Borderland: 1880-1900* (London: Methuen & Co.), 185. Ahmed concurs that *tarboorwali* 'does not occur at an appointed place and time with selected weapons and roughly equal chances of victory but may be a shot in the back at the least expected time'. Ahmed, *Pukhtun Economy and Society*, 182. The experiences of visitors in Afghanistan during the Soviet invasion are markedly different, which again must be explained by the context rather than a primordial sense of immutable character. See Goodwin, Jan (1987) *Caught in the Crossfire* (New York: Penguin) for a personal account of the loyalty and honour displayed by the early *mujahideen* forces.

⁶³ Monsutti, *War and Migration*, 228

outside world'.⁶⁴ The following Arab proverb reflects well this variable system of solidarity and intense competition: 'Myself against my brother; my brother and I against my cousins; my cousins and I against the world'.⁶⁵

In a way that must appear paradoxical to the outside world, *pashtunwali* also obliges Pashtuns to offer extreme hospitality, or *malmastai*, to anyone needing sanctuary – including his enemy. Many Afghans have remarkable stories of families ensuring the safety of enemy soldiers when sanctuary was sought during the Russian invasion. This apparent contradiction to the fierce imperatives of *badal* is, however, consistent with the central code of honour that lies at the heart of *pashtunwali*.

Titus offers a helpful guide to contextualising some of these cultural practices. He argues that imputed cultural traits extend more from a complex blend of *ecological*, *cultural*, and *historical* factors. The application of this can best be seen in an example. Hence, if we were to revisit *tarboorwali* from an ecological standpoint, we might see that the sedentary agriculture of the Pashtuns makes them ill-suited to their environment of scarce productive land. A situation in which one's agnatic kin then becomes the primary competitors for access to land emerges, resulting in competitive wrangles over land, wealth, and status.⁶⁶ It is possible to compare this situation with that of nomadic tribes whose naturally increasing resource base allows them to divide resources among their mobile community.

If we were to reconsider the common perception of the tribes' treacherousness from an historical perspective, we might recognise the important influence of external parties. Intervening political groups have customarily competed for the loyalties of the tribal Pashtuns, the most recent example of which being America's patronage of groups straddling the Afghan-Pakistan border in its 'war on terror'. It is well known that the tribes have instrumentalised a long line of interveners in the past to their own advantage. This was clearly the case in the sixteenth century during the ongoing Mughal-Safavid conflict over control of the strategically important Kabul-Kandahar trade axis: we learn that, while the conflict raged, commerce continued and the local Pashtun tribes exploited the political situation by extracting concessions from both sides.⁶⁷

In respect to the Pashtuns' historical reliance on economic strategies such as these, Martin Orans' concept of 'avenues of mobility' is helpful. Orans suggests that subordinate

⁶⁴ *Ibid.*, 227; see also 232.

⁶⁵ Cited in Barnard, Alan and Jonathan Spencer (eds) (1996) *Encyclopaedia of Cultural & Social Anthropology* (London: Routledge), 152.

⁶⁶ Titus, 'Honour the Baloch, Buy the Pashtun,' 671, drawing from Lindholm, *Generosity and Jealousy*, 75-7 and Ahmed, *Pukhtun Economy and Society*, 5-7.

⁶⁷ Foltz, Richard C. (1998) *Mughal India and Central Asia* (Karachi: Oxford University Press), 6

groups mobilise along different paths or routes in order to compete with the successes of those dominating them.⁶⁸ The two routes to mobilisation he discusses in most detail are the political and economic routes.⁶⁹ While it is debatable whether Pashtuns can be considered a subordinate group in Afghanistan (particularly in light of their indefatigable defence against outsiders), it seems fair to contend that the Pashtuns have followed an economic route to mobilisation and also displayed an acute awareness of the distribution of power and the costs of complacency.

It is likely that the path-dependent thesis would account for this leaning towards the economic route by resorting to essentialist categories about hereditary pecuniary instincts. But a more satisfactory answer may again be found in the tribes' ecological environment. Given the region's marginal productivity and the important trade routes which passed through it, plunder has long made an important contribution to the subsistence of the Pashtuns.⁷⁰ It could be argued that for centuries the tribes have either been able to exploit their strategic position along the mountain passes by raiding or extracting tribute from travelling merchants, or been forced into such a pastime due to their adverse geographical location.⁷¹ Either way, the opportunity or necessity to conduct raids ensured that the tribes consolidated a group identity along the border passes; within such a forbidding, landlocked ecological environment, it was quite simply impossible to exist as an individual.

Forster recalls the story of an Armenian whose pains to avoid the 'perils of the Hyber-pass' involved a nine week detour on a trip from Multan to Kabul that would otherwise taken eleven days on the route inhabited by the Pashtuns. 'This fact,' Forster claims, 'at the same time that it marks the caution and patience of an Armenian, explains the dread entertained of the Hybers'.⁷² The apparently indomitable character of the Pashtuns was familiar to many who traversed the craggy tribal areas. Alexander the Great relayed his encounters with the descendents of tribal Pashtuns to his mother thus:

I am involved in the land of a 'Leonine' [lion-like] and brave people, where every Foot of the ground is like a well of steel, confronting my soldier. You have brought only one son into the world, but *Everyone in this land can be called an Alexander.*

⁶⁸ Orans, Martin, 'Caste and Race Conflict in Cross-Cultural Perspectives,' in Orleans, Peter & William R. Ellis (eds) (1971) *Race, Change, and Urban Society* (Beverly Hills, C.A.: Sage), 89-100

⁶⁹ Orans argues that in general the political route to mobilisation engenders greater solidarity than does the economic route which tends to result in individual, not group, success (*ibid.*).

⁷⁰ Titus, 'Honour the Baloch, Buy the Pashtun,' fn 7, 660

⁷¹ *Ibid.*, 670-1

⁷² Forster, 'A Journey from Bengal to England,' 58-9

Equally daunted by his experience with the Pashtuns was another great man of history. Also in a letter to his mother, a 'young subaltern' Lieutenant Winston Churchill writes:

The danger and difficulty of attacking these active fierce hill men is extreme. They can get up in the hills twice as fast as we can – and shoot wonderfully well with Martini Henry rifles. It is a war without quarter. They kill and mutilate everyone they catch and we do not hesitate to finish their wounded off. I have seen several things wh[ich] have not been very pretty since I have been up here – but as you will believe I have not soiled my hands with any dirty work – though I recognise the necessity of some things.⁷³

Just as the Pashtun's 'pursuit of a free-booting life'⁷⁴ can be explained by ecological rather than cultural factors, it is also possible to attribute their violent and munitious behaviour to the same constraints.⁷⁵ Moreover, one can hardly be surprised by the Afghans' hostility to outsiders when their experience has been dominated by centuries of military incursions.

However conflicting opinions are on the many aspects of Pashtun 'character', one place where at least the views of contemporary ethnographers and colonial administrators appear to meet is in analyses of the tribes' egalitarianism.⁷⁶ It is widely agreed that the decentralised socio-political organisation of Pashtun male society has contributed greatly to the groups' survival in the face of centuries of invasions, in particular because of the increased manoeuvrability that such a structure allows. The informal *jirga* (or council) is now a familiar example of a forum within which Pashtuns, and more broadly Afghans, aim to reach consensus and compromise in instances of internal conflict.

In light of the above discussion on the values underpinning *pashtunwali*, the following section will examine any potential implications involved in the transfer of a large

⁷³ Cited in Meyer, Karl E. (2003) *The Dust of Empire: The Race for Mastery in the Asian Heartland* (New York: PublicAffairs), 102.

⁷⁴ *Ibid.*, 58

⁷⁵ James Scott's work indicates that the inaccessible nature of the 'hills' or other parallel terrain provides an element of security for the inhabitants, and allows them to reject the 'civilisation' of the valley. The so-called 'hill people' tend to be mobile and their societal structure fluid and egalitarian. See Scott, James C. (2000) 'Hill and Valley in Southeast Asia ... or Why the State is the Enemy of the People who Move Around ... or ... Why Civilizations Don't Climb Hills,' Paper submitted at symposium on Development & the Nation State, Washington University.

⁷⁶ See Holdich, *The Indian Borderland*, 7. While the 'cardinal pattern of egalitarianism seems to be predominant, at least as an emic norm', and certainly guides the relations *between men*, it should be recognised that disparities manifest along lines of gender and age. The plight of women's subjugation in Afghanistan is now well documented. Oberson, José (2003) 'Khans and Warlords: Political Alignment, Leadership and the State in Pashtun Society. Anthropological Aspects and the Warlordism Debate,' Institut für Sozialanthropologie, Universität Bern, 47

portion of Afghanistan's hawala business to Pashtun dealers today. It draws mainly from observations made in the field and, importantly, uses the previous chapter's analysis of the strategies employed by early Indian hawaladars to help establish the key differences between the groups.

6.3.4 Implications of transfer to Pashtuns

The previous chapter demonstrated that Indian money dealers operating throughout Afghan territory developed various bottom-up strategies for survival and the accumulation of profit. An important method for persisting through periods of instability and flux, whether deliberate or inadvertent, depended on gaining the *legitimising* support of the public. The Indian merchants were able to garner 'pragmatic legitimacy' through the provision of a constant and reliable service to the public and other clients over time, which in turn rendered competition from rival structures of the state impotent.

Another strategy involved the development of a robust *internal order* within the system. A combination of generalised trust in the bazaar and the requisites of the 'family firm' model provided the space for explicit connections to be made across hawala networks through a series of limited liability partnerships, or *mudaraba*, while still allowing a sense of network closure at the centre of operations.

The final strategy entailed the maintenance of an appropriate *social distance* from ruling elites. The foreign merchants tended to adopt a subtle, yet defiant, posture of 'game playing' within the clientelistic structure of their relations with the empire or state powers which, while making them appear somewhat deferent as the weaker player, crucially enabled them enough distance from the elites to survive their rise and fall. As a result, the dealers achieved a balance between securing autonomy on the one hand and the necessary support as a minority group facing difficult conditions on the other.

Each of these three areas will be considered in light of the transfer in business to the Pashtun majority group.

(i) Legitimacy

As was suggested in Chapter 5, the public's 'pragmatic' and 'moral' legitimacy granted to hawala in the past had the potential to transform into 'cognitive' legitimacy, whereby the practice becomes accepted as necessary or inevitable based on a comprehensible cultural and historical account. This certainly appears to have taken place in modern-day Afghanistan, where people display a curious nonchalance when asked about the function of hawala. In many interviews, it took a considerable amount of time to explain

why a researcher might be interested in its mechanisms. Rather than simply being a matter of the questions becoming 'lost in translation', it transpired that the enquiry itself made absolutely no sense to the majority of interviewees. Within their frame of reference, the hawala system has become such an integral part of Afghan custom and livelihoods that no special attention is paid to it. Even the Head of Chamber of Commerce in Herat province claimed:

'I just pick up the phone and tell a man I need my money somewhere and it arrives. I have no idea how it works.'⁷⁷

Hence, it appears that the hawala system has indeed transformed into a 'cognitively legitimate' practice. In the event that the Pashtuns continue to deliver a constant and reliable service to the public, the theory suggests that the transfer will not impact negatively on the legitimacy status of the hawala business within Afghanistan. Chapter 8 explores an alternative view based on information presented in section (iii) below on 'social distance'.

(ii) Internal order

Pashtun dealers appear to employ similar techniques in the structuring of their networks internally and more broadly within the bazaar. By way of example, the majority of businesses under investigation diversify their portfolio by assigning particular family members to specialise in certain investments; rotate the location of key nodes within the business;⁷⁸ form explicit network ties with hawala businesses on the basis of their connections and reputation; and use gender and kinship strategically to strengthen the business.

There are, however, several subtle ways in which the Pashtuns have altered Afghanistan's hawala network organisation. To begin with, their emphasis on egalitarianism has replaced the somewhat hierarchical nature of the Indian family firm model with a flat structure, which has consequences for both the resolution of disputes and source of authority

⁷⁷ He also went onto say, 'What I do know is that the main problem with the hawala men is that you don't trust all of them'. Interview with Al Haq Qala Akbar, Head of Chamber of Commerce, Herat, May 2005.

⁷⁸ A commonplace strategy amongst today's money dealers involves the dispersion of members in the trust network's inner circle – usually involving kin – across major international financial hubs. A chain of brothers or male relatives rotate the responsibility to man the furthest outposts by 're-locating' on a regular basis. This appears to form part of an implicit strategy to assist the family members in adapting to their new environment. They are permitted to take long breaks in the homeland before re-entering the field which importantly counteracts the reluctance often felt by the men in fulfilling their familial business obligations. Interview with Haji Askar, Peshawar, April 2005, and impressions gained from interviews with hawaladars in Afghanistan who were 'on leave' from duty. Many of these men expressed a desire to spend time with their families in the homeland, rather than live abroad where they were separated for long periods from their wife and children.

within the system. Western regulators have been led to believe that a peak body in the form of the 'Money Exchange Dealers' Association' oversees operations in the money market.⁷⁹ A high percentage (86%) of money dealers interviewed alternatively revealed that disputes are settled in a *jirga*-type setting on more of an ad hoc basis. One hawaladar explains:

'If someone does something wrong to me, a few men with gather in my shop. They have a good reputation and can help adjudicate the matter. We settle the problem in maybe hours, or sometimes it takes a week. We have heard of this group of men who call themselves the 'Money Exchange Dealers' Association', but laugh at them for they have no power. They like to give themselves titles so that the international community will go and speak with them and consider them important. The reality is very different.'⁸⁰

While the 'few men who gather' have a certain authority in the hawala arena, the flat structure of the market ensures that no single individual or business has a greater share of formal authority over the other businesses. This presents one of the most pressing challenges for regulators today who typically approach systems such as hawala through the identification of the member whom they consider to hold the biggest share of the market. These efforts become frustrated when they are confronted with a non-hierarchical and verifiably diffuse system in which *no one* is effectively 'in charge'.

It is worth taking note that the men who are selected to adjudicate difficult situations within the hawala market are often labelled *wakils*, corresponding to the religiously prescribed office touched on in Chapter 4. The use of religion is in fact another area in which Pashtuns differ from the Hindu-Sikh dealers. Outward signs of religion are used to portray the money dealers' alleged inclusiveness of other ethnic groups. During fieldwork, it was interesting to observe the different occasions in which dealers would appeal to the ethnic or religious orientation of the client: the dealer was either a self-professed 'good Pashtun' or humbly avowed 'good Muslim', depending on the context.⁸¹ Religion also becomes useful when a cohesive mechanism beyond *pashtunwali* is required to unite and meld the different tribes and sub-tribes. Despite their generally egalitarian nature, there is an undeniable feeling of 'in-group' superiority among some, which is only checked in instances where an

⁷⁹ See, for example, Maimbo, Samuel Munzele (2003) 'The Money Exchange Dealers of Kabul', World Bank Working Paper 13 (World Bank: Washington D.C.)

⁸⁰ Interview with hawaladar, Sarai Shahzada, Kabul, January 2005.

⁸¹ Oberson states that 'being a good Pashtun implies living and acting in accordance with the ideal of ethnic self-representation that is embodied in the concept of *pashtunwali*. The concept encompasses the idealized core values of the Pashtun person and his behaviour, since it is the epitome of Pashtun moral and juridical standards'. Oberson, 'Khans and Warlords,' 36

external threat appears or an intermarriage takes place. Hence, Pashtuns have tended to rally collectively around Islam in times of crisis; the *jihad* launched in the 1980s as a response to the Soviet threat is a case in point.

Another area in which one would imagine the Pashtuns to differ slightly from the Hindu-Sikh merchants is kinship relations. As noted in 6.3.3. above, there are extreme tensions within the family, particularly among patrilineal cousins. The fieldwork revealed that, although these internal fissures or 'in-built' tensions do indeed exist, the core of hawala businesses most often comprises a network of brothers which eliminates the potential for inter-cousin rivalries to surface. Even where cousins are involved, the aforementioned Arab proverb – 'Myself against my brother; my brother and I against my cousins; my cousins and I against the world' – tends to apply. Hence, the boundary between the business and the outside world is well preserved. In fact, the indomitable aspect to Pashtun character often comes into force in instances where that boundary is threatened. A parallel can be drawn between this trait and the broader tendency of Pashtuns to keep law enforcement officials and other interfering parties at bay. As one *Economist* observer records:

Combing his long black hair beside a baked-mud road, a resident of Nakband [suburb in Peshawar] said that, in theory, the city police were free to enter his suburb. But the locals had not permitted them to do so, so far as he could recall, since 1998.⁸²

But in spite of the apparently strong defences at the boundaries of the present hawala market, there are definite signs of strain within the market. Anecdotal evidence suggests that significant infighting has occurred between the Pashtuns, building an unprecedented amount of friction into the usual structures. It is important to remember that, although 'Pashtuns' form the largest Muslim tribal society in the world today, and *pashtunwali* governs their customary law, they are far from a cohesive group.⁸³ The final part of this section turns to the issue of 'social distance', the third strategy of the Hindu-Sikhs, and considers how the divisions within Pashtun society may have altered the optimal balance that the Hindu-Sikhs achieved between state patronage and autonomy.

⁸² *Economist*, 'Honour Among Them,' 39

⁸³ See Ahmad, Aisha & Roger Boase (2003) *Pashtun Tales from the Pakistan-Afghan Frontier* (London: Saqi Books), 13 for a commentary on the multitude of tribal factions that comprise the Pashtun group.

(iii) Social distance

This is perhaps the area in which the Pashtun hawaladars differ most crucially from the Hindu-Sikh merchants. Overall, the latter were able to maintain their distinctiveness from the local population in a way that the newer arrivals to the business appear less able to achieve. The above description of war and migratory flows goes some way to explaining why this is the case; it is clear that conflict in Afghanistan has caused not only physical relocation but also massive social dislocation, which for the Pashtuns settled in NWFP and seeking work in trade or the money business has led to a reliance on host structures and gradual isolation from traditional norms. While linkages with the tribal system in Pakistan certainly provided security and social orientation to the refugees in an otherwise chaotic and anarchic social environment,⁸⁴ it came with a price. By way of example, the conventional wisdom suggests that the Taliban's ideology is simply an extension of Pashtun rural culture; scholars such as Maley claim instead that it represents 'not the values of the village, but the values of the village *as interpreted by refugee camp dwellers or madrassa students, most of whom have never known ordinary village life*'.⁸⁵ Maley's point demonstrates how the relocation of Afghans in camps outside of the country caused a breakdown in traditional institutions and social categories that existed in local communities before the war, which encouraged observers to conflate Pashtun identity with the distorted versions of Islam and traditional Afghan values that the Taliban imposed.⁸⁶

As Pashtuns took advantage of the opportunity to link up with tribal networks and consolidate the money business, new pressures were brought to bear on the system for, unlike the Hindu-Sikhs, they were no longer insulated from elitist politics. Almost all of the money dealers surveyed (51) reported that these new pressures can be seen in the unprecedented level of violence and infighting in the market. In general, it appears that violence related to the transport of money has evolved to become one of the chief sources of risk to today's trade despite its relatively risk-averse nature in pre-war Afghanistan. Intercepted couriers, either delivering funds to a client, or to a banking institution for deposit, are major targets of organised criminal groups, often hired by political figures. Reports from two significant hawala operators in Kabul suggest that there is a disturbing rise in personal vendettas resulting from linkages forged between hawaladars and politicians, or other high profile figures in the civil service.⁸⁷ One example during 2004 involved an organised crime

⁸⁴ The same point is made by Bernt Glatzer in (2001) 'War and Boundaries in Afghanistan: Significance and Relativity of Local and Social Boundaries,' *Die Welt des Islams* 41(3): 393-4

⁸⁵ Maley, 'Introduction: Interpreting the Taliban,' in Maley, William (ed.) *Fundamentalism Reborn? Afghanistan and the Taliban* (London: Hurst & Co.), 20

⁸⁶ See Nojumi, Neamatollah (2002) *The Rise of the Taliban in Afghanistan: Mass Mobilization, Civil War, and the Future of the Region* (New York: Palgrave), 125-6.

⁸⁷ Interview with Mahmoud and Abdul Haq (hawaladars), Sarai Shahzada, Kabul, 2005.

group murdering five children of one shop owner in Kabul. Neighbouring money dealers argue that this could have been in retaliation for a 'bad deal', but it was most likely due to too close an association with a controversial political figure. Various sources suggested that criminal groups target couriers delivering cash to politicians as a way of striking at their most vulnerable point, and depleting their power to influence through money.

Many hawaladars in Pakistan reported frequent losses incurred in their Afghan partner shops by this method. Couriers travelling by taxi appear to be routinely targeted by criminal organisations, while there are also the obvious hijacking attempts on personal vehicles. Fieldwork revealed several unconfirmed reports of victims being 'drugged' by some kind of aerosol and waking up later to find their money had been stolen. One money dealer reported that his courier had been intercepted with a cash cheque for Afs1,100,000 (USD 25,700).⁸⁸ On leaving Kabul's money market, the man hailed a taxi to the National Bank of Pakistan branch. The taxi driver asked whether he could collect two relatives en route, and the courier obliged. When the two men entered the vehicle, the man was assaulted, and the cheque stolen. Each subject had stories of a similar nature, all involving the theft of money or the violent deaths of people they knew, including family members, who were directly targeted in the offences.

Some money dealers admitted to lacking the courage to report thefts to the authorities because of the association between high-level political officials and some organised criminal groups. In Pakistan, hawaladars frequently complained of the confiscation and theft of their money by Pakistani government officials lower down in the bureaucracy. Four years ago, one man officially reported the government's unlawful confiscation of 4 million rupees from his shop.⁸⁹ He reportedly spent several years submitting paperwork to retrieve the funds, and paid a total of 500,000 rupees worth of bribes in the process. The money was never returned to him – a familiar story amongst the community, and one involving a lot less money than many other dealers in similar circumstances.

Small dealers admitted more risk and welcomed the prospect of formal banking because of their lack of political contacts. For, while the risks are greater when linked with politicians, the potential windfalls appear greater as well. Accordingly, the smaller dealers revealed a much greater sense of insecurity and perceived personal risk. In one interview, two hawaladars in Gardez, Paktika Province, were surprisingly open to the introduction of

⁸⁸ Interview with hawaladar, Kabul, January 2005.

⁸⁹ Interview with hawaladar, Peshawar, May 2005.

formal banking institutions in the province.⁹⁰ They complained of serious and multiple security risks in transporting money from Kabul to Gardez by road, and expressed the need for a more structured, regulated banking system in the region. These complaints became more real when several months later, on 7 July 2005, it was reported that unidentified gunmen on motorcycles killed a money changer in his car in Gardez city, while only days earlier 200,000 rupees were stolen from his friend.

These risks and political rifts are of course problems that traverse all ethnic groups, so the problem is certainly not confined to the Pashtuns. It might just appear this way because of the complicating nature of tribal cleavages and dominance of Pashtuns in the political sphere. It is also difficult to determine with certainty whether the reported rise in threat involved in transporting funds is in fact related to politics. The incidents could simply reflect the opportunism and material risks of operating in the unstable environment of Afghanistan as it stands today. The friction within the market might also simply be a sign of the increase in groups involved in the business. Whereas in the past minority groups were able to contain their operations rather effectively by maintaining internal discipline, the increased number of hands through which money now passes within the hawala business may have disrupted the system's endogenous regulation. On the flipside of the recent tendency to shorten social distance between dealers and those with political power, the increased number of participants has also opened opportunities to remain anonymous, hence increasing the risk of misbehaviour.

As will be seen in the following section, the current extent of actual inter-ethnic cooperation should not, however, be underestimated. While ethnic identifiers appear to hold some degree of importance for the money dealers, the sense of belonging to a professional category (i.e. of the 'money dealer') certainly overrides these differences, particularly when an outside threat emerges. Hence, while the transfer of a large share of the money business to the Pashtun majority is significant in some respects, it is important to consider these in conjunction with the rational-economic aspect of the business.

6.4 Rationality

6.4.1 Face-to-face and anonymous trust

Conventional wisdom at the World Bank assumes that 'basic attitudes and behaviours [such] as trust and participation' break down during conflict;⁹¹ hence, the

⁹⁰ Discussion with Farhad (hawaladar), Wahidullah, Engineer Hafizullah, Gardez, March 2005.

⁹¹ World Bank Operations Evaluation Department, *The World Bank's Experience with Post-Conflict Reconstruction*, 30

presence of 'trust networks' such as those of hawala is perhaps baffling in the context of state rupture. While Maley agrees that trust is indeed a very early casualty of state collapse, he is careful to qualify this view by drawing a broad distinction between anonymous and face-to-face trust – two subtly varying understandings of trust pertinent to disrupted states.⁹² Within this context, anonymous trust on a wide scale is widely considered to be heavily eroded, and individuals are seen to revert to a 'face-to-face' trust that is grounded in specific knowledge about the interests or dispositions of those trusted.⁹³ Drawing from Russell Hardin's insight that trusting institutions 'makes little sense for most people most of the time,'⁹⁴ Maley argues that it makes even less sense for those living in disrupted states. Hence, both anonymous and face-to-face trust refer to interpersonal relations, rather than trust in public institutions.

Although a little careless in his use of trust as a concept, it is conceivable that Ernest Gellner aimed to convey a similar sentiment in the following statement:

The Hobbesian problem arises from the assumption that anarchy, absence of enforcement, leads to distrust and social disintegration ... but there is a certain amount of interesting empirical evidence which points the other way. The paradox is: it is precisely anarchy which engenders trust or, if you want to use another name, which engenders social cohesion.⁹⁵

From Maley's perspective, the social cohesion to which Gellner refers may signify the increase he remarks in 'face-to-face' trust within particular groups during state disruption, but which should be differentiated from anonymous trust. Without the latter, cooperative behaviour across groups, particularly in the reconstruction of the state, is doubtful. But the common mistake among those building new institutions is to focus on creating this while at the same time disrupting the face-to-face networks that are the necessary building blocks for reconstituting trust more widely.

Maley points to the marketplace as the most promising locus for such a reconstitution to take place, for the 'great virtue of market mechanisms' is their consistent ability pre-, during, and post-war to encourage economic agents to produce goods or services

⁹² Maley, William, 'State-Building and Political Development in Afghanistan,' in Ishii, Masako & Jacqueline A. Siapno (eds) (2004) *Between Knowledge and Commitment: Post-Conflict Peace-Building and Reconstruction in Regional Contexts*, JCAS Symposium Series 21, Osaka, Japan, 179; Maley, 'Institutional Design and the Rebuilding of Trust,' 164

⁹³ Maley, 'Institutional Design and the Rebuilding of Trust,' 175

⁹⁴ Hardin, Russell, 'Do We Want Trust in Government?', in Warren, Mark E. (ed.) *Democracy and Trust* (Cambridge University Press), 23

⁹⁵ Gellner, Ernest (1988) 'Trust, Cohesion, and Social Order,' in Gambetta, David (ed.) *Trust: Making and Breaking Cooperative Relations* (Oxford: Basil Blackwell), 147

for *whoever* is prepared to buy them, irrespective of that person's ethnicity, religion or social location: 'The incentive structures of the market, although dependent on a framework of constitutive rules, reward those who take the risk of trusting their fellows anonymously'.⁹⁶ Louis Dupree's research on non-sedentary groups within Afghanistan in the 1970s reveals economic activity to provide the kind of normalcy in relations that Maley's marketplace describes. He notes:

In both villages and nomadic camps, in-group tensions build up during the year, but intensive economic activity generally holds down violence during the agricultural and herding cycles. On the off-economic season, however, bottled-up tensions are liable to explode into violence.⁹⁷

6.4.2 Inter-ethnic cooperation

The experience of the money dealers interviewed in this study confirms Maley's thoughts regarding the increased reliance on face-to-face trust during conflict,⁹⁸ and also the prospects for new cooperation through the building of anonymous trust. The previous reliance on the former might explain why ethnic differences were at one time a significant register for people's interaction in the money market – for one tends naturally to congregate with one's own 'clan', so to speak, when external pressures increase. It might appear surprising that ethnic considerations, where they appear to exist, tend to dissolve at least artificially (i.e. for the purpose of business) in the realm of finance as the transition from war progresses. Fieldwork revealed cases where 'deep hatred' that is harboured against another group is set aside for economic cooperation with members of that same ethnic grouping. The following response of a Tajik hawaladar who had lost several family members to the Taliban is representative of this general approach. Asked whether he was aware that without his and other Tajik hawaladars' cooperation in the North the Pashtun traders would not be

⁹⁶ Maley, 'Institutional Design and the Rebuilding of Trust,' 175

⁹⁷ Dupree, 'Settlement and Migration Patterns in Afghanistan,' 403

⁹⁸ During war, the face-to-face trust that ordinary citizens are often forced to rely on is not always the most beneficial for them. Fieldwork interviews revealed this to be the case with those who entrust money to people smugglers they consider trustworthy. It is common for the initial contact or 'guide' who accompanies a migrant from the beginning of his (or sometimes her) journey to the border to take on additional functions, such as the facilitation of employment and/or the provision of remittance services. Despite often sharing the same place of origin as the migrant, the smuggler tends to disembed himself from his community and join part of a new socio-economic group, separate from the more established commercial class of traders and hawaladars. It follows that he is not constituted institutionally towards a remittance goal, and hence does not answer to the same systems of checks and balances that traditionally protect people wishing to transfer money through the bona fide hawala networks. The Head of Economics at Kabul University recalled how, during heightened periods of war, families incurred the loss of hundreds of thousands of dollars at the hands of these hawala 'impostors' (Interview, Kabul University, May 2005). It would take months, or sometimes up to a year, before a family might discover their loss due to the difficulties of staying in touch.

able to carry out their lucrative trade in opium and commodities across their region, he replied:

‘Yes, I am aware of this. I do have deep hatred for them, but I also recognise that not all Pashtuns are responsible for our sad past. In spite of everything, I will still deal with them. I look at my own interests, and it is in my interest to deal with those with the most money.’⁹⁹

To demonstrate the kinds of reciprocal arrangements that exist within the financial arena, it is instructive to draw from an example in Kabul where a large number of Pashtun hawala businesses are benefiting from the material security provided by a major Uzbek dealer. Because the formal financial sector is based in a separate part of Kabul city to the money markets, it is difficult for dealers to deposit and withdraw funds safely. Hence, after the loss in 2004 of USD 500,000 to a group of organised criminal hijackers, one hawala business employed a full-time armed escort for the transport of its money to the bank. Fieldwork revealed that the vehicles are subcontracted to other hawala shops also wishing to move their money overnight for safekeeping – this is perceived to be more secure than storing money in the shop’s safe at the market. Discrimination in this instance appears to exist along business rather than ethnic or other lines; in other words, the service is available to the businesses most able to pay a good price.

One cannot, however, reduce such cooperation solely to rational economic concerns. Afghans themselves apply the term *qawm*, which can be very crudely translated as ‘social network’, to explain their cooperation across different groups.¹⁰⁰ In a recent work, Favre explains that *qawm* can be formed out of anything as narrow or broad as familial lineage, profession, and shared life experience.¹⁰¹ This concept appears to be a more accurate representation of the *many* worlds, or multiple registers, through which Afghan social life survives in the face of political upheaval.¹⁰²

⁹⁹ Interview with hawaladar in Mazar-e Sharif, May 2005.

¹⁰⁰ Pierre Centlivres was the first commentator to offer a presentation of this concept. Centlivres, Pierre (1972) ‘Un Bazaar d’Asie Centrale: Forme et Organisation du Bazaar de Tâshkurghan (Afghanistan)’ (Wiesbaden: Ludwig Reichert)

¹⁰¹ Favre, R. (2005) ‘Interface Between State and Society: An Approach for Afghanistan,’ Unpublished paper, Kabul, 6

¹⁰² Saikal, Amin, ‘Afghanistan’s Weak State and Strong Society,’ 196; Shahrani, M. Nazif (2002) ‘War, Factionalism, and the State in Afghanistan,’ *American Anthropologist* 104(3) (Sept): 717; Tapper, Richard, ‘Ethnicity, Order, and Meaning in the Anthropology of Iran and Afghanistan,’ in Digard, Jean Pierre (ed.) (1988) *Le Fait Ethnique en Iran et en Afghanistan* (Paris: Editions du CNRS), 27

Network research in general shows us that individuals and groups organise themselves into intersecting group affiliations, or ‘webs of cross-cutting affiliations’ across several domains of exchange.¹⁰³ This can be seen in the case of Afghanistan’s hawala networks which use strategies that engage in all spheres of the polity, economy, and family in adapting to the transformations brought about by political upheaval. These networks resemble the ‘solidarity groups’ to which long time anthropologist Olivier Roy refers in his research. ‘Real’ political life in Afghanistan, he explains:

...is played out at the local level and primary loyalty lies with the ‘solidarity group’, whatever its sociological basis. Ethnic identities are important but they never prevail over this primordial identity, nor do they undermine a common Afghan identity.¹⁰⁴

The power of the solidarity group, Roy argues, ‘resides neither in a specific location nor in a person, but in an elusive network, which needs constant maintenance and reconstruction’.¹⁰⁵ A key aspect to *qawm* is therefore its flexibility in enabling people to realign their loyalties according to the particular context; Tapper calls this ‘strategic manipulations of identity’.¹⁰⁶ What appears to have happened in the case of war and migration is a realignment among some people from loyalties to a local community to stronger associations with a larger identity, whether it be ethnic, political, religious, or national. It is important to note, however, that ethnicity will never become the sole register of people’s loyalties or social organisation.

