



9 September 2004

UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

**Meeting of the Technical Subgroup of the
Task Force on International Trade in Services,
Movement of Natural Persons – Mode 4
Paris, 15-16 September 2004**

Income earned abroad

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M E X I C O
INTERNATIONAL TRADE IN SERVICES
Mode 4 (Movement of natural persons supplying services)
Income Earned Abroad by Residents

Migrant Workers

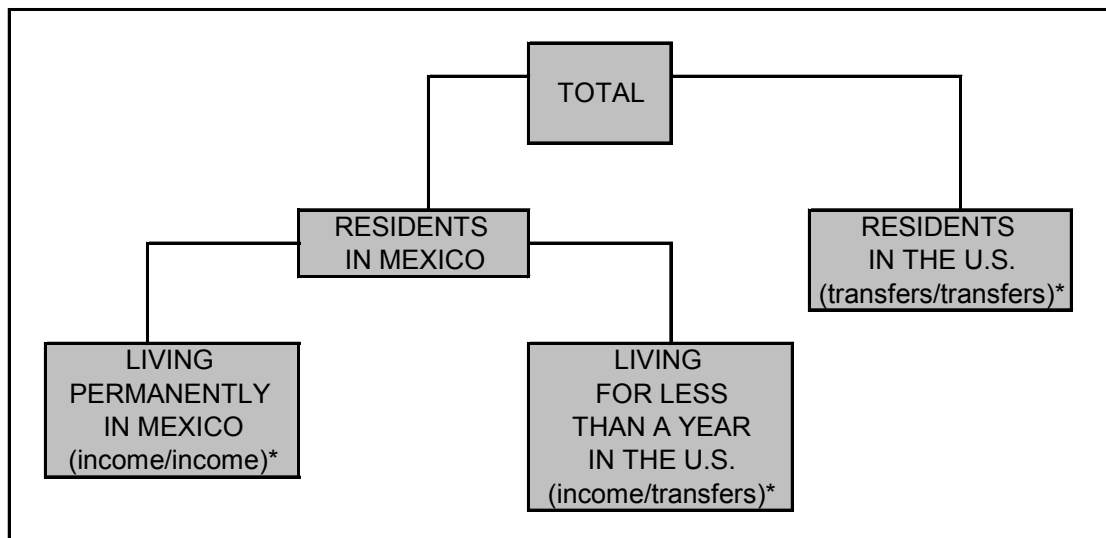
International migration flows arising for economic reasons are associated with persons traveling from their country of origin to a more affluent country. In some cases, these countries do not border with each other and are located in distant regions, meaning that migrants leave their home countries for long periods or in many cases, forever. Therefore, migrant workers normally set residence in their new host country and the income they make there is not regarded as an international transaction because both, the employer and the employee, live in the same country. It is the transfer of the funds earned by the migrant worker to his/her relatives in the country of origin, the one that constitutes an international transaction. This kind of transactions, commonly labeled as “workers remittances”, are recorded in balance of payments statistics under transfers (current or capital depending on the final use of the money) and in principle not as “international trade in services” transactions.

The Mexican Case

In Mexico, workers remittances are one of the main sources of foreign exchange. But we also deal with the case of Mexicans working abroad for periods not long enough for them to be regarded as residents of the host country. These temporary (even daily) flows to the U.S, resulting from what is perhaps the longest border on earth separating an affluent, developed and modern economy from a relatively poor and underdeveloped one, have made this phenomenon a very significant one for our external accounts. According to BPM5, the money this kind of workers earn has to be recorded in the balance of payments under “income” (here the employer is a resident of the U.S. economy and the employee is a resident of the Mexican economy), whereas under the “international trade in services” criteria, it falls into the concept of “mode 4” transactions.

Therefore Mexico’s balance of payments deals with roughly two types of transactions arising from workers’ migration; one, the Mexicans who live and work in the U.S., and ; the other, the Mexicans who live in Mexico and work in the U.S.

MEXICAN WORKERS IN THE UNITED STATES



Statistical Coverage

In terms of statistical coverage the two kinds of transactions are captured. The first one with a system oriented for workers remittances, that covers the money sent through specialized money transfer firms. The other one with a system of personal surveys conducted in the main border crossing points

Workers Remittances

In October 2002, regulation was issued in Mexico instructing all firms involved in the money transfer industry, to report their operations to Banco de México starting 2003. This report consists of monthly totals of the amounts and number of operations relative to money channeled into Mexico. Also the breakdown of these amounts and operations by instrument and recipient Mexican state are requested. Considering that these reporting firms do not know the length of stay in the U.S. of the issuer of the funds, no distinction is possible between the “income” and the “transfers” components of the flows. Therefore, the system is also capturing an undistinguishable part of the income made by residents in Mexico who work in the U.S.

