Indian Economy · GS - III

Examine how hawala networks, gold smuggling and illegal cross-border financial transactions undermine India's economic and national security. Discuss the role of FEMA and enforcement institutions in addressing these challenges.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 20/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Hawala, FEMA 1999, money laundering, foreign exchange regulation, gold smuggling, informal financial channels, Enforcement Directorate, RBI, FIU-IND, PMLA, inter-agency coordination.

Model Answer

Introduction

Illegal cross-border financial transactions, including hawala and proceeds from gold smuggling, weaken formal financial systems and facilitate tax evasion, money laundering and organised crime. Their regulation is essential for economic stability and national security.

Major Implications

1. **Foreign exchange distortions:** Unauthorised transactions bypass regulated channels and weaken transparency in foreign exchange movements.
2. **Money laundering:** Hawala networks can conceal the origin and destination of illicit funds.
3. **Revenue losses:** Gold smuggling causes customs and tax revenue losses while distorting domestic markets.
4. **National security risks:** Informal financial networks may facilitate financing of organised criminal and terrorist activities.

5. **Governance challenges:** Cross-border networks exploit regulatory gaps and jurisdictional difficulties.

Institutional and Legal Framework

- **FEMA, 1999:** Regulates foreign exchange transactions and provides penalties for contraventions.
- **Enforcement Directorate:** Investigates suspected FEMA violations and money-laundering offences under the applicable laws.
- **Reserve Bank of India:** Regulates authorised foreign exchange transactions and financial intermediaries.
- **FIU-IND:** Receives and analyses suspicious financial transaction reports.
- **PMLA, 2002:** Provides the framework for investigation and prosecution of money laundering linked to scheduled offences.

Way Forward

India should strengthen financial intelligence sharing, improve customs surveillance, enhance cross-border cooperation and use technology-based transaction monitoring. Greater coordination among ED, RBI, FIU-IND, customs authorities and international enforcement agencies is essential.

Conclusion

Effective enforcement requires a combination of financial transparency, intelligence-led investigation and international cooperation. Strengthening formal financial channels while targeting illicit networks can protect India's economic sovereignty and security.

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