6.5 Conclusion

Hence, we come full circle to the local system of meaning which Beckert explores in his theory of ‘intentional rationality’. The above analysis demonstrates that there is not one singular way of understanding the market in contexts of war and migration. Movement from Afghanistan and settlement in Pakistan show how people can shift their loyalties from their local community to alternative associations with a larger identity, whether it be ethnic, political, religious, or national. It is important to note, however, that ethnicity will never become the sole register of people’s loyalties or social organisation. Such categories and rigid dichotomies simply do not resonate in the ‘intersubjective’ realm of markets that adapt

¹⁰³ Simmel, Georg (1955) *Conflict and the Web of Group-Affiliations* (trans.) K.H. Wolff & Reinhard Bendix (New York: Free Press)

¹⁰⁴ Roy, Olivier (2003) ‘Afghanistan: Internal Politics and Socio-economic Dynamics and Groupings,’ WriteNet, 22

¹⁰⁵ *Ibid.*

¹⁰⁶ Tapper, ‘Ethnicity, Order, and Meaning in the Anthropology of Iran and Afghanistan,’ 27

to changing circumstances and respond dynamically to both pragmatic constraints and social needs. The issue of tribal politics within the hawala system demonstrates how identities are not static, but rather ‘a matter of negotiation’ that is dictated by a combination of changing opportunities, tactics, and social affiliations.¹⁰⁷

Once again, with historical perspective, it is possible to see that the hawala system is neither defined by a single institutional or cultural logic, nor takes place in a purely abstract world of ‘economic rationality’. Instead, the fieldwork finds in the contemporary context of war and migration that the current hawaladars employ a diversity of network strategies including retreat into parochial allegiances and exit into alternative networks – a constantly shifting combination of ritual and rationality.

The next chapter builds on the present discussion of local linkages and progresses to the global level, where migratory patterns and wider institutional processes continue to influence the restructuring of current network organisation among Afghanistan’s money dealers.

¹⁰⁷ Glatzer, ‘War and Boundaries in Afghanistan,’ 394



7 Globalisation and the Money Dealer

‘Thirty years ago, during King Shah’s time, an American visited Faizabad and ran out of our currency. He needed to change a 100 dollar bill, so he approached a money changer. The *sarafs* had never seen this strange green money before and had no idea of its value. So they petitioned the Governor of Badakhshan in writing to deal with the man’s request. The Governor called in a businessman and demanded that he change the money. The businessman said he was not sure how much it was worth, but that he vaguely recalled what its value was last year! So they made a guess and gave the American what they thought was fair.’¹

At first glance, little has changed in the thirty years since this American tourist reportedly visited the capital of Badakhshan to the North East of Afghanistan. Due to its location and vulnerability to food insecurity, Badakhshan remains one of the country’s poorest provinces. Major areas are still reachable only by foot, donkey, or helicopter because of the mountainous terrain. It also suffers from some of the world’s lowest social indicators, including the highest rate of maternal mortality ever reported globally.² So what has changed? To begin with, the ‘strange green money’ of the American is now not only well-recognised, it is also widely used in day-to-day transactions at the local provincial level. In fact, as one *ex-mujahideen* commander remarked, ‘Now, Badakhshan has every type of money’.³ As with other equally remote places in the country, the province has rapidly adapted to becoming one of Afghanistan’s important nodes in the delivery and transfer of international funds transfers, from aid money to family remittances, and foreign investment to illicit trade. The question remains as to how these notable changes have come about.

¹ Interview with hawaladar, Faizabad, June 2005.

² According to a UN assessment, 6,500 mothers die per 100,000 live births, while 64 per cent of Afghan women of childbearing age in Badakhshan who die succumb from complications during pregnancy. United Nations (2004) *Common Country Assessment for the Islamic Republic of Afghanistan* (Kabul: October), 54

³ Interview with Ishaq Gailani, Kabul, April 2005.

As has been established so far, part of the answer can be found in the multi-layered conflict system out of which Afghanistan has emerged in recent years. Speaking of Deh Dehi village, situated 20 kilometres from the district centre of Faizabad, Goodhand observes that ‘the conflict has increasingly opened the doors of the village to the outside world’.⁴ Another significant component of this change derives from the not entirely separate processes of globalisation, which blur territorial boundaries and increase opportunities for wider engagement in the global economy through the growing ease in international trade, transportation and communication.⁵ The present chapter examines the contribution of these developments to the Afghan money dealer’s recent restructuring strategies.

It is helpful to note at the outset that one approach to the dynamics of globalisation emphasises the increasing mobility of capital, its dislocation from local responsibilities, and the contribution of ‘black holes’ in underdeveloped nations to the rise in organised crime, while another stresses the importance of locality (or place) as a site for economic transformation and pervasive influence – either negative or positive – on the global setting. Loosely following this debate, the chapter explores how hawala operators have exploited available ‘global connections’ and ‘global financial systems’ in an effort to transform their physical dislocation from international urban centres and gain access to the global political economy.

The first part of the chapter, under the heading of ‘Global Connections’, appraises the role of hawaladars as ‘social brokers’ between the local infrastructure of Afghan communities and the global socio-economic superstructure in which they exist. The money dealer emerges as a kind of ‘hinge’ connecting all aspects of the ‘war economy’ operating throughout Afghanistan; in particular, the overlapping connections of trade and the Afghan diaspora are explored in relation to their influence on the expansion of hawala internationally. The research indicates that, in extracting business from the diaspora, hawaladars have settled operators in both international financial hubs and cities that house large concentrations of Afghans. They have developed a fluid system of re-location to optimise output, and forged strategic partnerships with global traders to stretch their networks. These strategies are examined in light of the hawala system’s broader function in preserving social ties between those dispersed across the international system.

The second part of the chapter, labelled ‘Global Financial Systems’, explores the unique regulatory environment that the increased availability of offshore entities and international banks provides to hawaladars. Dubai and Pakistan emerge as two key sites for

⁴ Goodhand, Jonathan (2000) ‘From Holy War to Opium War? A Case Study of the Opium Economy in North Eastern Afghanistan,’ *Central Asian Survey* 19(2): 273

⁵ Smart, Alan & Josephine Smart (eds) (2005) *Petty Capitalists and Globalisation: Flexibility, Entrepreneurship, and Economic Development* (New York: State University of New York Press)

the expansion of Afghanistan's interlinked trade and hawala markets. Dubai's 'offshore spaces' offer hawaladars the freedom to move their money under the radar of state regulation, and provide the means for transnational engagement beyond the region. Similar linkages are explored briefly in the case of Pakistan, where the problem of money laundering emerges in the context of corrupt government practice and loose banking regulation. The institutions supporting these financial services contribute to 'the simultaneous presence of multiple logics' and 'complex ecologies of meaning' surrounding the contemporary Afghan money dealer, to be explored further in Part 4 of the thesis.⁶

By drawing the contemporary global context of the money dealer into focus, this chapter argues that a better understanding of the conditions that constrain or facilitate the operations of new and old linkages in the hawala system can be reached.

7.1 Global connections

It might first appear strange to include one of the world's poorest countries in a discussion of the global economy, but the decision to do so in spite of Afghanistan's per capita domestic product of less than USD 300, and some of the world's lowest recorded indicators of human development,⁷ goes to the heart of the globalisation debate. Champions of mainstream 'globalisation' theories, whether in the media, academy, or popular debate, promote the idea that recent advances in information and communication technology, air travel, and so on, have set in motion the creation of a 'borderless world', free from the constraint of states. 'Transnationalism'⁸ is arguably the 'new' spatial context in which international relations are now taking place. The most extreme branch of this literature sees either local differences disappear,⁹ the inevitable marginalisation of developing economies at

⁶ Grabher & Stark, 'Organizing Diversity,' 3

⁷ Between 40 and 60 per cent of Afghan children are chronically malnourished, while the under-5 child mortality rate is 172 per 1,000 live births – amongst the world's highest (UNICEF 2004:102). An estimated 40 per cent of urban households and nearly 70 per cent of rural communities do not have access to safe water (UN 2004). And life expectancy stands at only 44.5 years – as much as 20 years less than the regional average for South Asian countries (Statistical Yearbook of Afghanistan 2003).

⁸ See Basch, Linda *et al.* (1994) *Nations Unbound: Transnational Projects, Postcolonial Predicaments, and Deterritorialized Nation-States* (N.Y.: Gordon and Breach); Callaghy, Thomas *et al.* (2001) *Intervention and Transnationalism in Africa* (Cambridge: Cambridge University Press); Castles, Stephen & Mark J. Miller (2003) *The Age of Migration: International Population Movements in the Modern World* (Basingstoke: Palgrave-Macmillan).

⁹ Ohmae, Kenichi (1990) *The Borderless World: Power and Strategy in the Interlinked Economy* (London: HarperCollins). Also see Baylis, John & Steve Smith (eds) (1997) *The Globalization of World Politics: An Introduction to International Relations* (New York: Oxford University Press); Brown, R. (1997) *Globalization and the State* (Oxford: Polity); Dunning, John H. (1997) *Governments, Globalization and International Business* (Oxford: Oxford University Press); Julius, DeAnne (1990) *Global Companies and Public Policy* (London: Pinter); Lévy, Brigitte (1995) 'Globalisation and Regionalisation: Toward the Reshaping of a Tripolar World Economy?' *The International Executive* 37: 349-71; O'Brien, Richard (1992) *Global Financial Integration: The End*

the periphery,¹⁰ or the emergence of ‘a new world, the Fourth World ... made up of multiple black holes of social exclusion throughout the planet’.¹¹ According to the latter view, the only export from these ‘black holes’ that rivals the ‘informational economy’ in terms of its innovation and networked character is the ‘perverse connection’ of international organised crime.¹²

Critiques offered by geographers and scholars of the new economic sociology school suggest that, rather than signifying exclusion, ‘territorial differences and geographical unevenness remain integral to globalising processes’.¹³ Globalisation, in other words, does not displace the properties of localities (as constituted by the spatiality of local people, cultures and social practices) but makes them all the more salient.¹⁴ Henry Wai-Chung Yeung explains further:

Though it invades local contexts of action, globalisation does not destroy them; instead, new forms of local resistance and local expression emerge, reinforcing the interconnectedness of the local and the global, and the multiplicity and hybridisation of social life at every spatial scale.¹⁵

It is important to underline that this approach does not privilege the local context over the global; rather, it insists on recognising that actors and ‘informal’ activities at the local level play a valid and not necessarily criminalised role in the modern globalisation process.

of Geography (New York: Council on Foreign Relations Press); Reich, Robert B. (1991) *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* (New York: Vintage Books).

¹⁰ Hirst and Thompson’s finding that many of the indices of globalisation, such as trade and investment patterns, reveal a stark concentration of ‘advanced industrial economies’ seems to support this view. See Hirst, Paul & Grahame Thompson (1995) ‘Globalization and the Future of the Nation State’, *Economy & Society* 24(3): 408–442, and later (1996) *Globalization in Question* (Cambridge: Polity).

¹¹ Castells, *End of Millennium*, 164

¹² *Ibid.*, 166-205. For further criminalisation perspectives, see Reno, William (2003) ‘Political Networks in a Failing State: The Roots and Future of Violent Conflict in Sierra Leone,’ *IPG* 2: 44-66; Roitman, Janet, ‘Productivity at the Margins: The Reconstitution of State Power in the Chad Basin,’ in (2004) Das, Veen & Deborah Poole (eds) *Anthropology at the Margins of the State* (Santa Fe & Oxford: School of American Research Press & James Currey), 191-224

¹³ Yeung, Henry Wai-chung (1998) ‘Capital, State and Space: Contesting the Borderless World,’ *Transnational Institute of British Geographers* 23: 303

¹⁴ See Grabher & Stark (1997b) ‘Organizing Diversity,’ 24.

¹⁵ Yeung, ‘Capital, State and Space,’ 292. See Amin, Ash (1997) ‘Placing Globalization,’ *Theory, Culture & Society* 14(2): 123-127; Cox, Kevin R. (ed.) (1997) *Spaces of Globalization: Reasserting the Power of the Local* (New York: Guildford Press); Dicken, Peter, Philip F. Kelly, Kris Olds & Henry Wai-Chung Yeung (2001) ‘Chains and Networks, Territories and Scales: Towards a Relational Framework for Analysing the Global Economy,’ *Global Networks* 1(2): 1470-2266 for a similar argument.

The following section explores the role of hawaladars, both established and relative newcomers to the business, as ‘social brokers’, ‘hinge groups’, ‘mediators’, or ‘buffers’ between the local infrastructure of Afghan groups and the global superstructure of the socio-economic system in which they exist. It goes on to explore the overlapping sectors of the war economy and their integral contribution to the liquidity of Afghan money dealers in recent years.

7.1.1 Social brokerage

In the anthropological literature on patronage and clientelist politics, the landed patron is seen to stand as the ‘gatekeeper’ at the boundary of the community and the broader world.¹⁶ Powell explains that, ‘[a]s the twin processes of state and market penetration of the peasant village occur, the patron becomes transformed into a broker, mediating the impact of the larger society on peasant society’.¹⁷ In a similar way, the money dealer is positioned ‘at the critical junctures and synapses of relationships which connect the local system to the larger whole’.¹⁸ Somewhat differently, however, the money dealer mediates *access* to that system instead of offering protection from its pervasive sway.

The money dealer’s unique function in turn places him in the ‘strategic middle’ of the broader social structure that demands his services.¹⁹ In wartime conditions and the context of migration in Afghanistan, this structure comprises the large refugee and migrant population explored in the previous chapter, shadow traders and businessmen, and participants in the combat economy. By providing services to these groups, the money dealer can be seen to form a ‘hinge’ connecting all aspects of the war economy. Table 3 below summarises these disaggregated categories – of ‘coping’, ‘shadow’, and ‘combat’ economies – as originally proffered by Goodhand.

All of the categories have global dimensions and require a brokerage service for the transfer of funds between distant locations. In return, the actors involved supply money dealers with a constant yet fluctuating pool of liquidity, which enables them to settle large transactions where the availability of hard currency is most scarce. This is especially useful in places such as Badakhshan where a transnational hawala business may receive funds from refugees abroad that can be settled by traders in-country.

¹⁶ See Kenny (1960) ‘Patterns of Patronage in Spain,’ *Anthropological Quarterly* 33 (January): 14-23.

¹⁷ Powell, John Duncan (1970) ‘Peasant Society and Clientelist Politics,’ *The American Political Science Review* 64(2) (June), 413

¹⁸ Wolf, Eric, ‘Aspects of Group Relations in a Complex Society: Mexico,’ in Heath, Dwight & Richard Adams (eds) (1965) *Contemporary Cultures and Societies of Latin America* (New York: Random House), 97

¹⁹ Powell borrows this terminology from Belden Paulson to describe the function of traditional landowner patrons. Powell, ‘Peasant Society and Clientelist Politics,’ 414

Table 3: Disaggregated categories of Afghanistan's war economy

	Combat Economy	Shadow Economy	Coping or Survival Economy
<i>Key actors</i>	<ul style="list-style-type: none"> ▪ Commanders ▪ Conflict Entrepreneurs ▪ Combatants ▪ Superpowers 	<ul style="list-style-type: none"> ▪ Transport Mafia ▪ Downstream Actors ▪ Businessmen ▪ Profiteers 	<ul style="list-style-type: none"> ▪ Vulnerable families ▪ Poor Communities
<i>Motivations</i>	<ul style="list-style-type: none"> ▪ Fund war effort ▪ Achieve military goals 	<ul style="list-style-type: none"> ▪ Profit on the margins of conflict ▪ Exploit lack of strong state and highly liberal economy 	<ul style="list-style-type: none"> ▪ Cope and maintain asset bases through low-risk activities
<i>Key activities and commodities</i>	<ul style="list-style-type: none"> ▪ Taxation ▪ Money, arms, equipment and fuel from external state and non-state actors ▪ Economic blockades of dissenting areas ▪ Destruction of means of economic support ▪ Asset-stripping and looting 	<ul style="list-style-type: none"> ▪ Opium economy ▪ Cross-border smuggling, including high-value commodities (precious stones, antiquities, rare fauna) ▪ Mass extraction of natural resources (timber, marble) ▪ Hawala ▪ Aid manipulation 	<ul style="list-style-type: none"> ▪ Diverse livelihood strategies to spread risk ▪ Subsistence agriculture ▪ Petty trade and small businesses ▪ Agricultural wage labour ▪ Labour migration and remittances ▪ Redistribution through family networks ▪ Humanitarian assistance
<i>Impacts</i>	<ul style="list-style-type: none"> ▪ Disruption of markets and asset bases ▪ Violent redistribution of resources and entitlements ▪ Impoverishment of politically-vulnerable groups ▪ Out-migration of educated people 	<ul style="list-style-type: none"> ▪ Concentration of power and wealth ▪ Increased vulnerability in patron-client relationships ▪ Circumvention of customs duty and sales tax in Pakistan, undercutting local producers ▪ Increased drug use 	<ul style="list-style-type: none"> ▪ Coping: Potential reinforcement of social networks ▪ Survival: Potential negative or regressive coping strategies ▪ Lack of long-term investment ▪ Long-term capital effects on human capital (lowering levels of health, education)

Source: Adapted from HPG Background Paper.²⁰

The availability of diverse funding sources has helped hawaladars avoid becoming dependent on a sole group for external resources. They now appear to be in a position whereby they can draw from local, criminal, international, and state sources, and exert new forms of control over the market as a result, whether it be during war or in the transition to a peace economy.

Because of the vital capital base that 'coping', 'shadow', and 'combat' cash flows provide to the money dealer's operations, hawaladars have adapted and moved to places where it is easier for them to service these aspects of the economy. The following section considers these strategies in more detail.

²⁰ HPG Background Paper (2003) 'Profits and Poverty: Aid, Livelihoods and Conflict in Afghanistan,' Bhatia, Michael and Jonathan Goodhand, with Haneef Atmar, Adam Pain and Mohammed Suleman, Overseas Development Institute, Background Research for HPG Report 13, 4

7.1.2 Re-location strategies

The partnerships and relocation strategies of convenience store owner Amin, presently located in Australia, demonstrate how Afghan money dealers successfully interweave local contexts with global patterns. Amin explains:

‘I did this money transfer in Afghanistan. Before I came to Victoria, I was in Perth. I started this money transfer in 2002. After that I went to Pakistan, and then I came back in 2004, and I continued money transfer. In Afghanistan, I have a partner in Kabul, Mazar-e Sharif and Herat. In Pakistan, I have a partner in Karachi, Islamabad and Peshawar. And also I have a partner in Iran, Tehran, and China.’²¹

In order to develop these links, Amin lived a rather peripatetic life. He finally resettled in Victoria for two reasons: first, there were more business opportunities for him there because of the greater concentration of Afghan refugees and migrants, and secondly, his family had recently acquired Australian citizenship through the family reunification programme and it seemed to be an appropriate time to move.

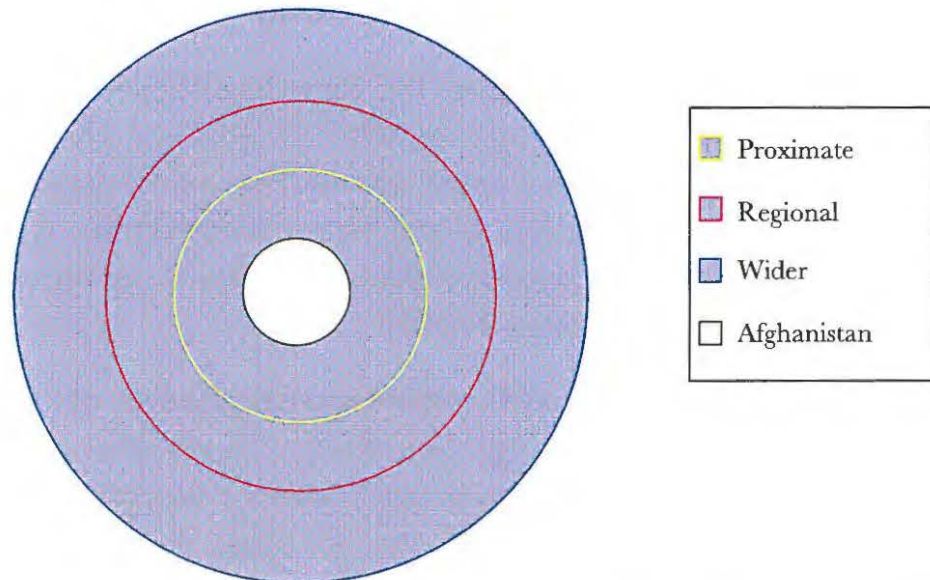
As with most other local dealers, Amin’s customers each send several hundred dollars per transfer, either weekly or monthly. Over some weeks, this can add up to AUD 30,000. While the end-recipient might be a family member in Afghanistan, the funds are actually remitted circuitously from Amin’s shop to a partner in China or Japan. There, the pool of money is used to purchase and import items unavailable in Afghanistan, such as electronic or manufactured goods. The partner in Herat will receive the goods and sell them on for a profit. The money gained from the sale of commodities provides the business with assured liquidity and the local currency necessary to provide the recipient with his or her funds. This is an example of where the ‘coping’ and ‘shadow’ economies converge.

While the hawala system has a purely commercial function in one sense, in another it plays a social role in the preservation and reproduction of relations among Afghans. This can most clearly be seen through the different contours of the diaspora which, as in Figure 11, can be depicted roughly as forming three concentric circles: at the centre’s periphery is the *proximate* diaspora, consisting mainly of refugees in neighbouring countries such as Pakistan and Iran; at the second level is the *regional* diaspora, comprising refugees and labour migrants in the Gulf states, such as Saudi Arabia and the United Arab Emirates (UAE); and, lastly, inside the outer rim is the *wider* diaspora, where those spread among

²¹ Interview with hawaladar, Victoria, Australia, December 2005.

affluent Western countries can be found, such as in Germany, the United Kingdom (UK), and Australia.

Figure 11: The Afghan diaspora



The networks of Afghan migrants and refugees in the *proximate* diaspora provide one of the most important sources of financial support for those in the homeland – Monsutti reports that Afghans claim with bitter irony that these remittances are the ‘drip’ that keeps them alive.²² Those within this layer of the diaspora also remain some of the greatest recipients of remittances from further afield. Research interviews with refugees in Peshawar camps confirmed that remittances from the wider diaspora are central to the coping strategies of those in the proximate diaspora. One woman recalled:

‘We had nothing. My brother’s family in Australia sent us money regularly through the hawala system so that we could just survive.’²³

Interviews with relatively affluent refugees settled in the wider diaspora, such as the UK and Australia, revealed a similar attitude that underscored the importance placed on the provision of financial support to those in the homeland or proximate diaspora, whether to meet subsistence needs or to contribute to a celebration of some sort, like a wedding or engagement. Edward Said’s suggestion that ‘the exile sees things both in terms of what has been left behind and what is actual here and now’ is certainly appropriate in these instances.²⁴ As long as this ‘double perspective’ remains in the minds of the diaspora, and

²² Monsutti, *War and Migration*, 242

²³ Interview with Farnaz, Peshawar, June 2005.

²⁴ Said, Edward (1994) *Representations of the Intellectual: The Reith Lectures* (London: Vintage Books), 44

the hawala networks continue to provide a financial link between family members across different locations, those from the 'old country' arguably hold a better chance of survival.

Some of the families that sought protection in Pakistan and Iran explained during the course of the research how, in addition to relying on remittances from abroad, they also pool resources to cover the cost of one family member's travel – most often a male relative – to an industrialised country in search of further financial support. This individual in turn relies on the money dealer's partnerships overseas to remit money back to his family members in the proximate diaspora. On the flipside, these migrants play a crucial role in the restructuring of hawala operations around the global economy for their networks spread out to other centres in both the regional and wider diaspora.

As well as assisting refugees and migrants to maintain strong links with home-bound or displaced relatives through the facilitation of long-distance funds transfers, hawaladars also provide local people with one of the only means for communicating by phone with these contacts. At one of the hawala kiosks at Keyfayat market in Mazar-e Sharif, a passer-by reported: 'Yesterday I waited three hours till I could speak with my relatives in London. There were too many people in the queue. But at last I could be connected'²⁵

Hawaladars have updated their operations and taken maximum advantage of the latest modern communication and information technology on offer not only to cater for the needs of such people, but also to keep pace with the rapid globalising processes in other parts of the world. The cluttered roof of the Sarai Shahzada market in Kabul, covered with hundreds of satellite dishes, is testament to this change. The internet has also accelerated communication between customers and hawaladars, and between hawaladars themselves. In one interview with a national NGO employee, a question arose relating to the organisation's hawala operator; I was advised to ask the dealer directly.²⁶ The interviewee swiftly turned to his computer, connected to an internet chat page, and sent him an email. The response came within seconds. This is a practical example of how Afghans are gradually forming part of the world's 'wired society' through the reinforcement of links between local and transnational sites.²⁷

²⁵ Interview with man at Keyfayat market, Mazar-e Sharif, June 2005.

²⁶ Interview with UNAMA employee, Mazar-e Sharif, June 2005.

²⁷ See Mosco, Vincent (2004) *The Digital Sublime: Myth, Power, and Cyberspace* (Cambridge & London: MIT Press).

Figure 12: Kefayat Market, Mazar-e Sharif



Source: Fieldwork.



Indeed, some money dealers speak less of partnerships in their description of convenient nodal points that make transactions in the money business possible, and more of links: ‘I have no partners, just links,’ explained one hawaladar based in Saudi Arabia.²⁸ Samuel Maimbo’s account below of a money dealer’s transnational linkages illustrates well the possibilities available to hawaladars for such cooperation across borders:

When a money exchange dealer wants to transfer money from Kabul to Sydney, he does not necessarily need to know somebody in Sydney. It might be sufficient for him to know someone in Peshawar, who in turn might know somebody in Dubai, who finally might have a contact in Sydney. At the end of a given period, the three money exchange dealers need to settle their accounts.²⁹

This particular example exposes the complexity of connections that are often activated in one set of hawala transactions, and shows the importance of the wider set of trade linkages to which the money dealer above refers. These connections across long distances could be viewed either as a continuation of historic trade patterns that existed hundreds of years prior, reconfirming Afghanistan’s earlier status as a land corridor linking Southern and Central Asia, or rather as a sign of the recent trend away from structuring networks mainly around family and kin.

²⁸ Interview with hawaladar, Peshawar, April 2005.

²⁹ Samuel Manuel Maimbo, cited in (2005) ‘The Other Moneytraders,’ *ABC Radio National Background Briefing* (4 December)

Interviews revealed that the intensification of unofficial trade with China has led to the exponential growth in the need for international financial transfers between Afghan, Pakistani and Chinese companies. Traders and money dealers have developed various strategies to ease transactions between what might on the surface appear to be private and insulated networks. Johar Shinwari provides an insight into some of these strategies. The Shinwari clan is the most powerful tribe in the NWFP of Pakistan. Members of the clan live along the border with Afghanistan in autonomous districts controlled by themselves, with little interference from the Pakistan government. Johar works in a company owned by his two elder brothers, which was set up exclusively to deal with the Afghan transit trade. It primarily facilitates trade, but also handles the financial transactions of those conducting the trade. The brothers have dispersed their kin to various financial centres across the immediate region and beyond. Johar is based in a provincial town of China. He says:

‘If you came to see me at work, you wouldn’t even know you were in China.’³⁰

The shops have fronts and deal only in hawala secretly. The shop owners connect with Chinese counterparts and commonly use Egyptian interpreters who intervene for them in trade deals with the local population.³¹ In such cases, a Pashtun trader would communicate with an Egyptian in Dari who presents the message in English to the Chinese trader. There might also be other intermediaries who translate instructions from English to Cantonese. Each are given a cut in the transactions they facilitate. Johar also acts on behalf of importers in Pakistan wishing to export Chinese goods. After receiving confirmation of payment from such clients to his brother in Peshawar, he transfers the funds to the Chinese exporter and arrange for the transport of goods back to Pakistan through the family’s extensive business networks.

The extent of Afghanistan and China’s informal trade linkages is reflected in the proliferating number of Afghan businesses registered as Chinese companies in Asian ports. The majority of traders interviewed in downtown Peshawar suggested that their previous reliance on religion as an infrastructure to facilitate trade between such vast distances and across different cultures is being replaced by intensified commercial interaction with overseas businesses based on more rational economic decisions, such as in the case of China.³²

³⁰ Interviews with Johar Shinwari and other traders in Peshawar and Kabul, January - June 2005.

³¹ *Ibid.*

³² Information gleaned from interviews with both Pakistani and Afghan traders in Peshawar, June 2005.

In addition to improved information and communication technologies, there is at least one other crucial addition to the operating environment in which the ancient trading tradition of hawala exists – international banks. Banks provide hawaladars with an unprecedented speed in monetary transactions which enables them to manage a much larger client base and volume of trade: ‘I started trading with the Chinese after I left Kabul during Taliban. I have never had a problem with them. We use TTs and formal banks to move money. The electronic systems have transformed our efficiency in transferring this money,’ explains Khan Muhammad.³³ Registered with AUSTRAC, Amin’s convenience store in Melbourne holds several bank accounts with a local Australian financial institution. The funds are wired through telegraphic transfer to his counterpart in China, who in turn transfers the money from his local Shanghai account to various Chinese exporters. Money is also sent to various intermediaries in the Gulf who are responsible for the reception of goods in Dubai, and onward shipment to Afghanistan.

Somewhat remarkably, then, ‘small-bit’ players such as Amin not only cater for their local community in selling Afghan food at his convenience store; they deliver funds to relatives 5,000 miles away by plugging into a financial network that spans key banking centres across the world. The next section turns to an analysis of these systems and their influence on the ways in which Afghan hawaladars have restructured their networks.

7.2 Global financial systems

7.2.1 Offshore spaces

‘Dubai is at the centre of it all,’ explained one man sitting on the edge of a crumbled mud-baked kerb overlooking Kabul River.³⁴ At the time, it was difficult to imagine that the oil-rich United Arab Emirates and war-torn Afghanistan could ever be anything but the most unlikely of bedfellows. Transit through the opulent stretch of Dubai International Airport en route to Kabul, where within the space of a few hours the crisp white cotton that draped local Sheikhs from head to toe transmutes to the shabby *shalwar kameez* that covers the slim shoulders of baggage handlers at the other end, makes plain the difference.

Beyond the disparity in physical appearance of the two countries, however, they are connected by a long history of business and trade relationships and dependence on entrepreneurialism for survival.³⁵ Today, these two factors meet most vividly in the

³³ Interview with Khan Muhammad (hawaladar), Peshawar, May 2005.

³⁴ Conversation with Aziz, Kabul, April 2005.

³⁵ A recent obituary of Sheikh Maktoum bin Rashid al-Maktoum noted that in his combined roles as Emir of Dubai, Vice-President and Prime Minister of UAE, he encouraged government ‘to adopt an

'offshore world' – understood to be the key legal, social and political innovation of globalisation, or in Cameron and Palan's words, 'the new, defining spatial form of the global age'.³⁶ The offshore world is articulated through a variety of institutional forms and practices, but the most common manifestations of it in Dubai are the ubiquitous 'Free Zone Authorities' (FZA). These were established 'to complement and contribute to Dubai's growth and development' in anticipation of the inevitable decline in oil reserves.³⁷ Companies operating within FZA are treated as 'offshore' entities in that they fall outside the UAE's judicial boundaries. This special legal status provides the following benefits: 100 per cent foreign ownership; exemption from all import duties; 100 per cent repatriation of capital and profits; and freedom from corporate taxation.³⁸

As licensed 'Free Zone Enterprises', companies are thus exempted from any regulatory or taxation regime. These features have made Dubai one of the most attractive transit points for Afghan imports, whether they be cars arriving from Japan and Germany, electronics sent from China, or edible oil exported from the Gulf. Fieldwork conducted at the Jebel Ali Free Zone Authority (JAFZA), established in 1985 with the specific purpose of facilitating investment, confirmed that many registered Afghan export/import businesses are taking advantage of these incentives.

In the maze of export processing and free zones found under the supervision of JAFZA, the trade in cars seemed to be the most conspicuous commodity chain to follow. The Dubai Cars and Automotive Zone (DUCAMZ) covers a 1 million square metre bonded area that was established 'with the objective of re-exporting cars to the Asian and African region, where the demand exists and continues to grow'.³⁹ The Afghan car dealers that operate there are able to make use of Dubai's global transport and distribution system, which includes ports served by a large and growing number of international lines. The 'gateway' to this global centre of trade is neighbouring Iran, which has consistently ranked as the primary destination of Dubai re-exports and its free trade zones over the past 10 years.⁴⁰ In the first

entrepreneurial mentality' because he was 'never a believer in the public sector'. *Daily Telegraph* (2006) 'HRH Sheikh Maktoum al-Maktoum' (5 January)

³⁶ Cameron, Angus & Ronen Palan (2004) *The Imagined Economies of Globalization* (Thousand Oaks, C.A.: Sage), 105

³⁷ See *ibid.*, 98; Khaleej Times (2004) 'A Businessman's Guide to Dubai – Setting up Business in the Jebel Ali Free Zone,' <<http://www.khaleejtimes.co.ae/handbook/jafz.htm>>.

³⁸ An ILO study (1998) observes that 'the free trade, foreign-investment and export-driven ethos' that underpins the FZAs 'has transformed them into 'vehicles of globalisation'' (cited in Cameron & Palan, *Imagined Economies of Globalization*).

³⁹ Dubai Cars & Automotive Zone (2005) 'Introduction,' accessed in December 2005 at <<http://www.ducamz.co.ae/about/index.html>>

⁴⁰ With a minor drop in 2004 to second position.

quarter of 2005 alone, Iran absorbed 35 per cent of the market.⁴¹ As a result of this high volume of trade, Dubai's feeder services to Iran have been continually upgraded and equipped with the latest cargo handling facilities.

