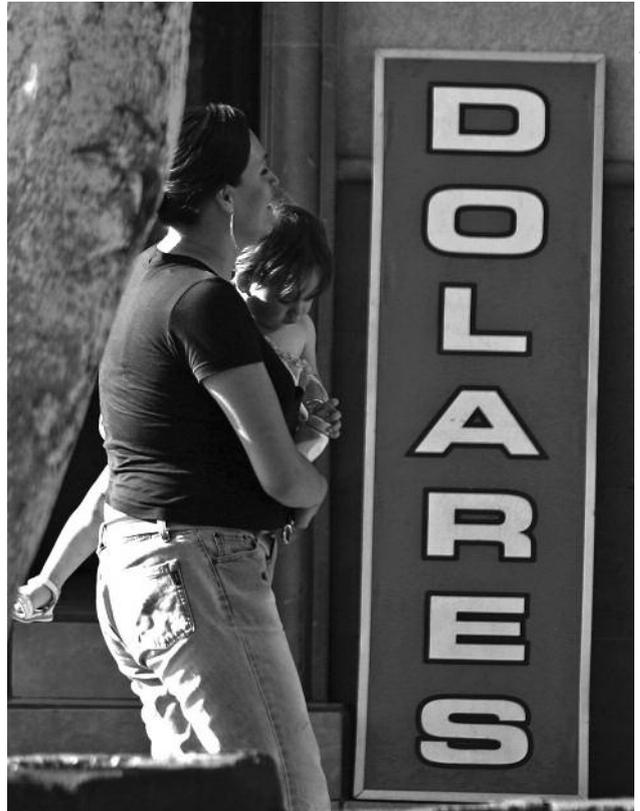


# Remittances in Mexico

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Henry Romero/Reuters

Remittances sent by Mexican migrants residing in the United States to their relatives in Mexico (family remittances) came to U.S.\$20.0349 billion in 2005 according to provisional figures from the Bank of Mexico.<sup>1</sup> In that same year, remittances surpassed foreign direct investment (FDI) and were equivalent to 71 percent of the value of the export of crude oil, 128 percent of the surplus in the trade balance of oil products, 25 percent of wages paid in the formal sector of the economy and 2.6 percent of the gross domestic product (GDP). This

underlines how important remittances are to the country.<sup>2</sup>

The U.S.\$20 billion figure represents a 20.6 percent increase over 2004, and a 374 percent increase over 1996 (see table 1). This rapid growth is linked to several factors. In the first place, the Bank of Mexico admits that part of the increase is due to better accounting of the flows since 2001. Secondly, Mexican migration to the United States has continued to grow. Based on Mexican and U.S. sources, Rodolfo Corona estimates a net migratory flow of between 277,000 and 315,000 Mexican migrants a year between 1990 and 1996.<sup>3</sup> Based on the 2000 Mexican Population and Housing Census I have estimated the figure at 263,021 emigrants

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a year.<sup>4</sup> In the third place, the costs of sending remittances have dropped given greater competition among intermediaries, an increase in electronic transfers and decided support from some state governments for the attempt to reduce the cost of sending money.<sup>5</sup> This drop in costs has meant that a greater number of transactions have been incorporated into the formal market that previously were carried out through informal channels.<sup>6</sup>

MEXICO IN THE LATIN AMERICAN AND WORLD CONTEXTS

In 2004, Mexico was the world's third destination for remittances, surpassed only by India and China (see graph 1). India, the country that receives the largest amount, was sent U.S.\$21.7 billion, followed by China with U.S.\$21.3 billion. Although this might seem like something that pertains only to developing nations, the fact is that among the top receiver nations are France, which comes right after Mexico, Spain and Portugal.

In Latin America, Mexico received five times more remittances than those sent to Brazil in 2004 (U.S.\$3.6 billion) or Colombia (U.S.\$3.2 billion) (see graph 1).

