

The Remittance Hole

Unprecedented levels of global migration have provided a lifeline to poor communities in the developing world. Should remittances trail off there will be serious developmental consequences.

Marcelo M. Suárez-Orozco

For most of the last three decades, developing countries around the world have reaped a huge indirect benefit from the expanding global economy simply by exporting labor. According to official figures, migrant workers poured an estimated \$283 billion back into their homelands in the form of remittances to relatives in 2008 alone, though the unofficial number is probably closer to \$350 billion. That's more than three times the combined aid provided last year by industrial countries to the developing world.¹

But the global economic crisis may now seriously jeopardize those windfall earnings.

There is already evidence that undocumented labor flows across borders have begun to slow, particularly to the United States. The Pew Hispanic Center suggests that "inflows of unauthorized immigrants" have fallen from an average of 800,000 a year between 2000 and 2004 to 500,000 annually between 2005 to 2008. These flows continue to be on a downward trend.

Studies suggest that the slipping economy, rather than government attempts to control borders, is the

main cause. There is a generally reliable correlation between recessions and a drop in the migration of undocumented labor. This is because such workers represent an agile labor market, responding directly to the availability of new jobs or a decline in employment opportunities. In contrast, the flow of legal permanent residents has been relatively steady this decade.² Authorized or legal immigrants tend to be less affected by business cycles, since family reunification is their primary motivation for moving.³

No one can estimate the precise fall-off in remittances. But any change is certain to have a major impact. In the last three decades, the number of transnational migrants has nearly doubled from an estimated 105 million to approximately 200 million today.⁴ In this decade, global remittances have become one of the world's great poverty alleviation mechanisms.

There are now about a dozen countries where between 20 percent and 25 percent of GDP is repatriated by a relatively small percentage of immigrants working overseas. According to World Bank estimates for 2008, India, China and Mexico continue to be the top three recipients of remittances among developing countries. In 2008, the top 10 recipients list also includes the Philippines, Poland, Nigeria, Romania, Egypt, Bangladesh, and Pakistan. In contrast, the top recipients in terms of the share of remittances as a percentage of GDP included many smaller economies such as Tajikistan (45 percent), Moldova (38 percent), Tonga (35 percent), Lesotho (29 percent), and Honduras (25 percent).⁵

The implications of these revenue streams on economic growth, social cohesion and future development

in the originating countries are significant. In each of these countries, remittances supply a critical source of income. More than just fueling consumerism (as is sometimes speculated) it helps supplement incomes that support health care, education and nutrition.

A World Transformed

The recent decades of unprecedented global migration reshaped every region of the world—whether as sending, transit or receiving regions—and often all three at once. While Europe, Asia and North America, became the main migration destinations, the whole world was on the move. By 2008, Latin America and the Caribbean had more than 30 million emigrants worldwide, and in 2006, received over \$67 billion in remittances.⁶

Looking back we can think of this phenomenon as globalization's "Migration Nation" and its citizens as *homo sapiens mobilis*. Only China and India have larger numbers of people than the new Migration Nation. Wherever we look, *homo sapiens mobilis* is busy remaking the landscape: Frankfurt today is about 30 percent immigrant; Rotterdam is about 45 percent immigrant. Spain, once the paradigmatic country of emigration—to the New World and to northwestern



Europe—seemingly overnight became one of the top 10 destinations for migrants in the world. (See Figure 1.) The foreign-stock population of the U.S. (migrants and their U.S.-born children) is over 70 million people.

The impact on the societies where these immigrants have settled is profound. Children of immigrants have become the fastest-growing sector of the child population in countries such as Canada, the United States and a number of European countries—presenting in the process new challenges to domestic policymakers relating to the social cohesion of their societies.⁷

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How did we get to a world where half a billion human beings are marked by migration? What is the end—or purpose—of immigration? Why do people migrate?

Love and work (and war) drive global migration. In low-and middle-income countries mass migration has been tied to the incorporation of production, distribution and consumption of good and services into global capitalism. The entry of 1.5 billion workers in China, India and the Russian Federation is an example of how economy and society aligned to fuel mass migration. It ignited the largest migratory chain in recorded history.

Nevertheless, if the current economic crisis intensifies over the next couple of years, the overall pattern of growth in mass migration we witnessed over the last two generations will likely decelerate.