The majority of Afghan imports benefit from this improved transportation infrastructure as the goods enter Dubai through its various ports, and in turn pass by sea to Iran's port at Bandar Abbas. They then travel by road to Islam Qala in Western Afghanistan, and on to Herat Customs – if, of course, the traders manage to resist the temptation of diverting their course through Southern Afghanistan and over into Pakistan for further sale. A large number prefer this alternative route because of the opportunities for informal trade with Pakistan created by the government's exorbitant tariffs levied on cars. A tribal Pashtun trader based in the gold market at Chowk Yadgar estimates that:

'... for the same car, you can pay 3.6 million rupees through the legal channel, or 0.5 million rupees through a smuggler. It's not difficult to work out which category the 40,000 or so cars that roam the five tribal districts in [Pakistan's] NWFP fall into.'⁴²

As Loveless suggests, most trade with Dubai is driven by differential tariffs and regulatory or taxation regimes that exist between states.⁴³ This makes Afghanistan a rather easy bedfellow of UAE because of its lack of rigorous control over cross-border traffic. Afghanistan is frequently used as a corridor for the region's trade, where goods quite literally disappear into its unregulated spaces, only to reappear again in neighbouring countries that are unable to trace the origin of the goods. In one sense, Afghanistan can be seen as an informal mirror to the formally constituted offshore practices of Dubai – both operate in ways that facilitate the unregulated 'space of flows' of globalisation, as Castells calls them.⁴⁴

Accompanying the large trade flows in the region are even larger monetary flows that finance deals. Dubai is widely recognised as the central 'clearing house' for hawala transactions,⁴⁵ or in Ballard's words, the 'lynch-pin of the contemporary global hawala system'.⁴⁶ Over the past twenty years, then, together with the use of the Emirates' 'zones of

⁴¹ *Arabic News* (2005) 'Dubai re-exports to Iran reach 35 percent of total' (18 August), accessed in December 2005 at <<http://www.arabicnews.com/ansub/Daily/Day/050818/2005081840.html>>

⁴² Interview with Amaar, trader in Chowk Yadgar, Peshawar, April 2005.

⁴³ Loveless (2001) 'An Analysis of Socio-Economic Processes Affecting the Vulnerable Population of Kabul (June), Unpublished report for ICRC, 8

⁴⁴ Castells, Manuel (1996) *The Rise of the Network Society, The Information Age: Economy, Society and Culture*, Vol. 1 (Cambridge, M.A.; Oxford, UK: Blackwell)

⁴⁵ Discussions with Somali, Sudanese, and Afghan hawala dealers in Dubai, March 2005.

⁴⁶ Ballard, Richard (2003) 'Hawala Transformed: Remittance-driven Transnational Networks in the post-Imperial Economic Order,' Revised version of a paper presented at a World Bank/DFID International Conference on *Migrant Remittances: Development Impact, Opportunities for the Financial Sector and Future Prospects*, London (9-10 October), 13-15

convenience', Afghan hawaladars have linked up to the sophisticated banking infrastructure of Dubai's 'offshore spaces'. This has resulted in what one Pakistani bank manager calls 'a jugglery of accounting',⁴⁷ which includes a complex web of banking and trade partnerships across the world.

As we have established with car re-exports, customers operate within a 'free' financial space where there are no foreign exchange controls, quotas or trade barriers, import duties are extremely low, and many products are exempt (see Figure 13 below). Because the market was created by the leaders of UAE, and with the support of the international financial community, Dubai offers the 'legitimate' space out of which hawaladars can settle their accounts and move money freely under the radar of state interference or regulation. Dubai is thus the ideal partner for a system such as hawala, which has for centuries existed largely out of public view, and whose mechanisms have made it inherently resistant to outside formal regulatory regimes.

Figure 13: Financial offshore services advertisement⁴⁸

CORPORATE PACKAGE – OFFSHORE IN DUBAI! NEW!	
	Complete Confidentiality of your business
	No Records of your accounts
	Highly advanced and secured Banking System geared towards international investors
Avoid Tax in your country and invest in Dubai	
For further enquiries Click Here	

The external legitimisation that Dubai supplies to the hawala system comes at an invaluable time when the suspicion among global financial regulators and law enforcement agents has been heightened by sensationalist media accounts in the West and US policy statements that tout it as 'a banking system built for terrorism'⁴⁹. This misconception has partly been fostered for reasons relating to the hawala system's distinctness from the perceived 'legitimate', transparent, and legal spaces of formal banking. The areas of distinction include the following: a lack of consistency across the hawaladars' accounting and book-keeping systems, which makes the task of auditing a pain-staking and difficult process; the delivery of funds in consolidated tranches, which often masks the point of origin; and the client relationships, which are based on trust and repeated interaction, rather than on the approval of Know Your Customer (KYC) guidelines. A major hawaladar who has been based in Chowk Yadgar in Peshawar for 15 years illustrates one approach to

⁴⁷ Interview with Mohamed Atif, bank manager, Peshawar, April 2005.

⁴⁸ The advert appeared at <www.uaefreezones.com> in January 2006.

⁴⁹ *Time* magazine, cited in de Goede (2003). Refer to de Goede's article for an excellent discussion on the negative stereotyping of hawala.

bookkeeping, and provides an insight into how flexible the money dealers can be to increased regulatory oversight:

‘Our bookkeeping varies. We keep a big book for each client – temporary clients or miscellaneous transactions are in another book. But the permanent clients with routine transactions each have their own book. We use one big book during the day for all transactions, then move the specific transfers to the others once we have managed settlement. It used to be a bit simpler because we had single accounts, but since 9/11, we now have to transfer to companies. So the money reaches the exporter indirectly through a company name. It’s no major problem, we just create company names.’⁵⁰

This example also highlights that, while the informal structure of hawala can provide criminals with the cover of anonymity and an opportunity to launder money, it is impossible to view the system in isolation from the formal banking sector. In fact, without the regulatory regimes of cities such as Dubai, the hawala system would not have a platform from which to integrate fully into the global political economy. Contrary to popular belief, it is the globally sanctioned FTZs of Dubai – rather than the cunning, crookedness, or inherent criminality of the hawaladars themselves – that provide the dealers with the strongest link to the global economy. Once a transaction is processed within Dubai’s offshore spaces, for example, it can then be wired in less than a few seconds to any international bank where there is a correspondent relationship. One hawaladar in Dubai mentioned that, ‘People no longer go to the bank here. Everything is done electronically’.⁵¹ Corroborating this view of today’s ease in moving money, an elderly Pakistani-based hawaladar commented that:

‘It used to take 2 weeks to 1 month to receive a letter sent from Dubai, but now, if I need money from my account there, it appears within the hour, on a screen, just like that.’⁵²

As mentioned above, these factors have revolutionised the ancient system’s ability to deliver fast and efficient payments.

7.2.2 International banks

In addition to the financial services provided by centres like Dubai, other countries without offshore institutions but with weak regulatory structures also provide hawaladars

⁵⁰ Interview with Haji Askar (hawaladar), Peshawar, April 2005.

⁵¹ Interview with hawaladar, Dubai, March 2005.

⁵² Interview with hawaladar, Peshawar, May 2005.

with necessary steps in gaining access to the global economy. Interviews with hawaladars in Pakistan often had to be arranged around the bank opening and closing times, so that deposits and withdrawals could be made before the day's end. This is very different from the experience of hawaladars in Dubai where a large proportion of transactions are conducted electronically.

In Peshawar, banks tend to open branches in and around Chowk Yadgar and Karkhano market in the knowledge that they will attract the important custom of hawaladars and smugglers. A narrow street of gold and silversmith shops running off Chowk Yadgar, called Andarshah Bazaar, is home to the lucrative gold trade, which also appears to be linked closely to the money business and in need of access to banks. 'Guess how big this shop is,' was the first question posed during fieldwork there:

'It's 5x11 feet and cost 1.5 million rupees to buy 2 years ago. We deal in millions of US dollars within such a small space and have links to Karachi, Pindi, Lahore, Quetta and the rest. ... People trust me. I've been in the business since 1976. The real big men controlling all this gold are Indian. They facilitate the deals with London and Dubai. There are certainly hawala men specialising in these things. Out of hundreds of currency exchange dealers here, maybe 30-35 combine gold business with the money transfer.'⁵³

On the day of an interview at one bank situated close to Andarshah Bazaar, a customer deposited USD 16.6m, only to withdraw it again the following day. 'We know by their transactions that they're hawala,' confided one branch manager; '2-3 million rupees per transaction is simply not routine'.⁵⁴ Under Pakistan's law, it is explicitly forbidden to open and maintain accounts for these customers,⁵⁵ but bank managers disclose that they are forced to break the rules.

'Last month, I continued to feel bullied by the management in Lahore. They weren't satisfied with my answers when I told them why I had refused to open accounts for these hawala. Two days later, the chief manager of Human Resources was here – ensuring KYC guidelines, enjoying DSA,⁵⁶ and such like that. *Yes sir, we'll do it, insha'allah*, we would say, knowing that it was all a

⁵³ Interview with gold trader, Peshawar, May 2005.

⁵⁴ Interview with bank manager, Peshawar, May 2005.

⁵⁵ Jost, Patrick M. & Harjit Singh Sandu (2000) 'The Hawala Remittance System and its Role in Money Laundering' (Lyon: Financial Crimes Enforcement Network/INTERPOL General Secretariat)

⁵⁶ DSA denotes Daily Subsistence Allowance, which includes payment for meals and other expenses on business travels.

front. I felt like going out to the world and saying, *if you're a hawala, who cares? Come, I'll open an account for you!*⁵⁷

This banker explained what is behind the pressure: June is the month of 'closing time', so by the end of the month the bank must hold sufficient reserves to meet its deposit target. During these periods, bankers are actively encouraged to seek new business in order to meet the target and maintain a competitive edge with the other banks. A major problem, according to the banker, is that 'a shopping trip doesn't always bring you good purchases!'.⁵⁸

Just as in both the hawala business, where dealers 'turn a blind eye to everything suspicious as long as they can see a profit on the horizon',⁵⁹ and the offshore world, which is governed by 'purely economic rules' and 'occasional opportunism',⁶⁰ Pakistani bankers seem to be encouraged in some areas not to distinguish on moral grounds between different sources and types of funds. Where the dividing line between 'licit' and 'illicit' transactions is already blurred in a world of deterritorialised capital, there is a risk that criminal money will become even more entwined with clean transfers if there is no will to govern 'money on the move' properly. Political corruption contributes to this risk. 'During the Taliban,' one Afghan explains:

'...people took bribes indirectly. The *saraf* in Peshawar would give money to him, paper exchanged; they were agents, like middlemen. Similar to the Western accountants, no? Corruption is made to disappear.'⁶¹

Pakistan has a murky past in this respect. In 1991, state linkages with the Bank of Credit and Commerce International (BCCI) – coined by the director of the CIA in 1998 'the Bank for Crooks and Criminals International' – were uncovered in the largest case of organised crime and money laundering in history.⁶² The inquiry into BCCI found that the bank was not controlled by anyone,⁶³ its founder, Agha Hasan Abedi, is described as effectively creating:

⁵⁷ Interview with bank manager, Peshawar, May 2005.

⁵⁸ *Ibid.*

⁵⁹ This is the view of Abdul Rafur Arian, an elderly UNODC opium surveyor in Afghanistan, and was confirmed by most hawaladars interviewed within Afghanistan.

⁶⁰ Cameron & Palan, *The Imagined Economies of Globalization*, 105

⁶¹ Interview with Engineer Jawed, Head of Help the Afghan Farmers Organisation, Kabul, May 2005.

⁶² For a lengthy discussion of BCCI's operations, see Senators Kerry & Brown's report (1991) 'The BCCI affair: A Report to the Senate Committee on Foreign Relations by the Subcommittee on Terrorism, Narcotics and International Operations, 102nd Congress, 2nd Session' (Washington DC: US Government Printing Office).

⁶³ Passas, Nikos, 'I Cheat Therefore I Exist? The BCCI Scandal in Context,' in Hoffman, W. Michael, Judith Brown Kamm, Robert E. Frederick & Edward S. Petry Jr. (eds) (1994) *Emerging Global Business Ethics* (Westport, C.T. & London: Quorum Books), 69-78

... the world's first truly stateless multinational corporation, a bank with offices all over the world, incorporated in Luxembourg and the Cayman Islands, run by a 'joint personality' executive that had 'no geographic location'. ... BCCI was both everywhere and nowhere, a Third World bank operation out of a First World city.⁶⁴

While it is true that no other bank of its time presented such a spatially dislocated profile, this image of a 'truly stateless bank' exonerates those who provided the essential institutional conditions for it to flourish. The findings of several public enquiries indicate that Pakistan created abundant political spaces for BCCI to operate in the region. These included a platform for the CIA to channel its financial support to the *mujahideen* through the bank's branches, and avenues for 'narco-barons' to launder their lucrative trade in heroin. As one local commentator in 1997 put it, 'Pakistan is silently and visibly being kidnapped by narco-barons. They can influence and buy anyone at any level in any department. The judiciary, the civil administration and the police cooperate and coordinate with narco-barons'.⁶⁵ While opium traffickers across the region provide a crucial link for hawaladars in the exploitation of global markets, it appears that the Pakistani state has consistently created the space out of which they can integrate their profits. Hence, the responsibility for the insinuation of hawala into the international financial system, and subsequent use or abuse, must also be shouldered by states such as Pakistan, without whose institutions the extent of such economic activity would be impossible.

As the next chapter will demonstrate, the level of Pakistan's political accommodation is helpful for our understanding of why Afghanistan's criminal economy is oriented primarily towards its neighbour.⁶⁶ Such information should, however, be viewed in light of Pakistan's vital role in the delivery of more benign funds, such as remittances and development aid, due to its corresponding bank networks that stretch out to all international financial hubs. Over the past two decades, when Afghanistan's formal banking institutions suffered a complete collapse, it is clear that Pakistan substituted the financial and physical infrastructure necessary for Afghan hawaladars to access the global economy.

⁶⁴ Beaty, Jonathan & S. C. Gwynne (1993) *The Outlaw Bank: A Wild Ride into the Secret Heart of BCCI* (New York: Random House), 130

⁶⁵ Quayoom, Khalid (1997) 'Baluchistan Provides Drug Route to World Markets,' *Nation* (15 July)

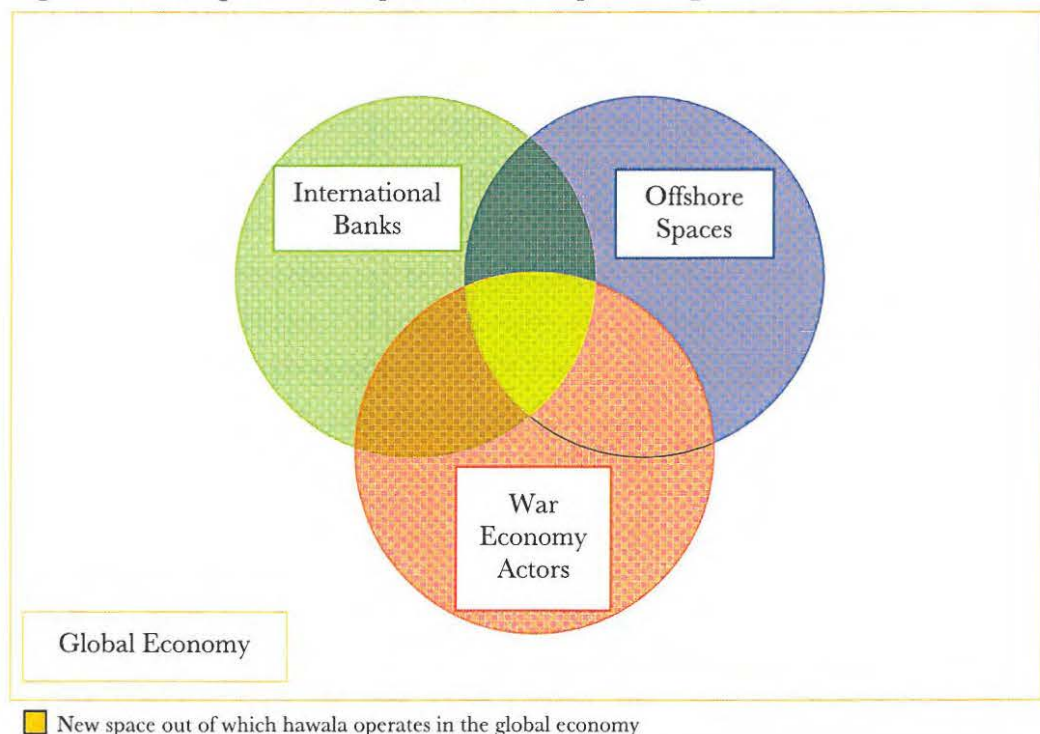
⁶⁶ Pakistan is now the primary mechanism by which drug payments are delivered inside Afghanistan. Although most hawaladars in the country's largest opium-producing areas, Kandahar and Helmand, identified London as their main source of drug orders, it was explained that payments are routed to Afghan partners in UAE and Pakistan, where the money is reinvested or used to settle other transactions. See Thompson, 'The Nexus of Drug Trafficking and Hawala in Afghanistan'.

7.3 Black holes and the borderless world

In conclusion, fieldwork for this chapter indicates that there is an important middle road between the two discourses on globalisation outlined at the start of this chapter. By combining the approach of the ‘ultraglobalists’ with that of the ‘hypercritics’, it has been possible to challenge the traditional statist view that marginalises and localises private actors, and to build a picture of the significant potential impact of Afghan money dealers as a sub-state group on the global-level architecture through an analysis of the dynamics behind their global integration. A local context enhances the global perspective because it reveals the ‘multiple ties and interactions’ that link people across the borders of nation-states.⁶⁷ These interactions are accountable for Badakhshan’s change from the rural outpost of three decades ago, where the ‘strange green money of the American’ baffled local hawaladars, to a globally integrated node in a transnational network, where ‘every type of money’ can be found. Once this trans-local perspective is established, researchers have a better chance of analysing the specific social and economic implications of globalisation on local communities, rather than expelling them to the ‘black holes of social exclusion’.

As with entrepreneurs of all persuasions across the world, from the largest business operators to the smallest petty trading associations, it appears that Afghan hawaladars have

Figure 14: Convergence of three preconditions for global integration of hawala



⁶⁷ See Dicken *et al.* ‘Chains and Networks, Territories and Scales’; Vertovec, Steven (1999) ‘Conceiving and Researching Transnationalism,’ *Ethnic & Racial Studies* 22(2) (March): 448.

been quick to capitalise on flexible regulatory schemes and new opportunities arising from the global political economy. Through the provision of services to participants in Afghanistan's 'war economy' (incorporating 'coping', 'shadow', and 'combative' elements), entry into offshore spaces, and exploitation of international banks, hawaladars have realigned their activities to suit the changing domestic and international environment, and harnessed the potential for developing close interlinkages between financial markets around the world. Figure 14 above depicts how these three separate components of globalisation – war economy actors, offshore spaces, and international banks – converge to provide the conducive institutional environment and preconditions for the global integration of Afghanistan's hawala system. Depending on the strategies employed, it appears that this new space allows hawaladars the opportunity to gain entry to the global economy and transform its local context.

On the one hand, the research confirms that globalisation has indeed led to what Cohen terms 'a new monetary geography'.⁶⁸ But while the conceptualisation of this 'space of flows' is helpful for our understanding of capital mobility, it gives the false impression that the world is spinning somewhat out of control. Our exploration of Dubai's offshore spaces is an example of where deliberate state engineering creates a seemingly 'borderless' world of finance, in which national supervisory, risk-regulating and behavioural standards no longer apply. Through the exploration of hawaladars' re-location strategies we have seen how 'capitalists can increasingly free themselves from particular geographical constraints', often with the complete support of a nation-state.⁶⁹ Accounts of globalisation as 'placeless and stateless', however, neglect that 'offshore' is physically located within national territories and is defined by national authorities.⁷⁰

In addition, the research on economic globalisation that depicts people and capital as floating in 'a planet-spanning ... virtual ... arena of activity' fails to account for the agency behind transnational financial flows.⁷¹ Contrary to the culturally determinist accounts of the 'informal' economy, money tends to be conceived of at the other extreme as a homogenous, impersonal instrument that replaces personal associations with purely calculative ties. But as this chapter has shown, money is a social medium shaped by networks of personal relations,

⁶⁸ Cohen, *The Future of Money*, 1

⁶⁹ Harvey, David, 'The Geopolitics of Capitalism,' in Gregory, Derek & John Urry (eds) (1985) *Social Relations and Spatial Structures* (London: Macmillan), 145

⁷⁰ See Cameron & Palan, *Imagined Economies of Globalization*, 90.

⁷¹ Vertovec, 'Conceiving and Researching Transnationalism,' 448

and settles in the world's financial system 'not as simply a matter of *economics*, but as a product of people's *practices*'.⁷² 'A world economy is propelled,' argues Robin Cohen, by:

... many social and economic actors, including states, international organisations, and TNCs. These may be the sinews binding the ends of the earth together, but the flesh and blood are the family, kin, clan and ethnic networks that organise trade and allow the unencumbered flow of economic transactions and family migrants.⁷³

Our discussion of participants in the 'war economy' and international bankers populates the globalisation discourse with some of the 'flesh and blood' that comprises the state and markets and shows that the very roots of Afghan hawala and entrepreneurship are embedded in specific social localities. War proves to be another important factor influencing the institutional environment within which Afghan and regional hawala networks are operating. Part IV will now turn to this in more detail, and demonstrate the problematic nature of criminalising 'informal economies' in the 'post-conflict' transition period.

⁷² Roberts, Susan M., 'Confidence Men: Offshore Finance and Citizenship,' in Hampton, Mark P. & Jason Abbott (eds) (1999) *Offshore Finance Centres and Tax Havens: The Rise of Global Capital* (Basingstoke: Macmillan Press), 117-139

⁷³ Cohen, Robin (1997) *Global Diasporas: An Introduction* (London: UCL)

PART IV

LEGITIMACY



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8 Opium Harvests, Black Money and the Informal Economy

Chapter 7 explored the global linkages of Afghan hawala networks and the role of ‘locality’ – in the conventional sense of ‘place’ – in their contemporary restructuring strategies. This chapter continues the exploration of ‘linkages’ but then elevates the focus of the previous discussion to the broader institutional ‘localities’ – in Grabher and Stark’s unconventional usage of the term – of the money dealer in Afghanistan. Such an approach will enable a better understanding of the ambiguous ‘legalities’ surrounding his operations. The thesis has so far established that international attention has tended to concentrate on the hawala system’s involvement in the financing of terrorism, its marginalisation as part of the ‘underground’ or ‘informal’ economic sector, and its suitability for criminal use and drug money laundering. This chapter further contributes to unravelling the context for these assumptions and their superficiality by providing firsthand accounts of hawala in the field.

The chapter is structured in the following manner. The introductory section maps out some key features of Afghanistan’s opium economy, and provides a field analysis that distinguishes the contribution of hawala to the movement of drug proceeds in Afghanistan. The second section turns to the perceptions of the money dealer himself with a view to providing conceptual clarification of the notion of informal economies and criminalised behaviour within the conflict context. The concluding section of the chapter turns to a more rigorous assessment of the contemporary environment out of which the criminal and terrorist associations have developed, beginning with an examination of the demise in legitimacy of the Afghan state and the weakening of its control. The unique conditions and pressures felt by Afghan hawaladars as a result of protracted international engagement through war are then discussed, followed by a review of the disaggregated factors influencing the country’s transformation to a war economy. The overall purpose is to problematise the tendency within mainstream IR literature to criminalise non-state economic governance. Specifically, an attempt will be made to incorporate the notion of ‘informal economy’ into studies of ‘failed states’ and lend it more nuance in the hope that it may provide a useful theoretical connection between micro- and macro-level or state-centred analyses.

First, it is important to establish the extent of the linkages between hawala and the most lucrative ‘illegal’ commodity associated with the money business in Afghanistan today – opium. That these should rarely, if ever, have been scrutinised by political scientists in the world’s largest heroin-producing country is somewhat remarkable. An important contribution of this chapter is therefore to enhance existing knowledge of the hawala system’s involvement in the methods used to launder the proceeds of drug trafficking in Afghanistan. On the basis of intensive investigative fieldwork conducted in Afghanistan and neighbouring Pakistan,¹ it provides the first attempt to build a qualitative story of the nexus between drugs and hawala together with an analysis of fresh quantitative data.

8.1 Opium harvests: Contemporary linkages with the trade

Over recent years, the narcotics sector has been by far the most important source of income in Afghanistan, adding value of USD 2.7 billion to an economy otherwise producing roughly USD 5.4 billion of goods and services in 2005.² On account of the greater domestic and international commitment to combating Afghanistan’s illicit narcotics production and trade since the signing of the Bonn Agreement in 2001, the pressure to launder drug money should not be underestimated.³ Drug traffickers are faced with the additional task of disguising profits that remain amongst the highest in recorded history (see Figures 15 & 16 below). A more detailed analysis of the placement and integration of drug earnings into Afghanistan’s economy beyond the farm-gate level is thus long overdue.

It is important to note that domestic profits should not be confused with those amassed internationally. While the aggregate estimated value of the international trade in Afghan opiates is in the neighbourhood of USD 40 billion, the total export value of opium to neighbouring countries was estimated to be only USD 2.7 billion in 2005. Of this amount, gross revenues accruing to Afghan farmers were calculated to be in the order of USD 560 million, while Afghan traffickers receive an estimated USD 2.14 billion.⁴ Needless to say this is still a very significant amount of money for a poor post-conflict developing economy

¹ This aspect of the thesis was partially funded by the United Nations Office for Drugs and Crime, while the findings were published in a 2006 World Bank study. Hence, portions of the text are adapted from this report. Thompson, Edwina A., ‘The Nexus of Drug Trafficking and Hawala in Afghanistan,’ in Buddenberg, Doris & William A. Byrd (eds) (2006) *Afghanistan’s Drug Industry: Structure, Functioning, Dynamics, and Implications for Counter-Narcotics Policy* (World Bank), 155-188

² UNODC (2005) *Afghanistan Opium Survey* (UNODC October)

³ A government ministry has been established to deal exclusively with counter-narcotics, along with a dedicated counter-narcotics police force. Various efforts to curb illicit drug flows at the border have also been stepped up, with the recently established Afghanistan Border Security Force manning key points along the border with Iran, one of the primary routes for export of opiates.

⁴ UNODC, *Afghanistan Opium Survey* (2005).

like that of Afghanistan to manage, especially in the absence of a fully operational banking system. The question remains as to in what amounts, which forms, and by what means drug money arrives in the country.

Figure 15: Value of opiate exports (USD billion) 2000-2005⁵

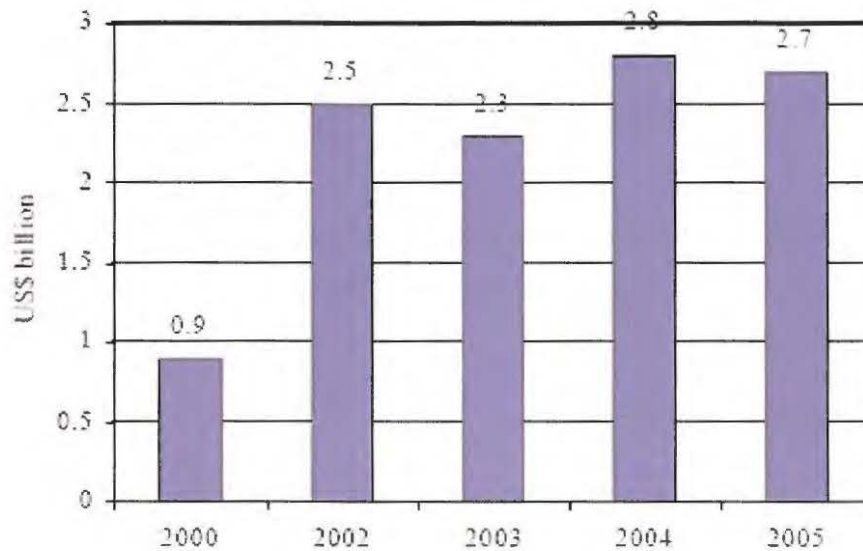
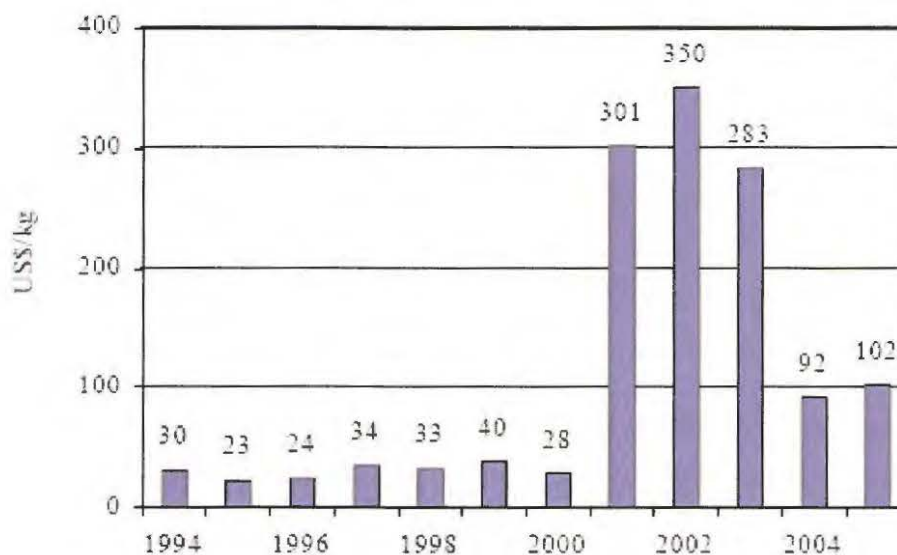


Figure 16: Opium farm-gate prices (USD/kg) 1994-2005⁶



The research in this section of the thesis is built on formal and informal discussions with a wide variety of informants in Afghanistan and Pakistan. These include money dealers, NGO workers, opium producers and traffickers, business traders, accountants, and Afghan politicians or former *mujahideen*. Collection of the data focused on several subsets

⁵ Thompson, 'The Nexus of Drug Trafficking and Hawala in Afghanistan,' 160

⁶ *Ibid.*

aimed at assessing (a) the importance of hawala networks for the movement of drug-related profits through a quantification of the nexus between drugs and the hawala system, and (b) the perception of hawaladars regarding their role in drug money laundering. It is important to note that both the illicit drug industry and financial markets share one crucial characteristic - large fluctuations over short periods of time. Together with the lack of openly available statistical data, this makes quantitative studies of either extremely difficult. In all surveys, therefore, the hawaladars were asked to take into account the fluctuations in the market. This proved particularly important when measuring the median volume of drug-related transfers.

Before the analysis, it is important to obtain a sense of the overall size of the hawala market so that it can be broadly compared with the volume of profits generated by the production and export of illegal opiates.

8.1.1 Size of the hawala market

Based on the information available during fieldwork, Table 4 was compiled to offer rough estimates on the aggregate hawala flows into and out of Afghanistan for 2004-2005. Any estimate of the overall size of the hawala market in Afghanistan should, however, be viewed with extreme caution.

Most of the figures provided in this chapter relate to inflows of funds into Afghanistan and between provinces via the hawala system. It is important to be aware, though, that the system relies on a two-way flow of funds. At the end of each accounting period most of the flows are balanced and any net residual is relatively small or settled among the hawaladars concerned. Hence, as per the total amount estimated in Table 4, there should be almost equal outflows. An estimation of outflows was beyond the scope of the research, so it supplies no empirical data on their composition.

The table nevertheless provides some indication of what the counterflows are likely to be: included in the list of items, for example, is the import of goods, which is often used to balance an inflow of money. Because the hawala system experiences an incredibly high turnover rate of funds, hawaladars can manage a very high flow of funds while keeping small balances on site. It is therefore fair to surmise that the hawala system in Afghanistan has the capacity to manage the annual flow of drug funds throughout the country. This still remains speculative, however, particularly due to provincial variation and the fluctuating demands of opium harvests.

Table 4: Rough estimates of aggregate hawala flows in Afghanistan (2004-5)

Item	Monthly average (USDm)	Annual total (USDm)
Opium trade~	1,700	?
Unofficial re-exports^	1,100	1,100
UN agencies*	500	?
INGOs**	1,300	?
Inward remittances and informal investments***	1,000-1,500	?
Imports of goods	---	?
Expatriation of opium profits	---	?
Other outward capital movements	---	?
TOTAL:	5,600-6,100	5,600-6,100

~ This figure includes all farm-gate proceeds of the opium economy (because it is reasonable to assume that these do flow into Afghanistan), but not the aggregate profits accruing to Afghan traffickers (because it is not so reasonable to assume that all of the 'value added' at the processing and trading state enters Afghanistan).

^ These figures are based on World Bank 2001 estimates. It is possible to offer an estimate on the outflow here because the import bill cannot be too much less than the export bill on unofficial trade (a 10 per cent margin on the unofficial re-exports is assumed).

* This figure accounts for the amount of funds transferred by two UN agencies through the hawala system, as reported during fieldwork.

** This figure arose from interviews with major INGOs and NGOs operating in Afghanistan.

*** This figure includes regular remittances from migrants and refugees in Pakistan and Iran, and irregular foreign direct investment from the diaspora.

In order to achieve more clarity across these areas, the remainder of this section explores key provincial sites where drug money laundering is occurring in the hawala system. The locations under examination were selected on the basis of their varied importance to the drug economy. Four main aspects will be discussed:

- the distinctive characteristics of the province;
- opium production and trade;
- the structure of the hawala industry and markets; and
- transaction volumes.

Due to the increase in opium production in the North and North-Eastern regions of the country at the time of the fieldwork, Badakhshan is the first key province to be explored.

8.1.2 North-Eastern region – Badakhshan

Badakhshan is a remote and mountainous province, bordering Tajikistan, China and Pakistan. Major parts of the province are reachable only by foot, donkey or helicopter. As a result, the province is particularly vulnerable to food insecurity and has always been one of the poorest areas in Afghanistan. It depends on subsistence agriculture and trading, and was touted as one of the country's main opium production centres during the nineteenth and twentieth centuries, boasting a high-quality yield.

