Contextualizing Global Shocks to Remittance Flows: Impact of COVID-19 on Haiti and Mexico

Course: Global Systemic Risk

Program: Junior Summer Institute (JSI) 2021

Institution: Princeton School of Public and International Affairs (SPIA)

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Executive summary:

The COVID-19 public health crisis has posed unprecedented challenges for the global community. Among the developing countries, the hit was simply brutal. Drawing from data and reports compiled by the World Bank, we examined the impact of the pandemic on two countries who were either a top recipient of remittances or heavily relied on it: Mexico and Haiti, respectively.

Despite the challenges, an increase in inflow remittances remained a common denominator. For Mexico, a poverty rate reduction of 6.7% can be attributed to a 10% increase in remittances received, while the total inflow of remittances to Haiti increased by 14% in 2020 compared to 2019. The statistics exacerbated a long-term risk for these countries: was this reliance healthy? What would happen if something disrupted this source of income? Most notably: are remittances sustainable?

While the pandemic might make drastic measures more complicated, we offered three concrete policy recommendations that Mexico and Haiti could undertake. First, we recommended that a portion of remittances be withheld and transferred to the investment sector. Sustainable, equitable, and impactful reinvestment in the local economy will make both countries less vulnerable to remittance shock. Second, it is imperative that we de-link land rights and land use to free up laborers to migrate. Knowing their land will be protected by laws would encourage workers to seek employment opportunities wherever their needs are best suited. Last, we strongly recommended the use of regulated remittance models instead of private remittance service providers. Benefits and tradeoffs were discussed in detail.
Introduction:

COVID-19, an unforeseen pandemic, impacted the global network across many different sectors, including the economy. This pandemic exposed many of the vulnerabilities within the global economy; more specifically, remittance flows had their limitations before COVID-19 that made the system more susceptible to risk during the pandemic. Human mobility has been rising, including an increased number of migrants seeking economic prosperity in more developed countries. Increased immigration has led to an expansive network of transactions between families in their host countries and their countries of birth. Those who immigrate often send money back to their families. These are known as remittances. The consequences of COVID-19 varied among countries, as all have different positions in the global economic hierarchy due to historical trends.

Furthermore, a country's position in this system where there is a global distribution of power based on development level depicts their relationship with remittances. These monetary transactions are significant to the global economy as some countries' economies rely heavily on remittances, such as Haiti. Other countries are critical players in remittance flows due to heavy migration but do not have that same reliance, such as Mexico. These two countries geographically positioned around the United States, a country at the top of the global economic hierarchy, heavily influence migration and remittance flows in and out of Haiti and Mexico. Considering that, we used data from the World Bank to conduct a case study contextualizing the impact COVID-19 had on remittance flows in Haiti and Mexico. While many believed remittance flows would drop due to the pandemic, we found an initial decrease followed by a slight increase in remittance transactions compared to years prior. However, many barriers, such as transaction costs and foreign exchange-related fees, were exacerbated by COVID-19. We can learn from these trends and from the pandemic response to best support countries positioned in
lower tiers of the global economic hierarchy who heavily rely on the efficiency and resiliency of remittance flows. Graph A shows the top recipients of remittances in terms of USD amount and percentage of GDP in 2019.¹

[Graph A: Top Recipients of Remittances 2019]

**Haiti:**

Haiti is a country in the Caribbean Sea whose population is significantly composed of descendants from African Slaves. Before its independence from French rule, this colony was one of the richest in the world. Before it was recognized as a country, Haiti was an enslaved French colony named Saint-Domingue. As a result of a revolution, Haiti won independence in 1804. However, it was still not recognized as its own entity, nor was it given much power as a developing nation. Haiti's history of colonization and occupation does not end after the

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revolution of 1804; it continued to manifest through the United States occupation from 1915-1934. The President of the United States at the time, President Woodrow Wilson, ordered 330 United States Marines to occupy Port-au-Prince\(^1\). The United States came to Haiti to establish control of Haiti's political and financial interests. Because of this occupation and its foreign affairs, Haiti experienced significant political instability. Haiti was in tremendous amounts of debt to France, the United States, and Germany. Although the United States ended the occupation in Haiti in 1934, this history still affects Haiti's current economy.

