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REMITTANCES AND ECONOMIC DEVELOPMENT

ABSTRACT

This is largely a product of the author's longstanding interest in migratory flows from the Punjab region of Northern India and Pakistan to the UK, and in the impact which counter-flows of remittances have on the local economy in and around their villages of origin. Despite the emergence significant local variations as between the main areas from which migrants have been drawn, the development potential of the huge inflow of capital has not been nearly as fully utilised as it might have been. Working outwards from this empirical baseline the paper goes on to suggest that such outcomes--which are congruent with those which can be observed in areas of high overseas migration all around the globe-are not so much the outcome of a lack of entrepreneurial skills amongst migrants and their kinsfolk, but rather a consequence of a whole series of structural obstacles operating at local, national and international levels. The combined impact of these obstacles has been to confine villagers' entrepreneurial activities to a very limited range of spheres, few of which provide adequate foundations for the emergence of sustainable patterns of economic development.

The paper closes by offering some suggestions about the ways in which the spirals of de-development so often set off by the arrival of migrant remittances could be brought to a halt through carefully tailored "smart aid" initiatives. Designed and funded to overcome the most serious local obstacles to more productive forms of entrepreneurial activity, the object of such initiatives would above all be to "kick -start" the hitherto neglected productive potential of the local economy in areas of heavy overseas migration.

1. THE BASIS ON WHICH THIS PAPER HAS BEEN PREPARED

Ever since I took up my first academic appointment as a research associate in the SSRC Research Unit in Ethnic Relations at the University of Bristol in 1970, my central specialist interest has been in tracing out both the processes and the consequences of migration from South Asia to the UK. Over the years (during which I successively shifted to posts in Leeds and then in Manchester University) I have conducted extensive fieldwork within South Asian (and most especially Punjabi) settlements in the UK, as well as in settlers' villages of origin in India and Pakistan, and to a much more limited extent in Bangladesh. My most recent period of intensive research was during 1999-2001, during which I conducted a project on *Kinship, Entrepreneurship and the Transnational Circulation of Assets,* as part of the ESRC's Transnational Communities Program; early this year I also completed a consultancy for DFID on *Migration, Remittances, Economic Growth and Poverty Reduction.*

2. My EMPIRICAL STARTING POINTS: JULLUNDUR AND MIRPUR

Ever since I began fieldwork investigations in Jullundur District (India) during the early 1970s, I have been well aware that overseas migration-and most especially the large reverse flows of remittances to which such population outflows invariably give rise-is a major potential spur to economic development in migrants' villages of origin. During the early 1970s rural Punjab was enjoying the benefits of a "green revolution", involving the use of new high-yielding seeds, the application of fertiliser, intense irrigation, and the much more widespread use of agricultural machinery to handle the much heavier crop yields. Whilst these new techniques were largely indigenously generated, their successful implementation required a fairly high level of capital investment, and in that respect local families whose kinsfolk had settled in the UK were particularly well placed to take advantage of the new opportunities. Many migrants were only to willing to remit funds for the purchase of tractors, the construction of tube-wells, and the acquisition of machinery to cope with dramatically higher agricultural yields. That said, it was equally clear that the arrival of migrant remittances did not *cause* Punjab's green revolution: rather they added welcome gilt to some locally devised ginger-bread.

A decade later I had an opportunity to conduct intensive fieldwork in the second major source of Punjabi immigration to the UK: Mirpur District in Pakistan. Here I observed a very different set of outcomes. Although the scale of the outflow from Mirpur District was even greater (at least in proportionate terms) than that from Jullundur, and whilst the scale of the remittance inflow has been both larger and much more long-sustained, investment in agriculture has been virtually non-existent. Instead there have been a series of massive booms in house construction and in the service sector in general. Hence in sharp contrast to Jullundur's productively grounded economic boom (which has manifested itself in small-scale industrial sector no less than agriculture), the Iocal economy in Mirpur showed no sign of productively-driven growth; growth there has been, but it is entirely concentrated in the remittance driven service sector, so much so that whenever the remittance flow begins to diminish, the impact on the local economy is extremely dramatic. In a word the Mirpur's local economy is now almost entirely *dependent* just on the inflow of remittances from overseas. Hence Mirpur's current wealth-which is real enough in comparative terms in a Pakistani context-is built on foundations which are almost certainly unsustainable in the longer run. Most of the

District's inhabitants are well aware of the shallowness of the local economy: in these circumstances there can be little wonder that amongst young people in Mirpur the pressure to migrate to the UK continues to be intense (Ballard 2003b, 1989, 1988, 1983).

3. EXPLAINING DIFFERENTIAL OUTCOMES

Having turned up these striking differences in outcome, I have spent a good deal of time and effort seeking to identify the precise factors which best serve to explain them, and most centrally to challenge a widely held explanation which seemed to me to be excessively naive: namely that the Sikhs from Jullundur District are inherently open-minded and entrepreneurial, and so were bound to succeed, whilst Muslims from Mirpur have been handicapped-or so it has been argued-by what are commonly perceived as the "authoritarian" and "conservative" character of their faith. Whilst I was perfectly willing to acknowledge that there were significant differences between the two traditions, the focus of the argument seemed entirely misplaced. As far as I could see members of both groups appear to have an equally strong commitment to entrepreneurship: where they differed was in the precise character of *strategic choices* which members of each group had chosen to pursue.

