

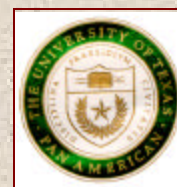
Human and Social Aspects of Cross-Border Development in the McAllen/Reynosa Area



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Introduction

Many areas of the United States look for distinctiveness in ways that portray them as “Number One.” The McAllen (and surrounding Hidalgo County) area claims Number One status in a variety of areas, but not necessarily in ways that bring “bragging rights.” Despite a booming economy, this region frequently leads the nation in unemployment. Similarly, though it has one of the three highest population growth rates in the U.S., it ranks near the bottom nationally in per capita income. The McAllen border area also has the highest rate of drug seizures in the nation. Finally, it is Number One in the number of low-income housing enclaves (*colonias*), in large part because it also hosts the largest number of migrant farm workers in the U.S. during the winter months.

Perhaps more than any other area along the U.S./Mexico border, the McAllen border area presents a number of puzzling contradictions. Demographic statistics for the region show a pattern of substantial growth, but without the top-to-bottom prosperity that usually characterizes high-growth areas. Similarly, it has the highest rate of drug seizures in the nation, but a violent crime rate well below the statewide average. Its *colonias* house the poorest residents in the nation, but the rate of home ownership and two/parent families is among the highest in the nation.

Growth in the McAllen, Texas/Reynosa, Tamaulipas area has been phenomenal, particularly over the last decade. This growth is especially evident in business activity, population increases and the labor force. Indeed, the McAllen area Metropolitan Statistical Area (MSA) recorded the third highest population growth in the U.S., following only behind Las Vegas and Laredo. While much of this burst of growth can be traced mainly to the expansion of the maquiladora industry in the area and to the

increasing trade with Mexico, other less obvious factors have had a powerful impact, in both expected and unexpected ways.

An additional factor fueling this growth is migration from the interior of each country, as well as immigration (legal and illegal) to the United States from Mexico. Another major factor is the presence of an underground economy which derives from the irrationalities and artificialities of a region separating two very different nations.¹ Both of these factors have resulted in a labor pool that increases faster than the availability of new jobs. This in turn has led to increasing demands for better infrastructure, including transportation and communication systems, schools, health/social services, and housing.

In this chapter, we analyze how economic development is related to dramatic changes taking place in the McAllen/Reynosa area. These changes include the region's demographics, its human capital, and other social and human aspects of development. We include a brief discussion of how economic development and the demographics of the area have evolved over the past few years. This discussion centers on some recent developments in the "underground" housing, labor, and economic markets of the region. Finally, we discuss how the development experience of this region compares to other border communities and propose some tentative explanations for the differences.

Economic Development and Demography along the Southern Rio Bravo/Rio Grande Borderlands

As indicated in the introduction, the McAllen/Reynosa area of the Rio Grande Valley (RGV) has experienced phenomenal population growth over the last decade. According

¹ Russell (1994) uses this phrase to describe one of the two primary traditional bases of the economy of the U.S./Mexico borderlands.

to the U.S. Census Bureau, the McAllen-Edinburg-Mission MSA population increased from 383,545 to 522,204 inhabitants during the 1990-1998 period (U.S. Census Bureau, 2000). To put this figure in perspective, the average U.S. population growth during this same period was only 8.7%. Only Las Vegas, Nevada, with a 55% growth rate, exceeded the growth of the South Texas border (with Laredo, also in South Texas, growing at a rate of 41.2% and the McAllen area showing an increase of 36.2%). The Brownsville-Harlingen-San Benito MSA—the only other Census-defined MSA in the South Texas border region, was not far behind, with a population growth of 25.5% during the same period.

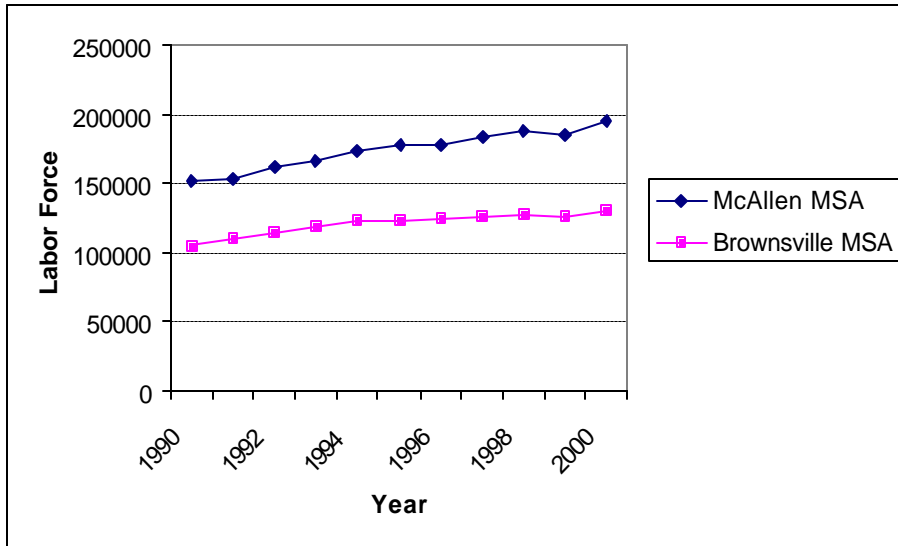
Similar substantial population growth patterns are evident across the river in the Mexican border state of Tamaulipas, particularly in the cities of Reynosa and Matamoros. According to the *Censo General de Población y Vivienda*, the state of Tamaulipas experienced a population growth of 22.2% from 1990 to 2000, where population increased from 2.25 to 2.75 million inhabitants over this period. Reynosa and Matamoros have become the two largest municipalities in the state, with a population of 419,776 and 416,428 inhabitants each. During this period, Reynosa's population caught up with, and then surpassed, the population of Matamoros. Together, these two cities account for 30.44% of the total Tamaulipas population (INEGI, 2000a).

During the past decade, the McAllen MSA also experienced tremendous growth in the size of its labor force (i.e., the number of workers employed plus those looking for a job but unable to find one, or the unemployed; see Figure 1).² From August 1990 to August 2000, the McAllen's labor force increased from 151,847 to 195,615 workers, a

² The data discussed in this section comes from TWC (2000) and the Texas Workforce Commission homepage (<http://www.twc.state.tx.us>).

