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Mexico: Background and U.S. Relations

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Summary

Congress has maintained significant interest in neighboring Mexico, a close ally and top trade partner whose political and economic situation has significant ramifications for the United States. President Enrique Peña Nieto of the centrist Institutional Revolutionary Party (PRI) assumed the Mexican presidency on December 1, 2012, after 12 years of rule by the conservative National Action Party (PAN). Peña Nieto has enacted structural reforms and bolstered economic relations with the United States, but observers maintain he mishandled recent high-profile human rights cases and allegations of a conflict of interest between his family and a government contractor.

President Peña Nieto's first two years in office have brought mixed results for Mexico. During 2013, Peña Nieto's "Pact for Mexico" agreement with the PAN and leftist Party of the Democratic Revolution (PRD) facilitated the passage of significant financial, education, telecommunications, and energy reforms. Still, the economy faltered (GDP growth fell from 3.7% in 2012 to 1.2% in 2013) and some types of violent crime—including kidnapping and extortion—increased. Implementation of the reforms began in 2014, but has been overshadowed by the government's inability to resolve a case involving 43 students who were forcibly abducted from Guerrero in September. Local and state officials' alleged complicity in the forced disappearance—and likely murder—of the students, as well as federal mishandling of the investigation, have been widely criticized and sparked ongoing protests.

U.S. Policy

As Mexico has experienced a presidential transition from a PAN to a PRI government, U.S.-Mexican relations have also evolved. President Obama has embraced Peña Nieto's desire to bolster economic ties and focus on issues beyond security, including education and trade facilitation. Those issues figured prominently during President Obama's participation in the February 2014 North American Leaders' Summit and are likely to be discussed at a bilateral meeting between Presidents Obama and Peña Nieto scheduled for January 6, 2015. Now that Mexico has implemented historic energy reforms, energy cooperation has accelerated. U.S.-Mexican security cooperation has continued under the Mérida Initiative framework; its focus is on justice sector reform and securing Mexico's southern border. Mexico has stepped up efforts to combat illegal Central American migration. However, some U.S. stakeholders remain frustrated at Mexico's failure to fully and predictably make water deliveries in the Rio Grande Valley, as per a 1944 water sharing treaty. The Mexican government has welcomed President Obama's recent executive order on immigration, which may impact 3 million unauthorized Mexicans in the United States.

Legislative Action

A range of issues affecting Mexico have received congressional attention during the 113th Congress. The Senate passed S. 744 in June 2013, a comprehensive immigration reform bill that includes additional funding for border security. In December 2013, Congress approved the U.S.-Mexico Transboundary Hydrocarbons Agreement that is intended to facilitate joint development of oil and natural gas in part of the Gulf of Mexico (P.L. 113-67). Congress has continued oversight of the Mérida Initiative and provided \$194 million in Mérida assistance to Mexico in the FY2014 Consolidated Appropriations Act, P.L. 113-76, subject to human rights conditions. The Obama Administration asked for \$115 million for Mérida in its FY2015 budget request. Congress approved the FY2015 Consolidated and Further Continuing Appropriations Act (H.R.

83) on December 13, 2014, and it is awaiting the President's signature. H.R. 83 included \$194 million in Mérida Initiative aid for Mexico.

The recent energy reforms that Mexico has enacted have generated congressional interest, as has Mexico's participation in the Trans-Pacific Partnership (TPP) negotiations.

Further Reading

CRS Report R41349, *U.S.-Mexican Security Cooperation: The Mérida Initiative and Beyond*, by Clare Ribando Seelke and Kristin Finklea.

CRS Report R43001, *Supporting Criminal Justice System Reform in Mexico: The U.S. Role*, by Clare Ribando Seelke.

CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by M. Angeles Villarreal.

CRS Report R43313, *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*, coordinated by Clare Ribando Seelke.

CRS Report R43312, *U.S.-Mexico Water Sharing: Background and Recent Developments*, by Nicole T. Carter, Clare Ribando Seelke, and Daniel T. Shedd.

CRS Report R43320, *Immigration Legislation and Issues in the 113th Congress*, coordinated by Andorra Bruno.

CRS Report R43798, *The Obama Administration's November 2014 Immigration Initiatives: Questions and Answers*, by Kate M. Manuel.

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Introduction

Congress has maintained a strong interest in Mexico, a top trade partner and energy supplier, with which the United States shares a nearly 2,000 mile border and strong cultural and historical ties. Economically, the United States and Mexico are heavily interdependent, and the U.S. economy could benefit if Mexico is able to boost its economic growth rates by successfully implementing the historic reforms its Congress enacted in 2013. Similarly, security conditions in Mexico affect U.S. national security, particularly along the U.S.-Mexico border. Mexico's apparent inability to effectively combat corruption and strengthen the rule of law has implications for U.S. economic and strategic interests in the country and underscores the need for continued cooperation on those issues. Maintaining strong bilateral cooperation, while also protecting U.S. interests, has been a key concern for Congress.

Institutional Revolutionary Party (PRI) President Enrique Peña Nieto, former governor of the state of Mexico, took office on December 1, 2012, pledging to significantly reduce violent crime and bolster economic growth. Despite shepherding several significant structural reforms through the Mexican Congress (see **Table 1**), he has struggled to fulfill his inaugural pledges. Organized crime-related homicides have continued to trend downward as they have since 2012, but extortions and kidnappings have increased.¹ Military involvement in extrajudicial killings in Tlatlaya, Mexico in June 2014 and local officials' roles in the forced disappearances and apparent murders of 43 university students in Iguala, Guerrero in September have galvanized protesters against official corruption and impunity (see Tlatlaya and Iguala below). In 2013, economic growth dropped to 1.3%; forecasts for 2014 have been revised to 2.3%.² Peña Nieto posted a lower first year approval rating (49.7%) than his two PAN predecessors and his second year approval rating fell further to 39%.³ Despite those ratings, President Peña Nieto's party is widely predicted to perform well in the June 2015 mid-term elections.

This report provides an overview of political and economic conditions in Mexico followed by assessments of some key issues of congressional interest in Mexico: security, human rights, trade, migration, energy, and water issues. The report summarizes legislative action that occurred related to these topics during the 113th Congress and refers to other CRS products and experts that can be consulted for further information. It will be updated to address major developments in Mexico and in Mexican-U.S. relations that are of interest to the 114th Congress.

Political Situation

Over the past two decades, Mexico has transitioned from a centralized political system dominated by the Institutional Revolutionary Party (PRI) to a true multiparty democracy. Since the PRI last governed in the 1990s, presidential power has become increasingly constrained by Mexico's

¹ Kimberly Heinle, Octavio Rodríguez Ferreira, and David Shirk, *Drug Violence in Mexico: Data and Analysis Through 2013*, Justice in Mexico Project, University of San Diego, April 2014, available at: <http://justiceinmexico.files.wordpress.com/2014/04/140415-dvm-2014-released1.pdf>. Hereinafter Shirk, April 2014.

² "Mexico: Country Report," *Economist Intelligence Unit*, December 3, 2014.

³ Roy Campos, *México: Evaluación de Gobierno de Enrique Peña Nieto: Primer Año*, Consulta Mitofsky, December 2013; Anthony Harrup, "Mexican President's Approval Ratings Slump," *Wall Street Journal*, December 1, 2014.

Congress, Supreme Court, and increasingly powerful governors.⁴ Partially as a result of those constraints, two successive National Action Party (PAN) administrations struggled to enact the structural reforms needed to boost Mexico’s economic competitiveness and effectively address the country’s security challenges.

Figure I. Mexico at a Glance



⁴ For background, see Andrew Selee and Jacqueline Peschard eds., *Mexico’s Democratic Challenges: Politics, Government, and Society* (Stanford, CA: Stanford University Press, 2010).

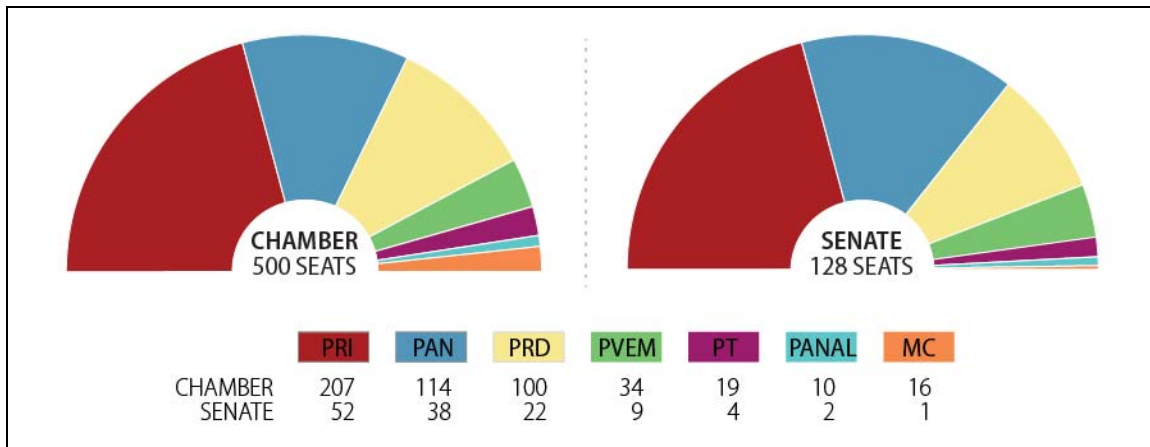
The PAN government of Felipe Calderón (2006-2012) pursued an aggressive anticrime strategy and increased security cooperation with the United States. Those efforts helped Mexico arrest or kill record numbers of drug kingpins, but some 60,000 people may have died as a result of organized crime-related violence during the Calderón Administration. Mexico's security challenges overshadowed some of the government's achievements, including its economic stewardship during and after the global financial crisis and expansion of access to health care.⁵

July 1, 2012, Elections: Return of PRI Dominance⁶

The July 1, 2012, elections occurred at a time when Mexico was experiencing modest economic growth after a downturn in 2009 caused by the global financial crisis and a growing security crisis under two successive PAN administrations. As a result, economic and security issues figured as top concerns among the Mexican electorate. Voters appeared to believe that the PRI would be best equipped to restore order and hasten economic growth, despite uncertainty about how the party's return might impact Mexican democracy given its past reputation for corruption and undemocratic practices.⁷

Twelve years after losing the presidency for the first time in 71 years, the PRI won the presidential election, a plurality of seats in the Senate and Chamber of Deputies, and three of six gubernatorial elections held on July 1, 2012. Despite those victories, PRI/Green Ecological Party (PVEM) candidate Enrique Peña Nieto won by a relatively narrow margin (6.6% of the vote) over Andrés Manuel López Obrador of the leftist Party of the Democratic Revolution (PRD) and the PRI/PVEM failed to capture a majority in either legislative chamber (see **Figure 2** below). However, unlike his predecessor, President Enrique Peña Nieto took office with his party controlling 20 of 32 governorships.

Figure 2. Composition of the Mexican Congress



Source: Mexican Congress as adapted by CRS graphics.

⁵ See CRS Report RL32724, *Mexico and the 112th Congress*, by Clare Ribando Seelke.

⁶ See CRS Report R42548, *Mexico's 2012 Elections*, by Clare Ribando Seelke.

⁷ Dave Graham, "Mexico's Old Rulers Bounce Back as New Start Beckons," *Reuters*, June 19, 2012.

Notes: PRI= Institutional Revolutionary Party, PAN= National Action Party, PRD= Party of the Democratic Revolution, PVEM= Green Ecological Party, PT= Worker's Party, PANAL= National Alliance Party, and MC= Citizen's Movement Party. The MC and the PT are part of the PRD coalition.