People immigrated from Haiti due to political and social unrest and various natural disasters. Haiti has endured multiple hurricanes and earthquakes that have displaced thousands of people. There are upwards of 600,000 Haitian immigrants in the United States, of which more than 50,000 have been granted TPS. TPS, temporary protected status, was granted to Haitians due to a combination of factors such as political unrest, human rights abuses, and security concerns. There are roughly 1.2 million individuals of the Haitian diaspora; this includes individuals born in Haiti or of Haitian descent. The Haitian diaspora actively sends remittances to Haiti, which comprises about a third of the country's GDP. As displayed in Graph B below, data from the World Bank shows that remittances sent to Haiti before the pandemic via formal channels have increased from the early 1980s, and that trend has continued\(^2\).

\(^1\) Batalova and Olsen-Medina, “Haitian Immigrants in the United States.”
In the first couple of months of the COVID-19 pandemic, there were fears that remittance flows from members of the Haitian Diaspora would decrease due to people facing unemployment.³ Before the pandemic, remittances made up a little more than 36% of the Haitian economy in 2019.⁴ They are a critical component of Haitian society. As one of the least developed countries in the world, remittances help combat poverty and, in some instances, pay for the schooling of receivers in the island nation.⁵ With the initial decrease of remittances, many feared that Haitians would suffer from food insecurity due to the pandemic for two reasons: (1) border closures that prohibit food imports; and (2) fewer remittances sent to Haiti to

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purchase local food products. Haiti relies upon imported products to feed its people. In other words, a predicted decline of remittances would exacerbate many problems in Haiti relating to food insecurity and the economy.

Since the United States is the "top global destination for Haitian migrants," a majority of the remittances sent to Haiti come from Haitian immigrants in the United States. That being said, Haiti’s people and their economy are remittance dependent. More specifically, they are primarily reliant upon the success of the U.S. economy that employs their fellow Haitians. Although many projected that Haiti’s remittance flows would decrease due to the pandemic, they had an overall increase in 2020. It must be acknowledged that there was a decrease in remittances sent to Haiti in April of 2020, but the remittances rate ultimately increased.

Remittances sent to Haiti increased by 14% in 2020 in comparison to 2019 levels. Of the global remittances sent to Haiti in 2020 (approximately 3.8 billion dollars), 84% of them came from Haitians in the U.S. Undeniably, the U.S. holds a great deal of power and influence over the Haitian economy.

This unpredictable increase in remittances is a result of many factors. Depending on the success of the industry they work in, some Haitians were able to continue sending remittances because they had reliable jobs (e.g., Haitians who worked in the healthcare industry during the pandemic). Others, such as those employed in the service, hospitality, and tourism industries, did not have the same fate because they suffered from unemployment, furloughs, and

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7 Batalova and Olsen-Medina, “Haitian Immigrants in the United States.”
10 Bojarski, “Decline in Remittances from Pandemic Could Be Hard-Felt in Haiti.”
terminations due to the pandemic. Some experts attribute the increase in remittances sent to Haiti in 2020 to the kidnapping crisis that "demanded ransom payments" from loved ones \(^{11}\). Gang violence and kidnappings increased during the pandemic as a way for some Haitians to “earn” money quickly when remittance flows temporarily decreased.\(^{12}\) There is a correlation between kidnappings and the flows of remittances in Haiti. The increase in violence that arose in Haiti during the pandemic is linked to the global system of economics. This trend of violence as a result of economic instability puts Haiti at risk. Violence should not be a threat to Haitians during periods of economic instability, but it currently is.

