

# **Globalization and Migration: The Impact of Family Remittances in Latin America**

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## ABSTRACT

Taking as its point of departure the relationship between migration and globalization, this article highlights the salience of remittances in the national economies of Latin America, especially Mexico, Central America, and the Caribbean. It looks at the various actors that participate in the transfer of remittances and suggests that incorporating migrant labor dynamics as a category of economic integration will reveal a distinct landscape in the economies of Latin America.

One of the major recent changes in contemporary international affairs is the increase in the scope and intensity of social relations, or the development of what has commonly been termed globalization. Most analyses have examined globalization's economic dynamic, specifically the role of finance and commerce in stretching international ties. Even in the economic context, however, globalization has meant more than trade and finance. Migration represents a very important dimension; and family remittances specifically have constituted a major factor in integrating societies into the global context economically and socially.

Partly because of migration, Central American and Caribbean economies have gradually transformed themselves from agroexporting economies to labor-exporting nations. One important consequence of this pattern is the establishment of ties or linkages between Latin American migrants and their Latin American countries of origin. Although, in most cases, institutional relationships have not developed between groups, such as Latino foreign-born organizations and Latin American sectors of civil society or the state, there is a growing interconnection influenced by the flow of family remittances to Latin America.

This article argues that recent family remittances have become a key indicator of globalization in Central America and the Caribbean. Tracking remittances to Latin America, it reveals the growing salience of remittances in countries' national economies and the interaction of a number of actors participating in the remittance process.

## GLOBALIZATION AND MIGRATION

Globalization is a process that affects the traditional territorial political space and its associated claim to sovereignty. It represents an increase and intensification of worldwide connectedness (and the consciousness of it), with some decline in the significance of territoriality and state structures. Anthony Giddens defines globalization as "the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa" (1990, 64).

In a broader economic sense, globalization implies new practices and dynamics. Ankie Hoogvelt (1997) suggests that we are experiencing a phase of deepening capitalist integration that takes place in three principal ways: global market discipline, flexible accumulation through global webs, and financial deepening. The nature of global market discipline is observed in the process by which economic agents internalize dominant standards of price, quality, and efficiency in global scale and apply them to their domestic markets (Hoogvelt 1997, 122). Hoogvelt describes "flexible accumulation through global webs" as the practice of carrying routine production via firms' capacity to install themselves and operate anywhere on the globe in real time, and to maintain a close-knit network structure of affiliated firms and production units ready to fulfill production requirements. Global financial deepening is the result of a growth in financial transactions that is higher than the growth of production and trade (1997, 128).

International labor practices play a role in this new intensification of capitalism. In Giddens' view, social practices fall under different dimensions of globalization, which he identifies as the world capitalist economy, the world military order, the international division of labor, and the nation-state system (1990, 159). International migration figures in all but the second category.

Yet although migration has been a key element influenced by globalization, it has seldom been addressed in the analysis. "Discussions of globalization," notes Stalker, "rarely consider international migration at all, or if they do they deal with it as a residual category, an afterthought" (2000, 1). Most analyses of the levels of economic integration pay attention to trade and investment but neglect to consider labor in any form. This has implications for economic policymaking and development because it ignores labor as one of several significant indicators.

A recent set of studies has sought to include or recognize labor as a key factor in facilitating global economic integration. Stalker (2000), for example, distinguishes various dimensions in which labor is connected to the global economy, as a factor excluded or included by capital expansion, trade intensification, or wage differentiation. Saskia

Sassen (1996, 1999) offers an interpretation of globalization in the context of migration, arguing that a prevailing tension exists between the nation-state's control of borders and cross-border flows, and the enforcement of human rights and compliance with international norms.

Mittelman analyzes labor in a framework he calls the "global division of labor and power" (2000, 4). He describes the current global political economy as composed by "a spatial reorganization of production among world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes." As a response to this division of labor and power, migration emerges in developing countries with people seeking better opportunities in industrialized countries by joining labor-intensive activities or low-skill service industries. Mittelman stresses, "heightened competition among and within regions, mediated by such micropatterns as ethnic and family networks, accelerates cross-flows of migrants" (2000, 65). This cross-flow of migration, in turn, produces economic effects in the labor-exporting country.

Prakash and Hart (2000) further maintain that to understand economic integration, the analysis needs to incorporate labor as a key category. An analysis of factors of production, they believe, significantly contributes to understanding the way a country's economy is globalized. "If firms are coalitions of factors of production," they argue, "integration should be observable at the factor level: at the level of land, labor, capital, entrepreneurship, and technology or intellectual property" (2000, 104).

Prakash and Hart maintain that although labor faces major restrictions on cross-border flow, its mobility "is a fact of life." They propose three measures of integration of labor markets in the global economy. One is the proportion of foreigners in the domestic workforce; the second is the ratio of the "domestic workforce in export-dependent industries and employed by domestic affiliates of foreign MNEs [multinational enterprises]" (2000, 105). A third measure is remittances. Prakash and Hart argue that migration facilitates integration "through remittances that contribute to a home country's GNP and provide it with valuable foreign exchange" (2000, 105). In this case, they propose using the ratio of remittances to gross domestic product (GDP) as an indicator of integration.

Worker remittances are defined as that quantity of currency that migrants "earn abroad and then send home to their families and communities" (Kane 1995, 34). Studies of remittances have often focused on three issues: the wealth-generating capacity of remittances through savings and investment (Adams 1998), the factors influencing their flow (El-Sakka 1999), and the effects of remittances in the recipient economies at the household level (Arif 1999). Most of these studies have shown

that remittances generally have important effects on economic growth, trade, and the distribution of wealth in the recipient countries.

Adding the effects of remittances to the analysis of economic globalization produces a different pattern of economic behavior. In some cases, the traditional indicators of trade and investment can be complemented with evidence of the scope and depth of international labor dynamics. Recent economic studies agree, for example, that the Western Hemisphere has gradually become more integrated through trade and investment, as illustrated by the experience of NAFTA, the experiments of Southern Cone countries with MERCOSUR, the call for a Latin American free trade area (FTAA), and Central American countries' efforts to revive a common market. As a consequence, economic hemispheric interdependence has increased; intrahemispheric trade, for instance, rose from 46.7 percent in 1990 to 58.3 percent in 1998 (IDB 2001).