Structure and Leadership in the Peña Nieto Administration

Mexico's presidential transitions are characterized not only by a high level of turnover in government agencies, but often by a complete overhaul of governmental structures and organizational patterns. For example, President Peña Nieto has returned much of the power to the Interior Ministry that it had before the PAN took office. With congressional approval, he placed the Secretariat of Public Security (SSP, including the Federal Police⁸) and intelligence functions under the authority of the Interior Ministry. That ministry, rather than the SSP, now coordinates security efforts with the military and state and municipal authorities. The Interior Ministry also commands the new militarized police entity within the Federal Police, the National Gendarmerie.⁹

The Attorney General's Office (PGR) is being revamped and modernized, potentially to serve as a counterweight to the increased power of the Interior Ministry. The PGR's budget increased much less during the Felipe Calderón Administration (2006-2012) than those of the SSP or the military. Per reforms enacted by the Mexican Congress in December 2013, the PGR is to be replaced by an independent Prosecutor General's Office that could potentially focus more on combating official corruption and prioritizing high-level criminal cases.

Additionally, President Peña Nieto sought and achieved the dissolution of the Ministry of Public Administration, Mexico's anti-corruption authority. Peña Nieto has proposed replacing that entity with an anti-corruption commission that would reside within the Treasury Department and have the power to issue administrative sanctions for corruption found in all levels and branches of government. The Mexican Senate approved legislation to establish the autonomous anti-corruption commission in December 2013, but final legislative action is still pending. For different reasons, all three major parties in Congress are under pressure to respond to President Peña Nieto's November 27, 2014, proposals to address corruption and rule of law challenges in the wake of 43 students' disappearance in Iguala, Guerrero.¹⁰

President Peña Nieto selected many of his close confidantes and transition team leaders for key positions in his government. Peña Nieto's appointments reflect his desire to reestablish a strong presidency backed by a few key advisers: the Ministers of Finance and the Interior. Luis Videgaray Caso, who served as the Transition Team's General Coordinator, is the Minister of Finance, a post which he also held in the state of Mexico during Peña Nieto's governorship. Miguel Angel Osorio Chong, the Transition Team's General Coordinator for Political and Security Issues, is head of the powerful Interior Ministry. Osorio Chong served as governor of

⁸ Recent Mexican presidents have also sought to create new or revamped federal police entities. The Peña Nieto government is reforming, rather than dismantling, the Federal Police that were recruited, trained, and equipped by former President Calderón with significant U.S. assistance.

⁹ The size of the Gendarmerie has been significantly scaled back from the government's original proposal to create a 40,000-member militarized police. After several delays, the force of roughly 5,000 officers—now focused on helping reestablish security in states facing high-levels of violence—became operational in August 2014.

¹⁰ The PAN launched the aggressive attack on criminal groups that led to dramatic increases in violence in Mexico. The PRD is the party of the mayor of Iguala who has been accused of involvement in ordering the abduction of the students and the governor of Guerrero who resigned following the abduction. Dave Graham, "Mired in Crisis, Mexican President Aided by Discredited Opposition," *Reuters*, November 24, 2014.

Hidalgo, which borders the state of Mexico, when Peña Nieto governed. Those ministers, as well as the President's Chief of Staff, Aurelio Nuño Mayer, all may have future presidential aspirations.

The remainder of the Cabinet consists of a combination of younger PRI leaders with technical expertise and postgraduate education abroad; senior PRI politicians, many of whom served as governors; and a few individuals from outside the party.¹¹ Most of the technocratic leaders are in the economic ministries. However, the Secretary of Foreign Affairs José Antonio Meade, former Finance Minister for President Calderón, is one exception.

Peña Nieto's government has avoided the public infighting that occurred among some of former President Calderón's ministers, but has recently struggled to manage public relations effectively amidst a growing political crisis. Until recent months, the government had tightly controlled the message it sought to project, which has emphasized its commitment to implementing structural reforms and attracting investment, rather than focusing on its efforts against organized crime (as Calderón did). In December 2013, the *Economist Intelligence Unit* reported that Peña Nieto's government has "essentially taken its eyes off . . . crime and corruption to concentrate on structural reform."¹² At first, that strategy successfully improved Mexico's image abroad, particularly among foreign investors. More recently, however, prominent pro-business news outlets that once praised the Peña Nieto government's reformist zeal have criticized its handling of government officials' alleged involvement in extrajudicial killings and forced disappearances.¹³ Mexican and international observers have also criticized the way President Peña Nieto has not responded directly to reports of a conflict of interest involving a luxury home bought by his wife from a firm that has received government contracts.¹⁴

The Pact for Mexico and Structural Reform

Upon his inauguration, President Peña Nieto announced a reform agenda with specific proposals under five broad pillars: (1) reducing violence; (2) combating poverty; (3) boosting economic growth; (4) reforming education; and (5) fostering social responsibility. On December 2, 2012, leaders of the conservative PAN and leftist PRD surprised many analysts by signing on to President Peña Nieto's "Pact for Mexico," which contained 95 agreements on key issues facing the country. Those agreements provided a baseline for the parties to debate legislative proposals. While some opposition legislators later balked at their leaders' decisions to endorse the PRI-led pact, the Congress approved education and telecommunications reform legislation, two measures that Peña Nieto had identified as short-term priorities, as well as a long-stalled crime victim's law during its first session (February-April 2013).¹⁵

Until recently, investors and analysts had widely praised President Peña Nieto and his top advisors for focusing their attention and political capital on shepherding structural reforms

¹¹ "Mexico's New Government: With a Little Help From My Friends," *The Economist*, December 8, 2012.

¹² "Enrique Peña Nieto's First Year: A Mixed Picture," *Economist Intelligence Unit (EIU)*, December 2, 2013.

¹³ Mary O'Grady, "Mexico's Rule of Law Crisis," *Wall Street Journal*, November 17, 2014.

¹⁴ David Luhnow, "Mexico Leader's Woes Follow Him to China," *Wall Street Journal*, November 10, 2014.

¹⁵ The victim's law provides for government assistance to crime victims and their families. President Peña Nieto's legislative priorities, along with executive actions that have been given precedence, are summarized in Spanish at México, Presidencia de la República, "Decisiones Presidenciales Anunciadas el 1º de Diciembre," Press Release, December 1, 2012, <http://www.presidencia.gob.mx/decisiones-presidenciales-anunciadas-el-1o-de-diciembre/>.

through the Mexican Congress in 2013-2014 (see **Table 1**). Many of the reforms that Peña Nieto has prioritized have long been recommended by the Organization for Economic Cooperation and Development (OECD) and others as crucial for boosting Mexico's competitiveness. As discussed below, Peña Nieto has proven much more adept at engaging in the type of multi-party negotiations needed to enact legislation when lacking a congressional majority than former Presidents Ernesto Zedillo, Vicente Fox, or Felipe Calderón. The reforms were enacted despite large-scale protests from interest groups whom they will affect, namely Mexican teachers' unions and oligopolies.

Table 1. Key Reforms Enacted During 2013-2014

- **Energy Reform:** creates several different types of contracts, including production-sharing and licensing; allows companies to post reserves for accounting purposes; gives *Petroleos Mexicanos* (Pemex) budget autonomy; establishes a sovereign wealth fund; creates new regulators; and removes the union from the Pemex board.
- **Antitrust Reform:** creates an autonomous Federal Economic Competition Commission to regulate all sectors except telecommunications and energy. The Commission is given the power to oversee mergers, regulate industries, and sanction monopolistic practices.
- **Telecommunications Reform:** increases consumers' access to more affordable and reliable TV, radio, Internet, and mobile phone services; increases privacy protections for consumers; and creates an independent entity, the Federal Institute of Telecommunications (IFETEL), to regulate radio, television, and telecommunications companies.
- **Financial Reform:** increases access to credit, particularly for small-and medium-sized businesses (SMEs) and creates more competition in the banking sector.
- **Fiscal Reform:** raises additional revenue by increasing income taxes for upper income earners, upping the value added tax (VAT) to 16% in northern border states (where it had been 11% before), and creating new taxes on stock market profits, as well as sugary beverages and other snack foods.
- **Education Reform:** gives the government, rather than the union, control over hiring and firing teachers; creates a new entity to evaluate teachers; and, increases funding for education, including full-day schooling.
- **Unified Code of Criminal Procedure (CPC):** replaces the procedural rules that existed in the country so that the same general rules apply for all states and the federal government; reduces the margin for impunity as crimes will be punished by the same penalties; facilitates coordination between authorities; and aims to improve the efficiency of investigations. As a result of the unified code, all states will have oral, adversarial trials with the presumption of innocence and the use of alternative dispute mechanisms as required by constitutional reforms enacted in 2008.
- **Political Reform:** provides for the re-election of federal deputies for up to four terms beginning in 2015 and of senators for up to two terms beginning in 2018, the reelection of mayors, and local legislators; replaces the current Attorney General's Office with an independent Prosecutor General's Office; creates a new national electoral institute, and calls for the annulment of an election if there is evidence that a party engaged in "systematic" violations of campaign finance restrictions.
- **Transparency Reform:** extends the rights of citizens to seek information from all levels of government, unions, and political parties and strengthens the entity charged with managing access to information (the Federal Institute of Access to Information and Data Protection).

Source: For information on the reforms, see: <http://reformas.gob.mx/en/reforms>.

During his first year, Peña Nieto benefitted from the fact that the PAN and the PRI agreed on many of the economic reforms that needed to be enacted.¹⁶ Some of the reforms passed with

¹⁶ Another key reform touted by the Peña Nieto government that was enacted late in the Calderón Administration is labor reform. As enacted, the labor reform package makes hiring and firing workers easier, regulates subcontracting (continued...)

PAN-PRI support, such as the energy reforms, were similar to efforts that PAN Presidents had put forth in the past only to have them blocked by the PRI. Prospects for reform brightened after no party dominated the July 7, 2013, state and municipal elections.

Many of the 2013-2014 reforms were constitutional reforms requiring two thirds votes of both chambers of Congress and the approval of a majority of state legislatures. The PRI had to garner support from other parties to pass those reforms. The fiscal reform, passed with PRD support, increased taxes on corporations and high-wage earners rather than applying the value added tax to food and medicines. A PRI-PAN alliance enabled the December 2013 approval of constitutional reforms on energy, but led the PRD to leave the Pact for Mexico. The energy reform created more avenues for private participation in the energy sector than the PRI had originally proposed (per the PAN's pressure). On August 11, 2014, secondary laws to implement those reforms officially opened Mexico's oil, natural gas, and power sectors to private investment.¹⁷

Security and Institutional Reform: Responding to Events in Iguala, Guerrero

On December 17, 2012, President Peña Nieto outlined a state security policy that involved binding commitments from all levels of government and civic participation. The six pillars of the strategy include (1) planning; (2) prevention; (3) protection and respect of human rights; (4) coordination; (5) institutional transformation; and (6) monitoring and evaluation. President Peña Nieto said that although his government would not abandon the fight against organized crime, the primary goal of his security strategy would be to reduce violent crime. Two priority proposals Peña Nieto sought to achieve in the security realm that have been accomplished include launching a national crime prevention plan¹⁸ and establishing a unified code of criminal procedures to cover judicial procedures for the federal government and the states. Other key proposals—creating a large National Gendarmerie (militarized police) and a centralized intelligence agency—have either been delayed or significantly watered down.¹⁹

Two years into his Administration, criticism is mounting concerning Peña Nieto's security strategy. Many argue that Peña Nieto has struggled to define his security priorities and how they will be achieved. Others assert that Peña Nieto maintained Calderón's reactive approach of deploying federal forces—including the military—to areas where crime surges rather than engaging in a proactive effort aimed at strengthening institutions to deter crime and violence (until forced to following events in Guerrero).²⁰ High-value targeting of top criminal leaders has

(...continued)

and outsourcing, strengthens safeguards against child labor, and protects working women.

¹⁷ CRS Report R43313, *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*, coordinated by Clare Ribando Seelke.

¹⁸ The program has been criticized, however, for lacking a rigorous methodology for selecting and evaluating the communities and interventions that it is funding. México Evalúa, *Prevención del Delito en México: Dónde Quedó la Evidencia?*, January 2014.

