

## Before and after NAFTA

### *How Are Trade and Migration Policy Options Changing?*

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The North American integration of trade, migration, and remittance markets has undergone significant and intertwined transformations during the post–World War II era. The unequal juxtaposition of a high-income United States and a low-income Mexico has always contained the possibility for policies to leverage the potential for complementary regional economic integration and development. Achieving optimal migration and trade policy coordination for more productive and equitable development across North America, however, has proved to be an elusive goal. This chapter focuses on the impact that major changes in US immigration policy will have in the economic context of alternative post–North American Free Trade Agreement (NAFTA) reform or trade war scenarios.

We first review the long-term labor market and demographic transformations within and between the United States and Mexico over the post–World War II period. Second, we review the evolution of trade and migration policies during this period, focusing on the expansion of restrictive immigration enforcement policies since NAFTA and their acceleration in the Trump era. Third, using economy-wide simulation models, we measure the costs and benefits to the United States and Mexico arising from alternative NAFTA collapse and trade war scenarios or the implementation of the new United States-Mexico-Canada

The views expressed in this chapter are not those of the authors' respective institutions.

Agreement (USMCA). And finally, we compare these trade scenarios to the effects of highly restrictive and removal migration policy or the legalization and empowerment of 8 million undocumented workers in the US labor force and their remittance flows.

#### AN EMPIRICAL FRAMEWORK FOR US-MEXICO MIGRATION POLICIES

Over seventy-five years of deepening economic ties after World War II, US policies have shifted from an early period of relatively high trade protection and openness to migration to a period, beginning in the late 1980s and accelerating with NAFTA, characterized by increasingly liberal cross-border trade policies accompanied by more restrictive immigration policies and border barriers.<sup>1</sup> The renegotiation of NAFTA into the USMCA and the continued threats of tariff wars by the Trump administration have reversed the past thirty years of increasing North American **trade liberalization**,<sup>2</sup> which sought to remove or reduce barriers (e.g., tariffs or duties or licensing rules). In addition, the Trump administration has initiated aggressive changes in immigration policy, tightening restrictions on new immigrants, increasing border security, and threatening the use of mass deportation and seizing of remittances. This anti-integration mix of policies has the potential to severely disrupt the US and Mexican economies. At the same time, however, the potential legalization and empowerment of migration and remittances (money sent home to family by out-migrants) with sustainable regional **trade integration** has the potential for significantly enhancing economic growth and well-being in both countries.

To explore the economic impacts of alternative policy options in US-Mexico trade and migration, we developed economy-wide simulation models of the United States and Mexico. These simulation models incorporate the direct and indirect linked impacts of trade and migration policies on gross domestic product (GDP). They also incorporate the effects of trade, migration, and remittance flows on the various US and Mexico national household categories. The analysis utilizes a multicountry, multisector computable general equilibrium (CGE) model, called the **GLOBE model**.<sup>3</sup> This type of model is used widely for analysis of the implications of changes in trade policy. For the US CGE model, we add undocumented labor in ten different occupation categories and provide an empirical framework for analysis of further restricting or legalizing regional labor migration. We specify the effects of alternative policy scenarios for restricting or liberalizing trade and migration flows,

comparing the direct and indirect effects on GDP, income, and cross-border exchange. The analysis reaffirms what some researchers predicted during the original NAFTA negotiations, namely, that the impacts of significant changes in the labor force arising from changes in immigration policy are potentially much larger than impacts arising from alternative scenarios in trade policy (Robinson et al. 1991; Bustamante, Reynolds, and Hinojosa-Ojeda 1992).

Current draconian immigration policy scenarios combined with possible anti-integration trade confrontations compound negative impacts, potentially creating a worst-case scenario that will significantly hurt economic development across the North American region.

The current turn to restrictive trade and immigration policies is occurring as the long arc of Mexican net out-migration has passed its peak.<sup>4</sup> The irony is that the process of regional integration and structural change in the Mexican economy coupled with demographic changes have reduced the potential supply of migrants to the United States just as we see a reduction of major employment dislocations due to earlier phases of regional trade integration. The major result for North America in the current era is that trade and supply chain integration has significantly matured just as net out-migration from Mexico has rapidly dropped in the past ten years and is currently negative just as US labor demand is rapidly growing (Gonzalez-Barrera 2015). The potential gains from complementary prodevelopment trade and migration legalization policies are stronger than ever. Such a coordinated policy program is possible and well worth pursuing, while the costs of the current anti-integration trade and immigration policies are now being realized as extremely destructive.

Our previous economic modeling was among the first to hypothesize, in 1991, that during Mexico's "demographic hump"<sup>5</sup> an immediate rapid liberalization of Mexican agriculture could have the consequence of accelerating out-migration in the absence of a major development effort directed to Mexican rural areas. This research was used to create the North American Development Bank (NADBank) and to support a fifteen-year tariff-elimination schedule for Mexican corn and agriculture negotiated under NAFTA. This is particularly important because corn is Mexico's main agricultural crop and a staple in the Mexican diet. The gradual tariff elimination was designed to allow time for this rural-to-urban structural and demographic transition to work itself out.<sup>6</sup> Our earlier modeling also supported the idea that comprehensive immigration reform that would legalize the flow of mutually beneficial circular migration and generate remittance income for Mexico would

raise GDP and wages on both sides of the border (Hinojosa-Ojeda, Lewis, and Robinson 1995; Hinojosa-Ojeda 2010, 2011).