While wheat and barley have been the predominant crops in the North-Eastern region as a whole, strong increases in opium production have been reported, with cultivation in Badakhshan rising by 43 per cent over the 1994-2000 period. In 2001, Badakhshan accounted for 83 per cent of all cultivation in Afghanistan, although the situation changed again in 2002 with the resumption of opium production in the South and East.⁷ By 2004, it was the country's third major source of opium, comprising 12 per cent of national opium production. After it had experienced a considerable increase in the area under cultivation for the fourth consecutive year, the most recent information available at the time of writing suggests that the province has now reduced its area of opium poppy cultivation by 53 per cent, making it the fifth largest contributor to national opium production.⁸

Badakhshan is host to a relatively modest number of money service providers in comparison with the other main money markets in Afghanistan. The number of currency exchange dealers has predictably decreased with the recently reduced gains in speculations over the devaluation of the national currency, while the number of recognised hawala dealers has in fact increased to 5-6, compared with around 3-4 in previous years. This was attributed, in large part, to the arrival of more international organisations and NGOs in the province.

The small number of hawaladars should not belie their potential significance to the country's informal banking structure. Large transactions were reported by medium to large dealers within Faizabad, while the amounts of money routinely delivered to NGOs on the ground also appeared significant. On average, a number of international agencies collect USD 150,000 per month for distribution to staff and to cover operational costs. One UN worker disclosed that, within two hours, his agency's hawaladar can deliver USD 450,000 – 'always'.⁹

⁷ UNODC (2004) *Afghanistan Opium Survey* (UNODC November)

⁸ UNODC, *Afghanistan Opium Survey* (2005).

⁹ Interview with Finance Officer, World Food Programme, Faizabad, July 2005.

Although it is important to recognise that there are only very few hawaladars in each province that have this amount of money to present on site, the above example provides a good indicator of how liquid a top-end hawaladar can be at any one time in a remote province such as Badakhshan. Payment to hawala dealers is made via their formal bank accounts in cities such as Dubai (UAE) and neighbouring Peshawar (Pakistan). It is then the responsibility of the hawaladar to deliver the cash to a representative from the NGO in the respective province. Logic dictates that they must have the liquidity to meet these routine demands.

One international aid worker provided a further insight into the question of liquidity. He explained that, when the agency receives salaries sent from its central office – via the hawaladar – the money is counted, delivered to the national staff, and passed right back into the hands of the same hawaladar for further transfer to the worker's place of residence. This money, therefore, does not actually move physically from the hawaladar's shop in an instance that involves several 'transactions'. This might offer an alternative explanation to the question of how these hawaladars can always so readily supply the client with large tranches of cash. But at one point in time the money must have physically arrived in the province.

Hawaladars reported that money arrives in Badakhshan either circuitously from Pakistan (i.e. via Kabul) or via less conventional routes. The sense that the majority of money is transmitted from Pakistan was corroborated by NGO workers who observed that the fresh US dollar notes they receive bear Pakistani stamps. During several interviews, hawaladars arranged for the transport of large quantities of US dollars from Kabul to Badakhshan. On all occasions, this was done by road. The dealers commented that both the removal of roadblocks and the presence of ISAF troops had vastly improved conditions for this mode of transport. Previously, huge sums of money were stolen on the road, cars hijacked, and stopped at checkpoints controlled by commanders and other political elements.

Money is also transported by air, although this seems to be less common for the fulfilment of everyday transactions. One (seemingly) exceptional incident occurred in July 2002, just after Hamid Karzai was elected as President. There was a hasty move to shift drugs out of the province, perhaps in anticipation of increased interdiction efforts. Two commanders reportedly arrived by helicopter to collect 3,700kg of refined opium (heroin) plus some dry opium. They arrived with an estimated USD 14.8 million. From Faizabad, the drugs were transported to Tajikistan. Observers in the city speak of huge injections of cash into the market at this time – as much as USD 1 million per day over a brief period. It is perfectly reasonable to deduce that INGOs, the Provincial Reconstruction Teams (PRTs), inbound remitters, and legitimate traders then absorbed this money.

Under less sensationalist circumstances, informants confirmed that variation in the demand for drugs causes both large fluctuations and huge injections of cash into Faizabad's hawala market. Some dealers noted that liquidity in the market naturally increases when opium traders provide advance payment to farmers, or traffickers receive money from abroad to transfer the drug. The fluctuations make the task of measuring monthly averages of financial transfers particularly difficult. A top-end hawaladar confided that, 'in a good day', he might receive a transfer of USD 5 million from Peshawar and USD 200-300,000 from Jalalabad, and that on an average day, he may transfer around USD 500,000 in total.¹⁰

Bearing these considerations in mind, the following table outlines rough estimates on the inflow of funds of each hawaladar identified in Faizabad, as provided by the dealers themselves.

Table 5: Inflow of funds of hawaladars in Faizabad

Size of hawaladar	No of hawaladars	Monthly average (USDm)	Annual total (USDm)
Large	1	5.0	60
Medium	3	1.5	54
Small	2	1.0	24
TOTAL:	6	1.9	138

Source: Research interviews in Faizabad.

The estimated transaction volumes for Faizabad's hawaladars therefore comes to an annual total of USD 138 million. The official aggregate value of opium produced in Badakhshan at the 2003-04 harvest (USD 96,856,793 – farm-gate prices as at January 2005) is of the same order as the estimated annual total of transactions. This tends to substantiate the qualitative accounts gathered in the field that the essential liquidity in the province is derived from the drug trade.

While there are clearly large inflows of money through the hawala markets in Badakhshan associated with both drugs and UN/NGO expenditures, there are also corresponding outflows of funds. Hawaladars tend to balance their books mainly through the purchase of commodities and capital flight. Part of this trade has become decidedly criminal, especially as it has garnered the protection of authorities on both sides of the Afghan border. By way of example, one researcher reports that there is a lucrative trade in

¹⁰ Interview with hawaladar, Faizabad, June 2005.

gemstones, flour, vodka, and stolen luxury cars (imported from Russia) across the border with Tajikistan, and weaponry from Shughnan and Ghoron.¹¹

8.1.3 Western region – Herat

Herat is the regional capital of western Afghanistan – evidently a much more developed city than Faizabad, with good infrastructure and a number of excellent roads linking it to major cities in neighbouring countries. During 2002, and subsequently, a series of public works projects brought electricity, irrigation, good roads, and parks to the city. Many of Herat's inhabitants boast that it acts as the country's real financial centre. It derives much of its income from customs duties on 'official' and 'unofficial' trade collected at two major land ports bordering Iran (Islam Qala) and Turkmenistan (Torghundi). Customs revenues amounted to an estimated USD 5-10 million per month at the time of fieldwork,¹² which explains the large supply of foreign exchange in the informal financial markets.

In contrast to Badakhshan, a much larger and more vibrant informal market exists in Herat city, with an estimated 300 to 400 money exchange shops occupying two parts of the central business district. There is still a high turnover of exchange dealers due to the decreased gains in currency speculation. Those who remain in the business continue to make significant profits from major hawala transactions, both domestic and international. The research identified three large hawaladars in Herat who handle significant trade deals and drug profits, 50 medium-sized dealers, and roughly 100 small dealers who use the hawala business as a supplementary source of income. The money market is articulated more toward Iran than Turkmenistan or Uzbekistan, as most of the trade from UAE transits through borders with Iran. Afghan hawala dealers in Iran, who have been forced underground due to discriminatory treatment by the state and local communities, broker trade deals between UAE and Afghanistan.

There have been speculations in the literature that the movement of legitimate goods across the border facilitates the transfer of drug-related money.¹³ The field research, including interviews with Afghan importers based in Dubai and opium exporters in Afghanistan, produced evidence to support this hypothesis. While there is a wide range of imports brought into Herat, from fuel to fast-moving consumer goods, car imports consistently arose in interviews as a major commodity often traded with drugs. Customs

¹¹ Conversation with Marc Theuss, researcher on Tajik/Afghan border, October 2005.

¹² Until his removal as Governor of Herat in late 2004, most attribute the collection of customs on imports from Iran and goods coming overland from Dubai to General Ismail Khan who consistently acted independently of central government control and has been identified by many as the source of improved development in the city.

¹³ Maimbo, 'The Money Exchange Dealers of Kabul'.

revenue reports in Herat reveal that 300 cars, on average, are imported into the city every day via Islam Qala.¹⁴ The provincial Chamber of Commerce, and members of the city’s ‘professional *shura*’, corroborated this figure.¹⁵ Based on a conservative estimate of USD 2,000/used car, the total daily value of car imports is around USD 600,000.¹⁶

The Transitional Afghan Border Security Force unofficially disclosed in an interview that an estimated 1,000kg of drugs cross the same border post each night. Using a border price estimate of USD 665/kg of dry opium, based on 2005 figures, this amount of drugs would generate USD 665,000/night, or USD 240m/year. The estimated daily car imports at one border post are therefore of the same order of magnitude as estimated drug exports at this same trading point; this is by no means, however, meant to imply that all car transactions are facilitated with drug money in the settlement process.

Table 6: Islam Qala border crossing

Calculation	Daily total (USD)
Cars: 300 imported @ USD 2,000, less 5% Customs	570,000
Drugs: 1,000kg exported @ USD 665/kg	665,000

Source: Research interviews and Herat customs data.

Members of Herat’s financial community widely reported that legal commodities are often traded for opium and other ‘illicit’ cargo. In such exchanges there appears to be a continuum of engagement between the trades: some opium exports are directly linked to the trade in legitimate goods, while others are removed to the point that it becomes impossible to link the commodity back to illicit wealth. Based on information provided in interviews, the two scenarios overleaf are simple hypothetical situations that reveal different places along the continuum.

Muddying the continuum even further is the willingness of key business figures to offer their ‘legitimate’ services, such as transport networks and contacts with customs officials, to those seeking to launder and integrate their drug money into respectability. Most businessmen argued that they did not need to know the origin of the money – they would receive a commission in the process, which is simply ‘good for business’.¹⁷ Such an attitude, in addition to the above scenarios, demonstrates how the Western region’s extensive trading

¹⁴ I am grateful to Hayatullah for assisting me in locating this information at Herat Customs.

¹⁵ Interview with representative from the professional *shura*, Herat, May 2005.

¹⁶ There are of course new cars that are also imported into Afghanistan. These include German and Japanese cars which are aimed for trade through to the Pakistani market. The demand for used cars in Afghanistan exponentially rose with the return of refugees and members of the Afghan diaspora after the fall of the Taliban.

¹⁷ Interview with a large import-export trading family, Herat, June 2005.

networks connect imports of legal commodities such as cars, building materials, edible oils, and glass directly to drug exports.

Scenario 1: Several hawaladars broker a deal between a trafficker in Afghanistan wishing to export opium and a businessman in UAE wishing to purchase the drugs. The trafficker prefers to receive commodities in return for the drugs, increasing the potential for profit. In this case, the hawaladar would facilitate the exchange in goods through his various trading partnerships in UAE, Iran, and Afghanistan. When the drugs are delivered to the buyer's representative in Iran or at the Turkish border, the payment is either i) provided in cash to the hawaladar's partner shop in Iran or Dubai, or ii) transferred electronically into the hawaladar's bank account. It is then the hawaladar's responsibility to broker the purchase and import of vehicles to complete the deal. A commission or percentage of the sale is often guaranteed to the hawaladar in return for his services. In this scenario, legitimate and illicit trade are directly connected with the knowledge of both clients, but the hawaladar may not be aware of the criminal origin of the investment.

Scenario 2: When a drug trafficker in Afghanistan wants to spend some of his profits earned through drugs (and his money is kept in Dubai, for example), he contacts a hawaladar to assist him in importing goods into the country. Alternatively, when he wants to transfer money into the country for investment, the hawaladar conducts the transaction for him. Again, it is possible that in facilitating the transfer the hawaladar is unaware of his role in the laundering of drug proceeds. The difficulty of linking the goods or money to their illicit origin is increased once they arrive in Afghanistan.

Sources estimate that only 3 to 4 hawaladars in Herat's money market specialise exclusively in the laundering of drug proceeds, which might reflect the inability to extricate 'legitimate' trade from opium profits. Interviews with non-specialists confirm this as they admitted to layering and integrating drug money inadvertently, making it appear to have been obtained from legitimate sources.

Although most hawaladars are aware that their monetary transfers combine legitimate and illegal activities, they insist that this is an inevitable practicality. This predicament demonstrates how the laundering of drug money may not, and often is not, the primary aim of the hawaladar. As we shall see in the following section, he tends to view himself simply as a facilitator, transacting wherever the most profit will be generated, and chooses to link up to the traders in 'illicit' commodities because they provide a guaranteed source of liquidity.

Because of the difficulties involved in distinguishing the overlapping and insidious connections of licit and illicit transfers, it was not feasible to use direct methods to calculate the magnitude of drug proceeds in the local hawala system of Herat. Instead, qualitative reports from hawaladars and drug dealers had to be used in combination with indirect methods. During the fieldwork, several hawala shops provided access to their weekly record; however it was not possible to ascertain whether the transactions were routine or exceptional. No workable extrapolations could thus be reached from the data.

Table 7: Composition of significant hawala business in Herat city's main market

Size of hawaladar	No. of hawaladars	Monthly inflows (USDm)	Annual total (USDm)
Large	3	6.0	216
Medium	50	1.0 - 2.0	900
Small	100	0.2	240
TOTAL:	~150	0.6 - 0.9	1,356

Source: Research interviews in Herat.

A sample of one hawaladar from the large category, four from the medium, and six from the small group was interviewed to obtain a rough breakdown of transaction volumes, as shown in Table 7 above.

The table below is a breakdown of the average monthly inflows of several medium-sized hawaladars currently working in the market. Four major dealers in this category were surveyed for the data. As can be seen, the average total funds processed came to over USD 2 million per month, around USD 0.7 million directly linked to the drug trade, and USD 1.3 million attributed to trade in legitimate goods. These findings are fully consistent with local reports that roughly 30 per cent of the overall funds processed are related in some way to the drug trade.

Table 8: Monthly average inflows of medium hawaladars in Herat

	USD equivalent ¹⁸ (m)
Total funds processed	2.3
Total funds processed related to drugs	0.7
Total funds processed related to legitimate trade	1.3

Source: Research interviews in Herat.

¹⁸ Currency conversions were calculated as per rate of exchange on date of interview (790 Tomans/USD). During the five-month intensive interview period, there were only minor fluctuations in the rate of the Afghani and Iranian Toman against the US dollar.

In comparison with Badakhshan, where almost 100 per cent of the liquidity is derived from drugs, Herat's hawala market, estimated to be in excess of USD 1 billion, relies heavily on both drugs and the 'illicit' trade in 'licit' goods. The research indicates that in facilitating legitimate trade the dealers run the risk of directly or indirectly assisting the laundering of drug money. Therefore, while Herat has never been an important drug-producing area, it does perform an important function in the trafficking of drugs and laundering of the proceeds

8.1.4 Southern region – Kandahar and Helmand

Kandahar is home to some of the country's biggest traders. Located at the heart of the Pashtun belt, the province is ideally placed to exploit the extensive Pashtun trading networks that reach many of the world's key financial sites.¹⁹ This makes it an important site to explore the links between informal hawala networks and the trafficking of drugs. Helmand is also one of Afghanistan's most important border economies and not only produces the country's largest share of opium but also provides some of the most effective opium trading networks both within and out of the country.²⁰ In spite of the aggressive crop eradication efforts in both provinces during 2005, it was possible to glean enough data to develop an idea of the extent of drug money laundering in the region.

When asked to describe the relationship between Helmand and Kandahar's hawala markets, one *saraf* commented, 'you may as well see them as one and the same market'.²¹ This should be borne in mind when comparing the data of each province. In order to gauge the extent of drug money laundering in these provincial sites, a selection of small, medium and large hawaladars was interviewed in both Kandahar and Helmand.

In Helmand, there are five relatively major centres for opium traders, some of which are also key sites for hawala business. These are:

- Sangin district centre;
- Lashkar Gar city;
- Dishaw district border area (i.e. Barameha);
- Musa-Qala district centre; and
- Grishak district centre.

¹⁹ See Schetter, Conrad (2004) 'The "Bazaar" Economy of Afghanistan,' *Südasiens-Informationen* 3 (February).

²⁰ Pain, Adam, 'Opium Trading Systems in Helmand and Ghor Provinces,' in Buddenberg & Byrd, *Afghanistan's Drug Industry*, 77-116

²¹ Information gathered from a survey of Kandahari dealers, August 2005.

Lashkar Gar city and Sangin district were selected for the sample of hawaladars in Helmand province because of their strategic and material importance to both the financial and opium markets.

According to the hawaladars sampled in both Kandahar city and the sites in Helmand, the median number of significant financial traders 'specialising' in the transfer of drug money in both provinces is 54 (see Appendix IV). There was considerable unanimity between the medium to large dealers when they were asked to estimate the percentage of hawaladars in the market who are indirectly or involuntarily involved in drug money laundering. Helmand dealers estimated that 80-85 per cent dealt in drug funds, while the Kandahar dealers estimated that 90 per cent handled drug money in Kandahar. These high percentages are not surprising given the level of provincial opium production and trade in the South.

In regard to opium production and trade, the Southern region accounted for approximately 36 per cent of Afghanistan's total regional production in 2003 and 2004, reflecting large-scale cultivation in Helmand province where cultivated areas fluctuated around 30,000 hectares. Helmand consistently held the top position in most years (1994-2000 and 2005), while Nangarhar to the east was ahead of Helmand in 2003, and close behind in second position in previous years. Reliable sources indicate that there are not more than 100 large to top-end opium traders in Helmand, and that there are around 300-350 opium traders in total (including small, medium and large) that use the hawala system for its monetary transfers.²²

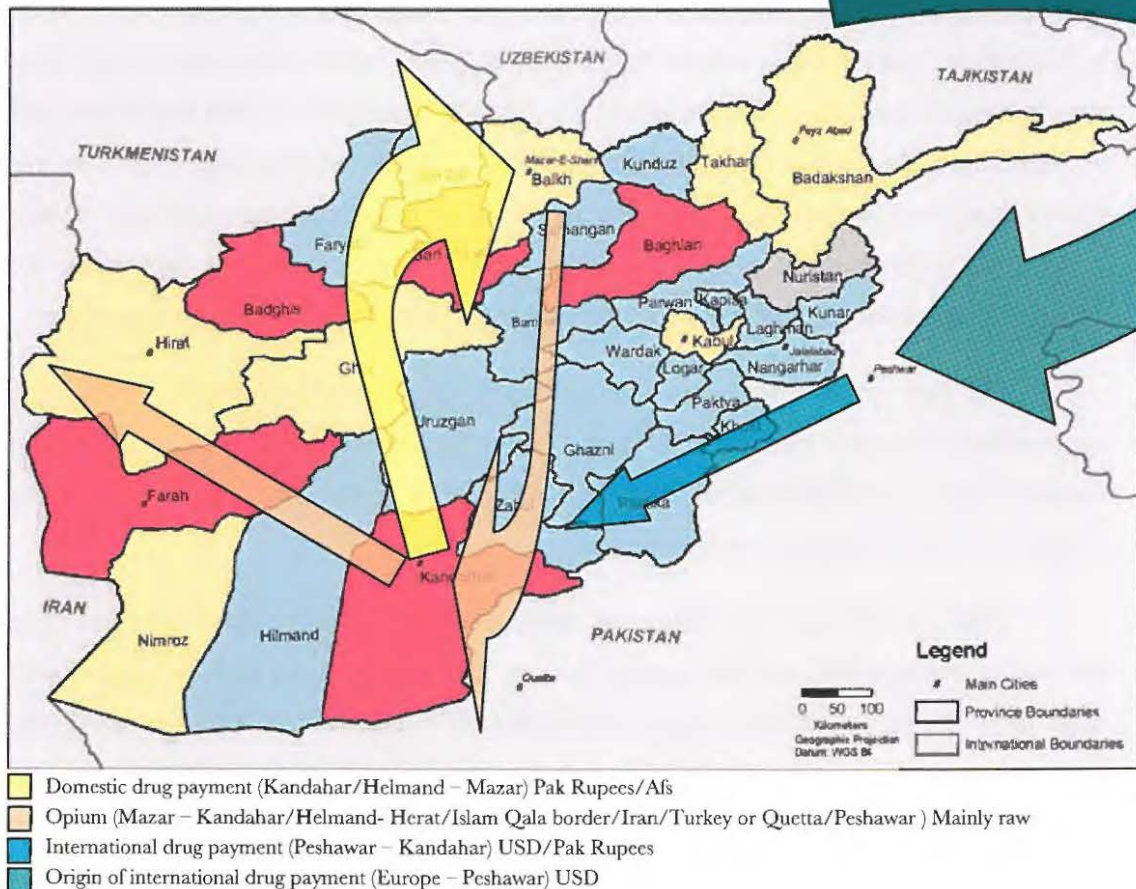
Fieldwork revealed that 'healthy' competition exists between drug traffickers operating in Nangarhar and the Southern region, and that there is actually more cooperation than rivalry. This may be explained in part by the extensive family networks linking Nangarhar and Helmand. Drug transfers between these two provinces reflect particularly big deals, which is possibly why only top-end hawaladars in Helmand reported drug monetary transfers to Nangarhar.

The majority of deals, however, appear to take place along a North-South axis between the Northern city of Mazar-e Sharif (Balkh province) and Kandahar and Helmand in the South. With only one exception, every medium to large, medium, and small hawaladar surveyed in the South claimed that the majority of drug-related funds are remitted to Mazar-e Sharif. Opium comes to Mazar from other northern provinces after its purchase by large operators. Most drug traffickers from the Southern region then either place advance orders

²² Interviews with local elders in Helmand and middle-range money dealers, August - September 2005.

and remit payment through the hawala system or visit Mazar to buy the opium in person.²³ This is done because of the disparity in opium prices between the two regions, with prices being lower in the North. For instance, at the time of fieldwork in 2005, 4.5kg of opium in Mazar was valued at 16,000-18,000Afs, while the same amount was valued at 40,000-50,000Afs in Kandahar and Helmand. It costs the dealer an additional 7,000Afs to transport this amount of opium, but he will make a saving of around 17,000Afs in one shipment. Funds are thus dispatched to Mazar from the southern hawala markets for payment to both those who brought the opium from other northern provinces to sell in Mazar, and to the local dealers themselves (see Figure 17 below).²⁴

Figure 17: Direction of drugs & payments along North-South axis



This corroborates information gathered in Balkh where a high percentage of hawaladars interviewed (3 out of 4) admitted to receiving almost 100 per cent of their drug payments from buyers in the Southern region. Reports from Badakhshan also confirm

²³ Shaw records an ‘exasperated’ local law enforcement official’s sentiment towards this practice in Mazar-e Sharif: ‘Most of the ‘businessmen’ who come from Kandahar stay with the Chief of Police; at one point one of the biggest traffickers was living with [him]’. Shaw, Mark, ‘Drug Trafficking and the Development of Organized Crime in Post-Taliban Afghanistan,’ in Buddenberg & Byrd, *Afghanistan’s Drug Industry*, 207

²⁴ Interviews with various informants in the drug market, NGO industry, and money business, Mazar-e Sharif, May 2005.

Kandahar to be one of the three main sources of drug money in the North-Eastern region (Nangarhar and Peshawar in Pakistan were the other two sources).

Each of the money dealers interviewed in the Southern region (12 out of 12) agreed that the most common international origin of drug payments is Pakistan (second to Iran), but that they originate first in Europe and the United States. There is patchy evidence with regard to the method of funds transfer at this stage in the process; however, discussions with formal bankers in Peshawar confirmed reports that money arrives electronically into Pakistani banks.

The fact that hawaladars from Kandahar and Helmand primarily operate with Pakistani Rupees²⁵ further supports the suggestion that a large bulk of drug payments arrives in Afghanistan via Pakistan (usually Peshawar and Quetta, where historically strong links exist between these Pashtun-dominated cities). UNODC concluded in 2004 that 92 per cent of Afghanistan's opium is destined for Iran, 5 per cent for Pakistan, and 3 per cent for Central Asia (based on the distribution of opium seizures in neighbouring countries). If there is any truth in these estimates and they still apply it is interesting to note that, while the opium is destined for Iran, the majority of payments are being sent from Quetta in Pakistan.

The final part of this section will explore the reported individual turnover and drug component of a sample of hawala businesses in the South (see Tables 9 and 10). This is supported by a consideration of the impact that fluctuations in the drug business have on the liquidity of the hawala system in this region.

Table 9 indicates the inflow of funds and drug component of several drug hawaladars, ranging from small to top-end dealers, found in Kandahar and Helmand. There tends to be significant variation among groups in their reliance on the drug trade, with the large and top-end dealers occupying the greatest proportion. Qualitative statements point to an even higher reliance on drug funds on the order of 80 to 90 per cent. The discrepancy between the qualitative and quantitative assessments of the money dealers can be easily explained by the tendency of deviant groups to understate their personal participation in activities perceived to be undesirable. Despite this limitation, it is important to take heed of the quantitative values provided because they are the first to be collected on the nexus between drug money and hawala. To ensure greater credibility in the data collected, the figures in Table 9 were triangulated with those provided by other hawaladars in both Peshawar and Herat. The general response was that the monthly transaction volumes appeared to be accurate, but that the proportion of drug money was understated.

²⁵ This is also the case in Faizabad, Mazar, and Jalalabad, although most of the foreign currency that enters Nimroz and Herat in the Western region is the Iranian Toman.

Table 9: Inflow of funds and drug component of Helmand and Kandahar (2005)

Hawaladar interviewed	Annual turnover (USDm)	Drug turnover (USDm)	Drug component (%)
Lashkar Gah City			
L1	126.0	92.0	73
L2	24.2	15.1	63
L3	8.5	1.5	18
L4	3.0	0.5	15
Sangin District			
S1	12.0	7.3	60
S2	3.0	2.8	91
S3	2.5	1.8	73
Kandahar City			
K1	32.2	10.3	32
K2	9.7	1.3	14
K3	5.9	4.8	82

NB: The informants are listed in Appendix V.

In Table 10, the figures and information from Appendix IV are extrapolated to another level to show the total number of significant drug hawaladars and their aggregate annual drug turnover, which amounts roughly to a total of USD 1 billion in both Helmand and Kandahar. The figures being of a similar order of magnitude for each province adds weight to the notion that they should actually be treated more as one market to avoid the risk of double-counting. By converting these values to drug volume equivalents (assuming a trading price of USD 400/kg – the median between the farm-gate price of USD 138/kg and the border price of USD 665/kg, calculated using the assumptions below), the resulting tonnage corroborates official UNODC statistics that this area is responsible for the largest share of Afghanistan's opium trade (see Appendix VI).

Table 10: Drug inflows for Helmand and Kandahar markets in sample

Location	Average no. of significant drug hawaladars as % of total	Annual drug turnover (USDm)	Equivalent drug traded @ USD400/kg (tonne)
Lashkar Gah	18	75 - 1,053	188 - 2,633
Sangin	8	15 - 324	38 - 810
<i>Helmand total*:</i>	<i>26</i>	<i>15 - 1,053</i>	<i>226 - 3,443</i>
<i>Kandahar total*:</i>	<i>25</i>	<i>51 - 810</i>	<i>128 - 2,025</i>

*Assuming no double counting is involved.

Turning to the seasonal aspects of opium production and trade, fluctuations in the drug market were consistently identified as the key determinants of fluctuations in monetary transfers. A number of opium traders reported that they hold a percentage of their annual purchase as reserve stock which enables the traders to respond to unexpected orders from mainly international traffickers outside of cultivation periods. The hawaladars explained that, because these sales are sporadic, however, they do not have a major impact on the financial market.

During the periods of low drug activity, Kandahari hawaladars explained that there are some months where the shops receive very little money from the drug business. For instance, small hawaladars in the South receive only R15,000 (USD 250) per month, while the biggest hawaladars obtain as little as R50,000 (USD 840). It is not uncommon for some of the smallest *sarafs* or hawaladars to receive no money relating to opium during this period because there is no need for its sale or purchase. They tend to be engaged in the hawala business mainly on a seasonal basis, whilst maintaining a shop or other enterprise full-time.

This is the case, for example, during the months of February, March, and April when opium poppy is at the growing stage. On the other hand, during the poppy cultivation months (from October to December), the hawala market experiences a huge influx of funds reflecting advance payments to farmers for crop cultivation. The market also experiences large fluctuations at the end of April to June because the opium is ready for purchase. The hawaladars therefore reported figures of the highest order during the two phases of opium poppy cultivation and harvesting.

The inflow of advance payments for opium at the time of planting suggests that there is a chain of credit not just from farmer to first-level trader but also beyond, including internationally. Reports suggest that, on receipt of the drug order, a buyer transfers another

payment, although in a smaller amount, to the trafficker, either in Afghanistan or to an account held outside the country.

In contrast to drug inflows, outflows of funds do not appear to be seasonal. While hawaladars have to allow for fluctuations in the drug market, they do not have the same problem with the steadier outflows that mostly finance trade in goods.

The research interviews reveal that Helmand and Kandahar provinces are key trading sites for moving drug-related funds in Afghanistan, both for outbound inter-province transactions, and inbound international transactions. Hence, they are not only the country's top producers of opium but also the leading traders. The large dealers in Lashkar Gar city and Kandahar claimed that they deal directly with buyers in Pakistan, Turkey, the United Kingdom and the United States, which makes them closer to the end of the trading chain. Part of their success lies in the predominantly Pashtun composition of the contemporary hawala market, which enables the dealers to sustain an impressive network of loyal and ready partners across the country and further out into the region. The Southern Region provides government regulators with a formidable challenge.

8.1.5 Peshawar – Pakistan

With steady flows of refugees, migrants and goods from Afghanistan to Pakistan, as well as large exports from Pakistan to Afghanistan in recent years, Afghan and Pakistani markets have become increasingly integrated, with linkages only occasionally and temporarily interrupted by political developments. The above findings confirm how crucial to their survival hawaladars in Afghanistan consider their links to Pakistan. The chapter has established that a large part of the Afghan market relies heavily on Peshawar, and also Quetta, as a conduit for the delivery of money from places further afield. NGOs and other international agencies – important customers of Afghanistan's hawala system – frequently send their funds to Pakistan, where the money is deposited and can be received within Afghanistan only hours later. Peshawar is also a recipient of significant inbound transmissions from family members living overseas, in countries such as Germany, UAE and the UK. These funds are routinely forwarded to other family members who stayed behind in Afghanistan, and constitute an important part of their subsistence in the 'coping' economy.

While it may not be immediately obvious to the casual observer, the money market at Chowk Yadgar in Peshawar is heavily populated by Afghan *sarafs* and hawaladars. As the majority of Afghans working in the markets are of Pashtun origin, to an outsider they are barely distinguishable amongst their fellow 'Pathan' people from the North West Frontier Province (NWFP). Part of NWFP consists of autonomous federally or provincially administered tribal areas (FATA/PATA), where the administrative systems differ

substantially from those in other parts of the country. This further enhances the freedom to transfer goods and money with impunity.

The usual response to enquiries about the number of money service providers in Chowk Yadgar is generally, 'there are too many to count'. Several informal estimates of currency exchange houses have been reported in the order of 200-300. But the total amount is simply too difficult to calculate when one takes into account the many outlets hidden in butchery shops, the gold *souk* (which is attached to the money market), various bazaars, and so on. It is slightly less difficult to reach estimates, however, on the number of very large hawaladars in the city. One gold dealer confided that there are roughly 30 to 35 dealers trading in gold and performing hawala transactions, while a recently retired – but young – hawaladar, who entered and left the game before he could incur any major losses, speculated that there are 10 to 15 significant hawaladars in Peshawar, and countless smaller ones. Whatever the number, it should be underscored that not one of these hawaladars is self-reliant – 'all the businesses are connected in some way', commented one dealer.²⁶ Hence, it becomes almost irrelevant to tally the total number of hawaladars, particularly in light of the tendency to enter and exit the business at the bidding tide of the market's ever-fluctuating ebbs and flow.

An important point to draw from the findings at Chowk Yadgar is that hawala traders are deeply international and cannot be viewed in isolation from the formal banking sector. Therefore regulators should not only be looking to the informal financial systems of developing countries in the search for drug money launderers, but also to the world's major financial centres.

At the domestic level, however, we must conclude this section by confirming that most drug-related export revenues are remitted to Afghanistan through the hawala system, either via hard currency or commodities. But while the drug funds are a significant source of liquidity to the hawala system, they do not comprise anywhere near the total amount of funds circulating in the system. The findings reveal how unclear the dividing line can be between 'licit' and 'illicit' transactions, particularly where there is a legal vacuum. Badakhshan is the first example where the legal and illegal sectors of the economy coincide, but it is in Herat province that these interlinkages are perhaps the most evident. Research interviews consistently revealed complex linkages between the import of legitimate goods (whether by licit or illicit means) and the trafficking of drugs, particularly in the border areas where legal and illegal flows of arms, cars, drugs, edible oil, fuel, and other consumer goods are enough to baffle any aspiring regulator. In the process, those with few alternative means of survival are provided with small remittances, international traders are provided with a channel for

²⁶ Interview with hawaladar, Chowk Yadgar, Pakistan, June 2005.

'legal' goods to cross borders unregulated, drug traffickers are provided with the cover of anonymity and an opportunity to launder money.

Now that we have established that hawala is important to the functioning of the opium trade, what can be uncovered about the perspective of the money dealer in regard to his role in this process? What is his view of legality? Has his perception of 'legitimate' economic behaviour changed over time? The following section turns briefly to an exploration of how the dealers perceive themselves to fall along the line of legality, or in the words of Nordstrom, 'il/legality'.²⁷

8.2 Black money: The money dealer's perspective

When interviewed, hawaladars in the study chose to label their money 'black'; they did not, however, readily associate this with a negative subtext. Instead, 'black' denoted a lack of visibility to those outside the system. One money dealer explained: 'You in the West deal with 'white' money – everyone can see where it goes. We in Afghanistan have 'black' money. It is difficult for you to see this'.²⁸ In this respect, most dealers acknowledged that they provide clients with an opportunity to trade goods through channels separate to those formally regulated by the state.

While generally open about their role in providing these alternative channels, the money dealers were quick to defend themselves against accusations of offering an 'illegal' avenue for clients to transfer funds and goods, or indeed an avenue for clients to transfer 'illegal' goods. This can partly be explained by the money dealers' perception of what is 'licit' or 'criminal' for, in the course of the research, it was clear that they were openly transacting funds for those partaking in activities deemed intrinsically criminal to global regulators, such as opium smuggling and heroin trafficking.