In Central America, nevertheless, trade and investment integration has been slow and difficult. Yet globalization has been connected to broader dynamics, such as an increasing shift in economic orientation from agricultural exports to labor-exporting practices. Traditionally, agriculture has been considered a key strategy for economic growth; in most Central American and Caribbean countries, it has received special attention as a source of self-subsistence, foreign currency (through agricultural exports), and employment generation. Economic indicators for all these categories, however, show that agricultural economics have significantly declined (see tables 1a and b). Meanwhile, other factors have gained influence. Labor migration has increased significantly in the past 20 years and has been economically influential through worker remittances.

Neglecting to focus on labor dynamics as a factor in economic integration can misrepresent economic performance or distort measures of key economic indicators. It is therefore important to look at the flow and impact of remittances to Central American and Caribbean countries to ascertain their impact.

### **INTERDEPENDENCE FROM BELOW: FAMILY REMITTANCES AND HOMETOWN ASSOCIATIONS**

The migrations that took place in the 1970s and 1980s, along with the continuing flow of people from Latin America to the United States, have extended the traditional country-to-country geopolitical relationships to the level of migrants and home-country linkages. These connections, however, have been relatively minimal, and are at an early stage of development. Foreign-born Latinos living in the United States have little or no direct influence on U.S. policy toward Latin America or toward

Table 1a. Labor Force in Agriculture (percent of total)

	1960	1970	1980	1990	1995	1996
Costa Rica	51	43	35	26	22	22
El Salvador	62	57	43	36	27	28
Guatemala	67	62	54	52	—	—
Honduras	70	65	57	41	37	—
Nicaragua	62	50	39	28	—	—
Haiti	80	74	71	68	—	—
Dominican Republic	64	48	32	25	15	15

Source: World Bank 2000.

Table 1b. Agriculture as Percent of GDP

	1980	1985	1990	1998
Costa Rica	18	19	18	15
El Salvador	38	27	17	12
Guatemala	27	28	28	26
Honduras	21	19	20	17
Nicaragua	23	23	25	29
Dominican Republic	21	19	20	18

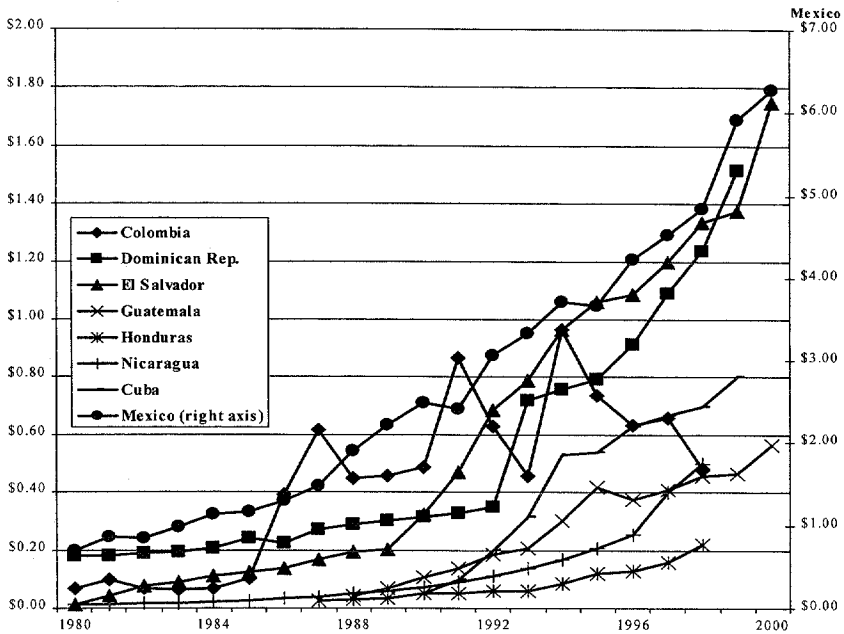
Source: IDB 2000.

their particular homeland, or on Latin American countries' policy decisions (Orozco 1998). Most organizations of foreign-born Latinos, moreover, work largely within the United States, because Latino immigrants, once they have settled in this country, have sought primarily to improve their social condition.

This situation does not mean that Latinos lack a vested interest in Latin America but that overall, they prioritize domestic linkages and practices (De la Garza et al. 2000). Because of migration, political conditions, and technological progress, however, Latino immigrants have found themselves incorporated as intermestic agents with various sorts of familial, cultural, community, social, and, at times, political relationships.<sup>1</sup> In some of the first three types of connections, the bonds of integration are growing stronger.

Family remittances are currently one of the most important forms of linkage among emigrant Latinos and Latin America, affecting both sending and receiving countries. The dynamics of remittances, however, go far beyond the measure of integration presented by Prakash and Hart. Held and McGrew speak of globalization, for example, in reference to two

Figure 1. Family Remittances to Latin America (in US\$ billions)



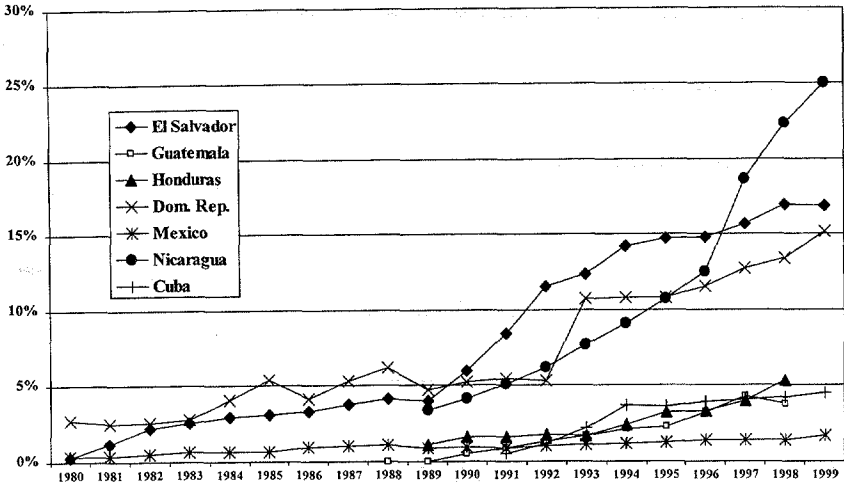
Source: World Bank 2000; central bank of each country.

interrelated dimensions: “scope (or ‘stretching’) and intensity (or ‘deepening’)” (1992, 262). That is, the boundaries of localities are stretched and already existing global connections are deepened. The scope of remittances extends to the range of players involved in the transmission process: the market intermediaries, governments, hometown associations, and international groups interested in how remittances flow. The depth of remittances relates to the level of involvement of these players in affecting the impact of remittances in the receiving country, which in turn has a multiplying effect on the economy and society.