#### ECONOMIC DEVELOPMENT AND INTEGRATION: TRADE AND LABOR MIGRATION

The North American integration of commodity and labor markets has undergone two major and interrelated transformations during the post-World War II era. The first was the shift from nationally oriented commodity production and consumption within both countries to a much more liberalized cross-border production and market sharing pattern of regional interdependence in North America that began to emerge in the 1980s and continued with NAFTA. The integration of commodity production and consumption across borders has accelerated since NAFTA began in 1994, particularly through the expansion of **value chains** (also called **supply chains**), where various stages of the production process (e.g., design, parts and components production, assembly, packaging, sales, distribution) are dispersed among different countries, depending on where each stage can be performed at the lowest cost or under optimal conditions. As one example, value chains in the automotive industry start with raw materials sent to parts makers to make auto parts; these parts are then sent to manufacturers (companies like Ford or Toyota) to put together to manufacture vehicles; these vehicles are then sold to consumers through a dealership. The increased trade in intermediate inputs (e.g., automobiles and parts) supports associated productivity growth. The United States, Canada, and Mexico have since the 1970s been operating more and more as an integrated and competitive **trade and production bloc**—that is, a group of countries that have agreements that reduce barriers to trade among those countries.<sup>7</sup>

The second major transformation occurred as North America created a highly interdependent regional labor market, driven by a growing supply of migrant labor as Mexico transitioned from an agricultural to an industrializing urban society (**figure 9.1A**), accompanied by demographic change that increased the share of the working-age population. Mexico experienced a classic model of structural transformation that increased the supply of nonagricultural labor and a slowdown of population growth with urbanization. This is the Lewis model of economic growth with an “unlimited” supply of labor.<sup>8</sup> This process ends with a “Lewis model turning point,” whereby the structural transformation comes to a natural end, with a lower share of the labor force in agriculture and a

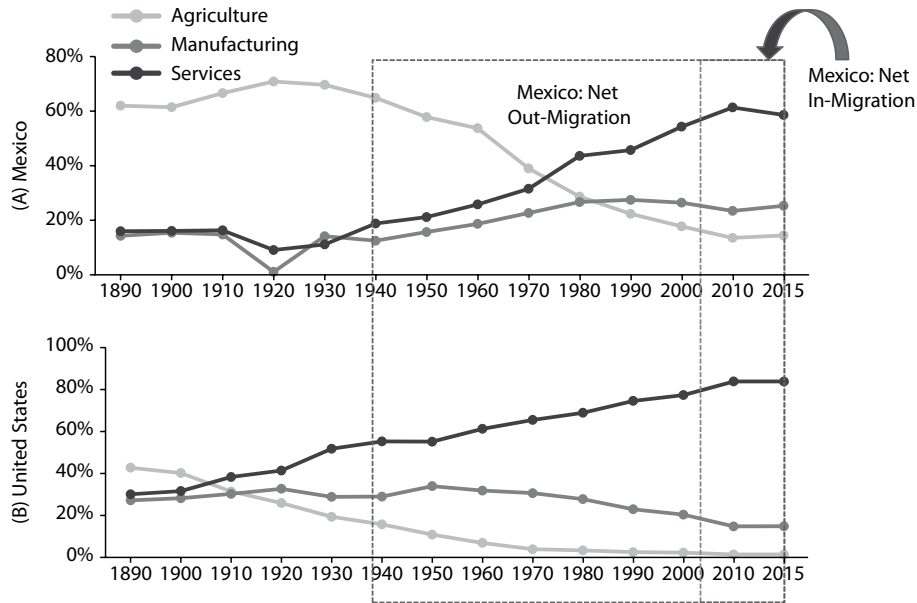


FIGURE 9.1. Periods of Mexican Net Migration: Net Out-Migration, 1940–Mid-2000s; Net In-Migration, Mid-2000s–2015; Mexican and US Employment by Economic Sector as Share of Total Employment, 1890–2015: (A) Mexico; (B) United States. Sources for Mexico: from 1895 to 1910: *Estadísticas económicas del Porfiriato: Fuerza de trabajo y actividad económica por sectores* [Porfiriato period economic statistics: Workforce and economic activity by sectors], El Colegio de México; from 1921 to 1990: Instituto Nacional de Estadística y Geografía [INEGI; National Institute of Statistics, Geography, and Informatics]; from 1996 to 2016: *Encuesta Nacional de Ocupación y Empleo* [National survey of occupation and employment], INEGI and ILOSTAT [International Labor Organization Statistics]; “El Empleo en México en los Ochenta: Tendencias y Cambios” [Employment in Mexico in the eighties: Trends and changes], Banco Nacional de Comercio Exterior, México, *revistas.bancomext.gob.mx/rce/magazines/250/3/RCE3*; *El empleo en México en los ochenta: Tendencias y cambios*. Sources for US: Lippolis 2013, based on Berthold Herrendorf, Richard Rogerson and Akos Valentinyi, Growth and structural transformation, in *Handbook of Economic Growth*, vol. 2B, <https://ourworldindata.org/grapher/employment-by-economic-sector?stackMode=relative&tab=data>; <http://www.public.asu.edu/~bherrend/Published%20Papers/Handbook%2013.pdf>.

rising share of urban sectors (see figure 9.1A). The result is a dramatic slowdown in both internal Mexican migration and Mexico to US migration, documented as well as undocumented.<sup>9</sup>

The original high postwar growth in Mexican migration was complemented and encouraged by a growing US demand for agricultural labor and services, as the United States matured into a highly urban, postindustrializing, and increasingly service-oriented economy (figure 9.1B). Mexican migration became even more complementary and

crucial to the United States as the postwar baby boom matured and began aging to retirement, generating even greater demand for labor-intensive services. This current phase of complementary US aging and slowing of Mexican population growth can potentially lead to rising wages and productivity across borders, as well as large-scale remittances. Much will depend on the ability of North America to produce a mutually supporting and development-oriented mix of trade, migration, labor, and remittance policies going forward.