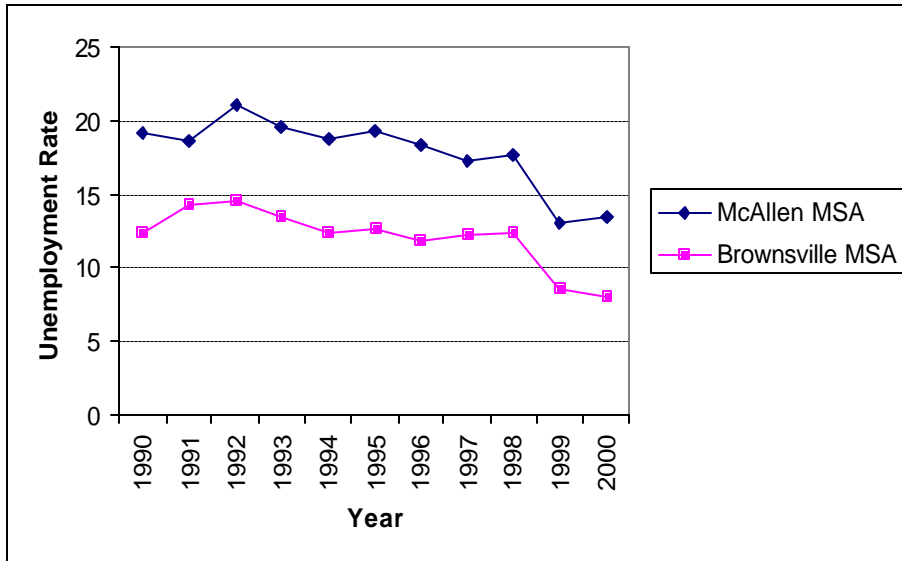
28.8% increase. By comparison, Brownsville experienced high growth in its labor force, but not as large as that experienced by McAllen. Brownsville's labor force increased from 105,701 to 130,071 workers, a 23.1% increase.

Figure 1. Labor Force Estimates



When it comes to the unemployed, the McAllen MSA unemployment rate peaked during the 1991-92 U.S. economic recession at 21%, but the unemployment rate has steadily declined over the rest of the 1990's (see Figure 2). Nonetheless, McAllen's unemployment rate remains the highest in the state of Texas at 13.4% (which, incidentally, has a statewide unemployment rate of only 4.3%).

Figure 2. Unemployment Estimates



Clearly, the McAllen area's success in attracting growth has also attracted large numbers of unemployed workers, many of them from Mexico. Roughly 25% of the residents of Hidalgo County in 1990 were foreign born. Hidalgo County had a net international migration of 33,903 between April of 1990 and July of 1996, compared to a net international migration in Cameron County (Brownsville) of only 18,067 and 12,782 in Webb County (Laredo) during the same period (Sharp, 1998: 167). Thus, not only is the rapid growth in jobs unable to keep up with the number of available workers, but indeed the growth seems to attract many unemployed workers from Mexico. As a result, from August 1999 to August 2000, employment levels in the McAllen MSA increased by 5.3% (from 160,857 to 169,362). At the same time, the number of unemployed workers increased by 8.2% (from 24,265 to 26,253). Thus, the local economy has not been

creating jobs fast enough to absorb the inflow of new job searchers, despite the fact that the area has had phenomenal employment growth.

Interestingly, the unemployment experience of the Brownsville MSA is somewhat different since the unemployment rate has remained substantially low over the last year. In fact, the unemployment rate fell from 8.5% in August 1999 to 8.0% in August 2000, due to a combination of increasing employment levels and a slight decrease in the number of those reporting to be unemployed. Unlike McAllen, Brownsville has experienced labor market employment changes that are very similar to those experienced by both Texas and the U.S. as a whole.

Most of the recent employment growth both in Brownsville and McAllen can be traced to increasing growth in non-durable goods manufacturing coupled with increases in the number of local government employees (TWC, 2000). However, it becomes difficult to assess the changes in farm worker employment given the fact that these workers and their families reside temporarily in the region due to the seasonal employment pattern of this sector (see the *colonia* discussion below).

Employment levels on the Mexican side have also grown tremendously over the last few years. From 1988 to 1998, total employment in Reynosa grew from 42,292 to 113,486, a 168% increase. However, relative employment growth was much lower in Matamoros (104%) and Nuevo Laredo (139%) (INEGI, 2000d). When it comes to employment in the maquiladoras, total employment in Reynosa's in-bond assembly plants increased from 38,986 in 1995 to 60,815 in 1999, a 60% increase. However, employment growth in the maquiladora sector in Matamoros and Nuevo Laredo was less pronounced during the 1995-1999 period (34% and 19%, respectively) (INEGI, 2000c).

Sources of Uneven Economic Development in the Region

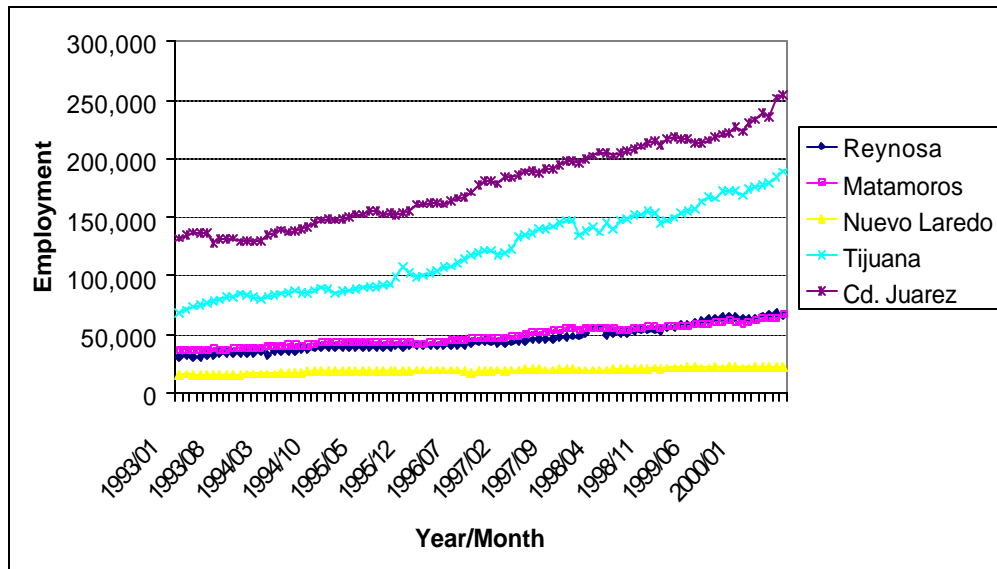
Although many border communities have experienced ample growth, the McAllen/Reynosa area is unique as a result of the extent of economic development, location and the sources of growth. Three major sources of economic growth are evident: (i) increases in economic activity in both sides of the border as a result of maquiladora development in Reynosa and Rio Bravo; (ii) increasing border traffic and trade, particularly after the enactment of the North American Free Trade Agreement (NAFTA); and (iii) increases in low-skilled workers moving into the area and taking up residence in the *colonias* of Hidalgo County. We will examine these three sources of economic growth individually and then discuss their human and social consequences for the region.