¹⁹ Vanda Felbab-Brown, *Changing the Game or Dropping the Ball? Mexico's Security and Anti-Crime Strategy Under President Enrique Peña Nieto*, Brookings Institution, November 2014, available at, <http://www.brookings.edu/~media/research/files/papers/2014/11/mexico%20security%20anti%20crime%20nieto%20felbabbrown/mexico%20security%20anti%20crime%20nieto%20v1%20felbabbrown.pdf>.

²⁰ Ibid. Alfredo Méndez, "Peña Nieto Mantiene el Errático Plan de Seguridad de Calderón, Dicen Juristas, July 30, 2013.

also continued. Indeed, despite restrictions placed on U.S. security agencies working in Mexico, U.S. intelligence reportedly helped Mexican marines successfully track and arrest Miguel Angel Treviño Morales (“Z-40”), the leader of Los Zetas (one of the most violent criminal groups), in July 2013 and Joaquín “El Chapo” Guzmán, head of the Sinaloa organization, in February 2014.²¹ In September 2014, President Peña Nieto asserted that 84 of 122 high-value targets identified by his government had been detained.²² While impressive, this strategy has contributed to crime groups splintering, proliferating, and diversifying their activities from drug trafficking into other types of crime.

Organized crime-related homicides continued to decline in 2013 as they had during the last year of the Calderón government, yet serious security challenges remain in many parts of Mexico. President Peña Nieto has said that organized-crime violence declined by 30% in 2013.²³ Since the government is no longer publicly releasing information on trends in organized crime-related killings as opposed to all homicides, it is difficult to analyze the security situation with precision. According to Mexican government figures, all homicides fell by 16.5% as compared to 2012.²⁴ Independent estimates appear to verify that figure.²⁵ Nevertheless, kidnappings increased in 2013, with police among those accused of carrying them out.²⁶ Violence has declined in some parts of northern Mexico (except for Tamaulipas), but has spiked in the interior of the country and along the Pacific Coast, particularly in Michoacán. The failures of past federal efforts to quell violence and reestablish state presence there have led to the development of armed civilian “self-defense groups” there that have clashed with crime groups. Recent events, including discoveries of mass graves, have laid bare the dire security situation in Guerrero.

Reforming Mexico’s criminal justice system is widely regarded as a crucial step toward combating criminality, strengthening the rule of law, and better protecting citizen security and human rights in the country. Prior to the Tlatlaya and Guerrero incidents discussed below, the Peña Nieto government had taken some steps to accelerate implementation of judicial reform, establish national police standards, and investigate cases of forced disappearances. Human rights groups and security analysts had asserted, however, that much more needed to be done to bolster institutional reform, anticorruption efforts, and respect for human rights.²⁷

²¹ “No Shots Fired: Leader of Mexico’s Zetas Cartel Captured in Precision Operation, with U.S. Help,” *Associated Press*, July 16, 2013; Damien Cave, “How a Kingpin Above the Law Fell, Incredibly, Without a Shot,” *New York Times*, February 23, 2014. For background, see: CRS Report R41576, *Mexico’s Drug Trafficking Organizations: Source and Scope of the Violence*, by June S. Beittel.

²² Lally Weymouth, “An Interview with Mexican President Enrique Peña Nieto,” *Washington Post*, September 25, 2014.

²³ “Mexico Poised to Take-Off, Peña Nieto Tells Davos,” *Latin News Daily*, January 24, 2014.

²⁴ Rafael Cabrera, “Menos Homicidios y más Secuestros Durante 2013: SNSP,” *Animal Político*, January 24, 2014.

²⁵ Shirk, April 2014.

²⁶ Tim Johnson, “Kidnappings Soar in Mexico, with Police Often Among the Perpetrators,” *McClatchyDC*, October 31, 2013.

²⁷ Maureen Meyer and Clay Boggs, *One Year into Mexican President Enrique Peña Nieto’s Administration: Little Progress has Been Made on Security or Human Rights*, Washington Office on Latin America (WOLA), November 27, 2013.

Tlatlaya and Guerrero: Extrajudicial Killings and Forced Disappearances

For years, human rights groups and annual State Department human rights reports have chronicled cases of Mexican security officials' involvement in extrajudicial killings.²⁸ On July 1, 2014, Mexico's Secretary of Defense (SEDENA) initially confirmed that 22 criminals and one Mexican soldier had died after an armed confrontation near a warehouse in Tlatlaya, state of Mexico. Evidence contradicting that claim indicating that some of those who died appeared to have been shot at close range near a wall, as well as eyewitness testimony corroborating that evidence prompted Mexico's National Human Rights Commission (CNDH) to investigate SEDENA's account of the incident even though the state of Mexico's Attorney General had declared in July that there was no sign of a massacre,²⁹ CNDH issued a report in October asserting that at least 15 of the 22 people killed in Tlatlaya were executed by soldiers after already having surrendered and that the crime scene had been altered. CNDH recommended that those soldiers be tried and the victims' families compensated. It also issued a recommendation criticizing how the case had been handled by state and federal prosecutors (who did not intervene to carry out their own investigations).³⁰ SEDENA accepted CNDH's findings and while at least seven soldiers and one officer are in custody, no higher level officials appear to have been accused of trying to cover up the crime.³¹

On September 26, 2014, 43 students from the 'Raúl Isidro Burgos' rural teaching school near Ayotzinapa, Guerrero stopped in Iguala, Mexico on their way to participate in protests in Mexico City to commemorate student killings that occurred in 1968. Municipal police mistakenly thought the students aimed to disrupt a political speech by the mayor's wife. On orders from Luis Abarca (then-mayor of Iguala) and his wife María de los Angeles Pineda—PRD officials thought to have ties to organized crime—municipal police confronted the students. During the confrontation, six people died and 43 students went missing. The students were then transferred to individuals from the *Guerreros Unidos* criminal organization.³² According to several confessions by members of that crime group to the federal Attorney General's office, the students were taken to a site near Cocula, Guerrero where they were killed, their bodies were incinerated, and their remains were disposed of in a river. Families of the students have vigorously rejected the assertion that their children—some of the roughly 23,000³³ who have disappeared since 2007—were likely murdered. However, the first remains that were sent by the Mexican government to Austria to be examined have been confirmed to match a missing student's DNA.³⁴

The disappearance of the students in Iguala has prompted massive protests throughout Mexico, particularly since President Peña Nieto decided to attend an economic summit in China in mid-November rather than staying in Mexico to oversee federal efforts to respond to the crisis. Protests have been generally peaceful, but have, at times, turned violent. Critics have decried the federal government's failure to get involved in the case until 10 days after the crime took place (during which time state officials handled the investigation) and the length of time it took to find the alleged bodies and perpetrators (during which time some 18 mass graves have been recovered). The federal government has responded by maintaining that 80 people have been arrested thus far (including mayor Abarca and his wife), 10,000 people have been involved in the investigation, and federal efforts have been supported since mid-November by the Inter-American Commission of Human Rights. They have also explained that Mexico's federal system is designed in such a way that state prosecutors investigate murder cases unless they show a clear nexus to organized crime, and that federal forces that were in the area at the time of the crime could not have intervened unless the local authorities, who, in that case were acting against civilians, requested their support.³⁵

²⁸ See, for example: U.S. Department of State, *Country Report on Human Rights Practices for 2013: Mexico*, March 2014, <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2013&dliid=220457>.

²⁹ Mark Stevenson, "In Mexico, Lopsided Death Tolls Draw Suspicion," *AP*, July 8, 2014.

³⁰ "La CNDH ve 15 Ejecuciones en Tlatlaya y Emite Recomendación a Autoridades," *CNN México*, October 21, 2014.

³¹ Bernardino Hernandez, "Mexican Soldiers Face Charges, But not Officials who Tried to Hide Massacre," *AP*, November 13, 2014.

³² Embassy of Mexico in Washington, DC, "Fact Sheet: Regarding the Disappearance of 43 Students in Iguala, Guerrero and Security in Mexico," November 12, 2014.

³³ Paris Martinez, "2014, el año con más casos de desapariciones en México: van 5 mil 98 víctimas," *Animal Politico*, November 19, 2014.

³⁴ Paulina Villegas and Randal C. Archibold, "Rage and Sorrow Flow as Student in Mexico Is Declared Dead," *New York Times*, December 8, 2014.

³⁵ Embassy of Mexico in Washington, DC, "Fact Sheet: Regarding the Disappearance of 43 Students in Iguala, Guerrero and Security in Mexico," November 12, 2014.

Corruption has been, and remains, a major obstacle to reform efforts. Mexico is ranked 103 of 175 countries in Transparency International's 2014 Corruption Perception Index. President Peña Nieto has portrayed corruption as mainly a local level issue present in some parts of Mexico, but experts have pointed to evidence of corruption at all levels of government.³⁶ Allegations that President Peña Nieto has personally benefitted from ties to a firm that has won lucrative government contracts have further tarnished the image of his government.³⁷ Finance Minister Videgaray also purchased property from that contractor.³⁸

On November 27, 2014, President Peña Nieto proposed ten initiatives to strengthen the rule of law and human rights in a national address aimed at responding to the ongoing nationwide protests about Iguala and similar incidents.³⁹ The proposals included constitutional reforms to allow federal forces to take over security functions in municipalities that have been overcome by organized crime and to clarify roles of federal, state, and municipal authorities in combating crime. They also involve creating a national emergency hotline, a unique identification number for each citizen, special federal operations in Guerrero and surrounding states, and a variety of human rights and judicial reforms. These justice sector proposals have been accompanied by the proposal to create special zones of economic development in southern Mexico. Some have welcomed the proposals.⁴⁰ Others remain skeptical, asserting that some of the main proposals - such as having municipal police forces absorbed by state police forces - have been proposed and rejected in the past because corruption is pervasive in many state forces and governors' offices as well.⁴¹ Still other critics have lamented the lack of a focus on human rights within the proposals and a failure to mention the negative impacts of Mexico's military-led public security strategy.⁴² The Mexican Congress did not enact Peña Nieto's proposals before its session ended on December 15, 2014.

2015 Mid-Term Elections

Mexico is scheduled to convene legislative and state elections on June 7, 2015. These elections are the first elections being handled by Mexico's new electoral agency, the National Electoral Institute, which was created as part of the political and electoral reforms described in **Table 1**. Its predecessor, the Federal Electoral Institute, only conducted presidential and legislative elections. All 500 seats in the Chamber of Deputies are up for election, with 300 selected by direct election and 200 chosen by proportional representation. Gubernatorial elections are being held in nine of the 17 states holding state and municipal elections on that day.

³⁶ Viridiana Ríos, "Time for Mexico to Accept Responsibility for the Violence," *New York Times*, December 2, 2014.

³⁷ David Luhnnow and Santiago Pérez, "Mexico Digs Into Ties Between Leader, Builder," *Wall Street Journal*, December 4, 2014.

³⁸ Juan Montes, "New Ties Emerge Between Mexico Government and Builder," *Wall Street Journal*, December 11, 2014.

³⁹ Embassy of Mexico in Washington, DC, "10 Measures to Strengthen Security, Justice, and the Rule of Law," press release, December 4, 2014.

⁴⁰ Duncan Wood, "Mexico and the U.S. Should Work Together to Combat Violence," *New York Times*, December 2, 2014.

⁴¹ "Analistas Consideran que Plan de Peña Nieto es Insuficiente en México," *El Universal*, November 28, 2014; Patrick Corcoran, "Peña Nieto's Mexico Police Reform Proposal Fails to Convince," *Insight Crime*, December 1, 2014.

⁴² INSYDE, *Pronunciamiento y Exhorto en torno a la Iniciativa Presidencial de Reforma Constitucional Enviada al Senado el 1° de Diciembre*, December 8, 2014.