This produced a dual agenda, the first part of which was to establish how far members of each group were making their choices in the context of differing politico-socio-cultural terrains. On the one hand this led me to explore the impact of the specific environmental, historical, political and administrative characteristics of each District, and on the other that of the equally specific impact of their differing conventions of family organisation, kinship reciprocity and marriage rules had had on the way in which each network developed. But whilst such considerations went a long way towards explaining why migrants from each area should have followed such strikingly different trajectories of both spatial and socio-economic mobility-and no less so at home than abroad-it became increasingly apparent that I had still left a crucial component out of the equation: namely the logic and internal dynamics of the entrepreneurial networks had themselves been constructed in order to make the most of the resources which they found they had available, as well as of the opportunities in the global system within which they found themselves operating (Ballard 1991).

This led on to the second part of my agenda, the development of an analytical perspective the better to comprehend the internal dynamics of these networks. Although each network was slightly differently structured, they had in each case provided their users with a means of circumventing a huge range of exclusionary obstacles, from immigration controls onwards, and having done so to exploit all sorts of novel opportunities in the global labour market. Hence a central focus of my most recent work has been on the organisation, dynamics and ever-growing reach of these self-constructed transnational networks. In my view it precisely the effectiveness and efficiency of such networks which is the key the success of all those involved in processes of transnational migration "from below'r", no matter where in the developing world they may have their original roots (Ballard 2003a, 2001).

4. REMITTANCES, DEVELOPMENT AND TRANSNATIONAL NETWORKS IN A GLOBAL CONTEXT

Within this conspectus, it is quite clear that the transfer of assets to which these networks give rise is a major resource for economic development in all those many parts of the developing world from where these transnational migrants originate. In his contribution to the most recent edition of the World Bank's report on Global Development Finance, Dilip Ratha (2003) calculated that the value of migrant remittances being passed back to their countries of origin through formal channels in 2001 was $73.2 billion--a sum very substantially greater than that delivered through economic and development aid. Moreover the sum which Ratha quotes is but the tip of an iceberg. Many migrants use informal channels through which to move their savings back home, with the result that this form of value transmission is not recorded in formal banking statistics. Hence there are good reasons to suppose that the true volume of remittance driven value transfers is at least double that which Ratha detected in his sweep through the official statistics. However the exact value of the multiplier need not detain us here: what cannot be gainsaid is that migrant workers are now by far the largest suppliers of development aid to their communities of origin in the Developing World.

Whilst I am well aware that some analysts might quibble about the validity my straightforward characterisation of migrant remittances as "development aid", such a usage in this context seems entirely apt, especially if one examines the issue from the perspective of the migrants themselves. Their willingness to divert such a significant part-and often the greater part-of their overseas earnings straight back home can only be understood as being the result of a deep-rooted commitment to investment in their roots and all they stand for. However if this is indeed development aid, it is aid of a very specific character. First of all it is manifestly not country-to-country assistance: rather it entails the channelling of resources which have been despatched by workers living in highly localised ethnic colonies in metropolitan cities, down networks

[66] lowe this term to Alejandro Portes (1997) and his collaborators (Smith and Guarnizo, 1998), who drew a clear and extremely illuminating contrast to processes of globalization emanting "from above", and which have become the principal means whereby Euro-American interests bear down hegemonically on the non-European world, and the countervailing forces of "globalisation from below" which have recently begun to be unleashed with considerable success by migrant workers and their offspring.

of their own construction to equally specific networks overseas. Such migrant workers are not investing in such abstract concepts as "Pakistan", "the Philippines" or "Sri Lanka": rather they are investing in the families, the neighbourhoods and the immediate communities from which they themselves are drawn.

On the face of it such "informal" development aid appears to be comprehensively superior to that delivered by formal international agencies. Not only do remittances arrive with no strings attached, they incur no external debts and deliver capital resources on a massive scale directly into the pockets of those who need them most: members of rural peasant communities in economically peripheralised areas throughout the developing world. As virtually all commentators are agreed, one of the most important reasons why economic development in such areas remains stalled is that peasant farmers lack access to investment capital. Yet however welcome the arrival of remittances from overseas may be, outcomes are invariably substantially below the potential optimum. Whilst local variations are very considerable, one pattern is all too frequently observed: whilst the arrival of funds from overseas provides an immense boost to the service sector, most particularly in house construction, the more productive sectors of the local economy, and most especially agriculture, begins to languish.

Yet however sceptical one may be about the long-term sustainability of patterns of prosperity grounded solely in the service sector-and which are consequently wholly dependent on the continuing inflow of remittances-the (short-term) conditions of prosperity precipitated by the arrival of remittances in areas where a significant proportion of the local population have become migrant workers is real enough, and almost always has far-reaching consequences. These are invariably far from straightforward. Hence however welcome the sharply increased levels of prosperity in the specific localities from which migrants have taken off overseas may be, the networks which are thereby established, and the ever-escalating flow of persons, ideas and financial resources through them invariably precipitates all manner of socio-political tensions and contradictions. As we shall see the resultant contradictions are no less severe in national and international contexts than they are more locally. And as one insightful commentator has argued, it is precisely because such entrepreneurial networks so often emerge from and are driven by those who stand way out on the global periphery that their successes soon begin to "undermine the centre" (Addleton 1992), and thereby to destabilise the established socio-economic order.

