A critical analysis of the role of remittances in Mexican development

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Remittances are not a new phenomenon to the world, but since the advent of globalization, the amount of remittances sent by immigrants to their home countries has sharply increased. Remittances are the capital sent to a country from its workers abroad. Today, the volume of remittances sent to developing countries is estimated at over $240 billion (Dustmann & Mestres, 2009). According to the World Bank in 2008, there had been a 350 per cent increase in remittances in Mexico from 2001 was 7.5 billion dollars (see Appendix 1). The World Bank estimates Mexico receives 25 billion dollars in remittances annually (2007). Some studies argue that remittances may have had an equalizing effect on the distribution of income among socioeconomic groups in Mexico (Taylor, 1999). There is a general consensus on the importance of remittances for the survival of many poor families in developing countries. Adams and Page's article *Do International Migration and Remittances Reduce Poverty in Developing Countries* revealed that migration and remittances have a strong impact on reducing poverty. However, there was insufficient data to study some developing countries due to underreporting (2005). This article offers an explanation for the diversity of impacts of remittances on inequality and poverty in Mexico.

This rapid increase in money being sent to developing countries not only impacts receiving countries economically, as remittances provide for much larger sums of money than aid or foreign direct investment, but socially as remittances affect the sending and receiving states in a multitude of ways, both positive and negative. *Remittances* are now one of the primary sources of foreign exchange between countries, thus drawing an increasing amount of attention to their importance. According to Orozco, Mexico is the largest recipient of remittances from citizens who are working outside the country (2004). Therefore remittances are crucial for the Mexican economy and development. Referring to the empirical case study of Mexico's development, this essay will attempt to elucidate the relationship and importance of remittances and human development. Furthermore, this essay will seek to reveal remittances as an *instrumental* aspect towards greater human development.

According to the World Bank's *Mexico Migration and Remittances Factbook*, there are over 11.5 million international migrants from Mexico that account for over 11 per cent of their population (2008). Though most migrate to the United States, this has had a significant impact on the economic development of Mexico. The literature on the effects of remittances on poverty in Mexico remains insignificant. However, there is a large amount of literature on the impact of remittances on poverty in other sending countries. For example, Stuart Brown argues that remittances can play a key role in development by using complimentary macroeconomic policies in labor exporting countries citing examples such as Korea

(2006).

There is an academic discourse focusing on the selection bias such as: does migration tend to occur with wealthier families rather than among the poorer? Academic scholars disagree on the direction of the selection bias. Stahl believes migration is an expensive risk and is only accessible to wealthier households (1982). In contrast, Stark and Taylor argue that in rural Mexico relatively deprived households are more likely to migrate to seek better opportunities (1989).

Adams and Page conducted a cross-country survey and found that remittances have had a significant impact on reducing poverty in developing countries (2005). They found that a 10 per cent increase in per capita official international remittances leads to 3.5 per cent decline in the percentage of people living in poverty (2005). In addition, Shroff's study, using data across the 1990s in Mexico, found that transfers to family members from within Mexico (internal remittances) had a larger impact on poverty than remittances from abroad (external remittances) (2009). Taylor, and Mora, Adams and Lopez-Fieldman have a similar argument that Mexico's international remittances increases rural income inequalities as international migration rises, and remittances from internal remittances are income equalizers (2005). Their studies show that both types of remittances have an equalizing effect on incomes in high-migration areas. Therefore international migration has clear advantages to reduce poverty and inequality particularly in the highest migration areas. Esquivel and Huerta-Pineda analyzed the role of international remittances on poverty in Mexico using a propensity score matching approach to compare remittance-receiving households with households that do not receive remittances but that have similar observable characteristics to those who do (2006). They concluded, "Remittances contribute to the reduction in the level of poverty, but only up to a certain point" (2006, pp.27-28).

Federico Torres and Yevgeny Kuznetsov (2006) provide a useful case study of four Mexican states: Guanajuato, Michoacan, Oaxaca, and Zacatecas. These states were chosen because of their high rates of remittances, per capita income among the lowest in Mexico, a large rural population, and a labor force strewn across localities partaking in low-productivity agricultural endeavors. Zacatecas, Michoacan, and Oaxaca were chosen because Zacatecas was able to use collective remittances to support small-scale infrastructure plans via a combined public-private program by means of projects autonomously undertaken by migrants or local organizations with some support from the state governments in Michoacan and Oaxaca. Guanajuato was included in the study because of its experience using remittances for small and medium-scale projects. The purpose of Torres and Kuznetsov's study was to assess how Mexican state governments, utilizing new forms of public-private collaboration for developing small-scale infrastructure and *maquiladoras* (businesses that are allowed to import materials duty-free if output is exported), were able to promote more productive use of remittances in migrants' hometowns through programs and projects that were partially funded with remittances.

