MIGRATION AND DEVELOPMENT

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B.2 The North American Free Trade Agreement and migration

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1. Introduction

The last decade has witnessed an increasing tendency towards regional integration, and the rates of intra-regional factor movements have begun to outpace global inter-regional trade and investment. Much attention is being devoted to how the end of the East-West Cold War is giving way to a North-North economic battle between new regional blocks (Thurow, 1992; Garten 1992; Rosenberg, 1992; Lawrence, 1991), with North-South issues being redefined within each regional sphere. Some study is being given to the fact that each regional pattern of factor market integration is developing within fundamentally different institutional settings (Przeworski, 1991; Williamson, 1985). Each region, furthermore, is seen as following its own dynamics of increased economic interdependence and speed of institutional development. A crucial question is which of these regions will create a pattern of integration that results in increased competitiveness along with equity and social participation?

North American integration is underdeveloped compared to European institution building, which was designed with the aim of reducing regional disparities while maintaining global competitiveness (Bliss and Macedo, 1990). The new European East-West integration pays extensive attention to institution building for compatible economic development through the management of trade relations, capital movements and migration (Blanchard *et al.*, 1991; Przeworski, 1991; Layard, *et al.*, 1992; Hinojosa Ojeda and Robinson, 1992). In Asia, while moving slowly to construct new *de jure* institutional forms for regulating regional integration, the recent pattern of integration has shown *de facto* results of rapidly closing the gaps between rich and poor countries while growing globally competitive (McCleery and Hinojosa Ojeda, 1993; Ohmae, 1985). North American trade and factor market integration has so far evolved with little attention to issues of widening intra-regional disparities and their relation to global competition. This lack is particularly glaring since North America is the most highly integrated region composed of countries on opposite sides of the North/South divide and displays the highest levels of inequality of any group of countries that has formally attempted to form a free trade area.

What is most striking about the North American context, however, is that despite the high degree of attention to trade and investment liberalisation as the main conduit for integration, labour market interdependence, including migration linkage, is in fact much more advanced. This interdependence represents a much larger share of binationally linked economic activity, compared with trade and financial integration (for the concept of labour market interdependence see Bustamante, Reynolds and Hinojosa Ojeda, 1992). The contribution of Mexican migration to US economic growth is more significant than the small share of US GDP related to trade and investment with Mexico. Structural links between rural Mexico and US labour markets have existed for many decades, with rural communities in Mexico having long traditions of migration and dependence on earnings from work in the United States.

Given the importance of labour market interdependence, North America is particularly underdeveloped in addressing migration and labour issues. The vast bulk of labour migration was explicitly left out of the North American Free Trade Agreement (NAFTA) negotiations, even though the agreement's impact on migration is an object of intense debate. Perhaps a "free market" in labour is not seen as the solution. Yet ignoring the issue merely perpetuates a particularly distorted and increasingly underground market.

Virtually all modelling research concurs that the NAFTA alone cannot fundamentally shift the pattern of uneven development. Trade and factor liberalisation under the NAFTA along with the recasting of the institutions of state/civil society relations can, however, either have an accelerating effect on uneven development, or be used to redefine the pattern of North American integration. In either case, research indicates that low-wage and immigrant workers are most likely to suffer a disproportionate share of displacement due to the NAFTA. These workers, here defined for lack of a better term as transnational workers, thus appear as the weakest, yet most pervasive, link within US and Mexican labour markets.

The following challenges have to be faced:

- radical upgrading of the regional workforce as part of an effort to attract innovative high technology investment, with firms developing new forms of organisation;
- development of a new way to integrate the transnational low-wage rural/urban work force, as a central policy concern for North America.

How should the region confront these dual challenges with far-sighted vision and begin fashioning the appropriate policies and institutional forms? The goal of this paper is to articulate how the first challenge cannot be addressed in isolation from the second and to make the case that dealing with the second challenge necessitates addressing Mexican rural labour issues. How the poorest members are dealt with will be crucial as to how the whole will evolve, as Reich (1991) has said. "Who we are" must be redefined on the basis of an understanding of US-Mexico labour market interdependence if North America is to integrate and develop with increased equity.

2. Mapping US-Mexico labour market interdependence

Migration can only be understood as an integral component of growing economic and social interdependence between countries. To determine the possible impact of the transformations of rural Mexico on the US-Mexico labour markets, the role of rural labour must be defined in the context of overall interdependence and its asymmetries.