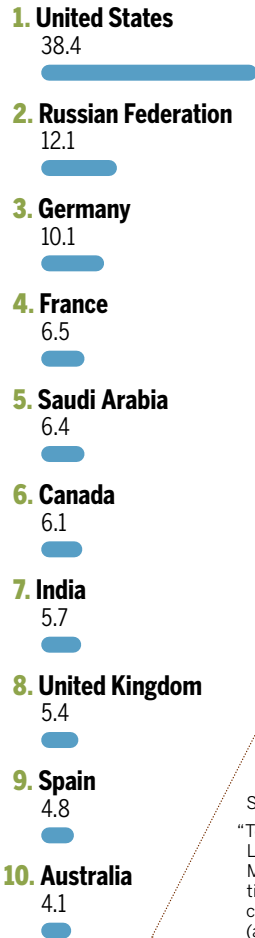
While some undocumented immigrants may be returning home,⁸ there is no systematic evidence to date that they represent a majority of the total immigrant community, particularly in the context of flows between the U.S. and Latin America.⁹ (Unfortunately there are no reliable numbers of this trend; in 1957, the U.S. government stopped counting the numbers of returned migrants.¹⁰)

The reasons why have to do with the nature of family and its relation to immigration. The unit of migration is the family, not the individual.¹¹ Beyond work, love is at the heart of migration’s global cycle of human and financial resource transfers. Family reunification and migration for the sake of the family unit—defined differently in various regions of the world—constitute the ethical framework for human migration.

An ethic of family nurturing, reciprocity and caregiving is what animates mass migration today and will do so in the future. Approximately two-thirds of all legal immigrants to the U.S. over the last decade have been family reunification immigrants. Once families settle and begin to grow, returning “home” becomes less likely over time.

This leaves open, though, the uncertain effects of the present global crisis on future remittances. The World Bank reports that after years of skyrocketing growth, remittance flows to low-income countries “began to slow down significantly in the

Top Ten Countries with the Largest Number of International Migrants (in thousands)



Top Ten
52%
of world total
190,633,564

Source:
“Top Ten Countries with the Largest Number of International Migrants,” 2005, MPI, <www.migrationinformation.org/data_hub/charts/6.1.shtml> (accessed March 23, 2009)

third quarter of 2008.” In 2009, the bank added, the decline is likely to be sharper—although it also pointed out that the value of remittances is “unlikely” to fall as much as private flows and official aid to developing countries.¹²

Flows to Latin America are decelerating at faster rates than flows in other corridors. The most recent data on officially recorded remittances reveal that during the third quarter of 2008, “the regional pattern of remittance flows appears to be shifting. Flows from the U.S. to Latin America and the Caribbean and those from Western Europe to Europe and Cen-

tral Asia are slowing. In contrast, flows from the Gulf Cooperation Council countries to Asia and South Asia have grown rapidly.¹³

Mexico seems to be paying one of the highest penalties so far. According to the World Bank, “[o]fficial remittances declined by 3.7 percent between January and September 2008 compared to the same period the previous year. Later in the year, however, recorded remittances fell sharply, prompting the Mexican authorities to forecast an 8 percent decline in remittance flows in 2008.”¹⁴ The same report concluded that officially recorded remittances were likely to decline by a total of 4.4 percent in 2008. These data tell only part of the story since there is no way to systematically track fluctuations in unrecorded remittances. Yet because remittances are a family affair, the fact remains that even in the context of an ever-escalating crisis deeply affecting the fortune and wages of Mexican immigrants in the U.S., migrants will still send money home, taking extra jobs or drawing on savings if necessary. Again, love and family connections will continue to drive remittances to relatives south of the border. According to the World Bank, despite a decrease in the incomes of Mexican migrant households in 2007, remittance flows increased that same year.¹⁵

But the crisis is still unfolding. The decline in the latter part of 2008 will likely continue. Because the bulk of remittances go to current-use expenses (food, clothing, school fees, textbooks, uniforms, and the like) the impact of even relatively minor declines can be severe—especially as the flow of private capital continues to dry up.

In a recent visit to the Mixtec Sierra region—a source of massive migration from Mexico to New York, a researcher and I met the widowed mother of a young Mexican migrant in Queens, New York. Every month, the migrant sent \$200 to \$250 (in good months, \$300) to his mother and five siblings left behind in Puebla. These “*migradolares*” supplement the small amount of income the family earns from a small home-based business making rope for clothes lines and from selling corn in the local market. As the *peso* continues to weaken, the extra cash from New York ensures that the family can make their *migradolares* go even further to purchase vegetables, meat and cheese.

