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Improvement of Statistics on International Workers' Remittances

-International Discussions and Present
Situation in Japan-

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Improvement of Statistics on International Workers' Remittances^{*} **– International Discussions and Present Situation in Japan –**

March 2006

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Summary

- In recent years, there has been a heightened interest in cross-border workers' remittance, making this issue a subject of international discussion. Workers' remittances to developing countries exceed the amount of official aid and are comparable in amount to the inflow of foreign direct investment for those countries. As such, workers' remittances constitute an important factor in the economic development of developing countries. However, a review of workers' remittance data as recorded in balance of payments statistics points to several significant problems. Specifically, because of inadequate data coverage and narrowness of the scope of workers' remittances, the statistics do not fully meet users' needs. In light of this situation, the need to improve statistics on workers' remittances was brought up at various international meetings, such as the Sea Island Summit and G-8 meetings.
- Data on workers' remittances in Japan's balance of Payments do not fully reflect the flow of remittances because the reporting threshold is set at a high level. Furthermore, workers' remittance data by country and region, which serve as the source data for the computation of current transfers, are not completely accurate because they are estimated based on the number of foreign residents in Japan. To resolve these problems, it is desirable to promptly improve the source data by lowering the reporting threshold and by collecting remittance data by country and region.
- Workers' remittances are narrowly defined as "current transfers by migrants who are employed in new economies and considered residents there." Ongoing discussions in international meetings aim to revise the definition to cover all remittances made between households. Consideration is also being given to adopting a broader concept of "personal remittances" that would include other related transactions, such as compensation of employees and other household-to-household capital transfers. Japanese authorities should participate in these discussions and actively take part in the formulation of guidelines. Once such guidelines have been established, Japanese authorities should act to improve the

^{*} We are grateful to the staff of the International Department of the Bank of Japan for their useful comments. Any remaining errors are our own. The views expressed in this paper are those of the authors and do not reflect those of the Bank or the International Department.

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usefulness of workers' remittance related data by reviewing the transaction codes in its present balance of payments data reporting system.

1. Introduction

- Cross-border remittances made by foreign workers (hereafter, workers' remittances) constitute an important element in the international flow of funds, but tend to be overlooked in comparison to trade, foreign direct investment, and cross-border financial transactions. However, the economic impact of workers' remittances cannot be ignored in an age of increasing cross-border movement of workers. For instance, in the case of the Philippines, approximately 7 million migrant workers are living abroad. According to the statistics of the Philippines, these workers annually remit approximately \$8 billion to the Philippines, an amount equivalent to 10.6 percent of nominal GDP. According to an IMF report,¹ workers' remittances received by developing countries have been steadily increasing, reaching approximately \$90 billion in 2003. This amount is more than four times the flow of official aid (primarily flow of official development aid from developed countries) and approximately on par with the total inflow of foreign direct investments (approximately \$125 billion for those countries). These figures indicate that workers' remittances not only support the consumption expenditures of family members in the home country but also play an important macroeconomic role in alleviating poverty and promoting economic development.
- Due to labor shortages in specific job categories and revisions in immigration laws, an increasing number of foreign workers are being employed in Japan's manufacturing and service industries. As a result, Japan has become an important source of workers' remittances throughout the world. Workers' remittances originating in Japan are projected to increase in the years ahead as there seems to be a movement to introduce foreign workers into new fields of employment, such as welfare services (health services and long-term care for the elderly).
- Against the background of these developments, the importance of statistical measurement of workers' remittances is growing. balance of payments statistics constitute the representative statistical series in the measurement of workers' remittances. However, data collection systems remain insufficiently developed in many countries, and inadequacies also exist from the perspective of international comparability. The following specific problems can be identified. (1) Accuracy of workers' remittance data tends to be inadequate due to the limitation of coverage of data. (2) Statistics cannot properly respond to policy needs as long as the narrow definition of "current transfers by migrants who are employed in new economies and considered as residents there" is used.
- The Sea Island Summit of June 2004 and the G-8 meetings that preceded it in April 2004 recognized the importance of improving workers' remittance data for grasping the actual state of the flow of remittances across international borders. The resulting Action Plan committed the G-8 countries to improve data on remittance

¹ IMF, "World Economic Outlook: Chapter 2, Two current issues facing developing countries, April 2005"

flows. Based on the understanding that the alleviation of poverty in developing countries requires a strong private sector, these discussions reflect heightened interest in workers' remittances from developed countries as a resource for economic development that complements official aid.²

- Responding to the Action Plan, the IMF and the World Bank organized a technical expert meeting on workers' remittance data to which compilers of balance of payments statistics from around the world were invited. Discussions at this meeting focused on conceptual and methodological problems pertaining to workers' remittances, leading to the conclusion that more detailed discussions on conceptual and practical issues were needed. It was decided that practical issues would be discussed in a working group to be formed under the aegis of the United Nations Statistics Division. It was decided that discussions of conceptual issues would be delegated to the U.N. Technical Subgroup of the Movement of Natural Persons (hereafter, TSG), where discussions among experts is currently proceeding.
- The purpose of this paper is to discuss improvements in workers' remittance data. The paper is organized as follows. Section 2 surveys the statistical measurement of workers' remittances in various countries. This is followed by an examination of ways by which Japan can respond to various practical issues that affect its workers' remittance data. Attention is given to various "inadequacies" in data coverage and the "limitations" in the estimation of workers' remittance data by country and region. Section 3 introduces some new concepts of workers' remittance data currently being discussed in international meetings. This is followed, from a more long-term perspective, by a review of specific problems that must be tackled in applying these concepts to Japan's balance of payments.

2. Review of Statistical Measurement of Workers' Remittances

(1) Review of Statistical Measurement of Workers' Remittances in Various Countries

- Workers' remittances are transfers that do not involve offsetting returns in economic value (for instance, in the form of goods and services, or securities and other financial products), and are intended to cover living expenses and other current account purposes. Therefore, in the balance of payments statistics, it is entered under current transfers, a component of the current account (Chart 1).