5. THE LOCAL CONSEQUENCES AND CONTRADICTIONS PRECIPITATED BY REMITTANCE INFLOWS

If we begin by considering the dialectics of these contradictions from the bottom up, the arrival of remittances on a large scale soon begins to upset the local status hierarchy. Some aspects of such disturbances are wholly predictable: to the extent that the vast majority of those who made up the early waves of emigrants were (at least in Indian and Pakistani contexts) young males from households of middling socio-economic rank within their villages, returnees soon found that they had acquired a great deal more power to their elbows not only vis-a-vis their parents, but also those of their siblings who had not gone to work overseas, and last but far from least, their wives. Whilst those who found themselves so sidelined usually swiftly began to devise counter-measures (South Asian family networks are nothing ifnot dynamic), all manner of tensions invariably began to erupt within recipient families as a result of the massive new inflow of wealth'".

Meanwhile at the next level up, those families with access to such transnational linkages soon become massively advantaged as compared with those who lack them: established socio-economic hierarchies in their villages of origin were consequently seriously disturbed. However there was an obvious remedy to that: richer families who had hitherto disdained the prospect of sending their sons to work as mere labourers overseas swiftly to abandon their previous inhibitions, whilst the poorest families drew on their links with more affluent patrons, who were often willing to facilitate their clients' sons' passage overseas. In other words the re-jigged patterns of wealth and status in the village precipitated by the arrival of remittances were themselves a powerful spur to further emigration. As typically occurs in such circumstances, the resulting processes of chain migration were self-fuelling.

A useful way of envisaging these processes is as self-constructed escalators which reach upwards from specific localities in the developing world to equally localised ethnic colonies in specific cities in the metropolitan world. Migrants-no less than remittances--move around the globe though tightly *personalised* networks. Access to such networks confers very real privilege: each one provides its members with easy access to an escalatory process which can transport them swiftly and smoothly from a position of relative poverty to one of relative wealth; by the same token it also facilitates the transmission of a large volume of remittance back to the escalator's starting point. However each such escalator is highly specific in character. Some merely stretch to the national capital, others to more distant destinations elsewhere in the developing world, whilst a select but highly significant minority stretch into the heart of equally specific urban centres in one or other of the metropolitan economies of the developing world. Whilst all these escalators offer those who stand on them access to entrepreneurial opportunities, it is of course those which reach into the heart of the developed world which invariably offer the greatest benefits. The results are plain to see, and can be observed throughout the developing world. Wherever escalators of the latter kind have

67 Gardner's account of "Londoni" villagers in Sylhet (1995) provides some extremely illuminating details of this tension.

been constructed, the areas from which they have arisen (which may often be restricted to a small number of villages) stand out as islands of relative wealth in the midst of an otherwise much more poverty-stricken "sea".

Where these "islands" emerge, they inevitably disturb the established local order. Not only do the inhabitants of less fortunate areas which lack access to such escalators--or at least to escalators which lead to such favoured destinations--tend to become increasingly jealous of those that do, setting off all manner of socio-political tensions, but the resultant patterns of economic inequality frequently precipitate the emergence of yet further migratory movements. Ifwages are significantly higher andjob opportunities more widespread within such islands as a result of a heavy inflow of remittances, further more local escalators will begin to be constructed as the inhabitants ofless favoured areas seek to take advantage of this novel pattern of opportunities.

6. NATIONAL CONSEQUENCES AND CONTRADICTIONS

Migrant remittances also tend to precipitate similar kinds of contradiction at a nationalleve1, particularly when the inflow of funds grows sufficiently large to engage the attention of the national government. Given that virtually all governments in the developing world suffer from a severe deficiency of foreign exchange, the inflow of migrant remittances (once recognised) is invariably viewed as a Godsend. Not only is the forex inflow from this source perceived as virtually cost-free, but since it appears to arrive with no strings attached, it is invariably perceived as providing a wonderful opportunity to pursue all manner of national objectives which have hitherto had to be deferred.

But just what are those objectives usually perceived as being-at least from the perspective of the Ministry of Finance? The most usual answer is three-fold. Firstly to boost national forex reserves, virtually come what may. This can best be facilitated by encouraging further emigration in what are often explicitly described as programs of manpower export, and by reminding emigrants that they have a patriotic duty to invest their savings back home, often in specially designed government bonds and high-yielding savings account. Secondly to further enhance government revenue by taxing this income-stream, if not directly then at least by setting inflated rates for the issue of passports, of visas, departure taxes, international telephone calls and so forth, all of which are facilities used disproportionately heavily by migrant workers. Thirdly to the extent . that the volume of funds remitted in this way are often so large that they cannot be soaked up in immediate expenditure by their recipients, to draw the excess funds into deposits in the formal banking system, so hugely improving its liquidity.

However whilst all the measures can be expected to provide a major boost to national financial resources, they also lead one to pose a further set of questions: by whom, for what purposes and to whose advantage is this massive inflow of financial resources actually deployed? To the extent that these issues largely present themselves at a national level, it is officials in the Ministry of Finance and/or the State Bank who take these decisions. What, then, do their objectives tend to be, and what sorts of financial initiatives do they tend to prioritise? In exploring these complex issues it is worth distinguishing (in so far as it is possible to do so) the domestic from the foreign exchange dimensions of the opportunities to which the inflow of remittances give rise.