Residents’ Income Earned Abroad

The statistical capture of the “income” component (the relevant for mode 4) of the inflows from migrant workers has gone through a series of trials in recent years. Prior to 2000, the data were obtained by the combination of, an estimated update of the number of Mexicans who had been granted working permits in the U.S., and a constant fraction (determined by the statisticians in Banco de México) of the manufacturing salaries in the border region of the U.S. However, as U.S. working permits have become very limited in recent years and more Mexican were crossing the border to work without a permit, and as the assumption of the salary became less realistic considering the variety of activities that Mexicans perform, the decision was made to conduct personal surveys in the border in order to have a better estimate of the average income of the workers.

Since 2000 and up to 2003, the border surveys were carried out annually during a week and were only oriented towards obtaining an estimate of the average income (responses were adjusted by the frequency of the crossings). The number of crossings was estimated by relying on our “System of Surveys for International Travelers”. These surveys are applied on a continual basis in ten border cities, they are designed to obtain data for international travel in the border, and among the many questions applied, one asks the respondents entering Mexico about their nationality, country of residence and purpose of the trip. By applying the proportion of respondents who reported to have crossed for working reasons and to be residents in Mexico, to the total number of border crossings resulting from our sampling counts, it has been possible to estimate the number of residents working in the U.S., a number that is then multiplied by the average income.

During the first week of September a new statistical exercise has been conducted in several border cities. For the first time this exercise will not be exclusively oriented towards obtaining information on average earnings, gender and type of activity. In this occasion, sampling counts will be carried out in order to produce a more accurate estimate of the number of residents’ crossings for working reasons.

Considering that the main purpose of the measurement of income earned abroad by residents is to produce a figure for the balance of payments statistics, and that these numbers are released on a quarterly basis with many of it’s standard components released on a monthly basis, the next goal is to implement this exercise in other typical weeks of different quarters (and eventually months), this with the idea of producing numbers that reflect seasonality and other specific events that are not constant throughout the year.

Weaknesses of the Systems

The workers remittances reports received from money transfer firms cannot separate between those senders who live permanently in the U.S. and those who are just working and living there on a temporary basis. Thus, the numbers classified in the balance of payments as workers remittances include a non identifiable part of income earned abroad by residents in Mexico.

The income that transborder workers report when interviewed, may include income that has already been sent to Mexico through transfer firms and therefore is being double counted in the credit side of the current

account. Even though this problem could be prevented at least in principle, with the addition of a question on the use of money transfers, this might complicate the interviews which we are trying to keep as simple as possible.