When made aware of the criminality surrounding such activities, it was common for money dealers to maintain that involvement in them was simply an inevitable aspect of business in the region. Nevertheless, in response to changes in the law enforcement environment, they tended to present themselves as entirely disengaged from the opium trade, for example, in the presence of those they deemed suspicious.²⁹ It is doubtful that these changes in behaviour represented equivalent changes in attitude towards the commodity,

²⁷ See Nordstrom, *Shadows of War*, Chapter 7.

²⁸ Interview with hawaladar, Kabul, February 2005.

²⁹ The responses to involvement in the trade did however vary greatly. Those in areas where there is little political will and only nominal attempts to curb the trade tended to be more open about their engagement in the trade. Those in a city such as Kabul, however, where whisperings of regulatory attempts are rife, tended to be more wary of revealing their connections.

particularly in light of the fact that the opium trade has not only moved in and out of criminality for some time now,³⁰ but that it is flourishing in the current climate like it has never before. An important point to consider is that, if a change in attitude towards the legality of a commodity such as opium does not occur, the handling of proceeds from such a product will continue to be viewed as a perfectly rational economic practice.

The dealers appeared in no way morally bound, so to speak, by Western notions of 'il/legality'. Instead, echoing the findings of Chapter 5, their sense of morality revolved around notions of trust – i.e. keeping the trust forged either between dealers or between hawaladars and the client by ensuring that funds are delivered safely within the specified timeframe. It is impossible, however, to regard this sense of morality exclusively as a result of 'non-Western' communitarian values. The values regulating the hawala system must be viewed within the broader institutional environment – or localities – out of which they have emerged.

The following section turns to a more thorough assessment of the conditions of war and its impact on the involvement of Afghanistan's 'informal economy' in criminalised activities, drawing from Goodhand's tripartite model of the 'war economy'.

8.3 Effects of war

This section demonstrates how, in underwriting the 'combat' economy in Afghanistan between 1978 and 2001, external parties with explicit ideological motives inadvertently nurtured the now burgeoning 'shadow' economy and also contributed to the need for local people to form what Goodhand identifies as the 'coping' or 'survival' economy. The analysis elucidates how the money dealer is positioned within this process so that a clearer understanding of the 'legalities' surrounding hawala can be reached. The discussion is set against the background of the Afghan state's delegitimation and subsequent breakdown of public authority during the war period.

8.3.1 Surrendering to a 'combat' economy

The Afghan state has long been a recipient of significant external patronage. In the decades preceding 1978, its dependence on foreign economic, logistical, and material aid accounted for almost half of the national budget.³¹ The ability of the ruling elites to function

³⁰ While the Taliban banned opium cultivation for several years under its rule, it was not until 2003 that opium production and trade were made 'illegal', and hence criminalised nationally.

³¹ In the two or three decades before 1978, America provided more than USD500 million in loans, grants, and surplus agricultural commodities, while the Soviet Union supplied the country with roughly USD2.6 million in economic and military aid. Rubin, Barnett R. (1995) *The Fragmentation of Afghanistan* (New Haven, C.T.: Yale University Press), 22

without having to generate internal legitimacy through domestic taxation³² served only to alienate the state further from the people and make what were already fragile relations between centre and periphery more precarious. Hence, even though the state's political legitimacy remained in tact through external recognition of its sovereignty in the international system,³³ its domestic accountability and support were increasingly imperilled and autonomy challenged by the unsound management of public finances.³⁴ In this respect, Afghanistan came to resemble the 'quasi-state' that Robert Jackson coined when referring to *de jure* states that lack the essential *de facto* properties of a modern state.³⁵

As subsidies increased in response to the Soviet invasion and occupation of Afghanistan between December 1979 and late 1991, the modern state's 'rentier mentality'³⁶ deepened, stripping its authority further, and spurring what Maley identifies as a crisis 'not only of legitimacy, but also of functionality'.³⁷

The growing ideological and material engagement of various international parties in Afghanistan fostered a growing 'combat' economy that – if not condoned entirely by the state – had by then begun to spiral out of its control due to its weakening public authority. The most significant driver of the 'combat' economy came in the form of opposing flows of politically-motivated military and economic assistance.³⁸ Saudi Arabia, Pakistan, and America were the greatest contributors to the *mujahideen*, or 'tenacious Afghan resistance

³² Douglas Yates observes that by 'liberating itself from the necessity of tax collection, the rentier state unwittingly diminishes its own administrative capacity'. Yates, Douglas A. (1996) *The Rentier State in Africa* (Trenton, N.J.: Africa World Press), 33

³³ See Bukovansky's comments on the 'distinct, systemwide political culture' of the international system that upholds a set of implicit or explicit propositions, shared by the major actors in the system, about the nature of legitimate political authority, state identity, and political power, and the rules and norms derived from these propositions that pertain to interstate relations within the system. Bukovansky, Mlada (2002) *Legitimacy and Power Politics: The American and French Revolutions in International Political Culture* (Princeton University Press), 2

³⁴ In their bold study on 'closing the sovereignty gap' in consolidating states, Ghani *et al.* claim that 'No state can be sovereign while it relies on an external source to fund its ongoing operations'. Ghani, Ashraf, Clare Lockhart & Michael Carnahan (2005) 'Closing the Sovereignty Gap: An Approach to State-Building,' Working Paper 253 (September) (London: Overseas Development Institute), 7

³⁵ Jackson refers specifically to postcolonial Third World states, which he categorises as a new breed of sovereign state, 'independent in law but insubstantial in reality and materially dependent on other states for its welfare'. Jackson, Robert H. (1990) *Quasi-States: Sovereignty, International Relations and the Third World* (Cambridge: Cambridge University Press), 43

³⁶ Yates coined the term 'rentier mentality' to denote the situation in which 'contracts are granted as an expression of gratitude rather than as a reflection of economic rationale' and 'civil servants see their principal duty as being available in their offices during working hours'. Yates, *The Rentier State in Africa*, 22

³⁷ Maley, William, 'State-Building and Political Development in Afghanistan,' 167

³⁸ Rubin, 'The Political Economy of War and Peace in Afghanistan,' 1791-1792

movement', that formed in 1985.³⁹ The US State Department estimates that its contribution to the movement amounted to approximately USD 3 billion in military and economic assistance, while other unconfirmed sources claim that the figure is closer to USD 8 billion.⁴⁰

The scale of support for the resistance had a number of political, material, and social⁴¹ impacts in Afghanistan and the region. First, it raised the conflict from bilateral, inter-state warfare to a Cold War 'proxy' between two superpowers in which global strategic interests were at play.⁴² Secondly, it provided a vast training and support infrastructure that would enable Pakistan to conduct its own proxy war in Jammu and Kashmir.⁴³ Thirdly, either through the benign neglect or tacit acceptance of the US, whose larger task was to defeat the Soviet Union, it permitted the systematic cultivation and refining of opium, and safe passage of drugs through the heroin-arms pipeline in the 1980s.⁴⁴ Fourthly, it formed a strong basis of money supply, further monetising the economy. Most importantly, however, it had the effect of nurturing the 'shadow' economy and encouraging a culture of impunity around its criminalised aspects.

This culture of impunity manifested itself clearly at the state level, and more specifically within the neighbouring Pakistani government. After the Soviet withdrawal from Afghanistan and concomitant stoppage of funds from abroad, the Pakistani state turned to raise funds for its proxy war in Kashmir by directly – yet covertly – involving its Inter-Services Intelligence (ISI) agency in narco-trafficking. A very clear cycle of corruption

³⁹ US Department of State (2006) 'Background Note: Afghanistan,' Bureau of South and Central Asian Affairs (May), accessed in October 2006 at <<http://www.state.gov/r/pa/ei/bgn/5380.htm>>

⁴⁰ *Ibid.*; Pain & Goodhand, 'Afghanistan: Current Employment and Socio-economic Situation,' 12

⁴¹ Chapter 6 touched on the politicisation of society and hardening of distinctive identities, particularly along ethnic lines, during the war.

⁴² Pain & Goodhand, 'Afghanistan: Current Employment and Socio-economic Situation,' 11-12

⁴³ Estimates of weapons leakages or stockpiles siphoned off from the arms pipeline range from 30 to 60 per cent, with former Pakistani Foreign Office personnel claiming access to stocks of three million AK series Kalashnikov rifles in 1995. Weinbaum, Marvin G. (1994) *Pakistan and Afghanistan: Resistance and Reconstruction* (Boulder: Westview Press), 31; Ispahani, Mahnaz Z. (1990) *Pakistan: Dimensions of Insecurity* (Adelphi Papers), 24-27; Lamb, Christina (1991) *Waiting for Allah* (London: Hamish Hamilton), 223; Smith, Christopher (1995) 'The International Trade in Small Arms,' *Jane's Intelligence Review* 7(9) (September), fn.6, 428. While a proportion of these filtered into the illegal arms bazaars, a significant number were deployed along with the ready supply of trained mujahideen operatives from the Afghan war to the armed insurgency in Kashmir. Yossef Bodansky assembles convincing evidence of ISI's preparation of hundreds of these 'Afghan' operatives for special operations in Kashmir. These included a force of some 200 from Jalaluddin Haqqani's training camps in Khost during the summer of 1993 and others who belonged to Hizb-e-Islami *mujahideen*. Bodansky, Yossef (1995) 'Pakistan's Kashmir Strategy,' Freeman Center for Strategic Studies (Houston, Texas).

⁴⁴ Rubin, *The Fragmentation of Afghanistan*, 257. Estimated to have reached up to USD 8 billion in arms and financial support, one report suggests that 'this system of brokerage around the arms pipeline,' including the use of banks such as BCCI, 'laid the foundations for the regionalised war economy of the 1990s'. Bhatia *et al.* (2003) 'Profits and Poverty: Aid, Livelihoods and Conflict in Afghanistan,' HPG Background Paper, Overseas Development Institute, 69

emerged at the highest political levels in Pakistan: in the words of one commentator, ‘the web of links between [the state and crime became] so multifaceted as to make the two indistinguishable’.⁴⁵ Ahmed Rashid reviews the evidence mounted against the Pakistani government in this respect, which includes the extraordinary admission by the ISI Chief General Akhtar Abdur Rehman in 1983 that the entire ISI staff in Quetta should be removed due to involvement in the drug trade and sale of CIA-supplied weapons meant for the *mujahideen*.⁴⁶ Excerpts from a leaked Central Intelligence Agency report that were serialised in a Pakistani newspaper in 1993 corroborated the view that Pakistani politicians, drug traffickers, and intelligence agents were closely linked to each other and to terrorism in the proxy war waged in Kashmir and Punjab.⁴⁷

These developments occurred at the same time the different factions of the *mujahideen* movement – in addition to the band of well-armed resistance commanders and self-appointed elites in Afghanistan – were searching for an alternative source of economic sustainability after the withdrawal of external funding. They too opted to deepen their connections with the opium economy. The groups were able to exploit the porous boundaries of the Afghan state, the corruption of Pakistani officials, and the mushrooming of mafia networks that stretched from the Central Asian republics to mainland Europe after the disintegration of the Soviet Union.⁴⁸

The above instances point to how the combative elements of the economy melded during war with the shadier underbelly of the economy in a way that became difficult to separate. The evidence suggests that it was only a matter of time before the regionalised ‘shadow’ economy, into which Afghanistan found itself increasingly incorporated, would develop its own dynamics⁴⁹ to transform state boundaries into ambiguous zones of criminalised or at least unregulated economic spaces.

8.3.2 Smouldering of the ‘shadow’ economy

The above trend can most clearly be seen in the consolidation of the ‘transport and trading mafia’ (or ‘trucking mafia’) that controlled the American-Pakistani CIA/ISI covert supply chain of arms, fuel, and food to *mujahideen* factions during the 1980s. Rubin reports

⁴⁵ Kartha, Tara (2000) ‘Organised Crime and the Illegal Market in Weapons in Southern Asia,’ *Strategic Analysis* 24(2) (May), available at <http://www.ciaonet.org/olj/sa/sa_may00kat01.html>

⁴⁶ Rashid, Ahmed (2000) *Taliban, Islam, Oil and the New Great Game in Central Asia* (London; New York: I.B. Taurus), 120

⁴⁷ *Friday Times* (1993) ‘Sowing the Wind’ (3 September)

⁴⁸ Makarenko, Tamara (2002) ‘Crime, Terror and the Central Asian Drug Trade,’ *Harvard Asia Quarterly* 6(3): 1-24

⁴⁹ See Darshan Behra, Ajay (2001) ‘The Supporting Structures for Pakistan’s Proxy War in Jammu and Kashmir,’ *Strategic Analysis: A Monthly Journal of the IDSA* 25(3) (June): 393-410.

that, while the Pakistani military delivered arms to the various parties in its own trucks, ‘private teamsters moved the supplies to the border region and into Afghanistan’.⁵⁰

Prior to being leased for the movement of arms and other supplies, many of these trucks, or ‘private teamsters’, were already active in Pakistani-Afghan smuggling derived from breaches of the Afghan Transit Trade Agreement (ATTA). Since 1965, the bilateral agreement that connects eastern Afghanistan to Pakistan’s NWFP has granted freedom of transit between the territories via two land routes (Peshawar-Torkham and Chaman-Spin Boldak); it guarantees that ‘no customs duties, taxes, dues, or charges of any kind whether national, provincial or municipal regardless of their name and purposes, shall be levied on traffic in transit’.⁵¹

Many of the items imported on the apparent authority of the ATTA, which range from fast-moving to high-end consumer goods, are never meant for sale in Afghanistan.⁵² During the ‘transit’ process these items are smuggled back across the border into Pakistan and sold in the local bazaars, such as Peshawar’s sprawling Karkhano market, thus benefiting Pakistani consumers by avoiding the stringent taxes and duties levied on foreign goods and exploiting the region’s disparities in trade policy. In 1997, a World Bank study estimated that unofficial trade (or rather cross-border smuggling) across this route generated USD 2.5 billion per year.⁵³

8.3.3 Survival and interdependence

During the 1990s, smuggling and other cash-producing activities grew not only increasingly attractive to conflict entrepreneurs and profiteers but also more important to local people whose livelihoods had been systematically destroyed by the Soviets. The virtual collapse of Afghanistan’s subsistence economy, disruption of rural trading networks, and the need for cash to secure food at soaring prices led to an especially heavy reliance of large segments of Afghan society on opium cultivation and trade.⁵⁴ This section emphasises the varying roles that opium plays within the economic strategies of different groups in order

⁵⁰ Rubin, ‘Political Economy of War and Peace in Afghanistan,’ 1792

⁵¹ The Afghan Transit Trade Agreement (1965) ‘Chapter XIII Transit Trade: Article IV’

⁵² This reality is captured in one trader’s remark: ‘What do you think we Afghans are going to do with hundreds of flat screen Panasonic televisions and no electricity?’. Interview with commodity trader in Jalalabad, May 2005. A UNODC employee in Pakistan also mentioned the familiar local saying: ‘where there is *no way* (i.e. to smuggle goods), then build a *high-way*’ (Peshawar, June 2005).

⁵³ World Bank (1997) *Study of Afghanistan-Pakistan Trade Relations*, Consultant’s Report (Islamabad)

⁵⁴ For more information on the rural economy’s devastation as a result of Soviet counter-insurgency, see Swedish Committee for Afghanistan (1988) *The Agricultural Survey of Afghanistan: First Report* (Peshawar: Swedish Committee for Afghanistan), 37. It is reported that food production was reduced by half to two-thirds between 1987 and 1992.

to demonstrate the complex interdependencies and ambiguities that develop across different social logics within a given locality.

In the context of war and the post-conflict ‘moment’, Mansfield and Pain make clear that for the ‘land poor’ in Afghanistan opium is not just a source of income: it provides ‘opportunities to access land on a sharecropping or tenancy basis as well as drawing on the labour supply of the household,’ ‘access to both on-farm income, ... the means of producing food crops for household consumption,’ and access to credit, which is usually dependent on a farmer’s willingness and requisite skills to cultivate opium.⁵⁵ Hence, ‘illicit’ activities – at least in the eyes of the Western world – have become key elements of the Afghan people’s survival and coping strategies. One estimate claims that 20 per cent of the population was at one time dependent on opium for their livelihood, while 2003 statistics reveal even greater dependency on the drug for people’s survival.⁵⁶

Goodhand remarks at the openness with which opium poppy has been cultivated in easily accessible areas on Afghanistan’s prime agricultural land, ‘unlike other drug-producing countries where it is grown illicitly in borderland zones beyond the reach of the state’.⁵⁷ The open cultivation and trade of opium could simply be a sign of the extent of lawlessness in Afghanistan and corruption of the state; equally, it could signal the normality with which people perceive the drug – now integral to major parts of the war and transition economy. Goodhand provides a useful overview of the various perspectives within the economy, and points to the unique place of the money dealer:

For a resource-poor farmer, poppy is part of the coping or survival economy; for the landowner leasing his land or for the opium trader, it is part of the shadow economy; and, for commanders that tax poppy, it is part of the combat economy. Opium is simultaneously a conflict good, an ‘illicit’ commodity and a means of survival. Different commodities – such as weapons, money, drugs, consumer goods or food – may travel along the same routes. The *sarafi*, or money changer, is an important node in this network; his services are used by warlords, profiteers, communities and aid agencies.⁵⁸

In such a locality, hawaladars perform a role that interlocks the different economies, blurring the distinctions between them. For example, while their involvement within the

⁵⁵ Mansfield, David & Adam Pain (2005) ‘Alternative Livelihoods: Substance or Slogan?’ AREU Briefing Paper (October), 3

⁵⁶ Goodhand, ‘From War Economy to Peace Economy,’ 163

⁵⁷ *Ibid.*, 162

⁵⁸ *Ibid.*, 164

'combat' economy lends them labels such as 'militant financiers and conduits',⁵⁹ their linkages with traffickers of illegal goods and other shady characters within the 'shadow' economy lend them labels such as 'criminal money launderers' and 'invisible bankers', and their support of people's livelihoods in the 'coping' economy identifies them more with benign developmental activities.

The proliferation of criminalising or negative labels in media and policy accounts shields the widespread perception of hawala on the ground as a legitimate mechanism of funds transfer. It is important to remember that Afghanistan's fast-disintegrating financial sector had essentially collapsed during the early 1990s and, as in a growing number of conflict zones around the world today, the hawala system soon came to provide Afghanistan's people with the sole facility to transfer money in and out of the country, transforming once more into a *de facto*, yet 'informal', institutional power. This was spurred by the introduction of US-instigated economic sanctions against the Taliban. In an attempt to pressure its members over the 'bin Laden issue', UN Security Council Resolution 1267 froze the Taliban's overseas assets and banned financial transactions with the movement.⁶⁰ While confidence in and use of the banks had already reached unprecedented lows with the destruction of Kabul in the mid 1990s, the sanctions regime 'in effect, represented a form of banking embargo' on the entire country and directly contributed to the rise in 'undocumented, clandestine, or informal sector financial dealings'.⁶¹ This is another example of where international interference with state or formal structures fostered the development of alternative local governance systems.

The above review of the effects of war in Afghanistan has contributed to a better understanding of the institutional environment out of which contemporary Afghan hawala operators have grown over the protracted war period. A key point to draw from the discussion is that the tendency in the literature to attribute hawala's linkages with terrorism, drug trafficking, or other negative developments to dysfunctional cultural institutions and a propensity to criminality is far from adequate. Following the work of Meagher, which finds such assumptions particularly injurious to understandings of contemporary African informal economies, a more measured explanation looks to the local fabric of formal and informal institutions in which such private actors are embedded.⁶² The final section of this chapter

⁵⁹ Ali Fayaz, Ahmed, '10 "Financiers" Arrested in Series of Raids,' *Daily Excelsior*, accessed in October 2005 at <<http://www.dailyexcelsior.com/01dec08/news.htm>>

⁶⁰ Maley, William (1999) *The Foreign Policy of the Taliban* (New York: Council on Foreign Relations), 29. The Resolution was adopted pursuant to Chapter VII of the UN charter on 14 November 1999.

⁶¹ UN Security Council (2001)'Report of the Secretary-General on the Humanitarian Implications of the Measures Imposed by Security Council Resolutions 1267 (1999) and 1333 (2000) on Afghanistan,' UN Report S/2001/695 (13 July 2001)

⁶² Meagher, 'Social Capital or Analytical Liability,' 232

emphasises the particular role of the state in shaping hawala's involvement in 'black' money transfers, which is contrary to much of the 'informal economy' literature that identifies structures such as hawala as entirely foreign to the state.

8.4 Informal economy revisited

8.4.1 Relationship with the state

Chapter 5 indicated that, historically, money dealers throughout Afghan territory have been influenced by, and restructured their networks around or in defiance of, the political rule of elites. While a continuing legacy in modern-day Afghanistan is the amount of foreign intervention or international engagement that the territory attracts because of global strategic interests in the region, a somewhat different picture emerges in the various stages of recent conflict where state powers have actually provided local economic actors with the necessary structures or opportunities to subvert political power. Hence, while the gradual fragmentation of state control in Afghanistan over the past twenty years may give the impression that local economic activities have been defined by anarchy, or at least by their autonomy from the state, a closer look reveals them to be influenced to a large extent by the nature of their relationship with various public authority and state-supported structures at multiple scales. One example of this influence on the perception of hawaladars is the impunity that the Pakistani state's involvement in the narco-industry has brought to drug trafficking activities in the region.

Due to the prevalence of 'shadow' economic regional structures and the Afghan state's surrender over time to a 'combat' economy largely determined by outside forces, the Afghan people appear to have lost their point of reference for legitimate public authority, particularly as neighbouring 'strong' states such as Pakistan, and in the past America, have either systematically participated in or condoned what are now deemed to be illegal activities, such as drug production and trafficking. This complicates the legal standing of the money dealer whose status and functions place him in the 'strategic middle' of diverse socio-political structures, or more specifically at the crucial pivot between the various war and peace economy actors whose motives behind, and gains to be made from, the cultivation or trade in illicit commodities vary greatly.

It is widely argued within the literature that the line of legality will become easier to define as international oversight and domestic law enforcement pressures encourage greater transparency in the post-war phase of political and economic change. A large proportion of the former warlords-turned politicians have certainly been attempting to advocate this position as they have grown increasingly cautious about direct involvement in drug

trafficking and other criminal activity. Collective attempts within the state to reassert its authority by distancing itself from criminal associations have led to a two-tiered situation whereby illicit trade is simply being forced underground to the ‘criminal underworld’, while at the same time consolidating in the hands of a relatively small number of operators with close links to the ‘political upperworld’.⁶³ Shaw’s research signals the cosmetic nature of this separation of worlds because, he argues, it remains impossible to operate in the former without support from the latter in the current climate. Shaw explains that this ‘is achieved by compromising key state institutions to support criminal activities,’ and argues that this process is nowhere clearer than in the Ministry of Interior.⁶⁴ In words to this effect, one senior Afghan official working in the Ministry of the Interior proclaimed, ‘What used to be business conducted in the open is now well hidden. The networks are still in place, but the organization is now fundamentally different.’⁶⁵ Another official is recorded as saying that the protective network for illicit activities in many areas has been ‘folded into’ the formal institutions of the state.⁶⁶

Despite the interlocking nature of the formal and informal economic spheres, it is certainly in the interests of some newly arrived state actors to criminalise the operations of private actors in the former, such as unregulated money dealers. In sustaining a distinct divide between the two areas, the ‘informal’ sphere provides a space through which the shadier actors of the state can freely move their funds without the oversight of external auditors. This level of corruption might explain, in part, the resentment held towards state actors, and give some insight into why hawaladars are so reluctant to involve the strong arm of the state – i.e. the police – in instances where a crime takes place in the money market. A dealer in Sarai Shahzada remarked in one interview that while the criminals are the lowliest pile of rubbish to be found at the bottom of a tip, the police are the flies that whirl around and feed off that rubbish.⁶⁷ Similarly contemptuous images were presented by hawaladars throughout the research. Unlike other informal sector enterprises such as the drug trade, where there are close alliances with the police for the most part, hawaladars appear to have an adversarial relationship with law enforcement and view it as a major source of corruption and crime. Dealers went as far as suggesting that the police seek out the details of a theft purely to determine their share in the loot rather than ensure that justice is meted out.

Despite the outward suspicion and contempt held towards formal authority, hawaladars often cooperate with state actors for protection or profit or are used as an

⁶³ Shaw, ‘Drug Trafficking and the Development of Organized Crime,’ 200

⁶⁴ *Ibid.*, 198

⁶⁵ *Ibid.*, 197

⁶⁶ *Ibid.*, 199

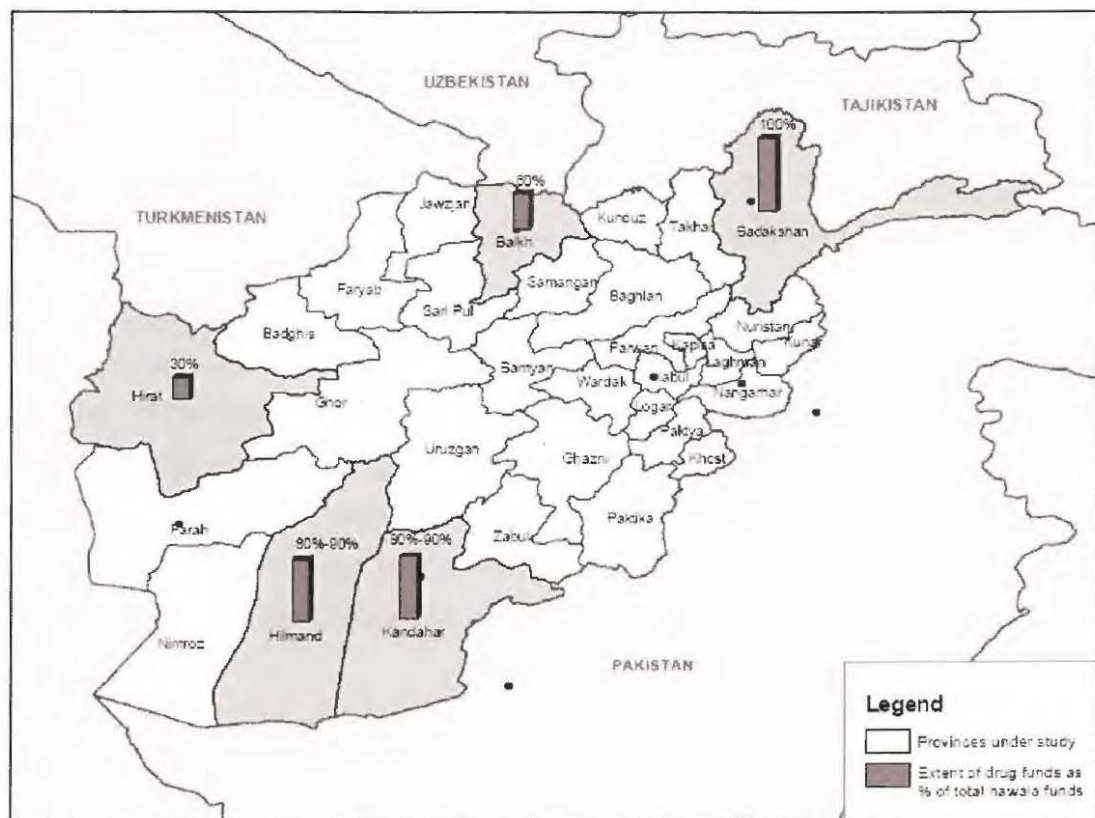
⁶⁷ Interview with hawaladar, Kabul, February 2005.

instrument for strategic ends. This has important political implications for the progress of post-conflict reconstruction efforts in Afghanistan.

A connected problem is the vilification of governance structures like hawala in such contexts. The tendency is for international law enforcement and compliance-related agencies to tackle illicit trading activities that negatively impact Western societies – such as heroin trafficking – through the institutions associated with it. Hence, in the case of opium in Afghanistan, which provides 90 per cent of Britain's heroin, a priority of the Serious Organised Crime Agency is to attack the problem by disrupting social networks at the source which support the activity, with the ultimate aim of increasing the risk of involvement. Shutting down the financial apparatus used by drug traffickers is therefore one of its primary strategies in Afghanistan today.

The first part of this chapter confirmed that hawala has clear linkages with the drug trade (see depiction in Figure 18), and explained that its operators demonstrate a very different sense of 'morality' around their involvement in the transfer of drug proceeds to that which Western regulators are advocating at the international level. It is thus unsurprising,

Figure 18: Estimated percentages of drug-related funds in provincial hawala markets



Source: Field survey research.

perhaps, that the knee-jerk response has been to criminalise the system and prevent it from participating in the reconstruction process. This is the risk for any informal economic

system where internationally recognised ‘illegal’ goods are an important feature of its smooth functioning.

Nevertheless, by criminalising hawala and forcing drug-related economic activities into the ‘underworld’, the unique predicament of a war-torn state such as Afghanistan fails to be captured: for example, commodities deemed intrinsically criminal by outside forces may have a history of moving in and out of criminality in such contexts.

A complicating factor within Afghanistan is that this has also occurred under the often less than watchful eye of the international community. The second part of this chapter has shown how important it is to recognise the distinct localities out of which these legal ambiguities arise. In addition, the findings suggest that the money dealers themselves have moved comfortably from one orbit of influence to another, and that these influences are often directed by the very state actors that are criminalising their functions.

8.4.2 Economic crime and ‘illegality’ in a ‘failed’ state

By way of conclusion, the field research undertaken for this chapter has provided examples of how difficult it is to separate legitimate and illegal financial trading in a country such as Afghanistan where the economy has existed in a legal vacuum over such a prolonged period. The hawala system remains legally and morally an indeterminate grey area, while the money exchanging hands straddles numerous ‘illicit/licit’ boundaries. To assume, however, that Afghanistan’s informal sector, where 90 per cent of the country’s economic activity occurs,⁶⁸ deals only with ‘dirty’ money would perpetuate the gross misunderstandings surrounding hawala that persist in the literature.

The fact that hawala banking came to substitute entirely the country’s *de facto* financial mechanisms at different periods throughout the most recent thirty years of conflict, it is fair to conclude that it cannot be reasonably relegated to the ‘subterranean’ or ‘informal’ sphere as it commonly is within the literature. Definitions of the informal economic sector, such as that provided by Estellie Smith – ‘the label for all those activities in which people engage to augment deficiencies in income or consumption opportunities available in the formal sector’⁶⁹ – simply do not resonate in contexts where the ‘formal’ sector has become defunct and the ‘informal’ sector is found everywhere.

⁶⁸ The World Bank estimated in 2005 that 80 to 90 per cent of its economic activity operates in this sphere. World Bank (2005) *Afghanistan – State Building, Sustaining Growth, and Reducing Poverty* (Washington, D.C.: World Bank)

⁶⁹ Estellie Smith, M. ‘The Informal Economy,’ in Plattner, Stuart (ed.) (1989) *Economic Anthropology* (Stanford University Press), 314-15

The failure of commentators to capture the multifaceted character and complex social organisation of hawala could be blamed on the 'ideological manipulation' that Meagher observes in recent narratives of criminalisation and perspectives on informal economic activity put forward by proponents of neo-liberal reforms.⁷⁰ As was touched on in the previous chapters, the introduction of liberal economic systems to non-Western societies has indirectly 'informalised' activities that have for centuries been the accepted 'norm'; the resulting image is one of a 'dual economy', which separates somewhat artificially the informal and formal spheres.⁷¹ This binary process has been accompanied in the past three decades by a growing criminalisation perspective that appears blind to the potential contribution of state or Western powers – in their criminalisation of the activities of a subordinated group – to the actual creation of 'informal sector' in some places.⁷²

An analysis of the legacies, linkages, and localities of the 'informal' system under review allows a much more nuanced picture to develop of the complex processes and social networks that enable 'informal' practices to persist through war. This in turn problematises the question of 'legalities' surrounding the informal system. Whether by default or lack of resources, law enforcement agents and those at the helm of reconstruction attempts tend to ignore these layers of complexity in the post-conflict setting. The former's focus at the global level certainly remains that of targeting activities deemed 'illicit' in isolation from considerations of the potential legitimacy conferred to informal institutions at the local level.

Here, it is propitious to bear in mind Maley's warning in relation to the purposeful breakdown of personal trust networks in collapsed states. He argues that this often involves the dismantling of the very networks that sustain social relations during war when it has become too dangerous to rely on anonymous trust. It seems particularly crucial to avoid this from occurring in the economic arena which, Maley argues, is often the first place where anonymous trust networks will begin to flourish once formal reconstruction begins. As noted in Chapter 2, the risk of criminalising major parts of the 'informal' sector is that peacebuilders ignore some of the most important potential stakeholders in the restoration of peaceful economic rule.

Having challenged some of the assumptions about criminalised economic behaviour in a war context, the following chapter elaborates further on the localities of the money

⁷⁰ Meagher, Kate (2003) 'A Back Door to Globalisation? Structural Adjustment, Globalisation & Transborder Trade in West Africa,' *Review of African Political Economy* 30(95) (March): 57-75

⁷¹ Trager, Lillian (1987) 'A Re-examination of the Urban Informal Sector in West Africa,' *Canadian Journal of African Studies* 21: 244

⁷² See Estellie Smith, 'The Informal Economy,' 308.

dealer in Afghanistan, turning in more detail to the influences of reconstruction and regulation on the post-conflict activities of hawala bankers.

9 Symbols and Substance of Liberal Reform

The money dealer's experience with external parties in 'post-conflict' Afghanistan ranges from blatant disregard to purposeful intervention. The thesis has pointed to these extremes – at one end, the liberal peace agenda excludes local governance systems such as hawala from the reform programme due to assumptions about the apportioning of market authority in a modern state; at the other end, regulators are seeking to disrupt hawala networks due to concerns regarding links with terrorism. There are, however, subtler dynamics occurring in reconstruction and regulatory attempts. The present chapter turns to an analysis of the money dealer's predicament within this broader national context. In doing so, it offers some insight into how local governance systems feature in Afghanistan's 'post-conflict' phase of development, which is regarded a landmark case of the 'light footprint' approach to peacebuilding.