The post–World War II period of US-Mexico migration and trade integration was built on fortuitous complementary endowments and proved to be beneficial to both countries. **Figure 9.2A** shows that Mexico achieved significant convergence in GDP per capita from 1942 to 1980, followed by divergence since the 1980s. During this seventy-five-year period, trade and migration policies were at times complementary but at times incompatible and working against efficient economic integration. While trade policy has been pro-integration, moving from a protectionist to open regime since the mid-1980s (**figure 9.2C**), migration policies, barriers, and enforcement have grown ever more restrictive, significantly distorting labor markets on both sides of the border. Rather than move toward increased orderly labor mobility, migration has been increasingly restricted due to US politics with no meaningful coordination with Mexico.

While Mexican migration has contributed significantly to US GDP growth throughout the postwar period, the lack of a well-functioning legal framework for managing migration flows and ensuring workers' rights has led to many problems. Immigrant wages have been kept artificially low and unproductive in the US labor market through increased undocumented migration in the 1990s through 2010 from both Mexico and Central America. This burst of undocumented migration (**figure 9.2B**) resulted from both supply and demand effects and was encouraged in the United States because the migrants were needed and had been made relatively cheaper due to their undocumented status (Brown, Hotchkiss, and Quispe-Agnoli 2012). The increasing stock of undocumented migrants after the Immigration Reform and Control Act (IRCA) of 1986 broke the postwar pattern of circular migration, legalizing most unauthorized immigrants who arrived in the United States prior to January 1, 1982, and thus ironically “fencing in” and increasing the permanent undocumented settlement in the United States (Massey, Durand, and Malone 2003). While much of the international policy negotiations has been focused on trade liberalization in NAFTA and the USMCA, the lack of regional or even national US immigration reform

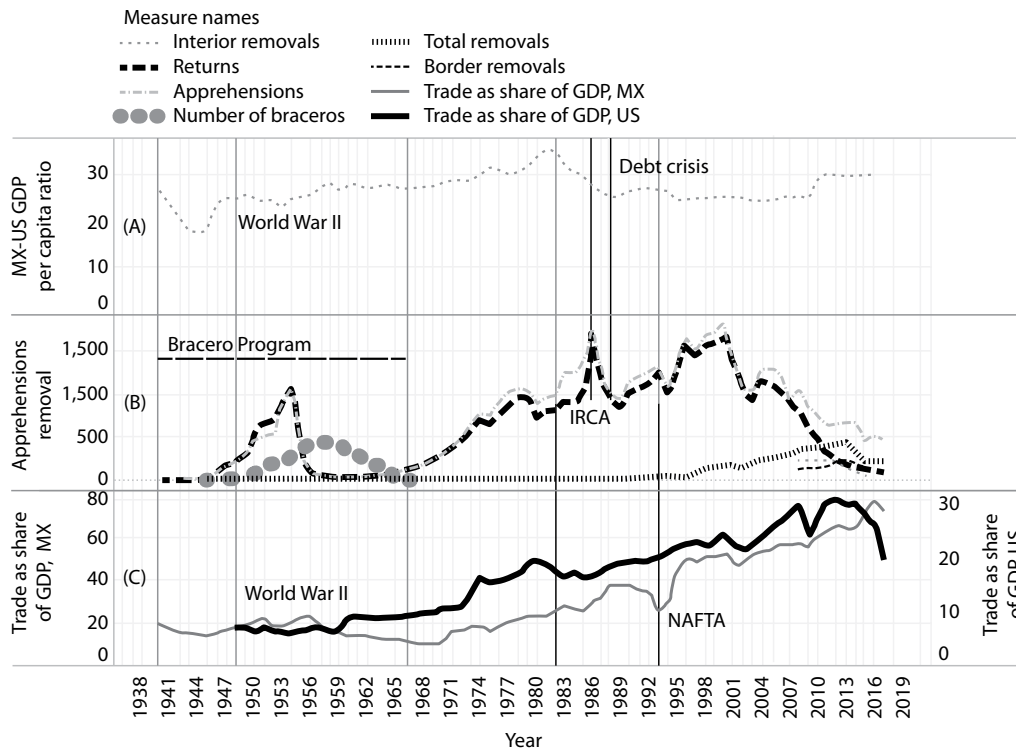


FIGURE 9.2 (A) Relative US/Mexico GDP per Capita (MX-US GDP Per Capita Ratio); (B) US Apprehensions and Deportations (Apprehensions, Removals); (C) US and Mexico Trade Shares of GDP (Trade as Share of GDP, MX; Trade as Share of GDP, US). Sources: Maddison Project Database, version 2018, Bolt et al. 2018; ICE Immigration Return and Removals Reports for Each Fiscal Year, www.dhs.gov/immigration-statistics/enforcement-actions; Trade as Share of GDP, for US: WTO, Time series on international trade; US Census Bureau, Historical series: US international trade in goods and services; and for Mexico: World Bank, Imports and exports of goods and services; INEGI, Estadísticas históricas de México [Historical statistics of Mexico].

and legalization in this period encouraged exploitation of undocumented labor in the low-wage labor market. Ironically, this growth in undocumented migration has produced much greater economic benefits to the United States than trade liberalization, as we show below, a fact lost in discussions on relatively minor distributional implications that were hotly debated in academic circles.<sup>10</sup>