However, when compared to the gross domestic product, remittances are more important in smaller countries, as Graph 1 shows. For example, in countries like Tonga, Moldavia or Lesotho, they make up one-fourth of GDP. In Latin America, in 2004, Haiti headed up the list of remittances/GDP, with 24.8 percent, followed by El Salvador (16.2 percent), Honduras (15.5 percent), the Dominican Republic (13.2 percent) and Nicaragua (11.7 percent).

TABLE 1  
FAMILY REMITTANCES IN MEXICO

	YEARLY TOTAL (BILLIONS OF DOLLARS)	PERCENTAGE CHANGE	INDEX	AVERAGE REMITTANCE (DOLLARS)
1996	4.22367	—	100.0	319.8
1997	4.86485	15.2	115.2	316.3
1998	5.62684	15.7	133.2	290.1
1999	5.90956	5.0	139.9	282.5
2000	6.57274	11.2	155.6	365.0
2001	8.89526	35.3	210.6	320.5
2002	9.81445	10.3	232.4	327.5
2003	13.39621	36.5	317.2	319.8
2004	16.61284	24.0	393.3	326.0
2005	20.03490	20.6	474.3	340.5

Source: Created by the author using data published at [www.banxico.org.mx](http://www.banxico.org.mx).

In Mexico, remittances constitute 2.6 percent of GDP.

The costs of sending remittances have dropped given greater competition among intermediaries, an increase in electronic transfers and decided support from some state governments for the attempt to reduce the cost of sending money.

HOW THEY ARE SENT

From 1996 to 2005, the way remittances are sent to Mexico has changed substantially. In 1996, only 50 percent of the total were sent by electronic transfer and about 40 percent came via money order; by 2005, money orders were practically non-existent (less than 10 percent), while electronic transfers accounted for almost all the money sent to Mexico (see graph 2).

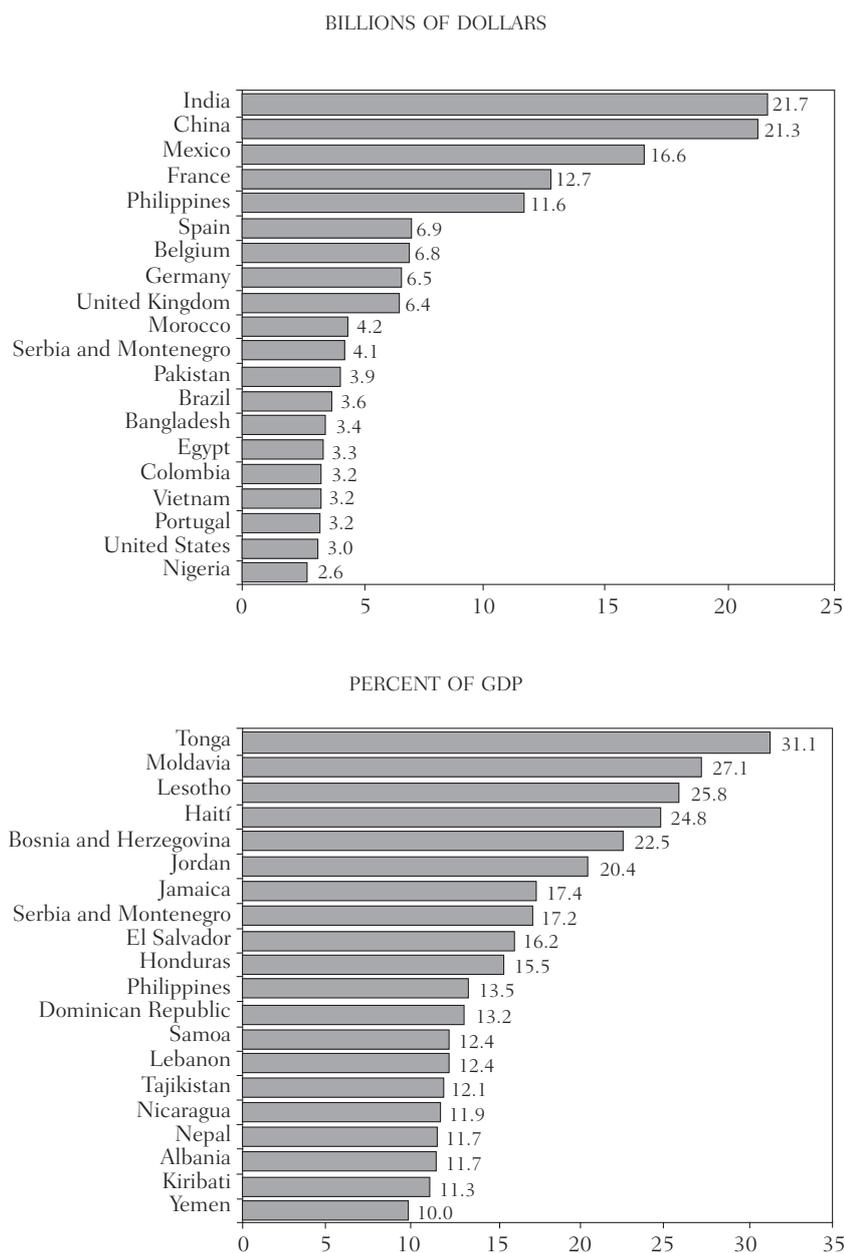
On the other hand, despite the considerable increase in volume, there has

