HAVICE, Elizabeth
Human Rights Research Report

Free trade of labor? The relationship among migration, development and free trade in rural Mexico

Introduction:

This year, more than $17US Billion will flow into Mexico in the form of remittances- money sent home by migrants working in the United States. This sum makes individual money transfers Mexico's largest source of foreign exchange, above oil exports, tourism and more than ten times as great as US foreign aid to Mexico[1]. The increasing stream of money[2] that flows from the workers in the United States to, in many cases, the sparsely lined pockets of their family members in poor communities back home, continues to have enormous impacts on the economic condition of receiving communities and individuals, and by association, the Mexican economy as a whole. The undeniable impact that remittances have on community and national economies alike has hurled remittances, and by association, migrants, into the realm of international development .

The buzz over remittances has compelled academics, government bureaus and development agencies to carry through a series of studies to better understand the characteristics of migration and remittances. Many such studies seek to validate the role that they play as a source of development finance[3]. Citing evidence that 40% of the adult, foreign born population of Latinos in the United States send money home on a regular basis and that 18% of the population in Mexico receives remittances[4]; that in many Mexican states remittances outnumber federal social spending by as much as 14%[5], that remittances are an important source for investments in microenterprises[6]; that they can influence production and expenditures by altering the prices of local goods; that they loosen capital and risk constraints on investment[7], remittances have been undeniably linked to economic development processes.

While such studies draw both illicit and more subtle links between remittances and development, few have placed the debate within the context of North America's political economy. Given the vast flow of remittances across the border that reinforce the economic links between Mexico and the United States, migration must be seen as a key analytical variable that stands not alone, but rather as an integral part of the formal system of economic integration between the two nations. Migration is not only borne out

---

[1] Victor and Andrea Becerril Cardoso, 'Creceran 20% remesas durante este ano: Banco de Mexico,' in *La Jornada* (Mexico, D.F.: 2004).
[2] Remittances have increased from less than $2 billion in 1970 to their current levels see J.E. Taylor, 'The New Economics of Labor Migration and the Role of Remittances in the Migration Process', *International Migration* vol. 37 (1999).
[3] Dilip Ratha, 'Worker's Remittances: An important and stable source of external development finance,' in *World Bank Global Development Finance Report* (Washington, D.C.: The World Bank, 2003).
[4] Roberto Suro, 'Remittance Senders and Receivers: Tracking the Transnational Channels,' (Washington, D.C.: The Pew Hispanic Center and The Mulitlateral Investment Fund, 2003).
[5] G. A. Zarate-Hoyos, 'Consumption and remittances in migrant households: Toward a productive use of remittances', *Contemporary Economic Policy* vol. 22, no. 4 (2004).
[6] Christopher and Rene Zenteno Woodruff, 'Remittances and Microenterprises in Mexico,' in *UCSD, Graduate School of International Relations and Pacific Studies Working Paper* (San Diego: University of San Diego, 2001).
[7] J.E. Taylor, C. Zabin, K. Eckhoff, 'Migration and rural development in El Salvador: a micro economywide perspective', *North American Journal of Economics and Finance* vol. 10 (1999).

of economic challenges and opportunities that emerge with economic integration, it has become one of the factors that maintains its proliferation.

By reviewing formal development projects and programs that stage remittances as an explicit source of direct and indirect financing for development in rural Mexico, this paper critically assesses the motivations for adopting migration as a development strategy as well as the implications of relying on migration as a fix for failing local economies. By situating this analysis in the region's political and economic framework, I will address both the sustainability and implications of relying on migration and remittances as a national development strategy as well as the characteristics of migration that launch individual migrants into economic liberalization strategies in Mexico and the United States.

In order to formulate this assessment, I draw on literature as well as field research that I conducted in the summer of 2004 on three different programs that tap into remittance dollars to achieve development goals:

1) **Matching funds program** sponsored by the Mexican government known as *Tres por Uno* (Three for One) that provides matches government funds to remittance dollars allocated for community level infrastructure projects
2) **Financial service programs** organized by international aid institutions and the private sector that extend banking services and resources to rural communities
3) **Productive projects** supported by individual investment and international aid that develop new business ventures in rural areas.

By critically analyzing these three development pathways I address the sustainability of relying on outward migration as a strategy to fuel local economic growth. I argue that utilizing remittances to achieve economic development goals furthers rural Mexico's dependency on outward migration in two main ways: first, it makes local communities dependent on money generated from afar without providing adequate mechanisms for an economically independent future. Second, by extending market principles and market institutions to rural areas such projects create dependence on access to global capital for survival and extend the reaches and capacity of free trade policy that has traditionally marginalized and excluded rural areas from the gains of economic integration[8]. Thus, migration, which feeds into integration, becomes even more essential for survival as explicit free trade policies and projects continue to overlook rural development. While remittances may offer the finances to *fund* development, the dollars cannot be fully counted as gains in the global economy or in individual communities without subtracting the substantial social costs associated with the migration process that provides them.