The task is to define the relationship of goods and factor flows (labour and capital) between different sectors and labour market segments in both economies as well as the different institutional relations within each sector, labour segment and country. A variety of approaches – from computable general equilibrium (CGE) modelling to micro case studies – must be used preferably in conjunction with one another (Hinojosa Ojeda, Robinson and Wolff, 1992). New multidisciplinary trends in empirical and modelling research permit analysis of the evolution of those sectors and communities most linked through migratory labour flows. Policy formulation historically has ignored these transnational processes, yet this research could provide new directions for binational policy approaches.

US-Mexico asymmetrical interdependence

The United States and Mexico already share by far the most extensive and complex network of links of any two countries on opposite sides of the North-South divide. Mexico-US interdependence includes the most significant trade ties and the largest debtor-creditor relationship between any two developed and developing countries; the largest foreign investment flows; the most inbound co-production relations (*maquiladoras*); and the longest contiguous border with the highest levels of border crossings and border commerce, both legal and illegal (Table 2.9). Mexico is the United States' third largest trading partner (after Canada and Japan) and the United States is Mexico's largest trading partner.

Direct and indirect jobs based on US exports to Mexico totalled slightly over 600 000 in 1990, a small share (0.5 per cent) of the total US civilian labour force of 117.9 million. Direct and indirect jobs based on California exports to Mexico in 1990 totalled 63 000, an even smaller share (0.43 per cent) of the state's total labour force of 14.6 million. Total jobs in Mexico based on trade with the United States slightly topped 2.5 million, out of a Mexican labour force of approximately 30 million (about 8.3 per cent). Employment in Mexico based on trade with California totals 363 000 jobs (1.2 per cent).

This extensive US-Mexico interdependence must be counterpoised with the asymmetries between the two countries. Mexico has an extremely small economy compared to that of the United States or even California. Wide disparities in the economic sizes of countries exist in North America, with Mexican GDP equal to less than 4 per cent of US GDP and less than 40 per cent of Canadian GDP. The entire Mexican economy is roughly the size of Los Angeles County's but with ten times the population. An indicator of this asymmetrical interdependence is that US-Mexico trade represents a larger share of Mexican GDP (16.4 per cent) than of US GDP (0.6 per cent). Mexico is also much more dependent on trade with California than vice versa. Based on size differences alone, one should expect the effects of the NAFTA, both positive and negative, to be greater for Mexico and Canada than for the United States and California.

Table 2.9. **Measures of US-Mexico integration**

	1980	1990
Billions of US$		
Mexican exports to US	12.80	28.40
US exports to Mexico	15.10	30.80
Value added in inbound industries	0.70	3.60
US foreign direct investment in Mexico	5.86	19.10
Mexican immigrant remittances	1.26	3.15
External Mexican debt	71.10	98.20
Expenditure of Mexican travellers to the US	2.50	2.60
Expenditure of US travellers to Mexico	2.50	2.10
Thousands of people		
Visitors from US to Mexico	3 323	6 768
Visitors from Mexico to US	2 150	4 478
Legal Mexican immigration to US	56	101
Mexicans apprehended entering US illegally	817	1 092

Sources: Banco de Mexico; US Immigration and Naturalization Service.

The NAFTA represents the most ambitious attempt yet at integrating a highly developed economy with a developing economy. Groups such as the European Community and the European Free Trade Association started with differences in per capita and total GDP far smaller (less than 5 to 1) than those between Mexico and the United States (10 to 1).

Income distribution disparities are also much wider. An important element in US income inequality is the widening gap between the incomes of white Americans and those of Hispanics and other minority populations, both US born and immigrant (Hinojosa Ojeda, Carnoy and Daley, 1991). This widening disparity is especially visible in Los Angeles and elsewhere in California (Hayes-Bautista *et al.*, 1992; Passel and Woodrow, 1984).

Rural employment plays a particularly important role in asymmetries within Mexico and between the United States and Mexico. Over a quarter of the Mexican workforce is involved in some agricultural activity, compared with about 2.5 per cent for the United States. This quarter of the Mexican workforce produces about 7 per cent of GDP, making it the lowest-productivity sector in either country. The situation is magnified to the extreme in Mexican maize production, where 6.3 per cent of the workforce is engaged in activities that produce only O.6 per cent of GDP. It is significant that the Mexican maize subsector is the most protected part of either economy; note that the most protected US sector is fruits and vegetables, where a majority of the workers are Mexican migrants.

