

Enhancing Cross-Border Linkages Between U.S. Hispanic Communities and Latin America: The Untapped Potential for Western Hemisphere Economic Prosperity

Dr. Raul Hinojosa-Ojeda
North American Integration and Development Center
UCLA

This paper examines current and potential patterns of interaction and integration between U.S. Hispanics and the economies of Latin America. First, we will consider the significance of the U.S. Hispanic community in the context of the Western Hemisphere. By one measure, the U.S. Hispanic community is the largest Latin American economy in the world. It is our contention that U.S. Hispanics are more inter-connected with Latin America than other segments of the U.S. economy by virtue of migration, remittances, telecommunications, travel, trade, and investments, particularly via small businesses.

Second, we will review the dynamics and effects of integration between U.S. Hispanics and Latin America. This integration has generated significant income and employment gains in the Hispanic community. Yet it has also resulted in continued dislocation and inequality. We will review both the positive and negative effects of NAFTA, including the participation of U.S. small business in increased trade, as well as job losses, community dislocation, migration, and remittances.

In the third section we will review the potential gains from enhanced economic interaction between U.S. Hispanics and the economies of the Western Hemisphere. Such a development would depend on greater financing of transnational Hispanic small businesses for enhanced trade and investment, in addition to increased (legal) immigration from Latin America and the leveraging of the \$25 billion in Hispanic remittances to foster savings and investment. This dual focus would yield: (1) decentralized micro banking, internet connectivity, energy generation, and other small-business-based productive projects in immigrant-sending regions, and (2) the empowerment of social capital organizations within transnational migrant communities.

A policy approach focused on Hispanic small business, remittance leveraging, and legalized flows of migrant labor could be the most significant growth component of the proposed Free Trade Area of the Americas.

I. Relative Dimensions and Inter-Connections of the U.S. Hispanic Community and Latin America

Worldwide there is a growing interest in the importance of migrant communities for advancing and widening the benefits of global economic integration. This is due to the large and still growing migration and remittance flows, as well as the growing

economic weight of these communities in sending and receiving countries and their crucial potential role in further accelerating cross-border economic integration. It is estimated that in 2002 there are at least 170 million foreign-born immigrants in countries around the world (Table 1). Global remittances by immigrant workers are conservatively estimated at \$100 billion by the IMF. The NAID Center estimates that diaspora communities worldwide have generated \$2.2 trillion, constituting the third-largest economy in the world, outranked only by the U.S. and Japan. (Hinojosa, NAID Center, 2002b).

The economic power and importance of these communities are expected to grow considerably. In fact, the current migration numbers are actually very small in relation to the total world population, representing a smaller percentage than were migrating around the world during the peak of the last major wave of globalization at the beginning of the 20th century. It is estimated that the current era of migration could expand rapidly in the next decades, particularly given the growing demand for population in developed countries (CSIS 2002). The NAID Center estimates that increased migration could generate more growth and long-term benefits than all the prospective impacts of the trade liberalization agenda being negotiated in the current WTO "Doha Round" (Hinojosa, 2002b, see also Rodrick, 2002).

Migrant communities are particularly significant in the context of the Western Hemisphere. The U.S. Hispanic community, for example, can be shown to be the world's largest Latin American economy in terms of value added. Table 2 shows a variety of estimates of the economic importance of the U.S. Hispanic community. Traditional estimates of purchasing power are based on mean household income, which given the number of Hispanic households (9.6 million) yields an impressive total of \$400 billion. This is indeed rapidly approaching Mexico's entire GDP. But a more accurate estimate would take into account the entire contribution of Hispanics to total U.S. economic output. We employ a technique that estimates the sectoral per-capita value added of Hispanic workers compared to the national sectoral per capita GDP. This methodology yields an economic clout estimate of \$1 trillion. This means that if the U.S. Hispanic community were a separate economy, it would not only be the largest in Latin America, it would be the second-largest in the U.S. (only California's is bigger). In terms of nations, it would be the second-largest economy in the Western Hemisphere (after the U.S.) and the seventh-largest in the world.