Finally, I argue that there is a fundamental failing in calling upon the uses of remittances, a form of global capital, as a sufficient development mechanism. This failing emerges from the divide between broadly defined development goals and the goals of the institutions slated to achieve them. I posit that there is an irreconcilable conflict of interests between achieving development goals and relying on commercial banks, who have economic, not development goals as their bottom line, as the mechanism to achieve them. We see this on a small scale through the example of financial service

[8] Rodolfo García Zamora, 'Crisis agrícola, tratado de libre comercio y migracíon internacional en México,' in *II Congreso Mundial Sobre Comercio Y Desarollo Rural* (Rioja Ala Vesa, Spain: 2002).

providers in this paper, but it is an example that can be extrapolated to embody some of the most central problems with international lending agencies as well.

Remittances: the link between migration, development and economic integration

Remittances are a unique source of development financing. In contrast to official development assistance characterized by large sums of money that follow convoluted pathways from donor agency, to government, to contractors to achieve specified projects or policy objectives[9] and have limited interaction with target development groups, remittances come frequently and in small sums[10]. Rather than maneuvering bureaucratic pathways, they go straight into the pockets of intended recipients giving individuals the autonomy to choose how to use the funds. Furthermore, unlike official development assistance and foreign direct investment that fluctuate with economic conditions[11], remittances have proven consistent and often increase during times of crisis.

Remittances are increasingly seen as a tool that will assist rural communities, noted for their efficient and flexible capacity to provide modern commerce and industry[12], in advancing their economies to higher stages. With appropriate policies and financial support, peasant economies have been noted to evolve from simple to more complex production models to reflect their needs in global economy. Remittances are increasingly acknowledged as the stable financial mechanism that can make such transitions materialize.

Indeed, remittances play a key role in enabling peasant economies to flourish in some cases. In the majority of cases however, remittances are essential for simply keeping peasant economies above water. Either way, recommendations abound as to how to maximize remittances and migration in order to unleash their full benefits; benefits that, if maximized have been estimated to contribute an additional \$150 billion annually in the global market place[13], a sum more than three times global contributions of international aid agencies[14].

As I will demonstrate through the course of the paper, the use of remittances for development purposes invariably draws migrants into the global economy through both simple and sophisticated micro and macro pathways, but it certainly does not do so without costs. So pervasive has migration and remittances become, and so important in Mexico's economy that in January of 2005, the Mexican government published and distributed a comic book style pamphlet offering advice to those who cross the border illegally into the United States each year[15]. The pamphlet offers advice for those who

---

[9] Robert Wood, *From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy* (Berkeley, 1986).
[10] On average, migrants send home between \$300 and \$500 per month, please see Zarate-Hoyos, 'Consumption and remittances in migrant households: Toward a productive use of remittances'.
[11] Joseph Stiglitz, *Globalization and Its Discontents* (New York, 2002).
[12] Y. Hayami, 'The peasant in economic modernization', *American Journal of Agricultural Economics* vol. 78, no. 5 (1996).
[13] L.A. Winters, 'The economic implications of liberalising mode 4 trade.,' in *Joint WTO-World Bank Symposium on the Movement of Natural Persons* (Geneva: 2002).
[14] Daphne Eviatar, 'Spend \$150 billion per year to cure world poverty,' in *New York Times Magazine* (2004).
[15] James C. McKinley Jr., 'A Guide for the Illegal Migrant,' in *The New York Times* (New York: 2005).

have 'made the difficult decision to seek new labor opportunities outside [their] country' and gives advice on how to survive rugged desert terrain and avoid the dangers associated with migration. Such dangers range from harassment, illegal detainment and physical abuse by Mexican and American border patrols agents[16], the sex trade and the murder of women who have been bought and sold into the trade, known as 'femicide'[17], to entrapment and death by suffocation in a sealed train or truck container in attempt to cross the border[18]. Although the Mexican government has created official branches[19] to deal with problems that migrants encounter at the border and has continuously lobbied the US government to relax emigration constraints, few changes have been made, and resources available to migrants are scarce. While the pamphlet described above seeks to assist migrants in making a safe journey across the border, it also explicitly encourages them to go. Government support of migration in spite of the persistent threats that directly threaten migrants' safety taint the possibility of turning to migration as an equitable and sustainable strategy for development.

More subtle, but equally damaging costs are borne as well. Migration, a personal choice to take advantage of the opportunities available in integrated economies, encompasses neo-liberal values of individuality and private earning power. However, seeing migration as an 'opportunity' in the global economy, ignores that migration is often a last resort for survival in failed and devastated rural economies. Further, remittances expand the neoliberal model as they are increasingly used for projects that enhance the free market principles: examples include investment in business that will reach the international market and the expansion of banking services to low income, rural communities that have become target clients because of the remittance money they receive. Such projects have often been ill suited to appropriately meet the needs of the community and fail to foster long term development opportunities.

