

# E I P a s o Business Frontier



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## Workers' Remittances to Mexico

*In 2002 Mexico received the most remittances of any country in the world. This provided some relief to the macroeconomy.*

**M**exico's economy, like the United States', entered recession in 2001 and has struggled ever since. One of the few bright spots in the Mexican economy has been the flow of money entering the country as workers' remittances—money earned abroad by Mexican citizens and sent back to their families in Mexico. In fact, in 2002 Mexico received the most remittances of any country in the world. This provided some relief to the macroeconomy and fostered economic activity, especially in the central and southern regions.

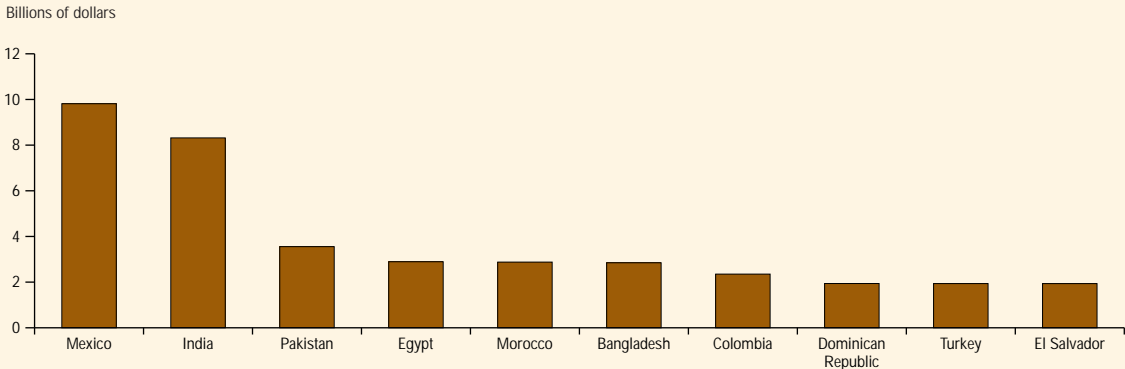
In 2003, Mexico received nearly \$13.3 billion in workers' remittances, an amount equivalent to about 140 percent of foreign direct investment and 71 percent of oil exports. Continued growth in remittances is expected in 2004. The latest data, through March 2004, show remittances almost 22 percent higher than the same period a year ago. As a result of their vigorous growth, workers' remittances now occupy third place as a foreign exchange generator for Mexico. Maquiladoras continue to be the top foreign exchange generator, at \$18.4 billion in 2003, followed by oil at \$15 billion.

Given the importance of remittances to Mexico's economy, the following questions arise: Where do these money flows come from? How do they get into Mexico? Where do they go? What is their regional economic impact? This article analyzes the recent trends and developments in Mexico's remittances as well as their effect on the economy.

### SIZING UP WORLD REMITTANCES

In 2002, world remittances totaled \$75.4 billion, up from \$68 billion in 2001. Mexico received the largest amount—nearly \$10 billion—followed by India with \$8.3 billion (*see Chart 1*). Rounding out the worldwide top remittance receivers were Pakistan, Egypt, Morocco, Bangladesh, Colombia, Dominican Republic, Turkey and El Salvador. These top 10 receiving countries represent about 60 percent and 51 percent of developing-country and world remittances, respectively.

Chart 1  
**Top 10 Developing-Country Recipients of Workers' Remittances, 2002**



SOURCE: International Monetary Fund, *Balance of Payments Statistics Yearbook*, 2003.

Mexico's 2002 remittances were about 15 percent of all remittances received by developing countries. They exceeded those received by Africa (\$7.8 billion), Europe (\$5.8 billion) and the Middle East (\$6.1 billion). As recently as 2000, India was the top receiver with \$8.3 billion, followed by Mexico with \$6.5 billion.

On the flip side, the United States is the leading source for workers' remittances. In 2002, the United States alone provided almost \$23 billion in remittances, followed by Saudi Arabia with nearly \$16 billion (*Chart 2*). The top 10 countries accounted for 85 percent of 2002 remittances.