² In addition to improvement of data, some policy issues are included in these discussions. These pertain to improving the efficiency of assistance to developing countries by reducing barriers to workers' remittances (high cost of remittance fees and charges, etc.) and facilitating remittances. For details, see "G-8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty." (<http://www.mofa.go.jp/policy/economy/summit/2004/index.html>)

Chart 1. Workers' Remittances in Japan's Balance of Payments (2004)

Net balance, bil. yen

Current account	18,618.4	Capital and financial account	1,737.0
Goods	13,902.2	Financial account	2,250.4
Services	-3,706.1		
Personal, cultural, and recreational services	-109.1	Capital account	-513.4
Income	9,273.1		
Compensation of employees	-12.1	Changes in reserve assets	-172,675.0
Current transfers	-850.9		
Public sector	-586.9	Errors and omissions	-30,879.0
Other sectors	-263.9		
Workers' remittances	-35.2		
Other transfers	-228.7		

notes: Gross amounts for workers' remittances were 64.9 billion yen in credits and 100.1 billion yen in debits.

Goods and services balance are computed on the new estimation method for sea freight fares and freight insurance premiums adopted in 2005.

- The total global amount of workers' remittances can be obtained by aggregating balance of payments statistics of individual countries. However, as explained below, due to differences in definitions of residency of migrant workers, in certain cases such remittances are classified in compensation of employees, a component of the income. Consequently, the sum of workers' remittances and compensation of employees is frequently used for international comparison.
- The OECD computed the total global amount of remittances made by workers in 2000 by aggregating workers' remittances and compensation of employees in the IMF member countries' balance of payments statistics published by the IMF. Based on this method, the total global amount of remittances was estimated to be \$100.1 billion. The leading sources and recipients of remittances are shown in Chart 2.

Chart 2. Leading Sources and Recipients of Remittances by workers by Country and Region

bil. US\$

Receiving Countries	Amount	Remitting Countries	Amount
India	9.2	United States	26.8
France	7.9	Saudi Arabia	15.4
Mexico	7.6	Other west Asian countries	14.1
Turkey	4.6	Germany	7.4
Spain	3.8	Switzerland	7.3
Belgium / Luxembourg	3.7	International organizations	6.5
Germany	3.4	France	3.8
Portugal	3.4	Malaysia	3.8
Egypt	2.9	Belgium / Luxembourg	3.3
United States	2.4	Japan	2.5
Morocco	2.2	Italy	2.0
Bangladesh	2.0	Spain	1.7

Source: OECD, "Working Abroad: the Benefits Flowing from Nationals Working in Other Economies"

- The World Bank adopted an approach similar to that of the OECD using the balance of payments statistics published by the IMF. Aggregating data for workers' remittances, compensation of employees, and migrants' transfers,³ the World Bank estimated that the total amount of remittances made to developing countries in 2004 amounted to \$125.8 billion (Chart 3). By region, remittances to Central and South America, South Asia, and Southeast Asia were shown to be growing. By country, remittances to China, India, Mexico, and the Philippines exhibited conspicuous growth.

³ "Migrants' transfers" comprise the movement of assets occurring at the time of migration. The *Balance of Payments Manual (5th Edition)* defines migrants' transfers as a component of capital transfers (for details, see page 20).

Chart 3. Remittances to Developing Countries (Remittances by Workers and Migrants' Transfers)

bil. US\$

	1990	1995	2000	2001	2002	2003	2004
Total developing countries	31.3	56.7	76.8	84.6	99.0	116.0	125.8
Central and South America	5.8	13.4	20.2	24.2	28.1	34.1	36.9
South Asia	5.6	10.0	16.0	16.0	22.3	26.7	32.7
Southeast Asia and Pacific region	3.2	9.0	11.2	12.9	16.6	19.5	20.3
Middle East and North Africa	11.7	13.0	13.5	15.2	15.5	16.8	17.0
Europe and Central Asia	3.2	8.1	11.0	11.4	11.5	12.8	12.9
Sub-Saharan Africa	1.9	3.2	4.9	4.9	5.1	6.0	6.1

Source: World Bank, "Global Development Finance 2005." Figures up to and including 2003 were computed based on the IMF "Balance of Payments Statistics Yearbook." Figures for 2004 are World Bank estimates.

- As seen above, balance of payments statistics are frequently used to measure the size of workers' remittances. However, considerable skepticism remains as to whether these statistics fully reflect the flow of such funds. For instance, in the foregoing OECD study, the OECD comments that balance of payments data published by the IMF "are extensive but not exhaustive," and notes that the measure of total global remittances would increase by roughly 15 percent if remittances made through channels other than banks were included. A similar caveat is contained in the World Bank study, which notes that even the coverage of workers' remittances flowing through official bank channels is inadequate due to the existence of reporting thresholds.
- Problems of inadequate data coverage were also discussed at the Technical Meeting on Measuring Workers' Remittances organized by the IMF and the World Bank in January 2005. It was noted that in such countries as Japan and Germany, which compile statistics based on settlement reports submitted by banks or remitters, the measures understate the flow of remittances due to the existence of reporting thresholds. On the other hand, it was noted that in such countries as the United States and United Kingdom, which compile statistics based on sampling surveys of households, the measures lack adequate accuracy. Although in these countries measurement includes population estimations, accuracy of data is not sufficient because of the difficulty of implementing surveys in a proper manner on a frequent basis.

(2) Review of Statistical Measurement of Workers' Remittances in Japan

- Responding to heightened international interest, regional development institutions have launched studies to gain a better picture of workers' remittances. For instance,

the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB) have contracted out surveys to estimate the amount of workers' remittances received by member countries to private research firms. These estimates were released at conferences organized by IDB and ADB. As Japan has a large number of migrant workers from South America and Southeast Asia, these studies looked at Japan as an important source of remittances. Estimates of workers' remittances from Japan to the countries of South America and Southeast Asia are shown in Chart 4.

Compared to these estimates, "workers' remittance" data in Japan's balance of payments statistics clearly indicated an underestimation. That is, balance of payments statistics for 2004 indicate that the total sum of workers' remittances from Japan to all other countries stood at only 100.1 billion yen.

Chart 4. Workers' Remittances from Japan to Developing Countries

bil yen

		Estimated amount
Estimates shown at IDB Conference	Japan → Brazil	231.0
	Japan → Peru	38.3
Estimates shown at ADB Conference	Japan → Philippines	97.4
	Japan → Indonesia	8.3
	Japan → Malaysia	1.6

Source: Bendixen & Associates, "Remittances to Latin America from Japan" (paper submitted to IDB Conference)

Manuel Orozco with Rachel Fedewa, "Regional Integration? Trends and Patterns of Remittance flows within South East Asia" (paper submitted to ADB Conference)

- In Japan's balance of payments statistics, to obtain source data for net current transfers by country and region, "workers' remittances" by country and region are estimated using the method described below (see page 9). In these estimates, a weight of nearly 40 percent of the total amount is assigned to the United States, while the Philippines, Brazil, and China are assigned relatively small weights. These weights appear to be inconsistent with the importance of the nationals of these countries in Japan's labor markets. For reasons discussed below, this method of relying on estimates to compute the country/regional breakdown of remittances has some clear limitations.