**MEXICO
CURRENT ACCOUNT**

| | 2002 | | 2003 | | 2 0 0 4 | | | |
|----------------------------|------------------|---------------|------------------|---------------|---------------------|-----------------|------------------|---------------|
| | Millions | Composition | Millions | Composition | Millions US dollars | | | Composition |
| | US dollars | of receipts % | US dollars | of receipts % | First Quarter | Second Quarter | First Half | of receipts % |
| Current Account | -13,772.1 | | -8,936.1 | | -1,775.2 | -498.5 | -2,273.7 | |
| Receipts (Credit) | 187,856.5 | 100.0 | 195,201.6 | 100.0 | 51,495.9 | 56,437.1 | 107,933.0 | 100.0 |
| Merchandise Exports | 160,762.7 | 85.6 | 164,922.2 | 84.5 | 43,294.5 | 47,576.8 | 90,871.3 | 84.2 |
| Oil Related | 14,475.5 | 7.7 | 18,653.7 | 9.6 | 5,096.2 | 5,720.1 | 10,816.3 | 10.0 |
| Non Oil | 146,287.0 | 77.9 | 146,268.5 | 74.9 | 38,198.3 | 41,856.7 | 80,055.0 | 74.2 |
| Agricultural | 3,866.3 | 2.1 | 4,664.4 | 2.4 | 1,689.6 | 1,453.8 | 3,143.4 | 2.9 |
| Extractive | 389.3 | 0.2 | 517.0 | 0.3 | 176.4 | 251.3 | 427.7 | 0.4 |
| Manufactures | 142,031.4 | 75.6 | 141,087.1 | 72.3 | 36,332.3 | 40,151.6 | 76,483.9 | 70.9 |
| Services | 12,691.5 | 6.8 | 12,628.3 | 6.5 | 3,711.3 | 3,294.4 | 7,005.7 | 6.5 |
| Transportation | 1,142.6 | 0.6 | 1,112.6 | 0.6 | 306.2 | 307.0 | 613.2 | 0.6 |
| Travel | 8,857.9 | 4.7 | 9,457.1 | 4.8 | 2,937.7 | 2,620.9 | 5,558.6 | 5.2 |
| Other | 2,691.1 | 1.4 | 2,058.6 | 1.1 | 467.3 | 366.5 | 833.8 | 0.8 |
| Income | 4,098.5 | 2.2 | 3,755.8 | 1.9 | 995.1 | 932.5 | 1,927.6 | 1.8 |
| Interest | 2,835.3 | 1.5 | 2,342.8 | 1.2 | 612.9 | 563.7 | 1,176.6 | 1.1 |
| Other | 1,263.1 | 0.7 | 1,413.0 | 0.7 | 382.2 | 368.8 | 751.0 | 0.7 |
| Resident Workers Abroad | 1,215.0 | 0.6 | 1,329.2 | 0.7 | 332.3 | 332.3 | 664.6 | 0.6 |
| Other | 48.1 | 0.0 | 83.8 | 0.0 | 49.9 | 36.5 | 86.4 | 0.1 |
| Transfers | 10,303.7 | 5.5 | 13,895.3 | 7.1 | 3,494.9 | 4,633.4 | 8,128.3 | 7.5 |
| Workers Remittances | 9,814.4 | 5.2 | 13,396.2 | 6.9 | 3,372.1 | 4,506.0 | 7,878.1 | 7.3 |
| Other | 489.3 | 0.3 | 499.1 | 0.3 | 122.8 | 127.4 | 250.2 | 0.2 |
| Expenditure (Debit) | 201,628.5 | | 204,137.7 | | 53,271.1 | 56,935.5 | 110,206.6 | |

**MEXICO
RESIDENT WORKERS ABROAD**

| | 2000 | 2001 | 2002 | 2003 |
|---------------------------------|---------|---------|---------|---------|
| Income | | | | |
| Total (millions of US dollars) | 952 | 1,251 | 1,215 | 1,329 |
| Per crossing (US dollars) | 78.00 | 92.00 | 80.70 | 93.10 |
| Per day (US dollars) | 66.00 | 70.10 | 65.10 | 71.50 |
| Crossings | | | | |
| Total (thousands) | 121,068 | 117,314 | 118,140 | 115,807 |
| For Working Reasons (thousands) | 12,206 | 13,598 | 15,054 | 14,274 |
| % of total Crossings | 10.1 | 11.6 | 12.7 | 12.3 |

**MEXICO
WORKERS REMITTANCES**

| | 2002 | 2003 | 2004 | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | First Quarter | Second Quarter | First Half |
| Total Remittances (Millions US dollars) | 9,814.4 | 13,396.2 | 3,372.1 | 4,506.0 | 7,878.1 |
| Money Orders | 686.4 | 1,623.1 | 422.1 | 513.5 | 935.6 |
| Personal Checks | 10.1 | 6.4 | 0.0 | 0.0 | 0.0 |
| Electronic Transfers | 8,798.1 | 11,512.1 | 2,904.4 | 3,949.7 | 6,854.1 |
| Cash and Kind | 319.8 | 254.6 | 45.6 | 42.9 | 88.5 |
| Number of operations (Thousands) | 29,953.8 | 41,807.8 | 10,619.3 | 13,710.2 | 24,329.5 |
| Money Orders | 1,780.0 | 4,408.1 | 1,058.2 | 1,330.3 | 2,388.5 |
| Personal Checks | 10.5 | 6.9 | 0.0 | 0.0 | 0.0 |
| Electronic Transfers | 27,703.9 | 37,044.4 | 9,503.7 | 12,324.8 | 21,828.5 |
| Cash and Kind | 459.5 | 348.2 | 57.4 | 55.1 | 112.5 |
| Average Remittance (US dollars) | 327.65 | 320.42 | 317.54 | 328.66 | 323.81 |
| Money Orders | 385.62 | 368.21 | 398.88 | 386.00 | 391.71 |
| Personal Checks | 961.90 | 927.54 | 0.00 | 0.00 | 0.00 |
| Electronic Transfers | 317.58 | 310.76 | 305.61 | 320.47 | 314.00 |
| Cash and Kind | 695.97 | 731.19 | 794.43 | 778.58 | 786.67 |