Hispanic-owned businesses also are very important contributors to U.S. economic activity. According to the most recently available U.S. Economic Census data (1997 published in 2001), Hispanics owned almost 1.2 million of the 20.8 million U.S. non-farm businesses, employing more than 1.3 million persons and generating \$186.3 billion in business revenues. In just ten years, from 1987 to 1997, the total number of Hispanic-owned firms rose by 232 percent, compared to only 16.8 percent growth of all U.S. firms. Hispanic women owned 28 percent of firms and were the fastest-growing of any new business segment. The sales and receipts of Hispanic-owned firms rose an even more impressive 48.9 percent from 1992 to 1997 (<http://www.census.gov/prod/ec97/e97cs-4.pdf>), which if extrapolated to 2002 could indicate a \$250 billion business community. In

particular states and regions, the contribution of Hispanic-owned business is even more central to economic growth, as indicated by the share of new businesses created by Hispanics in California (xx%) and Los Angeles County (xx%).

Density of Cross-Border Linkages between the U.S. Hispanic Community and Latin America

The U.S. Hispanic community is not only a very formidable part of the U.S. economy but is also a leading conduit for vitally important international connections through trade, investment, migration, remittances, travel, and communications. Clearly important, yet surprisingly unexplored, are issues that include the relative size, linkages, and cumulative network potentiality that the U.S. Hispanic community represents for the U.S. relations with Latin America. The central proposition is that the vast array of Hispanic transnational social capital provides a dense network for facilitating a multiplicity of interactions. Many of these interactions are under-explored and documented, yet they present huge economic opportunities. Ignoring their potential as well as the obstacles that stand in the way of their development helps maintain the current inequalities in the U.S. and Latin America.

Trade:

The Hispanic community is particularly active in the most trade-intensive sectors and regions of the U.S. economy. Hispanic workers are disproportionately concentrated in trade intensive sectors such as manufacturing and agriculture (Table 3). Hispanic workers are more than 50 percent as likely to be employed in the tradable sectors of the U.S. economy (34 percent) than are white workers (22 percent). Hispanic-owned businesses also are more represented in many of the sectors that enjoy high trade activity with Latin America, including food, agriculture, apparel manufacturing, travel services, and communications. Hispanic workers and businesses are particularly concentrated in those states and regions that are most involved in trade with Mexico and Latin America, including California, Texas, Florida, and Illinois (Table 4). The ten states with the largest Hispanic communities, which contain 85 percent of Hispanic-owned businesses, are also responsible for more than 50 percent of U.S. exports to Latin America.

Such strong trade linkages can produce both export gains and negative impacts from imports and production shifts abroad. As we shall see below in the analysis of NAFTA impacts, while Hispanics workers and firms have received strong benefits from exports, they are also in potential danger of being affected by import penetration and production relocation. The crucial position of the U.S. Hispanic community with respect to trade with Latin America places it in a strategic position that deserves special attention in the upcoming negotiation for a U.S.-Central America and Western Hemisphere free trade area.

Migrant labor and Hispanic-owned businesses also strongly support the non-traded sector of the U.S. economy, particularly services. More than 94 percent of Hispanic-owned business and 65 percent of Hispanic workers are in the non-traded and

service sectors. The NAID Center estimates that this contributes close to \$600 billion to the non-traded sectors. In effect, the Hispanic diaspora of Latin America can thus be seen as providing a major boost to the U.S. economy through a transfer of resources that operates outside of the recognized trade and integration agenda.

Migration:

The contributions of U.S. Hispanics to Western Hemispheric economic growth and integration extend beyond trade and clearly deserve to be included in negotiations concerning regional economic integration. Migration, for example, is the largest U.S. international transaction, particularly with respect to Latin America. The U.S. is actually a relatively closed economy with respect to trade as a share of GDP, reaching only 24 percent in 2002. Trade with Latin America as a share of U.S. GDP is only 10 percent, and with Mexico it is only 5 percent, indicating only a modest potential for contribution to annual GDP growth though trade liberalization. Migration, on the other hand, plays a much more significant role in fueling GDP growth, accounting for more than 60 percent of annual labor market growth. Migration from Mexico alone contributes 35 percent to U.S. labor market growth, much more so to states such as California (90 percent) and Texas (75 percent).

Official flows and stocks of migration are clearly crucial to the overall value added of the U.S. Hispanic community. It is important to note that undocumented migration also represents a significant contribution to U.S. GDP. Recent estimates by the NAID Center (2001) place the value-added contribution of the Mexican undocumented population at \$150 billion. Adopting extreme anti-immigrant policy recommendations (such as those of the Center for Immigration Studies or Proposition 187) would result in a dramatic drop in U.S. economic activity. A reduction in the undocumented Mexican immigrant population to zero would produce a dramatic drop in U.S. economic output (about \$155 billion). This would also negatively affect the United States' fiscal balance while depressing wages and exacerbating income inequality in Mexico.