Finally, remittances enable the proliferation of the free market model. First, they give financial independence to those that have traditionally relied upon government support. This independence enables the government to cut back on national spending, one of the main goals of the Washington Consensus. Further, money transfers from the United States provide the capital for new businesses and projects that hope to find a niche in the global market place. Remittances also expand Mexico's free market model indirectly. In negotiating the pending Central American Free Trade Area (CAFTA) and the Free Trade Area of the Americas (FTAA) the Mexican trade negotiators assume that remittances will continue to support rural Mexico. As a result, the government has proposed to move low wage, low skilled jobs to Central and South America so that Mexico can begin to work on creating value added and technologically advanced domestic economy. While job creation could play an important role in boosting failing rural economies in southern Mexico, remittances enable to government to export such job opportunities to poorer countries, turning a blind eye to development constraints in the rural south of the country. This is precisely what the government plans to do. According to a trade negotiator at Mexico's economic ministry:

---

[16] Joseph Contreras and Scott Johnson, 'The Migration Economy,' in *Newsweek International* (2004).
[17] Rosa Linda Fregoso, *Mexicana encounters: the making of social identities on the borderlands* (Berkeley, 2003).
[18] R. M. Arrieta, 'In these times,' in *Institute for Public Affairs* (2003).
[19] Such branches include the Foreign Ministry and the National Migration Institute.

> As we negotiate the Central American Free Trade Area (CAFTA) and the Free Trade Area of the Americas (FTAA), we see Mexico's role as a producer of value added goods and high tech industries. In order to make the jump to this more sophisticated level of production, we plan to move our low skilled jobs to Central America where their failing economies really need the jobs…

When questioned as to how this strategy is responsible when southern Mexico's rural economy is as poor as that of most Central American countries, my informant confirmed that this was the case, that southern Mexico certainly could use even low skilled job wage jobs as severely as Central America. However,

> We don't plan to invest in this area even with low wage jobs. Remittances are keeping poor rural areas afloat. (Director of Standards Related Measures and Textile Sector, *Secretary of Economy*, Interview #25)

This approach to national development reinforces the marginalization that contributes to the urgency and necessity of migration.

LAYING THE BRICKWORK FOR ECONOMIC DEVELOPMENT AND INVESTMENTS

Out of joint interest on the part of migrants, the Mexican government and private corporations to make remittances more efficient and more strongly linked to local economic development strategies, two main types of programs have emerged that utilize remittance dollars to lay the brick work for future investment in areas of high outward migration: the matching funds program known as *Tres por Uno* (Three for One) and the development of financial institutions that offer banking services to low income and rural areas.

Tres por Uno (Three for One): Matching Funds Program

The *Tres por Uno* program is a government initiative that commits federal, state and regional government bodies each to contribute one dollar (for a total of three dollars) for each dollar that migrants organizations in the United States commit to development projects in their hometowns in Mexico. Since being officially implemented in 2002, the program, managed by Mexico's Department of Social Development (SEDESOL), has grown to operate in 31 states to service "poor communities that require improvement of basic social infrastructure and development of productive projects and that are selected by migrants[20]" in the United States[21]. In 2002, the federal government received US$15

[20] Josefina Eugina Vasquez Mota, 'Reglas de Operación del Programa Iniciativa Ciudadana 3 x 1,' in *Diario Oficial*, ed. Secretería de Desarollo Social (Mexico, D.F.: Secretería de Desarollo Social, 2004).

[21] Groups of migrations in the United States have formed organizations known as Hometown Associations (HTAs). There is a wide and growing literature on the operation of such organizations. Please see for example: Manuel Orzco, 'Hometown Associations and their Present and Future Partnerships: New Development Opportunities?,' (Washington, D.C.: Inter-American Dialogue Report Commissioned by U.S. Agency for International Development, 2003).

million to match with states, municipalities and migrant associations in the United States. During that year, 3x1 projects totaled US$43.5 million, a quarter of which came from the contributions of Mexicans abroad[22]. SEDESOL has limited its financial participation on any given project to no more than 250,000 pesos (about US$25,000).

The goals of the projects are to create infrastructure that will bolster economic growth and provide incentive and resources sufficient to keep individuals invested in the community. Accordingly, new resources and economic growth opportunities should prevent individuals from needing to migrate in the future in search of economic opportunities[23]. Today, 3x1 funds have been allocated mainly towards the provision of social services: one third of the projects deal with public infrastructure including street pavement, street improvement and bridge construction; ten percent of projects focus on electrification; ten percent on economic infrastructure such as installing irrigation systems or wells; and over ten percent on social infrastructure such as parks, gardens and cemeteries[24].

