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Mexicans send a record Dollars 2.74bn home from the US

By John Authers

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Remittances of money from the US to Mexico reached a new record of Dollars 2.74bn in the first quarter of the year - revealing a flow of money home from Mexican migrants much higher than previously known.

The new data, from Mexico's central bank, also showed a 26 per cent rise from the first quarter of last year.

Banco de Mexico officials pointed out that much of the increase could be attributed to improvements in data collection. However, the increase in money transfers shows that the impact of migrant labour on the Mexican economy is even greater than had been thought.

Remittances are now approaching 2 per cent of gross domestic product, second only to oil exports (about Dollars 4.9bn) and the maquiladora - the assembly-for-export sector - profits (Dollars 4.57bn) as a source of foreign currency.

Each remittance averaged Dollars 310.17, according to the Banco de Mexico - an apparent fall from the Dollars 320.27 for the same period last year - while the total number of remittances was 8.84m, an apparent 30 per cent increase.

A demand for extra resources from migrants' families may have helped spur the growth in remittances. Many migrants come from agricultural areas in central Mexico, which have suffered a very slow economy in recent years.

Banco de Mexico officials said that reductions in the cost for remittances may have helped to expand the market, as several of the largest US banks have launched aggressive pushes to gain remittance business in the last year.

Such banks think they could gain a foothold among Hispanics - now the largest US minority. Mexican partner banks, meanwhile, hope that remittances will enable them to open branches in rural areas that are currently almost unbanked.

Price competition has intensified in recent weeks, with Citigroup of the US announcing that it would cut the cost of each remittance to Banamex, its Mexican banking subsidiary, to a flat Dollars 5 fee.

Traditionally, migrants have had to pay commissions of more than 10 per cent to send money. The US Treasury estimates that more than Dollars 1bn was paid in commission last year by Mexicans sending money home.

The banks' entrance is an attempt to loosen the hold of wire agencies, such as Western Union and Moneygram, which previously controlled the business.

"Market growth is being driven by the increasing spending power that migrant workers are developing in the US ," said Moises Jaimes of Bancomer Transfer Services, which has the largest remittance business of any Mexican bank.

"The money is being used by the beneficiary to cover primarily basic needs." Western Union is "everyone's primary competitor," Mr Jaimes added. Electronic transfer seemed the most popular method of sending money, accounting for 88.5 per cent of transactions.

DISCUSSION

By Warren Palmer, Beloit College

Gross Domestic Product (GDP), the most widely reported measure of economic output, measures the market value of all final goods and services produced within a nation during a year. A similar measure, Gross National Product (GNP), or Gross National Income (GNI), measures income earned by the citizens of a nation, even if the economic activity occurs outside of the nation. The difference between GDP and GNP is the net income from foreign investment and foreign employment.

For example, imagine that a U.S.-owned firm earns an annual profit of \$15 million from a factory it owns in Mexico--this profit counts in Mexico's GDP because the production occurs in Mexico, but it also counts in U.S. GNP because the income accrues to people in the United States. Similarly, if a Mexico-owned firm earns \$10 million from a factory it owns in the United States, this profit counts in U.S. GDP but also in Mexican GNP. So the net difference of \$5 million leads to a net increase in U.S. GNP, even though \$5 million may not actually flow across borders. The profits earned by both the U.S. firm and the Mexico firm might be retained as real assets--plant, equipment and inventory--within each factory or as deposits in a local bank account. But either way, there is a \$5 million net increase in U.S. citizens' wealth.

For many nations, GNP and GDP are almost equal. For example, in 2002 the ratio between GNP and GDP was 0.97 for the U.S.--on a net basis U.S. citizens earned 97 cents for every dollar of production within the U.S. In contrast, Japan's GNP/GDP ratio was 1.07--the profit, interest, and wages that Japanese earned abroad was much greater than the profit, interest, and wages earned by foreigners in Japan.

Mexico's situation is the opposite of Japan's. Mexico's GNP/GDP ratio was 0.94 in 2002. The wealth of Mexico's citizens increased by 94 cents for every \$1 of GDP because part of the income from this production belongs to companies owned by foreigners who have invested in Mexico. Foreign investment earnings in Mexico are greater than the investment earnings of Mexican citizens who invest abroad, so the wages earned by Mexicans working in foreign countries only partially offset the payments to foreign investors. As the accompanying article suggests, Mexican workers send home about \$10 billion per year. The foreign earnings of Mexican workers increase Mexico's GNP, and the remittances sent home help many Mexico citizens pay for basic needs.

Note that GNP/GDP ratio would be even lower than 0.94 without the wages earned by Mexican citizens working in foreign countries.