Maquiladora-led Development

Mexico's maquiladora industry has experienced remarkable growth during the last decade. From January 1993 to July 2000, total employment in the maquiladora industry increased from .52 to 1.29 million workers, a 148% change. Most of this growth has occurred in the border cities of Tijuana and Ciudad Juárez, which together account for 34% of total maquiladora employment in Mexico.

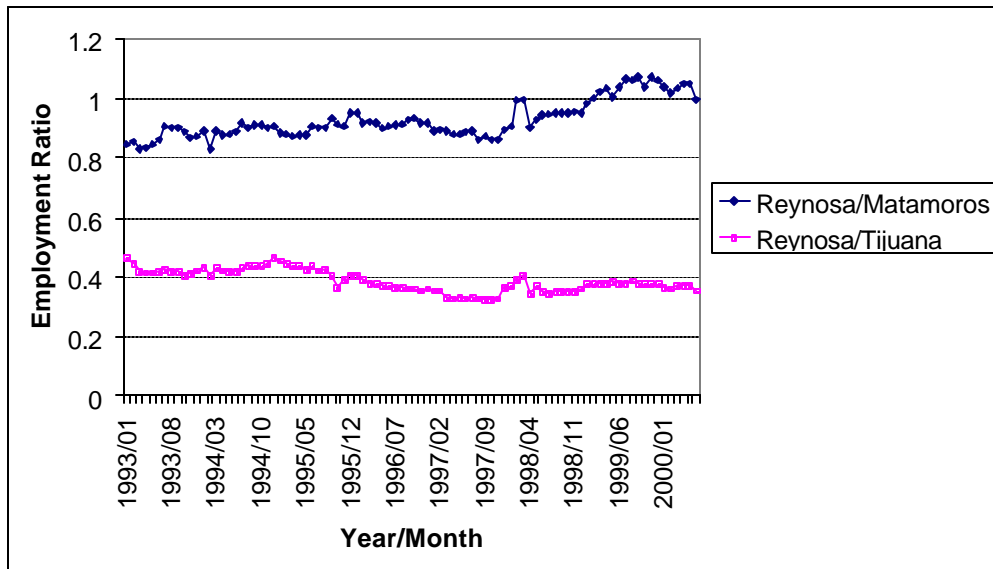
More than Matamoros, Reynosa has experienced tremendous employment growth as a result of increasing maquiladora development. From January 1993 to July 2000, total maquiladora employment more than doubled from 31,428 to 66,813 workers, a 113% increase (see Figure 3). According to INEGI (2000b), there were 116 maquiladoras in the Reynosa area and their value added (i.e., the sum of raw materials, wages, fringe benefits, profit and other expenses) during July 2000 amounted to roughly US\$80 million dollars.

Figure 3. Employment Levels



Interestingly, Matamoros has not experienced the same employment growth as Reynosa. From 1993 to 2000, total employment levels went from 37,139 to 66,930, an 80% increase (see Figure 4). The number of plants operating in Matamoros increased from 94 to 119 during the same period. There are different explanations for these divergent patterns in economic development. First, McAllen is an important and strategically located border crossing point and perhaps the most important within the state of Texas after Laredo and El Paso. McAllen also has better infrastructure, and the time it takes to cross cargo across the bridge connecting the two countries—the Pharr-Reynosa bridge—is less than in the Brownsville-Matamoros area. Thus, maquiladoras are more likely to establish in areas in which they can attain lower operating and transportation costs.

Figure 4. Employment Ratios



A second explanation for the divergent patterns in maquiladora employment growth can be traced to heterogeneity in union power across cities. Otero and Pagán (2000) examined this issue and found evidence that queuing into maquiladora jobs is higher in Matamoros than in Nuevo, Laredo, Ciudad Juárez and Tijuana. They interpret these queuing findings as evidence that union power is very strong in Matamoros relative to all the other border cities studied. Although their study did not analyze unionization-induced queuing in Reynosa due to the lack of comparable data, their study indicates that unions in the Reynosa area have experienced substantial internal strife over the last two decades (see also Williams and Passé-Smith, 1992). Thus, the Reynosa labor movement can be characterized as weak when compared to Matamoros. As a result, it has not been an important deterrent to the establishment of new maquiladora plants in Reynosa.

Maquiladora development in the Reynosa area has also led to increasing business opportunities and employment in the McAllen area. In 1997, the Perryman Group

conducted an economic input-output analysis of the impact of maquiladora activity on the McAllen economy. Their study found that "...maquiladora facilities result in a substantial addition to business activity in the McAllen area through such mechanisms as purchases of supplies in the local area, expenditures for travel by persons visiting the facilities, and other means. In addition, a portion of the payrolls generated at the maquiladoras is ultimately spent in the McAllen area." (Perryman Group, 1997: 1). According to this analysis, maquiladora operations contributed 13,955 jobs to the McAllen area; 1,093 direct jobs, 4, 135 indirect jobs (i.e., jobs created through inter-industry purchases) and 8,727 induced jobs (i.e., jobs created through household spending). Moreover, in 1997 retail sales resulting from maquiladora operations were projected to have generated US\$283.4 million and total area expenditures of US\$1.3 billion.

Their study also found that 12.9% of total personal income in the McAllen area could be attributed to maquiladora operations. Moreover, one in every 10 jobs in the McAllen area was seen as the result of maquiladora-generated economic activity. The Perryman Group study also estimated that 1,296 maquiladora employees lived in the McAllen metropolitan area in 1997.

Border Traffic and Trade

The second important source of economic growth has been the increasing border traffic and trade, for the most part after the enactment of the North American Free Trade Agreement (NAFTA). Table 1 reports the number of full-truck crossings from Mexico to the U.S. by port of entry and year (the data were collected by the U.S. Customs Service's Inspection and Controls Division). From 1990 to 1999, truck crossings in the McAllen-Pharr area increased by 173% (from 119,393 to 325,352 truck crossings). In 1990

McAllen had fewer truck crossings than Brownsville. By 1996, however, McAllen overtook Brownsville as the preferred crossing in the RGV area. Still, when it comes to border trade between Texas and Mexico, as measured by truck crossings, Laredo has experienced the most significant increases in trade and it is by far the preferred point of truck entries into the U.S. From 1990 to 1999, border truck crossings via Laredo increased from .31 to 1.49 million, a 381% increase.