In this regard, it is interesting to note the discrepancy in remittance amounts between Japan and receiving countries. For instance, the balance of payments statistics of the Philippines indicate that approximately 30 billion yen in remittances were received from Japan during 2004. This figure includes amounts that in the Japanese statistics appear under "compensation of employees" and "personal, cultural, and recreational services." However, even after reconciling such differences, the amount of workers' remittances from Japan to the Philippines recorded in Japan's balance of payments statistics is roughly one-half the amount recorded by the Philippines.

(3) Japan's Methodology for Compiling Workers' Remittance Data

- The amount of workers' remittances registered in Japan's balance of payments is substantially lower than estimates reported at the IDB and ADB Conferences as well as remittance amounts registered in the balance of payments statistics of receiving countries. This points to two possibilities: (a) Japan's statistics are subject to substantial "leakages in measurement" due to reporting threshold that is too high, and the exclusion of some transfer channels from reporting; and, (b) there are some "limitations" to relying on estimates to compute remittance amounts by country and region.

(a) Inadequate coverage

- The following two data sources are currently used in the compilation of data on workers' remittances.

[1] Reports on Payments and Receipts

Pursuant to the ordinances of the Foreign Exchange and Foreign Trade Law (Foreign Exchange Law), cross-border transactions between residents and non-residents exceeding 30 million yen must be reported to the Minister of Finance through the Bank of Japan. Japan's balance of payments statistics data are compiled based on these reports. Data on workers' remittances are also collected from such reports filed when the amount of a relevant settlement exceeds 30 million yen.

[2] Surveys of Workers' Remittances

When the reporting threshold in Reports on Payments and Receipts was raised from 5 million yen to 30 million yen in April 2003, the following measure was introduced to compensate for the increased volume of workers' remittances that were not covered in Reports on Payments and Receipts. Major financial institutions in Japan (including branches of foreign banks) are required to report the amount of workers' remittances handled exceeding 2 million yen but less than 30 million yen. Financial institutions report the total monthly amounts of such remittances to the Ministry of Finance through the Bank of Japan.

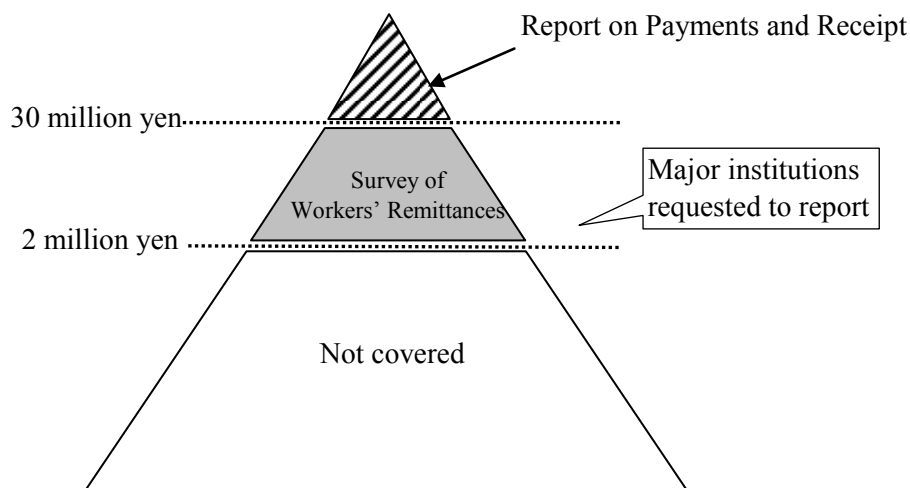
- Japan's statistical coverage of workers' remittances based on Reports on Payments and Receipts and Surveys of Workers' Remittances remains inadequate (see Chart 5). According to papers submitted to the IDB and ADB Conferences, the average remittance amount of a single remittance made from Japan to South America and to Southeast Asia is less than 100,000 yen. This average amount falls far short of the threshold of the current reporting system.⁴ Another drawback of the Surveys of

⁴ Considering the reporting threshold in Reports on Payments and Receipts, the data collected from these reports primarily reflect expatriate compensation, which occurs in the following case. A portion of compensation payable to an expatriate employed in a local subsidiary or branch office of a foreign company operating in Japan is deposited by the head office located in a foreign country in the expatriate's account located in his home country to facilitate withdrawal by family members left in the

Workers' Remittances is that it does not apply to the branches of financial institutions headquartered abroad, e.g., Southeast Asia, which are believed to be the principal channels for remittances to this region. A further problem is that remittances from Japan also pass through channels other than banks. These include businesses specializing in remittances and South American mutual aid organizations for remittances. In the case of Japan, remittances handled by such businesses and organizations ultimately pass through banks. However, it is said that remittances exceeding 2 million yen are extremely rare.

- It is possible that pre-paid cards issued by some currency exchange enterprises operating in Japan for use in overseas travel are also being used for making workers' remittances. Other possible forms of remittance include the transport of cash by foreign workers and related persons, and the sending of cash by mail. These forms of remittances are not currently covered.

Chart 5. Diagram of Current Data Collection System for Workers' Remittances



(b) Limitations in estimating country/region breakdown

- The breakdown of remittance by country and region is prepared by aggregating the figures from Reports on Payments and Receipts as well as Surveys of Workers' Remittances. Reports on Payments and Receipts contain information on remitting/receiving countries and regions. This information is used to preparing country/regional breakdown. On the other hand, the Surveys of Workers' Remittances contain no information on remitting/receiving countries and regions. Therefore, the total amounts reported in the Surveys of Workers' Remittances are proportionally allocated to countries and regions based on the number of foreign

home country. This payment by the head office is later compensated by a remittance made to the head office from the local subsidiary or branch office in Japan. This transaction is treated as workers' remittance in Japan's balance of payments because it yields the same result as when the local subsidiary or branch office in Japan directly pays the expatriate, who then remits part of this money to the home country.

workers in Japan by country of origin, which is derived from the Ministry of Justice's "Statistics on Foreigners Registered in Japan."

- Proportional allocation of the total amount of remittances to countries and regions based on "Statistics on Foreigners Registered in Japan" has the following limitations.