3x1 projects have made a marked difference in recipient communities. In addition to providing much needed infrastructure, collaboration with migrant organizations in the United States has helped to maintain strong transnational familial and community ties. Successful project planning, organization and bureaucratic maneuvering on the part of recipient communities has created a strong sense of pride among those left behind. However, the program has also been largely criticized as an unsustainable subsidy that does little to foster long term economic growth in rural communities[25]. Further, soaring migration rates provide evidence that 3x1 does in fact do little to curb outward migration. In one interview, when asked how the 3x1 program worked in her community, my informant responded by saying:

> “3x1? It’s wonderful! We have running water, we have electricity and roads. Great! But what about neighbors? Still, we have no neighbors. The houses are empty.” (Interview #13, July 16, 2004)

In response to such criticism, and also in the interest of fostering economic growth in rural Mexico, SEDESOL seeks to shift 3x1 funds from investments in social projects to investments in productive projects. Productive projects aim to create new businesses and jobs that can truly jumpstart economic growth at the local level. There are still marked challenges in making this shift, one of which is that the program is organized so that migrants in the United States decided how their money is invested. To date, they have been most interested in creating public services and goods. According to one government informant:

---

[22] Ibid.

[23] Personal Communication Irma Guadalupe Hidalgo-Vega, 'Sedesol Project Coodinator,' (Mexico, D.F.: 2004).

[24] Orzco, 'Hometown Associations and their Present and Future Partnerships: New Development Opportunities?.'

[25] Personal Communication: David Myhre, 'Program Assessor,' (Mexico, D.F.: 2004).; Raul Delgado-Wise and H. Rodríguez, 'The emergence of collective migrants and their role in Mexico's local and regional development', *Canadian Journal of Development Studies* vol. 22 (2001).

> "We are still working out the cooperation between migrants and the government and we are working hard on building trust between the two groups. In this phase the migrants are choosing the projects that they most want fulfilled, but we are hoping in the future to be able to work with them to encourage investment in new businesses and entrepreneurial opportunities that will bring economic growth to the regions." (Sedesol project manager, July 7, 2004)

Of course, if productive projects are the ultimate goal of government investment in areas of high outward migration, the infrastructure offered by the 3x1 program is an essential precursor to successful business ventures. However, the challenges evident in transforming failing rural communities into vibrant local economies are vast and will require significant resources and time to overcome. Further, although the government subsidy is essential to the completion of *Tres por Uno* projects, the initiation of the projects, and the program itself is entirely contingent upon the existence of outward migration. This pattern clearly demonstrates Mexico's reliance on outward migration for rural economic development.

Finance Institutions: Banking Services for the Rural Poor

Provision of financial services[26] is today's dominant paradigm in international development and poverty reduction. Among the first of such programs, a micro-credit scheme, was implemented by the Grameen Bank in Bangladesh and has expanded to development projects worldwide. Microcredit programs offer small loans to world's poor to provide resources for small entrepreneurial activities and entrance into the market economy. Today, such programs have diversified beyond small scale lending to include the provision of an array of financial services. Hardly 'micro', the strategy has become a phenomenon that has been adopted by the World Bank, bilateral aid agencies and the international financial community[27]. Financial service programs have been acclaimed a win-win situation that provides much needed banking services to the formerly excluded rural poor while simultaneously offering a new and lucrative market to finance institutions seeking to grow profits and business opportunities in an increasingly competitive global economy. More critical perspectives argue that such structures have been adopted primarily to facilitate the implementation of financial sector liberalization on a global scale aimed at forcing compliance with the global neoliberal restructuring[28].

---

[26] Much of the literature, as well as policy making bodies refer to financial service providers as microfinance institutions (MFIs). In this paper, I have strayed from this terminology largely because there is nothing 'micro' about MFIs. While some MFIs operate at the rural level, all are tied into the massive system of international finance, and the opportunity earn revenue by participating in international financial markets is the incentive for the provision of the services. Thus, I find the term micro-finance misleading and have avoided using it in this paper.

[27] For more information and analysis, please see: H. Weber, 'The imposition of a global development architecture: the example of microcredit', *Review of International Studies* vol. 28, no. 3 (2002), G. M. Woller and W. Woodworth, 'Microcredit and Third World development policy', *Policy Studies Journal* vol. 29, no. 2 (2001), G. M. Woller and W. Woodworth, 'Microcredit as a grass-roots policy for international development', *Policy Studies Journal* vol. 29, no. 2 (2001), D. R. Snow and T. F. Buss, 'Development and the role of microcredit', *Policy Studies Journal* vol. 29, no. 2 (2001).

[28] H. Weber, 'The 'new economy' and social risk: banking on the poor?' *Review of International Political Economy* vol. 11, no. 2 (2004).