Despite the current challenges facing President Peña Nieto and the PRI, the party's formidable state and local networks and divisions within the PRD and PAN have combined to improve its chances of performing well in the June elections. The PAN faced divisive internal elections in the spring of 2014, while Cuauhtémoc Cárdenas, the founder of the PRD, recently resigned from the party due to his dissatisfaction with the way current party leaders were handling the response to events in Iguala, Guerrero. According to a November 2014 poll, 30% of voters favored the PRI, 16% the PAN, and 10% the PRD. Despite that, some 55% of those surveyed would prefer the PRI not capture a majority in the Chamber of Deputies.⁴³

Foreign Policy

President Peña Nieto has prioritized promoting trade and investment in Mexico as a core goal of his Administration's foreign policy, but also signaled Mexico's willingness to participate in U.N. peacekeeping efforts, a major step for a country with a history of non-intervention. President Peña Nieto and Secretary of Foreign Affairs Joe Antonio Meade have not only reoriented U.S.-Mexican relations to focus on economic issues, but sought to create closer trade ties with Europe, Asia, and the rest of Latin America, including Cuba. President Peña Nieto has hosted Chinese Premier Xi Jinping for a state visit to Mexico and visited China twice thus far. His government is actively involved in negotiations for a proposed Trans Pacific Partnership⁴⁴ trade agreement with other Asia Pacific countries, as well as economic integration efforts with the pro-trade Pacific Alliance countries of Chile, Colombia, and Peru.⁴⁵ Promoting investment opportunities that have been created by Mexico's recent energy reforms may figure prominently in Mexico's foreign policy as well. Not only is Mexico seeking foreign investment, but it is also investing in Central American energy projects, most notably in Guatemala.

Economic and Social Conditions

Over the last 25 years, Mexico has transitioned from a closed, state-led economy to an open market economy. While the transition began in the late 1980s, it accelerated after Mexico entered into the North American Free Trade Agreement (NAFTA) with the United States and Canada in 1994. Since NAFTA, the Mexican economy has increasingly become a manufacturing-for-export nation, with exports representing some 32% of Mexico's GDP, up from 10% twenty years ago. Mexico remains a major U.S. crude oil supplier, but its top exports to the United States have diversified to include automobiles and auto parts, television receivers, and other manufactured goods. Mexico has entered into 12 free trade agreements (FTAs) involving 44 other countries.⁴⁶

Despite attempts to diversify its economic ties and build its domestic economy, Mexico continues to remain heavily dependent on the United States as an export market (roughly 80% of Mexico's exports in 2013 were U.S.-bound), and as a source of tourism revenues, remittances, and investment. Economic conditions in Mexico tend to follow economic patterns in the United

⁴³ "PRI Leads in Poll Taken Ahead of the Legislative Elections," *EIU*, November 27, 2014.

⁴⁴ See CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson.

⁴⁵ CRS Report R43748, *The Pacific Alliance: A Trade Integration Initiative in Latin America*, by M. Angeles Villarreal.

⁴⁶ CRS Report R40784, *Mexico's Free Trade Agreements*, by M. Angeles Villarreal.

States. When the U.S. economy is expanding, the Mexican economy tends to grow as well. However, when the U.S. economy stagnates or is in decline, the Mexican economy tends to decline as well, often to a greater degree. In 2009, for example, GDP growth in the United States fell by 2.5% and Mexico's GDP declined by 6.5%.⁴⁷

Many economists praised the sound fiscal policies of the past two PAN administrations, but faulted them for failing to address some of the structural issues that have constrained the country's growth potential. The Calderón government maintained macroeconomic stability in the face of the 2008 global economic crisis and U.S. recession, a 2009 H1N1 swine flu epidemic that damaged the tourism industry, and declining oil production.⁴⁸ With careful economic planning, the Mexican economy recovered from the 2009 crisis, with growth rates averaging 4.4% from 2010-2012. Despite that recovery, economists criticized the PAN's failure to address Mexico's low tax base and over-reliance on declining oil revenues, weak education system, and lack of competition in some sectors.⁴⁹

Growth: Will Reforms Bring Faster GDP Growth?

Enrique Peña Nieto and his top advisors have long stressed the importance of passing structural reforms to make the Mexican economy more competitive. During the 2012 campaign, Peña Nieto acknowledged that the PAN had maintained a stable economy, but criticized the past two Administrations for failing to spur rapid economic growth. He identified several reasons why Mexico's economic growth had lagged: low productivity, insufficient access to credit, deficient investment in infrastructure, monopolies, a large and expanding informal sector, and a continued over-reliance on the U.S. market. To counter these deficiencies, Peña Nieto advocated a 10-point economic plan that included, among other measures, implementing legislation to counter monopolistic practices, passing a fiscal reform, opening up the oil sector to private investment, making farmers more productive, and doubling infrastructure investments. Peña Nieto also endorsed an active international trade policy aimed at increasing Mexico's trade with Asia, South America, and other markets.

During his first two years in office, President Peña Nieto shepherded historic economic reforms through the Mexican Congress (see **Table 1**), but failed to maintain the economic growth rates that Mexico had posted for the last three years of the Calderón government. Economists blamed the government's failure to promote investment, natural gas shortages, weak external demand, and a slowdown in Mexico's construction industry for the country's 1.2% growth rate in 2013.⁵⁰ Economic growth picked up in 2014 to an estimated 2.3%; however, that rate is not as high as had been expected. Mexican business leaders have faulted tax increases that came into effect in January for dragging down the domestic economy; the Peña Nieto government has since promised not to seek further tax hikes. Business leaders have also criticized the government for failing to increase infrastructure investments outside of funds dedicated to the energy sector and to a massive Mexico City airport project that was recently announced.

⁴⁷ CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by M. Angeles Villarreal.

⁴⁸ Duncan Wood, "Mexico's Elections and the Economy—Voters Face a Tough Decision," Center for Strategic & International Studies, May 2012.

⁴⁹ Francisco Gonzalez, "Drug Violence Isn't Mexico's Only Problem," *Current History*, February 2011; Organization for Economic Cooperation and Development (OECD), *OECD Economic Surveys: Mexico*, May 2011.

⁵⁰ "Mexico: Country Report," *EIU*, December 2013.

Analysts have estimated that the package of reforms that was approved in 2013 could increase annual economic growth rates by 1.0-1.5 percentage points.⁵¹ They predict that growth in Mexico could average 3.8% per year over the coming years as the impact of the reforms begins to be felt.⁵² The Peña Nieto government maintains that the recently-enacted energy reforms will result in lower energy prices, create 500,000 new jobs, and boost GDP growth by 1 percentage point by the end of his term in 2018. JP Morgan has estimated that the energy reforms may increase annual growth rates in Mexico by up to 0.8% and foreign direct investment (FDI) in Mexico by \$20 billion per year by 2016 or 2017.⁵³ Although it is difficult to predict how increasing private participation in Mexico's oil and gas sectors will affect the country's economic development, skeptics see reason to doubt the government's positive predictions, warning of the potential for corruption and waste. Other analysts warn that declines in global oil prices could hinder the success of the reforms.⁵⁴

In addition to bringing in more investment, a key goal of the reforms that were enacted in 2013-14 is to boost formal sector employment and productivity, particularly among the small and medium-sized enterprises (SMEs) that together employ some 60% of Mexican workers, often in the informal sector. While productivity in Mexico's large companies (many of which produce internationally traded goods and have benefitted from NAFTA) increased by 5.8% per year between 1999 and 2009, productivity in small businesses fell by 6.5% per year.⁵⁵ To address that discrepancy, the financial reform aimed to increase access to credit for SMEs and the fiscal reform sought to incentivize their participation in the formal (tax-paying) economy by offering insurance, retirement savings accounts, and home loans to those who register with the national tax agency.⁵⁶ Economists maintain that reducing informality is crucial for addressing income inequality and poverty, while at the same time expanding Mexico's low tax base.

Combating Poverty

President Peña Nieto sought to boost tax revenues in order to establish a universal social safety net with social security and unemployment insurance that builds upon the last two governments' provision of nearly universal access to health care. Mexico has long had relatively high poverty rates for its level of economic development (45.5% in 2012),⁵⁷ particularly in rural regions and among indigenous populations. Traditionally, those employed in subsistence agriculture and/or small, informal businesses tend to be among the poorest citizens. Some assert that conditions in indigenous communities have not measurably improved in the twenty years since the Zapatistas (*Ejército Zapatista de Liberación Nacional*), a leftist revolutionary group based in Chiapas,

⁵¹ Ibid.

⁵² "Mexico: Country Outlook," *IHS Global Insight*, December 19, 2013.

⁵³ "Mexico: Positive Surprises in Mexico Energy Reform and Implications for Fixed Income Markets," *J. P. Morgan*, December 16, 2013.

⁵⁴ Shannon K. O'Neil, *Spillovers From Falling Oil Prices: Risks to Mexico and the United States*, Council on Foreign Relations, December 12, 2014.

⁵⁵ McKinsey Global Institute, *A Tale of Two Mexicos: Growth and Prosperity in a Two-Speed Economy*, March 2014.

⁵⁶ "Mexico: Peña Nieto Wants 30 Million Mexicans to Join the Formal Economy," *Latin News Daily Briefing*, September 9, 2014.

⁵⁷ This figure is from Mexico's National Council for the Evaluation of Social Development Policy (CONEVAL) in a study that is available at <http://www.coneval.gob.mx/Paginas/principal-EN.aspx>. According to CONEVAL, Mexico's poverty rate increased by 2.9 percentage points between 2006 and 2012, although it did decline 0.6 percentage points from 2010 to 2012 as the country recovered from the effects of the 2008-9 global financial crisis and U.S. recession.

launched an uprising for indigenous rights in 1994.⁵⁸ The same could be said about neighboring Guerrero as well.

Finance Minister Videgaray has acknowledged the contributions that social programs have made to preventing Mexicans from falling into poverty in times of crisis (including the 2009 recession), but maintained that boosting GDP growth and job creation is needed to reduce poverty rates. President Peña Nieto has expanded access to federal pensions, created a new life insurance program for female heads of household and a national anti-hunger program (that benefits 7 million people), and increased funding for the *Oportunidades* (Opportunities) conditional cash transfer program.⁵⁹ *Oportunidades* has been renamed *Prospera* (Prosperity) and redesigned to encourage its beneficiaries to engage in productive projects.

U.S. Relations and Issues for Congress

As Mexico has experienced a presidential transition from a PAN government focused on security issues to a PRI government that prioritizes economic reforms, U.S.-Mexican relations have also evolved. President Obama and Vice President Biden have embraced President Peña Nieto's desire to bolster economic ties and focus on issues beyond security, including education and border trade facilitation. Those issues have figured prominently during several recent visits to Mexico, including President Obama's participation in the February 2014 North American Leaders' Summit. Now that Mexico has implemented historic energy reforms, bilateral cooperation on energy has also moved to the forefront of the bilateral relationship. Vice President Biden is expected to discuss energy issues and other economic matters when he chairs the second meeting of the U.S.-Mexico High-Level Economic Dialogue (HLED) to be held in Washington, DC on January 5-6, 2015. A presidential meeting is planned for January 6, 2015.

Outside the economic realm, U.S.-Mexican relations span a wide range of issues, including border security and migration. U.S.-Mexican security cooperation has continued under the Mérida Initiative framework, with emphasis on judicial reform, violence prevention, and securing Mexico's southern border. These efforts have taken on more urgency in recent months as Mexico has struggled to investigate and punish those responsible for several high-profile cases involving allegations of serious human rights abuses perpetrated by security forces. The Peña Nieto government is working with U.S. and Central American officials to address the surge in Central American child migrants crossing through its territory, but has urged U.S. policy makers not to militarize the U.S.-Mexico border.