Increasing border traffic is also a result of increasing retail purchases, mostly due to consumers from Monterrey, Mexico's largest metropolitan area in Northeastern part of the country and a short drive from McAllen. According to the Mexico Tourism Promotion Board, in 1999 1.25 million pedestrians and 5.97 million vehicles crossed the McAllen/Reynosa area bridges from south to north.

Table 1. Truck Crossings (North), by Point of Entry and Year

Trucks-North	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Brownsville	180.084	160.474	92.801	102.928	125.441	115.828	118.171	122.883	121.255	265.462
Del Rio	24.376	26.047	21.560	24.118	25.158	28.926	29.695	33.042	35.456	59.843
Fante Pass	36.279	30.808	17.844	20.606	24.884	31.747	36.261	40.628	49.072	101.242
Laredo	313.654	303.398	213.456	252.066	366.781	428.774	575.886	576.652	650.907	1,486.511
McAllen-Hidalgo	119.393	106.618	82.329	90.370	98.887	114.752	62.334			
Pharr							77.394	156.516	167.077	325.352
Progreso	29.086	27.580	16.155	9.031	8.592	9.189	8.111	7.994	3.741	16.588
Rio Grande City	9.274	8.605	6.427	6.228	6.384	6.064	10.635	15.917	12.546	20.946
Roma	13.638	11.288	2.947	4.130	3.822	4.701	5.388	5.747	7.895	15.985
Totals	725.784	674.818	453.519	509.477	659.949	739.981	923.875	959.379	1,047.949	2,291.929

Source: U.S. Customs Service, Inspection & Control Division, Laredo, TX (Compiled by Texas A&M International University, Texas Center for Border Economic and Enterprise Development).

Lastly, about 124,000 senior citizens move annually from the Northern U.S. and Canada to the RGV area during the winter season. Winter Texans generate about 493 million dollars in the Rio Grande Valley in terms of direct, indirect and induced

spending. Local expenditures by Winter Texans generate almost 5,000 direct jobs and about 1,700 indirect/induced jobs. About 85% of Winter Texans visit Mexico during the winter and average of five times a season. Winter Texans visit mostly Progreso, Reynosa and Matamoros, and they have a significant economic impact in the retail trade sector of the Mexican side since they spend substantially on arts/crafts, medicines, dentists and doctors. In addition, they dine out at local area restaurants (see Vincent, Thompson and Pagán, 2000, for details).

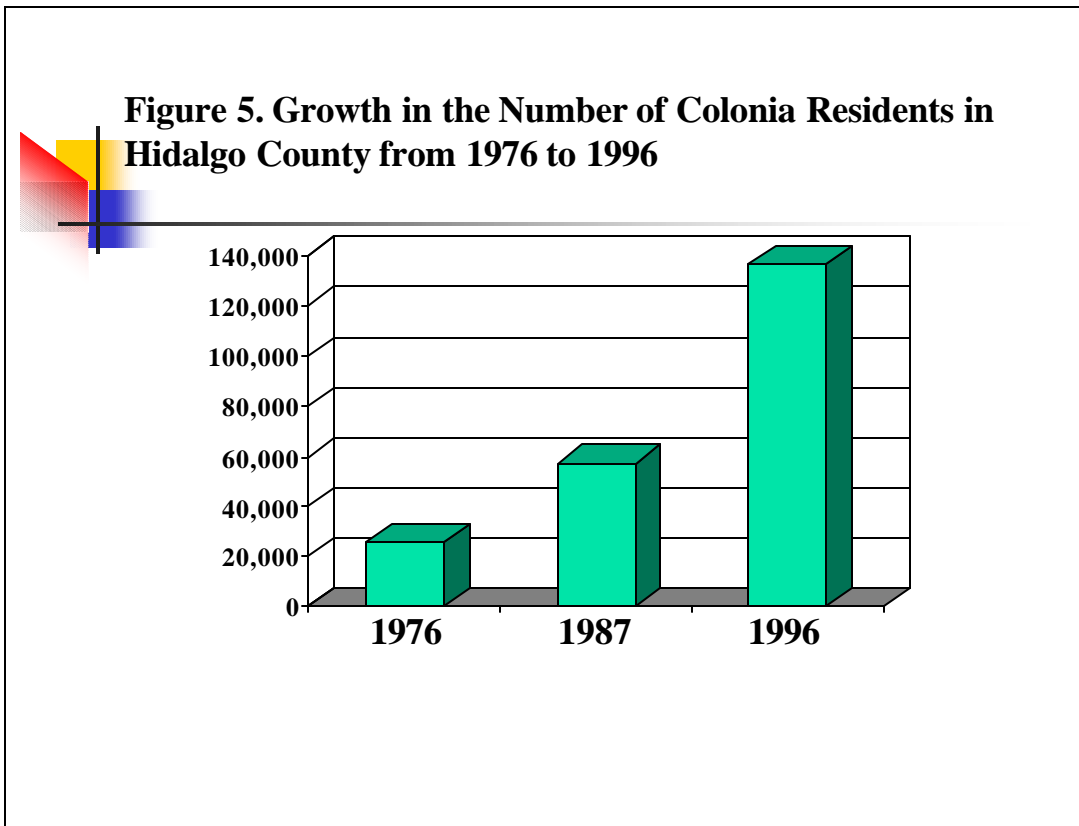
Colonias and Low-income Workers

Perhaps the greatest growth in the population of McAllen has taken place in the rural areas of the surrounding (Hidalgo) County. Clusters of homes in unincorporated areas have sprung up almost overnight. These clusters of dwellings house the poorest of the poor and are commonly called *colonias*. Located almost exclusively along the Texas-Mexico border, *colonias* are defined by the U.S. General Accounting Office (1990) as "rural, unincorporated subdivisions along the U.S.-Mexico border in which one or more of the following conditions exist: substandard housing, inadequate roads and drainage, and substandard or no water and sewer facilities." The largest concentration of *colonias* is found in the four counties of extreme South Texas, though the greatest concentration is found in Hidalgo County. Hidalgo County alone has 60 percent of the *colonias* in Texas and nearly 40 percent of the State's *colonia* residents (Richardson, 1999: 44).

As a result of lax building codes and weak enforcement of subdivision requirements, *colonia* developments, in earlier years, often lacked potable water. Subsequently, water lines have been brought into most *colonias*, though residents are often unable to afford connections to their homes. Today most Valley *colonias* continue

to be unconnected to sewer lines. Poor drainage and unpaved roads and streets are still widespread problems for many *colonia* residents.