not been a substantial variation in the average amount sent between 1995 and 2005: the figure remains at between U.S.\$320 and U.S.\$350 (see table 1). Therefore, the increased total is not due to an increase in the amount sent by each migrant, but to the number of migrants sending monies, linked to the fact that Mexican migration to the United States continues to grow.

REGIONAL DESTINATIONS

Michoacán is the state that receives the greatest volume of remittances from the United States. In 2005, the amount reached U.S.\$2.595 billion, 13 percent of the total received in the country as a whole.<sup>7</sup> Other western states follow: Guanajuato, with U.S.\$1.715 billion or 8.6 percent of the national total, and Jalisco, with U.S.\$1.693 billion, or 8.5 percent. These three states are part of the region that for more than 100 years has traditionally sent Mexicans to the United States, and they concentrate one-third of all the remittances received by Mexico (see graph 3). In addition,

GRAPH 1  
COUNTRIES THAT RECEIVED THE HIGHEST REMITTANCES IN 2004



**Source:** World Bank (2006) based on International Monetary Fund figures and World Bank estimates. In the case of Mexico, the information was published by the Bank of Mexico in 2006.

they have also contributed a large part of the total migratory flow from Mexico to the United States, approximately 30 percent in the 1990s.<sup>8</sup>

A second tier of remittance reception includes the State of Mexico and

Mexico City's Federal District. These two, together with the three other states, accounted for 46 percent of the country's total. The State of Mexico and the Federal District's volume of remittances is noteworthy, however, because they

have only recently become major sources of international migration. Their importance must be understood in the framework of increased migration to urban areas; interesting literature is available on this point.<sup>9</sup>

The states that receive the smallest amounts of remittances are, in descending order, Baja California Sur, Campeche, Quintana Roo and Tabasco. Those that receive none at all are located on the Gulf of Mexico, with the exception of Veracruz, and in northern Mexico.

In relative terms, the ratio of remittances to the GDP for each state puts Michoacán once again at the top, with 15.6 percent. It is followed at a great distance by Zacatecas (8.6 percent of GDP), Oaxaca (8.3 percent), Hidalgo (7.2 percent) and Guerrero (7.2 percent) (see graph 3). In general, this ratio is higher in states with a weak productive base and where large parts of the population are employed in the primary sector.