Mexico has a large rural and agricultural labour force relative to countries of similar economic status. Yet it has not experienced as extreme an agricultural out-migration as have other countries undergoing capitalist development (Massey, 1988). Mexico has also generated migrants at more moderate rates historically than have other recent Latin American immigrant-sending countries (Hinojosa Ojeda, 1993). Still, considerable rural out-migration should not be considered impossible or even unlikely.

Relative importance of labour market and migration linkages

Mexican migrant labour has had a large impact on the US economy and employment by increasing the supply of labour. At least 10 per cent of the growth of the US labour supply since World War II has come from Mexican migrants. Half of all legal and undocumented Mexican immigrants go to California (Hayes-Bautista *et al.*, 1992; and Passel and Woodrow, 1984). Mexicans in the US are the fastest growing native-born and immigrant minority, projected to be the "majority minority" in California by 2030 (Hayes-Bautista *et al.*, 1992).

The link of immigration and remittances is a huge aspect of the US-Mexico relationship. Immigrant remittances are crucial to Mexico, at an estimated US$ 2 billion to US$ 3 billion a year.

Immigration is an important source of growth to California, particularly given the state's rapidly ageing population. As is demonstrated through CGE results (Hinojosa Ojeda, Robinson and Wolff, 1992), immigration is beneficial to California's overall economic growth and the welfare of wealthier residents. Contrary to US public perception, Mexico probably subsidises the United States and California in net terms on social services spending by absorbing the health and education costs of pre- and post-working-age migrants. There are, however, negative wage consequences for some elements of the labour force, depending on the rate of growth of immigration.

The close links between the US and Mexican labour markets will undoubtedly persist in the years to come regardless of whether the free trade area succeeds. Among the reasons:

- Though Mexico's population growth rate has slowed dramatically in the last 20 years, Mexico's labour supply is still growing at about 3 per cent a year, far more rapidly than that of the United States; the rate will decline only slowly for the rest of the decade. This rapid growth will strain the Mexican labour market, leading to migration pressures both within Mexico (rural-urban) and internationally.
- Even under the most optimistic productivity growth scenarios, the United States will face a serious shortfall in labour supply well into the next century as its native population increasingly ages and shrinks (Johnson, 1987).
- Mexico, on the other hand, even under optimistic scenarios of resumed growth, will produce a dramatic labour force surplus into the next century (Trejo Reyes, 1992).
- Through deeply rooted social networks, binational codependence has become a way of life for many communities (and productive sectors) on both sides of the border. These networks will continue to operate as long as large wage gaps persist, barring dramatic and highly unlikely changes in migration policies (Massey *et al.*, 1987; Alarcon, 1992).
- The wage gap between the two countries will remain quite wide for the relevant time period, regardless of any forces that would promote convergence (Reynolds, 1992).

Role of low-wage labour in Mexico, the United States and California

The special position of Mexican rural labour in the United States and Mexico can be seen in the relative sizes of labour markets and their links. To understand how important migration from the countryside can be to different labour markets either directly or indirectly, it is necessary to analyse the role of rural labour in the overall links between rural and urban informal and low-wage labour markets in both countries. The answer to these questions would have to encompass the structure of labour market links and migration.

Latinos account for 23 per cent of California's employed labour force and 30 per cent of Los Angeles County's. (The county has 46 per cent of the state's Latino jobs.) At both the state and county level, Latinos are more highly concentrated in the more labour-intensive and lower-wage industries and occupations, such as durable and especially non-durable manufacturing, wholesale and retail trade, and construction. The availability of an expanding low-skilled labour force due to both documented and undocumented immigration (overwhelmingly Latino, particularly Mexican) has encouraged the growth of industries that could benefit from a growing supply of low-wage workers: food processing, apparel, hotels, restaurants.

Remarkably, in contrast to a nation-wide decline, the low-wage, non-durable manufacturing sector in Los Angeles, dominated by apparel, had a higher employment level in 1991 than in 1979, despite the recession. Non-durable manufacturing is overwhelmingly dependent upon Latino, particularly Mexican, immigrant workers. It grew in 1987-90 while durables shrank, and it has not suffered the severe losses that durables have during the latest recession. Three-fifths of the additional private sector jobs in 1990 were in industries with average wages under US$ 15 000 per year.