[1] The total amount of remittances is allocated based on the number of foreign workers in Japan by country of origin. This method does not take into account differences in the propensity to remit. The propensity reflects incomes earned in Japan as well as the need to remit to the home country. These factors would normally generate disparities in per capita remittance by country and region.

[2] While some remittances are covered by Reports on Payments and Receipts, there is no way to subtract the number of these remitters from the number of non-Japanese residents in "Statistics on Foreigners Registered in Japan." As a result, remittances to certain countries tend to be overestimated.

[3] Japan's Immigration Control Law provides for the status of "long-term resident"⁵ (Brazilians, Peruvians, and other foreign nationals of Japanese descent) and "special permanent resident"⁶ (Korean and other long-term residents in Japan). It is not apparent whether persons in these categories are workers. One option would be to include all long-term residents and special permanent residents in the estimation. However, since this would include children and other persons earning no income in the population of remitters, this could result in overestimation. For this reason, long-term resident are excluded in estimating remittances to Brazil and Peru, and special permanent residents are excluded in estimating remittances to the Republic of Korea. It is possible that this method results in substantial underestimation of remittances to these countries.

"College students" and "trainees" are not included among foreign workers, and are therefore excluded from the estimation. However, it is said that persons in these categories are frequently income earners and remitters to home countries. This implies that remittances to countries and regions sending large numbers of college students and trainees to Japan are also underestimated.

(4) Measures for Improvement of Japan's Statistics

- As discussed above, Japan's balance of payments does not cover small-amount workers' remittances (less than 2 million yen per remittance), and source data are not sufficient to compile an accurate regional breakdown of remittances. In order to improve Japan's workers' remittance data, it will be necessary to broaden the

⁵ A status of residence provided to Brazilians, Peruvians, and other foreign nationals of Japanese descendants under the revised Immigration Control Law that came into force in 1990. Prior to this law, refugees and others residing in Japan by special act of the Minister of Justice were recognized as "long term resident". Under the revised Immigration Control Law, the following categories of persons were granted the status of "long term resident": [1] Refugees from Indo-China; [2] third-generation Japanese descendants; [3] family members of a "permanent resident" or "long-term resident".

⁶ A status of residence created under the Law for Special Measures Concerning Immigration Control that came into force in 1991.

coverage by reducing the reporting threshold, and to obtain data on the country/regional breakdown of remittances.

[1] Improving the Surveys of Workers' Remittances

The coverage of the Surveys of Workers' Remittances can be broadened by expanding the range of reporting institutions. Reporting should be extended to various types of institutions that currently are not reporting, such as branches of some foreign banks, banks acting as agents for money-sending companies, and the Japan Post. Regarding the reporting threshold, a reporting system should be created to cover small-amount remittances of several tens of thousands of yen. To avoid distortions in net balances, any new reporting system should be applicable to both payments and receipts of remittances, as is the case in the current Surveys of Workers' Remittances.

[2] Reporting on country/regional breakdown of remittances

The accuracy of country/regional breakdown can be improved by requiring institutions submitting the Surveys of Workers' Remittances to report on the country/regional breakdown of remittances.

[3] Reporting by foreign exchange bureaus

The use of pre-paid cards for remittance is not covered by reports submitted by banks. If the sum of such remittances is substantial, some method should be devised to collect data on such transactions separately. In this case, it will be important to differentiate between pre-paid cards purchased for overseas travel and those purchased for remittance purposes.

[4] Questionnaire surveys of remitters

Currently, there is no method available for measuring workers' remittances in the form of transporting of cash (by foreign workers themselves or by related persons), or sending of cash by mail. The introduction of surveys (questionnaires, etc.) of remitters should be considered as a means to measuring such remittances.

The ADB and IDB have respectively estimated the breakdown of remittances from Japan to Southeast Asia (Indonesia, Malaysia, Philippines) and to South America (Brazil, Peru) by channel of remittance (Chart 6). It should be ascertained whether these estimates can be used in the compilation of its statistics. Moreover, regarding the countries that are not included in these studies, measurement of remittances made through channels other than banks should be considered (particularly for China, Korea, and other countries with the largest number of residents in Japan).

Chart 6. Breakdown of Workers' Remittances from Japan by Channel of Remittance

IDB Conference Paper	ADB Conference Paper
<p><To Brazil> Banks: 93%; Money sending companies: 1%; Post: 3%; Others: 1%</p> <p><To Peru> Banks: 35%; Money sending companies: 59%; Post: 1%; Others: 4%</p> <p><To other South American countries> Banks: 74%; Money sending companies: 6%; Post: 1%; Others: 19%</p>	<p><To Philippines> Banks: 60%; Money sending companies: 8%; Post: 8%; Cash: 15%; Others: 8%</p> <p><To Indonesia> Banks: 20%; Money sending companies: 11%; Post: 7%; Cash: 52%; Others: 9%</p> <p><To Malaysia> Banks: 50%; Money sending companies: 4%; Post: 27%; Cash: 4%; Others: 15%</p>

Source: Bendixen & Associates, "Remittances to Latin America from Japan" (paper submitted to IDB Conference); Manuel Orozco with Rachel Fedewa, "Regional Integration? Trends and Patterns of Remittance flows within South East Asia" (paper submitted to ADB Conference)