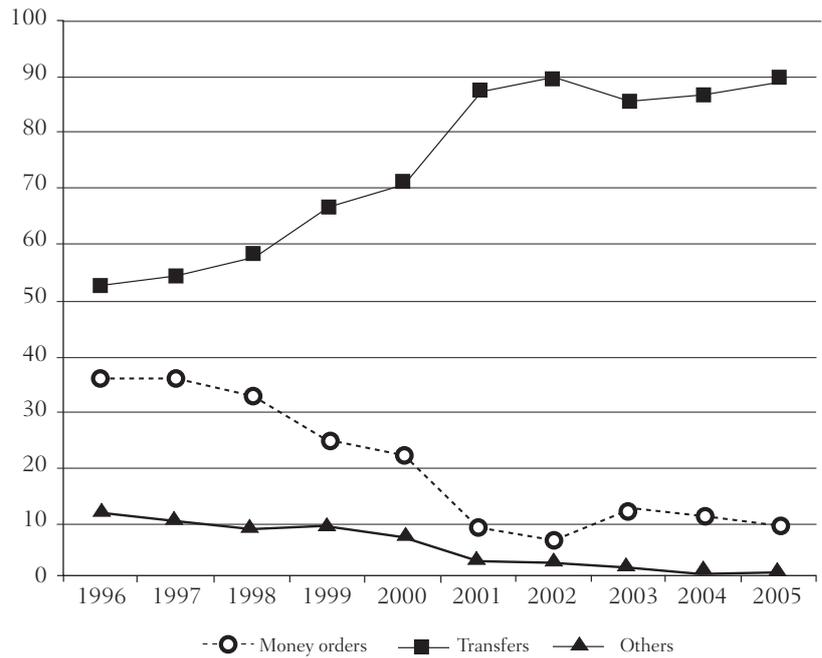
#### REMITTANCES AND HOUSEHOLDS

Based on the information obtained from the National Survey of Household Income and Spending for 1998, 2000 and 2002, the Chamber of Deputies Research and Analysis Service calculated that the 1,171,989 house holds received remittances in 1998; 1,252,493 in 200; and 1,401,986 in 2002.<sup>10</sup> The percentage of households that received remittances nationwide went from 5.3 percent in 1998 to 5.69 percent in 2002.

Based on National Survey of Household Income and Spending figures, Rodolfo Tuirán identified certain traits of the homes that received remittances: a) absence of a male head of household

(an average of one in every five households); b) a greater presence of women and older adults; and c) greater dependence.<sup>11</sup> Many of these households (about 40 percent) are highly vulnerable to any sudden interruption of the remittances since they are dependent on them as their only source of income.<sup>12</sup> Similarly, based on the 2000 Population and Housing Census, Fernando Lozano estimated that in households receiving remittances, they make up 36 percent of all income; in rural areas, this percentage jumps to 43.6 percent, while in urban areas it drops to 30.3 percent.<sup>13</sup> Another interesting piece of data this researcher contributes is that 44.8 percent of remittances sent to Mexico go to the households with the country's lowest incomes, specifically, the tenth lowest decile.

GRAPH 2  
REMITTANCES SENT TO MEXICO BY MEANS EMPLOYED (%)



Source: Created by the author using data published at [www.banxico.org.mx](http://www.banxico.org.mx).

REMITTANCES AND  
LOCAL DEVELOPMENT

A large part of the literature about the impact of remittances on migrant communities in Mexico has concluded that their ability to stimulate the development of receiving communities through investment is limited. Case studies show that more than investing in production, the great majority of this money has been used for consumption.<sup>14</sup>

However, since they focus exclusively on the relatively small percentage of remittances destined for investment, these studies have ignored the multiplying effects of this injection of cash into consumption, into household income on a micro-economic level and at the aggregate level of the entire Mexican economy.<sup>15</sup> In that sense, based on an accounting matrix, Irma Adelman and J. Edward Taylor estimated