RECESSION AND REMITTANCES

by Diana Rodriguez

Rising unemployment and the (not-unrelated) crackdown on undocumented workers worldwide have put developing countries and their emigrants in a bind. Especially hard hit will be countries like Mexico, where remittances from the U.S. not only contribute a large chunk of dollar reserves, but act as an informal safety net for the poor.

In January, a report

by Mexico’s Central Bank disclosed that total remittances fell 3.6 percent in 2008 to \$25 billion. The decline marked the first annual drop on record since the bank began keeping track of the figures in 1995. The reduction was sharpest in the Federal District (19.6 percent), and the states of Tabasco (13.9 percent) and Hidalgo (13.5 percent). Michoacán, which received the nation’s largest total of remittances (\$4.45 billion), was one of the few able to sustain a modest growth rate of 2.7 percent.

Mexican immigrants who remain in the U.S. face the double burden of continuing to provide for

The three oldest sisters said the additional income paid for school fees, books and uniforms. Without the remittances, their mother confided, the girls would most likely be headed toward early marriages and children.

In the short term the global economic crisis is likely to dampen further migration from developing countries. There is preliminary evidence suggesting that poor economic conditions are motivating Mexicans to remain at home. Mexico City’s National Statistics, Geography and Information Institute recently reported that, from August 2007 to August 2008, the illegal and legal outflow of migrants had declined by more than 50 percent, from 455,000 to 204,000.¹⁶

Here lies the critical risk of a decline of remittances. While true that migrants will scrimp, save and take second jobs to continue sending money home, the economic crisis will inevitably diminish these



Guillermo Ortiz, president of the Bank of Mexico. The bank reported a 3.6 percent decline in remittances in 2008.

relatives at home while struggling to survive economically themselves. Ricardo Juarez, volunteer coordinator of *Mexicanos Sin Fronteras* (MSF), a network of community-based organizations located in

the tri-state area of Virginia, Washington DC and Maryland, says that the U.S. economic downturn has hit hard. "On an average day I get numerous phone calls from immigrants calling the MSF

emergency number asking for \$10 to \$20, so that they can afford the bare essentials," says Juarez, who was part of the 1990s wave of Mexican workers drawn to the area by a construction boom. "They are no longer able to find jobs in construction, or employers have withheld wages."

If immigrants are barely surviving, sending remittances becomes a challenge. Although Juarez continues to work full time in construction, the tightening economy has forced him to be prudent. He now sends home to his mother less than half what he sent a few years ago.

The belt-tightening


hasn't, so far, dented the optimism of Mexican immigrants working in the U.S., Juarez observes. Although fewer job-seekers are arriving, "very few people are returning to Mexico," he says, adding: "Most are choosing to stay even though they may go days or weeks without a job."

In January, Juarez was among a handful of immigrant leaders invited to a meeting with President Barack Obama's transition team. Obama's election, reports Juarez, has given many immigrants a reason to stay. "They are hopeful that better times are on the horizon," he says.

flows. Through decreased migration (documented and undocumented)—though probably only temporary—and less disposable income, fewer dollars will be flowing over the next few years to poor communities south of the border. What this may mean is an increase in school drop-out rates, as families are no longer able to afford keeping their children in school. Reducing education even by just one or two years will have serious long-term implications for development.

The factors that fuel mass migration, ranging from efficient transnational labor recruiting networks to low wages and lack of work at home, will continue to make it an attractive alternative for millions of people. At the same time, there are powerful demographic forces reshaping labor market needs in many, if not most, high-income countries. United Nations Population Division data suggest that transnational migration will remain important for the future labor

needs of high-income countries. But in the short term the effects on incomes of sending communities and long-term development could be profound.

We will continue to see Mexicans in the United States, Brazilians in Japan, Bolivians in Argentina, and Peruvians in Chile. But that doesn't reduce the challenge that policymakers now face—particularly in the originating countries. The short-term shock brought by the decline in remittances will almost certainly compound the effects of the economic crisis across the Americas. Governments as well as international financial institutions will need to act quickly to plug the holes. The future health and education of millions of people back home who have depended on these sources of income, as well as the political stability of their communities, is at stake. 

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