#### POSTWAR US MIGRATION AND TRADE POLICY INITIATIVES

To understand the degree to which various US trade and immigration policies have succeeded or failed, it is important to review the major

TABLE 9.1 POSTWAR US-MEXICO TRADE AND MIGRATION POLICY INITIATIVES

| Period          | Trade Policy  | Immigration Policy   |
|-----------------|---|--|
| 1940s and 1950s | 1942 (WW II): US and Mexico negotiate a comprehensive trade, investment, and debt agreement. Chapultepec Conference (1946) continued complementary pro-integration trade (ISI) policies.  | Migration agreement: Bracero Program (1942–64)<br>Post-WW II, US became less hospitable to Mexican migrants:<br>Operation Wetback (1952–53)  |
| 1960s and 1970s | Border Industrialization Program (BIP, 1965) fostered Mexican industrialization along the border (also known as the Maquiladora Program).   | Bracero Program terminated.<br>Immigration bill (1965) expanded overall migration but limited Mexican migration beginning in 1976. Result: gradual expansion of undocumented migration.  |
| 1980s and 1990s | The idea of a North American Free Trade Agreement first received significant policy attention arising from the work of the congressional commission on immigration and development that accompanied the legislative reform process that created IRCA in 1986. NAFTA in force in 1994. | Immigration Reform and Control Act (IRCA, 1986). Legalized existing stock of migrants but did not increase future legal migration. Continued expansion of undocumented migration and disruption of circular migrations after 1996 legal restrictions and border enforcements.      |
| 2000s           | Expanded trade under NAFTA, including major increase in value chain trade in intermediates, with associated productivity increases. Continuing pro-integration trade policies and acceleration of agricultural trade liberalization.  | 2001 was the peak year of undocumented crossings and apprehensions, while total removals via deportation increased as did enforcement expenditures under Bush and stabilized under Obama. CIR failed Congress in 2007 and 2013, as Obama issued DACA and DAPA as executive orders. |
| 2017            | Trump adopts a protectionist anti-integration approach with potential for tariff war and trade collapse. Trump threatens to cancel NAFTA and raise tariffs, forcing renegotiation into a very similar USMCA.  | Trump embraces restrictive immigration policies, including rescinding DACA, building walls, increasing immigrant incarceration rates even as deportations and border crossings continue to fall, restricting access to legal immigration and refugees.                             |

NOTE: DAPA = Deferred Action for Parents of Americans and Lawful Permanent Residents.



periods of migration and trade policy implementation in the post–World War II era. **Table 9.1** summarizes four periods. First, in the early 1940s, the United States launched the Bracero Program and a series of trade, investment, and debt agreements (Hinojosa-Ojeda 1999). The mid-1960s saw the end of the Bracero Program, a reorganization of legal immigration quotas in the Immigration and Naturalization Act of 1965, and the launch of the **1965 Border Industrialization Program**, which allowed for industrial production on the Mexican side of the border to enter the United States without paying tariffs.

In the mid-1980s to early 1990s, the United States enacted IRCA and NAFTA. In the 2000s, the United States enacted new laws and increased appropriations to the Department of Homeland Security (DHS) that were designed to restrict migration and penalize undocumented migrants in the United States. While trade across borders grew and attempts at comprehensive immigration reform were made, Congress was unable to agree on any major reforms, including legalization of the large stock of undocumented migrants. In the Trump era, the administration pursued anti-trade and extreme anti-immigration measures, with heavy-handed use of tariffs and enhanced restrictions on undocumented and legal migration, all of which could have serious negative impacts on the US labor force and the economy.

#### IRCA AND NAFTA: 1986–1994

The Immigration Reform and Control Act of 1986 represented a major change in post–World War II immigration policy. Its major achievement was to legalize the status of the large stock of undocumented migrants then in the United States. Congress and President Ronald Reagan’s administration of the 1980s recognized that earlier policies, including tolerance of weak border and employer enforcement, had created a massive stock of undocumented migrants and that the solution was, correctly, large-scale legalization rather than large-scale deportation.

The major failing of IRCA, however, was reproducing the error of the 1965 Immigration and Naturalization Act by not expanding avenues for legal immigration from Mexico. There clearly was a continuing US demand for Mexican labor and an increasing supply of surplus labor in Mexico arising from continuing structural change. Migrant communities in the United States had strong linkages to Mexican communities, providing channels to respond to the demand and supply pressure for increased migration. IRCA did succeed in reducing undocumented

migration for five years because it legalized many of the people engaged in circular migratory patterns. However, because it did not significantly expand legal migration avenues, it provided no mechanism for dealing with the next wave of workers coming of age in rural Mexico and entering Mexican labor markets and an already aging US workforce. In an acknowledgment of the larger regional challenge, however, Congress did establish the US Commission for the Study of International Migration and Cooperative Economic Development, which, in its 1990 report, prominently mentioned the need for freer trade between the United States and Mexico. Echoing the 1965 Border Industrialization Program, which allowed industrial production on the Mexican side of the border to enter the United States without paying tariffs, the commission envisioned that a North American free trade project could encourage increased trade and employment, but it did not anticipate the still-massive, and demographically driven, out-migration from the countryside to meet the growing US demand over the next twenty-five years.

When NAFTA was finally negotiated in 1992, the United States argued that immigration issues were too controversial to be included in NAFTA, and Mexico agreed on the condition that the United States accept its condition that oil would be excluded. The original NAFTA negotiations also ignored labor market issues as they focused on liberalizing trade and investment relations. Only after the signing of NAFTA in 1992 did the new administration of President Bill Clinton negotiate “side agreements” on environment, labor, and creation of the NAD-Bank, which despite showing embryonic promise was not provided with the sufficient resources or power to meet the scale of the US-Mexico development challenge.<sup>11</sup> These early side agreements were thought to be the basis of what Robert Pastor (2001) would later see as a potential movement “toward a North American Community.”

While ignoring calls for a more comprehensive migration, trade, and development compact, NAFTA negotiators did, however, take into consideration the potential impact of rapid liberalization of agricultural trade on the Mexican labor market. Research at the time indicated that trade liberalization that was too rapid could result in accelerated out-migration in Mexican agriculture, due to pressure for increased migration to the United States (Robinson et al. 1993; Levy and van Wijnbergen 1992, 1994). US and Mexican negotiators later agreed that agricultural trade liberalization would have the longest adjustment period (fifteen years) so that NAFTA would not constrain Mexican management of structural change. As previously mentioned, the scheduled elimination of

corn tariffs was part of this adjustment. International financial institutions such as the World Bank also worked with the Mexican government to establish adjustment programs for rural families, with assistance from such programs as **Oportunidades (Opportunities)** that provided cash for school attendance and nutrition, among other supports, and is credited for decreasing poverty, particularly in rural Mexico. Other programs include **PROCAMPO (Programa de Apoyos Directos al Campo [Program for Direct Support to Rural Areas])**,<sup>12</sup> which subsidized small farmers.

#### NAFTA AND IMMIGRATION: 1994–2016

Despite the fact that NAFTA-related trade and financial liberalization flows were subject to much public debate, binational negotiations, and legislative action in both countries, immigration policy has seen no such binational or national action or urgency. On the contrary, the United States has seen a series of unilateral actions to restrict migration accompanied by massive growth of border enforcement expenditures. The result is that the cost per apprehension of an undocumented migrant has grown from \$1,000 in 1991 to \$45,000 in 2013 (Hinojosa 2013).

This is particularly illogical since a review of the **post-NAFTA era** shows that Mexican migration has had a much larger positive impact on the US labor market and has contributed much more to US GDP than have US-Mexico trade or financial flows. **Figure 9.3** shows that Mexican-origin and Mexican immigrant labor contributions to the US GDP have grown dramatically in the post-NAFTA era from 1994 to 2016. During this period, the GDP contribution of the **Mexican diaspora** (i.e., the total Mexican-origin population in the United States, including immigrants and the native born) totals \$13.4 trillion, with Mexican foreign-born immigrants contributing \$4.8 trillion, compared to a total GDP contribution of exports to Mexico of \$3.3 trillion. The direct and indirect employment impacts of Mexican immigration is also significantly higher than employment supported by exports to Mexico.

Compared to the labor market impacts of post-IRCA migration, the post-NAFTA labor market effects were relatively small. Different academic and policy estimates from a range of political perspectives are actually in close agreement concerning the US employment impacts of post-NAFTA economic integration (around one million jobs), including the Economic Policy Institute (EPI); Public Citizen; and the University of California, Los Angeles, North American Integration and Development

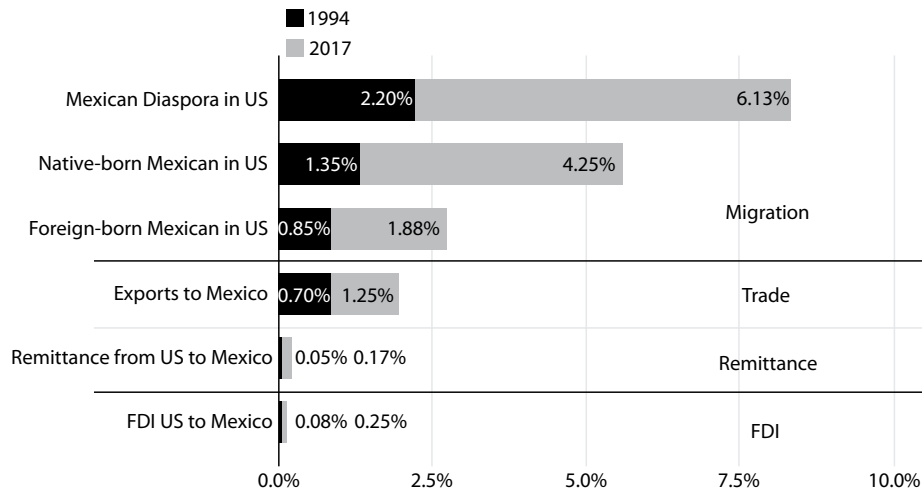


FIGURE 9.3. Mexico Migration, Trade Contributions, and Remittances/FDI as a Share of US GDP. Sources: US Census data was used to calculate Native- and Foreign-Born Mexican in US, as well as US Exports to Mexico. World Bank data were used to calculate remittance and trade shares of GDP.

(UCLA NAID) Center.<sup>13</sup> These estimates closely converge with the actual number of beneficiaries of various trade adjustment policies related to NAFTA, including the Small Business Association (SBA), Rural Development Advance (RDA); and the NADBank Community Adjustment and Investment Program (NADB CAIP), from 1994 to 2017. The NAD-Bank CAIP Federal Agency Program, which subsidized fees through SBA and RDA loans, likely generated approximately 10 to 21 percent of the reemployment of workers in CAIP's Designated Eligible Areas (DEAs) (Hinojosa 2019).

The post-IRCA and post-NAFTA era first saw a decline and then a rapid rise in undocumented migration based largely on the US business and unemployment cycle in the 1990s that determined US demand for labor. By the beginning of the 2000s, the continued demographic and structural change in Mexico had reached a tipping point and Mexico entered a new phase, moving toward the “end of labor abundance” (Taylor, Charlton, and Yúnez-Naude 2012). Starting in 2001, undocumented immigration not only peaked, but began a rapid decline that has continued to the present, with net migration turning negative in 2007. While total undocumented migration recovered slightly with the US business cycle, Mexican undocumented migration has continued its net negative slide, reducing the stock of Mexican undocumented labor for the first time in the post-World War II era. Migration from Central America has

continued to grow. This trend is also reflected in the sharp decline in apprehensions by US enforcement agents during this period (figure 9.2B).

NAFTA itself had little direct effect on migration, contrary to some popular perceptions. The fifteen-year adjustment period for NAFTA agricultural trade liberalization ended just as the trends in demographic and economic structural change had largely worked through the Mexican economy. The Mexican government did, however, decide to implement a series of agricultural policy reforms outside of NAFTA, including the PROCAMPO and Oportunidades programs, constitutional changes to communal land rights, and accelerated corn imports that were faster than allowed by NAFTA. The combined effects of these policy changes do not appear to have influenced the rate of Mexico undocumented out-migration, which peaked in 2000, nor are they responsible for the continuous decline and net return migrations in recent years.<sup>14</sup> In further contradictions to popular perceptions, Mexican migration began declining after 2001, just as US corn exports to Mexico saw their most expansive rise.<sup>15</sup>

Mexico is in a new development phase, with less surplus labor and declining supply pressure for migration, which means that Mexico and the US policy makers are now in a different economic and demographic environment. Mexico benefited from the presence of the US labor market that provided an outlet for Mexican surplus labor during its period of dramatic demographic and structural change, but this has now slowed considerably (Hanson, Liu, and McIntosh 2017). The United States has benefited greatly from past migration, which supplied needed labor and improved the age structure of the US population, and will continue to so into the future. Going forward, the two countries need to consider policies that manage continued integration of their labor markets in an environment of much less migration pressure, as well as continue the long process of trade integration that has benefited both countries.

#### TRUMP ERA

With the election of Donald Trump in 2016, the United States is threatening to reverse the process of North American integration that has greatly benefited the three NAFTA countries. The Trump administration called for a renegotiation of NAFTA but resulted in a USMCA that had few changes but increased risks (Pulaski, Capaldo, and Gallagher 2019; Burfisher, Lambert, and Matheson 2019). Trump, meanwhile, has continued to use protectionist rhetoric and threats that may well poison all negotiations on trade and migration.

On immigration policy, the Trump administration is moving toward a highly restrictive policy on new immigration and draconian treatment of currently undocumented immigrants. Instead of a policy to legalize the large existing stock of 11 million undocumented immigrants, as was done in earlier immigration reform policies, the administration is moving rapidly to a hugely expensive policy of mass incarceration, deportation, and increased security (the “Wall”) along the border.

The irony of the Trump administration policies to increase border security is that they address a problem that is already largely being resolved through demographic change, economic growth, and development trends in both Mexico and the United States.<sup>16</sup> The trade, immigration, and mass deportation policies that the administration proposed would likely set back the process of economic integration in North America and would lead to new pressure for undocumented immigration if, as is likely, they damage the economies of Mexico and Central America.

#### ECONOMIC IMPACTS OF SCENARIO RESULTS OF ALTERNATIVE IMMIGRATION AND TRADE POLICIES

To explore the economic impacts of alternative policy options in US-Mexico trade and migration, we utilize a GLOBE model, discussed earlier—the multicountry, multisector CGE model of global trade. We also use a US model specified for immigrant labor markets. There are thirty-five industries in the models, 10 labor occupation categories, capital, and five household groups (defined by quintiles of the overall income distribution), which differ by sources of income and expenditure patterns, providing an empirical framework for analysis of further restricting or liberalizing regional trade and labor migration.

We use these models to estimate the effects of alternative policy scenarios for restricting or liberalizing trade and migration flows, comparing the direct and indirect effects on GDP, income, and cross-border exchange. Alternative trade policy scenarios include (1) NAFTA disintegration, (2) trade war among NAFTA countries, and (3) the USMCA. We also specified two sets of migration scenarios: (1) comprehensive immigration reform (CIR), including the legalization of undocumented workers as well as future worker flows; and (2) migration collapse, specified by increasing reductions in the immigrant labor force by category.

In **table 9.2** we present the results of our CGE modeling scenarios, comparing the impact on the United States and Mexico of our alternative migration and trade policy scenarios on GDP, exports, imports,