Latino workers are over-represented in those sectors of the economy engaging in a high level of trade with Mexico and under-represented in non-traded sectors. Latinos are concentrated in labour-intensive industries that face import competition from economies like Mexico's, and less represented in export industries that are likely to gain from increasing exports to Mexico. California industries in which there are considerable imports employ a disproportionate share of immigrants, whereas high-export industries employ relatively few. The structure of employment in Mexico also shows high levels of labour force concentration in sectors of the economy where import penetration is a major risk. This is particularly true of agriculture and some heavy manufacturing, both of which were heavily protected.

3. Alternative scenarios of integration and liberalisation

Many different predictions and projections on the impact of trade and agricultural policy liberalisation on the United States and Mexico have been put forth. A first set of predictions, primarily demographic in nature, confirms an underlying growing tendency for migratory pressure, which is expected to level off around the turn of the century. A second set is in the form of arguments with some general figures. A third set of predictions is based on modelling. Espenshade (1992) presents an econometrically estimated aggregate model of US and Mexican relative unemployment and wage rates, to predict gross flows of undocumented migration under various assumptions about Mexican economic growth. (The model does not take into account the impact of the NAFTA and assumes no change in agricultural policy).

A large number of economy-wide, multisectoral CGE models of the possible impact of the NAFTA on the US and/or Mexican economy have recently been made (see Hinojosa Ojeda and Robinson, 1992, for reviews). Only a handful have attempted to model labour market and migration dynamics within and between countries. Only recently have models been constructed to analyse the impact of NAFTA on regions like California or Texas and particular segmented labour markets, some in conjunction with microsectoral case studies (Hinojosa Ojeda, Robinson and Wolff, 1992).

Hinojosa Ojeda and McCleery (1992) present a dynamic US-Mexico CGE model with a game-theoretic component that implicitly takes into account the nature of socio-political institutions in the regulation of distributional conflicts between workers and capitalists in both countries. While the model is highly aggregated and stylised, it does incorporate international migration as well as rural-urban migration within Mexico. The model develops three alternative scenarios for Mexico: a continuation of the current "neo-liberal" opening; a reversal towards neo-protectionism; or the adoption in both countries of a "managed interdependence" strategy. While the names are more evocative, the scenarios are similar to those explored in Robinson *et al*, (1991), with similar results.

The results point to the long-term superiority of a free trade agreement leading to increased trade, while also indicating a short-run deterioration in workers' welfare that poses serious obstacles to the neo-liberal strategy. Compared to policies directly affecting capital and labour markets, changes in trade policies generally have smaller effects on production and welfare. A free trade agreement by itself is not capable of entirely reducing the trend towards increased illegal migration, as some have claimed. Migration, in fact, will increase in the absence of significant capital inflows to increase employment and wages in Mexico. An attempt to close off either economy from exchange with the other (the protectionist alternative) emerges as the worst long-term welfare option for most workers' groups in both countries. The dilemma is that, in the short run, this option is superior for workers benefiting from direct protection. Of the three scenarios, only managed interdependence can provide continued growth, increased international exchange and a basis for strategically agreed social pacts in both countries. The key to this approach is developing a combination of debt, trade and migration policies that maximise growth and welfare on both sides of the border.

The Mexico-specific CGE model by Levy and van Wijnbergen (1991*a,b*) provides detailed specifications of the agricultural subsectors and of rural-urban migration. They explicitly model agricultural support policies, including protection for maize production and food subsidies for the urban poor. They include rural-urban migration, with migration adjusting to maintain an exogenously specified real income differential between rural and urban households. They explore a number of scenarios in which the maize sector is liberalised, allowing free trade, and various compensation polices, designed to soften the impact on the poor, are simulated.

Liberalisation in the maize sector leads to significant rural-urban migration, of the order of 650 000 to 700 000 workers. Total rural employment is 6 million, of which 29 per cent (1.7 million) are in maize. Without compensation, Levy and van Wijnbergen find, the distributional effects of trade liberalisation would be regressive, but it is possible to design feasible compensation packages that largely offset the income losses to the poor. They argue, based on a number of simulated scenarios, that targeted adjustment programmes can be designed that achieve substantial efficiency gains from trade liberalisation but that ameliorate the regressive distributional impact of removing protection from low-income maize farmers.