### MEXICAN WORKERS' REMITTANCES

The \$13.3 billion in workers' remittances Mexico received in 2003 represents a 35 percent increase over 2002, when the country received \$9.8 billion. This upward trend is not new. In fact, workers' remittances have increased continuously since 1960; the only exception was in 1982, when payments home declined 1.8 percent. From 1960 through 2003, remittances averaged a 12.8 percent annual growth rate (*Chart 3*).

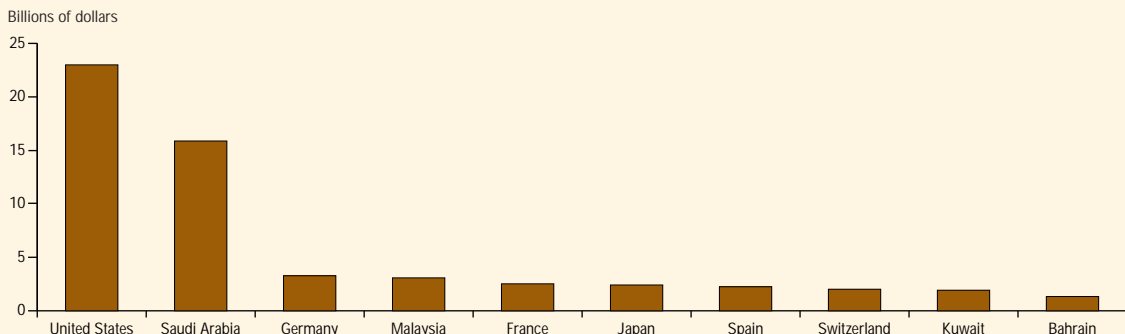
### How Is the Money Sent to Mexico?

According to data published by Banco de México, workers send money to Mexico via four vehicles: money orders, personal checks, electronic transfers, and cash and in-kind transfers (*Table 1*).

Electronic transfers are by far the most popular method. This was especially true during the past three years, when electronic transfers to Mexico increased 145 percent, from approximately \$4.6 billion to more than \$11 billion. As a share of all remittances, electronic transfers rose from 71 percent in 2000 to 86 percent in 2003. This increase is partly attributable to U.S. and Mexican government initiatives to allow Mexican citizens living in the United States, legally or illegally, to open accounts regardless of their immigration status.<sup>1</sup> U.S. banks are permitted to accept the Mexican *matricula* consular card, issued by Mexican consulates in the United States, as an official form of identification to open accounts.

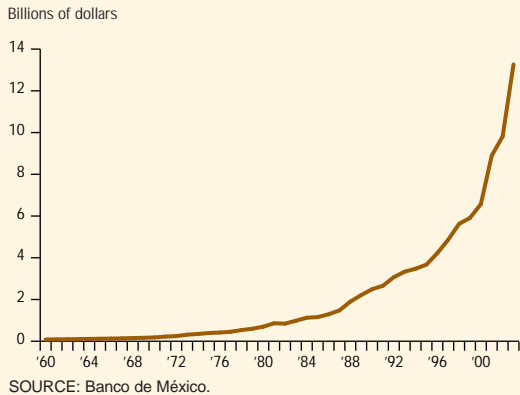
Mexicans living in the United States who want to remit money to relatives in Mexico can go to a U.S. bank and deposit money in their relatives' account; the relatives in Mexico can withdraw the

Chart 2  
**Top 10 Country Sources of Remittance Payments, 2002**



SOURCE: International Monetary Fund, *Balance of Payments Statistics Yearbook*, 2003.

Chart 3  
Workers' Remittances



SOURCE: Banco de México.

money either by going to a Mexican bank or by using an ATM machine or debit card.

Another reason electronic transfers have become so popular is the great reduction in transaction fees—up to 80 percent—for sending money to Mexico. U.S. banks now charge between \$10 and \$15 for each transaction under \$600. Before the new agreements among banks, sending \$600 to Mexico could cost as much as \$50.<sup>2</sup>

In 2003, about 12 percent of remittances arrived in Mexico as money orders, the second most popular method. The money order share declined by two-thirds—from 36 percent in 1996 to 12.2 percent in 2003—as electronic transfers increased. The average amount per money order sent in 2003 was about \$367, down from \$421 in 2001 (the earliest data available).