### Value of Family Remittances

Many Latin American countries find in family remittances an important source of national income. The immigration waves of Central Americans to the United States in the 1970s and 1980s and subsequent migration generally have made remittances a major source of newly acquired income for migrant-sending countries. The volume of remittances began to increase in the 1980s and now appears more and more steady. Figure 1 shows the trend by country inflows from 1980 to 2000. In aggregate,

Figure 2. Remittances as Percentage of GDP



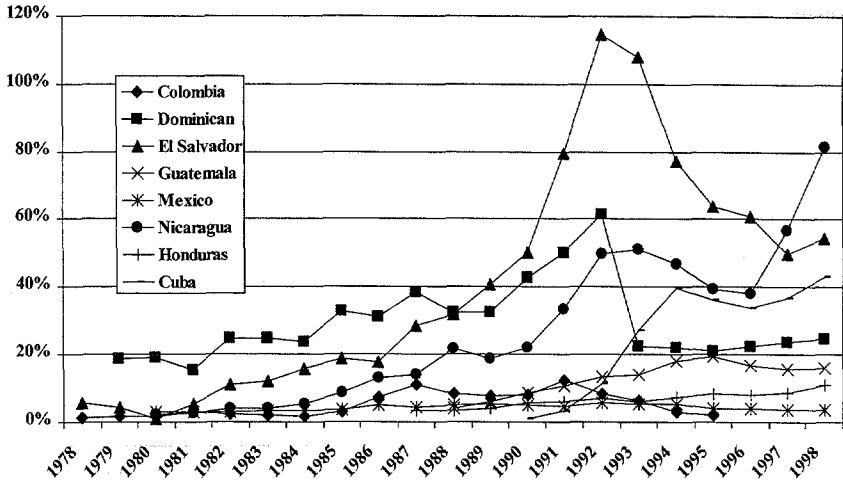
Source: World Bank 2000; IDB 2000.

the flows to Mexico and selected Central American countries increased from nearly \$1 billion in 1980 to \$3.7 billion in 1990 and over \$10 billion in 2000 (see figure 1). Remittances to Mexico rose from \$800 million in 1980 to \$2.4 billion in 1990 and to \$6.5 billion in 2000.

This increase invites the attention of policymakers and a range of social actors eager to improve opportunities and conditions in Latin America. Using the Prakash and Hart remittances-GDP ratio also demonstrates how influential remittances are in many a country's economy (figure 2). In some cases, like in Nicaragua, remittances represent one-fourth of the national income. Even in economies like Mexico's and Cuba's, remittances are gaining relevance.

Remittances may be as important to national economies as exports, which traditionally have been the greatest contributor to the gross national product. Remittances to El Salvador have occasionally exceeded the total value of exports, and they represent more than half the value of exports in the Dominican Republic and Nicaragua (figure 3). El Salvador has also come to depend on remittance income and has made policies encouraging the continued flow, now nearly \$2 billion (Weiner 1996, 37-38). Even in Mexico, which has a strong export-oriented market, remittances equal 10 percent of the total value of exports, almost as much as the income from tourism (Ortiz 1994, Q-14), and about 80 percent of the value of foreign direct investment (*La Jornada* 2000).

Figure 3. Remittances as Percentage of Total Exports



Source: World Bank 2000; IDB 2000.

### Hometown Associations

The volume of remittances needs to be understood in terms of the players who make that flow possible. Partly inspired by their common practice of sending family remittances, immigrants have formed community groups to maintain relationships with the sending country or with local communities. These organizations are part of a growing trend in transnational social movements, influenced both by migration patterns and by globalization (Mahler 1998; Roberts et al. 1999).

Hometown associations (HTAs) are formed among remittance senders to coordinate their support not only of relatives but also of their towns, as well as to retain a sense of community as they adjust to life in the United States. The HTA is also a subset of what some observers call transnational migrant organizations, or TMOs (Levitt 1997).

HTAs' international activities can be described in terms of four features (Orozco 2000a). First, their orientation ranges from charitable aid to investment. Table 2 displays the various kinds of activities they perform. From a balance-of-payments perspective, these activities are like remittances in that they are unrequited and unilateral private donations, albeit carried out on a community basis (except for direct investments, which typically involve a subgroup of people within the association). Charitable work includes the donation of clothes, construction material for the town church, or small cash amounts to purchase goods for local religious festivities. Infrastructural improvements include raising money to pave the

Table 2. Range of Activities HTAs Perform for Their Home Country

Charity	Toys, clothes, church donations
Infrastructure	Parks, cemeteries, sports complexes, street construction, ambulances, firetrucks
Human development	Scholarships, sports facilities, libraries, health equipment
Investment	Income generation programs
Other	General fundraising

hometown streets, create parks, build sewage treatment and water-filtration plants, buy or maintain cemetery plots, or build health care facilities. A third group of activities are oriented toward "human development" (Eekhoff 1997), the daily educational and health needs of the townspeople. These activities include funds for scholarships, library books, health supplies and medicine, and sports facilities. A fourth type of activity involves capital investment for income-generation projects managed by local community members and often supervised by immigrants.

A second aspect of hometown associations is their structure and the kinds of links they establish with their communities of origin. Most associations lack strong organizational structures, and few have an institutional counterpart in their home country. Their membership is small, and their connection with their hometown is often through the local priest or a notable person or group of people. Two kinds of relationships are observed. The first is hierarchical, in which the hometown association communicates to its counterpart or contact the decisions and agenda for projects. The second type is joint cooperation, in which the local hometown counterpart, together with the association in the United States, helps define the agenda. Generally, the community associations meet occasionally to discuss their future agenda, fundraising activities, or extraordinary events, such as the organized support to victims of Hurricane Mitch in 1998.

