

## Are Remittances to Latin America Recovering After the Global Crisis?

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**Q** Mexican migrants living abroad sent more money back home in April than they did in the same

month a year earlier, the Bank of Mexico said June 1. The year-on-year increase was small, less than 1 percent, but it was the first annual increase in 17 months. The report also said remittances to Mexico from January through April amounted to \$6.6 billion, an almost 9 percent decline from the same period in 2009. Are remittance flows to Mexico and the rest of Latin America recovering? How important are the flows to economic recovery in the region? What is needed for a sustained recovery in remittances?

**A** [Sumeet H. Chugani](#) and [Ricardo Ortiz](#), associate attorneys at [Diaz, Reus & Targ, LLP](#):

Michael Diaz Jr.  
**Diaz, Reus & Targ, LLP**  
100 S.E. Second Street, Suite 2600  
Miami, Florida 33131

Phone: (305) 375-9220  
Fax: (305) 375-8050  
Email: [info@diazreus.com](mailto:info@diazreus.com)  
Website: <http://www.chinalat.com>

"Remittances to Latin America are rebounding after an 18-month downturn. From 1998 to 2008, remittances to the region increased an average of 15 percent each year. Because remittances continue to be an indispensable lifeline for many throughout Latin America and the Caribbean, their recent decline (although modest) posed a significant hardship to individuals and governments alike. This was especially true for those Latin American nations facing external financing gaps. In Mexico, remittances are the second leading source of income, behind only oil exports. Indeed, Mexico is the largest recipient of remittances in the region. Consequently, Mexico's drastic remittance drop of more than 16 percent, down to \$21.1 billion in 2009, continues to have grave consequences for that country's fight against poverty and its efforts at continued economic development. Strong remittance flows throughout Latin American are vital for both current economic recovery and future infrastructure building. In El Salvador, Guyana, Haiti and Honduras, for example, remittances continue to be a fundamental source of stable income. For a region which continues to lack access to credit, remittance flows naturally impact the livelihood, education, business and overall productivity of individuals who are otherwise locked out of conventional sources of capital gain. Certainly, traditional investments in physical and human capital, trade and foreign direct investment must continue in order to allow Latin America as a region to develop its infrastructure and expand its economy. However, strategically harnessing the contribution of remittances through reliable transfers of funds will play a necessary role in achieving Latin America's ultimate goal of becoming a significant force in the global economy. With recent signs of growth in the U.S. economy, remittance flows to Latin America should not only stabilize, but potentially surpass their previous levels."

**A**Maricruz Aparicio, head of savings and family remittances at BAC Honduras in Tegucigalpa: "The rate of remittances to Mexico and the rest of Latin America will continue with expectations of very slow growth and recovery. This is a good thing. However, this does not mean remittances will reach the levels of past years, as this depends on factors including the state of the labor



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market and the construction industry. It also depends on immigration policies, which are becoming increasingly stricter, like the anti-immigrant law recently approved in Arizona. Mexico is the most affected by this particular law. Remittances are extremely important as they strengthen the balance of payments and GDP of receiving countries. Similarly, they have a significant impact on domestic demand, which invigorates investment. The effects of the international crisis have opened opportunities for development, especially in migration issues. They lead to instruments and development programs such as loyaltybuilding mechanisms and strategic alliances, which can help lead to a recovery in remittances under models that are differentiated and focused on social programs of migration protection, innovation and education. Those programs have a commitment to develop investment opportunities, help alleviate poverty and improve health and security."

**A**Sergio Perez Ruiz, CEO of More Money Transfers in Montevideo, Uruguay: "The inflow of remittances to the region is at a plateau. Any country may experience some slight signs of recovery such as in Mexico. However, remittances to other countries, such as Brazil and Paraguay, have continued to fall. Although the amount of remittances has been sustained or is growing in some cases, the volumes and average amounts of remittances continue falling, especially from Europe. Remittances can be the principal driver of commerce and a main economic support for the education of the neediest sectors. They are important not only for economic recovery, but also as the foundation for

Michael Diaz Jr.  
**Diaz, Reus & Targ, LLP**  
100 S.E. Second Street, Suite 2600  
Miami, Florida 33131

Phone: (305) 375-9220  
Fax: (305) 375-8050  
Email: [info@diazreus.com](mailto:info@diazreus.com)  
Website: <http://www.chinalat.com>

future generations. The first thing needed for a recovery in remittances is that social safety nets in developed countries attend to the needs of migrants and don't discriminate against them. Secondly, job creation will undoubtedly be the primary vehicle for coming out of this crisis, which is affecting markets that generate remittances. It would also be good to identify new destinations where growth is leading to demand for labor and to promote these regions as destinations for migrants."

**A**Manuel Orozco, member of the Financial Services Advisor board and director of the remittances and development program at the Inter-American Dialogue: "There exists a slow recovery of remittances to Latin America mostly reflected in that more people are sending money to their relatives with regular frequency. Most remittance recipient countries have registered a recovery by the second quarter of 2010. However, the average amount sent has yet to return to 2008 levels (\$270). Immigrants continue to face various challenges dealing with the economic recovery. In Spain, the severity of the crisis has affected the large majority of immigrants in sending the amounts they were used to remitting, and unemployment has affected more than 20 percent of the labor force. In the United States, the percent of people who were unable to remit the same amount as in previous years has declined, but 35 percent are still remitting less. The recovery is substantially important to thousands of households, 2 million of which received less in 2009. In order to ensure the return of remittances, immigrants need to benefit from the economic recovery and improve their current economic conditions with better jobs and earnings, while their relatives must maximize the benefits by improving the management and handling of this valuable income."

Diaz, Reus & Targ, LLP  
Bank of America Tower at International Place  
100 S.E. Second Street, Suite 2600 Miami, Florida 33131



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LATIN AMERICA AND THE UNITED STATES*

P: (305) 375-9220

F: (305) 375-8050

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**Diaz, Reus & Targ, LLP**  
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Miami, Florida 33131

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