The chapter is divided into three parts – the first section provides some background on the main objectives of the various intervening parties in Afghanistan's reconstruction effort; in other words 'what they want' out of the engagement. Part two then addresses the ways in which these parties engage local institutions such as hawala in practice; hence, 'how they engage', which elucidates an interesting dynamic from the operational perspective of humanitarian assistance and regulation, labelled 'the bargain'. Part three speculates as to what kind of impact such a bargain has on peacebuilding efforts and the working environment of the hawala system and concludes with a discussion of legitimacy, drawing some of the strands of previous chapters together. The following section will review the goal of modern peacebuilding before proceeding to look at these dynamics.

9.1 What they want: Transformation

As can be expected with any multidimensional peacebuilding effort, a great deal of confusion surrounds the different goals and priorities of the wide assortment of international actors, ranging from INGOs and Provincial Reconstruction Teams to regional organisations and international financial institutions, that have participated in the now five-year 'post-

conflict' phase of development and reconstruction in Afghanistan.¹ It is fair to say, however, that underlying this diversity is the common desire for transformation, or rather a shift in the rules of the game, from conflict to cooperation.

An important focus of this transformation is on 'state-building', which entails restoring, and where necessary developing, effective public institutions that are capable of exercising a legitimate monopoly of force and providing essential goods and services to the population.² Members of the international community have proclaimed existing efforts towards this end to be exemplary of the 'light [expatriate] footprint' approach introduced by Lakhdar Brahimi, the UN Secretary-General's first Special Representative for Afghanistan in 2002, whose intention was to bolster Afghan capacity, while keeping the international presence to a minimum.³ The approach coincides, however, with the momentum gathering around the desire to implement reforms that lead to a 'liberal peace'. As was shown in Chapter 2, such an exercise involves the creation of new institutions with the help of international services and assistance to ensure that political and economic power is distributed in a transparent and accountable way. While these two approaches to state-building in Afghanistan appear somewhat mixed, consensus remains on the need for significant transformation within the state.

In the case of Afghanistan, the state's dual crisis in functionality and legitimacy must be incorporated within such a transformation if public authority is to be 'reconstructed' or restored to the state. Perhaps the more difficult task is that of generating legitimacy because it requires a transformation in the relationship between citizens and the government. A cognitive shift within the minds of the local population is made all the more complex where there is a long history of violence and the climate of fear persists despite the achievement of a formal peace settlement; in the face of such challenges, the people must be persuaded to invest their trust in the renovated public institutions and believe them to be an 'impartial force that can provide credible security guarantees'.⁴

As we have seen throughout the thesis, organisational sociologists suggest that legitimacy cannot simply be imposed in a given situation; it must be earned over time, and can strengthen or erode depending on the degree of legitimacy bestowed on the particular institution. Following Suchman's perspective, the most robust form of legitimacy is instilled

¹ This includes the rebuilding of critical physical infrastructure and public sector institutions.

² Forman, Shepard (2005) 'Working Better Together: Implementing the High Level Panel's Recommendations on Peacebuilding,' Background Paper for UN Reform Conference, 3-5 April, 6

³ See UN Press Release SC/7295, Security Council 4469th Meeting (6 February 2002).

⁴ Barnett, Michael & Christoph Zuercher, 'The Peacebuilder's Contract: How External State-building Reinforces Weak Statehood,' Discussion draft for *Research Partnership on Postwar State-Building*, 8

when it transmutes from a pragmatic assessment of authority to becoming ‘taken-for-granted’ and hence ‘cognitive’. The question in the state-building enterprise thus becomes either how to generate comprehensibility or how to wrest it from already established indigenous institutions.

The previous chapters have established that hawala earned comprehensibility in the minds of the local population over time due to consistent evidence of its reliability and moral appearance; in addition, it persisted against the background of chaos and war by providing services to the local population when public institutions became dysfunctional or unreliable, entrenching the sense that it is indispensable to the workings of the economy. Whether it is possible to undo this sense, or at least transform people’s faith in the local system in such a way that allows externally imposed systems to supplant it, is yet to be seen.

Transforming people’s confidence in hawala is especially difficult in light of the cultural process involved in its legitimisation. Determinist arguments assume that cultural institutions are simply a result of static predispositions and a sign that change is impossible. Chapter 6 promoted a more fluid approach to culture where local or ‘situated’ knowledge refers instead to the skills, norms, and conventions that have accumulated over time from the practical experience of interacting with people and the physical environment concerned.⁵ Intervening parties appear not to have the equivalent time, resources, or indeed the will to pursue the same level of cultural development.

There is some evidence, however, within international organisations of attempts to engage local culture. The World Bank’s subscription to ‘social capital’ theory under Wolfensohn’s presidency is perhaps the most well-known initiative in this respect.⁶ Promptly following Robert Putnam’s renovation of the term in 1992, the Bank launched a ‘Social Capital Initiative’ alongside the new ‘Post-Conflict Unit’, which aimed to support countries in transition from conflict. The adoption of the concept, defined as the ‘institutions, relations, attitudes, and values that govern interactions among people in society and contribute to economic and social development’,⁷ allowed for an almost unprecedented recognition within the Bank that relations and dimensions outside the market matter for its successful function.

⁵ Scott revives the Greek notion of *mētis* to describe this type of knowledge. Scott, James C. (1998) *Seeing Like a State*, 6-7

⁶ Considered to be one the Bank’s most paradigmatically unstable periods, some identify its recent progression with institutional dysfunction or ‘mission creep’. Einhorn, Jessica (2001) ‘The World Bank’s Mission Creep,’ *Foreign Affairs* 80(5): 22-35; Pincus, Jonathan R. & Jeffrey A. Winters (eds) (2002) *Reinventing the World Bank* (Ithaca: Cornell University Press)

⁷ World Bank (1999) *The World Bank Annual Report 1999* (Washington, D.C.: World Bank), 122

Sceptics argue that the Bank's deployment of the social capitalist discourse served only to legitimise its expanding remit and extend its usual treatment of economic failures to the social arena.⁸ Hence, rather than instigating engagement with the local people, the counterargument proposes that the Bank may have actually employed social capitalist analysis for 'self-defensive and self-promoting purposes' in its efforts to transform disrupted locales.⁹ The Bank's inconsistent usage of the concept first to justify its projects *ex ante*, starting from the premise that it can foster the formation of social capital where it has collapsed, and second to attribute failures in its performance to the weakness of existing social capital at the local level, displays such a conceit, or at least confusion: 'In the former case,' explains Pierre Englebert, 'social capital is the dependent variable. In the latter, the local level of social capital is considered to be an exogenous constraint in project implementation'.¹⁰

From this view, the host society is still considered a *carte blanche* awaiting the Bank's post-conflict stamp for, in the words of the Bank itself, '[i]nherent in violent civil conflict is the destruction of social capital, particularly institutions of governance and civil society and such basic attitudes and behaviors as trust and participation'.¹¹ The Bank therefore views its position in this context 'as contributing to the reconstruction of the stock of social capital presumed to be deleted by war'.¹²

Dispensers of humanitarian relief who either use resilient traditional structures in their mission or encounter alternative powerholders and coping mechanisms that communities are reluctant to surrender to a 'liberal peace' would certainly challenge the Bank's view of depleting social capital 'stock' on the ground. A critical approach would argue that the mistake lies in assuming that the collapse of state structures leads to a vacuum of political and economic power. The continuing presence of power structures is clear in the case of Afghanistan's marketplace, where social and economic networks at the local level have adapted to the absence of state institutions and war by forging new linkages and exploiting openings in the global political economy. As we have seen, far from collapsing

⁸ For a discussion of the Bank's instrumental deployment of social capital as a 'very convenient screen' for neo-liberal market agendas, see Harriss, John (2002) *Depoliticizing Development: The World Bank and Social Capital* (London: Anthem Press), 110. For a less conspiratorial approach, see Li, Tania Murray (2006) 'Neo-liberal Strategies of Government through Community: The Social Development Program of the World Bank in Indonesia,' ILJ Working Paper 2006/2.

⁹ Englebert, Pierre, 'The World Bank and the Unsuspected Virtues of 'Social Capital''. English translation of 'La Banque Mondiale et les Vertus Insoupçonnées du 'Capital Social', in Rist, Gilbert (ed.) (2002) *Les Mots du Pouvoir: Sens et Non-sens de la Rhétorique Internationale* (Paris: Presses Universitaires de France), 17

¹⁰ *Ibid.*, 16

¹¹ World Bank Operations Evaluation Department (1998) *The World Bank's Experience with Post-Conflict Reconstruction* (Washington, D.C.: World Bank), 30

¹² Englebert, 'The World Bank,' 16

either during conflict or with its end, the restructured financial networks survived into the 'post-war' period to provide much-needed support for aid agencies and others incapable of delivering funds across some of the region's most difficult and remote terrain. Therefore, where so-called 'social capital' exists, it appears that the replacement or transformation of such institutions is a complex task requiring at the very least engagement with those structures.

Regulation encapsulates the difficulties involved in such a process. Not only must regulators garner the endorsement of the Afghan population, whose perception of formal institutions has been damaged by negative past experience, they are also faced with the challenge of transforming the so-called 'deviant' practices of local money dealers in the country. This is a critical strategy which involves gaining the commitment of the very players who are considered legitimate by the local people. Apart from disrupting the hawala system, therefore, regulators also aim to elicit future compliance from the local money dealers. As with most regulatory enterprises in a 'failed state', this entails (i) persuading the money dealers that compliant action is the correct course within the larger liberal democratic picture of reconstruction, (ii) showing them how compliance can be achieved, and (iii) offering incentives in the process.¹³

The summary thus far has reaffirmed the argument made in Chapter 2 that, through intervention, peacebuilders and regulators want to implement reforms that lead to a transformation of the local context to a 'liberal peace' setting. Moving away from the ideal objectives of peacebuilding, it is now beneficial to consider how hawala as a local governance system is being engaged in practice. The following section identifies certain contradictions and inadvertent consequences that arise from attempts to meet the desired end of liberal reform.

9.2 How they engage: The bargain

Critics of the peacebuilding enterprise in Afghanistan and elsewhere have questioned why the liberal peace agenda has fallen so short of the 'grand notions of transformation' it promotes in theory. An important step in unravelling this question is to distinguish between the different actors within the humanitarian sphere and the environment within which they operate. Those at the helm of 'peacebuilding' and 'humanitarian assistance' are widely understood to form one camp, but in reality they are not unitary. Simply speaking, donors within the former camp pledge time-limited funding for programmes which are aligned with the policies of the various donor nations concerned,

¹³ Braithwaite, Valerie (2006) 'Ten Things You Need to Know about Regulation but Never Wanted to Ask,' RegNet Occasional Paper 10 (December), 11

while the implementers in the latter camp are responsible for administering relief and distribution projects in the field. The division between these camps can most clearly be seen when the theory and rhetoric around a given exercise opposes practice. Long and Long describe these aspects of an intervention as interlocking ‘battlefields of knowledge’.¹⁴ The resulting ‘gap’ between policy and practice is a cause of uneasy tensions in the transformational agenda of liberal peace, made all the more acute by the intensified focus in recent years on monitoring accountability issues in the field.

As was indicated in Chapter 2, the call for accountability was spawned by a raised awareness of the risk that relief programmes or agency policies can exacerbate conflict and perhaps unknowingly feed into areas such as the war economy, contributing to longer-term vulnerability. Anderson’s ‘Do No Harm’ (DNH) policy has inspired most of the leading aid organisations to develop tools which monitor such risks – hence, CARE developed ‘benefits harms analysis’ (BHA)¹⁵, Oxfam uses a tool called ‘net benefit analysis’ (NBA), World Vision International established the Learning through Evaluation with Accountability and Planning (LEAP) framework, and the International Federation of the Red Cross set up what it calls the ‘better programming initiative’ (BPI). The policy has also provided the impetus for the Sphere Project, which has since 1997 congregated thousands of aid workers working for over 400 organisations in 80 different countries to create a mutually agreed operational framework for accountability in disaster assistance efforts.

In the present context, it is worth noting the suggestion of CARE personnel in Sudan that, while DNH tests whether aid will do harm rather than good and operates on a precautionary principle, they and other organisations focus instead on net impact and use the ‘humanitarian imperative’ (intervention to reduce suffering) as their guiding principle. This reflects the general sense that while policy and practice are meant to be complementary, the linked cycle of action is not always paramount in the minds of humanitarians in the field when they are preoccupied with the more ‘pressing’ need to deliver aid.

One does not have to look far before discovering that the ability of aid workers to meet their ‘humanitarian imperative’ – and ultimately enact the peacebuilders’ liberalising reforms – is highly dependent on the cooperation of local players. This can be observed in the payment for local security guarantees, and associated prevalence of informal transactions between aid agencies and local strongmen for the safe passage of humanitarian goods.¹⁶ At the political level, Barnett and Zuercher identify a similar situation of ‘strategic interaction’

¹⁴ Long, Norman & Ann Long (1992) *Battlefields of Knowledge: The Interlocking Theory and Practice in Social Research and Development* (London: Routledge)

¹⁵ Benefits-harms analysis is a tool created to implement the “rights-based approach” in both development and emergency settings, and is not exclusively designed to be applied in conflict.

¹⁶ See comment made by contractor on page 207.

between peacebuilders, state and rural elites of a target country, resulting in what they call the ‘peacebuilder’s contract’.¹⁷ The authors suggest that one of the possible outcomes of such a contract is ‘co-opted’ peacebuilding, where ‘local elites and peacebuilders negotiate a peacebuilding program that reflects the desire of peacebuilders for stability and the legitimacy of peacebuilding and the desire of local elites to ensure that reforms do not threaten their power base’.¹⁸ Whatever the type of peacebuilding that results, it appears likely that such a contract will lead only to the reinforcement rather than transformation of existing state-society relations.

Barnett and Zuercher’s concept of the ‘peacebuilder’s contract’ is a welcome advance in the literature and helps explain why the liberal peace agenda may not be achieving its desired outcome. The concept can also be applied to other less understood or under-explored areas of potential significance to the peacebuilding agenda, such as finance and the mechanisms for aid delivery, where the need for local partnership is perhaps more subtle but no less imperative. The following section addresses the importance of hawala at the local level to both the transfer of aid and the implementation of financial regulatory initiatives in Afghanistan.

9.2.1 Importance of hawala to aid transfers and regulation

A clear point that emerged from discussions with INGO and UN personnel in Afghanistan was the integral role of the local money dealer in the movement of aid money to various projects and staff.¹⁹ A UN World Food Programme (WFP) representative in Badakhshan reported that the Wheat Distribution Programme, which covers the months leading to winter (September to December), would not be feasible without the payment facilities provided by the hawaladars.²⁰ Operating in the area since the early 1990s, WFP officers claimed that in serving their needs and those of other international aid agencies the hawala networks offer an indirect means of relief or development to people who would otherwise have few alternative means of survival.

The services of hawala have also proved important to other programme areas in the reconstruction process, such as Disarmament, Demobilisation and Reintegration (DDR). The Afghanistan’s New Beginnings Programme (ANBP) – a project of UNDP which was created to assist the Afghan government in implementing DDR – identified hawala to be a

¹⁷ Barnett & Zuercher, ‘The Peacebuilder’s Contract,’ 3, 11

¹⁸ *Ibid.*, 3-4

¹⁹ This was confirmed by a large percentage of money dealers in the study who cited the introduction of more relief and development projects to their region as a positive influence on the provincial hawala markets.

²⁰ Interview with WFP officer, Faizabad, June 2005.

vital factor in the success of its demobilisation initiative in Kunduz. In November 2003, for example, 1,008 disarmed ex-combatants received over USD 110,000 in cash through the hawala system in exchange for the first instalment of cash vouchers provided to the beneficiaries. The bills were stamped by the dealers so they could be returned in the event that a note was proven to be a counterfeit.²¹

Money dealers have also been key partners in the regulatory initiatives promoted by Afghanistan's Central Bank (DAB). The currency changeover that took place throughout the country in late 2002 is a case in point. The aim of introducing the new currency was not only to encourage a move away from dollarisation, but also to help establish monetary control by eliminating regional currencies.²² Several planeloads containing almost 800 million notes, weighing 500 tonnes, were delivered to the DAB in Kabul whose task was to replace the estimated Af 16 trillion notes of devalued and multiple currencies in circulation. It was concluded that the most effective way to implement the changeover within the desired two month period was to involve the money dealers – they were therefore the only people allowed to exchange old notes within the first two weeks.

In order to handle the large volumes, a sampling procedure was agreed with the money dealers, whereby only 10 per cent of the total amount presented was verified to ensure that the count was correct, the denominations were correct, and that the notes were indeed eligible for exchange: '[i]f the sample count was found, for example, to be 2 percent incorrect, this proportion would be discounted from the entire amount that a money changer was presenting'.²³ The overall exercise, which also included the assistance of observer volunteers and logisticians from the UNJLC,²⁴ proved to be a remarkable success.

Within the above exchanges, it is perhaps unclear at first sight that the relationship between the local money dealers and official peacebuilding actors is mutually beneficial – further analysis reveals, however, that a 'bargain' is taking place between the two. Although similar to Barnett and Zuercher's 'peacebuilder's contract', the 'bargain' is a more suitable label in the realm of aid transfers and financial reform because it involves a less deliberate

²¹ *ANBP Weekly Summary Report* (8 November 2003), accessed in December 2003 at <<http://www.undpanbp.org/Weekly%20Summary%20Report/ANBP%20Weekly%20Summary%20Report%208,Nov,2003.htm>>

²² President Karzai stated that the 'symbolic and economic value of the redomination' were also 'of great importance to the country's national and political unity'. Samii, Ramina & Luk N. Van Wassenhove (2003) *Logistics Moving the Seeds of a Brighter Future (UNJLC's Second Year in Afghanistan)* (Fontainebleau: INSEAD), 8

²³ 'Post-conflict Reconstruction: The Afghan Economy,' 198

²⁴ In total, there were 47 designated Exchange Points and 500 exchange windows available in all the major provincial centres. Samii & Van Wassenhove, *Logistics Moving the Seeds of a Brighter Future*, 8

arrangement to that which exists between peacebuilders and politicians in the host state. The remainder of 9.2 examines the different kinds of strategic interaction or types of bargaining that have been occurring at the operational level in the aid and financial regulatory sectors within Afghanistan, coupled with the resulting impact on the integrity of the current reconstruct efforts.

9.2.2 'The bargain' in aid

As in any bargaining process, both the money dealer and aid agencies have made concessions to suit their particular ends. By way of example, concerns regarding the ability of aid agencies to ensure that their own contractual agreements remain honoured in a hawala transaction led to an important change in the way money dealers conduct business with these clients. A number of representatives from major INGOs, NGOs, and UN agencies explained that they reverse the usual procedure in hawala of a client putting money down to be transferred to another location; instead, they remit payment only on receipt of the money in the desired location, hence forcing the hawaladar to bear the risk rather than the agency concerned.²⁵ Within this arrangement, the dealer is entirely reliant on the agency to honour its promise to provide funds punctually; failing the prompt delivery of funds, he may lack the necessary cash float to meet the remittance demand of his counterparts, which inevitably puts pressure on the trust between hawaladars and has a potentially damaging effect on the system as a whole.²⁶

Given the demands and consequent strain that aid agencies place on the hawala system, in addition to the comparatively little amount of liquidity they inject into the informal market than say the opium economy or trade flows, what explains the willingness of dealers to enter into a bargain with international organisations? Here it is helpful to review the question of legitimacy. In the research interviews, local dealers appeared to be extremely alert to the complexity of power in the broader context of peacebuilding and to the costs of disengaging from Western symbols of reconstruction. They explained that by transacting with a reputable international organisation such as a UN agency, legitimacy was inadvertently conferred onto their particular business, allowing them freedom to manoeuvre between the local and international marketplaces in a climate that is generally hostile to local governance systems. In the field it was therefore not surprising to find the names of such

²⁵ A UN Finance Manager explained the procedures as follows: 'We wait for the staff member to email us when they receive the money before we remit payment to the dealers. Unfortunately there have been a number of incidents where the staff have received their money and gone on their leave and not notified us, so we have to wait until we get confirmation from them to pay. This can take up to a month depending on when the staff member returns. The money dealers are not happy when this happens'. Interview with Amjad Muhammad, UNOPS, Kabul, May 2005.

²⁶ Among others, Interview with hawaladar, Kabul, February 2005; Interview with hawaladar, Mazar-e Sharif, May 2005.

clients displayed prominently on the shelves of hawala shops, despite the traditional strategy within the money business of concealing client identities so that trust is maintained. On the flipside, it is worth noting the lack of keenness on behalf of aid agencies to admit their reliance on the services of hawala.

The fieldwork identified parallel strategic interaction, or an implicit ‘bargaining game’, between domestic financial regulatory bodies (at the behest of international institutions) and hawala operators. While it is a fairly straightforward task to observe how regulators aim to disrupt informal financial operators, there is less available evidence on how they bargain with these same players. The next section suggests one rationale behind such interaction.

9.2.3 ‘The bargain’ in regulation

While hawaladars have tended to be marginalised at face value in development circles, they have gained recognition in the field of regulation for their ‘coverage’, ‘special expertise’, ‘confidence’ they evoke in their users, and ‘financial resources’ that enable them to meet the remittance demand of their counterparts.²⁷ Due to these factors, a 2007 World Bank report claims that:

In a country like Afghanistan, where the financial sector is in the process of being re-established, it must be acknowledged that prescribing regulations alone will not ensure compliance. Regulations, especially restrictive ones, are not a panacea for possible abuse of informal systems.²⁸

Ahmed al Qamzi, head of the UAE Central Bank’s Anti-Money Laundering Unit, echoed a similar sentiment at a global conference promoting the regulation and supervision of informal bankers: ‘We don’t expect to receive any suspicious transaction reports from hawaladars,’ he said. ‘The system is built on trust’.²⁹ An observer in Pakistan noted in an interview additional problems involved in incorporating dealers into a tax regime:

‘How many currency shops are registered? It doesn’t matter. Plus, the tax man comes once a year to your shop; it’s up to your sweet will what you will declare. You must understand, hawala transactions in NWFP are

²⁷ World Bank with the Asian Development Bank (2007) ‘Challenges of Access to Financial Services,’ Background paper prepared for the *Enabling Environment Conference: Effective Private Sector Contribution to Development in Afghanistan*, Kabul, June 2007, 39

²⁸ *Ibid.*, 40

²⁹ Ahmed al Qamzi, Head of Anti-Money Laundering Unit, UAE Central Bank, Hawala Conference, Abu Dhabi, 2005.

mainly done by the tribes. They by definition cannot be regulated. So why would they declare money to be taxed?'.³⁰

In light of such pragmatic statements regarding the nature of hawala in the region and clear lack of incentives available to money dealers in transferring their business to the formally regulated sphere, it is important to consider the ways in which regulators in Afghanistan have adapted their approach. In 2003 the DAB launched a licensing initiative in which hawaladars could be formally registered as 'Money Service Providers' (MSPs). Despite the obstacles presented above, a senior Bearing Point advisor within the DAB remained optimistic that the initiative might have a gradual impact on the hawala system in the long-term:

'If you regulate a portion of the industry it has its advantages. Only a small number might qualify, but it is a gradual process. We can start with the formally recognised MSPs, and trust it will create a groundswell of others who will also participate. Once the DAB achieves greater capacity, we can also begin to offer more protection as an incentive for informal MSPs to register.'³¹

In 2003, the DAB established foreign exchange auctions that were open to all licensed money dealers in the country.³² Whether intended or not, these acted as a complement to the licensing programme, providing both an incentive for some money dealers to register themselves formally with the authorities, and the DAB with a reliable source of local currency. The system has been criticised, however, because of the tendency for several of the country's major dealers to dominate the auctions – winning the greatest number of bids, and hence squeezing smaller players out of the process.

Criticisms aside, it is possible to detect an abstract 'bargaining game' between regulators and dealers similar to that occurring between aid workers and dealers, only perhaps a little more deliberate from the perspective of both parties. Invitations to participate in a foreign exchange auction extend by association to an invitation to partake in a competitive auction for legitimacy itself; the game, therefore, involves attempts by regulators to create the ethic of operating in a 'legitimate' market. As part of the bargain, regulators are forced to provide money dealers with such an opportunity to trade openly

³⁰ Interview with Fayyaz Ali Khan, Peshawar, May 2005.

³¹ Interview with Glenn Tasky, Advisor to the General Director, Department of Financial Supervision, Da Afghanistan Bank, April 2005.

³² Sealed advance bids were used as the starting point for the Governor of the Central Bank to offer a sell price for US dollars. The auction would close when all participants and auctioneer would agree to a single clearing exchange rate; however, the auctioneer reserves the right not to sell.

because of their importance to the smooth functioning of the financial system and in meeting the liquid needs of various actors in the post-conflict reconstruction of Afghanistan. Which dealers respond either negatively or positively to imposed regulations and opportunities presented to them, such as bank licences, will surface over time, providing a useful indicator for regulators wishing to ratchet up their demands on a gradual basis. It should become possible in the process to build a growing 'white list' of compliant dealers which ideally leaves behind the shadier elements of the system, making it easier to ostracise those players from the economy.³³ Once a 'black list' forms, and the liberal democratic norms have cascaded throughout Afghan socio-economic structures, it may then be possible to achieve the regulators' ultimate goal of wresting cognitive legitimacy from hawala to the formal banking system. While sensible in theory, a problem remains with the high level of illiteracy and lack of education in the general population – persuading people to join the formal banking system will take patience and time that the international community may not be willing to spare.

Nevertheless, in summary, the bargain in this instance involves a concession on the one hand by regulators who opt for a soft approach in the initial domestic regulation of hawaladars, and a concession on the other by the dealers who risk the potential negative effects of being associated with the formal financial system in order for them to participate in the lucrative foreign exchange auctions. In spite of these strategic interactions, very little remains known about the potential negative impact that such interaction has on the integrity of the missions when it contradicts the rhetorical basis of the organisation concerned. A number of the most extreme examples emerging from the practices noted so far are touched on below.

9.2.4 Optimal ignorance

'Optimal ignorance' was a strategy promoted in RRA by Chambers³⁴ which encouraged researchers to limit the amount of information collected in the field to data that contributes to useful management learning; in other words, the deliberate avoidance of unnecessary details. While this principle was employed to save time and resources by focusing attention on what is important, a similar attitude has developed in the aid community and regulatory sphere but for different purposes. Fieldwork revealed that an attitude of

³³ The 'pyramid' model within John Braithwaite's concept of 'responsive regulation' provides a suitable guide for such an exercise; the pyramid works in two directions, emphasising the importance of creating regulation that both enables and disables those who are being regulated. In other words, the response to people's behaviour in the pyramid can take the form of escalating positive rewards as well as negative sanctions. See Braithwaite, John (2007) 'Best Practice through Responsive Regulation: Examples from Health Regulation,' ANU, 8 March.

³⁴ Chambers, Robert (1993) *Challenging the Professions: Frontiers for Rural Development* (London: Intermediate Technology Publications)

optimal ignorance guides intervening parties in instances where uncomfortable facts potentially impinge on the momentum of their projects.

The approach to bank licensing provides an interesting case of such deliberate avoidance in a financial reform initiative. On 14 March 2004, DAB granted Afghanistan's largest hawala operator and world poker champion the first commercial banking licence since the fall of the Taliban. This enabled Mr Sher Khan Farnood, recognised across Afghanistan as 'Sher Khan', to transform his informally regulated hawala business into the first local Afghan bank and an internationally recognised entity. When challenged as to why such a privilege should be given to this particular man, the response of one advisor within the DAB was that 'he seems to know whom you can and can't trust' and 'the economy needs credit, which someone like Sher Khan can certainly provide. We don't pry too deep'.³⁵

Without having to pry too deeply, it is certainly well understood within the DAB that the past financial practices of bankers such as Sher Khan would not stand the scrutiny of Western regulation and supervision. Nonetheless, the decision has been made to bargain with him. One only has to visit the provinces in Afghanistan and ask who the most 'trustworthy' dealer is to work out why. Sher Khan has almost reached 'cult' status in the money business; his reputation is so robust that people throughout the research begrudgingly admitted that they felt 'obliged' to use his hawala services because of guarantees that his rates are good and deliveries are made on time. If given the opportunity to transfer his business to the formal banking sector, Sher Khan thus has the potential to make a great impact by wresting legitimacy from popular money dealing kiosks to Western-style high street banks. To date, he appears to have been successful. By placing branches of 'Kabul Bank' in the midst of the kiosks in major money markets, he encourages passers-by to enter his premises which have the familiar appearance of traditional kiosks but the added credibility of increased security (for example, bars on windows and personal security presence) and of course the accompanying reputation.

One of Sher Khan's most glittering strokes of 'marketing genius', however, has been the creation of a lottery-style product called *Bakht* – made famous by its slogan 'The Easiest Way to Make a Million'. Eric Ellis explains, 'For every \$US100, or 5000 afghanis, deposited in a Bakht account, the depositor is given a ticket in a lucky draw held every month and broadcast nationally on state TV. The winning ticket holder is read out and he's – it's always a male – handed a cheque for \$US20,000, or the million afghanis as promoted,

³⁵ Interview with Glenn Tasky, Advisor to the General Director, Department of Financial Supervision, Da Afghanistan Bank, April 2005.

a lifetime's income for most of Afghanistan's 30 million people'.³⁶ While certainly inventive and successful in creating a strong base of customers, such an approach runs the risk of transmitting a false reflection of people's growing trust in formal institutions; anecdotal accounts suggest that urban Kabulis who are the majority of those making deposits commit only the minimum amount so that they are eligible to enter the lottery.

This same bare minimum approach also translates to the regulatory sphere: 'regulatory ritualism', as it has come to be known by some scholars, occurs when 'people or businesses choose actions which look good to avoid regulatory interference instead of actions which really make a difference and maximise positive outcomes'.³⁷ It certainly appears that, in much the same way as elites have learnt to speak ritualistically in the discourse of Western developmentalism, money dealers-turned-formal bankers have learnt to speak ritualistically in the discourse of Western regulation and anti-money laundering, while providing little evidence to suggest that they are committed to the principles that such a discourse expounds. Discussions within the Kabul Bank headquarters revealed a useful insight in this respect – Sher Khan's Deputy Chief Executive Officer, Dr Fraidoon Noorzad, insisted that the bank had no remnants of hawala.³⁸ However, in an interview a month later with Sher Khan himself, he admitted to operating essentially in the same way as he did in the informal hawala business:

[SK] 'Yes, we operate exactly the same way as hawala!'

[ET] 'So would you say that you have simply given your hawala business a kind of figurative face-lift?'

[SK smiling] 'Yes indeed.'³⁹

The suggestion that the bank does indeed still draw from crucial hawala techniques was proven to me on my last day in Kabul when I provided advice to a frustrated contractor at a counter of the Standard Chartered Bank. The contractor wanted to transfer several million dollars in the next 24-72 hours to Herat for a road construction project but came up against a wall of seemingly impenetrable anti-money laundering regulations and caveats from the Bank: 'it will take at least 2 weeks to transfer this money, sir; and this is provided we have all the necessary KYC regulations in place'.⁴⁰ I passed on the contact details of the

³⁶ Ellis, Eric (2006) 'Life's a Lottery in the new Afghanistan,' *Sydney Morning Herald* (18 September)

³⁷ Braithwaite, 'Ten Things You Need to Know about Regulation but Never Wanted to Ask,' 13

³⁸ Interview with Fraidoon Noorzad, Deputy Chief Executive Officer, Kabul Bank, Kabul, June 2005.

³⁹ Interview with Sher Khan Farnood, Founder and Chief Executive Officer, Kabul Bank, Dubai, June 2005.

⁴⁰ Standard Chartered Bank teller, Kabul, July 2005.

Deputy CEO of Kabul Bank whom I had met earlier that week, and received the following email from the contractor several days later:

I can't thank you enough for passing on the business card. Kabul Bank transferred the money in 24 hours and I had no troubles. We are also conducting a road project which is located in one of the most dangerous places in Afghanistan; Kandahar. I made some meetings with the local people and Taliban leaders of the Region. They said they would not touch us as we had common religion and they even promised to protect us if we are willing to pay for their Security Services. ... In this country and the countries I worked earlier before coming here like Iraq, Kyrgyzstan, Kazakhstan bribing is the most effective thing to get things done. In fact you cannot do anything if you are not willing to pay. We have completed a work here in Afghanistan which is worth over 120 million dollars and as far as I remember over 3 million has gone for bribing.⁴¹

When Standard Chartered Bank is preoccupied with crossing every 'i' and 't' in the AML rulebook, it seems surprising that banks such as Sher Khan's are permitted to operate so differently when both are superficially under the same scrutiny of the DAB. Perhaps this example demonstrates that such concessions are made because more oversight of transactions is at least possible when they are made in a formal bank with reporting requirements, rather than in the alternatively regulated realm of hawala.

While it is well understood that protracted conflict and its aftermath tend to generate demands for compromises at the frontline of reconstruction, examples of these compromises are perhaps least forthcoming in the aid world. This is especially the case when they involve criminal activity. The following is an implicit conclusion that can be drawn from Chapter 8: the widespread use of hawala in areas where money dealers admit to relying heavily on opium proceeds and the trade in unregulated goods runs the risk of entwining the money of aid agencies and international organisations with criminals or traffickers by providing a convenient channel for the latter to launder 'dirty' money into the 'legitimate' economic sphere. A glance at aid statistics adds weight to such a speculation: of the USD 1.84 billion in grant money disbursed by the end of March 2003, only USD 296 million or 16 per cent was provided directly to the government budget – the rest was provided to non-budgetary expenditure and donor-designated projects through the UN system and NGOs, and proves sufficient to meet the needs of criminals wishing to launder or transfer their drug money between provinces and out of the country during the same period.