Migration will be even more important for the U.S. in the future. Continuing migration is not only necessary to sustain high employment levels, it is essential to the financial health of Social Security and sectors such as the housing market. As such, migration is crucial to U.S. global leadership and thus U.S. national security.

The problems of low wages and low productivity, which contribute to U.S. inequality, can be mitigated if immigrants are encouraged to assimilate faster. Because they typically fill low-wage jobs upon entering the United States, immigrants experience fast growth in terms of wages and productivity over time. Legalization and assimilation into the legal and economic mainstream serve to accelerate this process. We explore this dynamic below in detail, emphasizing the point that migration and remittances should be included directly in FTA negotiations.

Remittances and Financial markets:

While migration into the U.S. Hispanic community is very important for the health of the U.S. economy, it is also growing increasingly important for the health of Latin America. U.S. remittances to Latin America are calculated by the IDB to be \$25 billion a year (IDB 2001), including \$10 billion to Mexico and \$5 billion to Central America, accounting for XX% of total remittances from the U.S. NAID Center research indicates that the actual numbers may be significantly higher, with remittances in Mexico actually 30 percent higher (based on what is carried in cash). The total amount of money that immigrants save for remittance purposes is also at least 20 percent higher than what is actually received in Mexico, the balance being kept as commission and exchange rate charges by money transmitting companies. The total remittance funds to Mexico alone are thus estimated to be \$15 billion.

These funds are a very large part of the Latin American economies, typically representing much more than official aid, and in most countries, even more than total direct foreign investment and export earnings. Remittances are particularly a much larger share of total income of immigrant sending regions and villages. NAID Center research (2001b) indicates that in many cases, remittances account for 100 percent of total income. Our surveys also indicate that remittances are not only very important to immigrant receiving households (sometimes representing all of disposable income for consumption and investment), but that they are also very important for non-migrant households who rely on selling goods and services to remittance households. Remittances also represent a huge share of government investments, growing as a share of total public goods investments via collective remittances of transnational hometown associations (HTAs).

The NAID Center estimates that current multiplier effects of each dollar of remittances are already very significant (2x1) to local village income. Our research, however, also estimates that potential multiplier effects are huge. We estimate that remittances with proper financial inter-mediation through banks and credit unions financing local productive projects could produce multiplier effects of 20x1.

While potentially very positive, remittances can also have negative impacts. This will be reviewed in detail below, but they could actually have negative cumulative causality effects. Extremely high costs associated with transfers, with no inter-mediation, means that there are currently few options for these funds to be used productively. NAID transnational household surveys show that total financial service fees for immigrants can be as high as 23% of total income. Average expenditure on financing services and telecommunications together can be as high as 40%.

Communications and Transportation:

The transnational Hispanic community is one of the primary customers driving the telecommunication revolution in the Western Hemisphere. Mexico received the largest amount of U.S. long distance calling minutes than any other country in the world (6.8 billion). All of the Western Hemisphere amounted to 18.4 billion of the 34.6 billion minutes of traffic billed in the U.S. The total amount that U.S. long distance carriers

billed for Western Hemisphere calls was 7.2 billion, and \$3 billion for Mexico, more than any other country in the world. Just for Mexico, an addition \$1.5 billion and 8 billion minutes total billed in the sending countries. And this is just the beginning as Mexico telecom penetration is tiny by international standards.

The transnational Hispanic community is also a prime contributor to expanded transportation services in the Western Hemisphere. Mexico is the number one travel destination by U.S. residents and the location where travel payments by U.S. residents is the highest U.S. Mexico is also the number one border-crossing destination with more than 656 thousand crossings per day in 2000.

II. Positive and Negative Dynamics of Cross-Border Integration between the U.S. Hispanic Community and Latin America

The current patterns of economic integration between U.S. and Latin America produce a variety of both positive and negative impacts. In order to understand how this occurs, it is essential to see how trade, investments as well as labor migration and remittance flows interact across multiple countries. We also need to analyze how cross-border economic integration generates a variety of cumulative causation processes, allowing us to focus on how to foster positive and redirect negative dynamics, a challenge that must be met via cooperation across borders.

The U.S. Hispanic community is clearly a major force in the current pattern of economic integration between the US and Latin America. Below we explore the particular role of the Hispanic community in the current dynamics of integration, establishing the basis for how initiatives specific to the community could make an important difference in moving the patterns of integration towards generating wider benefits across countries.