Taken together, cash and in-kind and personal checks made up less than 2 percent of remittances in 2003, down from 11.4 percent in 1996.

Table 1  
Methods Used for Remittances (percentage share)

	Money orders	Personal checks	Electronic transfers	Cash and in-kind
1996	36.0	1.8	52.6	9.6
1997	35.5	1.6	54.2	8.6
1998	33.2	1.1	57.8	7.9
1999	24.5	0.9	66.6	8.0
2000	21.8	0.1	70.6	7.4
2001	9.0	0.1	87.5	3.4
2002	7.0	0.1	89.6	3.3
2003	12.2	0	85.8	1.9

NOTES: Shares are percentages of total dollar amount. According to Banco de México's methodology, money sent from the United States via a money order but arriving in Mexico through a bank is counted under electronic transfers. Money orders pertain only to money that arrives in Mexico as a money order. According to some estimates by the Inter-American Development Bank, only 78 percent of remittances from the United States to Latin America are in the form of electronic transfers.

SOURCE: Banco de México.

## Where Do Remittances Go?

In 2003, Banco de México started to publish quarterly estimates of the share of remittances going to each Mexican state. This enables estimates of remittances' economic impact by state and region. Table 2 summarizes the top 20 Mexican receiving states as a percentage of their 2001 gross state product (GSP).

Michoacán was the top receiving state in 2003, taking in about \$1.7 billion, or almost 16 percent of its 2001 GSP. This, in turn, represents about \$425 of income per capita. The second and third receiving states in relation to GSP were Zacatecas and Oaxaca, with \$355 million and \$647 million, respectively, or 9.8 percent and 8.6 percent of their 2001 GSP. Collectively, in 2003 the top 20 receiving states accounted for about \$11.3 billion, or 85 percent, of all remittances to Mexico.

## ASSESSING REMITTANCES' ECONOMIC IMPACT

The World Bank reports that remittance flows are developing countries' second largest source of external funding, after foreign direct investment.<sup>3</sup> Further, remittances are more stable than private capital flows, which often move with business cycles, raising incomes during booms and depressing them during downturns.

In Mexico, economic impact studies have focused on the southern states, such as Michoacán, Guerrero and Oaxaca, where it is believed that remittances mostly or sometimes completely cover general consumption and/or housing. One estimate indicates that 80 percent of the money received goes for food, clothing, health care, transportation, education and housing expenses.<sup>4</sup>

Because remittances are higher in Mexico than in other developing countries, they also may play a key role in the development of productive economic activity. One study concludes that remittances in Mexico are responsible for about 27 percent of the capital invested in microenterprises throughout urban Mexico. The estimate goes as high as 40 percent in states that have typically high migration rates to the United States, such as Zacatecas, Michoacán and Guanajuato.<sup>5</sup>

Two government-sponsored programs channel remittance flows into infrastructure development and business start-ups in Mexico. In the *Dos por Uno* (Two for One) program, established in 1993 by the state government of Zacatecas, the federal and state governments each match one dollar for each dollar immigrants contribute for infrastructure development projects such as paving roads. In 1999, this program evolved to *Tres por Uno* (Three for One) when the local government began to participate. Through 2002, about \$40 million had been invested in 788 projects in several Zacatecas municipal-

ities.<sup>6</sup> *Dos por Uno* programs have spread to other Mexican states such as Guerrero, Jalisco, Guanajuato, San Luis Potosí and Michoacán.<sup>7</sup>

Another government-sponsored program to channel remittances into business start-ups is *Invierte en México* (Invest in Mexico), launched by Nacional Financiera SNC, Mexico's largest development bank, in conjunction with the Inter-American Development Bank and organized groups of Mexican immigrants in the United States. *Invierte en México* offers Mexican immigrants the opportunity to invest in their communities to generate employment and foster economic activity through starting businesses such as drugstores, supermarkets, gas stations and restaurants. The program provides business advice and support in developing business plans at no charge to immigrants. The program budget is about \$2.2 million and is available only in Hidalgo, Zacatecas and Jalisco.<sup>8</sup>

## SUMMARY

Although Mexico's economy has struggled in recent years, the flow of money in remittances has provided an offset to difficult times at home. In 2003, Mexico received more than \$13 billion in remittances, or about 2 percent of Mexico's gross domestic product. The economic impact of remittances is concentrated in the poorer states, and new programs have evolved to channel the funds directly to infrastructure and investment rather than consumption.

