Pre-NAFTA Equilibrium
With Immigrant Border Controls
Risk Premium for Multinationals Operating in Mexico
And Mexican Capital Controls to limit Capital Flight

Effect of Reduced Risk Premium for Multinational Investment
1) Multinationals expand into the Mexican labor-intensive sector, and bid up Mexican wages.
2) The higher wages in Mexico force the Mexicans out of the labor-intensive sector. All Mexican assets are deployed in the capital intensive sector, at a lower rate of return.
3) If the risk premium is lowered enough and wages are consequently bid up in Mexico, the return to capital in Mexico can fall enough that it is profitable for Mexico to place assets in US multinationals.
Effect of Reduced Repatriation Tax
1) Capital Flight from Mexico to the US.
2) Wages fall in Mexico
3) Production concentrates on the labor-intensive sectors.

Effect of Reduced Border Controls
1) Labor migration forces higher wages in Mexico.
2) Higher wages make the labor-intensive sector unprofitable and all Mexican capital and labor is concentrated in the capital-intensive sector.
3) If the reduction in Border costs is enough, the lower return on Mexican assets causes capital flight, depopulating Mexico both in labor and in capital.

Effects of Reduction of All Three Barriers
1) This equilibrium has higher wages in the US and Mexico, capital migration from Mexico to the US and from US to Mexico.