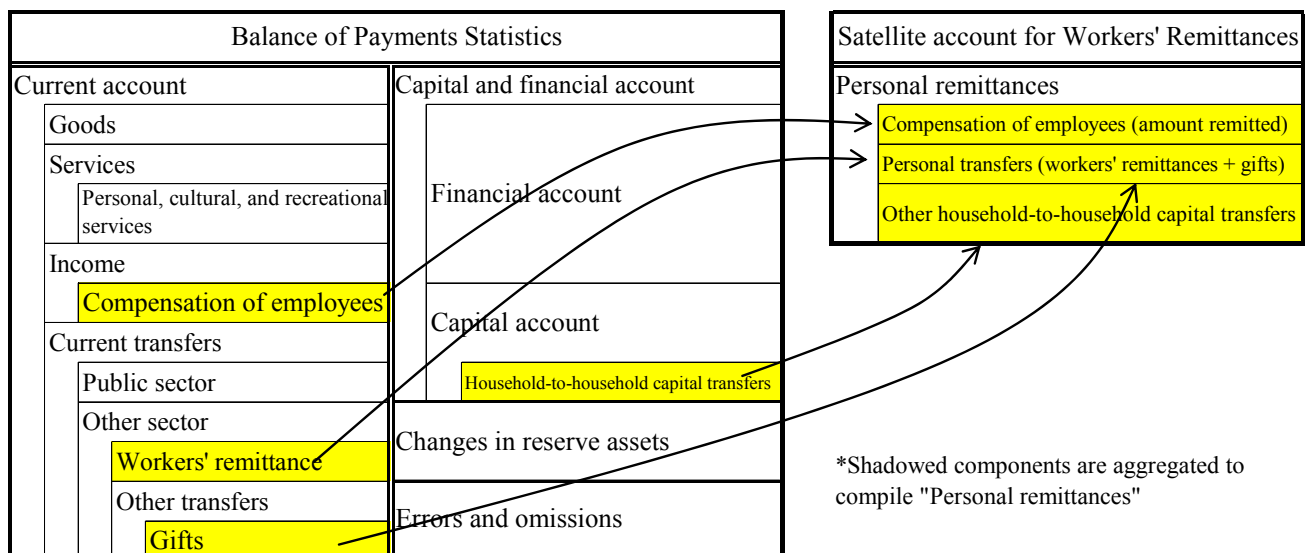
3. Improving the Concepts Pertaining to Workers' Remittance Data

(1) International Discussions Concerning Definition and Scope of Workers' Remittances

- Following the January 2005 Technical Expert Meeting on Workers' Remittances (organized by the IMF and World Bank), the TSG was convened in February 2005 to discuss how the definition and scope of workers' remittances should be modified to improve the usefulness of workers' remittance data. Workers' remittances are defined as follows in the IMF's *Balance of Payments Manual (5th Edition)*: "Workers' remittances covers current transfers by migrants who are employed in new economies and considered residents there. (A migrant is a person who comes to an economy and stays, or is expected to stay, for a year or more.) Workers' remittances often involve related persons. Persons who work for and stay in new economies for less than a year are considered non-residents; their transactions are appropriate mainly to the component for compensation of employees." (Para 302) It is commonly argued that this definition does not allow for the development of comprehensive data for workers' remittances.
- One of the problems of the current definition is that workers' remittances are limited to remittances made by employed migrants. That is, remittances made by unemployed migrants and descendents of migrants who have become localized to the new economy are excluded, although these remittances have the same economic impact as workers' remittances. More fundamentally, it was argued that dividing residents into migrants and others might not be necessary.
- Compensation of employees comprises compensation paid by residents to non-resident foreign workers and is a component of the income in balance of payments statistics. However, because compensation of employees has the same economic impact as workers' remittances, it was argued that combining the two components would be useful for analytical purposes.

- Regarding other household-to-household capital transfers,⁷ as there is no guarantee that the funds will be used for the purpose reported at the time of remittance, any difference between current and capital transfers is purely relative. Consequently, it was argued that combining other household-to-household capital transfers with workers' remittances, a component of current transfers would be useful for analytical purposes.
- The discussions culminating in the meeting of February 2005 yielded the following conclusions. The definition of workers' remittances should be modified, as outlined below, to facilitate measurement of the economic impact of remittances. An integrated statistical component should be created combining various elements that are currently dispersed in the balance of payments statistics (Chart 7).

Chart7. Conceptual Diagram of “Personal Transfers” and “Personal Remittances” Agreed upon by TSG



[1] “Personal transfers” will replace “workers’ remittances” as a standard component of the balance of payments statistics.⁸ “Personal transfers” refers to current transfers between resident and non-resident households. In addition to workers’ remittances, this new component will include personal transfers such as “Gifts” (remittances to friends and relatives).

[2] “Personal remittances” will be adopted as a new component that combines components that are similar to “personal transfers.” Specifically, “personal remittances” will comprise the following sub-components: “personal transfers,”

⁷ Defined as the transfer of funds pertaining to, or the transfer of funds predicated on, the transfer of ownership or the acquisition or disposal of fixed assets. For instance, a remittance made by a foreign worker to his family is recorded as a personal capital transfer when the purpose of the remittance is the acquisition of a house and not for the support of living expenses.

⁸ Standard components are balance of payments components whose adoption is recommended in the *Balance of Payments Manual* for the purpose of ensuring international comparability.

compensation of employees,⁹ and household-to-household capital transfers. “Personal remittances” will be compiled and published as a supplementary data (a so-called “satellite account”) which is separate from the standard components of balance of payments statistics. Regarding compensation of employees, the amount actually remitted to the home country consists of the amount remaining after deduction of taxes on income and the expenditures of the foreign worker in the host country. Therefore, instead of including the entire amount of compensation of employees, it was concluded that including the above net amount in personal remittances would be appropriate.

(2) Towards Introduction in Japan’s Balance of Payments

- In Japan’s balance of payments, workers’ remittances are defined as “workers’ remittances to family members in the home country,” and are defined as a “transaction between either, a Japanese worker abroad and his/her family in Japan, or a foreign worker in Japan and his/her family in his/her home country, whose purpose is purely to be used as living expense.” For credits, this item covers remittances made by Japanese nationals working abroad (including employers of such workers) to family members in Japan. For debit, this item covers remittances made by foreign nationals working in Japan (including employers of such workers) to family members in their home countries. This definition and scope of workers’ remittances is generally consistent with the definition given in the *Balance of Payments Manual (5th Edition)*. Japan must now examine whether the modifications indicated in international discussions on the improvement of workers’ remittance data can improve the usefulness of Japan’s data in light of prevailing conditions. Should this examination show that the modifications can prove effective, Japanese authorities will then have to consider how to adopt these modifications.

(a) Consistency with the concept of “Personal transfers”

- The comparison of the above-mentioned concept of “personal transfers” with Japan’s definition of workers’ remittances as “workers’ remittances to family members in the home country” (balance of payments code 615)¹⁰ indicates the following. In addition to prescribing other household-to-household current transfers, the Japanese definition contains the following restrictions: [1] remitters are restricted to “persons working abroad;” [2] recipients of remittances are restricted to “family members in the home country;” and, [3] the purpose of remittance is restricted to “remittance of living expenses.” Taking account of the international

⁹ A non-resident earning employee compensation and thereafter remitting a portion of this to family members in the home country is not included in workers’ remittances because the transaction is undertaken between two non-resident entities. Therefore, the combining of workers’ remittances and compensation of employees does not involve double counting.