Despite the overall increase in remittances sent to Haiti in 2020, Haiti is still a vulnerable nation in the global economy. Haiti is at risk of entering a recession if the United States enters into one. Consequently, the U.S. maintains a great deal of power over the island nation of Haiti. If immigration policies in the U.S. become more restrictive, a potential risk in the future is that Haiti would lose a source of its GDP in the form of remittances. The level of interdependence that this Caribbean nation has on the U.S. is unsustainable. Although it is beneficial that Haitian immigrants can support their loved ones through remittances, the Haitian government has to come up with other ways to support and manage their economy. However, it must be acknowledged that Haiti is historically a politically unstable nation.\(^{13}\) For instance, recently, the Haitian President was assassinated, leaving the country in a power vacuum.\(^{14}\) In search of a better life, this lack of political stability is one of the many reasons Haitians migrate from the island nation.\(^{15}\)

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\(^{11}\) Bojarski, “Remittances to Haiti Surged in 2020 as Kidnappings, Other Crises Rose.”
\(^{12}\) Ibid
\(^{13}\) Cela & Marcelin, “Haitian Families and Loss of Remittances During the COVID-19 Pandemic.”
\(^{14}\) Joseph, “A Brief History of Presidential Deaths in Haiti.”
\(^{15}\) Batalova and Olsen-Medina, “Haitian Immigrants in the United States.”
**Mexico:**

Mexican immigrants are the largest share of immigrants in the United States, accounting for 44.8 million immigrants as of 2018, roughly 25% of all U.S. immigrants.\(^{16}\) The majority of these immigrants have deep roots in their native country, resulting in the significant number of remittances that are received, tallying up their highest mark in 2020 with 42.8 billion dollars.\(^{17}\) This great interconnectedness between these two countries and the reliance that immigrant families have developed on remittances pose a greater systemic risk as the system lacks a safety net for whenever their flow might cease.

The literature on the effects of remittances in developing countries can give us a great perspective on the broad spectrum of possibilities. Some have found that the increase in remittances have led to no significant change in other economic conditions.\(^{18}\) Others have measured the various adverse effects of remittances, like the decline in labor supply due to workers being disincentivized.\(^{19}\) For Mexico, remittances have demonstrated to help reduce poverty with their increase in inflow. Poverty reduction of 6.7% can be attributed to a 10% increase in remittances received.\(^{20}\) Overall, the study concluded that remittances reduce a country's Gini coefficient, a key wealth inequality indicator. Hoogesteger and Rivara\(^ {21} \) seemed to

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\(^{17}\) “Personal Remittances, Received (Current US$) - Mexico | Data.”, The World Bank, https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=MX


\(^{19}\) Vacaflores, “Remittances, Monetary Policy, and Partial Sterilization.”

\(^{20}\) Nuñez and Osorio-Caballero, “Remittances, Migration and Poverty. A Study for Mexico and Central America.”

agree with this conclusion. They explored the relationship between agricultural production, international migration, wage labor, and processes of differentiation among peasant households in Guanajuato, Central Mexico. Given the growing prevalence of remittance inflows in rural areas of this region, they argued that these incomes offset the inequality that divided rural and urban.

At the beginning of the COVID-19 pandemic, many experts predicted that remittances to developing countries would take a severe toll due to the various measures that governments took to stop the spread of the virus. This plausibility caused severe worry due to the global inequality that persists. It has been exacerbated by this pandemic, global risk, and its unpredicted effects crept upon many countries. Months after the pandemic had begun, new information had surfaced, and the flow of remittances could be assessed. Despite the economic challenges posed by the pandemic, the World Bank\(^{22}\) concluded that the flow of remittances in 2020 only decreased by 1.6% compared to 2019. Mexico was among the top 5 countries that received the most inflows, with 42.8 billion USD. A closer look at Graph C\(^{23}\) comparing personal remittances received in dollar amounts between Haiti and Mexico confirms these conclusions.