The U.S. Congress has maintained long-standing interest in a broad range of issues dealing with Mexico, a country with whom the United States shares a nearly 2,000-mile border and more than \$500 billion in annual trade. Security issues had generally overtaken migration and trade matters since 2008 as a result of Mexico receiving U.S. foreign assistance through the Mérida Initiative, but in 2014 migration again moved to the top of the bilateral agenda. Relations received a boost in October 2014 with the release of U.S. marine Sergeant Andrew Tahmooressi, whom Mexico had charged with weapons possession in April, prompting U.S. congressional action.⁶⁰ The

⁵⁸ Tania L. Montalvo, "A 20 Años del EZLN, Indígenas Siguen en la Pobreza," *Animal Politico*, January 2, 2014.

⁵⁹ *Oportunidades* is Mexico's main antipoverty program. It provides cash transfers to 6.5 million families in poverty who demonstrate that they regularly attend medical appointments and can certify that their children attend school.

⁶⁰ Miriam Dominguez, "Se Triplica Cifra de Niños Migrantes Asegurados," *El Universal*, October 15, 2014.

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potential for greater energy cooperation with Mexico has emerged as a new issue of interest, while water disputes in the Rio Grande Valley of Texas have remained an area of contention. Some U.S. policy makers have been frustrated at Mexico's failure to predictably and fully make its target annual water deliveries in the Rio Grande Valley, as agreed upon in a 1944 U.S.-Mexico treaty.⁶¹

Some bilateral issues may require immediate congressional action in order to advance, while others may lend themselves more to long-term oversight. For example, migration and border security cooperation could be substantially overhauled should Congress enact comprehensive immigration reform. Congress continues to weigh in on current trade and water disputes. At the same time, Congress is considering continued funding for the Mérida Initiative and related domestic initiatives aimed at combating transnational crime and strengthening the rule of law in Mexico that are well underway. Congressional concerns about improving human rights conditions and the rule of law in Mexico lend themselves to long-term oversight, but have also taken on some urgency given recent events.

Security and U.S. Assistance through the Mérida Initiative⁶²

U.S.-Mexican security cooperation increased significantly during the Felipe Calderón Administration (2006-2012) as a result of the Mérida Initiative, a counterdrug and anticrime assistance package for Mexico and Central America first funded in FY2008. Whereas U.S. assistance, which totaled \$2.5 billion between FY2008 and FY2015, initially focused on training and equipping Mexican counterdrug forces, it now places more emphasis on addressing the weak institutions and underlying societal problems that have allowed the drug trade to flourish in Mexico. The Mérida strategy now focuses on (1) disrupting organized criminal groups, (2) institutionalizing the rule of law, (3) creating a 21st century border, and (4) building strong and resilient communities. As of October 2014, some \$1.3 billion in Mérida assistance had been delivered to Mexico. While the U.S. government initially struggled to deliver equipment in a timely fashion, both governments have continued to struggle to fulfill their domestic pledges under the Mérida Initiative. The U.S. government promised to combat weapons trafficking, money laundering, and drug demand; Mexico promised to combat corruption.

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⁶⁰ Members of Congress visited Mr. Tahmooressi, wrote letters to the U.S. and Mexican governments on his behalf, and held a hearing urging his release. See: House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, *Sergeant Andrew Tahmooressi: Our Marine in Mexican Custody*, 113th Cong., 2nd sess., Oct. 1, 2014.

⁶¹ See: CRS Report R43312, *U.S.-Mexico Water Sharing: Background and Recent Developments*, by Nicole T. Carter, Clare Ribando Seelke, and Daniel T. Shedd.

⁶² For further information, see CRS Report R41349, *U.S.-Mexican Security Cooperation: The Mérida Initiative and Beyond*.

Table 2. FY2008–FY2015 Mérida Funding for Mexico

(\$ in millions)

Account	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 (est.)	FY2015 (est.)	Account Totals
ESF	20.0	15.0	15.0 ^a	18.0	33.3	32.1	46.1	46.0	225.5
INCLE	263.5	406.0	365.0	117.0	248.5	195.1	148.1	148.1	1,891.3
FMF	116.5	299.0	5.3	8.0	N/A ^b	N/A	N/A	N/A	428.8
Total	400.0	720.0	385.3	143.0	281.8	227.2	194.2	194.0	2,545.6

Sources: U.S. Department of State, *Congressional Budget Justification for Foreign Operations FY2008-FY2015*.

Notes: ESF=Economic Support Fund; FMF=Foreign Military Financing; INCLE=International Narcotics Control and Law Enforcement.

- a. \$6 million was later reprogrammed for global climate change efforts by the State Department.
- b. Beginning in FY2012, FMF assistance is not included as part of the Mérida Initiative.

During President Obama’s trip to Mexico in May 2013, he and President Peña Nieto reaffirmed their commitments to the Mérida Initiative’s four pillar strategy. In August 2013, the U.S. and Mexican governments then agreed to focus on justice sector reform; efforts against money laundering; police and corrections professionalization at the federal and state level; border security, both northern (see: “Modernizing the U.S.-Mexico Border”) and southern (see: “Dealing with Central American Migration, Including Unaccompanied Children”) and piloting approaches to address root causes of violence. Mexico’s Interior Ministry is now the primary entity through which Mérida Initiative training and equipment requests are coordinated and intelligence is channeled. After initial delays in 2013, more than \$468 million in new Mérida Initiative-funded projects have been approved since Peña Nieto took office. The Mexican government has requested increased assistance for judicial reform, border security, and prevention efforts, but limited U.S. involvement in some law enforcement and intelligence operations.

As previously mentioned, although Peña Nieto has adopted a more low-profile public relations approach to his security policies than Calderón, his government’s operational approach has remained similar. Mexico has continued to arrest top and mid-level leaders of criminal organizations and to share intelligence with the United States. U.S. intelligence and efforts under pillar one of the Mérida Initiative have helped Mexico develop the capacity to track and detain a series of high-profile criminal leaders, including leaders from the Gulf, Juárez, and Beltrán Leyva organizations in October 2014. The challenge now for both governments is to ensure that those criminals are brought to justice.

As a result of recent high-profile human rights cases, the Peña Nieto government has been faulted for failing to advance state and municipal-level police reforms and for not investigating and punishing human rights abuses committed by government officials. Some have urged the U.S. government to stop funding Mexico’s military-led approach to public security.⁶³ Others recommend increasing U.S. support for judicial and police reform (particularly accountability and anti-corruption programs) under pillar two of the Mérida Initiative.⁶⁴ Many others recommend

⁶³ Christy Thornton, “Stop Arms Sales to Pressure Mexico,” *New York Times*, December 2, 2014.

⁶⁴ Maureen Meyer and Jenny Johnson, *The Disappearance of 43 Mexican Students: WOLA & LAWG Analysis*, (continued...)

working with the private sector and nongovernmental organizations to strengthen communities under pillar four as has been done in Monterey, Ciudad Juárez, and Tijuana.

The 113th Congress held hearings⁶⁵ examining how the Mérida Initiative is being adjusted to align with the Peña Nieto government's priorities. Congressional consultation will be needed should the State Department seek to reprogram some of the funding in the pipeline for Mérida, or seek new funding to align with new priorities that may emerge. Congress provided \$79 million above the Administration's request for efforts to secure Mexico's southern border and other judicial sector programs in the FY2015 Consolidated and Further Continuing Appropriations Act (H.R. 83). This is likely to heighten the Mérida Initiative's focus on those areas. There is also funding in that bill for additional forensics aid to Mexico.

Possible areas for oversight may include the results of the Mérida Initiative thus far, how the State Department is measuring the efficacy of Mérida programs, and how coordination is advancing with the Peña Nieto government.

Human Rights and Judicial Reform⁶⁶

Congress has expressed ongoing concerns about human rights conditions in Mexico. These concerns have intensified as U.S. security assistance to Mexico has increased under the Mérida Initiative. Congress has continued monitoring adherence to the "Leahy" vetting requirements that must be met under the Foreign Assistance Act (FAA) of 1961 as amended (22 U.S.C. 2378d)⁶⁷ and annual Department of Defense (DOD) appropriations⁶⁸ in order for Mexican security forces⁶⁹ to receive U.S. support.⁷⁰ Congress has also conditioned U.S. assistance to the Mexican military and police on compliance with certain human rights standards, while simultaneously providing funding to support human rights training for security forces and to protect groups vulnerable to human rights abuses (such as the press and human rights defenders). Congress has periodically withheld aid pending concerns about human rights and other issues.⁷¹ The primary goal of these

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Washington Office on Latin America and Latin America Working Group, December 4, 2014.

⁶⁵ See, for example, U.S. Congress, Senate Foreign Relations, Subcommittee on Western Hemisphere and Global Narcotics Affairs, *Security Cooperation with Mexico: Examining the Next Steps in the U.S.-Mexico Security Relationship*, 113th Cong., 1st sess., June 18, 2013.

⁶⁶ See: CRS Report R43001, *Supporting Criminal Justice System Reform in Mexico: The U.S. Role*, by Clare Ribando Seelke.

⁶⁷ The codified Leahy law (22 U.S.C. 2378d) prohibits the furnishing of assistance authorized by the FAA and the Arms Export Control Act, as amended, (AECA) to any foreign security force unit that is credibly believed to have committed a gross violation of human rights.

⁶⁸ A provision in the annual DOD appropriations legislation prohibits the use of DOD funds to support any training program involving a unit of a foreign security or police force if the unit has committed a gross violation of human rights. P.L. 113-76 expands that prohibition to cover DOD equipment assistance programs as well.

⁶⁹ There is no FAA definition for the term "security force." DOD defines the term as "duly constituted military, paramilitary, police, and constabulary forces of a state." (DOD Dictionary of Military and Associated Terms, DOD Joint Publication 1-02, <http://www.dtic.mil>.)

⁷⁰ CRS Report R43361, *"Leahy Law" Human Rights Provisions and Security Assistance: Issue Overview*, coordinated by Nina M. Serafino.

⁷¹ Jonathan Broder, "Citing Oversight Concerns, Leahy Holds Up Aid to Mexico," *CQ Roll Call*, August 1, 2013. This hold remains in place. CRS electronic correspondence with State Department official, December 3, 2014.

efforts has been to ensure that U.S.-funded anticrime efforts are carried out in a way that respects human rights and strengthens the rule of law in Mexico.

U.S. assistance to Mexico has increasingly focused on supporting the Mexican government's efforts to reform its corrupt and inefficient judicial system, both as a means to make anticrime efforts more effective and to strengthen the rule of law in Mexico. Congress has targeted money to support Mexico's transition from an inquisitorial justice system to an oral, adversarial, and accusatory system that should strengthen human rights protections for victims and the accused. Congress has also increased funding for rule of law (ROL) programs in Mexico and expressed support for future ROL funding (H.Rept. 113-185).⁷² With \$68 million of that funding, the U.S. Agency for International Development (USAID) expanded its program to support judicial reform from seven to twenty states. U.S. policy makers are likely to follow how the Peña Nieto government ensures that the unified code of criminal procedure enacted earlier this year hastens judicial reform at the federal and state levels.

Human rights groups initially expressed satisfaction that President Peña Nieto had adopted a pro-human rights discourse and promulgated a law requiring state support for crime victims and their families.⁷³ They also welcomed the historic April 2014 approval of reforms to the military code of justice requiring cases of military abuses against civilians to be tried in civilian courts. However, even before the high-profile incidents in Tlatlaya and Iguala, they criticized the government's lack of concrete efforts to promote and protect human rights.⁷⁴

Some have therefore urged U.S. policy makers to closely monitor the Peña Nieto government's compliance with conditions on Mérida assistance and to continue rigorous vetting of Mexican individuals and units slated to receive U.S. training and equipment.⁷⁵ How the Peña Nieto government moves to improve the ability of Mexico's civilian institutions to investigate and prosecute cases of human rights abuses by security forces, enhance enforcement of prohibitions against torture and other mistreatment, and strengthen protection for human rights defenders, the media, and other vulnerable groups is likely to be closely scrutinized.