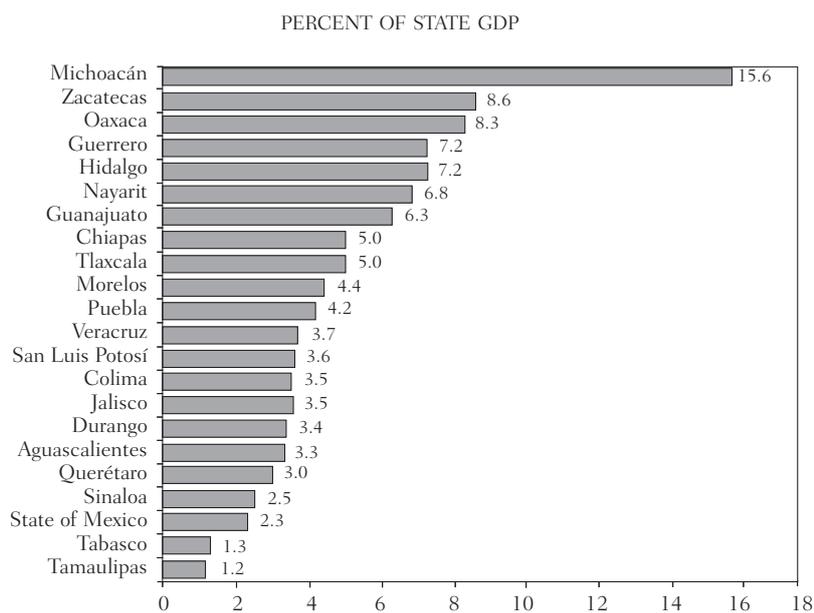
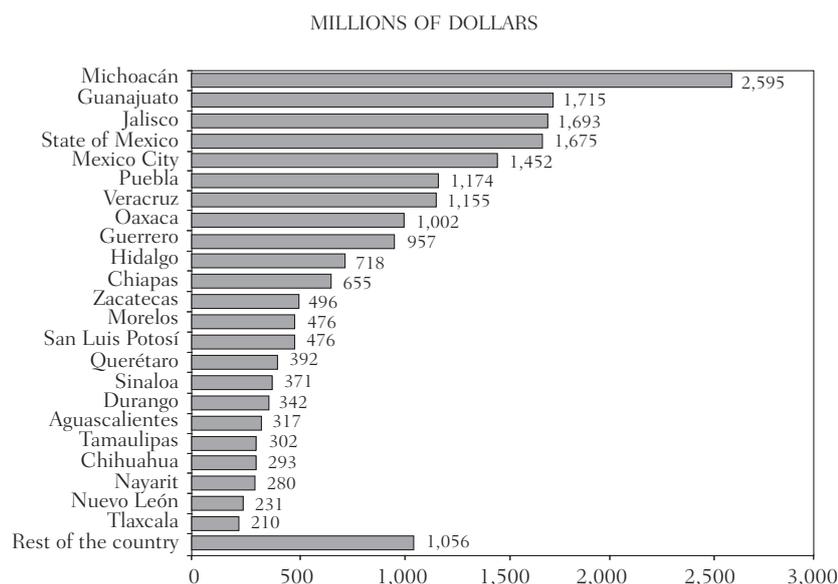
It is probable that remittances have a greater multiplying effect in cities and metropolitan areas than in rural areas.

that each dollar that enters Mexico produces a U.S.\$2.90 increase in Mexico's GDP and a U.S.\$3.20 increase in production.<sup>16</sup> The Bank of Mexico shares this opinion, underlining the positive effect in income and household welfare through the stimulation of consumption (3 percent of the country's private consumption stems from remittances) and greater investment in edu-

cation and sanitation. The same researchers estimate that 20 percent of micro-business capital in urban areas comes from what migrants send.<sup>17</sup>

However, the multiplying potential of remittances has also been questioned by several researchers. For example, Jesús Arroyo and Isabel Corvera say that this potential depends partly on the communities' economic base; that is, on the territory's economic capability to obtain investment and make it productive.<sup>18</sup> For this reason it is more probable that remittances have a greater multiplying effect in cities and metropolitan areas than in rural areas. Along those same lines, some authors have emphasized the dependency of some Mexican communities on remittances, to the point of considering them an "addiction" or a "dangerous dependency."<sup>19</sup>

GRAPH 3  
FAMILY REMITTANCES BY STATE (2005)



Source: Bank of Mexico (2006).