The U.S. Hispanic business, in particular, plays a central role in expanding trade and investments relations to more sectors in both economies, particularly the more labor intensive sectors where they operate. As trade and investment integration expands rapidly, the US Hispanic community clearly participates in a number of positive dynamics. As trade expands, workers and business experience gains from market growth and productivity growth associated with increased economies of scale and specialization. This increases the ability of Hispanic community to take further advantage of positive cumulative causalities of higher profits, new markets, and investment opportunities.

While patterns of positive cumulative causation are clearly evident in sectors throughout North America, these dynamics is not necessarily sustainable (in terms of incentives for innovation and future productivity growth) and are not expanding fast enough to be a major source of employment absorption, particularly in Mexico. Just as the Hispanic community is in the position to benefit from many opportunities of

integration, however, Hispanics are also facing the brunt of negative impacts of dislocation. Hispanic workers and firms are also concentrated in low wage linked sectors on both sides where negative cumulative causality occurs frequently. Negative cumulative causation dynamics linked across national economies continue to produce a drag on low wage labor markets, reducing incentives for productivity enhancing investments in low wage sectors as well as the entire regional economy. Our analysis points to the need for major policy development efforts directed at both the investment-production-trade dynamics and the employment-wages-migration-remittance dynamics.

NAFTA: An Example of Positive and Negative effects

The NAID Center research on the Impact of NAFTA (2002a) has analyzed the process of integration and uneven development in North America as being driven by “dynamics of cumulative causation” that move relative incomes along positive (convergence) or negative (divergence) paths of evolution. The evidence clearly shows that NAFTA did not create the North American dynamics of growth and inequality, but neither has it significantly altered them. If anything, NAFTA appears to have only slightly accelerated both the positive as well as negative cumulative causation dynamics.

The NAID Center research also shows that a focus on Jobs “lost” and “gained” is a misplaced emphasis. In the aggregate, the total amount of jobs gained and lost is minuscule with respect to the over all churning of the labor market in North America. Our argument is that the crucial issues for U.S. and Latin American policy-makers are the factors and policies that can shift the pattern of North American integration towards greater growth, development and income convergence on both sides of the border. The fundamental issue for the future will continue to be the factors driving alternative paths of cumulative evolution in two major areas -- (1) investment-production-trade dynamics and (2) employment-wages-migration-remittance dynamics -- both of which together are the major drivers of regional income convergence and divergence.

NAID research on NAFTA shows that economic integration can generate a process of positive cumulative causation (PCC) whereby: (1) The operation of integration itself can open wider markets (both goods and capital); (2) generating the possibility for resource reallocation for specialized production to take root in regions of comparative advantage; (3) allowing for producers to take advantages of increased economies of scale; (4) generating rapid output and employment growth; (5) allowing the possibility for enhanced growth of incomes of both profits and wages; (6) which can allow for both growth of productivity and further innovation for both trading partners, allowing for (7) sustained growth of investment and consumption; (8) generating sustained income growth and upward income convergence on both sides of the border. In addition, this process can lead to a possibility for the transnational region as a whole to gain in relative competitiveness with respect to other regions around the world. Integration with PCC can generate relative productivity growth and a regional specialization in joint production for increased exports to third markets, attracting investment from outside the region, potentially being trade creating versus merely trade diverting.

NAID research also shows that economic integration between rich and poor regions can also produce a number of dynamics of negative cumulative causation (NCC). One scenario—the richer country gets richer—can operate via a process whereby: (1) High initial inequality conditions in resources and economies of scale favoring the rich can; (2) make the absolute competitive position of the rich region so high that poor regions cannot develop the sufficient scale to make investment viable to compete; (3) drawing resources (labor, capital) from the poorer region to the richer, enriching the richer and impoverishing the poorer. Another NCC theoretical possibility exists—the classic “race to the bottom” scenario—whereby: (1) Under sufficiently large differences in “surplus” labor endowments with low differences in productivity and scale economies; (2) poorer countries can draw capital resources from the rich to the poor country (or abundant labor from the poor to the rich country) in order to produce at a more labor intensive yet lower productively choice of technique; thus (3) negatively impacting both rich and poor countries by reducing the overall intra-regional income potential and extra-regional competitiveness.