Congress may choose to augment Mérida Initiative funding for human rights programs, such as ongoing training programs for military and police, or newer efforts, such as support for human rights organizations. Human rights conditions in Mexico, as well as compliance with conditions on Mérida assistance, are also likely to continue to be important oversight issues. The State Department submitted a report in September 2014 that met the statutory requirements for funding provided by the FY2014 Consolidated Appropriations Act (P.L. 113-76) that was on hold to be released. The FY2015 Consolidated and Further Continuing Appropriations Act (H.R. 83) includes several human rights provisions regarding aid to Mexico. Those provisions withhold

⁷² See also: U.S. Congress, Majority Staff Report, *Judicial and Police Reforms in Mexico: Essential Building Blocks for a Lawful Society*, prepared for Sen. John Kerry, Chairman, U.S. Senate, Committee on Foreign Relations, 112th Cong., 2nd sess., July 9, 2012, S. Prt. 112-36.

⁷³ Human Rights Watch, *Letter to President Enrique Peña Nieto*, December 11, 2012.

⁷⁴ José Miguel Vivanco, *Mexico: President's Disappointing First Year on Human Rights*, Human Rights Watch, November 26, 2013.

⁷⁵ Restrictions on certain aid to Mexico's military and police have been included in each of the Mérida appropriations measures since P.L. 110-252. See CRS Report R41349, *U.S.-Mexican Security Cooperation: The Mérida Initiative and Beyond*.

15% of assistance to the Mexican military and police until the State Department reports that progress has been made in meeting certain human rights conditions.⁷⁶

U.S. policymakers may question how the Peña Nieto Administration is moving to punish past human rights abuses, how it intends to prevent new abuses from occurring, and how the police and judicial reforms being implemented are bolstering human rights protections.

Trade, NAFTA, and the Trans-Pacific Partnership (TPP)⁷⁷

The United States and Mexico have a strong economic and trade relationship that has been bolstered over the past 20 years through NAFTA. Since 1994, NAFTA has removed virtually all tariff and non-tariff trade and investment barriers among partner countries and provided a rules-based mechanism to govern North American trade. Most economic studies show that the net economic effects of NAFTA on the United States and Mexico has been small but positive, though there have been adjustment costs to some sectors within both countries. Further complicating assessments of NAFTA's benefits, not all trade-related job gains and losses since NAFTA can be entirely attributed to the agreement. Numerous other factors have affected trade trends, such as Mexico's trade liberalization efforts, economic conditions, and currency fluctuations. Some speculate that NAFTA may have accelerated the ongoing trade and investment trends that were already taking place. Nevertheless, U.S.-Mexico trade increased rapidly since NAFTA, with U.S. exports to Mexico increasing 313% and imports from Mexico increasing 444% since the agreement's entry into force.

Mexico is the United States' third-largest trading partner, while the United States is, by far, Mexico's largest trading partner. Mexico ranks third as a source of U.S. imports, after China and Canada, and second, after Canada, as an export market for U.S. goods and services. Leading U.S. imports from Mexico in 2013 included: motor vehicles (\$40.1 billion), motor vehicle parts (\$35.2 billion), oil and gas (\$32.0 billion), computer equipment (\$15.0 billion), and audio and video equipment (\$13.8 billion). Leading U.S. exports to Mexico in 2013 included: motor vehicle parts (\$21.1 billion), petroleum and coal products (\$19.3 billion), computer equipment (\$14.8 billion), semiconductors and other electronic components (\$13.0 billion), and chemicals (\$10.1 billion).

Foreign direct investment (FDI) is also an integral part of the bilateral economic relationship. The stock of U.S. FDI increased from \$17.0 billion in 1994 to \$101.5 billion in 2013. Mexican FDI in the United States is much lower than U.S. investment in Mexico, but has also increased in recent years. In 2013, the stock of Mexican FDI in the United States totaled \$17.6 billion.

The United States and Mexico have had several trade disputes over the years, most of which have been resolved. These issues have involved trade in sugar, trucking, product labeling, and tomato imports from Mexico. The most recent dispute involves U.S. sugar imports from Mexico. In

⁷⁶ The funds will remain on hold until the Secretary of State reports in writing to the Committees on Appropriations that the Mexican government is: 1) investigating and prosecuting violations of human rights in civilian courts; 2) enforcing prohibitions against torture and the use of testimony obtained through torture; 3) ensuring that police and military officers promptly transfer detainees to the custody of civilian judicial authorities, in accordance with Mexican law, and are cooperating with such authorities in such cases; and 4) searching for the victims of forced disappearances and is investigating and prosecuting those responsible for such crimes.

⁷⁷ This section draws from CRS Report R42965, *NAFTA at 20: Overview and Trade Effects*, by M. Angeles Villarreal and Ian F. Fergusson and CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by M. Angeles Villarreal.

August 2014, the Department of Commerce announced a preliminary subsidy ruling on sugar imports from Mexico in which U.S. government investigations found reasonable evidence to suggest that Mexican sugar was entering the United States at less than fair value. A final ruling was expected in 2015 unless the U.S. and Mexican governments reached a settlement before then. The two governments reached a preliminary agreement on October 27 to suspend the U.S. investigations. As part of that agreement, the quantity of imported sugar from Mexico is to be limited at prices that are subject to minimum reference levels. A final agreement must still be signed to resolve the issue.⁷⁸

Another major bilateral trade issue concerns a 14-year U.S. effort to comply with NAFTA trucking provisions that would allow Mexican trucks that meet U.S. safety standards to operate in the United States. The Obama Administration's 3-year pilot program granting authority for Mexican carriers to temporarily operate in the United States ended on October 14, 2014. The Department of Transportation subsequently announced that the U.S. government would give the Mexican carriers participating in the program permanent permission to operate in the United States, pending final reports on the program from an advisory committee and the Transportation Department's Inspector General.⁷⁹

The United States and Mexico are both participating in the negotiations for a Trans-Pacific Partnership (TPP) agreement, a proposed free trade agreement among 12 countries.⁸⁰ A TPP would likely enhance the economic links Mexico already has with the United States and Canada under NAFTA. This could include further reduction of barriers to trade and the negotiation of key issues in areas such as agriculture, intellectual property rights protection, government procurement, regulatory cohesion, and others. While a TPP would not render NAFTA obsolete, it could, if approved, update some of the rules governing North American trade.

The Obama Administration has engaged in bilateral efforts, both with Canada and Mexico, to increase North American regulatory cooperation, maintain border security while facilitating legitimate trade and travel, promote economic competitiveness, and pursue energy integration. The aforementioned U.S.-Mexico HLED, launched on September 20, 2013, is a bilateral initiative to advance economic and commercial priorities through annual meetings at the Cabinet level that also includes leaders from the public and private sectors. Other bilateral efforts with Mexico include the High-Level Regulatory Cooperation Council (HLRCC) launched in February 2012 to help align regulatory principles. In addition, the two countries have a bilateral initiative for improving border management under the Declaration Concerning Twenty-first Century Border Management that was announced in 2010 as part of pillar three of the Mérida Initiative (see "Modernizing the U.S.-Mexico Border"). That initiative in particular aims to reduce wait times along the U.S.-Mexico border, which currently result in an estimated \$8 billion in losses for the U.S. economy each year.⁸¹

⁷⁸ See: CRS Report IN10178, *Proposed Suspension Agreements Would End Dispute with Mexico over Sugar Trade*, by Mark A. McMinimy.

⁷⁹ Oliver Patton, *FMCSA Ends Cross-Border Pilot, Grants Authority to Mexican Carriers*, HDT Truckinginfo, October 14, 2014.

⁸⁰ The twelve countries involved in the Trans-Pacific Partnership (TPP) negotiations include the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. See: CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson.

⁸¹ Testimony of Christopher Wilson, Senior Associate, Mexico Institute, Woodrow Wilson International Center for Scholars, before the U.S. Congress, House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, (continued...)

Congress is likely to continue monitoring trade disputes, how a potential TPP could affect NAFTA, NAFTA's institutions (the North American Development Bank and the Border Environment Cooperation Commission), and how the United States, Mexico, and Canada might work bilaterally and trilaterally to advance North American competitiveness.

Experts have proposed ideas that Congress might consider to make North American industries more competitive and hasten regional integration. Some proposals that have emerged include calls for rethinking the current trade relationship under NAFTA by broadening the scope of North American integration and cooperation. One idea, for example, is to develop a North American Investment Fund.⁸² Others include better coordinating and financing border infrastructure projects, harmonizing regulations, establishing one common customs approval process for all three countries, building human capital, and fostering technology transfers and innovation.⁸³

In the trade realm, potential questions for congressional consideration include how U.S.-Mexican trade and economic ties can be deepened, how efficiency on the border can be improved without compromising security, and how weaknesses in NAFTA can be addressed.

Migration and Border Issues

Mexico-U.S. Immigration Issues

Immigration policy has been a subject of congressional concern over many decades, with much of the debate focused on how to prevent unauthorized migration. Mexico's status as the largest source of U.S. migrants and a continental neighbor means that U.S. migration policies—including stepped up border and interior enforcement—have primarily affected Mexicans.⁸⁴ As a result, immigration is a central issue in U.S.-Mexican relations.

Since 1986, the United States has taken a number of steps to tighten border security and strengthen immigration enforcement,⁸⁵ while also legalizing about 3 million people. Yet, the Pew Research Center reports that the number of unauthorized immigrants in the United States has grown from about 3.2 million in 1986 to about 11.2 million in 2012. At a broad level, today's immigration debate is focused on additional steps to strengthen immigration enforcement and border security, potential legalization provisions for certain unauthorized immigrants, and possible changes to the rules governing lawful immigration flows. An overarching question is whether these three issues should be considered together as "comprehensive immigration reform (CIR) or whether they should be taken up separately (sometimes referred to as "piecemeal

(...continued)

Improving Security and Facilitating Commerce with Mexico at America's Southern Border, 113th Cong., 1st sess., December 9, 2013.

⁸² See Robert A. Pastor, *The North American Idea, A Vision of a Continental Future*, Oxford University Press, 2011.

⁸³ Council on Foreign Relations, *North America: Time for a New Focus*, Independent Task Force Report no. 71, October 2014, available at: <http://www.cfr.org/north-america/north-america/p33536>.

⁸⁴ Mexicans are by far the largest group of immigrants in the United States, accounting for about 12 million people in 2012, or 30% of all current U.S. immigrants. (About half of Mexican immigrants are unauthorized, representing about 58% of the U.S. unauthorized population. See Jeffrey Passel, D'Vera Cohn, and Ana Gonzalez-Barrera, *Net Migration from Mexico Falls to Zero—and Perhaps Less*, Pew Hispanic Center, Washington, DC, May 3, 2012. See CRS Report R42560, *Mexican Migration to the United States: Policy and Trends*, coordinated by Ruth Ellen Wasem.

⁸⁵ For a fuller discussion, see CRS Report R42138, *Border Security: Immigration Enforcement Between Ports of Entry*.

reform”). During the 113th Congress, the Senate passed CIR legislation (S. 744), while House committees reported a series of discrete bills, some of which focused on border security.⁸⁶

Since the mid-2000s, successive Mexican governments have supported efforts to enact comprehensive immigration reform in the United States, while being careful not to appear to be infringing upon U.S. congressional authority to make and enforce immigration laws. The Mexican government has pledged to enforce legal emigration, increase security along its northern and southern borders, and create opportunities for workers in Mexico so that fewer individuals will emigrate. Mexico has aggressively combated transmigration by unauthorized migrants crossing Mexico bound for the United States and worked with U.S. law enforcement to combat alien smuggling and human trafficking. Due to a number of factors, illegal emigration from Mexico is estimated to be at a 40-year low.⁸⁷ Still, corruption remains endemic within Mexico’s National Migration Institute (the entity within the Interior Ministry that enforces immigration laws).⁸⁸ Mexico’s southern border also continues to be porous and insecure.