In spite of missing or substandard infrastructure, however, phenomenal growth has taken place in Valley *colonias*. From 1976 to 1996, the population of the Valley essentially doubled. During the same time, the growth in *colonias* increased by more than 600 percent. In 1976, for example, only 10 percent of the Valley population lived in *colonias* (LBJ School of Public Affairs, 1977). By 1990, the *colonia* population had grown to 26 percent. Presently, one of every three of Hidalgo County's 482,000 residents lives in a *colonia*.³ This extremely high rate of growth is reflected in Figure 5.



³ If only those *colonias* currently outside city limits are included, the figure is 28 percent. The 33 percent figure is derived by including *colonias* that have been incorporated within city limits during the 1976 to 1996 time period.

Before 1950, *colonias* were little more than worker camps for ranches and farms. Then landowners found they could subdivide poor farm land (especially the areas that flooded), scrape dirt roads, put in power lines, and sell lots for a substantial profit. Farm workers and Mexican immigrants were ready buyers. Because the lots were outside of city limits, subdivision codes were loosely-written and poorly-enforced. Developers were able to sell lots that lacked water, sewer connections, drainage and paved roads. Buyers, on the other hand, were able to construct whatever housing they could afford without worrying about permits or building codes.

If conditions in *colonias* are so bad, why have they grown so rapidly and in such a short period of time? We propose that *colonias*, though lacking basic infrastructure, are popular because they also meet basic social and cultural needs. If policy makers understand this, they can use the strengths associated with the unique location of border *colonias* to help solve problems of inadequate infrastructure and poverty that characterize these communities.

Most of these problems, of course, are related to poverty. By conventional definitions, about half of *colonia* residents are unemployed (Texas Department of Human Services 1988: 5-3). Such figures, however, are deceiving. Farm work, for example, is often seasonal, leaving those who do it "unemployed" during the winter months. Construction work is also subject to a highly temporary nature for many workers. A survey conducted in 12 Hidalgo County *colonias* (Richardson, 1996), asked, "What kind of employment do members of your household mainly have?" Only 11 percent of the respondents said that people in their household were "mainly unemployed" and almost half claimed farm work as their main source of employment. This figure is very close to the one obtained in

another survey by the Texas Department of Human Services that found that 46 percent of employed RGV *colonia* residents were involved in field work, with the vast majority of these traveling North every year as migrant farm workers. Indeed, in the 1990 Census, 203,204 residents of Hidalgo County listed their principal source of employment as migrant or seasonal farmwork.⁴ This figure represented 53 percent of the 383,545 residents of Hidalgo County. By comparison, only 18.5 percent of the residents of Cameron County (Brownsville), 9.2 percent of Webb County (Laredo), and 0.7 percent of El Paso County were listed as migrant or seasonal farmworkers. Clearly, Hidalgo County attracts different workers than those attracted to other border counties in Texas.

Most migrant families do not have a regular income for most of the year. Often, while they are in the Valley, they find temporary work in local fields, packing sheds, temporary construction jobs, janitorial positions, or warehouse labor. These jobs are needed to help pay for the trip up north and to pay bills. For others, farm work is what they do when other occupations fail to provide sufficient or steady income.

Colonia families want to work. Many avoid welfare, even when they are eligible. Most members of the family, including older children, work when they can. Many *colonia* residents have jobs that provide no benefits, such as sick leave or health insurance. Some jobs do not even pay minimum wage. If the work is temporary, they are not eligible for unemployment compensation. Fully 62 percent of the respondents in the study of 12 *colonias* reported family incomes below \$9,000 a year and 90 percent had annual family incomes under \$15,000 (Richardson, 1996: 57).

⁴ Texas-Mexico Border Counties, p. 84.

Immigration Issues

Many legal U.S. residents in *colonias* have gained legal status with the amnesty provisions of the 1987 Immigration Reform and Control Act (IRCA). Others are married to undocumented Mexicans and are unable to become legalized because of the income provisions of U.S. immigration law. Immigration officials claim they are "likely to become a public charge" because they are not earning incomes over \$20,000 a year.⁵ Thus, even though they might qualify to become legal by having a spouse who is a citizen or resident alien, they are disqualified by the income requirements of immigration laws.

The provisions of IRCA that made it illegal to hire undocumented workers has also made it harder to get a job, but have not necessarily cut back on immigration to the Valley. Some undocumented *colonia* residents do farm work in local fields or packing sheds because it is hard to migrate north due to the immigration/customs checkpoints. Some work when they can in construction, others are self employed, selling used articles at *la pulga* (local flea markets) or finding odd jobs in the area. Some take articles across to Mexico for resale and others even have jobs or small businesses in Mexico, commuting daily or weekly using a *mica*, a border-crossing card issued by American consulates in Mexico to Mexican border residents. The border crossing cards allow Mexico border residents to spend up to 72 hours in U.S. border communities (for shopping, visiting, etc.) but carries no work authorization. Enforcement of these requirements is lax and, therefore, *colonia* residents holding a *mica* are in a quasi legal

⁵ This figure is an approximation based on calculations for an average family. Under the Immigration Reform and Immigration Responsibility Act of 1996, federal guidelines require an income 25 percent above the poverty line for a spouse to gain legal residency.

status, having entered legally but lacking authorization for long-term stays or for employment on the U.S. side.

Some long-term undocumented *colonia* residents easily pass for American citizens. A few can speak English as well as the locals, so no one suspects they are undocumented. All children born in the United States, even of illegal parents, are, by U.S. law, full American citizens. As a result, many *colonia* homes have a mixture of citizens, legal residents, quasi-legal "guests," and illegal residents.

Discretion dictates against asking the legal status of *colonia* residents, so most surveys do not address the issue. Women in the 12 *colonias* surveyed by Richardson (1996) were asked, however, where they were born and where they were raised. The results of the responses show a very heavy concentration of adult women (80 percent) were born and raised in Mexico. Data regarding English proficiency from the Texas Department of Human Services survey (1988: 2-5) indirectly support these conclusions. They found that 71 percent of household heads in Valley *colonias* could not speak English.

Whether low-income *colonia* residents are U.S. citizens, resident aliens, holders of a *mica*, or undocumented residents, buying a home close to the border is an enticing option. Rural land prices in Texas are cheaper than those across the river in Mexico, so the search for housing, as well as the desire for a job, draws Mexicans to the Texas border. Many *colonia* residents have relatives in Mexico. A home of their own nearby provides a base from which to make or receive short and long-term visits, much of which would be problematic in rental housing.