Role of Latinos and NAFTA :

Overall Jobs gains and job losses are only a small part of the picture, as NAID Center research has also shown. Total NAFTA TAA certified job losses are tiny compared to the over all churning of the economy. NAID estimates that while NAFTA TAA represent a perhaps 60% undercount, even this number is small in aggregate terms. Employment dislocations are concentrated in particular sectors and communities, however, that do produce significant negative impacts. NAID Center research has documented some of the most impacted regions and sectors and has found that they are highly concentrated with recent immigrant from Mexico and other places.

What is the case is that NAFTA TAA impacts are concentrated in particular regions and sectors where Latinos and immigrants predominate such as in southwestern states and, in particular, LA garments, Watsonville agriculture and El Paso textile. We have traced where these jobs have moved in Mexico. In some case, such as frozen vegetables moving from Watsonville to Guanajuato, literally the cousin got the same jobs!

What does seem to be the case is that Hispanic workers are in general more concentrated in the tradable sectors of the economy (Farms and manufacturing) and are concentrated in the largest employment and most labor intensive industries in the tradable sector, as well as in the regions which trade most intensively with Latin America. Table 3 indicates that the top 10 most intensive Hispanic sectors (comprising 30% of Hispanic versus 16% of white workers) comprise 66% of all NAFTA TAA dislocations. They also comprise 30 of Exports to Mexico, yet 76% of imports from Mexico. They also comprise slightly large share of Hispanic firms as compared to non-Hispanic firms (4.8% to 4.6%), yet comprise 65% of certified firms losing jobs to NAFTA.

What is interesting is that Hispanic workers are concentrated in particular industries in both the PCC and NCC sectors of the U.S. economy. Tables 5 and 6 show data for which sectors in the U.S. are experiencing patterns of positive and negative causality as defined above.

Beyond NAFTA: Migration, Remittances and transnational financial development

The US must also recognize that the current pattern of North American integration clearly exhibits negative cumulative causation dynamics, although not based on the simplistic “race to the bottom” anti-NAFTA metaphor. As in the case of positive cumulative causality, there is evidence of a common cluster of sectors on both sides of the border that share similar characteristics and linked dynamics. This cluster of sectors exhibits slower growth of trade, employment, productivity and wages. These sectors also share immigrant labor markets, linking migrant sending regions in Mexico with immigrant receiving and heavily Latino regions in the U.S.

This low-wage bi-national labor market is also absorbing the bulk of employment displacing effects from NAFTA and increased trade and plant relocation. These sectors include, for example, corn production in Mexico and garment production in the U.S. Not only are negative employment impacts highest in these sectors, but these low-wage bi-national labor markets also suffer the lowest levels of education and training spending. Finding employment to even sustain similar low wage levels after layoffs is very difficult, let alone making a transition to higher skilled export jobs. The negative pressures on these migration linked labor markets are compounded by a lack of productivity enhancing capital investment as well as low levels of human and social capital investment. Demographic growth is also highest in rural and urban low skilled sectors with low social investments, on both sides of the border. Adding to negative causality is that this bi-national labor market only has access to very limited labor, migration and political rights, compounding the inability to demand higher wages and increased social investments for their communities on either side of the border.

While remittance transfers are very substantial (nearly matching DFI), they are currently being underutilized in their current role of maintaining basic consumption levels among large segment of the poorest communities in Mexico and perpetuating an external dependence on their family networks in the poorest communities in the U.S. Low-wage migration is thus functionally maintained and reproduced, producing a short-sighted subsidy to the U.S. consumers of low wage goods and services. Over the long run, this maintains communities in poverty on both sides of the border and high levels of inequality in both countries. The US must recognize its long term stake in leveraging the migration-remittance dynamic towards increased financing of productive savings and investments in immigrant sending and receiving regions.

III. From Viscous to Virtuous Cycles: The Expansion of Positive Cumulative Causality in US-Latin American Economic Relations

In this section we review the potential gains from adopting a comprehensive integration agreement that would emphasize an enhanced pattern of economic interaction between the U.S. Hispanic community and Western Hemisphere economies. This new policy agreement, proposed as a part of the FTAA discussion currently under way, would have to include increased liberalization of trade and investment flows as well as a significant expansion of financing of transnational Hispanic small businesses involved in cross-border trade and investment. This new agreement would also have to include a significant legalization of current and future migration from Latin America, as well as a major push for the leveraging of the \$25 billion in Hispanic remittances for augmented savings and investment. The central issue is how to redirect and transform the current patterns of trade, investment, migration, remittances, and financing from negative to positive cumulative causation dynamics.