Support or criticism aside, financial service schemes are undeniably embedded into the larger latticework of the global political economy, and they are playing an increasingly important role in international finance and development.

Most recently, the vast sum of remittances crossing international borders has created incentive for the largest and smallest financial service providers to think creatively about how remittances can be incorporated in to the international finance scheme. As a result, remittances are beginning to revolutionize financial service provision as well as the relationship emerging among migration, development and economic integration. Unlike microcredit schemes that utilize social capital as collateral by offering group loans, financial services in Mexico take on a new set of characteristics. Preliminary projects in Mexico provide financial services such as access to money transfers and savings mechanisms, rather than loans. Unlike the rural poor accessing microcredit through mechanisms such as the Grameen Bank because of their lack of alternatives and collateral, Mexico's poor have attracted financial services because of the remittance capital that they possess. Financial service providers are offering a product that helps remittance receivers to access and use their financial resources more efficiently.

Since the capital is already in the hands of poor, the investment on the part of the financial institutions is far less risky than in the case of microcredit institutions. Finance institutions simply link migrants and their family members at home to each other, and to the market economy, by giving them the resources to efficiently access personal capital. A significant improvement from the microcredit model, before accessing loans, financial service clients gain experience managing their own money and working with financial institutions before they access credit. Microcredit participants, on the other hand, are immediately inserted into global capital system at the lending level. Remittances make this more logical chain of events possible. Lending is however the ultimate goal of financial service projects, and access to remittances and savings mechanisms is an important and direct gateway to accessing private capital through loans.

Financial service providers take two major forms in Mexico today: large private banks, and smaller private groups known as rural banks. Both groups offer financial services including access to savings accounts, and in many cases, connections to large banks in the United States that migrants can access to increase the efficiency of sending remittances home. Savings accounts and remittance services alone have been cited for the potential positive impact that they can have on economic development in rural areas as well as in Mexico as whole. Development economics tells us that savings and investment, both of which will be increased by access to financial services, have import positive impacts on economic growth both at the local and national level[29]. Further, in remote rural areas where large numbers of people receive remittances, access to financial services within the community means money once used for transportation to larger commercial centers where remittances could be accessed is freed for more efficient uses. Eliminating the trip to commercial centers saves not only money, but also time that can be spent on economic activities within the community. No longer forced to leave home

[29] Michael Todaro and Stephen Smith, 'Classic theories of development: a comparative analysis', in *Economic Development* (Boston, 2003).

to receive money, community members are more likely to utilize local markets, thus creating a demand for local economic growth[30].

Most important, however, is the impact that banks and financial services have on the price of sending money home. Traditionally, migrants have relied on companies that specialize in money transfers, such as Western Union and Money Gram, that charge upwards of 10% the cost of the transfers of about US$300. Increased competition among money transfer companies, commercial banks and financial service providers has driven the cost of using money transfer businesses down by more than 35%[31]. If migrants are able to use banks and provide remittance recipients in Mexico with debit cards, the total cost of the transfer is reduced to the US$3 fee charged per withdrawal of any size. This reduction represents a significant savings and increases the efficiency of money transfer for remittance recipients[32].

Despite the benefits, cost efficient remittances services offered by the World Council of Credit Union (WOCCU), one of the largest players in the remittance transfer business, is estimated to represent only 15% of the industry[33]. This small market share, along with increasing popularity of the financial services indicates that there is a great deal of room for growth in the industry. The expanding financial service market has caught the eye of major finance institutions including Visa International Inc., which is comprised of thousands of banks that issue credit and debit cards. Visa has recently launched an aggressive campaign to capture a bigger piece of the remittance payments that migrants send to their families in Latin America[34].

Additionally, commercial banks and increasingly, smaller rural banks have the capacity to service and finance loans to eligible candidates. Lending to the rural poor is aim of development officials who see loans as a pathway for local investment, entrepreneurship and growth, as well as lenders who see the capacity to reach a highly profitable market. Mutual means to divergent ends creates an important fissure between that prohibit the goals of both the development and financial communities from being adequately considered and achieved. Is the provision of financial services a project that will create development opportunities in rural areas, or primarily development opportunities for the financial sector? Is a development program carried out by commercial banks capable of prioritizing development goals?

While financial service projects are a key element in the larger picture of development, the ultimate goals of lending institutions of any size is capital growth and accumulation. As a result, financial services providers have identified development opportunities available with remittances, in this context of opportunity for the financial sector[35]. In this framing, remittance services and savings accounts are only the first of a

---

[30] Personal Communication: AMUCCS project coodinator Interview #15, (July 19, 2004).

[31] Manuel Orzco, 'Changes in the Atmosphere? Increase of remittances, price decline and new challenges,' (Washington, D.C.: Inter-American Dialogue Research Series, 2003).