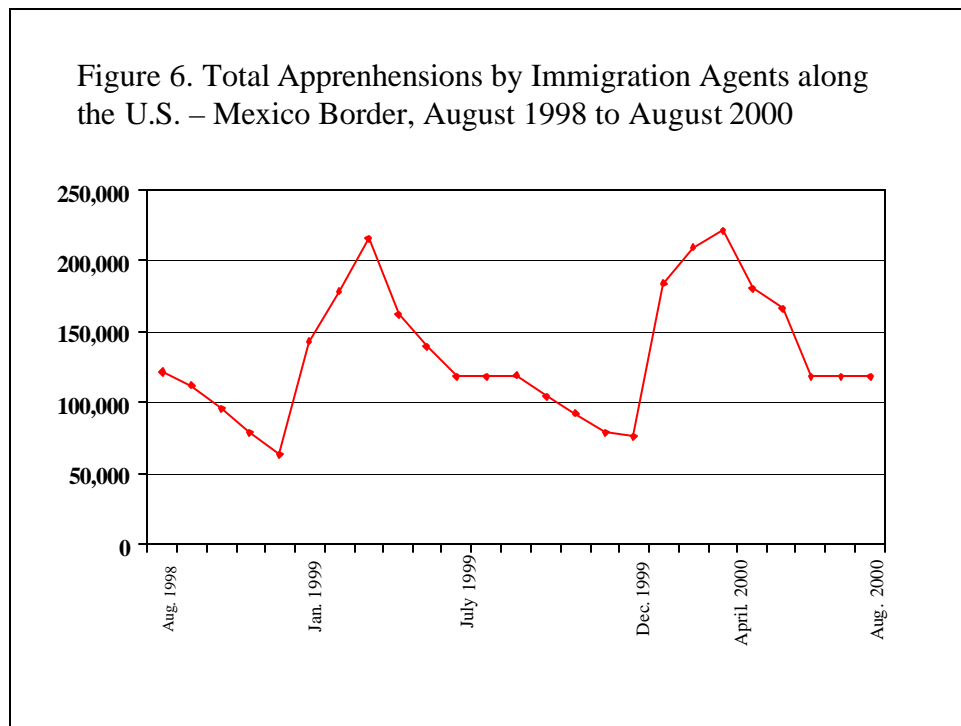
Living near the border helps to also lower other expenses. Medical services are much cheaper in Mexico than in the U.S. The prices of medicines are also lower in Mexico and many can be purchased without a prescription. *Colonia* residents also have a wide choice of Mexican radio, TV, movies and entertainment. Their economic, social, and cultural well-being is greatly enhanced by owning a home near the U.S.-Mexico border.

The Human and Social Consequences of Cross-Border Development

How are economic development and the extremely fast growth rate of the McAllen/Reynosa area related to colonias, migrant farm workers, immigration, and an underground economy? In order to understand these relationships, we need to look beyond this geographical area to the larger picture in each nation. We also need to look beyond the economics and demographics to the cultural and social characteristics of the region's borderlands location.

The passage of NAFTA legislation and the development of the Reynosa *maquiladora* industry have had causes and consequences far beyond the Texas/Mexico border. As the tariff reduction provisions of NAFTA take effect, for example, agriculture in the interior of each nation is increasingly affected. For the U.S. to remain competitive, it needs cheap labor at home for its agricultural products and even cheaper labor for its manufacturing industry. Mexican labor is an attractive solution for both situations. With increasingly fewer American workers available for agriculture, however, farm states struggle to find ways to increase the available supply of farm workers. Indeed, reports on detentions along the U.S. Mexico border by the Immigration and Naturalization Service seem to be closely related to farm work and the agricultural season. "Normally," says an October

2000 report, “apprehensions reach a yearly low in December (around 60,000) followed by a strong seasonal increase in January. Seasonal highs (around 220,000) tend to be reached in early spring. Apprehensions fluctuate but remain relatively high (120,000) through the summer months and then start their autumn decline in September, which continues through the Christmas and New Year holidays.”⁶ This seasonal fluctuation is illustrated in Figure 6.



While an influx of undocumented workers may be in the interests of economic conservatives, it conflicts with the interests of “cultural conservatives” in the U.S. The latter group frequently opposes immigration, particularly from South of the border, on the

⁶Source: Immigration and Naturalization Service, 2000 <http://www.ins.usdoj.gov/graphics/aboutins/statistics/msraug00/SWBORD.HTM>. Parenthetical numbers added from the accompanying graph.

belief that it represents a threat to American cultural identity. In addition, this group of Americans sees Mexican culture as a cause of poverty. Thomas Sowell (1983), for example, alleges that immigrant groups like Mexicans have a culture that discourages political participation, education, and upward mobility. In effect, he asserts that such cultural patterns are so ingrained that they will persist after many generations, making Mexican-origin people not only poor, but resistant to assimilation.⁷

As a result of this increasing demand for unskilled labor in the agricultural sector, Mexican labor is attracted to farm work in the United States, but at the same time it is unable to move freely due to immigration restrictions. Farmers often avoid the penalties of hiring undocumented workers by contracting with crew leaders, or *contratistas*, who take the risks of being fined, but often keep a substantial portion of the wages of contract laborers. In addition, many farm workers manage to evade immigration officials by counterfeiting or borrowing documents and social security numbers.⁸ Because farm labor is only seasonal, however, many of these workers migrate back to the border where they can essentially disappear among the local population, almost 90 percent of whom are also of Mexican origin. Indeed, according to in-depth interviews conducted with undocumented farmworkers, even immigrants who cross the border elsewhere are often attracted to South Texas by fellow farm workers.⁹

⁷ In its extreme version, this position calls for cutting off immigration for Mexicans because they won't assimilate and their culture will always keep them poor. A more shrill version of this position is advocated by Brimelow (1995).

⁸ Manuel Sloss, Brownsville port director of the INS, was quoted as saying, "There is a lot of fraud out there, and a lot is attributed to Operation Rio Grande. When they can't come across the river, they're going to try to come through another way." Source: <http://www.reporternews.com/texas/border0107.html>.

⁹ This data comes from research on 127 undocumented workers in South Texas by Richardson (unpublished). Many reported having crossed the border in other areas, and then migrated to South Texas at the end of the harvest season.

Colonias present a good solution to the housing needs of this population. Being out in rural areas makes it easier to avoid immigration officials. It also presents an opportunity for cheaper land on which they can build their own home without having to worry much about building codes and city building inspectors. In addition, a home in a *colonia* allows families to accommodate extended family members from Mexico without interference of landlords. They can also subdivide a lot or by add on extra rooms as children marry, or as more relatives arrive.

