How Can Economic and Political Ties Between the United States and Mexico Be Strengthened?

Despite the lifting of economic barriers through the 1994 North American Free Trade Agreement (NAFTA), the relationship between Mexico and the United States remains uneasy. Several financial and political issues stand in the way of building on the advantages that gave rise to NAFTA nearly two decades ago.

RAND researchers sought to better understand this complex relationship by taking a multidisciplinary, binational approach to key issues affecting both countries. Drawing on economic, demographic, and sociological research, as well as discussions with U.S. and Mexican policymakers, the researchers studied the primary factors influencing recent changes in Mexican immigration, U.S. immigration policy, and matters affecting the U.S.-Mexican trade relationship.

Mexican Immigration Patterns Are Changing

The number of Mexican immigrants to the United States increased significantly in the past 20 years. The number of Mexicans immigrating to the United States increased significantly between 1990 and 2009. As of 2005, an estimated 16 percent of working-age Mexicans resided and worked in the United States.

The social “makeup” of Mexican immigrants is changing. Although most Mexican immigrants to the United States come from the central-west zone of Mexico, other regions that formerly had no tradition of migration are now participating in this phenomenon. Most Mexican immigrants are male, between 15 and 44 years of age, and, in general, more educated than the Mexican population as a whole but less educated than the native U.S. population and other immigrant populations.

Economic factors drive Mexican migration. Migration trends reveal that Mexican immigration to the United States typically increases during periods of U.S. economic expansion. Poverty and crop failure in Mexico also contribute to migration. Social networks also play a role because U.S. employers often seek additional low-wage Mexican workers through current immigrant employees.

Mexico Faces Serious Social and Economic Challenges

Poverty is widespread, and education quality is low. Mexico’s progress in alleviating poverty has been mixed in the past two decades. Mexico has strong social programs that are focused on alleviating poverty, but there are still many challenges in this area. Moreover, in international studies of academic achievement, Mexican students score relatively low. Rates of grade repetition and dropping out are relatively high.

Mexican citizens rely on immigrant relatives for income. Mexicans’ socioeconomic well-being is heavily dependent on the inflow of remittances from Mexicans living in the United States. Remittances and foreign direct investment are the highest source of external financing for Mexico.

Mexico’s level of international economic competitiveness remains low. Despite widespread economic reforms in the 1990s, Mexico still ranks well behind other developing countries in terms of competitiveness. Identified problems are corruption, weak enforcement of regulations on monopolies, a weak judicial system, and excessive bureaucracy.

Tax revenues are low. Taxes as a percentage of gross domestic product (GDP) are low compared with those in other Latin American countries and to the average for all
Organisation for Economic Co-operation and Development (OECD) countries. In addition, the Mexican government relies heavily on income from Petróleos Mexicanos (PEMEX), the state-owned oil company; around one-third of government revenue stems from oil sales.

**Mexico depends heavily on the United States for trade and investment.** Mexico’s dependence on the United States for trade and investment is increasing. A lack of diversification poses a significant economic risk to Mexico, especially during times of U.S. economic crisis.

**Energy development is becoming one of Mexico’s most important challenges for the future.** Oil production is projected to decrease in the next ten years. As a result, Mexico, currently the seventh-largest oil producer in the world, might have to import oil to meet its needs. Heavy investment in exploration and development of oil-extraction methods could help Mexico maintain its oil production, but transfers to the federal government hamper PEMEX’s ability to make such investments.

**Resolution of trucking legislation demonstrates ability to overcome contentious issues.** NAFTA initiatives, designed to remove barriers to trade between the United States, Mexico, and Canada, called for the opening of the U.S. border to free-flowing truck and bus traffic from and to both neighboring countries. However, for many years, Mexican trucks were limited to operating in commercial zones along the U.S. border because of highway-safety and environmental concerns. In 2011, a trial agreement was reached that may help resolve these issues.

**U.S.-Mexican Relations Are Affected by Both Policy and Public Opinion**

**U.S. public opinion on Mexican immigrants and NAFTA is mixed.** Opinion polls have showed that most Americans think that immigration is good for the United States. Yet when asked specifically about illegal immigration, most respondents said they would like to see it reduced, and more than two-thirds thought that the presence of illegal immigrants weakens the economy. Other opinion polls have showed that about 50 percent of respondents support the renegotiation of NAFTA.

Illegal immigration is a charged subject for U.S. citizens and Mexican immigrants. Illegal immigration continues to be a contentious issue in U.S. public debate. All attempts at immigration reform since 1986 have failed to gain passage.

**Recommendations**

The authors offer recommendations to improve U.S. immigration policy, Mexico’s economic and social situation, and the U.S.-Mexican trade relationship (see table). Whether relations between the two countries improve or deteriorate in the future will depend on the policies developed by both U.S. and Mexican administrations.

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<tr>
<th>Area for Improvement</th>
<th>Recommendation</th>
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<tr>
<td>U.S. immigration policy</td>
<td>Facilitate functioning of the legal labor market.</td>
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<td>Use information tools to understand migration flows and trends for research purposes.</td>
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<td>Establish a single, binational organization committed to recording the labor movement of immigrants to support all current and future immigration policy.</td>
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<td>Consider the economic and social origins of immigration when making policy.</td>
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<td>Mexico’s economic and social situation</td>
<td>Stimulate growth in Mexico’s formal economy.</td>
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<td>Broaden the tax base to improve government revenues.</td>
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<td>Promote greater economic growth in rural areas.</td>
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<td>Invest in expanding exploration, production, and refining capacities, and allow the private sector to enter some segments of the energy industry in Mexico.</td>
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<td>Make education quality a priority.</td>
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<td>Reform pension systems with cash-flow deficits.</td>
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<td>U.S.-Mexican trade relationship</td>
<td>Enrich the international public debate with objective and high-quality research and analysis through media and educational forums.</td>
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<td>Explore opportunities to geographically expand U.S. investment in Mexico.</td>
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