HTAs decide on their activities depending on an array of factors, such as availability of financial resources, relationship with their hometown, members' preferences, and organizational structure. Most organizations begin their work with charitable donations. As they discover new issues to concentrate on or as they learn from other organizations' experiences, they may reorient their activities. Their involvement also depends on the members' available time; most members volunteer their time after their regular work and family obligations. Another factor that influences their choice of projects is the hometown's request for assistance. Although few associations have organizational counterparts in the

home country, when they do, their contact person often transmits the community's needs. Conditions in the hometown become an important determinant of the organization's agenda. Thus, as one community leader remarked, "our focus of work will depend on the needs of the community, whether the town has easy access to main highways, or [whether] it's an impoverished rural area" (Orozco 2000a).

Finally, like other Latino nonprofits, HTAs have a small economic base. Most raise less than ten thousand dollars on average each year. Because the associations are voluntary and do not incur administrative costs, however, much of money they raise is sent to the towns in the form of cash or in-kind materials. Although the annual amounts raised are not relatively high, they are no different from the average income of those Hispanic nonprofit organizations identified by Cortes (1999).

According to a U.N.-sponsored report (Torres 1998), in-kind or cash donations from HTAs may amount to less than 1 percent of family remittances, which, for the case of El Salvador, amount to more than \$15 million. The report stresses that

collective remittances [in-kind donations included] have a small participation in the global amount of remittances. Although estimates for Central America are unknown, it is difficult to assert that these flows are more than 1 percent the total value of remittances. . . . This amount may seem insignificant, however it may increase in the future. (Torres 1998, 40–41)

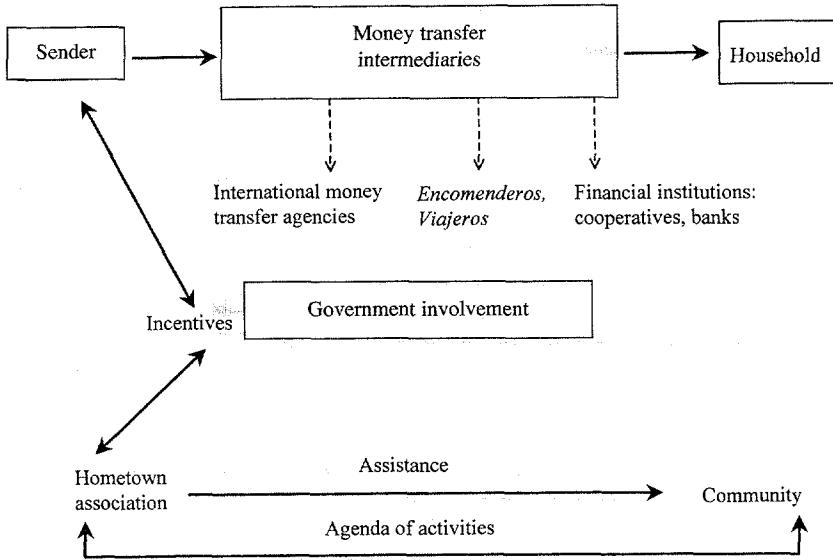
HTAs have already had an impact on social development in their home countries, and they may continue to operate and grow in the future. Therefore it is important to study their emerging patterns as well as to assist HTAs in strengthening their institutional and operational bases.

## **ECONOMIC INTERDEPENDENCE: MARKET AND GOVERNMENT FORCES**

Most studies of remittances focus on the recipients of remittances as the "principal actor." New or previously little-known actors and activities have emerged with the surge in remittances, however, and have had direct or indirect developmental impacts. The marketplace for transferring remittances has grown apace with the increasing volume, attracting new companies and new services. Migrant-sending governments also have been attracted to the increased volume of remittances and have generated innovative practices to leverage their use.

Figure 4 portrays these actors, their roles, and their relationships. Their influence is both direct and indirect. Remitters send money to their families for personal purposes and allocate money for other economic purposes. Recipients become agents of development when their money

Figure 4. Players in the Transfer of Worker Remittances



creates new markets or improves household welfare through education and health care. Financial service companies have a profit motive, but they are increasingly involved at some level in economic development in their customers' communities.

### The Financial Services Marketplace

Remittances are sent in various ways: through banks; money transmission companies, such as courier agencies like Western Union; postal services; or hand-delivered by the actual sender or by a third party (*encomendero*, courier, or *viajero*, traveler). In Latin America, the use of these instruments varies depending on factors such as the existence of a modern banking and financial infrastructure, efficient delivery systems, and the educational and income status of the recipient and sender.

During the 1990s, these institutions expanded to service the increased volume of remittances. The nonbank financial institution (NBF) sector, in particular, has grown. An NBF institution is authorized to engage in banking activities not involving the receipt of money on current account subject to withdrawal by checks. These institutions manage the majority of remittances. Coopers and Lybrand (1997) found that the international component of the U.S. money transmission sector grew an astounding 20 percent annually from 1991 through 1996.

Remittances are a source of large profits for various small and large businesses. They profit from the transaction fee charged to the customer, temporarily investing the funds before transferring them; from miscellaneous additional services, like door-to-door delivery; and, in some cases, from artificially established exchange rates. Western Union and MoneyGram dominated the U.S. market with 97 percent of money transmissions in 1996. In Mexico alone, Western Union may hold at least 18 percent of the remittances market, and in Honduras and Nicaragua, more than 30 percent (Orozco 2000b).

MoneyGram, which competes with Western Union, staged an aggressive marketing strategy and, as a result, extended its international reach to 22 percent of the international remittances market in 1996. In 1995, moreover, 44 percent of money transactions through MoneyGram took place from the United States to Mexico (Coopers and Lybrand 1997). In El Salvador, Western Union carries out a minimum of 70,000 transactions a month worth an average of \$300. In the Dominican Republic, the minimum is 120,000 transactions, thus likely controlling at least 20 percent of the flow of remittances. These companies charge significant fees, ranging from 8 to 14 percent of the value remitted.