\(^{23}\)“Personal remittances, received (current US$)”, BX.TRF.PWKR.CD.DT, https://datacatalog.worldbank.org/public-licenses#cc-by
Nevertheless, keeping track of remittances can be a complicated task due to the varying ability to track the many channels they flow through. Informal channels can be described as traditional ways of bringing remittances to the receiving country. This tends to occur through a specific individual traveling and bringing remittances with them. This is nearly impossible to estimate. However, due to COVID-19 and the mobility restrictions put in place by various governments, this common channel was no longer accessible. Therefore, those who wanted to send remittances would have to rely on formal channels that depend on banks to transfer money. This was true within the first months of the pandemic, as the shift from informal to formal remittances channel, allowing for the increased flow of remittances to Mexico.\textsuperscript{24} Even though Mexican migrants have seen a decrease in employment in the US,\textsuperscript{25} they have not only continued

\textsuperscript{24} Dinarte et al., “Neither by Land nor by Sea: The Rise of Electronic Remittances during COVID-19.”

\textsuperscript{25} Dinarte et al., “Neither by Land nor by Sea: The Rise of Electronic Remittances during COVID-19.”
their flow of remittances but have increased their share of remittances, as seen in Graph D. This has been attributed to the shift from informal to formal remittances.

[Graph D: Remittances to Mexico and Unemployment of Mexican Workers in the US]

What can this shift from informal to formal remittances channels tell us about global risk? Had predictions about remittance flows held, many remittance recipients would have suffered the consequences as such tend to balance out the day-to-day expenses for many recipient households. The decrease in remittances would have impacted the particular recipients and the local economies dependent on the extra money inflow and expenditures. The group that took in this risk were Mexican remittance senders, as even after a decrease in employment for many of them, they increased the flow of remittances. Researchers speculate that cash relief provided to Mexican migrants by the U.S. government and an increase in altruism could have impacted this result.

Another challenge related to remittances is that it has crowded out public finances in less developed areas. For instance, Ambrosius\textsuperscript{28} claimed that the Mexican government "enjoyed higher approval rates without the need to buy electoral support" when private substitutes for public goods - remittances - exist. In rural and less-developed areas, the government might not feel as much pressure to build a new road or renovate the local hospital, which puts the community at greater risk of falling into the poverty trap.

\textbf{Conclusion:}

COVID-19 exposed many of the structural holes within the system of remittances that should be addressed to foster a more robust and resilient global network. To best grasp a valid representation of the patterns of remittances for the global network, we examined the economic transactions of Haiti and Mexico to and from the United States by migrants, focusing on common themes of poverty, inequality, power, and dependence. The pandemic unveiled many structural issues with the island nation of Haiti. Haiti’s economy is at risk of collapsing if remittance flows significantly decrease and migration policies in other countries become more restrictive towards their immigrants. Even though Haiti’s remittance flows increased in 2020, despite the impacts of the pandemic, other remittance-dependent economies should be wary. It is unfortunate that Haiti and countries like it are likely bound to continue suffering from economic and social issues like poverty and inequality if there are no policy changes.

Similarly, despite the pandemic, we have seen an increase in remittances sent to Mexico; this can be attributed to the transition from informal to formal remittance channels. Even though

remittances could reduce poverty and inequality, this reliance could pose risk to local communities, knowing that remittances could crowd out their public funding. Therefore, countries with varying dependence on remittances, like Haiti and Mexico, can learn from these trends to build towards a more robust remittance service industry, especially in preparation for unforeseen global shocks such as COVID-19.

People most reliant on remittances were most impacted by the pandemic. Global remittances peaked at $706 billion in 2019, which was then frayed by job losses in their service sectors most reliant on migrant workers and shutdowns that failed to recognize remittance service providers as essential services. 29 Additionally, as of 2019, the global average cost of remitting $200 was 6.82% or $13.64. 30 COVID-19 showed a general lack of oversight for remittance service providers concerning COVID-19 regulations and a lack of support for immigrant communities dealing with sudden income loss. There were many barriers to remittance services before COVID-19, which generally centered around high transaction costs, high foreign exchange-related fees, and lack of access to a digital system.

**Policy Recommendations:**

For Mexico, to enhance remittance services, labor economists have proposed feasible solutions to reconcile challenges. A particular creative suggestion linked land-use certification and migration. de Janvry et al. 31 studied the impact of the land certification program rollout in

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30 Ibid.