[32] 'Programa Quién es quién en el envoi de dinero de Estados Unidos a México? Origen y evolución,' (Mexico, D.F.: Procuradría Federal del Consumidor Dirreción General de Análisis de Prácticas Comerciales (Profeco), 2004).

[33] Orzco, 'Changes in the Atmosphere? Increase of remittances, price decline and new challenges.'

[34] Joel Millman, Robin Sidel, Carlta Vitzthum, 'Visa Solicits Migrants in Bid for Bigger Slice of Money Transfers,' in *The Wall Street Journal* (2004).

[35] See for example: Inter-American Development Bank/Mulitlateral Investment Fund, 'Sending Money Home: Remittance to Latin America and the Caribbean,' in *Sending Money Home: The first state by state*

series of products that will lure the underrepresented, but highly lucrative Hispanic consumers into financial markets.

Financial institutions are not reaching the remittance market alone, they are receiving market access and advice from international development agencies as well. An annotated bibliography recently prepared for the United States Agency for International Development (USAID) by a staff member outlines the emerging body of literature surrounding the development value of remittances, target markets and policy initiatives reflecting opportunities for financial service providers. Documenting first and foremost the significance of remittances to finance institutions, the bibliography's introductory paragraph describes the document as one that:

> …compiles articles and publications on the topic of remittances that hold noteworthy implications for microfinance institutions interested in accessing the cast market of remittances and the opportunities it can present for expanding and deepening their client base, diversifying revenues, introducing remittance clients to other financial products and services, and ultimately strengthening the economies of the communities they serve.

With this framing from a development institution, we see that financial service providers' involvement in remittance transfers is primarily concerned with the implications for the industry rather than the implications for development of remittance senders and receivers. Further, while service providers stand to reap large economic benefits by providing financial services, there is little to no discussion of the distributive gains associated with such growth. Thus, while financial services have the capacity to create a large economic multiplier effect, gains will largely be felt by the finance community rather than local socio economies. As a result, positive development impacts emerging as merely a positive externality rather than a primary goal.

Financial service providers rapid response to remittances emphasizes the viability and sustainability of the strategy particularly in the context of economic integration and global capital. Within this system financial services become an essential tool that must be available in order for rural areas to achieve economic development gains. Opportunities for critique lie beyond simply criticizing financial service providers and large banking corporations for seeking to access a new market. Rather, critiques must be embedded in the larger scheme of neo-classical economics and the ever persistent Washington Consensus that mandate private resources, property rights and access to capital as essential tools to achieve economic gains. If migrants and their family members are to achieve economic stability and even growth within this system then they must utilize the tools of the system to do so. In this way, remittances and by association, migration, reinforce the dominant norm that mandates growth through economic integration.

The Road Ahead: Productive Projects

---

analysis of remittances from the United States to Latin America (2004). And the conference proceedings on migrant remittances co-sponsored by the World Bank and the UK's Department for International Development (DFID) in October, 2003 entitled 'Development Impact, Opportunities for the Financial Sector and Future Prospects'.

The future objective of *Tres por Uno* and financial service projects is to apply migrant resources towards long term investments that will build local economies. *Tres por Uno* seeks to apply remittances dollars and the matching funds provided by the government towards investments in small community run and operated business ventures. Financial service providers seek to enhance their market share and earning capacity by eventually offering individual and group loans to community entrepreneurs seeking to start new businesses. Although most community level studies indicate that remittances dollars are by and large used for consumption purposes[36], there is some evidence that remittance dollars are increasingly being applied to productive projects[37]. Recent studies indicate that remittance receiving households devote money to investment and savings at a higher level than non-remittance receiving households[38].

Informal and formal productive projects supported by remittances dollars are currently underway in Mexico. Informal projects are comprised of individuals or groups of entrepreneurs who either lived in the United States and saved in order to start a business in Mexico, or those residing in Mexico pursuing projects that are supported by their family members sending remittances from the United States. More formal projects supported by teams of international aid agencies and private investors offer loans to start projects that will be partially subsidized by remittances dollars. During the summer of 2004 I met with participants involved in informal and formal productive projects, both of which have incurred various levels of success as well as significant challenges as they go about the business of building economies in regions of high outward migration.

In Zacatecas, a Mexican state currently experiences a population decline due to the high levels of outward migration per capita, a group of school teachers and laborers gone entrepreneur have formed a network of individuals involved in entrepreneurial ventures. The group is known as The Foundation for the Complete Development in Southern Zacatecas (*La Fundación para Desarollo Integral al Sur de Zacatecas*). Primarily, the organization seeks to offer advice to local investors on how to successfully start small businesses and information on how they can effectively connect to the market to sell their product. Individual businesses the organization has consulted with range from simple companies with small financial investment such as small shirt factories with a handful of sewing machines and workers, to large, highly capital intensive projects such as water purification systems for selling bottled water and distilleries for making *mezcal*, an alcohol popular throughout Mexico. In addition, the network offers individuals the opportunity to pool resources and invest communally. In one such effort, several individuals have purchased a plot of land on which they intend to cultivate *agave*, the plant used to make *tequila*, *mezcal* and a variety of other products.