Smaller players have about one-fifth of all the storefront outlets typically seen in U.S. cities. They play a niche role, focusing particularly on immigrants. Emerging groups seeking a share of the remittance market are commercial banks of the sender's home country, the U.S. Postal Service, and credit unions that establish a remittance network. Commercial banks have seen the profit potential in remittances, and represent an almost natural place for the flow of money from one country to the other. Salvadoran banks, such as Bancomercio, are operating in Houston, Washington, DC, Virginia, and Los Angeles. They charge competitive fees for the remittance transaction, less than \$10 for almost any amount to be sent; but they do not have the outreach capacity of businesses like Western Union.

In 1997 the U.S. Postal Service created its own delivery system offering a lower rate than Western Union or MoneyGram. The International Remittance Network (IRnet) is also an innovative alternative to courier agencies and banks. The IRnet is a credit union-to-credit union service. The fee charged is one of the lowest in the market: a flat \$6.50 per transaction (Romney 1999; WCCU 1999).

Table 3 shows some of the most recognized businesses delivering money in four Latin American countries. As the table indicates, some firms serve all the countries discussed here, and others serve only the countries in which they were established. All aspects of this marketplace show substantial growth, which has expanded and deepened in various ways.

- The proliferation of companies, small and large, offering transnational services for money transfer

Table 3. The Remittance Market: Couriers, Banks, and Credit Unions

Mexico	El Salvador	Nicaragua	Guatemala	Dominican Republic
Dinero Seguro	Gigante Express	Western Union	Gigante Express	Mateo Express
Western Union	León Express	MTOM	Western Union	Western Union
MoneyGram	Western Union	Gigante Express	IRNet	Vimenca
Wells Fargo	IRNet	Nicaragua		La Nacional
Bancomer	Banco Agrícola	Delivery		Pronto Envío
Orlandi Valuta	BanSal			
Raza Express	Bancomercio			
RIA Envía				
IRNet				

- A gradual decline in the transfer costs resulting from competition and social demands
- The expansion and extension of services and new initiatives oriented to migrants, from money transfer to delivery of commercial goods and other personal services
- The sustained (and perhaps increasing) flow of electronic money transfers
- The widening access to services by public in remote areas
- The growing participation and interest of the banking industry in the sending communities

Perhaps one of the most significant changes in the remittance market is the decline in transfer costs. In 1999, the cost of sending remittances to different Latin American countries averaged about 15 percent of the amount. Western Union, for example, charged \$22 for transferring up to \$200. By 2001, that charge had dropped to \$15. A similar decline, though to a lesser extent, is observed in the case of MoneyGram (see tables 4 and 5).

The decline in prices, however, is only one key change in the market. Among 28 remittance companies transferring money to 11 Latin American countries, the cost of sending money varies significantly, from a low of \$6.5 to a high of \$35 (table 6). The standard deviation in the transfer costs is also significant. Overall, for a transfer of \$250 or \$300, more than two-thirds of companies' fees range between \$10 and \$25; that is, between 4 percent and 10 percent of the amount sent. The cost of sending money, moreover, also varies from country to country (table 7). The variation may be connected to the level of competition and the demand of remittance transfer services.

The use of electronic transfer as a transaction method is an important development. One competitive strategy among companies has been

Table 4. Transfer Costs for Sending Remittances via Western Union

Amount sent	\$200		\$300	
	1999	2001	1999	2001
Mexico	\$20	\$15	\$25	\$15
El Salvador	\$20	\$20	\$27	\$21
Dominican Republic	\$22	\$20	\$30	\$24
Guatemala	\$22	\$20	\$29	\$21
Colombia	\$22	\$20	\$29	\$15

Source: Orozco 2000b; additional data compiled by the author.

Table 5. Transfer Costs for Sending Remittances via MoneyGram

Amount sent	\$100-\$200		\$200-\$300	
	1999	2001	1999	2001
Mexico 10 Minute Service	\$16.20/18	\$15	\$25	\$25
El Salvador	\$18/20	\$20	\$25	\$25
Dominican Republic	\$18/20	\$20	\$25	\$25
Guatemala	\$18/20	\$20	\$25	\$25
Colombia	\$18/20	\$20	\$25	\$25

Source: Orozco 2000b; additional data compiled by the author.

to offer fast and secure ways to transfer currency to Latin America. As result, the use of electronic wire transfers has spread relative to the traditional method of hand delivery of cash through *encomenderos* or *viajeros*. The Mexican case illustrates this phenomenon (figure 5). From 1994 to 2000, electronic transfers to Mexico increased from 43 percent to 70 percent of all types of remittance transfers. This increase is reflected in other countries. The involvement of small companies plus the participation of Western Union-type businesses has further pushed this growth.

The participation of commercial banks is another emerging trend. Until recently, banks did not transfer remittances directly and worked only with intermediary companies to facilitate the transaction. As banks discover the profit from transferring migrants' money, however, as well as migrants' long-term potential as clients, banks are seeking to offer transfer services. Certain Central American banks have established offices in the United States to offer remittance transfers at more competitive rates than remittance companies. Bancomex of Mexico charges \$10; Bancomer and BanSol of El Salvador charge \$9, in all three cases for any transfer below \$1,500. Credit unions, however, are the most competitive of all:

Table 6. Transfer Charges for Remittances, April 2001

Amount sent	Mean	Minimum	Maximum	Standard Deviation
\$150	\$17.415	\$10.50	\$29	4.00
\$200	\$15.850	\$6.50	\$35	5.83
\$250	\$18.170	\$6.50	\$35	7.20
\$300	\$19.160	\$6.50	\$35	7.50

Source: Data compiled by the author.

through their international remittance network (IRNet), credit unions charge from \$6.50 to \$10.00 for amounts up to \$1,500.

Speculation with exchange rates is an embedded cost that allows intermediaries to increase their profit rate. Remittance transfer companies often use exchange rates different from the official mark and speculate in ways that penalize recipients. The speculation rate between official and company rates can range between 1 percent and 4 percent of the value exchanged. Companies and partner agencies in the recipient country share the profit from the speculation, which can range from \$2.25 to \$10.50 on a transaction of \$250. Yet this earning is also lower than what it was three years ago; in January 1999, the profit rate for transfers in Mexico via Western Union was 11.16 percent (table 8). Moreover, dollarization has helped to eliminate exchange rate speculation.