6.1 Remittances and the national foreign exchange account

In many of the world's least developed countries migrant remittances are now emerging as a major source of foreign exchange, and very often one whose value is so great that it substantially exceeds the income generated by the export of goods of all kinds. When this is so, remittances playa major role in national finances, and are often the only bastion against a radical devaluation of the local currency. But whilst most governments take it for granted that the protection of the value of the national currency is a vital policy objective, it is nevertheless worth asking just which segments of the national population reap the greatest benefits from the fulfilment of that objective. The answer--in most parts of the developing world-is only too clear. A fall in the international value of the local currency is likely to have very little impact on the rural population. Living in near-subsistence conditions, their propensity to purchase imported goods and services is minimal; moreover they might well find that the prices they can obtain for their agricultural products will rise if the external value of the local currency falls, since imported products--including food products-will become ever more expensive. By contrast the more one looks towards the cities, and most especially towards the urban elite, the more the propensity of the population tends to rise: since elite lifestyles are heavily dependent on goods and services which must ultimately be paid for in foreign exchange-whether in the form of cars, televisions, health care for themselves or education for their offspring-it is their interests, rather than those of the rural peasantry which are disproportionately favoured when migrant remittances are used by elitist national governments as a convenient means of maintaining their local currencies at radically over-valued levels.

There is a further sub-text to all this in which migrant remittances also play an extremely important role. In an effort to conserve the outflow of foreign exchange, many developing countries also impose strict exchange controls, so much so that local residents without the necessary political and official connections find it virtually impossible to gain access to foreign exchange. As is only to be expected in such circumstances a "black market" soon develops, especially since migrants are invariably only too keen to get a better rate of exchange on their remittances than those offered by institutions directly controlled by the national government. However in assessing the existence of such markets it is worth remembering that they only exist-and indeed are only designated as "black"-because they operate outwith the formal procedures of the state, and they do so in counties where the greater part of the commercial activities also take place within this self-same informal sector. Indeed the more that this is so, the greater will be the tendency for migrant remittances not to be channelled into the state-controlled sector of banking and finance, but rather through the informal sector. But whilst such developments invariably regarded as extremely alarming by central bankers, as well as by the IMF's econometricians, there are few indications that the growth of the informal sector does much harm to the migrants themselves, or to the local economies of geographically and politically peripheral regions from which most of them are drawn. Indeed in those parts of the world in which the "centre" has disappeared because the state has effectively collapsed (as is currently the case in both Somalia and Afghanistan), the entire national economy now operate within the informal sector. In both cases migrant remittances provide a substantial part of system liquidity (Maimbo 2003, Shire 2003).

6.2 Remittances and the more local dimensions of the national economy

Whilst contemporary Somalia appears to be unique in the sense that remittances now form the national economy's sole source of foreign exchange, there are many other parts of the developing world in which the inflow of value from remittances is substantially greater than that accruing from the export of goods. However given the salience of value transfers through the informal system in such contexts, together with the absence of any econometric data on the scale of such transfers (given that current data as based on reports received from State Banks operating solely within the formal sector), figures such as those set out by Ratha-substantial though may be-greatly underestimate just how large a part of most national economies throughout the poorer parts of the developing world are actually supported by migrant remittances. But even if all that can reliably be said at present is that the impact of remittances is "large", absence of precise numerical data does not prevent us from asking some obvious questions. Just where does all the money actually go? And who benefits most from its arrival?

At one level the answer to the first question is quite clear: straight to the rural areas from which the majority of transnational labour migrants are almost invariably drawn. Mirpur District in the Azad Kashmir region of northern Pakistan-where I myself have conducted extensive fieldwork-is one such area. To non-Mirpuri Pakistanis, the prosperity of such areas is quite self-evident, so much so that the emigrants' success elicits active feelings of jealousy even amongst members of the urban elite. I have listened to many conversations in Islamabad in which returnee migrants have been mocked for their bizarre behaviour, such as importing widescreen televisions and enormous refrigerators to villages which are hardly yet served with electricity connections. From the perspective of the urban elite returnee migrants are not only "not-poor", but also have more money than they know what to do with. Given that overseas development specialists socialise primarily with members of the urban elite, it is by no means uncommon for them to incorporate these arguments into their professional judgements."

There is, of course, a substantial degree of commonsense logic to such arguments: the living standards enjoyed by the inhabitants of areas from which mass overseas emigration has taken place are invariably very significantly higher than those enjoyed in areas where that has not occurred. However in assessing the significance of that condition of relative wealth, it should never be forgotten that one of the principal reasons why emigration from such areas took off in the first place was local poverty, and even more specifically the absence of infra structural resources such as roads, schools, hospitals, markets and so forth. Whilst remittances can provide the wherewithal for the introduction immediate high-tech solutions for some of these deficiencies, since 4x4s can cope with the absence of made-up roads, generators with the absence of mains electricity, and mobile phones with the absence ofland-lines, such remedies merely circumvent, and hence do nothing to resolve, the underlying deficiencies in the local infrastructure. Moreover as long as such deficiencies are left unremedied, as is invariably the case so long as national government priorities are focussed elsewhere, the prospect of being able to make profitable investments in any sector of the local economy other than that driven by the arrival of further remittances will remain remote. The result in Mirpur-as in many other similarly-placed localities around the globe-is a sharp decline in agricultural production (which becomes increasingly unprofitable) in an area with an excess of investment capital looking for a home. This leads quite straightforwardly to an outcome which is as paradoxical as it is counterproductive: a condition of "Capital-rich Under-development" (Ballard 2003b).