Collective, or community, remittances are voluntary donations that organized groups collect from their members to fund community investments or that social groups collect from their members to finance community events in their native towns (Torres & Kuznetsov, 2006). Increasingly, Mexican migrants in the United States are seeking to invest their savings in their hometowns on an entrepreneurial basis. These collective associations are gradually becoming a channel for the diffusion of information about investment opportunities in Mexico, and to a greater extent, a channel for amalgamating the financial resources of small-scale savers and investors in the United States, affording them the opportunity to invest through an organized group (Torres & Kuznetsov, 2006). Because of these unique investment opportunities for Mexican communities the prospects for enhanced rural development are heightened as communities and individuals with professional expertise devise ways to spend money to make each dollar more effective.

While there are no reliable estimates of community remittances or migrants' savings, judging by the experiences in Guanajuato and Zacatecas, where partial estimates of these flows have been made, they pale, in dollar amount, compared to family remittances. However, the significance of collective remittances resides, not in the amount of money, but its characteristics. Collective remittances are highly flexible for investment purposes and have an organized network of migrants behind them, which is often complemented by personal and managerial skills (Torres & Kuznetsov, 2006). This carries with it the pronounced possibility of supporting local development. Furthermore, it is more likely that the funds communities receive from collective remittances will be spent more prudently as individuals and local organizations with personal and business skills dictating how the funds will be spent. Collective remittances not only have an organized network of individuals behind them, but in the Zacatecas program for each $1 contributed by migrants, the Mexican government contributes $1 - $3 from the federal government, $1 from the state government, and $1 from the municipal government (Torres & Kuznetsov, 2006). As a result, this program has funded over 400 projects over eight years, with migrants investing about $4.5 million. Because of the fund matching contributed by the federal, state, and municipal levels of the Mexican government, coupled with professional expertise of the migrants, local communities identify hometown associations and migrants as the most influential forces behind local progress and fulfilling the most pressing needs and priorities of local communities. Despite these encouraging numbers from the Zacatecas program, when the figures are scrutinized more intensely, there are some findings that raise concern.

Zacatecas' main program, Three for One, is one of the oldest and most successful initiatives in the study of remittances. The original idea of this program was that for every one dollar paid by the hometown associations for community projects, the federal and state government would pay another $1. In 1999, towns also agreed to contribute $1 for every dollar collected by the hometown associations (Torres & Kuznetsov, 2006). From 1993 to 2000, the program financed $16.2 million of projects, of which hometown associations contributed $4.5 million. Torres and Kuznetsov (2006) further reveal that because the amounts contributed by hometown associations have risen so rapidly, the government of Mexico was not able to match the contributions due to a lack of resources. Although the fiscal constraint of the Mexican government is discouraging, the result is not surprising. Steps should be taken by the Mexican government to continue the success of the hometown associations while not angering Mexican citizens promised matching contributions.

One way to effectively address the budgetary constraints the Mexican government encounters is to specifically appropriate funds in the annual budget for matching funds that hometown associations contribute. It would not be difficult to convince the public of the usefulness of this as many communities identified hometown associations and migrants as the most influential forces behind local progress and fulfillment of the most vital needs and main concerns of communities. The government officials could point to the success of the Zacatecas program and the economic benefit the program brought to the region. By setting aside a greater proportion of the annual budget for such activities greater economic development could occur in these rural regions resulting in a more economically viable Mexican state.

Another approach that the Mexican government could undertake, if the previous recommendation renders itself infeasible, is to specifically list which types of projects they will match. Obviously, the government would have to include accountability measures that would ensure hometown associations do not exclusively participate in the projects that fall under the matching program. Essentially, the Mexican government would set a cap on the amount of money they are willing to contribute and also cap the amount of money each hometown organization would be eligible to receive from the federal, state, and local governments. Each year, the Mexican government could gradually increase the amount of money they are willing and able to contribute to the hometown associations to better assist economic development in Mexico.