Mexico from 1993 to 2006. Overturning the continuous personal use of rural land requirements, this program removed the link between land rights and land use. As a result, it freed up low-income laborers to migrate elsewhere if the land cultivation proved less sufficient. They estimated that households obtaining certificates were 28% more likely to have a migrant member. A couple of tradeoffs to consider were that such programs took a long time to roll out and posed a challenge for local employers, when workers could mobilize very quickly.

To enhance remittance services, countries like Haiti need to focus on developing infrastructure and capacities to make productive use of remittances.\(^{32}\) For instance, the Haitian government could potentially implement a policy where a portion or percentage of money received from remittances is distributed to the investment sector. Additionally, the Haitian government should develop methods to incentivize their citizens to invest in sectors such as education that contribute to human capital accumulation.\(^{33}\) This policy recommendation could apply to other countries that are remittance-dependent and deal with similar socioeconomic issues. That being said, this policy recommendation may not be feasible to implement in Haiti due to the aforementioned political instability in this nation. Furthermore, this policy would be difficult to implement without the financial backing of other countries like the U.S. or an organization like the World Bank. Lastly, this policy could face backlash from Haitian citizens due to lack of popularity.

In the context of global systemic risk, it is essential to understand that although COVID-19 was a significant shock to the global network, other global shocks represent sources of risk for the remittance service industry. Moving forward, there needs to be a stronger emphasis


\(^{33}\) Uprasen, “The Impacts of International Remittances on Economic Growth and Human Development of Haiti.”
placed on regulating remittance flows to reduce barriers in the process for both sending and
attaining monetary transactions. More specifically, we recommend that to limit costs and
increase digital usage and access for remittance services, the World Bank should embrace new
emerging remittance models, which enable originating and disbursing remittances through digital
means suitably addressing regulatory and infrastructure barriers.34 These models would allow for
more efficient remittance flows due to more regulation and a digital system to efficiently and
uniformly process transactions. The Platform Cooperatives Consortium, a jointly owned and
democratically controlled enterprise, provides digital tools and services for businesses to work
together towards common economic and social goals.35 Platforms like this could provide the
regulation and cooperation needed for an efficient and uniform remittance system. However,
there are still issues of access to smartphones in countries similar to Haiti that need to be
addressed. In Haiti, it was recorded that there were around 60.8 mobile cellular subscriptions per
100 inhabitants in 2019, slightly up from 59.36 mobile subscriptions per 100 people in the year
prior.36 The World Bank needs global cooperation and oversight of remittance service providers.
This can be politically popular for those most reliant on remittances. However, we can expect
resistance from the remittance service providers who currently profit from the business. This
goal is feasible and can uplift many families all over the globe due to a more uniform structure
that should reduce overall limitations.

Countries that host many immigrant populations, such as the United States, should
consider targeting resources and support services for migrants who experience sudden job and

34 “Remittances in Times of the Coronavirus – Keep Them Flowing.”
income loss due to uncontrollable circumstances.\textsuperscript{37} This policy response will prepare a safety net for migrants who often do not have access to welfare assistance and unemployment insurance in their host countries and can avoid the loss of remittance flows between countries. This policy recommendation can be controversial due to high costs for funding these services and a lack of support for targeting resources to those not considered valid citizens of their host countries.

**Limitations and Future Research:**

In gathering and interpreting data on remittance flows in Haiti and Mexico, we found limitations with tracking and estimating informal remittance channels. Additionally, it was difficult to properly understand the extra costs associated with remittances since service providers profit from these transactions. Moving forward with research on global remittance flows, we recommend gathering more information on the sustainability of flows in developing countries like Haiti. Furthermore, research can be conducted to understand the proactive nature of remittance-reliant countries in creating and sustaining local jobs and of more developed countries in sustaining immigrant employment. Lastly, researchers should question whether emergency assistance and cash relief affect the remittance flows that developing countries recorded during COVID-19.

Bibliography:


