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The Concept of Residence with Special Reference to the Treatment of Migrant Workers in the Balance of Payments of South Africa

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THE CONCEPT OF RESIDENCE WITH SPECIAL REFERENCE TO THE TREATMENT OF MIGRANT WORKERS IN THE BALANCE OF PAYMENTS OF SOUTH AFRICA

1. Introduction

The concept of residence and the classification of transactors undertaking international transactions as either residents or non-residents of an economy are of critical importance, not only for compilers of balance of payments statistics, but also for national accountants as the residence status of producers may significantly influence the level of domestic production.

Guidelines for determining the residence status of institutional units, households and/or individuals are provided, amongst others, in the *Fifth Edition of the Balance of Payments Manual* (BPM5) of the International Monetary Fund (IMF) and the *System of National Accounts 1993* (SNA). In order to enhance the consistent recording of and to enable the successful reconciliation of international transactions, member countries of the IMF are encouraged to strictly apply the guidelines provided in the above-mentioned international publications.

The treatment of migrant workers in the national accounts of South Africa and its neighbouring countries, however, differs from the proposed treatment of such workers as prescribed in BPM5 and the SNA mainly due to a different approach in defining the residence status of such workers. This brief note will endeavour to explain the motivation for treating migrant workers from South Africa's neighbouring countries as foreign workers in the balance of payments of South Africa and as residents in its neighbouring countries, regardless of the length of stay of the workers in South Africa.

2. General principles for defining residence

According to BPM5 and the SNA, the concept of residence is based on a transactor's center of economic interest in a specific economic territory of a country. The economic territory of a country consists of the geographic territory administered by a government; within which persons, goods and capital may circulate freely.

An institutional unit, a household or an individual is said to have a *centre of economic interest* and to be classified accordingly as a resident unit of a country if:

$ the unit is engaged in and/or intends to continue to be engaged on a significant scale in economic activities and transactions from a location within an economic territory of a country;

$ the intention is to conduct economic activities in an economic territory for one year or longer;

$ an institutional unit, a household or an individual maintains a dwelling-house within a country which they regard as their principal residence. In the case of households the principal residence usually provides the link between the household and its centre of economic interest; and

$ in the case of individuals, they have been working continuously outside the borders of a country for more than a year, have set up a residence in their new location and visit their home countries infrequently and for only short periods.

3. Defining migrant workers

Migrant workers can be defined as workers who, for a specific period usually determined by a contractual agreement, leave their home country to seek temporary employment in another economy before returning to their home country. The employment conditions of such workers, as well as in many cases the distance between their home economies and their new location of employment, usually makes it very difficult for migrant workers to pay frequent visits to their home economies. By definition, migrant workers therefore exclude workers who travel between their home economies and their location of employment in another economy on a daily or weekly basis.

Migrant workers in Southern Africa are mainly employed by the mining sector in South Africa, but to a lesser extent are also involved in the agricultural and other sectors of the economy. Since these workers mainly perform unskilled work, production processes are usually not seriously affected by the continuous turnover of migrant workers.

4. The nature of labour migration in Southern Africa

Labour migration in Southern Africa is generally circular of nature and accordingly temporary. Migrant workers from neighbouring countries are very seldom employed in South Africa for periods longer than eighteen months, after which they usually return to their home countries. In the course of their lives, however, most workers will migrate several times, but in most cases they will always return to their home countries after the completion of their contractual commitments.

The circular or oscillating nature of labour migration can probably be explained by the fact that:

- $ the South African government does not allow migrant workers to remain in the country for periods longer than two years; and
- $ migrant workers predominantly travel alone. In general, employers only provide accommodation for the worker with the result that family members have to be left behind in their home countries. In view of these circumstances, it is not surprising that such workers would wish to return to their home economies to rejoin their families.

5. The scope of labour migration into South Africa

No official statistics are available on the number of foreign migrant workers from other countries in Africa who are employed in South Africa. The Employment Bureau of Africa (THEBA), a subsidiary of The Chamber of Mines, recruits roughly 80 per cent of migrant workers employed in the mining sector in South Africa. Based on official publications of the central banks of South Africa's neighbouring countries and official statistics from THEBA, it is estimated that approximately 75 per cent of all migrant workers are employed in the mining sector of South Africa. The rest of the estimated number of migrant workers are most probably employed in the agricultural, construction, wholesale and retail sectors of the South African economy.

According to statistics from THEBA, the bulk of the foreign workers working in the mining sector originate from Lesotho and Mozambique. As is shown in Table 1, the number of migrant workers declined gradually from 154 580 in 1997 to 106 961 in 2001 before increasing again to 119 290 in 2002.

Table 1. Foreign migrant workers in South Africa[1,2]

	1997	**1998**	**1999**	**2000**	**2001**	**2002**
Lesotho...............	76361	60460	52188	51351	49499	54390
Mozambique.......	55874	51913	46537	43860	45254	50776
Swaziland...........	12960	10336	9307	8308	7794	9620
Botswana............	9385	7752	6413	5392	4414	4504
Total..................	**154580**	**130461**	**114445**	**108911**	**106961**	**119290**

1) Migrant workers employed by the South African mining sector as recruited by THEBA

2) Source: THEBA

The South African government has negotiated inter-governmental agreements on deferred pay for workers in the mining sector with the governments of Lesotho and Mozambique. Similar agreements between the governments of South Africa, Swaziland and Botswana were terminated in 1999.

In accordance with these agreements and based on a twelve month contract, workers from Mozambique should remit 60 per cent of their monthly salary - from the sixth month up and to including the eleventh month of employment - to their home country. Likewise, workers from Lesotho should, in terms of their inter-governmental agreement, remit 30 per cent of their monthly salary - from the second up and to including the eleventh month of their twelve month contract - to their home country.

Table 2. Funds repatriated to neighbouring countries in terms of inter-govermental agreements on deferred pay [1]

R millions

	1997	1998	1999	2000	2001	2002
Lesotho.................	291,3	241,4	228,6	260,3	266,1	285,4
Mozambique..........	247,8	221,0	219,1	238,1	248,3	267,9
Swaziland	1,3	1,0	0,1	-	-	-
Botswana..............	2,5	2,0	0,9	-	-	-
Total.....................	**542,9**	**465,4**	**448,7**	**498,4**	**514,4**	**553,3**

1) Source: THEBA

6. Economic impact of labour migration

According to a recent study conducted by the World Bank, workers' remittances have become an increasingly prominent source of external funding for many developing countries. The most important source of external funding for developing countries still remains foreign direct investment flows. Relative to gross domestic product and other key economic indicators, remittances to low-income countries exceed remittances to other developing countries by a significant margin.

As could be expected, remittance flows are affected by, amongst other things, the economic cycle of the source country. An upturn in economic activity of the source country may result in higher levels of income earned by migrant workers and will most probably also serve to attract more migrant workers searching for better incomes. Remittance flows, however, appear to be relatively stable even at times of economic downturns in the business cycle of source countries. This phenomenon could probably be explained by the fact that migrant workers are forced to return to their home countries and are therefore willing to transfer their entire savings back to their countries of origin. In Southern Africa the migrant workers generally also transfer a part of their income to home countries to support their families.

The transfer of funds by migrant workers augments the recipient individuals'/ households' income and increases the recipient country's foreign exchange reserves. Furthermore, it may have a positive impact on savings and investment. Should these remittances be invested, it could contribute to output growth and if consumed, a positive multiplier effect could be generated.

In the case of unskilled workers who migrate to temporarily escape unemployment in their home countries, remittances are likely to prove an even clearer net gain to the developing country. Although the temporary emigration of workers from neighbouring countries to seek employment in South Africa may adversely affect the supply of labour and crop production in home countries in the short run, it could in the long run enhance crop productivity and cattle accumulation through invested remittances.

The income that migrant labourers earn in South Africa also forms an important source of revenue for the governments of particularly Lesotho and Mozambique. For taxation purposes migrant labourers from neighbouring countries are taxed on their earnings in South Africa in their home countries where they are formally recruited by THEBA.

7. Treatment of the income of migrant workers

As determined by BPM5 and the SNA, migrant workers in South Africa should be treated as residents of South Africa because they continuously work for more than a year in the country and visit their home countries infrequently and for only short periods. In accordance with this principle the salaries and wages earned by migrant labourers should form part of the gross domestic product of South Africa, while that part of their earnings transfered to their home countries should be included in current transfers to the rest of the world.

Both South Africa and Lesotho have decided to follow a different approach in the classification of the residency of migrant workers. (Unfortunately, we could not determine how Mozambique, the other large recipient of migrant labour income in this part of the world, treat the migrant labourers in their accounts.) In both countries the migrant labourers are regarded as residents of their home country because their centre of economic interest remain in their home country and they pay taxes on their earnings in South Africa to their home-country governments.

In South Africa the total labour compensation of migrant labourers is treated in the balance of payments as income payments to the rest of the world. Their expenditure in South Africa therefore forms part of travel receipts from other countries. This implies that the labour compensation of migrant labourers is included in the gross domestic product, but excluded from the gross national product of South Africa.

Although Lesotho also regards their migrant labourers working in South Africa as residents of Lesotho, they follow a somewhat different approach to South Africa in the treatment of the earnings of these workers. According to the Central Bank of Lesotho 71,3 per cent of the total earnings of Lesotho workers is shown as income/labour income received in the balance of payments of Lesotho. This ratio is based on a survey which determined that this is the proportion of income earned in South Africa that is paid over to Lesotho. As Lesotho currently records labour income on a net basis, no entries are made in the country's balance of payments for the spending of Lesotho workers in South Africa.

Although the treatment of the earnings of migrant workers is not significant for South Africa, it is of great importance in the case of Lesotho. Lesotho's gross national income is usually about 25 per cent higher than its gross domestic product largely because of the earnings of migrant labourers. Treating these migrant labourers as residents of South Africa will therefore have a large impact on the national accounts of Lesotho.

A number of young South African residents, largely highly qualified professional people, also work in the more advanced economies for periods ranging from 2 to 4 years or may in the end even decide to emigrate permanently to these countries. In the South African balance of payments these people are normally regarded as non-residents for the period that they reside abroad. This apparent inconsistency in the treatment of the income of non-permanent workers is followed because it is argued that their centre of economic interest have shifted temporarily or permanently to the countries in which they work. Although many of them return eventually to South Africa they normally set up a residence in their new location and pay taxes to the governments of the countries in which they reside. In most cases all the members of the family household normally live abroad in the same country, in contrast to the migrant labourers working in South Africa.

8. Conclusion

The determination of the residency of non-permanent workers remains a difficult concept to define precisely. A transactor's centre of economic interest in a specific economic territory of a country should continue to be applied in the classification of residence. In describing the centre of economic interest of individuals less emphasis could perhaps be placed on the length that such individuals work in other countries, and other factors such as the whereabouts of other members of the household and the payment of taxes could also be taken into account.

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