TABLE 9.2 US AND MEXICAN REAL GDP AGGREGATES BY SCENARIO

|                                   | GDP    | Exports | Imports | Employment Loss<br>(1000s, ILO 2017) |
|-----------------------------------|--------|---------|---------|--------------------------------------|
| US Scenarios                      |        |         |         |                                      |
| NAFTA collapse short run US       | -0.23  | -0.78   | -0.41   | -372                                 |
| NAFTA collapse medium run US      | -0.05  | -0.5    | -0.41   | -151                                 |
| NAFTA trade war short run US      | -1.9   | -8.81   | -4.25   | -2,931                               |
| NAFTA trade war medium run US     | -0.5   | -6.98   | -4.25   | -1,284                               |
| Migration collapse 1/3 US         | -0.97  | -1.15   | -0.92   | -1,466                               |
| Migration collapse 100% US        | -5.93  | -7.04   | -5.65   | -8,793                               |
| USMCA                             | 0.1    | 0.1     | 0.1     |                                      |
| CIR                               | 2.38   | 1.21    | 2.01    |                                      |
| Mexico Scenarios                  |        |         |         |                                      |
| NAFTA collapse short run Mexico   | -4.62  | -6.9    | -3.14   | -2,444                               |
| NAFTA collapse medium run Mexico  | -0.51  | -3.1    | -3.14   | -751                                 |
| NAFTA trade war short run Mexico  | -16.27 | -21.92  | -15.46  | -8,877                               |
| NAFTA trade war medium run Mexico | -2.03  | -9.24   | -15.46  | -3,140                               |
| Remittance Losses                 | -0.06  | 4.35    | -3.31   |                                      |
| USMCA                             | -0.1   | 0.1     | 0.1     |                                      |

SOURCES: Authors' calculation; Hinojosa-Ojeda 2010; Robinson and Thierfelder 2018; Burfisher, Lambert, and Matheson 2019.

and employment losses. The results indicate that for the United States, comprehensive immigration reform would increase GDP by \$1.5 trillion over ten years while deportation of 5 percent of the labor force would result in a fall in GDP of up to almost 6 percent, depending on how labor and capital markets adjust. Tax revenue would rise and fall with GDP, and the government deficit would decrease and increase accordingly. The mass deportation scenario amounts to a policy-induced severe recession for the United States, with negative GDP impacts in Mexico (and Central America) as a result of the collapse of remittances due to migrant employment losses. Legalization and CIR generate growth of income and productivity as undocumented immigrants are allowed to move to more productive employment. CIR also has very positive impacts on trade with Mexico, further reducing out-migration pressures. Most interestingly, imports and exports in the United States fall more due to a **migration collapse scenario** than the worst effect of a **trade war scenario**. As previously calculated by the UCLA NAID Center in 2009 and corroborated by the Congressional Budget Office in 2013, projections of future immigration indicate continued decline. In addition, it is estimated that legalization, if implemented, would significantly reduce the

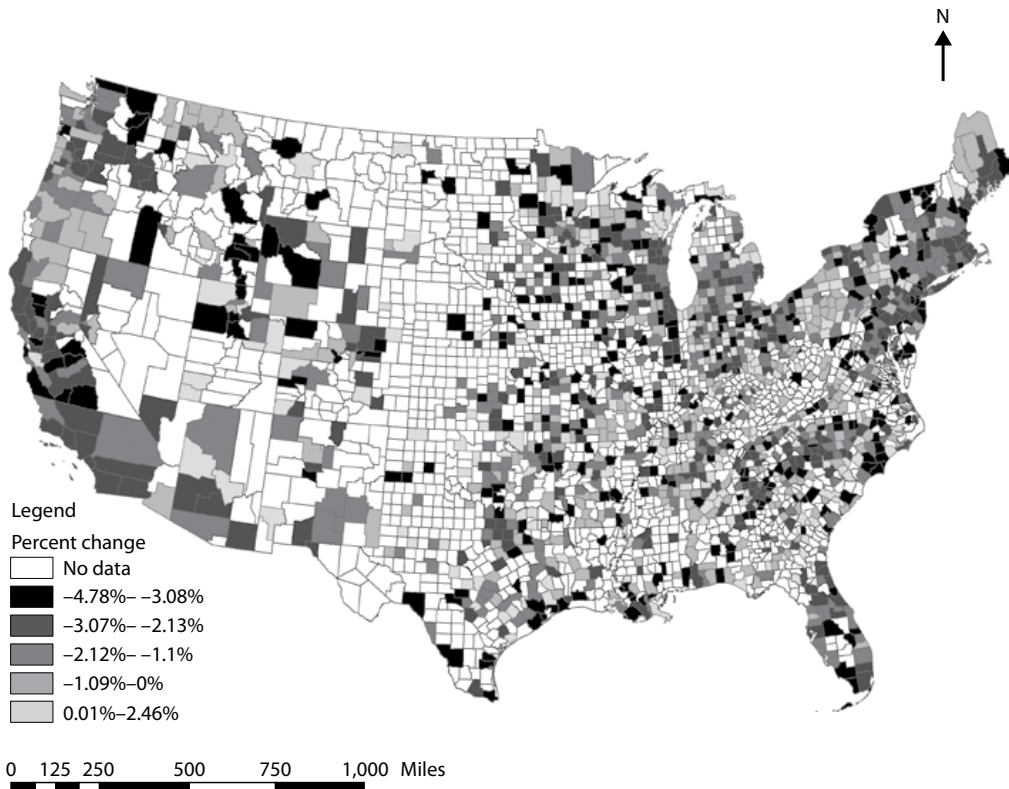


FIGURE 9.4A. Percent Change in County US Sectoral Output under NAFTA Trade War in Nonservice Sectors.

number of undocumented crossings, as occurred after the 1986 reform that legalized the then stock of undocumented immigrants.