The current global recession due to the financial crisis in 2007, the magnitude of which has not been seen since the Great Depression of the 1930s, will negatively affect the ability of individuals to send remittances. Remittances to developing countries are expected to drop from $ 308 billion in 2008 to $ 293 billion in 2009 (United Nations Development Program (UNDP), 2009). While the entire globe is staggering due to the recession, African countries are battling with a sharp decline in remittance flows. This revelation is alarming as remittances are an important factor in development, especially for the case study of Mexico. The cause for the decline in remittances is due to rising unemployment in key migrant destinations, such as the USA or European nations, which may have long-lasting and potentially permanent effects on employment and income opportunities (UNDP, 2009). A sharp fall in remittances does not bode well for developing nations, as families will be less equipped to deal with poverty-reduction, which contributes to a plethora of internal problems (UNDP, 2009). According to a survey conducted in 2009 by Richard H. Adams Jr., the level of poverty has a negative and significant impact on the amount of remittances a country may receive. As this occurs the short-comings of remittances are further revealed. Ronald Skeldon's article argues that the concerns over migration and development have resulted in policy alteration to either limit or promote development and concludes that migration is key to development rather than institutional structures (2008). Cohen agrees on the importance of migration and remittances for sending countries (2005).

Opponents of remittances claim that remittances create dependency problems on multiple levels.

The most explicit example is how remittances exacerbate dependency as individuals rely too heavily on the money being sent to them, which has the potential to create undesirable conditions in developing nations. Critics claim emigration in itself is a sign of dependence as it creates a relationship that results in sending countries relying on foreign job markets, revealing the nature of the dependency claims (Weiner, 1995). These negative consequences may be seen from an increasing inequality between migrants and non-migrants, causing price inflation for land or other scarce resources and remittances may not necessarily contribute to development, as they are not always invested in institutions that are conducive to development (Castles & Miller, 2009). These factors raise important questions about how remittances are used and the steps that need to be taken to improve the likelihood individuals smartly invest the remittances they receive. Remittances not only monetarily affect a society, but the social fiber of a community as well. There is a debate whether remittances have a negative impact on sending countries such as refugees establishing jobs in developed countries and sending remittances back to fund weapons and resources for combatants (Nyberg-Sorensen and others, 2000 as cited in Castles & Millen, 2009).

The ideas, practices, identities, and social capital that flow back to families and communities of origin are known as social remittances. Social remittances occur when migrants return on short-term visits or permanently, stays by non-migrants to relatives abroad, phone calls, letters and videos (Levitt, 1998). The negative aspects of social remittances are substantial and need to be addressed. It is argued that social remittances are a form of cultural diffusion that links global economic and political changes to local-level action and attitudes (Castles & Miller, 2009). Therefore, individuals leaving their country of origin for greener pastures can harm the state, as they grow more accustomed to a Western lifestyle, for example. Furthermore, the success of emigration may prove harmful to developing nations as individuals relay to their home communities the low risk and high benefits of moving to higher-wage economies, which may encourage more people to emigrate, highlighted by case studies of Mexico, Morocco, and the Philippines (Castles & Miller, 2009). Remittances generally do not flow to the poorest people or nations. This reveals yet another weakness, as the poorest of the poor receives the least help (UNDP, 2009). This revelation poses difficult challenges to remittances because it fails to address the underlying problems of poverty and does nothing to combat the root causes. A 'culture of migration' may also come forward as international migration is seen as the equivalent to personal, social, and material success while remaining at home is a sign of failure, as is seen in Nigeria (Buecker, 2005). The pressures for younger individuals to migrate in order to obtain a certain social status can have undesirable effects on countries of origin as a large number of people in their prime are leaving, creating division of labor problems adversely affecting already volatile states. Another important negative consequence of social remittances is, for example, deporting youth from the USA to Central America, which has been associated with the export of gangs and gang culture to places that previously did not have such problems (UNDP, 2009). Though these challenges are prudent, states are taking steps to deal with them effectively.

While there are many questions that need to be addressed about the negative effects of remittances, the benefits prevail over perceived harms. The positive results of remittances are vast. Remittances flow directly to low-income households, and have a direct effect on poverty reduction (Newland, 2007). This has obvious benefits as more individuals escape poverty and states are better equipped to develop. It is also important to note that remittances can positively contribute to health and educational standards, having a desirable impact on a state's labor force. Direct investments in agriculture and rural industry to improve methods and incomes also positively influence the productivity of the labor force (Castles & Miller, 2009; Weiner, 1995). These factors are important as they have a major positive impact on the economic development of migrants' home countries.