The elements of this new transnational approach would include:

(1) –Enhanced Trade and Investments Integration

Increased trade liberalization combined with much greater emphasis on the role of Small Businesses in both the US and Latin America

- -Integrate small business and community agenda into the US-CA FTA and FTAA
- -Support and expand NADBANK
- -Help create transnational SME support and financing networks, working with local governments and NGO organizations

(2) -Enhanced Migration and Remittance Integration

Legalization of stock and flow will move towards:

- -increased wages in immigrant receiving regions
- -decreased demand for undocumented
- -increase investment in human capital

Leveraging of remittance for financial development throughout the transnational Hispanic communities in the U.S. and Latin America.

(1) Trade and Investment Integration

NAID Center research shows that a shift in US-Latin American economic integration towards a broad expansion of the dynamics of positive cumulative causality is both possible and feasible. The U.S. Hispanic Community is in a unique position to be mobilized for making the turnaround effort though economic development efforts. We

estimate potentially large gains to be obtained from such a strategy of increased economic interactions and integration between the U.S. Hispanic community and Latin America. Such a policy approach focused on Hispanic small business, remittances leveraging and legalized flows of migrant labor could be the most significant growth component of a proposed Free Trade Area of the Americas.

The U.S. Hispanic community is clearly a major force in the current pattern of economic integration between the US and Latin America. We explore the particular role of the Hispanic community in the current dynamics of integration, establishing the basis for how initiatives specific to the community could make an important difference in moving the patterns of integration towards generating wider benefits on both sides of the border. The U.S. Hispanic business, in particular, can play a central role in expanding trade and investments relations to more sectors in both economies, particularly the more labor intensive sectors where they operate.

Clearly important, yet surprisingly unexplored, are issues that include the relative size, linkages, and cumulative network potentiality that the U.S. Hispanic community represents for the U.S. relations with Latin America. The central proposition is that the vast array of Hispanic transnational social capital provides a dense network for facilitating a multiplicity of inter-actions. Many of these interactions are very little explored and documented, representing huge missed economic opportunities. Ignoring their potential as well as the obstacles that stand in the way of their development helps reproduce the dynamics of inequalities in the U.S. and Latin America.

Empowering the Transnational Hispanic business and workers will generate income and productivity growth, expand integration and international markets for goods and services, and will benefit economies throughout both sides of the border. Network potentialities for trade and investments, new integrated markets, new transnational services for the financial, communication and travel needs. Addressing the needs of Hispanic workers displaced by integration, particularly immigrant workers, on both sides of the border is also crucial to broadening the positive impacts of integration.

Governments, International Financial Institutions, and large corporations should focus on policies that empower the transnational community on both sides of the border. Coordinated efforts should be an integral part of any agreement on regional integration. Much more than merely focusing on lowering tariffs, this would allow the igniting of economic agents that can expand the benefits of integration of markets of goods, services and capital directly to those being most left out now, enhancing the total economic benefits of integration for all.

(2) Enhanced Migration and Remittance Integration

Shifting towards more virtuous cycles of causation in integration will require coordinated policy and private sector action in the areas of trade and investment liberalization, as well as the liberalization, empowerment and leveraging of migration and remittances flows. The US Hispanic community can play a central role on this

development. The central issue is how to redirect and transform the current pattern of migration, remittances, and financing from a negative to a positive cumulative causation dynamic. This dual focus on enhanced flows of migrant labor and remittances should be specifically geared towards (1) a major development of decentralized micro banking, internet connectivity, energy generation and other small business based productive projects in immigrant sending regions, as well as (2) the empowerment of social capital organizations within transnational migrant communities.

A recent UCLA NAID (2001) report concluded that a real comprehensive integration agreement, would have to include broad legalization of undocumented migration stock and future flow, combined with targeted economic development investments in migrant-sending regions in Mexico. This represents the best option for generating prosperity and equity in both the United States and Mexico. The research conclusions of this report also suggest that the possibility exists for the emergence of a new consensus among labor unions, businesses, immigrant rights groups, environmentalists and advocates for U.S.-born low-wage workers, creating a common focus on a workable proposal for sustainable economic integration in North America.

The NAID Center modeled an alternative policy scenario, including the “maximalist” version of the comprehensive proposal put forward by the Mexican Government, defined by President Fox as “the maximum level of benefits for the largest number of people.” We consider the impact of such a comprehensive approach as having essentially two major aspects: one dealing with the **Demand side** of immigration (U.S. policies for legalization, visas and guest workers) and one dealing with the **Supply side** of out-migration (economic development in migrant-sending regions).