Just how can such a paradox best be explained? No matter how eagerly members of the urban elite may suggest that "those migrants have far more money than is good for them, no wonder they don't know how to spend it properly", jealously self-interested interpretations of this kind are best regarded as specious. Although members of the urban elite may routinely describe such labour migrants "illiterate", and the social and cultural milieu from which they are drawn as "backward", emigrants from such areas have displayed

68 Whilst in Islamabad during the course of a fieldwork trip in 2000, I called the DFID office in the High Commission suggesting that it might be mutually profitable if! discussed my research with a member of their staff. However, I was very firmly informed that Mirpur layout side DFID's area of concern, since its population was manifestly "not-poor". Since then, however, DFID's priorities have changed substantially.

extremely high levels of entrepreneurial ability in the course of gaining entry to, and making the most of opportunities in the global labour market. Set within that context, the suggestion that those abilities simply evaporated the moment migrants returned to their home base makes very little sense. A better explanation is that despite all their efforts to deploy their entrepreneurial skills on a more sustainable basis, they were largely stymied by the local obstacles. In other words an investigation of structural constraints which the inhabitants of these areas have continued to encounter-rather than allegations that migrants and their kinsfolk lack the necessary entrepreneurial abilities to do any better-are much more likely to provide meaningful explanations of observed outcomes.

One explanation along these lines has already been noted: if infrastructural development programs tend to by-pass areas from which high levels of overseas emigration has taken place on the grounds that they are "not poor", remedies to the underlying infrastructural deficiencies which caused migration in the first place will be yet further postponed. Nor will this outcome necessarily cause much concern to officials in the national Ministry of Finance. Since such areas host their own self-funded programs of manpower export, and are consequently highly efficient producers of foreign exchange, why intervene? Given that the national economy benefits so greatly from the forex inflow, it would be idle to do anything to disturb it.

In a further extension of the same argument, it is worth noting that such areas also provide a vital prop to the national banking system. Having invested heavily in prestigious new houses and copious quantities of gold jewellery, the inhabitants of such capital rich areas invariably place their surplus funds on deposit in the local banks. Hence whilst bank branches in capital rich-areas usually have huge sums on deposit, their loan portfolios are almost always insignificant-at least locally. Migrants' savings deposited in capital-rich areas consequently serve as a means of financing loans to customers resident elsewhere-and in most developing contexts the bulk of such loans go to members of the elite in the major cities. From this perspective such banking structures emerge as engines of financial redistribution, drawing in deposits from the relatively poor, and redistributing their developmental potential to members of the urban elite. It is also worth noting one further twist to such sagas. Where the banks in question are nationalised, as very frequently the case, politically well-connected borrowers are not only the most frequent recipients of such bank loans, but their connections often enable them to avoid ever having to repay them. In such circumstances such a temporary redistribution of wealth from the poor to the rich can often prove to be permanent.

Such mechanisms--ofwhich the banking merry-go-round is but a particularly graphic example-provide a clear illustration of the way in which a substantial component of the value transfers to which migrant remittances give rise can be diverted in such a way as to yet further reinforce the wealth and living standards of distant urban elites. Moreover the more extensive this transfer resources becomes, the less funds there will be to improve local infrastructural resources in areas of high migration, so yet further reinforcing local conditions of capital-rich under-development, and hence the propensity to migrate: a vicious cycle if ever there was one.

Yet although there is clearly a substantial degree of force in such an analysis, it would be wholly misleading to use it as a means of falling back into a "migrants as victims" trope. Such processes are also being actively contested, not least because a very substantial component of the total remittance inflow-particularly to the least developed countries-has now begun to be routed through the informal sector, such that it circumvents the formal financial institutions created and very largely controlled by the state. As we have seen the custodians of the formal sector invariably view the informal sector with as much suspicion as they do alarm. Hence despite the ever-growing scale and vitality of this sector of the real economy in much of the developing world, efforts to suppress it remain as vigorous as ever-and all the more so since migrant remittances have now become one of the principle source of liquidity for the informal sector. From an elite perspective it is easy to see why efforts to divert remittances flows back into formal channels should be regarded as such an urgent priority: use of informal channels quite directly "undermines the centre", as Addleton puts it. However from the migrants' perspective this outcome is far from unsatisfactory. To the extent that the national economy in so many developing countries is run in such a way that its overwhelming priority is to protect and advance the highly privileged interests of members of the urban elite who control it, it is positively in migrants' interests to devise strategies by means of which to circumvent the formal nets within which the state seeks to confine them.

7. INTERNATIONAL CONSEQUENCES

7.1 The role of remittances in the global economy

The contradictions which migrant remittances have begun to unleash on a global scale are no less complex, not least because they are such a big business. A stream of value transfers well in excess of $100 billion per annum is not to be sniffed at in anyone's book-not least those of the major international banks, for whom foreign exchange is a high margin, and hence an extremely profitable activity. Commissions on international money transfers through the formal banking system range from anywhere between 8% and 20%, depending on the sum transmitted and the destination to which it is sent. Access to a slice of the remittance transfer business therefore offers extremely rich pickings to those with the requisite facilities.

But precisely because of the sky-high commissions charged by the banks, the slow pace with which they transfer funds to their destination, and the difficulties which relatives so often experience in retrieving those funds when they eventually arrive, migrants throughout the world have developed their own informal modes of money transmission (el-Qorchi 2003). Whilst the precise way in which these systems are organised and the names by which they are known varies enormously, the Hawala system used by South Asian migrants-which has its roots in the banking system on which by long-distance traders in the Indian Ocean region relied during the pre-colonial period-is one of the largest and most sophisticated (Ballard 2002). From its hub in Dubai, the contemporary Hawala system of informal value consolidation, settlement, and deconsolidation not only handles many millions of dollars worth of migrant remittances every day, but provides its customers with cash payouts in the most remote destinations far more swiftly and reliably than does the formal banking system. Moreover its rates of commission-normally little more than lo/<r-are far lower than those charged by any bank. No wonder South Asian migrants most usually prefer to use the Hawala system to send remittances back home-always providing that the system is available.