Perhaps the most widely known *formal* productive project supported at least in part by remittances dollars is one based out of Oaxaca known as *Mujeres Envasadoras de*

---

[36] For a list of such studies, please see: J. Durand and D. S. Massey, 'Mexican Migration to the United-States - a Critical-Review', *Latin American Research Review* vol. 27, no. 2 (1992).

[37] Please see for example: L Goldring, 'Development and Migration: A comparative analysis of two Mexican Migrant Circuits,' in *Working Paper no. 37* (Washington, D.C.: Commission for the Study of International Migration and Cooperative Economic Development, 1990)., P. and J. Rodriguez Trigueros, 'Migracion y vida familiar en Michoacan', in Gustavo Lopez Zamora (ed.), *Migracion en el Occidente de Mexico* (1988).

[38] Zarate-Hoyos, 'Consumption and remittances in migrant households: Toward a productive use of remittances'. *Contemporary Economic Policy* vol. 22, no. 4 (2004).

Nopal (Nopal Canning Women's Organization). MENA, a group of women who cultivate and can nopal (an edible succulent) and make chocolate and mole to be sold to the 'nostalgic market' of migrants living in the United States, has emerged with the help of generous migrants in the United States, the Multilateral Investment Fund (MIF), a grant based branch of the Inter-American Development Bank (IDB), and an organization called Fundación para la Productividad en el Campo (Foundation for Rural Productivity). Both MIF and *La Fundación* assist MENA with a training program that offers advice on everything from how to create a reduced calorie version of mole, to technical assistance and risk assessment for their production plants, to how business contracts and legal agreements work. In addition to providing such technical assistance, *La Fundación* has also helped MENA to connect with a series of investors and contractors that have provided loans to finance the infrastructure that make the business a reality. While IDB has provided some grants for the project, participation of the other organizations has not come for free. As a result, even with financial support from migrants in the United States, the women of MENA have incurred a significant amount of debt. Despite the major investment in time and resources made by MENA, in 2003, they sold only 750 jars of nopal in the United States, gaining only 7,670 pesos; about US$760[39].

Productive projects supported by remittances dollars have the difficult task of building economies in locations where lack of economic opportunities have forced flight in search of a more sustainable livelihood. In most cases, such projects are only possible because of the large inflow of remittances coming from the United States. The participants in the projects described above have begun the difficult work of building an economy from the bottom up in depressed regions by keeping remittance dollars in their communities and creating job opportunities for those that can invest time and/or money into the project. However, their task has significant challenges.

First, many communities lack the basic infrastructure, both structural and economic, that will connect them to markets that will allow sustain their business. It is in this area, that the previously mentioned *Tres por Uno* and financial service programs can play in important role in future economic development. Many potential entrepreneurs can only dream of having access to simple services such as those offered by rural banks[40]. In places where infrastructure is in place, new entrepreneurs are challenged by their lack of experience in the business world; limited vision of the investment options for both local and international market limit their success. In many cases, there is a lack of business leadership and training that could help entrepreneurs by creating an economic community. This same problems prohibit potential investors from knowing what kinds of products will succeed in the marketplace. As a result, large capital investment are wasted when there is no market for a completed product. Additionally, there is often fragmentation of available resources because of individualistic behavior by investors. In projects that have emerged out of communal investments, such as MENA, there can be problems with ownership and profit sharing. Lack of confidence in macroeconomic stability often prevents larger investment in such projects[41].

---

[39] Personal communication: Regional Representative, *Fundación para la Productividad en al Campo* Interview #19.
[40] Personal communication: Founder, *Fundación para Desarollo Integral al Sur de Zacatecas* Interview # 14.
[41] Rodolfo García Zamora, *Migración, Remesas y Desarollo* (Zacatecas, 2003).

Both The Foundation for Complete Development in Southern Zacatecas and MENA try to overcome these large challenges, both with limited success. Few of the members of The Foundation for Complete Development in Southern Zacatecas are earning profits on their investments, and they have had significant trouble gaining political and economic support from investors and government bodies[42]. According to my informants, despite the continuous flow of remittances into Zacatecas, the prevalence of *Tres por Uno* projects and the new outcroppings of productive projects in the area, there is still little incentive to stay in the economically depressed region. In fact, despite local investments in business and a recent purchase of land in Zacatecas, one of the founders of The Foundation for Complete Development in Southern Zacatecas is currently grappling over a new business opportunity he was offered to manage a new chain of restaurants in the United States, proving that even those most committed to local development are limited by resources and know-how.