¹⁰ Reports on Payments or other reports required under the ordinances of the Foreign Exchange Law must specify the type of transaction undertaken (categorized according to purpose of payment) by indicating a balance of payments code. Amounts reported in such reports are aggregated according to balance of payments codes and entered under the appropriate component in the balance of payments statistics. Hence, changes made in the definitions of balance of payments components normally require corresponding changes to be made in balance of payments code.

discussions on the improvement of workers' remittance data, the justification of these three restrictions must be examined in order to determine whether there is any justification in expanding the scope of the concept of workers' remittances.

[1] Restriction to “persons working abroad”

Persons defined as “trainees” and “college students” under the Immigration Control Law are permitted to reside in Japan for purposes that do not include employment.¹¹ However, there are many cases of such persons making remittances to their home countries. The same applies to persons defined by the Immigration Control Law as “spouse or child of Japanese nationals.” Strictly speaking, remittances made by these categories of foreign residents do not constitute remittances made by “persons working abroad.” However, these remittances are indistinguishable from remittances made by “persons working abroad” in the sense that they have the same economic impact as workers' remittances on both Japan and the countries receiving the remittances. Similarly, remittances made by Japanese nationals to family members and others living abroad are indistinguishable from remittances made by “persons working abroad” in that both constitute remittances made by residents to foreign countries.

Given this situation, if the restriction to “persons working abroad” is strictly applied in the data collection process, a significant portion of remittances made by individuals will be excluded from the statistics on workers' remittances. This indicates the conclusion that removal of the restriction to “persons working abroad” in the compilation of workers' remittance data can contribute to improving the usefulness of this data.

[2] Restriction to “family members in home country”

Remittances made by foreign residents to their home countries frequently involve remittances to relatives charged with the upbringing of their children. Similarly, it is said that there are many cases in which Japanese nationals remit to households that are not their family members or relatives. Strictly speaking, such remittances do not constitute remittances made to “family members in home country.” However, these remittances are indistinguishable from remittances to “family members in home country” in a sense that as they have the same economic impact as remittances to “family members in the home country.” This indicates the conclusion that removal of the restriction to “family members in home country” in the compilation of workers' remittance data can contribute to improving the usefulness of the data.

[3] Restriction to “remittance of living expenses”

“Living expenses” refers to funds used for daily living activities. Under the current definition, living expenses do not include remittances to family members for medical, educational, and home repair expenses. However, these can readily

¹¹ Under the Immigration Control Law, foreign students are permitted to engage in subsidiary employment (part-time work) not exceeding four hours per day, subject to prior application and approval of participation in “activities other than permitted under status of residence.”

be interpreted to constitute a part of living expenses. This indicates the conclusion that adoption of a broader interpretation of living expenses to include all current transfers can contribute to improving the usefulness of these data. On the other hand, remittances undertaken for such purposes as acquisition of real estate, rebuilding of houses (large-scale home repairs), and equity investments fundamentally differ in character from remittances of living expenses. Therefore, it would be appropriate to continue to record such remittances separately.

Nevertheless, remittances made to family members who are temporarily traveling abroad should remain excluded from the data. For instance, remittances of educational expenses to students studying abroad and remittances of medical expenses to persons hospitalized abroad should remain under the travel item for the following reasons. Temporary travelers are treated as non-residents in the countries they are visiting. Remittances received from the home country are excluded from the balance of payments statistics of the host country because such remittances constitute transaction between non-residents for host countries. At the same time, amounts remitted can be considered to correspond to amounts consumed by travelers in the host country.

(b) Consistency with the concept of “Personal remittances”

- Regarding “personal remittances,” it will be necessary to improve the data quality for each of its sub-components consisting of personal transfers (workers’ remittances, gifts and other current transfers), compensation of employees, and other household-to-household capital transfers. Assuming that the data for personal transfers will be improved by expanding the concept of workers’ remittances, the question remains on how data for compensation of employees and other household-to-household capital transfers can be improved. Furthermore, some thought must be given to whether the above components of “personal remittances” are exhaustive.

[1] Scope of compensation of employees

Pursuant to the provisions of Japan’s Foreign Exchange Law, the following rule¹² applies to foreign workers in Japan. Any foreign worker employed in an office located in Japan is treated as a resident of Japan regardless of the period of stay (that is, without waiting for one year to elapse). As a result, transactions recorded on the debit side of compensation of employees are limited to compensation paid to foreign workers actually not residing in Japan. This includes foreign crewmembers and local staff working in Japanese embassies and consulates located abroad. On the credit side, transactions are limited to compensation received by Japanese crewmembers and Japanese staff working in foreign embassies and consulates located in Japan.

Considering the debits, which are relatively large in comparison to credits, it will be appropriate to deduct the amounts expended in Japan by foreign crewmembers and local staff working in Japanese embassies and consulates abroad, and to

¹² The Foreign Exchange Law assumes that foreign nationals are not domiciled in Japan and do not have an address in Japan. As such, foreign nationals are, as a rule, treated as non-residents. However, any person working in an office located in Japan is assumed to be domiciled and to have an address in Japan, and is treated as a resident.

include the resulting net amounts in personal remittances, if the TSG proposal is adopted. However, the amounts expended in Japan by crewmembers and local staff working in Japanese embassies and consulates abroad can be assumed to be extremely small. Hence, it is unlikely that net amounts will be significantly different from gross amounts of compensation paid. As a practical matter, compensation paid to foreign crewmembers is measured at the time of payment, and there exists no source data that can be used to determine the expenditures of foreign crewmembers and local staff working in Japanese embassies and consulates abroad. Consequently, it would be extremely difficult to estimate net amounts.

[2] Other household-to-household capital transfers

As indicated above, remittances undertaken for the acquisition of real estate, rebuilding of houses (large-scale home repairs), and equities investment should not be included in personal remittances and should be recorded as other household-to-household capital transfers. Under the current reporting system, gifts for the acquisition of fixed assets are reported under an independent category (balance of payments code 619). However, the report cannot specify whether or not such exchange of gifts is being undertaken between households. Given this situation, if rigorous data on personal remittances are to be developed, it will be necessary to review the balance of payments code to allow for identification of other household-to-household capital transfers.