If individuals are caught by immigration officials, they are simply returned to the border¹⁰. Most make their way back across the river within hours, aided on both sides of the border by family and friendship networks. In addition, many have a *mica* which allows them to come as shoppers, so they can walk across the border. If they marry a U.S. citizen, they can easily apply for legal residence, but only if they meet income guidelines. Even if they cannot meet these provisions, immigration officials are reluctant to deport them if they see that they might eventually become eligible. Periodically, U.S. immigration law legalizes the status of those who have lived illegally in the country for many years by the passage of “amnesty” provisions which seem to make their way into immigration laws every 15 or 20 years.

Thus, a strong demand for unskilled Mexican labor throughout the United States, coupled with a housing system that allows migrants and other workers to live along the border, has greatly impacted the population and the poverty of the McAllen border region. Many jobs along the border area requiring higher levels of skill—for example,

¹⁰ Of the 1,545,935 aliens apprehended on the Southwest Border (Mexican border) during FY2000 (data through August), fully 97.7 percent, or 1,510,410 were given “voluntary returns” (Immigration and Naturalization Service, 2000).

teachers and medical personnel—must be filled by recruiting from outside the region. Indeed, many local hospitals and school districts have become aggressive in their search for medical personnel and teachers. As a result, job creation brings even more individuals to the area, while still leaving a substantial number unemployed.

It is estimated that the maquiladora program also contributes to the population increases on both sides of the border. The rapid growth of this industry in Reynosa has brought many people from the interior of Mexico to the border. This, in turn, has created major housing shortages. When some family members are unable to gain employment in the maquiladora plants, some, often a husband, may cross the border to seek work in the McAllen area, or as a migrant farm worker. For those who manage to get a border crossing card, crossing the border becomes relatively easy.

The Drug Trade and Money Laundering

Another economic by-product of cross border development that has been rarely analyzed is the growing illegal drug trade. The rapid development of the maquiladora industry, coupled with the increased trade promoted by NAFTA, have contributed to a rapid expansion of the flow of illegal drugs. Each year 1.7 million trucks, 26.6 million private vehicles, and 13.3 million pedestrians cross into South Texas from Mexico (South Texas National High Intensity Drug Trafficking Area, 2000). The Hidalgo County area has become the number one crossing point for illegal drugs in recent years, followed by Laredo and El Paso (Treviño, 2000). In fact, seizures of marijuana and cocaine in Hidalgo County alone exceed the total seizures of the entire Arizona border (Treviño, 2000). Over half of all drugs entering the United States are estimated to cross the Texas

border, with the largest seizure rates in the McAllen sector of the border (South Texas National High Intensity Drug Trafficking Area, 2000).

According to law enforcement personnel,¹¹ the drug cartels prefer the McAllen area for a variety of reasons. On the one hand, there are many isolated crossing points. Another factor is a high unemployment rate and the enticement of quick money for unemployed and low-income individuals. People on both sides of the border with little education and no job skills are recruited as “mules” to cross the drugs. Many individuals carrying relatively small amounts present traffickers with fewer risks. These drugs are then generally loaded into tractor-trailers carrying agricultural products or manufactured goods for the trip further North. This trip requires another smuggling operation past the INS checkpoints 70 miles north of the border. Many families in Hidalgo and Starr Counties have smuggling networks that go back several generations. These networks can be relied upon to protect family members and are highly resistant to infiltration by drug agents.

Another effect of the drug trade is money laundering. Currency seizure information reported by the Texas Department of Public Safety shows a 209 percent increase in money seizures from 1996 to 1999 (Treviño, 2000). Often, money is laundered through money exchange operations (“*casas de cambio*”), small businesses, used car lots, and real estate purchases along the border. The U.S. government estimates that as much as \$50 billion dollars a year—more than the entire budget of Texas—flows through Texas each year to Mexico.¹² Some of this money ends up in local banks. Indeed the San Antonio

¹¹ Interview with Lupe Treviño, Director/Commander, McAllen Office, South Texas High Intensity Drug Trafficking Area, October, 2000.

¹² The magnitude of this amount can be understood if one knows that the economy of Texas would make it the world’s 10th largest economy, if it were an independent nation (Sharp, 1998: 146).

Federal Reserve Bank has one of the largest cash surpluses in the nation. Texas officials report in excess of \$560,000,000 US dollars flowing annually through exchangers in the form of US currency, checks, and wire transfers (Treviño, 2000).

In Mexico, the privatization of banks has allowed drug traffickers to buy stocks in, and seek election to the boards of, Mexican banks to ease the difficulty of laundering drug profits. In addition, as the Washington Post (1993) reported, and as law enforcement intelligence confirms (Treviño, 2000), a few maquiladora companies are being purchased by Mexican drug lords. These companies give them special exemptions on duties of items shipped to the U.S. By establishing trucking subsidiaries, these smugglers are able to mix drugs with legitimate products.

All of these operations bring money to the border. When underground transactions are combined with the practice of some wealthy Mexicans using Texas banks to deposit legitimate profits, an area of extreme poverty ends up with high per capita bank deposits.

Impact on Infrastructure

While the maquiladora industry, cross-border development, and the underground economy clearly benefit some sectors of the border economy, the resulting stress on local infrastructure is substantial. The rapid growth has put great stress on schools, transportation systems, and law enforcement agencies. The frequent pattern, here and elsewhere along the border, however, is that the benefits of cross-border development flow toward the centers of each nation, while the costs must be absorbed by border residents.

This pattern is everywhere present in Hidalgo County. As the federal government has dramatically doubled the number of agents along the border, for example, the prosecution

of most cases has been passed on to state and local prosecutors. Drug prosecutions in border courts doubled between 1994 and 1998. This has led some Texas border district attorneys to rebel and are now refusing to take any additional cases from federal officers because federal funding is so minimal and the costs are great.

Despite the recent increases in freight through the McAllen-area border, no major interstate highway exists to service this traffic, nor is there a Class 1 rail line. Existing customs facilities are also severely strained by the increased trade. In 1992, the General Accounting Office and the Border Trade Alliance identified the need for nearly \$1.5 billion in capital improvements along the border. Surface transportation made up 39 percent of this need, with water and sewer systems making up another 38 percent, ports of entry 19 percent, and airports another 4 percent (Sharp, 1998: 78). Unfortunately, the federal government leaves most of these needs to the states, and the states in turn expect local governments to pick up much of these needed improvements.

