

By Raúl Hinojosa and Edward Telles

Abstract: *U.S.-Mexico integration is in the midst of a historic shift that could signal a new era of mutually beneficial complementarity in trade and migration. The nearly quarter-century focus on trade liberalization policy, however, has ignored the much more potentially beneficial areas of migration and remittance reform, as well as other wage and employment dynamics that could lead to upward convergence of living standards across borders. Meanwhile, "inter-mestic" political dynamics in both the U.S. and Mexico have paradoxically entered into a highly conflictive period, which could produce vicious cycles of catastrophe or, alternatively, be resolved in a California-led pattern of integration.*

This thought piece is based on the research and policy agenda of the newly formed U.S.-Mexico-California Collaborative, and inspired by panel discussions among U.S.- and Mexico-based members of the collaborative at the August 2017 conference "Expanding Bridges and Overcoming Walls." The event brought together academics and policy makers to discuss research related to three fundamental questions:

- (1) How do we explain the Trump campaign's paradoxical yet successful use of a misleading U.S.-Mexico narrative in counties with limited trade and migration ties to Mexico?
- (2) Is there a material basis for dramatically opposed interests between Mexico and the U.S., or are we in fact entering into a new era of rising complementarity?
- (3) Can California's historic shift from anti-immigrant to pro-integration serve as a model for the future?

The Trump Paradox

Donald Trump's political rise utilized the narrative that America ceased being great because of “illegal” immigrants and trade agreements destroying U.S. jobs. Many observers have conflated the rise of Trump’s electoral popularity with the existence of measurable negative impacts from trade and migration on the lives of Trump supporters, as well as evidence for the need for more restrictive immigration and trade policies.

An examination of the geographical concentration of voter support for Donald Trump, however, indicates a negative correlation between backing for Trump and the presence of Mexican immigrants, as well as import competition from Mexico or China. In fact, areas with a high concentration of Mexican immigrants and trade exposure to Mexico and China were actually more likely to favor Hillary Clinton.²⁴ The Deferred Action for Childhood Arrivals program (DACA) presents an even more exaggerated paradox: Of 120 counties that account for 75% of the DACA population, none voted for Trump. This raises the fundamental question of whether the Trump anti-immigrant and anti-trade policy approach is a sustainable political-economic movement.

A New Era of Complementarity?

In recent decades, the U.S.-Mexico relationship has been characterized by increasingly liberal trade and investment policies that have also been accompanied by more restrictive immigration policies and a lack of policies to make remittances more productive. Despite the focus on trade, it is migration flows to the U.S. that have actually been responsible for the largest positive impacts on U.S. GDP, while remittances have provided huge benefits to Mexican households and communities. Beyond the potential impact of policy reforms, the larger question is whether North America is entering a new era of complementarity, with upward wage and productivity convergence, increased intraregional and interregional trade and reduced migration flows.

²⁴ Raúl HinojosaOjeda, Maksim Wynn and Zhenxiang Chen. 2016. “Donald Trump’s False Narrative on Mexican Migration and Trade: A Geopolitical Economic Analysis.” BTI Institute: University of Houston.

- Demographically the U.S. has transitioned from a post WW-II population boom to a dramatic process of aging, beginning in the 1970s, which will produce net population loss without immigration. Meanwhile, Mexico's demographic dividend is also ending.^{25&26}
- Migration between Mexico and the U.S. transformed from a relatively low postwar bracero recruitment to a post-1965 large-scale legal and undocumented network migration that expanded and peaked in the early 2000s. Since then, total Mexican migration declined precipitously, reaching net zero because of a combination of demographic and sectoral shifts.²⁷
- The role of remittances expanded significantly from its induced origins during the Bracero program, shifting to a post-NAFTA explosive adoption of cash wire transfers. This represents an unprecedented integration between an expansive range of communities, with remittance corridors proliferating and becoming the most important source of income for investment in education, houses, and health.
- Trade relations transitioned from postwar domestic sources of growth to NAFTA-era internationalization of value chains, providing rising regional productivity advantages for both the U.S. and Mexico. However, despite higher productivity growth, wages in tradable sectors have not maintained pace.^{28&29}

²⁵ Jeffrey Passel and Ana Gonzalez-Barrera. 2017. "Mexicans in the United States: New Trends and Changing Characteristics (draft)." In *Expanding Bridges and Overcoming Walls: A Transnational Interdisciplinary Conference*. University of California, Santa Barbara, August.