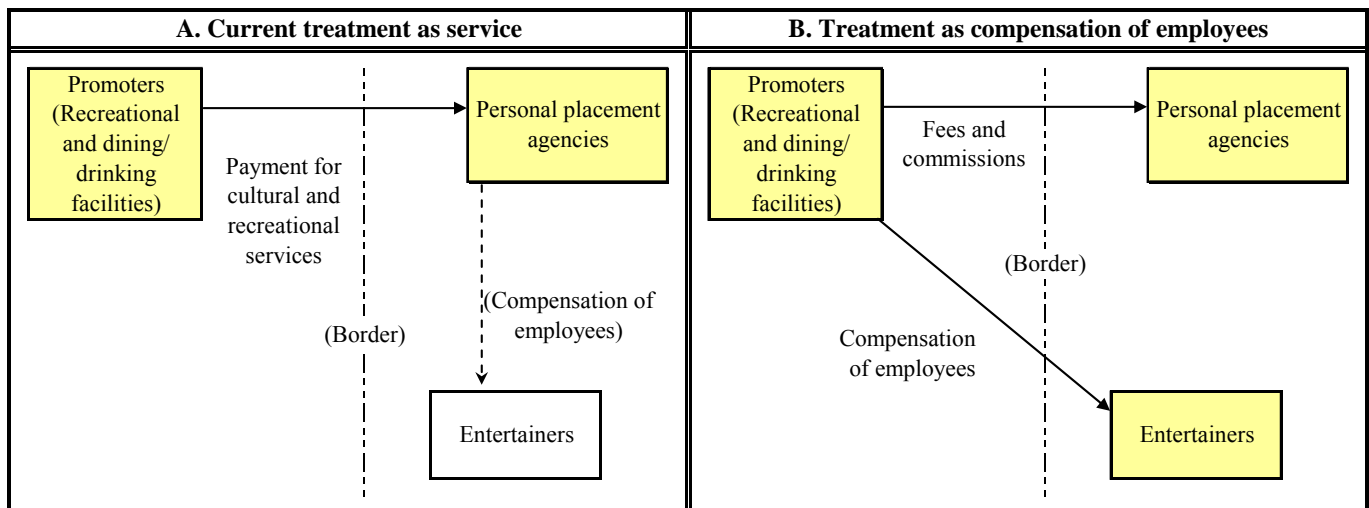
[3] Portions of trade in services that should be included in “personal remittances”

In Japan’s balance of payments, certain portions of compensation paid to foreign nationals are included in trade in services. It would be appropriate to examine whether certain portions of such payments should be included in personal remittances. For instance, the *Balance of Payments Manual (5th Edition)* treats “audiovisual and related services and other cultural and recreational services” provided by residents to non-residents and vice versa as “personal, cultural and recreational services” (hereafter, cultural and recreational). In Japan’s balance of payments, performance fees paid to foreign artists performing in Japan are recorded under services (reported as balance of payments code 471).

The definition of foreign artists under Japan’s balance of payments includes “entertainers” staying in Japan with “visa for entertainer.” In many instances, compensation of entertainers is paid by promoters in Japan (recreational facilities, dining and drinking facilities) to personal placement agencies located abroad. For this reason, it is justified for these payments to be recorded under “cultural and recreational services.” (This treatment is outlined in Chart 8-A.) However, given that these entertainers in reality work for promoters in Japan, an alternative for balance of payments purposes would be to adopt the imputation that these entertainers are being paid directly by the promoters (and that personal placement agencies located abroad are separately paid an introduction fee and commission). (This treatment is outlined in Chart 8-B.)

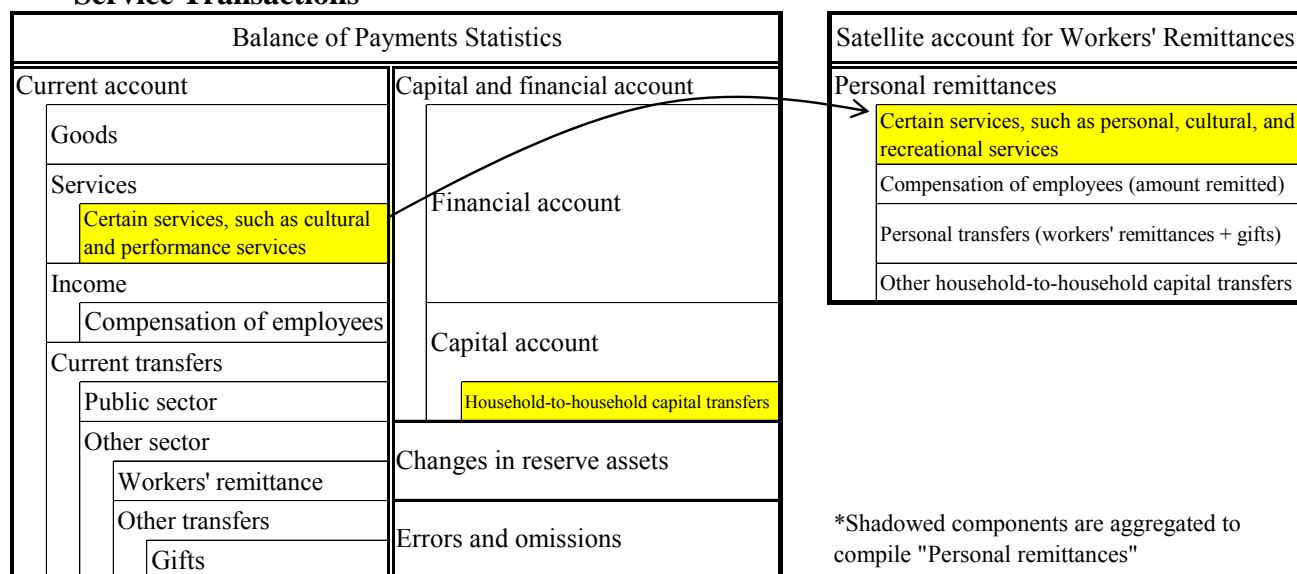
Payments made by promoters correspond to compensation contracts that exist between entertainers and personal placement agencies. In consideration of this fact, it is justified to continue to record such payments under “cultural and recreational services” in the balance of payments statistics.¹³ Nevertheless, these payments do represent borderline cases that may very well be interpreted to constitute compensation of employees. Therefore, from the perspective of the future improvement of the workers’ remittance data, it would be appropriate to include these payments in personal remittances (see Chart 9). In order to make this change, it will be necessary to consider how payments pertaining to entertainers can be differentiated from payments for other cultural and recreational services. For practical reasons, it may prove difficult to single out payments pertaining to entertainers. In that case, consideration should be given to including all payments pertaining to cultural and recreational services in personal remittances.