—Roberto Coronado

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## NOTES

- <sup>1</sup> "Partnership for Prosperity Report to President Vicente Fox and President George W. Bush," November 25, 2002, [www.state.gov/documents/organization/16196.pdf](http://www.state.gov/documents/organization/16196.pdf).
- <sup>2</sup> Roberto González Amador, "Mexicanos que trabajan en EU enviaron mil 195.10 mdd en mayo," *La Jornada*, July 10, 2003, [www.presidencia.gob.mx/?Art=5763&Orden=Leer](http://www.presidencia.gob.mx/?Art=5763&Orden=Leer).
- <sup>3</sup> Dilip Ratha, "Workers' Remittances: An Important and Stable Source of External Development Finance," in *Global Development Finance*, Washington: The World Bank, 2003.

Table 2  
Top 20 Mexican States Receiving Remittances

	Share of total remittances (percent)	Remittances in 2003 (millions of dollars)	Share of remittances in 2001 GSP (percent)	Remittances per capita* (dollars)
Michoacán	12.8	1,695	15.7	425.2
Zacatecas	2.7	355	9.8	262.2
Oaxaca	4.9	647	8.6	188.1
Guerrero	5.2	686	7.9	222.9
Hidalgo	3.8	504	7.9	225.5
Guanajuato	9.1	1,210	7.8	259.6
Nayarit	1.5	199	7.1	216.2
Morelos	2.6	342	4.8	219.6
Tlaxcala	1.0	129	4.7	134.4
Chiapas	2.7	358	4.4	91.3
Puebla	5.9	786	4.2	154.8
San Luis Potosí	2.5	325	4.0	141.3
Jalisco	9.6	1,277	4.0	202.0
Veracruz	5.8	769	3.9	111.4
Aguascalientes	1.7	229	3.8	242.3
Colima	0.8	99	3.8	183.4
Durango	1.6	206	3.3	141.9
Sinaloa	1.9	252	2.7	99.4
Querétaro	1.7	226	2.7	160.6
Estado de México	7.8	1,028	2.1	78.5

\* Remittances per capita are computed using 2000 census population figures.

SOURCES: Banco de México; Instituto Nacional de Estadística, Geografía e Informática; author's calculations.

<sup>4</sup> Consejo Nacional de Población, *Migración México-Estados Unidos: Presente y Futuro*, Importancia de las remesas en el ingreso de los hogares, January 2000.

<sup>5</sup> Christopher M. Woodruff and Rene Zenteno, "Remittances and Microenterprises in Mexico," working paper, December 21, 2001, [www2-irps.ucsd.edu/faculty/cwoodruff/RemittancesDec01.pdf](http://www2-irps.ucsd.edu/faculty/cwoodruff/RemittancesDec01.pdf).

<sup>6</sup> Miguel Moctezuma L., "Inversión Social y Productividad de los Migrantes Mexicanos en los Estados Unidos," [meme.phpwebhosting.com/~migracion/modules/documentos/5.pdf](http://meme.phpwebhosting.com/~migracion/modules/documentos/5.pdf).

<sup>7</sup> Xóchitl Bada, "Clubes de oriundos en los Estados Unidos," March 2003, [www.americaspolicy.org/citizen-action/series/sp-05-hta\\_body.html](http://www.americaspolicy.org/citizen-action/series/sp-05-hta_body.html).

<sup>8</sup> See details of the *Invierte en México* program at Nafinsa's web site, [www.nafin.com](http://www.nafin.com).

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