⁴¹ Email from director of a construction company, 17 December 2006. Similar accounts were gathered from interviews with large businessmen in Herat.

Aid practice, such as the way in which agencies make their choice of money dealer, further substantiates this possibility. A program officer in Faizabad explained that the selection depends almost entirely on an evaluation of the dealer's ability to meet distribution targets. Hence, he must be able to present the organisation with the required amount, at times reaching USD 350,000 in a month, and transfer the cash within a specified timeframe to an often remote location that is reachable only by foot. The official recalls:

'[Qazim] was charging 1.8 per cent commission up until this year. We changed to a more competitive dealer – Kabul Exchange – who charged 0.9 per cent, but they always failed to deliver the full amount on time. So we approached [Qazim] again and he gave us an even more competitive commission – less than 1 per cent, so we are using him exclusively again.'⁴²

The rational-economic nature of this agency's decision to deal with the most liquid operating partners with wide local linkages is the same approach taken by 9 of the 10 humanitarian agencies approached during the fieldwork regarding this issue.⁴³ Again, on the basis of evidence presented in Chapter 8, it is fair to say that a dilemma arises out of the fact that the largest dealers who are most able to deliver the needs of aid agencies in Afghanistan are directly involved in the transfer and laundering of money derived from drugs and unregulated trade. This entwines the local NGOs and international aid agencies that are implementing humanitarian projects with the opium economy – ironic given that the fight against the drug trade is one of the highest priorities in the peacebuilding agenda of donors in stabilising and liberalising the country.

The following admission of one aid worker is representative of much of the sentiment regarding the intermingling of aid money with illicit transfers in the opium economy:

'We don't need to know where he [the money dealer] gets his money from. The important thing is that it arrives in the place we want it to.'⁴⁴

A somewhat starker admission of optimal ignorance came from a jaded senior logistician working for a UN agency in one of the provincial centres:

⁴² Interview with Program Officer, WFP, Faizabad, May 2005. Name of money dealer is changed for purposes of confidentiality.

⁴³ The agencies remain anonymous due to the promise of confidentiality during interviews.

⁴⁴ Interview with Finance Manager, UNOPS, June 2005.

'Of course we are all aware that we are directly laundering drug money. But it is not our concern. We deliver what the donors wish us to deliver, and we clock off at the end of the day. It is just too hard to think through what we are actually doing to contribute to the criminal side of life here.'⁴⁵

Curiously, the United Nations Assistance Mission in Afghanistan (UNAMA) chooses to deliver its money to field staff and projects by plane, while the other UN agencies with a similar or even greater need to move large funds around the country employ the services of hawala. One technical consultant working for UNOPS suggested that UNAMA's decision to incur the financial cost and inconvenience of this method can be explained by its reporting structure.⁴⁶ UNAMA must report its accounts directly to the headquarters in New York at the UN Department of Political Affairs, while the contributions of all other UN agencies in Afghanistan that it oversees⁴⁷ do not have to be made directly accessible to headquarters. Once the funds are channelled to the various UN agencies under UNAMA, they are exceptionally difficult to disaggregate and hence make accountable to a centralised point. It appears therefore that, while UNAMA implicitly allows its partner organisations to engage with local money dealers, it recognises the importance of safeguarding itself from accusations of interacting with grey financial structures on the ground.

Based on such a rationale and recognising that action is rarely dominated by a single behavioural logic, it is instructive nonetheless to question when the distinctiveness of different logics of action becomes hypocrisy. First, is it possible to judge whether the humanitarian agencies' policies towards local money dealers is driven mainly by either *instrumental* 'logics of consequences', or *rule- or norm-governed* 'logics of appropriateness'?⁴⁸ The first reflects goal-oriented action that is governed by calculations of costs and benefits, while the second assumes that actors are not merely utility-maximisers but are often immersed in rich normative commitments. These norms are 'regulative' in the

⁴⁵ Interview with Logistician, UNOPS, June 2005.

⁴⁶ Interview with Adam Boukoulos, UNOPS, April 2005.

⁴⁷ Security Council Resolution 1401 (2002) gives the Special Representative of the Secretary General (SRSG) in Afghanistan 'full authority ... over planning and conduct of all United Nations activities in Afghanistan'. *Report of the Secretary-General – The Situation in Afghanistan and its Implications for International Peace and Security*, UN Document A/56/875-S/2002/278 (18 March 2002)

⁴⁸ While this is an old debate within IR, it is useful when probing the paradoxical practice of aid agencies in fragile states. Ole Jacob Sending argues instead that a logic of appropriateness is put forward in the literature as a theory of agency, but it is in fact a structural logic. Sending, Ole Jacob (2002) 'Constitution, Choice and Change: Problems with the 'Logic of Appropriateness' and its Use in Constructivist Theory,' *European Journal of International Relations* 8(4): 443-470.

sense that they prescribe a set of social conventions or rules, procedures and principles that establish the standards of appropriate behaviour for a group in a particular context.⁴⁹

According to these logics, it seems fair to separate the approach to engagement with local money dealers between action driven by the primacy of pragmatism versus principle; or in less rigid terms, perceptions of responsibility and the extent to which consequences should be weighed against the humanitarian imperative.⁵⁰ Once an assessment of the relative contribution of humanitarian aid to the 'war economy' (the good or harm it might be causing) is made, we can only ask which logic of action becomes the main determinant of behaviour on the basis of such knowledge.

The research suggests that agencies are strategic in their decision to employ money dealers (hence their actions are governed by a logic of consequentiality) despite their *raison d'être* which is defined by a logic of appropriateness. This practice is fully deserving of moral critique if only for the fact that aid is morally driven.⁵¹ The problem lies in the hypocritical endorsement of the money dealer and the mixed messages that this conveys. Despite the increased call for accountability in aid practice, in addition to the widespread engagement with local money dealers, little exploration on behalf of the international organisations is undertaken into the implications of this interaction; they elect instead for optimal ignorance. One of the main negative consequences resulting from this oversight is ignorance of the 'post-conflict' economic reality in which they are actually operating. As demonstrated in Chapter 8, this involves an entanglement of 'criminal', 'combat', 'shadow' and 'coping' economies that may have been generated in conflict but persist in 'peacetime' conditions; it is not therefore simply a matter of drawing a line between clean and dirty financial practice.

⁴⁹ Finnemore, Martha & Kathryn Sikkink (1999) 'Norm Dynamics and Political Change,' in Peter Katzenstein *et al.* (eds) *Exploration and Contestation in the Study of World Politics* (Cambridge, M.A.: MIT), 251; Hirshleifer, David (1998) 'Informational Cascades and Social Conventions,' in Newman, Peter (ed.) *The New Palgrave Dictionary of Economics and the Law* (London: Macmillan Reference).

⁵⁰ Terry asks the same question in her Ph.D. thesis, entitled 'Condemned to Repeat: The Paradoxes of Humanitarian Action,' Australian National University, 86.

⁵¹ Apthorpe, "'It's [the] Culture, Stupid!'", 133; see Paton, Ron 'The Trouble with Values,' in Lewis, David (ed.) (1999) *International Perspectives on Voluntary Action: Reshaping the Third Sector* (London: Earthscan), 132-41 and Van Rooy, Alison (2004) *The Global Legitimacy Game: Civil Society, Globalisation, and Protest* (New York: Palgrave Macmillan) for a criticism of global civil society's 'values orientation' and ethical declarations of moral authority.

9.3 Symbolic reconstruction and regulatory ritualism

Participants in the study's consultations felt that negotiating common ground between policy and practice is an ongoing responsibility for humanitarians that often fails to be met. This same conundrum was recognised by those involved in the Sphere Project:

...there is inevitably a tension between the formulation of universal standards and the ability to apply them in practice. Every context is different. In some instances, local factors may make the realisation of all standards and indicators unattainable. When this is the case, the gap between the standards and indicators listed in the [Sphere] handbook and the ones reached in actual practice must be described, and the reasons for it and what needs to be changed must be explained.⁵²

Singled out by several commentators as often the earliest 'casualties',⁵³ financial accountability procedures continue to be some of the most overlooked categories for inspection and introspection during an humanitarian assistance programme. UNDP in Afghanistan identified '[i]nsufficient transparency or accountability of expenditures and payment mechanisms' as one of the main threats to undermining donor confidence and further funding support for its projects.⁵⁴ The speed of response required in a crisis is most commonly cited as the reason why inadequate agency accounting practices continue to exist. Isherwood summarises the argument such: humanitarian workers cannot be troubled to worry about finances when the level of suffering demands assistance that is focused exclusively on the process of delivering aid,⁵⁵ and goes on to suggest that, having been largely unchallenged, the argument provides an accepted justification for not even attempting to keep a record of cost data in the relief phase. An example of such an approach can be seen in an interview with a staff member from a French INGO in Kabul. He acknowledged that:

'A detailed breakdown of costs would be impossible given the, er, conditions ... In the first five to seven years of our operations I remember we kept receipts and other evidence of expenditure in shoeboxes which

⁵² Sphere Handbook (2004) *Humanitarian Charter and Minimum Standards in Disaster Response* (Geneva: The Sphere Project), 8-9

⁵³ Hovey, Guy & Diana Landsman (2003) 'Complex Emergency – Complex Finance?,' *Forced Migration Review* 18: 36

⁵⁴ UNDP (2005) 'State-Building and Government Support Programme,' UNDP Afghanistan Country Office (31 October), 7

⁵⁵ Isherwood, Thomas W. (2005) 'Camps: At What Price?,' US Committee for Refugees and Immigrants, accessed in May 2007 at <www.refugees.org/uploadedFiles/Investigate/Anti_Warehousing/Articles/Isherwood%20050403.pdf>, 9

were never organised, and were finally thrown away. I have no idea where they are now – in fact, I think we actually burned the paperwork before we started up our new system.’⁵⁶

A similar ambivalence towards cost data was shared by several of the finance officers surveyed during the fieldwork, which mirrors the past experience of other fieldworkers who have attempted in vain to piece together the financial procedures of humanitarian agencies in relief operations elsewhere.⁵⁷ In order to understand further why such a task proves so difficult, it is important to distinguish not only the different actors, but also the different expected timeframes and guidelines within which these actors operate. Humanitarians in the field would argue that the central part of peacebuilding is the delivery of humanitarian assistance. Donor policy, on the other hand, sequences assistance in such a way that reflects their perception of the greatest need. Hence, donors generally envision a ‘relief phase’ in complex emergency responses, in which the four life-sustaining technical sectors – food, shelter, water, and health – are prioritised over the long-term consequences of aid work on the local context. The theory is that, once a basic ‘safety net’ is achieved through adherence to the ‘humanitarian imperative’, aid agencies can shift their focus to development-oriented assistance that aims to reduce future vulnerabilities and build local capacity. An important point to draw in the case of hawala is that the economy is often ‘sequenced’ as the least important priority, after security and political reform, despite its direct influence on both areas.⁵⁸

The traditional perspective within the aid community is that expediency and flexibility should guide the operating principles of relief, while more time will become available during the development phase to institute adequate monitoring and evaluation mechanisms procedures. Although this ‘relief-development’ continuum might appear sensible in theory, it has potentially damaging consequences in practice. This is because the level of need for intervention can fluctuate according to the situation at hand. For example, in a complex emergency that has transitioned to the ‘development’ phase, there may be sporadic food-supply shortages requiring immediate relief assistance. It is therefore difficult to separate the relief and development spheres in a way that remains contained. A problem arises when the kind of behaviour that has implicitly been condoned in the emergency relief

⁵⁶ Interview with Finance Officer, the Agency for Technical Cooperation and Development (ACTED), Kabul, June 2005.

⁵⁷ One example can be found in the landmark evaluation of emergency assistance to Rwanda, which concluded that ‘even basic data on staff, finances and activities were difficult or impossible to obtain from a number of NGOs’. JEEAR (1996) ‘Humanitarian Aid and Effects,’ Joint Evaluation of Emergency Assistance to Rwanda: Study III, Steering Committee of the Joint Evaluation of Rwanda, 162. The situation is changing among some of the larger INGOs and aid agencies.

⁵⁸ See Collier, Paul *et al.* (2003) *Breaking the Conflict Trap: Civil War and Development Policy* (Washington D.C.: World Bank).

phase – involving compromises – is extended to the development period, making accountability in areas such as finance rather hazy.

The emphasis on ‘universal’ knowledge and ‘transformation’ in the liberal peace agenda, whether implicit, explicit, or unconscious through cultural bias, goes some way to explaining why implementing agencies are reticent to admit their reliance on local cultural institutions. This is still surprising, however, given the growing consensus that attention to social diversity and local culture should form a critical component of peacebuilding.⁵⁹

Where the ‘logics of consequences’ approach dominates action, engagement with the local people becomes less about real participation, and more about the attainment of goals. If the goals continue to revolve exclusively around liberal democratic reform, it is likely that the efforts to transform local institutions will ultimately fail. Indeed, the simultaneous treatment of local economic institutions and practices as *tabula rasa*, awaiting the imprimatur of liberal democracy, and reliance on them for the smooth functioning of the liberal peace mission, reveals a knotty paradox in humanitarian theory and practice that raises several ethical dilemmas and queries. On the one hand, the aid community’s prerogative remains that of ‘saving’ strangers and repairing collapsed institutions through a series of fundamental reordering strategies. On the other hand, agreement has emerged around the importance of ‘engaging’ strangers in this process both as a response to the mounting humanitarian critique of the 1990s and to the non-durability of recent attempts to reconstruct peace in ‘failed’ states.⁶⁰ But to complicate matters further, a somewhat forced engagement appears to be taking place between aid agencies and local financial structures according to the ‘logics of consequences’.

As mentioned above, however, such a critique or examination of an aid programme’s operational aspects and degree of participation has until recently been far from forthcoming. This returns us to the problem surrounding ‘social capital’ discourses within places such as the World Bank, which perpetuate the idea that universality can and should dominate, and that the situated knowledge can either be generated from the outside or manipulated to serve the broader objectives of liberal peace. A counter perspective has been developing, however, which claims that small steps are being made in a positive direction.

⁵⁹ See Schech, Susanne & Jane Haggis (2000) *Culture & Development: A Critical Introduction* (Oxford: Blackwell).

⁶⁰ This is reflected in the vast literature that encourages members of ‘civil society’ to become involved in the political and social development of their country to achieve a more sustainable reconstruction. See the work of The Afghan Civil Society Forum (ACSF) which was developed as a partnership between Afghan civil society actors and swisspeace at the request of participants in the first Afghan Civil Society Conference in Bad Honnef, Germany (29 November – 2 December 2001). See the Centre for Civil Society project at the London School of Economics for more information on the development of civil society <<http://www.lse.ac.uk/collections/CCS/>>.

In this regard it is helpful to consider the perspectives that have begun to emerge from *within* the Bank that help explain why the use of concepts such as social capital is at times muddled, poorly executed, or crudely developed.

The internal politics around the production of discourse at the Bank reveal that it is 'neither monolithic nor all powerful', but rather a complex institution with many internal divisions and points of influence.⁶¹ Discussions of new concepts like social capital therefore take place internally among its staff members (especially between its country-level operational staff and analytical, non-operational staff working on policy and research), externally with non-Bank actors and those encountered in the course of implementing projects, and across both spheres between larger communities whose memberships transcend institutional boundaries.⁶²

Bebbington *et al.* suggest that external critiques have disproportionately focused on the analytical conversations within the Bank (which tend to push thinking in a quantitative direction for more 'rigorous results') because they are more visible to outsiders through their publications than the views of operational staff. This obscures the small but consistent contingent committed to the notion that the Bank should incorporate more participatory processes into its project formulation, and also the gradual impact that such a group might have over the long term. The core team of the 'Bankwide Learning Group on Participatory Development', founded in 1990, is a case in point. Concerned with 'the particulars of individual societies and the ways in which broad prescriptions must be adapted to fit local contexts – for better and for worse', rather than advocating universal laws,⁶³ social capital appeared to offer those in the Group a concept for linking the concerns of the participatory debate to development theory at the Bank's programmatic core.⁶⁴ Accordingly, Bebbington *et al.* explain that – despite its faults – the discussion on social capital is positive because it has allowed people to talk more explicitly about the role that local organisations and social networks might play in development and poverty reduction, extending ideas raised far more

⁶¹ Commins, Stephen (2001) 'Who Are These Guys? One Perspective on Globalization from the World Bank,' *By George! Online* (25 September), accessed in October 2006 at <www.gwu.edu>; Bebbington, Anthony *et al.* (2004) 'Exploring Social Capital Debates at the World Bank,' *Journal of Development Studies* 40(5) (June): 33-64

⁶² Bebbington *et al.*, 'Exploring Social Capital Debates at the World Bank,' 38

⁶³ Davis, Gloria (2002) 'Who We Are and What We Do: A Contribution to the Social Development Strategy' (Washington, D.C.: The World Bank, Social Development Department, Mimeo). While only 19 people made up the core team of the Group, dozens more were regularly active, and over 200 staff and consultants were involved in contributing to the *Participation Sourcebook* (Washington, D.C.: World Bank), published by the group in 1996. Bebbington *et al.*, 'Exploring Social Capital Debates at the World Bank,' fn.11

⁶⁴ Bebbington *et al.* use the example of Ismail Serageldin, Vice President of Environmentally Sustainable Development, who apparently used the idea of social capital as a vehicle to communicate a social agenda more coherently to his economist counterparts.

tentatively inside the Bank from the early 1980s about the social embeddedness of institutions and power relationships.⁶⁵ Seen in this light, the ‘alacrity with which the Bank has taken up the discussion [of social capital] in recent years ... should not be assumed to imply wholesale change in projects’;⁶⁶ rather, it could be seen to create much-needed spaces within the Bank for more community-oriented development to emerge in future programming.

The above argument suggests that the symbols and ritualistic use of terminology and liberal reform concepts may be an important part of progressing towards a better mutual understanding of what is expected from the outside and what is likely to remain from the inside in a post-conflict setting. Tensions remain, however, around the blurred line between ‘optimal ignorance’ and a genuine lack of awareness of the complexities involved in a peacebuilding operation and the local context. Drawing from Mlada Bukovansky’s social constructivist position on the problem of ‘legitimacy contests’, the following section will conclude this chapter by exploring the likelihood of there always being such contested ground where the issue of ‘mutual incomprehension’ is not addressed.

9.4 Conclusion

Policymakers are becoming increasingly aware that their ‘universal’ knowledge and strategies to ‘re-cast’ societies are rapidly losing currency in the battle against failed states and the threat of terrorism; they are, however, simultaneously either unwilling or unable to devote the enormous effort, time, and resources necessary for more in-depth analysis of the situations at hand – or, it seems, to recognise their dependence on ‘taboo’ local structures during the transition phase. Most critically, there appears to be a widespread reluctance to accept ‘that the solutions international agencies have in mind are not necessarily what the [local] community will need or want’.⁶⁷

In their article on ‘Theories, Rhetoric, and Practice’ in the aid regime, Sultan Barakat and Margaret Chard suggest one of the reasons for the persistent imposition of inappropriate ‘blueprint’ strategies and approaches today is the asymmetrical structure of the aid relationship itself.⁶⁸ Aid is a negotiation, they explain, between unequal partners in

⁶⁵ Bebbington *et al.*, ‘Exploring Social Capital Debates at the World Bank,’ 57

⁶⁶ *Ibid.*, 39

⁶⁷ Barakat, Sultan & Sean Deely, ‘Somalia: Programming for Sustainable Health Care,’ in (2001) *World Disasters Report* (Geneva: International Federation of Red Cross and Red Crescent Societies), 66. Also see Hewitt de Alcántara, Cynthia (1998) ‘Uses and Abuses of the Concept of Governance,’ *International Social Science Journal* 50(1) (March): 110.

⁶⁸ Barakat, Sultan & Margaret Chard (2002) ‘Theories, Rhetoric and Practice: Recovering the Capacities of War-torn Societies,’ *Third World Quarterly* 23(5): 818

which the 'giver' can impose conditions (again either deliberately or not) because he cannot be effectively challenged by the weaker partner in the negotiation. Recipients, however, tend to continue to pursue their own agendas within that donor conditionality. In doing so, they display 'outward conformity' while enacting 'minimal compliance',⁶⁹ much like the symbolic reconstruction and regulatory ritualism of the money dealer in aid and regulation.

An additional structural problem can be found in the direction of accountability flows that move not downward to the host population but upwards to the donor, whose 'haste' to see recognisable organisations in place precludes proper attention to local needs⁷⁰ This is complicated further by the donor's accountability primarily to constituents such as tax payers in the donor country who are again one step removed from the beneficiaries. Aid in this sense is both influenced by domestic politics and used as a foreign policy tool in the international system.

Although the relationship between local populations and intervening parties appears in general to be an unequal arrangement, various bargaining efforts take place in one form or another, such as those described above. I argue that the party with the stronger hand is ultimately the one most able to accrue legitimacy. Following Bukovansky's concept, it is possible to see that the chief obstacle to the possibility of transforming current practice from 'saving' to openly 'engaging' strangers, beyond lack of political will, lies in a lack of mutual appreciation for different sources of such legitimacy and commitment to reconciling different interests.⁷¹ The simple diagrams in Figure 19 below illustrate two ways in which the 'legitimacy contests' between international institutions and the local market during Afghanistan's transition period are played out. The former represent the top-down architecture and objectives of regulatory intervention, state- and market-building that have evolved vis-à-vis collapsed states, while the latter represents the bottom-up strategies of actors who are responsible for mediating political and economic power under the radar or in the absence of formal state authority.

The first diagram signals a deadlock between the perspectives whereby each party is inflexible and either incapable or unwilling to take into account the other's point of view. The dotted red line indicates what Bukovansky labels the 'politics of mutual

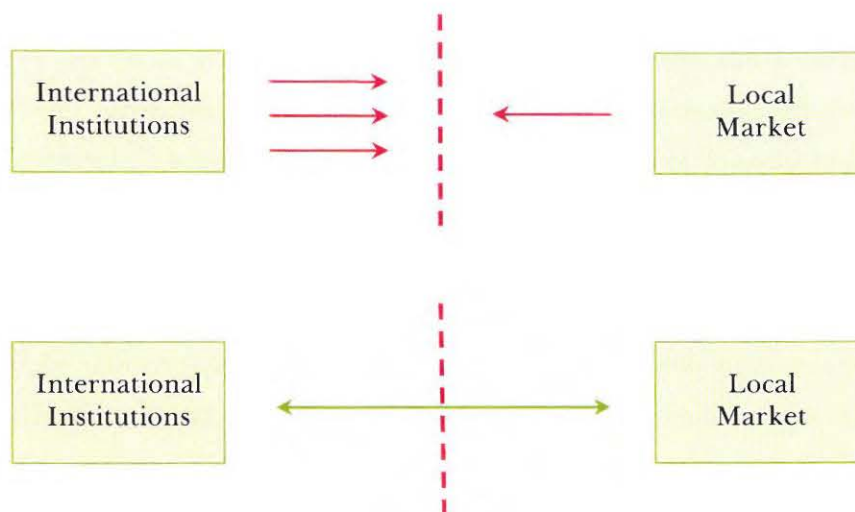
⁶⁹ *Ibid.*, 830

⁷⁰ *Ibid.*, 827

⁷¹ Bukovansky, Mlada (2005) 'Hypocrisy and Legitimacy: Agricultural Trade in the World Trade Organization,' Paper presented at the International Studies Association, Honolulu, Hawai'i, 1-5 March 2005, 35

incomprehension' in which any real progress toward reconciling different interests is stalled by a lack of mutual understanding.⁷²

Figure 19: Contest between the predominant approaches to economic governance



The second diagram illustrates how dialogue, indicated here by the two-way green line, can improve the effectiveness of regulatory and reconstruction attempts by brokering a better understanding of the conceptual *habitus* that each party occupies. Within this arrangement, the relationship between the perspectives is still contested but there is the potential to transform the debate from one which argues whether either is correct, to a tentative exploration of what 'legitimacy contests' and mechanisms of social reproduction they help us to reveal.

Apropos *hawala* and international institutions in Afghanistan, it appears that each party obtains their legitimacy predominantly from a different source, or 'social audience', which produces alternative ideas of how authority should function in a disrupted locale. International institutions, for example, gain their legitimacy from 'above' through states in a world that is defined by 'systemic' concerns, such as the needs of transnational capital and the imperatives of political survival. The *hawala* market conversely accrues its legitimacy from 'below' through the domestic concerns of 'the people', or local dynamics of legitimisation.

The issue of what the optimal method is for transformation in a war-torn context becomes less a matter of who has the greater insight into reform mechanisms and the like, and more about appreciating that there are different 'valid' perspectives; surviving local

⁷² Bukovansky, 'Hypocrisy and Legitimacy: Agricultural Trade in the World Trade Organization,' 14. Pierre Bourdieu uses a similar notion of *habitus* to describe the cultural conditions and material structures that differentiate people's fundamental assumptions and guide their practice. Bourdieu, Pierre (1977) *Outline of a Theory of Practice* (Cambridge University Press), 4

institutions cannot therefore simply be ignored, used for convenience, or regulated out of existence in the process. A fine-grained analysis of a local institution such as that explored here reveals that it is certainly too bold to uphold the view that universalism is truly for everybody.

Recognising this, the aim of Operation Enduring Freedom, as set out by the US Under-Secretary for Department of Defense Policy, was to 'liberate' rather than 'invade' Afghanistan, and followed in the spirit of the 'light footprint' approach.⁷³ However, as one long-time development practitioner and academic wryly pointed out, 'it strikes me that, even on a hard rock, a dinosaur would not have a light footprint!'⁷⁴ While the dinosaur to which this commentator refers represents both the multinational military taskforce and UN-associated operations that preside over the current intervention in Afghanistan, it is common for policymakers operating out of the comfort of agency headquarters to miscalculate the significance of the proverbial hard rock on which such international actors leave their mark. As we have seen in context of the money men in Afghanistan, the rock may well represent robust local institutions that have survived and adapted to centuries of occupation and external threats.

⁷³ See UN Security Council 4469th Meeting, UN Press Release SC/7295 (6 February 2002).

⁷⁴ Raymond Apthorpe, comment at a talk delivered to the Graduate Studies in International Affairs programme, Australian National University, June 2006.

Concluding Remarks

One could be forgiven for failing to connect a modest, *shalwar kameez*-clad money dealer in Afghanistan with the millions of US dollars regularly supplied to humanitarian field offices in support of rebuilding it and other ‘failed’ states. Nevertheless, those at the helm of what is now commonly labelled hawala are indeed often entrusted with the task of delivering this flush of greenbacks on the ground. Supported by institutions that have adapted across not only borders but also the centuries, the local money dealer’s appearance often masks the dexterity with which he conducts business – appraising the trustworthiness of a new client all the while counting the daily tranches entrusted to him and coordinating multi-million dollar transactions in the time it takes to make a telephone call. The research presented throughout this thesis indicates that, while they may appear somewhat helpless or even backward in view of external pressures and their giant competitors operating out of global financial centres, it is likely that the influence of succeeding dinosaurs – whether they take the form of foreign ‘liberators’ or ‘invaders’ – will be insufficient to replace Abdul Haq and his colleagues in the money markets from downtown Kabul to rural Faizabad who are clearly here to stay.

Building on the analogy provided by a commentator at the close of Chapter 9, the proverbial ‘hard rock’ that these money dealers represent might better be described as a palimpsest, or wax tablet, imprinted with layer upon layer of text from different periods – the original practices having been effaced to make room for the adapted or fresher manuscript.¹ The palimpsest certainly conjures a more accurate image of the money men’s operations than the *tabula rasa* that assumes local institutions and practices present a blank canvas requiring the imprimatur of the liberal democratic core; new scripts rather overlay the old, leaving their institutional legacies partially legible.

As indicated in Part I of the thesis, the burgeoning peacebuilding literature reveals an increasing consensus in the international community around the view that the viability of an intervention into fragile regions is largely determined by whether it can achieve

¹ See de Sousa Santos, Boaventura (2006) ‘The Heterogeneous State and Legal Pluralism in Mozambique,’ *Law & Society Review* 40(1): 39-75 for a similar use of this metaphor.

'legitimacy' in the host society – perhaps what it is less well understood is that the task of winning the acceptance of local people is complicated by the already existing 'scripts', or local governance systems, that require little ongoing investment in collective mobilisation to maintain their legitimacy. An examination of hawala and the politics of its survival over the centuries and into the present day demonstrates the extent of this challenge in the area of economic governance.

The analysis in Part II of the thesis identified the difficulties of tracing society's more dispersed or mobile groups, such as money dealers, throughout history due to the distorting effects that result from a propensity among chroniclers to insinuate the histories of states in the place of such groups. In spite of these obstacles, it was possible to build a partial picture of how hawala has become a predictable and meaningful institution in Afghanistan. The research established that the early money dealers operating across modern Afghan territory were governed by specific economic practices, values, and artisanal traditions that made use of factors such as religion, reputation, kinship, and migration strategies to gain the 'pragmatic' and 'moral' legitimacy of outsiders. These two aspects converged on the issue of trust, which proved to form a crucial pivot in the functioning of hawala in the ancient and medieval period. The research suggested that the level of trust afforded to money dealers by the public over time has prompted a sense of 'cognitive' legitimacy in the hawala system. The implication once 'cognitive' legitimacy is conferred is that it is difficult to manipulate or challenge because of its 'self-sustaining' nature; according to organisational sociologists, reassessments of legitimacy thus become increasingly perfunctory, if not 'mindless'.² In the event such institutions are broken down, it is possible that the activities they support will collapse or dissolve into disorder in their absence. This is the risk facing regulators and aid practitioners in Afghanistan who often fail to generate effective means of reconstituting trust in the 'formal' sector, and are working at cross-purposes vis-à-vis existing institutions like hawala.

Throughout the substantive discussion in Parts III and IV of the thesis, the evidence intimated that, despite the increasing recognition that reconstruction practice should transform from 'saving' to openly 'engaging' local people such as money dealers in a way that prevents the heavy-handed and inappropriate imposition of blueprint strategies on their institutions, an 'imperialism of categories' approach that applies 'universal' concepts fashioned from materials in the world's centre to the distant periphery continues to prevail.³ The thesis proposes that this is the case because of both expediency and the excessively top-

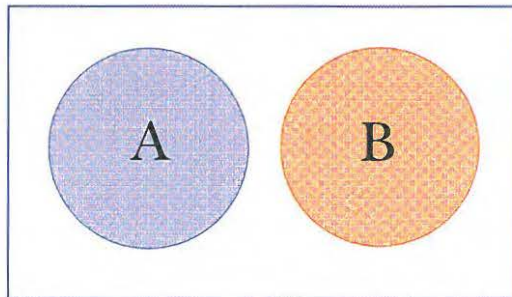
² Ashforth, Blake E. & Yitzhak Fried (1988) 'The Mindlessness of Organizational Behaviors,' *Human Relations* 41: 305-329

³ Rudolph, 'The Imperialism of Categories,' 5-14

down, macro-level, and state-based frame within which much of the thinking of political scientists and policymakers takes place.

Recent political economy scholarship on private authority (reviewed in Chapter 2) has certainly remedied the neglected focus on ‘micro-politics’ in IR to a point, nevertheless it continues to be inhibited by its level of analysis. For, while the aim of the literature is to magnify sub-state ‘institutionalized forms or expressions of power’,⁴ the focus actually begins to blur rather than sharpen as the conceptualisation departs from top-down analyses and enters the sub-state or domestic level. An analysis of the treatment of hawala suggests that this is the case because the global architecture that IR scholars explore at the international level relies on various dichotomies that do not necessarily reflect the political, social and economic, or rather ‘nuts and bolts’, mechanisms that exist on the ground. Accordingly, regulators and peacebuilders tend to see the system as a strictly ‘private’ (A) versus ‘public’ (B) conflict over market authority, much like in the diagram below; as such, the very categories that must be overcome to improve on existing understandings of sub-state ordering processes are instead replicated.

Figure 20: Dichotomisation in the literature



The approach taken in this thesis was to build on the current literature by sharpening the focus at the sub-state level, while also maintaining a clear view of how it is placed in relation to global-level concerns. In doing so, it pushed key boundaries between the conceptual dichotomies that persist in the traditional IR and universalist literature by applying advances in other fields of research that relate to social networks. The importance of understanding local contexts and addressing the impact of social networks in a specific environment has long been recognised by anthropologists, sociologists, and some of the more alert practitioners in the field; it thus proved instructive to deploy interdisciplinary tools when unravelling these dynamics in Afghanistan – a state conceived of as ‘failed’ within the state-centric view of global politics. A question that remained was how to elucidate the local context without reifying culture in the process.

⁴ Refer to Hall & Biersteker, *Emergence of Private Authority in Global Governance*.

Simplified to a basic level, it was envisaged that the application of Grabher and Stark's framework of 'legacies', 'linkages', and 'localities' to the case of hawala would help move analyses away from the somewhat myopic acceptance of international institutions' modernising or civilising power to a more rigorous assessment that uncovers the often flimsy evidence on which conventional wisdom is based in this issue-area and the global architecture within which local institutions are embedded. The research therefore approached the hawala system against the historical backdrop, or institutional legacies, of public authority and state formation in Afghanistan, and in light of the various levels of interaction, or contemporary linkages, it has with other governance spheres. As mentioned above, it emerged that such an approach demands a blurring of typical dichotomies in the literature on sub-state systems of authority.

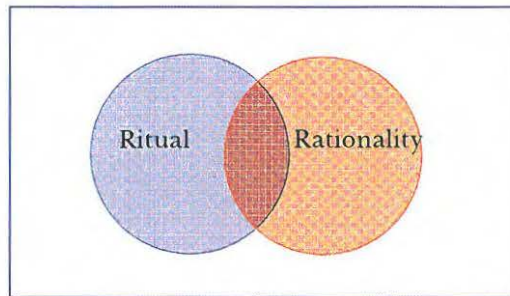
Parts III and IV of the thesis, which tackled the field-based aspect of the research, reflected specifically on the reproduction of the distinctions drawn between 'cultural' and 'rational economic' behaviour, 'local' and 'global' activity, and the pressures of 'survival' and 'profit'. Chapter 6 focused on the importance of change in the market during periods of instability, and highlighted that while ethnic or cultural categories certainly contribute to the social organisation of economic networks in the context of war and migration, such networks are not defined by a single institutional or cultural logic, but rather by a combination of changing rational economic opportunities, tactics and social affiliations.⁵ Hence, as can be seen in the first diagram in Figure 21 below, the spheres of 'ritual' and 'rationality' overlap rather than oppose one another.