7.2 9/11 and its consequences

However the viability of Hawala is currently under threat, largely as a result of efforts to enforce a new global AML/CFT (Anti-Money Laundering/Control of Finance for Terrorism) regime to regulate financial transfers of all kinds. Introduced in the immediate aftermath of 9111, the new regulations seek to contain the activities of both drug smugglers and international terrorists by destroying the financial foundations of their operations. The principle method whereby it is currently hoped to achieve these AML/CFT objectives is by requiring financial institutions of all kinds to systematically enforce detailed "know your customer" regulations, which-if comprehensively enforced-should deny both terrorists and drug-smugglers access to the international financial order, so severely curtailing their activities.

Yet however worthy the objectives of the new regulatory regime may be, it is far from clear that the overwhelming bureaucratic methods on which this initiative currently relies will provide either a viable or an effective means of reaching its stated goals. Not only do "know your customer" regulations (at least as currently interpreted) require transactions to be much more comprehensively (and hence much more expensively) documented than hitherto, but it is by no means self-evident that determined terrorists and drug-smugglers will have any difficulty in evading them. But in addition to these reservations, the new regulations also have an immediate downside: on the grounds that they are comprehensively undocumented, informal value transfer networks of all kinds have come to be regarded as criminally suspect.

One of the central secrets of the success of the Hawala system (and indeed of all other forms of IVTS) is that it relies on relationships of absolute trust rather than necessarily expensive bureaucratic procedures to guarantee the security of its translocal transactions. As a result its operators are able to reduce record-keeping to a parsimonious minimum, thereby enabling them to hugely undercut the much more expensive bureaucratic procedures routinely deployed within the formal sector. But despite the clear commercial logic of these practices, Hawala operations have found themselves acutely exposed paranoid speculations in a post 9/11 context. Given that Hawala transactions allegedly left no audit trail whatsoever, that many of the Hawaladars were Muslims, and that their operations facilitated the transfer of huge sums of money from allegedly unidentifiable sources on a daily basis, many excited commentators began to suggest that their operations were not just a front for laundering the profits of drug smuggling, and since 9111, but also a major conduit for the finance of international terrorism. Although little or no concrete evidence support for these contentions has ever been produced (most of the funds to support the 9111conspirators were routed through a formally constituted bank in Florida) the impact of this excited discourse on global Hawala operations has been substantial. In 2002 the US authorities closed down the *al-barakat* network, which had hitherto been the principle vehicle for the transmission of migrant remittances Somalia, on the grounds that it was merely a front for the transmission of funds to support international terrorism. *Al-barakat* has since been replaced by several similarly structured organisations which have so far managed to satisfy the AML/CFT regulators; Meanwhile in the UK Customs and Excise has brought a number of successful prosecutions against a number of UK Hawaladars, despite Customs' singular lack of success in following the money trail back to any major heroin importers in the course of the massive surveillance operations which resulted in these prosecutions"? (Ballard: 2003c).

69 In the context of their manifest lack of success in catching industrial-scale heroin importers red-handed, Customs and Excise recently announced that nearly a quarter of its specialist staff had switched their attention to "following the huge amounts of money being sent through a network of bogus travel from Britain via Dubai to Pakistan on behalf of Turkish and Pakistani traffickers" (Rose 2001). Although Customs and Excise have by now brought successful prosecutions against most of the Hawaladars to which they appear to have been referring, no evidence that their investigations had led them to any major heroin importers was introduced in any of these trials. In the light of the fact that Customs still does not appear to found its way to its real targets (evidenced by the fact that the street price of heroin in the UKhas continued to fall) there appears to be a very real prospect that the Hawaladars currently serving long sentences for money-laundering are no more than convenient scapegoats whose sentences serve to occlude on-going investigative failures by both Customs and Excise and the Intelligence Services.

7.3 The Banks-v-Hawala: formal and informal systems compete head to head

Given the ever growing scale of the global remittance market, together with the severe constraints under which Hawala systems and their equivalents now find themselves operating, a number of formally constituted banks have begun to make ever more concerted efforts to move into the remittance market. Nevertheless, they have encountered considerable challenges in the course of so doing. On the one hand they have found it extremely difficult to conform to the letter of the new AML/CFT regulations: Western Union, one of the leaders in the field, was recently fined US$ I million for violating the rules. On the other they have found there is no way in which they can begin to match the low level of Hawaladars' commission rates, even when making payouts in urban centres; meanwhile the cost of making cash deliveries in the remote rural areas from which the majority of labour migrants are drawn, and whose interests and needs the Hawala system served so effectively, are proving to be prohibitive.

Just what outcome will eventually be precipitated as formal and informal value transmission systems begin to compete head to head is most unclear. In principle Hawaladars occupy a position of clear competitive advantage: they can fulfil the task far cheaply, expeditiously and reliably than can the formal sector. Moreover in doing so the success of migrants' self-constructed networks offer much the same kind of challenge to the established global order as they do nationally: in both cases they undermine the centre. However the centre clearly has the wherewithal to resist such challenges, no less globally than nationally. If the US Treasury manages to enforce its regulatory objectives with sufficient vigour, the formally constituted banking sector might well succeed in eliminating IVTS-although if it did so, it would of course be the migrants who would have to bear the additional transmission costs. However the success of migrants' strategies of transnational entrepreneurship "from below" in so many other contexts makes one doubtful as to whether the centre will indeed hold.