#### COLLECTIVE REMITTANCES

Collective remittances are sent by groups of migrants, normally through clubs or organizations. They are used in a variety of ways, depending on the lo-

cality, the club and the state and municipal governments. A large part of these funds have been used to improve infrastructure in the community of origin (for example, paving or lighting public streets or building hospitals and

schools), although their use for festivities, processions or cultural events organized around community saints' day fiestas is also important.<sup>20</sup> The investment of these collective remittances in production has been limited. For example, in Zacatecas, in the framework of the 3-for-1 Program,<sup>21</sup> only 7.1 percent of the 868 projects carried out between 1993 and 2002 (whose cost came to 464 million pesos and benefited 200 localities) were productive.<sup>22</sup>

#### CONCLUSIONS

Summarizing this article, we can conclude that:

- In 2005, remittances surpassed U.S.\$20 billion, which puts Mexico in third place worldwide, after India and China.
- Total remittances have grown steadily. From 1996 to 2005, there has been a 374 percent increase linked to several different factors. Undoubtedly, the main one is that Mexican migration to the United States continues to grow despite restrictive U.S. control policies. On the other hand, average remittances remained stable from 1996 to 2005.
- Most remittances are sent by electronic transfer and the use of money orders has dropped noticeably.
- Three states in western Mexico receive 30 percent of all the money sent from the United States. They are also the places of origin of most migration to the United States. Mexico City's Federal District and the State of Mexico, for their part, absorb about 20 percent of total remittances in a context in which urban residents are joining the ranks of international

migration (it is noteworthy, however, that these remittances' ratio to Federal District GDP is only a low 0.8 percent).

- Remittances constitute 36 percent of household income in those homes that receive them. The poorest households

(the lowest income decile) concentrate almost 50 percent of all remittances sent to Mexico.

- Effects on development, understood as the use of family and collective remittances for investment in production, have been limited. The money

is used basically for household consumption. The multiplying effects of injecting this money into consumption is a matter for debate among specialists, although it is clear that remittances help improve household and community-of-origin well-being. **MM**