The results show that the maximalist versions of a combined demand and supply side policy response can produce dramatic results in terms of growth and equity for both countries. On the demand side, a broad legalization program that guarantees full labor rights to all current and future migrants has the best effect in terms of meeting U.S. labor demand with higher wages, lower inequality and higher productivity. On the supply side, the larger the level of investments in Mexico’s migrant sending regions, the more rapidly the wage gap closes with the United States, migration declines and is replaced with Mexican demand for U.S. exports.

Demand side:

Full Legalization of Stock and Flow of North American Undocumented Migration

On the demand side, we model (1) the full legalization of the current stock of undocumented workers, and (2) the creation of a New Worker Visas Program for the future flow of temporary and permanent immigrant workers. A New Worker Visas Program is envisioned to include full labor rights, job portability, and a legalization sufficiently large to meet U.S. labor demand needs. Unlike the Immigration Reform and Control Act of 1986 legalization, which was applied to only a portion of the current stock of undocumented immigrants, the New Worker Visas Program would also include a

future-oriented visa program that is needed in order to avoid replenishment of the undocumented population.

In this report, we consider two demand-side policy changes as the basis for running this set of scenarios in the NAID CGE Model.

(1) Legalization of the stock of all undocumented immigrants

- Provide legal immigrant status to all current undocumented immigrants from Mexico (approximately 3 - 4.5 million)
- Provide legal immigrant status to all current undocumented immigrants from all countries (approximately another 3- 4.5 million)

(2) Legalization of the future flow of immigrant workers through the establishment of a New Worker Visas (NWVs) Program

- Make available an adequately large number of NWVs based on historical levels of net new undocumented workers (300,000 a year from Mexico, for example), which could be adjusted with experience.
- NWVs would have the following characteristics:
 - renewable, based on evidence of employment, tax payments, and no criminal record
 - multiple re-entry, to allow for circularity of migration
 - full labor rights, full portability across jobs
 - path to legalization after five years of employment
 - require workers to make full social security and unemployment insurance payments, and give them the right to collect on this insurance
 - no access to means-tested social services during NWV period

The report makes the case that an NWV-based legalization of the stock and flow will likely result in similar dynamics as those produced by IRCA. The impact of IRCA can be analyzed via the information published in 1996 by the United States Department of Labor based on an extensive survey on “Characteristics and Labor Market Behavior of the Legalized Population Five Years Following Legalization.”

(1) Increase in wage levels for the undocumented immigrant labor markets.¹

An NWV program would have the effect of shoring up the low end of the labor market. A legalization of both the stock and future flow of migrants would enhance the ability of immigrant workers to assert their rights, join unions, move across jobs, creating a new competitive floor for immigrant labor markets, thus actually reducing the demand

¹ “Real wages of legalized undocumented workers rose an average of 15% in the 4-5 years following legalization, compared to declining real wages in the years prior to legalization.” (US. Dept of Labor, 1996 p.43)

for total immigration via increases in wages in the traditionally high exploitation labor market segments.²

(2) Increase in human capital investments by legalized immigrants

It is expected that an NWV-based legalization would also have similar effects on human capital investments as was seen in the years following IRCA. Studies show that amongst newly legalized immigrants, there was a surge of investment in language skills, education, training and general economic assimilation, particularly necessary for more effective and productive participation in an increasingly technological and information-based economy. This represented more than a doubling of the previous rate of human capital accumulation for most immigrant groups.³

Overall, the NAID Center CGE Model shows that legalization can generate net economic gains for the United States by offsetting declining immigration and wage and price increases related to legalization with productivity increases also attributable to legalization.

- Increase in prices for consumers of immigrant labor goods.
- Increase human capital investment (doubles), which will directly generate productivity growth
- Increase in productivity growth in other sectors of the economy, through new investments in labor-saving technologies and human capital.

Fiscal Impacts: Increased overall tax payments (both through formal economy, and higher wages/productivity) more than offset new social service demand (which is actually low compared to the native population and will be phased in).

Supply Side: Economic Development in Immigrant Sending Regions

Crucial to the long term success of the proposed new integral “five canasta” approach to North American labor migration issues will be establishing a credible and effective mechanism for the development needs in migrant sending areas in Mexico. President Fox has repeatedly stated his proposal for using the already existing North American Development Bank (NADBANK) for addressing regional disparities and reducing out-migration pressures.