With respect to trade scenarios, we find that the impact of the USMCA is minimal and was not worth the risk of more serious confrontations. In a NAFTA collapse scenario in the short run, when there is unemployment and producers cannot change capital-labor ratios, real GDP declines for all NAFTA countries but with relatively small declines for the United States. Mexico is hit especially hard (GDP falls by 4.6 percent), given that it has a much higher share of unskilled labor that is subject to unemployment. The NAFTA trade war scenario is more serious, however, damaging all three countries, and it is especially damaging to Mexico and Canada. The long-run scenario of disintegration of the North American trade bloc, which starts from the NAFTA trade war scenario and also assumes that Mexico and Canada will pursue free trade agreements with the European Union (EU) and East and South-



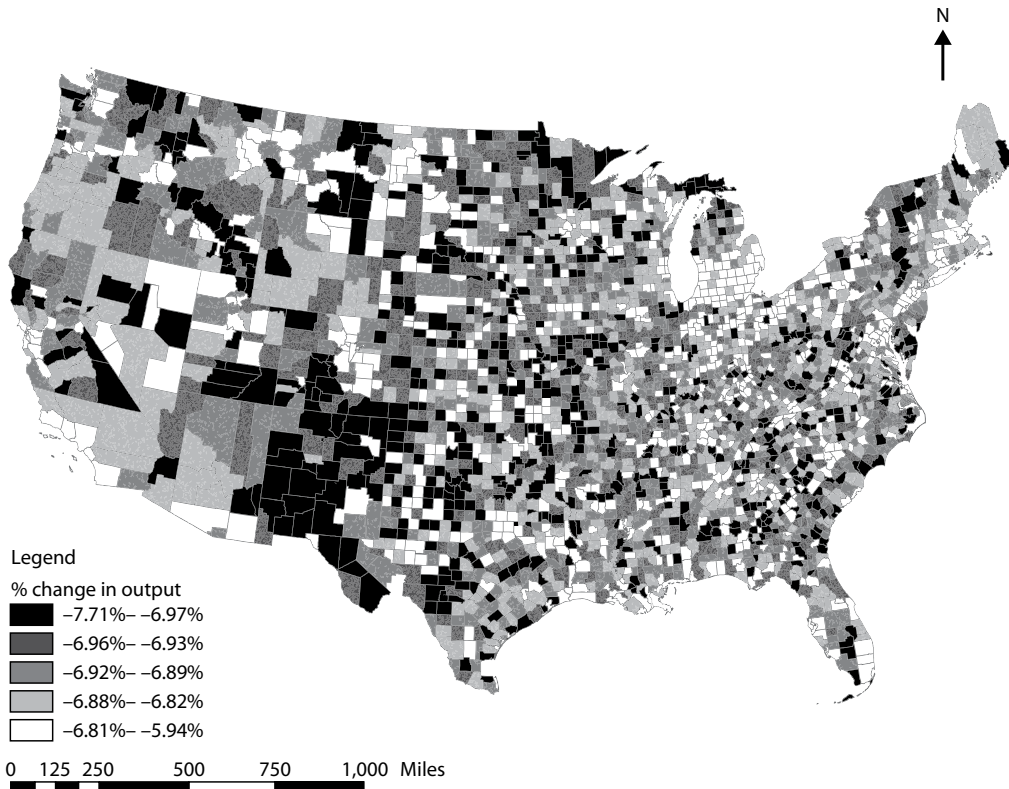


FIGURE 9.4B. Percent Change in County Output under Mass Deportation in All Sectors.

east (E&SE) Asia, also yields large impacts on all three countries. Trade diverts away from the United States so that it becomes more isolated in the global economy. US real exports decline overall, and exports to both NAFTA and non-NAFTA countries decline. Real exports from Mexico and Canada decline overall, but those countries increase their exports to non-NAFTA countries after severe adjustments.

The geographic dispersion of the impacts of these alternative policy scenarios are very interesting, particularly with respect to the paradox that those who support Trump's policies the most are the most likely to be hurt by them. The declines in production and income would not be restricted to industries and regions that directly compete with imports or where undocumented laborers work. The reductions in employment and sectoral output would be spread across industries, and the recession-induced reductions in GDP and household incomes would be spread across states and counties, many of which voted for Trump (figures 9.4A and 9.4B).

While some of these scenarios are speculative, they do yield a robust result: a trade war and migration collapse in North America is the worst option for all of the participants. In contrast, the impact of a USMCA is minimal, despite the intense hype and resource use. These new modeling results also reaffirm that the impacts of significant changes in the labor force via immigration policy are potentially much larger than from changes in trade policy (Hinojosa-Ojeda and Robinson 1991; Bustamante, Reynolds, and Hinojosa-Ojeda 1992).

## CONCLUSION

We are now at a critical juncture in North America, with a largely completed trade liberalization and supply chain integration occurring simultaneously at the end of the period of surplus labor in Mexico that is naturally decreasing the supply of potential migrants. We now have an opportunity to develop a mutually supporting mix of pro-integration trade, migration, and labor policies that will result in rising incomes across North America.

The Trump administration, however, is moving to a protectionist trade policy and a draconian, restrictive immigration policy. This mix threatens to become the worst-case scenario, with a negative labor supply shock in the United States due to mass deportations threatening to overwhelm any positive gains from trade liberalization, past or future. The new policy is in sharp contrast to past bipartisan immigration reform that acknowledged that the large stock of undocumented migrants was due to policy choices by the US government and that legalization made sense in terms of both economic and humanitarian concerns. The potential gains from complementary prodevelopment trade and migration legalization policies are stronger than ever. Such a coordinated policy program is possible and well worth pursuing, while the costs of the current anti-integration trade and immigration policies are now being realized as extremely destructive.

### *Suggested Reading*

- Clausing, K. A. 2019. *Open: The Progressive Case for Free Trade, Immigration, and Global Capital*. Cambridge, MA: Harvard University Press.
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- Sachs, J. D. 2015. *The Age of Sustainable Development*. New York: Columbia University Press.