## NOTES

- <sup>1</sup> Family remittances are sent individually, as opposed to collective or community remittances, collected and sent through migrant organizations in the United States. In this article, I will concentrate on the former, although at the end, I will refer briefly to the latter.
- <sup>2</sup> Banco de México, *Informe anual 2005* (Mexico City: Banco de México, 2006).
- <sup>3</sup> Rodolfo Corona, "Mediciones de la migración de mexicanos a Estados Unidos," Brígida García, comp., *Población y sociedad al inicio del siglo XXI* (Mexico City: El Colegio de México, 2002), pp. 217-240.
- <sup>4</sup> Cristóbal Mendoza, "¿Nuevos patrones migratorios México-Estados Unidos? Características del flujo migratorio de una región tradicional (Michoacán) y una emergente (Veracruz)," Agustín Escobar, comp., *Memorias del Primer Congreso Nacional de Migración Dinámicas Tradicionales y Emergentes de la Emigración Mexicana* (Buenos Aires: Antropofagia/CIESAS-Occidente, at press). This figure, based on a retrospective question applied to households, does not include information about those who completely pulled up roots and migrated to the United States from 1995 to 2000 leaving no one behind.
- <sup>5</sup> Inter-American Development Bank and Multilateral Investment Fund, *Sending Money Home: Remittances as a Development Tool in Latin America and the Caribbean* (Washington, D.C.: Inter-American Development Bank, 2005).
- <sup>6</sup> Banco de México, *Informe anual 2006* (Mexico City: Banco de México, 2006).
- <sup>7</sup> Ibid.
- <sup>8</sup> Cristóbal Mendoza, op. cit.
- <sup>9</sup> For example, Fernando Lozano, "Migrantes de las ciudades. Nuevos modelos de la migración mexicana a Estados Unidos," Brígida García, comp., *Población y sociedad al inicio del siglo XXI* (Mexico City: El Colegio de México, 2002), pp. 241-259.
- <sup>10</sup> Servicio de Investigación y Análisis de la Cámara de Diputados, "Impactos y usos de las remesas a nivel municipal y en los hogares (Mexico City: Cámara de Diputados, n.d.)."
- <sup>11</sup> Rodolfo Tuirán, "Dinámica reciente de la migración México-Estados Unidos," *Mercado de Valores* no. 8, 2001, pp. 1-11.
- <sup>12</sup> Ibid.
- <sup>13</sup> Fernando Lozano, *Hogares receptores de remesas en México: límites y posibilidades para el desarrollo local y regional*, CMD Working Paper 05-02n (Princeton: The Center for Migration and Development/Princeton University, 2005).
- <sup>14</sup> See for example the work of Ina R. Dinerman, *Migrants and Stay-at-Homes: A Comparative Study of the Rural Migration from Michoacán, Mexico*, Monographs in U.S. Mexican Studies 5 (La Jolla: University of California at San Diego, 1982); Gustavo López, *La casa dividida: un estudio de caso sobre migración a Estados Unidos en un pueblo michoacano* (Zamora, Michoacán: El Colegio de Michoacán, 1986); Douglas S. Massey and Emilio Parrado, "Migradollars: The remittances and savings of Mexican migrants to the United States," *Population Research and Policy Review* 13, no. 1, 1994, pp. 3-30; Jesús Arroyo and Salvador Berumen, "Potencialidad productiva de las remesas en áreas de alta migración a Estados Unidos," Jesús Arroyo, Alejandro Canales and Patricia Noemí Vargas, comps., *El Norte de todos: migración y trabajo en tiempos de globalización* (Guadalajara, Mexico: Universidad de Guadalajara/UCLA Program on Mexico, PROFMEX/Juan Pablo Editor, 2002), pp. 143-170; and Alejandro Canales and Israel Montiel, "Remesas e inversión productiva en comunidades de alta migración a Estados Unidos: El caso de Teocaltiche, Jalisco," *Migraciones Internacionales* 2, no. 3, 2004, pp. 142-172.
- <sup>15</sup> Jorge Durand, Emilio A. Parrado and Douglas S. Massey, "Migradollars and development: A reconsideration of the Mexican case," *International Migration Review* 30, no. 2, 1996, pp. 423-444.
- <sup>16</sup> Irma Adelman and J. Edgard Taylor, "Is structural adjustment with a human face possible? The case of Mexico," *Journal of Development Studies* 26, 1992, pp. 387-407.
- <sup>17</sup> Banco de México, *Las remesas familiares en México* (Mexico City: Banco de México, 2005).
- <sup>18</sup> Jesús Arroyo and Isabel Corvera, "Actividad económica, migración a Estados Unidos y remesas en el Occidente de México," *Migraciones internacionales* 2, no. 1, 2003, pp. 36-58.
- <sup>19</sup> James Stuart and Michael Kearney, *Causes and Effects of Agricultural Labor Migration from the Mixteca of Oaxaca to California*, working paper in U.S.-Mexican Studies 28 (La Jolla, California: University of California at San Diego, 1981).
- <sup>20</sup> See, for example, Jorge A. Andrade, "Migración, prácticas transnacionales y cambio político local. Un estudio comparativo entre Tonatico y Tejupilco, Estado de México" (master's thesis, Instituto de Investigaciones Dr. José María Luis Mora, 2005).
- <sup>21</sup> Zacatecas has been the most active state in using specific programs to gather collective remittances. Concretely, in 1992, the state government implemented the 2-for-1 Program, later turned into the 3-for-1 Program, which consist basically of the municipal and state governments matching collective remittances peso for peso for investment.
- <sup>22</sup> Guillaume Lanly and Volker Hamann, "Solidaridades transfronterizas y la emergencia de una sociedad civil transnacional: la participación de dos clubes de migrantes en el desarrollo local del Occidente de México," Guillaume Lanly and M. Basilia Valenzuela, comps., *Clubes de migrantes oriundos mexicanos en los Estados Unidos: la política transnacional de la nueva sociedad civil migrante* (Guadalajara, Mexico: Universidad de Guadalajara/CUCEA, 2004), pp. 127-174.

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