THE DECLINE IN REMITTANCES IS REDUCING AMERICAN BORDER EXPORTS TO MEXICO

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ABSTRACT

American border exports to Mexico are the goods and services that Mexicans buy in American border cities, from California to Texas, but that neither the US Department of Commerce reports as exports nor Mexico's government reports as imports. These exports include all kinds of goods and services, from clothing and restaurant meals to luxury cars. The exact magnitude of these exports is not known; however, an approximate indicator of their magnitude is given by the value of retail sales in cities whose economy is very markedly affected by sales to Mexican citizens. These cities are: San Diego, Chula Vista, Calexico and El Centro, in California; Nogales and Douglas in Arizona; and Brownsville, Mcallen-Harlingen, Laredo and El Paso in Texas. Of these cities, San Diego is the least affected by changes in ….the ones in Texas have, by far, the larger retail revenues, and hence, the larger border exports to Mexico (Cañas, Coronado and Philips)

The combined retail sales of the four Texas cities grew from \$1.9 billion in the first quarter of 1996 to a maximum of \$3.16 billion in the last quarter of 2007. By the first quarter of 2009, these sales had declined to \$2.7 billion (Federal Reserve Bank of Dallas). Personal income in Mexico, which grew steadily between 1996 and 2007, and has declined since the end of 2007 cannot fully explain the behavior of the retail sales of the Texas' border cities, because the sector that has driven Mexico's economic growth, exports-of-manufactures, has not been a net generator of dollars. Since 1997, Mexico has had a trade deficit that has averaged \$1.1 billion per quarter. So, what generated the dollars that Mexicans needed to buy American goods and services in border cities? Answer: The remittances of Mexican workers employed, legally and illegally, in the USA (Banco de Mexico and Shelton and Quintin). The strong connection between the remittances and American border exports is suggested by the following regression results:

$$\hat{Y}_t = 1910.13 + 0.168\ X_t$$
$$R^2 = 0.89 \quad t_{b_1} = 20.37 \quad p@value\ of\ t_{b_1} = 3.69\,E@26$$

... where $\hat{Y}_t$ is the estimated retail sales of the Texas' border cities, in millions of dollars; and X_t represents remittances, also in millions of dollars. The subscript t refers to quarters, which go from quarter I of 1996 to quarter I of 2009. These results, although quite simplistic and afflicted by autocorrelation, still suggest that every dollar in remittances finances close to 17 cents of the retail sales in Texas' border cities.

The remittances went from \$3.67 billion in 1995 to a maximum of \$26 billion in 2007, and are expected to be less than \$20 billion in 2009 (Banco de Mexico). The main causes of the decline in remittances have been: The severe downturn of the construction and service sectors in the American economy, which have been the main employers of Mexican workers; the growing hostility towards immigrants;

and the stricter application of immigration laws (Millman and Davidson). Since the last two factors are not likely to disappear, even if the economy resumes growth, the demand for Mexican workers will continue shrinking. Such continued shrinkage, combined with Mexico's persistent trade deficit, will have the unexpected result of reducing economic activity in the border cities of Texas. This is not a marginal economic cost, given that retail sales in these cities represents close to five percent of retail sales in Texas, and given that the border area is the least prosperous region of Texas.

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