²⁶ Silvia Giorguli-Suacedo, Victor Garcia-Guerrero and Claudia Masferrer. 2017. "A migration system in the making: Demographic dynamics and migration scenarios in North and Central America." In *Expanding Bridges and Overcoming Walls: A Transnational Interdisciplinary Conference*. University of California, Santa Barbara, August.

²⁷ Sherman Robinson, Raúl Hinojosa-Ojeda and Karen Thierfelder. 2017. "NAFTA and Immigration: Linked Labor Markets and the Impact of Policy Changes on the U.S. Economy." UCLA North American Integration and Development (NAID) Center and Peterson Institute for International Economics (PIEE), July.

²⁸ C. Fred Bergsten, and Monica de Bolle. 2017. "A Path Forward for NAFTA." PIIIE Briefing, Peterson Institute for International Economics (PIEE), July.

²⁹ Marcus Noland, Gary Clyde Hufbauer, Sherman Robinson and Tyler Moran. 2016. "Assessing Trade Agendas in the US Presidential Campaign." PIIIE Briefing, Peterson Institute for International Economics (PIEE), September.

From Anti-Immigrant to Pro-Integration

We cannot allow a restrictive policy agenda in trade and migration to create the basis for a broad political movement. Perhaps the California experience both before and after Proposition 187 can serve as a model for the path forward in U.S.-Mexico relations. The stage is indeed set for potential backlash led by California against the punitive federal policies on immigrants, mirroring a similar backlash after the state's anti-immigrant initiatives of the 1990s. There is a lot at stake for California because of the California-Mexico trade, migration, and remittance flows. California's political leadership has demonstrated that it is committed to leading the way on sensible policies on immigration and trade, based on evidence-based research and a concern for human rights rather than the current administration's nationalistic policies that build on white anxieties about immigrants and minorities.

Prospects for North American Progress

The evidence is clear: Draconian immigration policies combined with the disintegration of NAFTA would drastically harm both countries. Recent research shows mass deportations would cause a 5% drop in U.S. GDP, with a trade war with both China and Mexico leading to a 3% decline in GDP.³⁰ Massive deportations would similarly have devastating effects on migrant-sending communities in Mexico and Central America, in particular because of associated remittance cutoffs. This would likely result in regional dislocations in Mexico and Central America, sending new waves of migration to the border.

Alternative U.S.-Mexico policy scenarios show major benefits would result from comprehensive policy reform on migration and remittances. Comprehensive immigration reform would provide \$1.5 trillion in returns over 10 years, raising wages, productivity, consumption, and tax revenues, and generating positive impacts in areas of both high- and low-concentration of

³⁰ Sherman Robinson, Raúl Hinojosa-Ojeda and Karen Thierfelder. 2017. "NAFTA and Immigration: Linked Labor Markets and the Impact of Policy Changes on the U.S. Economy." UCLA North American Integration and Development (NAID) Center and Peterson Institute for International Economics (PIEE), July.

Mexican immigration.^{31&32} And DACA legalization would provide even higher returns to the U.S. economy (\$3.6 trillion over 40 years).³³ As was the IRCA experience, immigration reform today would also raise wages for immigrants and thus reduce demand for lower-skilled undocumented migration, reducing the need for greater border enforcement. In addition, new technology-enabled remittance reform has huge potential via financial inclusion of \$25 billion of remittance cash-to-cash flow, attacking the root causes of migration by helping communities shift toward internal savings and investment dynamics.

A move toward major reforms in migration, remittance, and trade adjustment policy would reinforce general macro convergence trends of demographic and migration supply-side tightening, raising real wages and labor conditions and reducing income inequality while still meeting growing U.S. labor demand. The fortuitous irony is despite rising U.S. political tensions, North American conditions of macro convergence can now allow for the raising of wages in both countries, reducing the need for undocumented migration and increasing the demand for two-way trade in both countries.

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³¹ Hinojosa-Ojeda, Raúl. 2010. "Raising the Floor for American Workers: The Economic Benefits of Comprehensive Immigration Reform." Center for American Progress and American Immigration Council. Washington.

³² Hinojosa-Ojeda, Raúl. 2011. "The Economic Benefits of Comprehensive Immigration Reform." *Cato Journal* (32)1, pp. 175–199

³³ Hinojosa-Ojeda, Raúl and Paule Cruz Takash. 2012. "No DREAMers Left Behind: The Economic Potential of DREAM Act Beneficiaries." UCLA North American Integration and Development (NAID) Center.