8. REMEDIES: HOW MORE MIGHT BE MADE OF MIGRANT REMITTANCES' DEVELOPMENT POTENTIAL

That remittances-and especially those sent back by migrants who have managed to step across the huge disjunctions between economic opportunities currently available as between the developing and the developed world-have buried within themselves the capacity to comprehensively transform economic conditions in their villages of origin is by now self-evident. However what should by now be equally clear is that virtually all the successes which they have achieved are not only the outcome of their own efforts, but efforts which have invariably been deployed in the face of various forms of structural adversity. It is precisely by making the most of their own self-generated resources, and by using those resources-whatever they happened to be-that migrants have devised strategies by means of which to circumvent all the many obstacles which they have encountered in the course of their travels. Hence from the migrants' perspective it is their own networks--composed of and devised by people like themselves, and ordered in terms of equally specific values, assumptions and patterns of reciprocity-which are their greatest asset. Outsiders, in their experience, are the very antithesis of insiders: always ready to make a quick buck in pursuit of their own alternative interests and concerns. If so, it also follows that outsiders deserve, by definition, to be paid back in the same terms.

To the extent that this is so, efforts by members of more formally constituted agencies to provide "aid" or "assistance" in such circumstances is likely to prove to be an extremely challenging task. Since all migrants' experience teaches them that best most effective way of circumventing obstacles is to avoid the expectations and strategic conventions of the established order, and to rely instead on alternative strategies which they themselves have constructed, members of transnational networks tend to be extremely sceptical about the real utility of all forms of external advice and support, no matter how well-meaning the intentions of those who offer such advice may be. So it is that migrants' initial reaction to such schemes is very often to subvert such schemes for their own purposes-much to the consternation of their supposed benefactors.

In circumstances such as these international agencies seeking to promote more sustainable forms of economic development can only expect to find themselves faced with an extremely sceptical clientele, but also to find themselves forced to discard many of their established paradigms. By definition those involved in such networks are "not-poor" in an absolute sense, for they have already begun actively to remedy the positions of marginalisation in which they originally found themselves; hence it makes little sense to regard them as helpless victims of overweening socio-economic pressures, whose lack of skills and insights is so comprehensive that they are effectively starting from scratch. Yet despite the manifest entrepreneurial success of transnational networks, their achievements should not be over-romanticised. Close examination of the development of any given network invariably reveals that each of the niches in which they have managed to colonise-no less at home than overseas-have been carved out in the face of powerful forces of socio-political marginalisation. Nor are their current strategies, whatever they happen to be, the acme of perfection. A major part of the secret of such networks' success is that their members are constantly on the look-out for better, but hitherto overlooked or unrecognised opportunities. Hence whilst members of such networks are invariably wary of the *bona fides* of outsiders, and sensibly sceptical of proffered advice, they are rarely so short sighted as to reject it out of hand: their principal criterion is will it work-for them, and in their own particular circumstances? These folk are cool customers.

8.2 The prospects for "smart aid"

With such considerations in mind the report which I prepared for DFID (Ballard 2003d) makes the case for implementing a series carefully targeted "smart aid" initiatives. Deployed in and around the capital-rich rich "islands" precipitated by the arrival migrant remittances from the UK, such initiatives would have two complementary objectives. Firstly to remedy specific deficiencies in the local infrastructure, thereby removing key blockages with had hitherto stood in the way of implementing the area's inherent developmental potential; and secondly to promote and support more sustainable-s-but nevertheless comprehensively network-friendly-local entrepreneurial initiatives.

It should be emphasised that the latter component of the exercise is just as important as the former. It is unrealistic to expect that the removal of infrastructural blockages would be sufficient, in and of itself, to stimulate sustainable growth in an otherwise stagnant local economy. Hence the need to complement such initiatives with active efforts to identify novel, but more profitable, forms of income generation which make the most of locally-specific environmental resources. For example it might well be the case that incomes could be radically improved if farmers abandoned the largely unprofitable cultivation of food grains in favour of higher value crops such as vegetable and fruit; however it goes without saying that such profits could only be realised if there was a ready market for these products in neighbouring urban centres, together with a transport infrastructure to ensure their timely delivery.

However it should be emphasised that I am in no way suggesting that "smart aid" initiatives should endeavour to run such fruit and vegetable farms, marketing agencies and their associated distribution networks. Quite the contrary. The objectives of the initiative would be much more parsimonious: namely to establish-s-largely on the basis of in situ empirical research-just which crops might best fill high value slots in accessible markets, how those crops might best be cultivated, marketed and distributed in such a way as to make maximum use of locally available resources. From this perspective the central aim of the initiative would be to research potential solutions, and to test out their economic viability. Final implementation would be left to local entrepreneurs, in the confident expectation that once the profitability of such activities within that specific local context had been demonstrated, others would swiftly pick up the baton and run with it.