In a dynamic version of their model, Levy and van Wijnbergen (1991*c*) study different transition paths to free trade over a nine-year adjustment period. They explore the impact of introducing trade liberalisation and domestic policy changes instantaneously or more gradually, analysing the effect on migration. If liberalisation takes place all at once, in the first year, the efficiency gains are large but migration is also very large early on, with 700 000 migrants from rural areas in a single year. Such migration would seriously strain the social and political system. A gradual liberalisation scenario, however, provides for annual rates of about 200 000 rural-urban migrants a year. Note that in a base scenario without liberalisation, the model generates cumulative migration of 1.2 million workers from rural areas. The model embodies the underlying demographic trends discussed earlier. Mexico is facing major structural change in its labour markets, with or without trade liberalisation.

Hinojosa Ojeda and Robinson (1991) and Robinson *et al.* (1991) explore some of the same labour-market issues in the context of a two-country (US-Mexico) trade model. In particular, Robinson *et al.* use a similar breakdown of the agricultural subsectors, separating out maize, fruits and vegetables, and other programme crops (relevant for capturing US agricultural policies). They use the same type of migration function as Levy and van Wijnbergen, but differentiate the labour force by skill category and add Mexico-US migration. Their results are broadly consistent with Levy and van Wijnbergen. They find that complete trade liberalisation increases bilateral trade and leads to efficiency gains for both countries, but induces large rural out-migration from Mexico. In a full liberalisation scenario, over 800 000 workers leave rural areas, and over 600 000 migrate to the United States. Most of the latter migrants go to the urban labour market (*e.g.* Los Angeles and Chicago) rather than to agriculture. Robinson *et al.* also explore a variety of partial liberalisation scenarios, seeking policy packages that will provide a less socially disruptive transition to free trade. They find that it is feasible to design such transition policy packages.

They also explore how much growth is required in Mexico to absorb the labour released from agriculture without increased migration to the United States. For example, a 25 per cent increase in Mexican aggregate capital stock relative to that of the United States eliminates the increased Mexican-US migration induced by complete trade liberalisation. Such a growth differential is consistent with the experience of other semi-industrial countries that have successfully shifted to an open development strategy. The policy problem for Mexico is that trade liberalisation in maize releases labour quickly while the increased growth required to absorb that labour in industry takes longer. Consistent with Levy and van Wijnbergen, these results indicate that Mexico will need a lengthy transition period and must allocate resources to agriculture during the transition. Undue haste in introducing free trade in agriculture may not be desirable for either country when the social and economic costs associated with increased migration are weighed against the benefits of increased trade growth.

More recently, Hinojosa Ojeda, Robinson and Wolff (1992) have constructed a Mexico-US-California CGE model to determine the likely impact of alternative scenarios of economic integration between Mexico and the United States on Mexican out-migration. Among their findings:

- Reducing non-agricultural tariffs and non-tariff barriers would, by itself, somewhat increase the flow of migration (Scenario 1), primarily because non-agricultural trade liberalisation has a very small impact on labour displacement compared to the size of the workforce in either country.
- Reducing all tariff and non-tariff barriers, including all agricultural protection (Scenario 2), would have a much larger and increasing impact on out-migration from Mexico. There is a domino effect. Large migration flows from the Mexican countryside to the cities due the inability of Mexico to compete with much more efficient US producers in maize and other grains leads, in turn, to increased migration from Mexican urban areas to the United States. Fruit and vegetable exports from Mexico rise, employing more rural labour, but not enough to absorb labour released from maize production.
- The NAFTA will likely produce even higher out-migration due to long phase-ins of fruit and vegetable imports to the United States, and thus slower growth of agricultural employment in Mexico (Scenario 2*a*).
- Large migrations based on the restructuring of the Mexican agricultural sector would have a much more important impact on relative wages in both countries than either trade or investment liberalisation would.

What could offset the increasing pressures for out-migration?

- If tariff liberalisation resulted in large increases in productivity in both countries, migration could be reduced substantially, perhaps by one-third (Scenario 5).
- Increasing the Mexican capital stock, relative to that of the United States, by 20 per cent (Scenario 6), could eliminate the entire increase in migration pressures arising from agricultural liberalisation in Mexico. Scenarios 7 and 8 show an even greater impact from a combination of Mexican capital stock growth and an increased Mexican balance-of-trade deficit.
- Availability of long-term credit and technical assistance to small- and medium-scale producers in rural Mexico would direct capital stock growth towards more labour-intensive producers.