There is also a positive ripple effect that occurs when a state takes appropriate policy action to improve governance and economic policies, especially among developing states that witness economic development. This not only contributes to the stability of the state, but also to the region and the globe. As one case study illustrates, in the villages of Na Pieng and Ban Kaew Pad, Thailand, individuals surveyed described migration as one of the ways in which a family's socio-economic status could be enhanced. For these communities, remittances from abroad assisted those left behind to invest in commercial fishing, expanding the family's status and influence (ActionAid International, 2004). This empirical study of two villages in Thailand helps to bring to light the positive effects remittances have on countries of origin. Therefore spending in education is often a priority of families receiving remittances.

Education increases the earning capabilities of the next generation and reduces child labor. Once these children are in a formal education setting, the propensity for them finish schooling is more likely as incentives for education increase as superior opportunities are available to those with an education (UNDP, 2009). As the United Nations (UN) 2009 Human Development Report highlights three empirical examples of Guatemala, rural Pakistan and Mexico, this assertion is bolstered. In Guatemala, 48 per cent of international migration is connected with augmented education spending, especially on higher levels of education. In rural Pakistan, short-term migration can be linked with increased enrollment and declines in dropout rates. Similar results were found in Mexico, where children in households with an internal migrant had a 30-45 per cent higher likelihood of being in a grade appropriate for their age. These positive correlations demonstrate the positive impacts remittances may continue to have on poorer states. With an increased likelihood of children to finish school and partake in higher education, the prospects for further development are promising as the labor force is more highly skilled.

Not only do remittances contribute to increased education among developing nations, but also when high-skilled individuals send remittances from the receiving state to the sending state, trade is increased between those countries (UNDP, 2009). Increased trade between states is another welcome benefit of remittances, especially in today's unstable global economic climate. Remittances may serve to aid countries in thwarting some of the effects of the global recession, despite its expected decrease from 2008, The 2009 UN Development Report also reveals high-skilled individuals abroad often bring benefits to their countries of origin not only by sending remittances, but by creating networks in different areas of the globe. Because immigrants have spent time abroad, they may bring back with them healthier practices, such as revealing to their communities the necessity of safe drinking water, or not having animals in living quarters, or annual medical check-ups or advocating safe sex all with the intention of making the country of origin healthier, resulting in a more productive work force (UNDP, 2009). With the multitude of positive gains that can be achieved from remittances, one would be ill advised to underestimate the importance remittances play not only in the global economy, but societies across the globe as well.

This essay has focused on the positive and negative aspects of remittances. The case study of Mexico and other countries such as the Philippines, Guatemala, and Nigeria has been utilized in order to bring to light not only the benefits of remittances but also the challenges states are faced with. Consequently, the impact of remittances largely depends on local institutional structures and their effectiveness of dealing with societal and economic troubles. Remittances alone cannot remove structural restraints to economic growth or societal woes, but are instrumental in human development. States working more tightly with another, allowing individuals more mobility to migrate may be one of many important steps that allow for more favorable economic conditions not only for developing countries, but developed countries as well. Remittances are just one important area of study in the field of international migration that cannot be ignored and must be explored further.

Appendices

Appendix 1

Remittances

(US$ million)	2000	2001	2002	2003	2004	2005	2006	2007e
Inward remittance flows	**7,525**	**10,146**	**11,029**	**14,911**	**18,143**	**21,917**	**24,732***	**25,000**
of which								
Workers' remittances	6,573	8,895	9,814	13,396	16,613	20,035	23,054	..
Compensation of employees	952	1,251	1,215	1,515	1,530	1,882	1,678	..
Migrants' transfer	..	..	..	..	..	..	..	..
Outward remittance flows	..	..	..	..	..	..	..	..
of which								
Workers' remittances	-	-	-	-	-	-	-	..
Compensation of employees	-	-	-	-	-	-	-	..
Migrants' transfer	..	..	..	..	..	..	..	..

* 2.9% of GDP in 2006. This table reports officially recorded remittances. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be larger. Total flows may not always equal the sum of the components as they may have been taken from alternative sources.

Source: World Bank, (2008). *Migration and Remittances Factbook 2008 (March, 2008)*. Retrieved from World Bank website: http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21352016~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html

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