9. CONCLUSION

Whilst Dilip Ratha has rightly insisted that migrant remittances are "an important and stable source of external development finance", and one whose potential for stimulating economic growth has hitherto been largely overlooked by those who explore such issues from the top down, that has certainly not been the case from the perspective of millions of migrant workers working from the bottom up, who have for many years been sending billions of dollars of investment funds back to their home villages. In just the same vein it is also worth remembering that even if it is the case that only a very small part of the developmental potential of these immense flows of funds have as yet been liberated, that is not for want of efforts to make more of that potential by the migrants themselves, by their overseas-born offspring, or indeed by their relatives who stayed back home. Neither absolute poverty nor lack of capital nor lack of entrepreneurial ability have been the central obstacles to the generation of more sustained patterns of economic growth on the back of these inflows: institutional, structural and infrastructural constraints have been the principal reasons why so little has yet been made of these opportunities.

Such failures are now having much more than local consequences. Given that few parts of the under-developed world-s-including its most economically and spatially peripheral regions-are still untouched by long-distance migration, the prospect that the vicious cycles of de-development are currently emerging throughout the developing world (as evidenced by explosive patterns of urban growth, especially in the very poorest of countries) can only be described as alarming in the extreme. We are all stakeholders in the negative consequences of such outcomes. Such de-development further disadvantages those unfortunate enough to find themselves confined to the underdeveloped periphery, so yet further reinforcing their propensity to migrate. But if such migration proves unstoppable not only will metropolitan centres--whether in the developed or the developing world-become increasingly overcrowded, but as their rural peripheries are drained of their populations, so their productive potential will steadily decline, thereby yet further fuelling the propensity to migrate. As long as policy initiatives and institutional structures routinely favour the metropolis over the periphery, the urban over the rural and the formal over the informal-as they clearly do at present-a vicious cycle which leads to an ever greater concentration of people and resources in metropolitan areas, and a parallel process of de-development in the countryside seems set to continue. To be sure members of transnational networks may continue to try to buck this trend for a while. But given that their capacity to subvert the structures of the established order is of necessity strictly limited, and that they also have access to alternative arenas within which to deploy their entrepreneurial skills, the prospect that they will achieve any great degree of success on this front. Instead it seems far more likely that they will follow similar trajectories to those devised by their counterparts "from above" by taking themselves and their networks ever more comprehensively offshore.

As should now be self-evident, this paper is no way the last word on these issues: instead it is best regarded as a contribution to a wider debate about an increasingly significant dimension of the dynamics of the contemporary global order. In highlighting the impact which informally structured transnational networks have begun to have on so many spheres of global activity, I trust this paper will provide the committee with some useful food for thought.

November 2003

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A STRATEGICALLY INFORMED ApPROACH TO REGULATORY INITIATIVES FOR IFT/HAWALA SYSTEMS: SOME RECOMMENDATIONS

We would strongly commend the arguments set out in the statement issued at the close of proceedings of the 2nd International Conference on Hawala in Abu Dhabi, and most especially its explicit recognition that informal funds transfer (1FT) systems playa key role in facilitating remittances, and that as such they now form an integral part of the international financial system.

More specifically, we would also argue that any planned regulatory regime should recognize that

1. Such systems are not deposit-holding banks: rather they are specialist inter-currency funds transmission agencies, aiming to deliver funds entrusted to them within 24 hours.

2. Regulatory systems will only work effectively if they are designed to fit the specific character of the processes being regulated, and take cognisance of the specific (and varying) socio-cultural character of the customer base in the community which each 1FT system serves.

3. Relatively little is known about the varying character of 1FT systems in different parts of the globe: our knowledge-base must be improved if effective and appropriate regulatory regimes are to be established.

4. The imposition of inappropriately draconian regulatory regimes will simply drive 1FT yet further underground, so defeating the object of the exercise.

5. In constructing such exercises, the precise objectives of the regulatory structure must be carefully spelled out, and the utility of all proposals must be carefully scrutinised from both a cost/benefit and a fit-for-purpose perspective.

6. The fact that 1FT systems frequently transfer funds on behalf of commercial businesses, charities and so forth besides retail customers should not be overlooked.

7. In pursuit of the efficient implementation of long-distance inter-currency value transmissions, 1FT systems routinely implement standard forms of banking practice, including the consolidation and deconsolidation of funds in large tranches to facilitate settlement processes. Whilst these processes are the key to the commercial success of 1FT, it is at this level that criminally-sourced funds could most easily be slipped into the system. To that extent current know-your-(retail)customer regulations appear to be poorly focused viz to the task in hand.

8. Contemporary 1FT systems are in a constant date of development, and many have achieved a higher level of electronic sophistication than the banks; the ever-wider use of advanced technology improves-rather than threatens-the prospects for more effective exclusion of criminal malfeasance.

9. Effective regulation is only likely to be achieved in the context of close cooperation with IVT operators: top-down initiatives, especially if draconian in character, are likely to be precipitate counter-productive outcomes.

10. 1FT operators should therefore be encouraged:

(i) To publicly identify themselves, preferably in incentivised registration schemes

(ii) To gather themselves together into formally constituted organisations

and with whom the authorities would consequently be able to negotiate on a collective basis

11. Efforts should be made to develop and support (rather than to condemn) the operational and managerial practices currently deployed by 1FT operators. Such an initiative could usefully be facilitated by an international or a regional development agency.

12. In the interest of facilitating the further development oflegitimate 1FT, greater efforts should be made to harmonise regulations across countries. The mutual recognition of national regulations (eg within the European Union) would simultaneously facilitate growth, greater operational efficiency and the more effective exclusion of potentially criminal transactions.

April 2004

See also the Conference Statement from the Second International Conference on Hawala, available at: http://www.cbuae.gov.ae/Hawala/statement-E.htm