What is the net impact of migration flows in a post-NAFTA North America?

- Labour migration into California is good for the economy of the state. Every immigrant who works produces and consumes goods and services, pays a variety of taxes and contributes to the wealth of the state. In addition, immigration makes many of California's labour-intensive exports more competitive.
- The largest negative impact of increased immigration is felt by other immigrant workers who compete in specific and generally segmented labour markets. While increased immigration may result in falling real wages for other immigrants, it also results in increased real wages for all others who consume the now less expensive products of immigrant labour. The net effect is increased wage inequality.

- California faces a trade-off between continued growth of low-wage employment in the state, based on immigrant labour, or the loss of some low-wage employment to Mexico, with less migration into and less investment, production and employment within the state.

What are the effects on Latino-dominated labour markets?

- Latinos are concentrated in labour-intensive industries that face import competition from economies like Mexico's, and are less represented in export industries that are likely to gain from increasing exports to Mexico. Californian industries with considerable imports employ a disproportionate share of immigrants, whereas high-export industries employ relatively fewer immigrants.
- Latinos experienced a small net gain in employment during the 1986-90 expansion of California-Mexico trade. Latino net job gains represented 22 per cent of the net job gains in the state. Latinos, however, suffered disproportionately from job losses.
- Given total employment in California of 10 million and Latino employment of 2.3 million, the loss and gain of jobs due to the NAFTA (estimated to be in the low thousands, spread over five years), has a negligible impact on the overall labour market.
- Increased immigration will have more impact on the real wages of some Latino labour market segments than will trade or investment-related effects of the NAFTA.

4. Policy initiatives for transregional institutional development

What can be done to develop a form of integration in North America that can generate economic growth with increased equity? What role can the economic empowerment of transnational workers and their communities play?

Two inter-related issues should be raised at this juncture with relevance to Mexican rural labour: *i)* the notion of developing minimum standards and enforcement of labour rights and *ii)* the need to provide mechanisms for making resources available to meet the goals of the environmental and labour commissions.

Labour rights and standards

First, due to differences between US and Mexican labour laws, harmonisation could mean costly raising of minimum standards in some economic sectors, in Mexico and the much larger US economy.

Second, concentrating on current labour law enforcement could mean either a costly upgrading of work practices or result in the downward redefining of realistically fully enforceable laws in both countries. Enforcement is better on both sides of the border in larger firms and plants, usually linked internationally, which are competitive in the export or profitable domestic markets. Enforcement is lacking in exactly those labour market segments of transnational and low wage workers; rural labour, Mexican low wage and maquiladora firms, immigrant undocumented sectors in the US and low wage, import competing industries in the US. Enforcement could cut into the margins of those precarious sectors, potentially resulting in better jobs at higher wages but with likely increases in unemployment in exactly those sectors employing recent or potential immigrants.

Third, the upgrading of the conditions and rights of low-wage labour cannot be attempted in isolation of the conditions of transnational workers, both in the US as well as Mexico, in both urban and rural settings. Rural democratisation and the possibilities for autonomous economic organisation must be pursued in the drive for the improvement of both working conditions and economic development in rural Mexico (see Fox, 1992). Similarly, the rights of immigrant workers in the US, particularly the negative effects on legal recourse for undocumented workers due to the Immigration Reform and Control Act of 1986, will have to be addressed (Schey, 1992; Golden, 1992).

Institutions for adjustment and development

The creation of a regional North American Development Bank and Adjustment Fund (NADBAF) has been proposed to facilitate both increased investment in targeted sectors of the Mexican economy and structural adjustment in all three countries (Fishlow *et al.*, 1991). This institution would serve two functions: i) as a regional investment bank, it would lend funds to finance long-term development projects, and ii) as an adjustment fund, it would provide short to medium-term assistance to facilitate the reallocation of resources required to generate productivity increases in the region.

