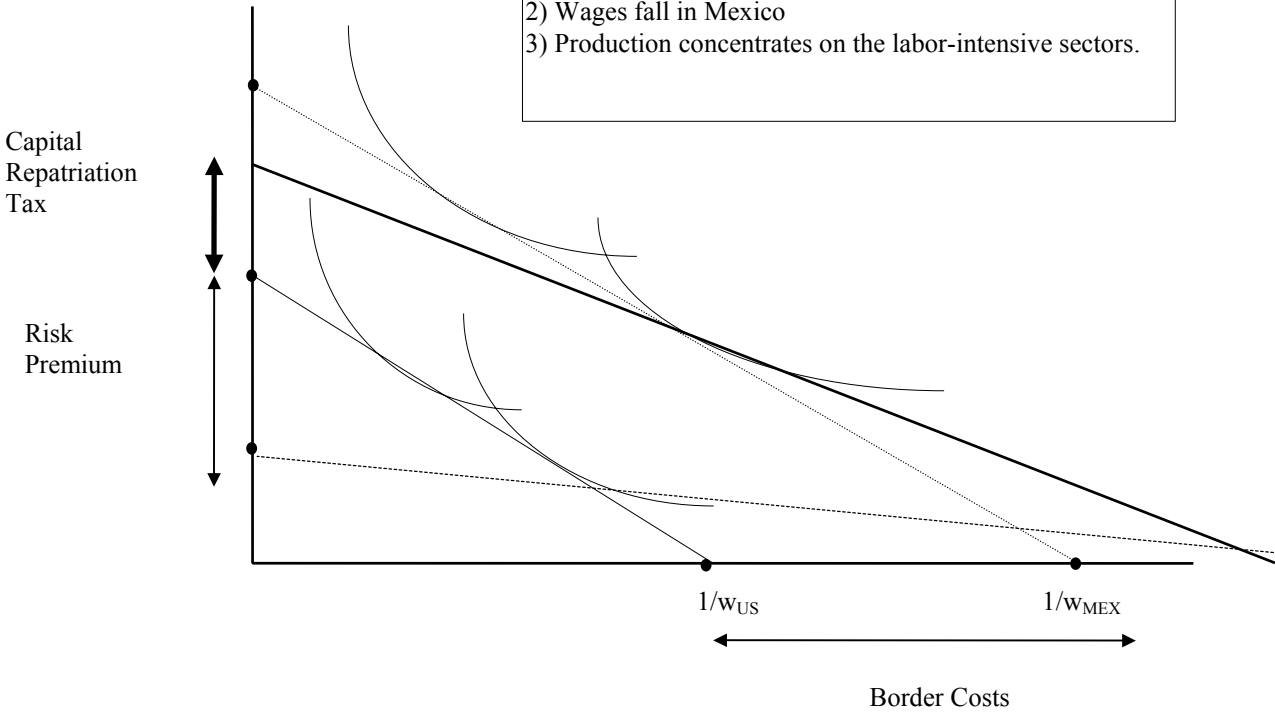


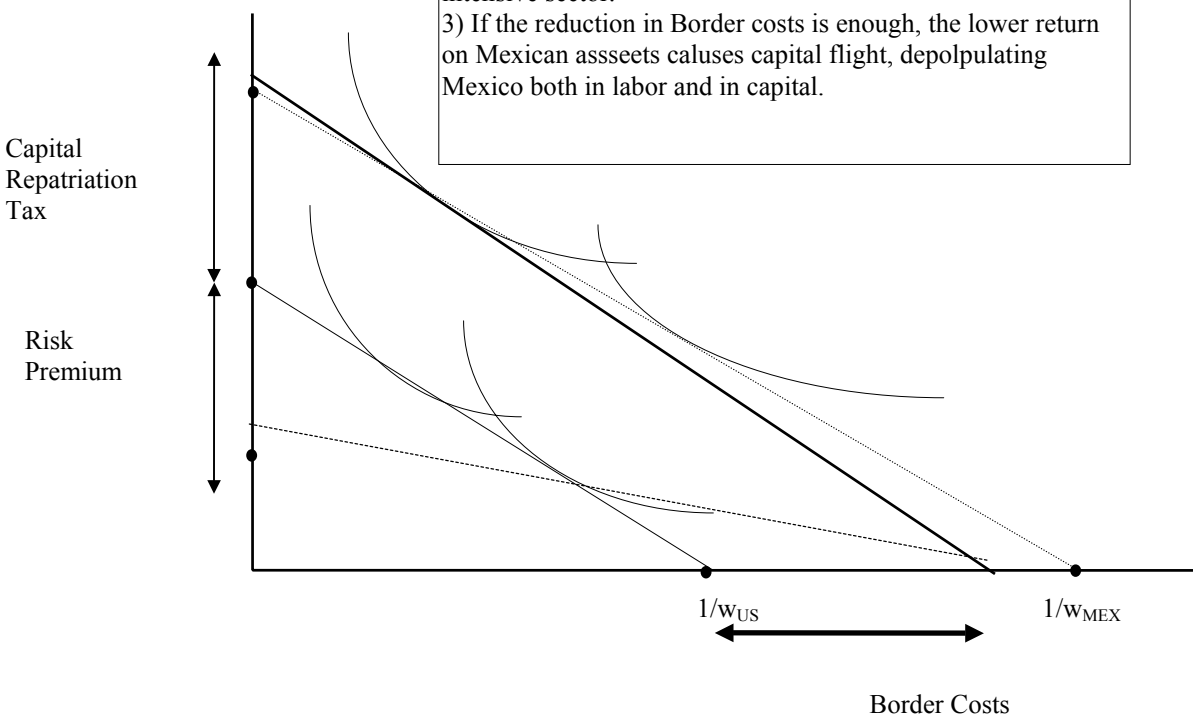
Effect of Reduced Repatriation Tax

- 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.