In a similar fashion, Chapter 7 demonstrated the interconnectedness of the 'local' and 'global' spheres of hawala activity. Money dealers were revealed as 'social brokers' mediating between the local infrastructure of Afghan communities and the global socio-economic superstructure in which they exist. An emerging literature within globalisation studies has identified this phenomenon of simultaneous hybridisation and conformity to larger processes as a 'glocal' space of flows; hence the depiction of 'local' and 'global' categories in the second diagram below as being in a relationship of concurrence.

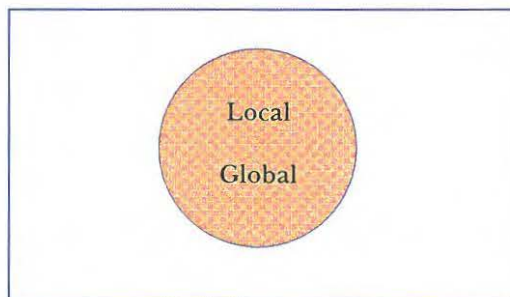
⁵ Recent advances within the political economy literature have begun to challenge the tendency of traditional IR scholars to impute individual microeconomic behaviour – based on rational economic 'self-interest' – to macroeconomic conditions. Best and Widmaier, for example, argue that such an approach only serves to obscure the question of how ethnics and values are constructed at a local level within the world economy. See Best, Jacqueline & Wesley W. Widmaier (2006) 'Micro- or Macro-Moralities? Economic Discourses and Policy Possibilities,' *Review of International Political Economy* 13(4): 609-613.

Figure 21: A new 'universe of discourse' surrounding sub-state institutions

1) Confluence



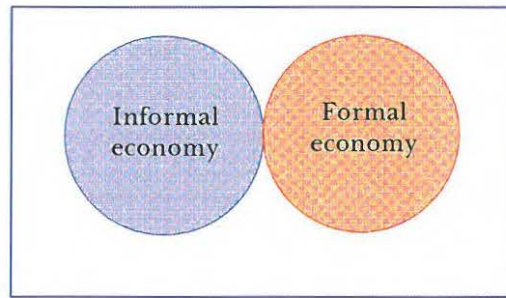
2) Concurrence



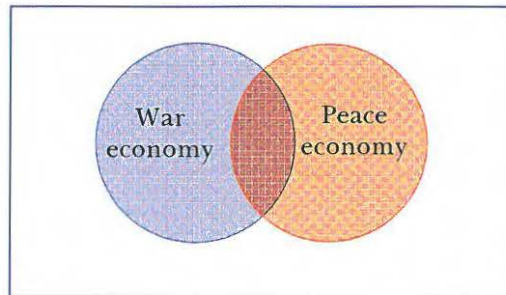
Reflecting further on the traditionally dichotomous thinking within the policy arena, it became apparent in Part IV that the 'state-building' process aims to institute a 'formal' economy in opposition to the 'informal' economy, without proper regard for indigenous knowledge and strategies developed during wartime. Assumptions made by those involved about how market authority should be apportioned and legitimised tend to constitute powerful scripts that privilege certain social realities over others. A likely consequence is that competing authority claims by subnational or transnational groups are considered ipso facto illegitimate.

Chapter 8 certainly identified an implicit project of 'delegitimisation' in the case of hawala that relegates the 'informalised' economic structures that have supported Afghan society to an inferior or opposing position in relation to the newly imported neo-liberal financial infrastructure. At the root of the problem appears to be a lack of consideration for the predicament of a state deemed to be 'failed', where the 'informal' label attached to indigenous governance structures is problematic given their de facto substitution of 'formal' institutional power in such contexts. A more realistic formulation is that depicted in diagram 3 below where both economies sit side-by-side almost as a mirror to one another in complementary opposition, with the strictly illegal economy impacting on both spheres.

3) Complementary Opposition



4) Confluence

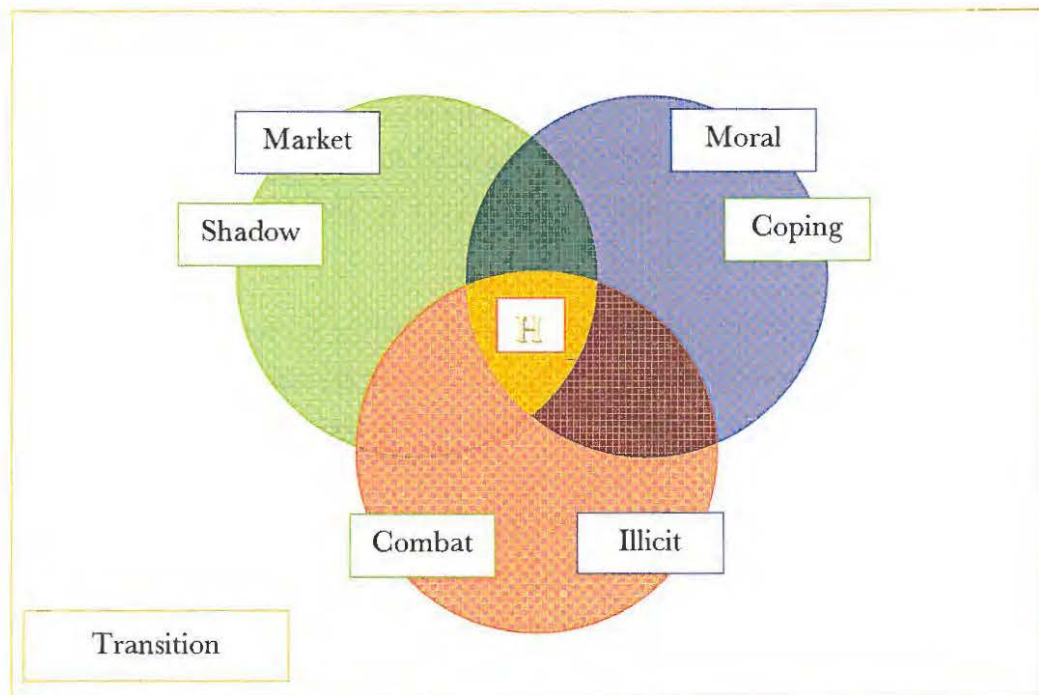


In addition to incorporating the notion of 'informal economy' into studies of 'failed' states and lending it more nuance in the hope that it may provide a useful theoretical connection between micro- and macro-level or state-centred analyses, the overall purpose of Chapter 8 was to problematise the tendency within mainstream IR literature to criminalise sub-state ordering processes. It examined the institutional 'localities' of the money dealer and ambiguous 'legalities' surrounding his operations in the post-conflict context and, in doing so, revealed that Pakistan and America's systematic participation or implicit condoning of what are now deemed to be illegal activities, such as drug production and trafficking, has greatly complicated the legal standing and perceptions of the money dealer whose status and functions place him in the 'strategic middle' of diverse socio-political structures, or more specifically at the crucial pivot between the various war and peace economy actors whose motives behind, and gains to be made from, the cultivation or trade in illicit commodities vary according to the locality. The reality that emerges out of this discussion is reflected in the two spheres of 'war' and 'peace' economy which are depicted in the fourth diagram above as confluent, with both inheriting qualities of the other, rather than in opposition.

The reconfiguration of this dichotomy reinforces important questions raised in Part IV regarding what constitutes 'legitimate' or 'illicit' activity and authority in war and transition to peace, a traditionally under theorised area due to the perceived difficulty in

collecting empirical data on ‘covert’ aspects of non-state activity,⁶ and proves the ‘criminal’ label attached to hawala to be as problematic as the ‘informal’ distinction. The discussion in Chapter 9 regarding the inadvertent contribution of international aid agencies to the ‘illicit’ economy revealed the tensions that result from what appears to be an actual convergence of ‘legitimate’ and ‘illicit’ economies in the Afghan context.

Figure 22: Overlapping governance spheres in the ‘war economy’



These economies are encapsulated in the different types of authority that Hall and Biersteker identify as operational in today’s political economy (‘market’, ‘moral’, and ‘illicit’). Combined with Goodhand’s tripartite disaggregation of war economies (‘combat’, ‘shadow’, ‘coping’), these typologies present a more nuanced picture of hawala, particularly in the context of conflict and transition. This is depicted in the Venn diagram above where the ‘illicit’ authority sphere can be seen to incorporate ‘combat’ economy actors, such as corrupt politicians, military commanders, warlords, and conflict entrepreneurs wishing to exploit natural resources that also fund insurgency; the ‘market’ authority sphere can be seen to include ‘shadow’ economy actors, such as traders in legal goods, migrants, poor farming communities, foreign direct investors and private sector developers that remain under the

⁶ This is of course with the exception of mafia organisations, see Varese, Federico (2001) *The Russian Mafia: Private Protection in a New Market Economy* (Oxford: Oxford University Press), global terrorism, which is usually conflated with transnational organised crime into a single external threat to society, see Berdal, Mats & Monica Serrano (2002) *Transnational Organized Crime and International Security: Business as Usual?* (Boulder & London: Lynne Rienner), and the work of Jonathan Goodhand in the context of Afghanistan, see Goodhand, ‘Frontiers and Wars: The Opium Economy in Afghanistan’.

radar of state regulation; and the 'moral' authority sphere can be seen to include international humanitarian agencies like the UN, INGOs, religious charities, refugees who repatriate funds to the homeland, and terrorists (these of course can also be included within the illicit camp).

The universe denotes the transitional space within which a war or post-conflict economy operates, while the overlapping spheres represent the different components that make up the economy. The boxes with a green outline indicate Goodhand's taxonomy, while the blue refers to Hall and Biersteker's authority domains. Finally, the area indicated at the centre in yellow represents the site where all forms of non-state economic activity and private authority intersect. Hawala (H) is situated at the centre of this space. The combined theories clearly encourage a more substantiated approach to the typical view of war economy actors as encompassing a purely 'illicit' or covert space vis-à-vis the introduced or 'peace' economy.

The important point to draw from the above illustrations is that, in reality, the money men of Afghanistan form a complex site of governance and institutional local power, where interactions and strategies around culture, religion, ethnicity, rational economic factors, and global opportunities overlap in a variety of ways, and where the dealers not only constitute private forms of authority themselves, but are also directly interacting with other spheres of private and public authority. A more realistic approach to hawala than a strictly 'private' versus 'public' or 'non-state' versus 'state' conflict is therefore to view it in light of these various levels of interaction, which range from contradictory, complementary, confluent, and concurrent associations.

This perspective enables an improved appreciation of the risks involved in failing to take account of local institutions and practices during the state-building process; these include the potential for overlap between criminal and aid transfers, a lack of appreciation for the problematic side of criminality in the post-conflict phase and the vitality of migratory networks in the face of state regulation and war, and oversight of the mechanisms of institutional change that have the potential to act as a tool for state reconstruction and that are deemed legitimate by the people in whose name practitioners are attempting to rebuild a country such as Afghanistan. With these risks in mind, it appears fair to suggest that the burgeoning focus in the literature on 'reconstructing' local contexts should be adjusted in no small measure to the 'reinstruction' of those at the helm of such initiatives. Only then will it be feasible to gain a more nuanced understanding of the tensions and paradoxes that emerge from a redefinition of market authority in the post-conflict environment.

In the case of hawala, little exploration on behalf of international organisations is being undertaken into the disjuncture between policy and widespread practice of those

involved in reconstructing 'failed' state institutions. In some areas, the 'informal' economy continues to be simply struck out on the one hand, and relied on to handle payments for the delivery of aid or implementation of state-building projects on the other. The thesis argues that by recognising the 'legitimacy contests' that are taking place between externally and internally generated governance structures at the local level, it becomes possible to distinguish better at the global and national levels the security impact of unregulated financial networks and their development potential. The money dealer, who is represented widely in media and policy accounts as a 'one-sided coin' with a decidedly criminal face, becomes a multifaceted entity that instead exerts rather extreme effects that are necessarily at least two different sides of the same coin.

By way of conclusion, in order to improve upon the success of reconstruction efforts in states-in-crisis, this thesis advocates that a more appropriate approach to economic recovery must include considerations of the history, power relations, and local or global context within which local actors are embedded. This involves a tearing apart of dichotomies and an account of change that is sensitive to bottom-up developments while also, importantly, capable of addressing questions arising within the global-level architecture that issues of international financial orders, state reconstruction, and international stability sensibly belong. The fine-grained analysis presented in this thesis contributes to such a more nuanced understanding, and therefore adds a piece of the puzzle in a literature that is becoming increasingly aware of the negative implications of overlaying sub-state order with economic and socio-political structures that are inconsistent with the needs or wants of the local population.

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REGULATORY INSTITUTIONS NETWORK (RegNet)

Centre for Governance of Knowledge and Development
 Research School of Social Sciences
 Coombs Extension Building #8, Cnr Fellows & Garran Roads
 The Australian National University
 Canberra ACT 0200
 AUSTRALIA
 e.thompson@anu.edu.au



<http://regnet.anu.edu.au>

t: +61 2 6125 6039
 f: +61 2 6125 1507

سر وي

محترما :

قابل ياد آوري است که معلومات حاصله ازین سر وي
 محرمانه حفظ خواهد شد و فقط بخاطر تکمیل گزارش و
 اخذ درجه علمی دوکتورا از پوهنتون ملی استرالیا
 از آن استفاده به عمل میاید. و هیچ نامی از
 مصاحبه شونده گان درین پروژه تحقیقی گرفته نخواهد
 نشد.

با احترام

SECTION ONE: THE SHOP				
بخش اول: دوکان				
1 What year did your shop open? در کدام سال این دوکان را افتتاح نمودید؟				
2 How long have you been working in the shop? از چه مدت درین دوکان کار مینمایید؟		Years سالها	Months ماها	
3 How many partners do you have? چند شریک دارید؟				
4 In which countries do you have partners? در کدام کشور شریک دارید؟				
	Iran ناریا	Iraq قارع	Other رگید روشک مادک	
	Pakistan پاكستان	Canada اداكان		
	UAE امارات	Germany آلمان		
	Saudi Arabia امارات	France فرانس		
	USA ایتریا	Italy ایتریا		
	UK ایتسلیگان	Oman امان		

Australia ایلارترسا	Lebanon لبنان		
5 What is the minimum amount of money you would accept in a transaction? کمترین مبلغ پولی را که شما معامه مینمایید، چند است؟			
6 How many banks do you have accounts with? در چند بانک، حساب بانکی دارید؟			
7 Do you have links to other places in the country? آیا کدام ارتباطات با دیگر مناطق افغانستان نیز دارید؟		Yes بلی	No نخیر
<i>if answer is yes, please state where:</i> اگر جواب مثبت، لطفاً آن مناطق را نام بگیرید			
8 What is your main source of profit? مهمترین منبع عایداتی شما کدام است؟			
8.1 Commission کمیشن		<input type="text"/>	
8.2 Investment in goods سرمایه گذاری به اموال تجاره		<input type="text"/>	
8.3 Diversification of investments سرمایه گذاری در قسمت های مختلف		<input type="text"/>	
8.4 Other (please state)..... دیگر بخش ها (لطفاً واضح کنید).....			

9 What function does your shop primarily offer? در اول کدام در دوکان کارها را انجام میدهید؟			
9.1	Instrument of credit	فراهم آوری قرضه	<input type="text"/>
9.2	Loans	قرضه	<input type="text"/>
9.3	Currency exchange	تبادل اسعار	<input type="text"/>
9.4	Funds transfer	انتقال پول	<input type="text"/>
9.5	Other	دیگر	<input type="text"/>

SECTION TWO: CLIENTS

بخش دوم: مشتریان

1 Can you estimate what proportion of your clients are:

میتوانید بگویید که تا چند فیصد کدام موارد زیر مشتریان شما را تشکیل میدهد

1.1 International community / Aid

 %

جوامع بين الملل / سازمان هاي امدادي

1.2 Government

ادارات دولتي

1.3 Private business

سكتور خصوصي

1.4 Domestic transfers

انتقال پولي در داخل کشور

1.5 Remittances from overseas

حواله جات خارج از کشور

1.6 People involved in drug economy

معامله گران مواد مخدر

1.7 Other.....

ديگر

%

%

%

%

%

%

overall, what does your main business consist of?

بطور كلي و عمدۀ چي چيز سبب رونق معامله و تجارت شما ميگردد؟

2 Do you have female Afghan clients? آيا طبقه اناث / زنان افغان نيز مشتري دوکان شما اند؟			
2.1 No	نخیر→	<input type="checkbox"/>
2.1 Yes	بلي→	<input type="checkbox"/>
<i>if answer is yes, what proportion of your clients are male or female?</i> اگر جواب بلي است، تا چند فیصد مشتریان شما مرد ها و زن ها هستند؟			
2.3 Male	مردها→	<input type="checkbox"/> %
2.4 Female	زن ها→	<input type="checkbox"/> %

3 Do you feel loyalty to a particular ethnic group? آيا وفادار به يك گروه خاص قومي هستيد؟	Yes بلي	No نخیر
<i>if answer is yes, please tick appropriate box</i> اگر جواب بلي است، لطفاً باکس مناسب را علامه بگذاريد		

Which ethnic group do you feel loyalty to?

به کدام گروپ قومي/مليت و افادار هستيد؟

3.1 Pashtun پشتون

3.2 Tajik تاجيك

3.3 Uzbek ازبک

3.4 Hazara هزاره

3.5 Other ديگر

4 Can you think of a time when trust has been broken?

آيا به ياد داريد كه زماني اعتماد في مابين از بين رفته باشد؟

Yes
يېلې

No
ريځن

if answer is yes, please respond to the following

اگر جواب بلي است، لطفاً به سوالات زیر پاسخ دهید؟

4.1 Can you give examples of when trust between client and hawaladar was broken?

آيا ميتوانيد مثال بدهيد كه چي وقت اعتماد بين حواله دار و مشتري از بين رفته باشد؟

4.2 What were the consequences?

نتایج و پیامد های آن چی بوده است؟

a) If the client did not repay his loan on time

اگر مشتری قرضه را به وقت و زمان معینه نپرداخته باشد:

b) If the hawaladar did not honour his promise

اگر حواله دار به وعده اش ، متعهد نبوده باشد:

SECTION THREE: REGULATION

بخش سوم: مقررات

1 Since the opening of banks like Standard Chartered and Kabul bank, has your business suffered in any way?

از وقتی که بانک های مانند استندرد چارترد و کابل بانک به فعالیت شروع نموده اند، آیا کدام اثری بر معامله شما گذاشته است؟

1.1 To a very great extent

به اندازه بسیار زیاد

1.2 To a great extent

به اندازه زیاد

1.3 Neither great nor small extent

نه آنقدر زیاد و نه هم کم

1.4	To a small extent	به اندازه کم	<input type="checkbox"/>
1.5	Not at all	نه آنقدر	<input type="checkbox"/>
2 Would you consider opening your own bank, or shifting your business to the formal banking system? آيا پلان داريد که از خود بانک تاسيس نماييد، و يا معاملات خود را به سيستم بانکی تغير دهيد؟			
2.1	Yes, very likely	بلي، بسيار احتمال دارد	<input type="checkbox"/>
2.2	Somewhat likely	تا حدي احتمال ميروند	<input type="checkbox"/>
2.3	Somewhat unlikely	احتمال ندارد	<input type="checkbox"/>
2.4	Very unlikely	اصلاً احتمال ندارد	<input type="checkbox"/>
2.5	No	نخیر	<input type="checkbox"/>
3 Do you think the hawala system has ever been strictly regulated? If so, when, and by whom? آيا فکر ميکنيد که سيستم حواله بطور جدي تنظيم شده است؟ اگر بلي، چي وقت و توسط چي کسي؟			
4 Have you heard of the Money Exchange Dealer's Association? آيا در مورد اتحاديه صرافان کدام معلومات داريد؟			

<p><i>If yes, from your understanding, what is its purpose?</i></p> <p>اگر بلي، از نظر شما مقاصد کاري آن چي است؟</p> <div style="border: 1px solid black; height: 100px; width: 100%;"></div>					
<p>4 Do you feel you have a 'moral responsibility' to know your customer and the origins of your customer's funds?</p> <p>آيا شما جهت شناختن مشتريان و منبع پولي آنها احساس مسئوليت ميکنيد؟</p>					
	<table border="1"><tr><td>Yes</td><td>No</td></tr><tr><td>بلي</td><td>نخير</td></tr></table>	Yes	No	بلي	نخير
Yes	No				
بلي	نخير				

WHAT IS HAWALA?

Instrument of credit, loans, exchange, funds transfer?

What is used for mostly?

How long has the system existed?

How has it adapted at the interface of Western financial institutions?

START UP

How did you establish your business?

How did you build your client base?

Have you expanded since you started?

Do you have a partner – *sharik*?

How do you divide the profit?

What is the minimum amount of money you would accept?

LOCATION – ITINERANT/STATIC

Do you work in the same place?

Do you have links to other places in the country?

Can you find the *hawala* operation beyond regional markets?

In your view, is there a hierarchy of markets in the country?

CAPITAL

What is your main source of profit?

Just the commission - *kameshen*?

How do you diversify your capital?

What do you invest your money in? Merchandise?

What is your understanding of *waqf*?

NUMBERS

How many people do you think use the *hawala* system here?

What proportion are Afghans? Internationals? Particular ethnic groups? Personal use?

Business use?

CLIENTS

Do you only deal with family/ethnic gp/religious gp/male clients? Do you feel loyalty to a particular group, which would make you accept lower funds to transfer?

Do you have female Afghan clients?

Do government bodies use the system?

Would you, for example, remit/transfer money for Provincial Governors?

SPECIALISTS

Are there remittance specialists? Just remit funds and lend cash.

Aid specialists?

AID

Has it been difficult to manage the large aid flows since the reconstruction of Afghanistan?

What kind of effect do you think the injection of aid money is having on the country?

Some people argue that it is having a negative effect on long term financial and monetary stability.

In the settlement process, do you think there is an incentive to resort to illicit sources to meet the massive demand for afghanis when the international community arrived?

TRANSPORT

Do you outsource the transportation of money/merchandise to *qacaqbar*?

TRUST

Do you know of any cases where trust has been broken?

Has this negatively affected the other *hawaladars*?

How many middlemen – *dallal* – are there? Do you choose them on the basis of friendship or family? Or commercial relationship?

What happens if the client does not pay the loan back on time? Do you have an oversight body to follow up? Does this ever happen?

CHANGE SINCE TALEBAN

Can you explain how the system was different at the time of the Taleban?

Have the users changed? Has the system changed?

More money or less being flushed through the system?

Was the Taleban using the system?

THE STATE – TRANSITIONAL GOVERNMENT

What is your view of the current state? Do you feel threatened by it?

Or is it trying to work with you?

OFFICIAL BANKING SYSTEM

Since opening of Standard Chartered, Kabul bank, has your business suffered?

How many people do you know who would like to open a formal bank like Mr Sher Khan of Kabul Bank?

Can you envisage a shift in the long term to the official banking system?

How dependent are you on the formal system?

How many overseas bank accounts does your business hold? In what countries?

Have you noticed increased regulation of your accounts since 9/11?

REGULATION

Bookkeeping since the start? Changed recently?

How well do you ‘know your customer’?

What do you think about tax?

Have you been to an Executive Committee meeting of the Money Exchange Dealers’ Association?

What is its purpose?

What kinds of disputes do you know about that arise between *hawaladars*?

BOUNDARY ILLICT/LICIT

In your view, to what extent is/was the *hawala* used for terrorist financing/ drug economy?

MORAL RESPONSIBILITY

Do you feel you have a moral responsibility?

Has the system had it historically?

Or is just for commercial transactions?

Province and city	No. of <i>sarafs</i> specialising in drug monetary transfers
Helmand – Lashkar Gar	14
Helmand – Sangin district	15
Kandahar – Kandahar city	25
TOTAL:	54

- L1 Top-end drug *hawaladar* (Lashkar Gah city, Helmand province)
- L2 Large drug *hawaladar* (Lashkar Gah city, Helmand province)
- L3 Medium drug *hawaladar* (Lashkar Gah city, Helmand province)
- H3 Small drug *hawaladar* (Lashkar Gah city, Helmand province)

- H4 Large drug *hawaladar* (Sangin district, Helmand province)
- H5 Medium drug *hawaladar* (Sangin district, Helmand province)
- H6 Small drug *hawaladar* (Sangin district, Helmand province)

- K1 Large drug *hawaladar* (Kandahar city, Kandahar province)
- K2 Medium drug *hawaladar* (Kandahar city, Kandahar province)
- K3 Small drug *hawaladar* (Kandahar city, Kandahar province)

Province	2004/5 crop (ha)	Yield 2005 (kg/ha)	Total value at average farmgate price USD 138/kg (USDm)	Opium traded to Helmand	
				Quantity (%)	Value (USDm)
Badakhshan	7,370	41.8	43.7	20 - 40	8.7 - 17.4
Balkh	10,837	38.8	59.7	40 - 60	23.9 - 35.8
Bamiyan	126	38.8	6.9	80 - 100	5.5 - 6.9
Ghor	2,689	41.4	15.8	80 - 100	12.6 - 15.8
Nangarhar	1,093	44.0	6.8	20 - 40	1.4 - 2.8
Nimroz	1,690	41.4	9.9	80 - 100	7.9 - 9.9
Uruzgan	4,605	37.9	24.8	80 - 100	19.8 - 24.8
TOTAL:					79.8 - 113.4

Lashkargah city centre of Helmand Province (see below)

Interview 1: Largest dealer involved in hawala system and drug money transfers

Interview 2: Medium dealer involved in hawala system and drug money transfers

Interview 3: Low-end dealer involved in hawala system and drug money transfers

Sangin district of Helmand Province (see below)

Interview 4: Largest dealer involved in hawala system and drug money transfers

Interview 5: Medium dealer involved in hawala system and drug money transfers

Interview 6: Low-end dealer involved in hawala system and drug money transfers

Kandahar city in Kandahar Province (see below)

Interview 7: Largest dealer involved in hawala system and drug money transfers

Interview 8: Medium dealer involved in hawala system and drug money transfers

Interview 9: Low-end dealer involved in hawala system and drug money transfers

Interview 1	
Question	Answer
What is total amount of money coming through the shop daily/monthly/quarterly/annually?	Rs. 4,000,000-daily/120,000,000-monthly/360,000,000-quarterly/1,440,000,000-annually.
What is the quantity of drug money coming into the shop daily/monthly/quarterly/annually?	Rs. 2,500,000-daily/75,000,000-monthly/225,000,000-quarterly/900,000,000-annually.
What causes the fluctuations in drug money?	Because of supply & demand for opium the fluctuations occur in drug money for example: <ul style="list-style-type: none"> - In time of poppy cultivation smugglers, traders & others provide money as advance credit for poppy cultivators. - During the poppy harvesting time while the opium price is low, the smugglers and traders purchase opium so there are ups in market money for opium. - In ordinary time i.e. no growing & no harvesting time and less transaction is done so less money is used in the business.
How many drug dealers do you transfer/convert currency for?	This Limited or Company deals with 30 drug dealers.
What is the biggest currency transfer you make for drug dealers?	They mostly deal their business with Pakistani currency i.e. Rupee. About 900,000,000 Rs. are used for transfer annually.
Which countries does the money originate from?	Most of the money comes from Europe and America to Pakistan and Iran. The money is then changed into the currency of the neighbouring countries mostly in Rupees.
Is this money in dollars? Or which other currency is mainly used?	Mainly Pak Rupee are used for drug transaction, but occasionally Iranian currency Toman is used for the very purpose.
Do you keep documentation of the transfers?	Yes the Limited or drug dealers keep documents of their accounts.
How many sarafs/hawaladars do you think deal with drug money?	15 Sarafs are involved in Lashkargah city or deal with drug money.

Interview 2	
Question	Answer
What is total amount of money coming through the shop daily/monthly/quarterly/annually?	Rs. 1400,000-daily/42,000,000-monthly/126000000-quarterly/504,000,000-annually.
What is the quantity of drug money coming into the shop daily/monthly/quarterly/annually?	Rs. 250000-daily/7500000-monthly/22,500,000-quarterly/90,000,000-annually.
What causes the fluctuations in drug money?	Because of supply & demand for opium the fluctuations occur in drug money for example: <ul style="list-style-type: none"> – In time of poppy cultivation smugglers, traders & others provide money as advance credit for poppy cultivators. – During the poppy harvesting time while the opium price is low, the smugglers and traders purchase opium so there are ups in market money for opium. – In ordinary time i.e. no growing & no harvesting time and less transaction is done so less money is used in the business.
How many drug dealers do you transfer/convert currency for?	This Limited or Company deals with 15 drug dealers.
What is the biggest currency transfer you make for drug dealers?	They mostly deal their business with Pakistani currency i.e. Rupee. About 90000000 Rs. are used for transfer annually.
Which countries does the money originate from?	Most of the money comes from Europe and America to Pakistan and Iran. The money is then changed into the currency of the neighbouring countries mostly in Rupees.
Is this money in dollars? Or which other currency is mainly used?	Mainly Pak Rupee are used for drug transaction, but occasionally Iranian currency Toman is used for the very purpose.
Do you keep documentation of the transfers?	Yes the Limited or drug dealers keep documents of their accounts.
How many sarafs/hawaladars do you think deal with drug money?	11 Sarafs are involved in Lashkargah city or deal with drug money.
If the drugs are transferred physically into Kandahar (from within Afghanistan), from which provinces are you receiving the most money?	We mostly send money to Mazar for drug purchase.
To where are you sending the most money related to drugs (outside of Afghanistan)?	<ul style="list-style-type: none"> – The drug money is used for buying markets, lands and vehicles in Afghanistan – Some times some money is kept in the banks of neighboring countries
Charges for Hawala?	To Mazar charges are 900 Rs./100000
Information on Nimroz Province.	Nemroz has similar condition for Hawalla and drug transaction.

Interview 3	
Question	Answer
What is total amount of money coming through the shop daily/monthly/quarterly/annually?	Rs. 500,000-daily/15,000,000-monthly/45000000- quarterly/180,000,000-annually.
What is the quantity of drug money coming into the shop daily/monthly/quarterly/annually?	Rs. 75,000-daily/2,250,000-monthly/6,750,000- quarterly/27,000,000-annually.
What causes the fluctuations in drug money?	Because of supply & demand for opium the fluctuations occur in drug money for example: <ul style="list-style-type: none"> - In time of poppy cultivation smugglers, traders & others provide money as advance credit for poppy cultivators. - During the poppy harvesting time while the opium price is low, the smugglers and traders purchase opium so there are ups in market money for opium. - In ordinary time i.e. no growing & no harvesting time and less transaction is done so less money is used in the business. - During the time of purchasers rush.
How many drug dealers do you transfer/convert currency for?	This Limited or Company deals with 10 drug dealers.
What is the biggest currency transfer you make for drug dealers?	They mostly deal their business with Pakistani currency i.e. Rupee. About 27000000 Rs. are used for transfer annually.
Which countries does the money originate from?	Most of the money comes from the neighboring countries.
Is this money in dollars? Or which other currency is mainly used?	The money is mostly in Pak currency is used and some times Iranian currency is used in Nemroz.
Do you keep documentation of the transfers?	Yes the Limited keep documents of their accounts.
How many sarafs/hawaladars do you think deal with drug money?	15 Sarafs are involved in Lashkargah city or deal with drug money.
If the drugs are transferred physically into Kandahar (from within Afghanistan), from which provinces are you sending the most money?	Most money is sent to Mazar
To where are you sending the most money related to drugs (outside of Afghanistan)?	The most money is kept in the banks of neighboring countries and in Dubai
Charges for Hawala?	To Mazar charges are 900 Rs. for 100,000
Information on Nimroz Province.	Information on Nemroz drug transaction are similar to that of Kandahar and Hilmand only Toman is used in addition to Pak Rupee.
Extra information on Hawala.	No further info was offered by interviewee.

Interview 4	
Question	Answer
What is total amount of money coming through the shop daily/monthly/quarterly/annually?	Rs. 2,000,000-daily/60,000,000-monthly/180,000,000-quarterly/720,000,000-annually.
What is the quantity of drug money coming into the shop daily/monthly/quarterly/annually?	Rs. 1,200,000-daily/36,000,000-monthly/108,000,000-quarterly/432,000,000-annually.
What causes the fluctuations in drug money?	The interviewee didn't know about fluctuation of drug money.
How many drug dealers do you transfer/convert currency for?	This Limited or Company deals with 15 drug dealers.
What is the biggest currency transfer you make for drug dealers?	Mostly drug transactions are done in Pak Rupee and the biggest currency transfer is 43,200,000
Which countries does the money originate from?	Most money comes from the neighboring countries.
Is this money in dollars? Or which other currency is mainly used?	Mainly Pak Rupee are used for drug transaction, but occasionally Iranian currency Toman is used for the very purpose.
Do you keep documentation of the transfers?	Yes the Limited or drug dealers keep documents of their accounts.
How many sarafs/hawaladars do you think deal with drug money?	5 drug dealers of Sangin district are involved in drug business.
If the drugs are transferred physically into Kandahar (from within Afghanistan), from which provinces are you receiving the most money?	We send money to Mazar.
To where are you sending the most money related to drugs (outside of Afghanistan)?	The drug money is kept in the banks of neighboring countries
Charges for Hawala?	To Mazar charges are 900 Rs./100000
Information on Nimroz Province.	Information on Nemroz drug transaction are similar to that of Kandahar and Hilmand only Toman is used in addition to Pak Rupee.
Extra information on Hawala.	No further info was offered by interviewee.

10/10/10
8/10/10
10/10/10

NOT FOR LOAN