Similarly, the education of the children of migrant farm workers takes place primarily in property-poor border school districts, rather than in the northern states where their labor most benefits the local economy. Several immigration studies¹³ likewise estimate that undocumented workers pay more in federal taxes than they take in benefits, though the reverse is thought to be true of local taxes and resources.

Mexico's federal government also keeps most of the total corporate and income taxes collected along the border. As a result, border municipalities are faced with difficulties when it comes to improving local infrastructure and coping with an increasing demand

¹³ The most thorough analysis was conducted by the National Research Council (Smith and Edmonston, 1997). It concluded that the long-run fiscal impact is strongly positive at the federal level, but substantially negative at the state and local levels. This pattern, they found, was especially pronounced for low income immigrants from Latin America.

for government services. There has been some improvement in this area over the last decade through the adoption of fiscal decentralization measures by the Mexican government (this is known as fiscal federalism), but most of the taxes collected still stay with the federal government. Local governments in Mexico only keep about 5% of total tax revenue collections compared to over 30% in the U.S., Canada, and other industrialized countries (Tijerina and Medellín, 1998).¹⁴

Impact of Cross Border Development on Entrepreneurial Activities

Economic development along the U.S./Mexico border also seems to be having an impact on entrepreneurial activities, particularly on the Mexican side. Brown (2000a) found that from 1987 to 1996 the self-employment rate in Mexican border cities did not grow as fast as the self-employment rate in Mexico's interior urban areas. Brown (2000a) argues that foreign direct investment flows to the large scale manufacturing industry have created employment opportunities in the wage and salary sector that have driven workers away from entrepreneurial activities. Moreover, the start-up and operating costs of starting a micro/small business have also increased along the border as a result of increases in competing labor demand from maquiladoras and other industrial development.

The main implication of decreases in entrepreneurial initiatives in the region is that border communities are not creating the backward and forward linkages necessary to sustain a "balanced" growth (Rauch, 1997). Although maquiladora-related industrialization has created many employment opportunities, this type of industrialization model has not produced significant backward linkages with the local

¹⁴ For example, article 2 of Mexico's *Ley de Coordinación Fiscal* requires the federal government to return to the states only 20 percent of income and value added taxes. The states have to distribute a minimum of 20 percent of these funds to its municipalities.

economy. This is important since these linkages can sustain local firms that provide subcontracting services to larger firms and can, thus, lead to a more broad-based industrialization. In fact, less than eight percent of maquiladora purchases of raw materials occur at the local level (Brown, 2000b). In all, linkages are certainly beneficial to the region in the sense that the use of local intermediate goods by larger firms can create many employment opportunities that would not be otherwise available (Rodríguez-Claire, 1996).

Conclusions

Despite these inadequacies, many of which are felt most keenly in the McAllen/Reynosa area, the social fabric of the area offers several reasons to be optimistic. With enlightened and responsible assistance from national and state sources, local resources can be strengthened to meet the needs. Even with high levels of economic deprivation, for example, many of the problems most commonly associated with poverty are less prevalent in the McAllen area than they are in other low-income areas in the United States. Although the violent crime rate in Hidalgo County climbed 29 percent from 1990 to 1996, for example, it was still considerably lower than the crime rate for the state of Texas (506 vs. 644 per 100,000). This is most surprising given the fact that the Texas violent crime rate dropped by 15.4 percent during the same period (Sharp, 1998: 148-149). Despite their poverty, residents of Hidalgo County do not have a tradition of violent crime.

Similarly, despite the problems of extensive poverty, families in the McAllen area (Hidalgo County) are remarkably intact. Ninety percent of all households in Hidalgo

County, for example were family households in the 1990 census, compared to the State-wide rate of 83.9 percent. In addition, the rate of female-headed households was only one percent higher than the overall State rate (19 vs. 18 percent) in 1990.¹⁵

Even though Hidalgo County is on the border, and thus subject to the health problems that sometimes cross from Mexico, some health risks are lower in Hidalgo County than in other parts of the State. The rates of sexually transmitted diseases, for example, are lower in Hidalgo County than those of the State average.¹⁶ Even the infant mortality rate for Hidalgo County (6.3) is slightly lower than that of the entire state (6.5). The same is true of rates of death by heart disease (151.9 in Hidalgo County vs. 223.5 for Texas as a whole).¹⁷

Colonias are also more than slum communities.¹⁸ Unlike urban slums, for example, *colonias* are "owner-occupied" communities. A Texas Department of Human Services study (1988: 6-3) found that 87 percent of *colonia* residents in the Rio Grande Valley owned their home. In the previously-mentioned survey of 12 *colonias* (Richardson, 1996), 78 percent of *colonia* residents said they own their own home, though another 14 percent said it was owned by another family member. Only 5 percent said their home was owned by someone outside the *colonia*--a very small rate of absentee ownership. Home ownership in *colonias* is substantially above the national average of 64 percent (Investor's Daily, 1990). It is also considerably above the state average. According to the

¹⁵ Source: Texas – Mexico Border Counties, pp. 146, 148.

¹⁶ Texas-Mexico, page 227.

¹⁷ Texas-Mexico, pp. 201, 205, and 217.

¹⁸ For a discussion of the strengths of *colonia* housing, see Richardson (1996: 51-68).

1990 census, 61 percent of the housing units in Hidalgo County were owner-occupied, compared to 70.3 percent for the State as a whole.¹⁹

Similarly, despite the difficulties of migrating, farmworkers and other residents of Hidalgo County want their children to take advantage of educational opportunities. Since South Texas Community College was initiated in 1993, for example, the number of students enrolled in a public institution of higher education has nearly doubled, increasing from 13,500 in 1993 to over 25,000 students today. In addition, the quality of education local students receive is high. According to the Texas State Board for Education Certification, the University of Texas-Pan American in Hidalgo County, for example, leads all other universities in Texas in the number of teachers that it graduates each year. This university also surpassed the statewide first-time pass rate average on the ExCET, an examination for the certification of teachers, in four areas (Social Studies, Spanish, History, and Mathematics) (Sharp, 1998: 63).

In all, the phenomenal economic growth that the McAllen/Reynosa area has experienced over the last few years has led both to more opportunities and to more challenges for the region. Though the experience of this area in the impact and the consequences of growth is, in some aspects, very similar to other border communities (e.g., increasing trade-related economic opportunities), it is very different when it comes to issues such as unemployment, urban development (e.g., *colonias*) and population growth. Thus, when one analyzes economic growth, it is important to take into account the fact this growth also has some unintended effects that must be addressed effectively by policymakers and everyone interested in improving the standard of living of the residents in the region.

¹⁹ Texas-Mexico Border Health Coordination Office, pp. 152, 154.

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