MENA too provides an excellent example of the challenges of starting new businesses in depressed economies. MENA is currently billed as the most successful of all of the productive projects of its type, however, the project has also been widely criticized because of the non-replicable nature of its business model. The women of MENA are highly dependent on the consultation and advice that they receive from *La Fundación*. In weekly meetings, they learn how to read contracts, understand legal restrictions and guidelines and ameliorate and manage conflicts and relations with migrants supporting the project. The intensity of consultation and technical assistance the group receives is costly, making it impossible to replicate the model of creating products for the international market at a larger scale. Despite the advice and support, the project is yet to become a self-sustaining enterprise. After receiving advice from *Fundación* consultants, MENA makes the ultimate business decisions while they incur huge amounts of debt to open processing plants and pay for product distribution. Recently, migrants in the United States became worried at the amount of debt the project was collecting for its operations. When the migrants offered to raise funds to pay off some of the loans, the Foundation encouraged the women to accept the offer. In a display of the autonomy,

> … they refused. They want ownership of the project and feared that more investment from the migrants would take away from their ability to make decisions about the future of the enterprise. We're glad that they have so much pride in their project, but the smart thing to do would have been to accept the money. Ultimately though, this is their business and it was their decision. There was nothing we could do. (Regional Representative, *Fundación para la Productividad en al Campo* Interview #19)

The cases of The Foundation for Complete Development in Southern Zacatecas and MENA are only two examples of the success and shortcoming prevalent in the proliferation of productive projects as a development strategy in areas of high outward migration. First, as with other projects, the success of productive projects is highly dependent upon the continued flow of remittances to fund the projects. Again, regional development is dependent on outward migration. Further, successful investment requires

---

[42] Personal communication: Founder, *Fundación para Desarollo Integral al Sur de Zacatecas* Interview # 14

both a level of infrastructure and entrepreneurial knowledge or experience that will enable investors to connect with markets. Largely, in depressed areas of high outward migration, these kinds of infrastructure and network opportunities are absent; one of the major reasons migration has emerged and a survival strategy. Additionally, the international scale of investment that most productive projects pursue present a series of problems. Linking failing local economies to large international markets requires intensive capital and training investments, much of which has either failed to materialize or resulted in high debts and unfinished products that lack a sustainable international market. Jumping from local production to international distribution is a difficult task that many small entrepreneurs are not prepared to manage. Finally, productive projects once again tie migration and remittances into the lattice work of economic integration. Utilizing remittance dollars to support productive projects provides funds for a development strategy based on export of goods, one of the central principles of the Washington Consensus. In the context of productive projects, migration and remittances must be seen as a part of the structure that reinforces economic integration between Mexico and the United States.

SUMMARY & CONCLUSIONS

Migration from rural Mexico to the United States is borne from shortcomings in local socio-economies as well as from the political, economic and social marginalization to which much of the rural poor is subject. This marginalization has forced individuals to change their survival strategies and take the desperate measure of migrating illegally, utilizing the global economy to provide for their families. The difficult decision to migrate to the United States in search of economic opportunities has become common place, tightly weaving migration into the engines of economic growth and liberalization. Utilizing remittances for development purposes augments migration and concomitantly, economic integration between Mexico and the United States.

At this juncture, when migration is hurtled not only into the realm of development, but also of economic integration and international political economy, it is essential that we assess not only the gains in dollar amounts, but the distributive nature of such gains. Is it migrants, who continue their international flight in order to bring resources to their vacant communities that are the main beneficiaries of development projects supported by remittances? Or private banks that earn credits on remittance transactions? Or the Mexican government that, with high levels of migration, will be absolved of the responsibility for remedying the rural development failures?

Utilizing remittances as a solution to Mexico’s rural development failings is a strategy that perpetuates migration-related problems and furthers rural regions’ dependence on foreign exchange and the international economy. First, migration and remittances are currently the most significant structural link that enables the rural poor to access both government and private services, however, as demonstrated above, strategies to tie remittances to development objects do not always reflect development interests. Rather, they have been shown to reflect the interests of government and private companies. While in some cases, remittances have created incentives to stay home and invest in productive projects and local economic ventures, in many cases, the unsustainable nature of many matching funds programs and productive investments act as incentive for community members to migrate in search better opportunities. Finally, by bringing market principles, including consumption, production, privatization and economic principles, directly to rural areas, remittances, and development projects that seek to utilize and augment remittances, undeniably link rural communities to the market economy. While this connections does offer the opportunity to make development gains in rural areas, as currently formulated, remittance based development projects are unsustainable, do not reflect the needs of the rural community and instead benefit the Mexican government and most influential players in the global economy. Utilizing remittances to enhance rural development requires a more comprehensive approach to poverty alleviation that considers the causes of migration and the most effective ways to curb it. Current strategies that seek to profit from remittances create little incentive to reduce migration in favor of creating vibrant rural economies.