Chart 8. Conceptual Diagram of Payment of Compensation to Foreign Entertainers



¹³ *Balance of Payments Manual (5th Edition)* contains the following prescription: “Compensation of employees comprises wages, salaries, and other benefits (in cash or in kind) earned by individuals – in economies other than those in which they are residents – for work performed for and paid by residents of those economies.” (Para 269)

Chart 9. Conceptual Diagram of Personal Remittances Including Certain Service Transactions



(c) Timing for introduction of new “concept”

- An agreement has more or less been reached in the international discussions outlined above to improve the users’ convenience of workers’ remittance data by expanding the scope of the data. Indications are that related proposals will be written into the *Balance of Payments Manual (6th Edition)*¹⁴ to be published following the scheduled revision. Japanese authorities should proceed with the modification and improvement of its data collection methods following the publication of *Balance of Payments Manual (6th Edition)*.

(3) Treatment of Institutional Remittances

- The TSG is also examining the improvement of data on “institutional remittances”. Typically, institutional remittances comprise remittances made by private non-profit organizations to households. The TSG is considering a proposal for combining institutional remittances and personal remittances to create a superseding concept to be named “Total remittances.”
- The scope of institutional remittances is still under consideration. In the narrowest definition, institutional remittances would refer to [1] remittances made by private non-profit organizations to households. There are proposals to expand this definition to include [2] remittances made by government agencies to households; and, [3] remittances made by enterprises to households. Proposals for further expansion of the scope of institutional remittances call for the inclusion of remittances made to non-profit organizations as follows: [4] remittances made by non-profit organizations to households and non-profit organizations; [5] remittances made by government agencies to households and non-profit

¹⁴ Work on the revision of the *Balance of Payments Manual* is currently proceeding under the IMF with the participation of the balance of payments compilation authorities of major countries. The *Manual* is scheduled to be released in 2008.

organizations; and, [6] remittances made by enterprises to households and non-profit organizations.

- The concept of institutional remittances has a meaningful role to play in the improvement of remittance data as it reflects the heightened level of economic assistance activities being carried out by non-profit organizations in both developed and developing countries. It is also said that in some countries, workers' remittances are remitted through non-profit organizations such as religious institutions. Given this situation, Japan may need to examine this matter when reviewing the classification of its balance of payments codes. However, most institutional remittances significantly differ from workers' remittances, which tend to involve a continuous flow of funds. Therefore, some question remains as to whether it would be justified to treat this issue along the same lines as expanding the scope of workers' remittances. Moreover, if remittances made by government agencies and enterprises are to be included in institutional remittances, the question arises as to what analytical purposes will be served by data on institutional remittances.
- Another question arises if personal transfers are positioned as a sub-component of current transfers in the balance of payments statistics. Suppose a broad definition of institutional remittances is adopted. In conceptual terms, institutional remittances would then be very similar to what remains under current transfers when personal transfers are removed from private-sector transfers. In the case of Japan, because Reports on Payments and Receipts provide comprehensive coverage of transactions exceeding a certain threshold, it is probably not necessary to develop the same level of data for institutional remittances as for personal remittances.

(4) Treatment of Migrants' Transfers

- Migrants' transfers comprise the movement of assets occurring at the time of migration and are defined in the *Balance of Payments Manual (5th Edition)* as transfers pertaining to "flows of goods and charges in financial items that arise from the migration (change of residence for at least a year) of individuals from one economy to another." (Para 352) Migrants' transfers are similar to workers' remittances. For instance, a remittance made by a foreign worker to his home country while residing in Japan is entered under workers' remittances. However, if a foreign worker makes a lump-sum remittance (or transports assets) when returning to his home country, this is entered under migrants' transfers.
- On the other hand, migrants' transfers and workers' remittances differ on the following point. Workers' remittances consist of transactions involving two parties, while migrants' transfers involve only one party. In light of this fact, arguments have been made in both the IMF Committee on Balance of Payments Statistics and the TSG to the effect that migrants' transfers should not be recorded in balance of payments statistics as transactions. Indications are that the following proposal concerning migrants' transfers will be written into the *Balance of Payments Manual (6th Edition)* to be published following the scheduled revision. Changes in a country's assets resulting from migrants' transfers should be entered under "other changes in financial assets and liabilities" (changes in net assets and liabilities resulting from factors other than transactions and holding gains/losses), a

component of changes in net external assets and liabilities in International Investment Position.

- Migrants' transfers do not involve transactions between two parties. However, from a macroeconomic perspective, they do involve a cross-border transfer of assets. In this sense, migrants' transfers do not differ from workers' remittances and personal capital transfers. Furthermore, from an administrative perspective focused on overseas remittances in general, it is extremely difficult to differentiate between remittances made by foreign workers while residing in Japan and remittances made when foreign workers are returning to their home country. Under the present situation, it can be assumed that a substantial portion of overseas remittance that would constitute migrants' transfers is being reported as workers' remittances.
- Migrants' transfers and workers' remittances could be clearly differentiated by questioning the remitter at the time of remittance. However, this would place excessive burdens on financial institutions, which are charged with the task of reporting the data. Given this situation, it would be appropriate for Japan to continue to apply the following method. With the exception of certain transactions that can be readily recognized as migrants' transfers (such as disposal of real estate prior to migration and the remittance of proceeds after migration), overseas remittances pertaining to migrants' transfers should be included in workers' remittances or capital transfers by individuals.

4. Conclusion

- In light of growing international interest in workers' remittances, in this paper Japan's responses to the need to improve workers' remittance data were examined and some directions to be taken toward expanding the scope of data collection were outlined. Internationally, Japanese authorities should explain its present situation as described in this paper in the TSG and other technical groups of statistical compilers that may be convened in the future. On the domestic front, it is important for the authorities to convince reporters of the significance of workers' remittance data in order to actually improve the data collection. It is hoped that this paper can contribute to furthering this understanding. While reference was made in this paper to the problem of remittances passing through channels other than banks, related issues were not fully examined here. Efforts must be made to understand and measure these flows to supplement the coverage provided by data reported by banks and other institutions.
- To truly improve the usefulness of statistics on workers' remittances, Japanese authorities must go beyond merely responding to growing international interest and must endeavor to reflect the voices of many other users in its statistical products. It is hoped that this paper will stimulate discussion in Japan on the adoption of appropriate definitions as Japan heads toward a review of its statistics in line with the revision of the *Balance of Payments Manual*.

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