President Peña Nieto, like former President Calderón, has not promised Mexicans that he can affect immigration reform efforts in the U.S. Congress or influence the Obama Administration. Both leaders saw how former President Vicente Fox’s failure to secure a bilateral immigration accord with the United States in 2001 proved to be a major blow to his Administration. Nevertheless, Peña Nieto has pledged his full support for efforts to enact comprehensive immigration reform, and is likely to continue Mexico’s efforts to improve border security and enforce its migration policies to combat illegal transmigration from Central America. On November 20, 2014, the Mexican Foreign Ministry issued a statement welcoming President Obama’s executive action on immigration;⁸⁹ some 3 million of the estimated 5.2 million unauthorized immigrants who could qualify for the programs Obama announced are Mexican.⁹⁰

Nevertheless, several migration-related issues have concerned the Mexican government. Mexico has protested the alleged excessive use of force by U.S. agents on the border; defended the rights of Mexican migrants in the United States, regardless of their status; and challenged certain state laws against illegal immigration. Record numbers of removals (deportations) under the Obama Administration, as well as certain removal procedures, such as the treatment of unaccompanied Mexican minors and removals that release migrants into violent border regions at night, have been issues of concern.⁹¹ Recent increases in Mexicans from some regions seeking asylum in the United States due to threats of violence in their communities and a rise in Central American migrants in transit through Mexico has been a concern of both governments. Emigrants from

⁸⁶ See: CRS Report R43320, *Immigration Legislation and Issues in the 113th Congress*, coordinated by Andorra Bruno.

⁸⁷ Researchers attribute this decline to the U.S. recession, stepped-up U.S. border security and interior enforcement, increasing abuses of migrants by smugglers and transnational criminal organizations, and expanding job opportunities in Mexico, among other factors. Jeffrey Passel, D’Vera Cohn, and Ana Gonzalez-Barrera, *Net Migration from Mexico Falls to Zero—And Perhaps Less*, Pew Hispanic Center, 2012, available at <http://www.pewhispanic.org/files/2012/04/PHC-04-23a-Mexican-Migration.pdf>. That trend has since continued.

⁸⁸ Edward Fox, “Figures Show Corruption Rife in Mexico’s Migration Agency,” *Insight Crime*, January 9, 2013.

⁸⁹ See: CRS Report R43798, *The Obama Administration’s November 2014 Immigration Initiatives: Questions and Answers*, by Kate M. Manuel.

⁹⁰ Ellen Patten and Jeffrey S. Passel, *How Obama’s Executive Action will Impact Immigrants, by Birth Country*, Pew Research Center, November 21, 2014.

⁹¹ See, for example, Adam Isacson, Maureen Meyer, and Ashley Davis, *Border Security and Migration: A Report from Arizona*, WOLA, December 5, 2013, http://www.wola.org/publications/border_security_and_migration.

Mexico and Central America have increasingly become victims of kidnapping and abuses by organized crime, sometimes in collusion with corrupt Mexican officials.⁹²

Dealing with Central American Migration, Including Unaccompanied Children⁹³

As migration patterns between the United States and Mexico have changed, many U.S. policy makers have begun to view Mexico as a partner that has an important role to play in securing its southern border and combating Central American transmigration through its territory. In this emerging role, the Mexican government actively collaborates with U.S. law enforcement agencies to combat alien smuggling, human trafficking, and illegal migration by third country nationals. Mexico reportedly apprehended more than 15,795 minors between January and August 2014, compared to 9,727 in all of 2013, with enforcement in recent months focused on railway routes that some migrants have used to cross Mexican territory into southern Texas.⁹⁴

While some have praised Mexico for increasing its migration enforcement, others have criticized the Mexican government for failing to grant Central Americans—particularly unaccompanied minors— asylum and for failing to punish and purge those who have committed abuses against migrants from within its agencies.

With U.S. support through the Mérida Initiative (see “Security and U.S. Assistance through the Mérida Initiative”), the Mexican government started implementing a southern border security plan in 2013. Mexico’s plan includes the establishment of 12 naval bases on the country’s rivers and three security cordons that stretch more than 100 miles north of the Mexico-Guatemala and Mexico-Belize borders.⁹⁵ Total State Department support for mobile Non-Intrusive Inspection Equipment and related equipment and training for Mexico’s southern border strategy is likely to reach at least \$86.6 million. The U.S. Department of Defense (DOD) has also provided training to troops patrolling the border, communications equipment, and support for the development of Mexico’s air mobility and surveillance capabilities. This assistance may be expanded given the inclusion of \$79 million above the Administration’s request for border security and other judicial sector programs in the FY2015 Consolidated and Further Continuing Appropriations Act (H.R. 83).

Modernizing the U.S.-Mexico Border

The Department of Homeland Security (DHS) Customs and Border Protection (CBP) is charged with facilitating the flow of people, commerce, and trade through U.S. ports of entry while securing the border against threats. While enforcement efforts at the southwest border tend to focus on illegal migration and cross border crime, commercial trade crossing the border also poses a potential risk to the United States. Since NAFTA took effect, U.S.-Mexico trade has

⁹² Latin American Working Group, *Perilous Journey: Kidnapping and Violence Against Migrants in Transit Through Mexico*, October 2013, available at <http://www.lawg.org/component/content/article/1267/1267>.

⁹³ See: CRS Report R43702, *Unaccompanied Children from Central America: Foreign Policy Considerations*, coordinated by Peter J. Meyer.

⁹⁴ Miriam Dominguez, “Se Triplica Cifra de Niños Migrantes Asegurados,” *El Universal*, October 15, 2014.

⁹⁵ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, “INL Assistance for Mexico’s Southern Border Strategy,” fact sheet, June 2014.

dramatically increased, while investments in port infrastructure and staffing of customs officials along the border have not, until recently, been made. Particularly since the terrorist attacks of September 11, 2001, there have been significant delays and unpredictable wait times at the U.S.-Mexico border. Concerns about those delays has increased in recent years, since roughly 80% of U.S.-Mexico trade must pass through a port of entry (POE) along the Southwest border, often more than once, as manufacturing processes between the two countries have become highly integrated. In 2013, for example, there were more than 5 million commercial crossings in 2013.

On May 19, 2010, the United States and Mexico declared their intent to collaborate on enhancing the U.S.-Mexican border as part of pillar three of the Mérida Initiative.⁹⁶ A Twenty-First Century Border Bilateral Executive Steering Committee (ESC) has met six times since then to develop bi-national action plans and oversee implementation of those plans. The plans are focused on setting measurable goals within broad objectives: coordinating infrastructure development, expanding trusted traveler and shipment programs, establishing pilot projects for cargo pre-clearance, improving cross-border commerce and ties, and bolstering information sharing among law enforcement agencies. In October 2014, the U.S. and Mexican governments reported that their efforts had resulted in a reduction in wait times at San Isidro from two to three hours to 30 minutes, the opening of the first railroad crossing in 100 years, and the mutual recognition of each country’s respective trusted shipper program.⁹⁷

Figure 3. Snapshot of the U.S.-Mexico Border



Source: CRS Graphics.

⁹⁶ The White House, “Declaration by The Government Of The United States Of America and The Government Of The United Mexican States Concerning Twenty-First Century Border Management,” press release, May 19, 2010. As mentioned, U.S. - Mexican security cooperation along the border did not begin with the Mérida Initiative. This ESC is one of the most recent developments in the bilateral cooperation.

⁹⁷ U.S. Embassy in Mexico City, “Mexico and U.S. Meet to Advance Expedited Transit of Persons and Goods across the Border through Improved Border Security,” press release, October 22, 2014.

Congress authorized a pilot program in the FY2013 appropriations bill that permitted CBP to enter into public-private partnerships (PPPs) with certain localities and permitted the private sector to fund improvements in border facilities and port services.⁹⁸ Enacted on January 17, 2014, the FY2014 Consolidated Appropriations Act (P.L. 113-76) extended the pilot programs and provided funding for additional customs inspectors and infrastructure at the U.S.-Mexico border.

As part of this broader debate about immigration policy and border issues, one question that may arise is the degree to which U.S. immigration policy should treat Mexico as a “special case” on certain immigration questions given the sheer size of the bilateral flow of migrants and Mexico’s status as America’s continental neighbor.⁹⁹

As Congress carries out its oversight function, questions that may arise include: How well is Mexico fulfilling its pledges to increase security along its northern and southern borders and to enforce its immigration laws? What is Mexico doing to address Central American migration through its territory? What is the current level of bilateral cooperation on border security and immigration and border matters, and how might that cooperation be improved? How well are the U.S. and Mexican governments balancing security and trade concerns along the U.S.-Mexico border?

Mexico’s Energy Reforms¹⁰⁰

The future of oil and natural gas production in Mexico is of importance for Mexico’s economic growth, as well as for U.S. energy security. Mexico’s state oil company, *Petroleos Mexicanos* (Pemex), has struggled to counter declining oil production and reserves. Despite its challenges, Mexico remains a top U.S. crude oil supplier. Due to an inability to meet rising demand, Mexico has significantly increased natural gas imports from the United States. Still, gas shortages have hindered the country’s economic performance and caused electricity costs to rise.

U.S. policy makers are closely monitoring the implementation of the historic December 2013 constitutional reforms and August 2014 implementing laws that allow Pemex to partner with international companies to boost production. Hailed by many analysts as the most significant economic reform undertaken by Mexico since its entrance into NAFTA in 1994, the energy reforms are expected to boost investment, growth, and eventually oil and gas production in the country. The U.S. Energy Information Administration (EIA) has estimated that the recently-enacted energy reforms could boost Mexico’s long-term oil production potential to 3.7 million barrels per day (b/d) by 2040. That estimate is 75% higher than the EIA’s 2013 forecast for Mexico’s long-term oil production that was issued prior to the enactment of energy reforms.¹⁰¹ The reforms also opened Mexico’s electricity sector to private generators.¹⁰² If power sector

⁹⁸ See Section 560 of the Consolidated and Further Continuing Appropriations Act, FY2013 (P.L. 113-6, Div. D). The FY2013 pilot program permitted five such partnerships in Dallas, TX; Houston, TX; and Miami, FL and land POEs in El Paso, TX and Laredo/McAllen, TX.

⁹⁹ For a fuller discussion, see CRS Report R42560, *Mexican Migration to the United States: Policy and Trends*.

¹⁰⁰ For background on Mexico’s recently enacted energy reforms, see CRS Report R43313, *Mexico’s Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*, coordinated by Clare Ribando Seelke.

¹⁰¹ EIA, “Energy Reform Could Increase Mexico’s Long-term Oil Production by 75%,” press release, August 25, 2014.

¹⁰² Lisa Viscidi and Paul Shortell, A Brighter Future for Mexico: The Promise and Challenge of Electricity Reform, *Inter-American Dialogue*, June 2014, http://www.thedialogue.org/uploads/IAD9603_MexicanEnergyFINAL.pdf.

reforms reduce Mexico's electricity costs, then Mexico's manufacturing sector, which is highly integrated with U.S. industry, should become more competitive.

Mexico's 2013/2014 energy reforms were designed to transform Pemex into a "productive state enterprise" with more autonomy and lower taxes, but made it subject to competition with private investors. They created different types of contracts for private companies interested in investing in Mexico, including production-sharing and licensing; allowed companies to post reserves for accounting purposes; established a sovereign wealth fund; and created new regulators. In August, Mexico's Secretariat of Energy announced the results of "Round Zero," which defines the exploratory and production areas that Pemex can retain. Pemex may partner with private companies to exploit those areas. The first round of public bidding is to be held in 2015.