The underlying assumption is that there will be no major shortage of private investment funds, but that there is a real need to mobilise resources for long-term investment in social overhead capital. Institutions with functions similar to the proposed NADBAF were established in Europe, as the Common Market expanded to include relatively less developed countries such as Greece, Spain, and Portugal. Institutions such as the European Regional Development Fund and the European Social Fund have been very successful in facilitating the integration of poorer new members into the European Community. More recently, the European Bank for Reconstruction and Development has been created to address the dramatic challenges of East-West European integration.

The NADBAF would focus lending based on need, and would be patterned after the European Regional Development Fund. Mexico would be the major recipient of such lending in North America, although the bank might also lend for projects in poorer regions in the US and Canada which would be affected by the establishment of a free trade area.

The assistance fund would focus on short to medium-term financing to help affected communities adjust to changes emanating from the establishment of a North American free trade area. The intent is to facilitate speedy adjustment by minimising the costs associated with shifting labour and capital, and ensuring that labour does not bear a disproportionate share of the adjustment costs. The goal would be to assist communities to adjust for dislocations arising from the establishment of the free trade area, including plant closures, labour retraining, and conversion investment.

The investment bank would focus on long-term development projects in:

- institutional development aimed at improving the operation of capital and labour markets in order to facilitate efficient, equitable, and environmentally sound integration across the three countries;
- investment projects for environmental improvements, including establishing institutions for monitoring, enforcement, cleanup, and adoption of new technologies;
- physical infrastructure that would facilitate improved trade, such as roads, bridges, ports, railroads, border facilities, and integrated border development;
- social infrastructure aimed at improving trade performance, such as technical assistance, worker training, collaborative research, educational exchanges, research and development, and support for trade promoting organisations;
- investment projects aimed at promoting sustainable rural development, given increased trade and the need to manage labour market integration.

Mexican rural development as a transnational effort

A transnational institution such as the NADBAF could uniquely provide the capacity to leverage and empower emerging transnational social networks and organisations for Mexican rural development. US-Mexico immigrant communities can serve as a currently untapped resource to enhance the Mexican rural sectors' capacity to generate new ventures which can generate employment, retain ownership rights, and empower local community enterprises.

The NADBAF could facilitate the mobilisation of remittances and other funds from communities in the US to those in Mexico. Unlike the current circumstances through which funds are transferred, the NADBAF supported financial institutions could provide a savings component to the financial intermediation of remittances and transfers of funds. A possible joint-venture could include large multi-branch banking facilities in the US, operating with immigrant and Latino credit organisations in the US, interfacing with networks of rural credit cooperatives and perhaps a Mexican banking institutions.

The NADBAF could serve to facilitate the development of such binational financial ventures. In addition, it could use its resources to leverage private funds through the coupling of lending to particular projects evaluated and approved by NADBAF. Rural cooperative credit unions can potentially serve as a Mexican counterpart in a variety of ways. The usefulness of a union of rural credit cooperatives and local producer cooperatives is their ability to share technical assistance and share the risks of rural development projects. Some of these producer cooperatives are also now developing export and marketing relationships with US distributors. Actual and potential US distributors of Mexican rural products range from strictly private commercial operations to non-profit producer and credit organisations with links to the Latino community, including immigrant organisation with ties to rural Mexico. These US or transnationally based organisation could, in turn, serve as partners or conduits for the intermediation of remittances through US based financial institutions.

5. Conclusion

This paper argues that the goal of improving US labour conditions must be linked with improvements in labour conditions throughout North America, particularly in the weakest, transnationally linked low-wage sectors. Two initiatives were discussed in regards to transnational workers: i) transnational working rights and conditions and ii) transnational institutions for economic development. The enhancement of rights cannot be addressed adequately without attention to the improvement of economic development prospects of transnational low-wage workers and their communities. Results from CGE modelling (Hinojosa Ojeda and McCleery, 1992) indicate that a combination of the NAFTA plus mechanisms for growth-enhancing resource transfers from the United States to Mexico can create the conditions for sufficient employment and wage growth in Mexico. Migration in these circumstances could be reduced even if undocumented immigrants in the United States were given rights that would raise their incomes and close the wage gap with legal US immigrants.

Despite a wide range of strategies by transnational worker communities to utilise migration for their economic betterment, states and institutions are ill-equipped to maximize the potential of these activities across borders. A North American Regional Development Bank and Adjustment Fund is proposed as an institutional vehicle for targeted transnational resource mobilisation that could enhance emerging social organisations for economic advancement among transnational worker communities, particularly their Mexican rural counterparts.

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