### **Government Practices to Capture and Leverage Remittances**

The continuing emigration of Latin Americans has historically been caused by ill-fated government policies addressing poverty in the home countries, as well as by continued social inequality and repression in many Central American and Caribbean nations. As remittances become a more stable source of income for Latin America, its governments are finding ways to attract more of these funds. What seems an opportunistic approach to attract money from those same people who left because of a state's inability to care for its citizens is also an attempt to bring needed capital into societies plagued by oligopolies and capital restrictions. These very early efforts are occurring in just a few countries.

Governments see the prospect of attracting both migrant association donations and migrant capital investment. To do this, governments may make policies that not only address cost reduction in remittance transfers but also create an attractive economic environment for various kinds of migrant funds. Regulations that restrict foreign currency transfers and foreign exchange, for example, tend to increase the costs or

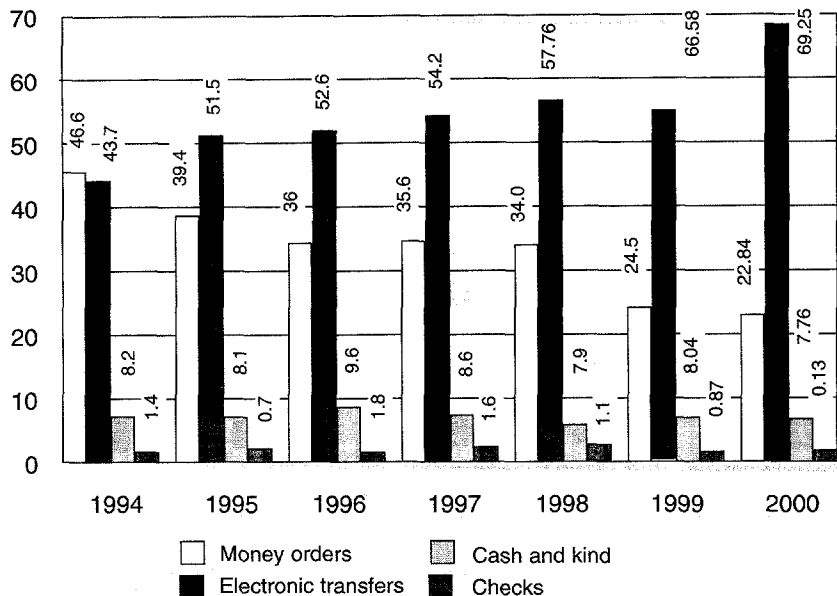
Table 7. Average Transfer Costs of Sending \$250 to 11 Latin American Countries, 2001

	Mean	Minimum	Maximum	Standard Deviation	Number of Companies <sup>a</sup>	Human Development Index	Volume Sent <sup>b</sup>
Mexico	\$13.55	\$9	\$35	7.50	13	0.784	\$5,909,632,000
El Salvador	\$14.29	\$6.50	\$25	6.92	8	0.696	\$1,373,800,000
Colombia	\$15.17	\$10	\$25	5.49	11	0.764	\$500,000,000
Guatemala	\$16.90	\$6.50	\$25	7.61	5	0.619	\$500,000,000
Ecuador	\$19.50	\$15	\$25	5.07	3	0.722	\$840,000,000
Jamaica	\$20.00	\$15	\$25	7.07	3	0.735	\$659,200,000
Dominican Republic	\$21.98	\$20	\$25	2.36	7	0.729	\$1,518,700,000
Honduras	\$22.00	\$12	\$29	8.89	3	0.653	\$400,000,000
Nicaragua	\$24.67	\$20	\$29	4.51	3	0.631	\$600,000,000
Haiti	\$25.00	\$24	\$26	1.00	4	0.440	—
Cuba	\$28.00	\$25	\$30	2.65	5	0.610	\$800,000,000

<sup>a</sup>Number of companies surveyed per receiving country.

<sup>b</sup>Central Banks and World Bank data. These are conservative estimates and should be taken as a baseline. Source: Data compiled by the author; table 1; UNDP 2001.

Figure 5. Mexico: Distribution of Remittance Transfers (percent)



Source: Banco de México 2001.

decrease the flow of remittances. Table 9 summarizes some of the other possible strategies.

So far, these approaches have not been used outside Mexico. None of the countries in Latin America has specific regulations that control the flow of remittances. In postwar Guatemala and El Salvador, the central banks maintain a position of no restrictions or control, letting the remittance market regulate itself. This position is consistent with the governments' policy of enforcing privatization and liberalization of their economies.

Both these central banks closely follow the flow of remittances and measure it by monitoring the reports of banks and foreign currency exchange houses. Their methods are estimated to have a margin of error of between 5 and 10 percent (Guerra R. 2001; García 2001). In addition to monitoring unilateral transfers and counting them as family remittances, customs offices have regulations about emigrants bringing goods into the country (often remittances in kind). Both El Salvador and Guatemala have regulations that are liberal on import duties: Salvadorans are allowed to bring up to \$1,500 worth of merchandise, and Guatemalans are permitted to bring \$2,000 into the country without duty (Guerra R. 2001; García 2001).

A few countries have attempted to require that a certain percentage of the earnings of their workers who go abroad be deposited into

Table 8. Exchange Rates Offered to Customers Wiring Money to Selected Countries

	Western Union <sup>a</sup>	Market Rate	Percent Difference	Percent Profit	Profit from \$250
Colombia	\$2,220	\$2,317.50	95.793	4.207	\$10.5178
Cuba	\$1.00	\$1.00	0.000	0.000	0.00
Dominican Republic	\$16.30	\$16.20	100.617	-0.617	-\$1.54321
Ecuador	\$1.00	\$1.00	0.000	0.000	0.00
El Salvador	\$8.75	\$8.75	0.000	0.000	0.00
Guatemala	\$7.69	\$7.76	99.098	0.902	\$2.255155
Honduras	\$15.34	\$15.36	99.870	0.130	\$0.325521
Jamaica	\$44.29	\$45.45	97.448	2.552	\$6.380638
Mexico	\$8.81	\$9.19	95.865	4.135	\$10.33732
Mexico 1999 <sup>b</sup>	\$9.00	\$10.13	88.840	11.160	\$27.90

Sources: <sup>a</sup>Western Union rates reported on April 25, 2001. <sup>b</sup>Orozco 2000. Other companies refused to report their rates or could not provide them.

a national fund. Little support exists for that arrangement, however. Former U.S. Ambassador William Stixrud has suggested that Guatemalan emigrants put up the equivalent of 10 percent of the value of their remittances for private investment (Velásquez 1999). The ambassador argues for the implementation of such a fund with the assistance of emigrants, the government, and international development organizations.