The opening of Mexico's oil and natural gas sector to foreign investors poses significant changes in the U.S.-Mexico energy relationship that may have advantages and disadvantages for both sides. Reversing Mexico's production decline would add more oil to the global market and enhance U.S. energy security. U.S. companies able to enter the Mexican upstream sector are likely to benefit from the opening of Mexican resources to foreign investment. Opportunities for infrastructure development, oil services companies, and downstream industries are also likely to open up. This would be true for both the oil and natural gas sectors, but U.S. natural gas exporters to Mexico might, over the long term, potentially lose some of their market share.

Opportunities may also exist for greater U.S.-Mexican energy cooperation. The first leases have already been awarded in the Gulf under the U.S.-Mexico Transboundary Agreement that was approved by Congress in December 2013 (H.J.Res. 59/P.L. 113-67).¹⁰³ Bilateral efforts to ensure that hydrocarbon resources are developed without unduly damaging the environment could expand, possibly through collaboration between Mexican entities and U.S. federal or state regulatory entities. In terms of capacity-building, the University of Texas system has recently expanded educational exchanges and training opportunities for Mexicans working in the petroleum sector. Other U.S. universities could follow suit. Others have also urged the United States and Mexico to work together to provide oil and natural gas resources to help reduce energy costs in Central America.

Analysts have urged the United States to offer more technical assistance to Mexico - particularly in deep water and shale oil exploration, to clarify rules for oil and gas swaps, and to ensure that new cross-border pipelines are approved expeditiously.¹⁰⁴ On June 24, 2014, the House approved legislation (H.R. 3301), which sought to ensure the continued development of natural gas infrastructure and exports to Mexico. Those provisions were integrated into H.R. 2, which the House passed on September 18, 2014.

Oversight questions may focus on how the Transboundary Hydrocarbons Agreement is being implemented; the extent to which Mexico is developing independent and capable energy sector regulators, particularly for deep water drilling; and the fairness of the terms Mexico offers to private companies interested in investing in its hydrocarbons industry.

¹⁰³ "BOEM awards leases in US-Mexico transboundary area to ExxonMobil," *Oil & Gas Journal*, May 30, 2014.

¹⁰⁴ David L. Goldwyn et al., *Mexico's Energy Reform: Ready to Launch*, Atlantic Council, August 2014.

Water Sharing¹⁰⁵

Management of shared water resources is significant for U.S. and Mexican interests in the border region, as well as a contributing factor to the level of cooperation or tension between the two countries. Multiple rivers cross or form the U.S.-Mexico border. The two principal rivers are the Colorado River, which is predominantly in the United States but passes through Mexico on its way to the Gulf of California; and the Rio Grande, which forms the U.S.-Mexico border in Texas. These rivers are covered by long-standing international water sharing agreements. Starting in 1906, agreements emerged to allocate the Rio Grande's water between the two countries. In 1944, the two countries entered into a comprehensive water treaty, the "Utilization of Waters of the Colorado and Tijuana Rivers and of the Rio Grande" (Treaty).¹⁰⁶ The 1944 Treaty reconfigured an existing entity into the International Boundary and Water Commission (IBWC),¹⁰⁷ which is responsible for managing water in accordance with the Treaty and resolving water-sharing disputes through amendments, called "minutes." Recent experiences of international water management in the two basins have contrasted, with advances in cooperation in the Colorado River basin and increased tensions in the Rio Grande basin.

Colorado River

The Colorado River flows through seven U.S. states (Arizona, California, Colorado, Nevada, New Mexico, Utah, and Wyoming) and into Mexico before emptying into the Gulf of California. Some 97% of the basin is in the United States.¹⁰⁸ The 1944 Treaty requires that the United States provide Mexico with 1.5 million acre-feet (AF) of Colorado River water annually,¹⁰⁹ roughly 10% of the river's average annual flow. Binational disputes have arisen over water quantity, quality, and conservation.

Recent U.S.-Mexico water sharing discussions have coalesced around the need for better management and conservation of both the Colorado River itself and the Colorado River Delta. As a result, both governments, along with state officials and conservation groups from both countries, worked with the IBWC to develop an agreement that would allocate water to Mexico based on whether there is a surplus or drought and allow for joint investments to create greater environmental protection, as well as greater water conservation (i.e., ability to store water) for Mexico. These discussions culminated in the signing of Minute 319 on November 20, 2012.

¹⁰⁵ See CRS Report R43312, *U.S.-Mexico Water Sharing: Background and Recent Developments*, by Nicole T. Carter, Clare Ribando Seelke, and Daniel T. Shedd.

¹⁰⁶ Treaty between the United States of America and Mexico Respecting Utilization of Waters of the Colorado and Tijuana Rivers and of the Rio Grande, U.S.-Mex., Feb. 3, 1944, 59 Stat. 1219 (hereinafter Treaty).

¹⁰⁷ The IBWC is an international body consisting of a United States and a Mexican section, which are overseen by the State Department and Mexico's Foreign Ministry, respectively.

¹⁰⁸ When the 1994 Treaty was signed, Colorado River flows were estimated at 16.8 million acre-feet (AF) per year; current flows are closer to 14.4 million AF annually. "U.S., Mexico: The Decline of the Colorado River," *Stratfor Global Intelligence*, May 13, 2013.

¹⁰⁹ Treaty, *supra* note 80, art. 10.

Rio Grande

While Colorado River Basin relations have been increasingly collaborative, the delivery of water from Mexico to the United States in the Rio Grande basin has been a source of tension. The Rio Grande is divided into two basins: the western El Paso-Juárez Rio Grande basin and the eastern basin, which encompasses an area from Ft. Quitman to the Gulf of Mexico. For that eastern portion of the basin, under article 4 of the 1944 Treaty, Mexico's water delivery from designated tributaries must average at least 350,000 AF per year, measured in five-year cycles.¹¹⁰ If Mexico fails to meet its delivery obligations for a five-year cycle because of "extraordinary drought"—a term not defined in the Treaty—it must make up the deficiency during the next five-year cycle.

As both the U.S. and Mexican portions of the basin experienced drought conditions in 2011-2012, deliveries from Mexico per the 1944 Treaty slowed, raising concerns in Texas about the predictability of water deliveries. The current delivery cycle started October 25, 2010, and will end October 24, 2015. Mexican interests maintain that "extraordinary drought" conditions hampered deliveries in the early part of this cycle but have since picked up. Texas interests assert that the drought has eased in the Mexican portion of the basin and deliveries should increase so the cycle can end with no water debt; they also are pursuing more predictability of future deliveries (i.e., they would like Mexico to maintain deliveries at the target annual delivery rate).

The concern is that low deliveries, as occurred in the 1990s and early 2000s, reduce water available for agriculture and communities in the U.S. counties along the Texas-Mexico border. Historically, Mexico met its deliveries within the five-year cycles until the 1994 to 2003 drought. During that drought, Mexico accrued a water debt through two water cycles. Diffusion of tensions over the debt was the result of presidential intervention, negotiation of Minutes under the 1944 Treaty, and investments in improved water efficiency; hurricane-induced wet conditions cleared the water debt in 2005.¹¹¹

The U.S. and Mexican sections of the IBWC have met regularly since late 2012 to discuss Mexico's water deliveries; bilateral discussions since May 2013 also have involved high-level State Department and Mexican government officials. Among the outcomes has been an exchange of technical data to assist in options for future water management in the basin. Mexico delivered more than the 350,000 AF during the third year of the cycle.¹¹² Technical and diplomatic discussions continued to occur in 2014 as well, and, although not yet publically reflected in official IBWC water accounting, State Department officials maintain that Mexico is likely to have nearly met the annual target in the fourth year of the cycle which ended in October 2014.¹¹³ If this is the case and Mexico delivers the annual target amount in the last year of the cycle, Mexico would have more than 200,000 AF in water debt at the end of the cycle due to its failure to make up for the low deliveries in the early years of the cycle.

¹¹⁰ The 1944 Treaty also establishes Mexico's right to two-thirds of the flows that feed into the Rio Grande from the six major tributaries that enter from Mexico (Id. art. 4(A)(c)), and the United States' right to all flows from Rio Grande tributaries in the United States side and one-third from the six Mexican tributaries (Id. art. 4(B)).

¹¹¹ Ibid.

¹¹² Letter from Edward Drusina, IBWC Commissioner, to various Senators and Representatives, October 23, 2013.

¹¹³ Electronic correspondence with State Department official, November 21, 2014.

During the 113th Congress, Members wrote letters to the Administration and introduced legislation related to the Rio Grande water dispute.¹¹⁴ On January 17, 2014, President Obama signed the FY2014 Consolidated Appropriations Act into law (P.L. 113-76). The Joint Explanatory statement accompanying the Act required the Secretary of State, in consultation with the IBWC Commissioner, to report to the appropriate congressional committees within 60 days of the measure's enactment on actions taken to ensure that the water deficits owed by Mexico to the United States do not increase and that allocations comply with existing bilateral water treaties. On February 7, 2014, President Obama signed the Agricultural Act of 2014 (P.L. 113-79). Section 12310 of the Act required the State Department to submit a report within 120 days of the bill's enactment on efforts by Mexico to meet its Rio Grande Treaty deliveries. On February 5, 2014, the State Department submitted one report to meet both those requirements, which predicted that, barring any unforeseen circumstances, Mexico would meet its 2014 delivery target.¹¹⁵ The FY2015 Consolidated and Further Continuing Appropriations Act (H.R. 83) requires a report within 45 days of the bill's enactment on whether mechanisms discussed in the Act have been developed to ensure that Mexico is making its water deliveries. It also carried forward the aforementioned annual reporting requirement included in P.L. 113-79 on the status of Mexico's deliveries.

In addition to proposed legislation, questions that Congress may confront related to the Rio Grande basin include what are the most effective mechanisms and approaches for achieving a Mexican water delivery regime that provides more benefit to Texas water users, and whether interventions and investment like those employed to manage the previous water debt would be necessary or effective. For the Colorado River basin, issues before Congress may be largely related to oversight of the impacts and implementation of Minute 319.

Outlook

As Enrique Peña Nieto begins his third year in office, many questions remain about Mexico's future. To what extent will the economic reforms that have been enacted actually be implemented and how long will it take for Mexicans to see benefits from the reforms? How will President Peña Nieto regain Mexicans' trust in his ability to strengthen the rule of law and tackle corruption?

As the 2015 mid-term elections approach, Mexicans will be increasingly concerned about whether President Peña Nieto and the PRI have delivered on their promises to reduce crime and bolster economic growth. Will the Peña Nieto government be able to reduce violent crimes that affect average citizens, such as kidnapping and extortion, while still combating organized crime? Will security forces be able to combat crime in a way that respects human rights?

Answers to some of these questions will depend largely upon the actions of President Peña Nieto himself, others will depend upon external factors, while still others will be decided by a mix of domestic and external factors. For example, many feel Mexico would benefit immensely if certain immigration reforms were enacted in the United States, but there is little that the Peña

¹¹⁴ Letter from Reps. Cuellar, Gallego, Hinojosa, O'Rourke, and Vela, to the Honorable U.S. President Barack Obama, April 11, 2013.

¹¹⁵ U.S. Department of State, *Report to the Congress on Actions Taken to Ensure that the Water Deficits Owed by Mexico to the United States do Not Increase and That Allocations Comply with the Treaty for the Utilization of Waters of the Colorado and Tijuana Rivers and of the Rio Grande of 1944*, February 5, 2014.

Nieto government can do to support their enactment beyond pledging to reduce illegal emigration and bolster border security. In contrast, Enrique Peña Nieto’s domestic policies can have a significant impact on security and economic conditions in Mexico, as well as bilateral efforts in those areas.

Mexico and U.S.-Mexican relations are experiencing a time of transition. This transition may bring about advances in some areas of the bilateral relationship, while setbacks may occur in others. Analysts are hopeful, for example, that even as bilateral attention focuses more on trade and energy than in the recent past, intense U.S.-Mexican security cooperation can continue. Throughout this process, the 114th Congress is likely to closely monitor conditions in Mexico, as well as U.S.-Mexican cooperation on key issues as part of its legislative and oversight capacities.

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