On the supply side, we model the mobilization of a wide variety of private and public investment funds. We consider various levels of investments targeted specifically to the immigrant sending labor market in Mexico. We alternatively look at 5, 10 and 15

² The first few years immediately post-IRCA saw a sharp decline in INS apprehensions, only to slowly increase in the 1990s as the path to legalization for new workers was closed. (Bean, Edmonston and Passel, 1991).

³ Kossoudji and Cobb-Clark titled “Legalization, Wages, and Self-Investment” 1996, U.S. Department of Labor found that about 43 percent of Mexican men, 53 percent of those from Central America, 48 percent of those from other Western Hemisphere countries, and 44 percent of those from countries outside the Western Hemisphere undertook some type of skill enhancement training post-legalization.

billion dollars mobilized annually for this purpose, measuring the effects of these investments in terms of employment, wages, relative inequality, and thus out-migration pressures. Combined with legalization in the United States undocumented labor markets, our CGE model results show that these relatively modest investment funds, along with existing remittance flows that are geared primarily for consumption, could make significant impacts in terms of reducing relative wage differences which induce out-migration.

The UCLA NAID report supports the case that President Fox makes for targeting the currently underutilized NADBANK funds (about \$3 billion) for leading the mobilization of public and private investments into immigrant sending areas. Such a proposal could be a very effective mechanism for reaching a number of related goals, including: (1) fostering North American cooperation for a long term mobilization of private, public and multi-lateral resources, (2) tapping into credible amounts of resources that are already available, and (3) attracting a wide range of political support throughout the countries and constituencies of North America.

Because of its bi-national institutional capacity, mandate and resources, the NADBANK is arguably the key potential instrument that is capable of launching a credible strategy for helping to transform the bi-national migration and regional investment dynamics. Fostering such a transformation will require a two level transnational strategy:

First, the NADBANK would focus on supporting the development of carefully crafted financial mediation mechanisms intended to increase savings and investments in immigrant sending and receiving communities in the United States and Mexico. Fostering cooperation with U.S. and Mexican agencies (such as SBA and NAFINSA), the NADBANK would provide technical assistance and matching capital resources to help develop financial platforms (such as micro-loan funds and credit unions) for remittances savings, both individual and collective, to leverage a wide range of local, state and national public and private investment funds in both Mexico and the United States. These remittance-leveraged funds would be primarily used for employment- and income-generating, environmentally-sustainable, and community-oriented infrastructure and productive investments in targeted migrant-sending regions.

Second, in addition to developing transnational financial mechanisms, the NADBANK is in a unique bi-national position to foster the cooperation needed to address the most critical issue in migrant-sending regions: mobilizing technical assistance delivery and transnational social capital for supporting sustainable regional development projects. A NADBANK pilot project and TA grant program would build on NADBANK's proven track record in pre-project development and project grant facilitation along the United States-Mexico border which is one aspect of the bank that has received very positive reviews from community and environmental groups.⁴

⁴ See details on the BEIF and IDP programs on the NADBANK Web Site, <http://www.nadbank.org>.

Conclusions

We propose an alternative comprehensive policy approach, combining liberalization of trade, investments with increased U.S. migration and remittance in migrant-sending regions in Latin America. This combined approach is by far the best alternative for sustaining growth in the United States and reducing income inequality both in the United States and between the United States and Latin America.

The research conclusions of this report also suggest that the possibility exists for the emergence of a new consensus among labor unions, businesses, immigrant rights groups, environmentalists and advocates for U.S.- born low-wage workers, creating a common focus on a workable proposal for sustainable economic integration in the Western Hemisphere.

Table 1 Global Indicators, 2000

	Population	GDP	GDP /cap	Migration	Remittances
World	6,057 m	31,315 bn	5,170 m	170 m	105,421 m
Developed	903	24,994	27,678	81	65,520
Developing	5,154	6,321	1,226	89	39,901
Global Diaspora	170	2,132	2,541	170	105,421

Table 2 Western Hemisphere Indicators

	Population	GDP	GDP /cap	Migration	Remittances
U.S.	282	9,601	34,100	25	60
U.S. Hispanics	37	1,094	29,567	13	25
Mexico	98	497	5,070	1	15
Other Latin Am.	418	1,398	3,670	7	10

Sources: World Development Indicators, World Bank (2002); United Nations; IMF; NAID Center (2002); Inter-American Development Bank; U.S Census
 Note: Migration refers to Foreign Born