## Outreach

Sending-country governments can also stimulate remittances by helping emigrant groups to develop formal migrant associations and encouraging their membership to invest in their home countries. The Mexican government has had a formal outreach effort since 1990, established during the government of Carlos Salinas de Gortari and continued under Ernesto Zedillo. The federal programs include the Paisano program and the Program for Mexican Communities Living Abroad (PCMLA). The former attempts to improve the treatment returning migrants receive at the hands of Mexican officials by reducing corruption and abuse. The latter provides a wide range of services to Mexicans residing in the United States, including health, education, and legal advice. It also helps channel remittances toward hometown development projects.

The PCMLA operates through the network of 42 consulates and 23 institutes or Mexican cultural centers in the United States (González Gutiérrez and Schumacher 1998). It cooperates with Mexican clubs and

Table 9. Sending-Country Government Options to Encourage Remittances

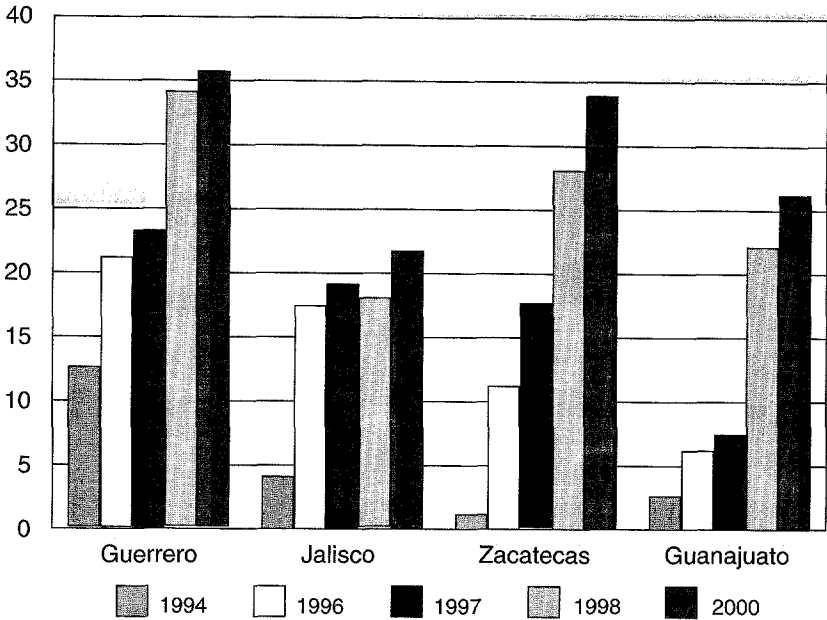
Desired financial action from emigrants	Activity subject to regulation
Money transfers	Foreign currency transfers Exchange rates
Investment, savings	Dollar bank accounts Favorable interest rates
Imports	Permit local entrepreneurs access to emigrants' foreign exchange holdings
Donations	Exempt HTAs from import duties
Banking industry	Curb monopolies

hometown community organizations to deliver its services and to encourage the organizations to raise funds on behalf of their hometowns. Consulates have helped arrange meetings between community leaders and visiting government representatives from Mexico. Many state and local officials from emigrant-sending cities and states meet with and provide services to emigrant groups. With the government of President Vicente Fox, elected in 2000, a new executive-branch office was created to interact more vigorously with expatriate Mexicans and attract their resources for investment and profits.

The Mexican case is also notable for the number of emigrant clubs that send remittances. By late 1998, more than four hundred clubs were operating throughout the United States, although most were located in Los Angeles and Dallas. (This number excludes groups created independently of the PCMLA program). The growth of these clubs has been uneven, depending on the availability of a cohesive population of immigrants from the same Mexican sending areas and on the level of active leadership. For example, Zacatecan or Guanajuato clubs have demonstrated more organizational capacity than other groups.

In some cases, a group is concentrated in one area whereas other groups are spread throughout the country. For example, in 1997 there were 112 Zacatecan clubs, 71 in Los Angeles and nearly 20 in Chicago. Guanajuato clubs, by contrast, were more dispersed: of 40 Guanajuato clubs, 7 were in Chicago, 7 in Dallas, 4 in Los Angeles, 4 in San Jose, California, 3 in Oxnard, and the remaining 15 in 9 different consular areas. These clubs have continued to proliferate in the past five years. The clubs in Chicago illustrate this growth (see figure 6).

Figure 6. Growth of Mexican Clubs in Chicago, 1994–2000



Sources: Consulado de México en Chicago 1998; Instituto Mexicano de Cultura, Chicago; for 2000: internal document.

Although the Mexican experience has proven so far to be the most successful and organized among Latino organizations, Salvadoran, Dominican, and Guatemalan groups are being similarly encouraged. In the Salvadoran case, the embassy has learned from the Mexican experience, working mainly to maintain friendly relations, as well as conducting outreach efforts with Salvadoran communities through its community affairs counselor. In the Guatemalan case, although its expatriates reportedly seem little aware of the importance of their remittances, the embassy has initiated steps to reach out to Guatemalan communities in various parts of the United States and is considering investment strategies (Stixrud 1999).

### Financial Incentives

All the foregoing approaches focus on capturing a share of remittances and directing them to some sort of development project or investment scheme. Another strategy consists of attracting remittance monies from low-return transactions or informal transfers into the formal banking sector.

One vehicle for doing this is government and private sector remittance bonds. Mexican banks several years ago began offering remittance bonds backed by money sent from migrant laborers in the United States (Druckerman 1998). Basically, banks that receive large amounts of wire transfers from workers and companies abroad issue the bonds. The remittance monies may also be part of banks' check-cashing or money order business. The money is deposited in an offshore account before converting the remittance monies into local currency and paying the recipients. It has been estimated that the annual flow of remittances is such that over the last five years it has been ten times as great as the amount of annual bond payments.

Sending governments can attract emigrants' monies through joint ventures with the emigrants' U.S. communities, matching remittances with government funding, increasing the pool of money available for various projects, and motivating hometown associations to leverage their donations. Another approach is overactively to solicit and encourage investment by emigrants in their hometowns, essentially diverting remittances to serve the purpose of aiding hometown development.

Still another scheme involves hometown and community matching funds. The Mexican state of Zacatecas has one of the oldest matching-fund programs; it has been emulated by the state governments of Jalisco and Oaxaca. Government teams up with hometown associations and other actors to spur economic development. While the formation of Zacatecan clubs in Southern California began in 1976, by 1992 an umbrella federation of clubs was formed, at which point the state government began a formal tripartite financing project (Márquez 1998). For every dollar donated by the emigrants, the federal government and the state government each contribute an additional dollar. The projects have prioritized development that benefits the entire community, such as providing potable water, building schools and recreational facilities, paving streets, and building churches, plazas, and parks. The program has changed in recent years to a four-in-one arrangement to which the municipal government also contributes. In the future, the state hopes to build microenterprises and other economically productive projects.

Jalisco launched an economic development fund in 1998 to attract hometown associations. The HTAs' donations, which are remittance-like unilateral transfers, are matched by the government on various development projects, including factories and infrastructure. But the hometown associations are not the only players. The financial service firm Raza Express contributes 75 cents to the fund for each \$300 sent to Mexico through that company. In 1999, the company has contributed more than \$50,000 to the fund, and the government of Jalisco has put in \$500,000, creating some 15,000 jobs (Orozco 2000a). This strategy

combines government funds, emigrant remittances, and funds from other actors participating in the remittances market in a hybrid form of investment and community support representing actors pursuing both similar and different agendas.

Related to the matching funds are hometown community investment plans. The state of Guanajuato works with *Casas de Guanajuato* associations, created partly through outreach efforts, to manage and finance small garment factories in their hometowns. The state has set up an office for the *Comunidades Guanajuatenses en El Extranjero* with a full-time liaison to more than 30 *Casas de Guanajuato* throughout the United States (Zamora 1999).

Under Guanajuato's My Community program, the investment is professionally managed. An outside consultant is asked to put together a business plan that the state office presents to each U.S. hometown association. A minimum of \$60,000 is required from individual members of the community (Ferriss and Moreno 1998). The state puts up three to four months' wages during the startup period and makes low-cost loans available.

Various incentives attract U.S. immigrants to participate in these programs. State support is clearly one, and the business plan presented by the consulting team makes it look profitable. The investment is in the investors' hometown, and they may even give preferred hiring to family members. Emigrants working on these projects believe that "by providing jobs for those with fewer skills, fewer people will be forced to emigrate to the United States in search of work" (Ferriss and Moreno 1998, 1). So far, six garment factories (structured as maquiladoras) have been started with about a year's track record, and three more are in the startup phase. There are plans to have up to 60 maquiladoras up and running in the next several years.

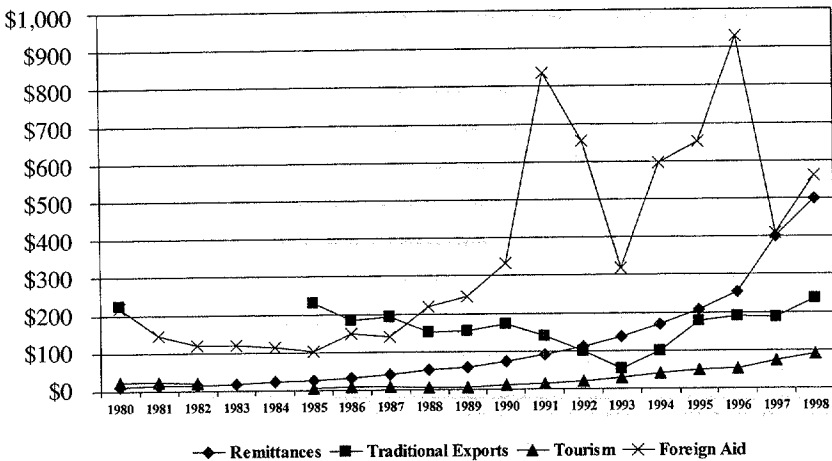
## FUTURE PATTERNS

The links established through remittances suggest that radical changes are remaking the look of national economies. El Salvador's decision in 2000 to make the U.S. dollar its legal tender, for example, was closely related to the nation's heavy reliance on foreign exchange coming from remittances (Inforpress 2000).

The multiplying effects of remittances thus extend far beyond the support of a household; they can alleviate an ailing economy, as in the case of Nicaragua, where they constitute 25 percent of the national income (see figure 2). Indeed, remittances are rescuing this country's economy during a time of decline in agricultural exports, the major sector of its foreign trade.

The linkages are also having an impact in terms of the receipts gained from tourism. New tourism outlets are created when nationals

Figure 7. Nicaragua: Foreign Sources of Income, 1980–1998 (in US\$ millions)



Source: World Bank 2000.

return to their home country as visitors. Nicaragua again provides an example of this trend. Although its tourist industry is relatively undeveloped, it has received substantial tourism income, predominantly from Nicaraguans living abroad (see figure 7). This figure also shows that Nicaragua’s traditional exports have struggled to regain the levels of the early 1980s, while foreign aid also has fluctuated, much more sharply. The illustration of Nicaragua is especially relevant, for this country struggles to survive on traditional exports and foreign aid but has neglected to recognize the influence of labor migration that emerged from the crisis of the 1980s, when thousands of Nicaraguans fled the country, escaping the war. The remittances from these emigrants, as figure 7 shows, have climbed steadily.

In conclusion, a key question to ask is whether remittances are likely to decline or continue their upward trend. It is possible that their flow may continue in a steady stream because family linkages have been built and a network of social capital has been established, facilitating and further motivating the migration process. Other variables, however, may do more to reveal whether this pattern will change. They include the socioeconomic condition of the senders, the political and economic conditions in the home country, the level of market competition, the continued flow of migrants, and a steady sending population.

## NOTE

1. *Intermestic* refers to actors or practices that are both domestic and international. According to Domínguez (1998), the term was first applied by Baylass Manning (1977).

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