

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. 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 enacted structural reforms during his first year in office but has struggled to address human rights abuses, corruption, and impunity. His government's security record has been turbulent; it has included the capture, escape, and subsequent recapture of Joaquín "El Chapo" Guzmán—head of the powerful Sinaloa criminal organization.

President Peña Nieto's first three years in office brought mixed results for Mexico. During 2013, Peña Nieto's "Pact for Mexico" agreement with the PAN and the leftist Party of the Democratic Revolution (PRD) facilitated the passage of education, telecommunications, and energy reforms. Implementation of the aforementioned reforms has occurred over the course of the past two years, but low oil prices have caused Mexico's state oil company to record huge losses, prompted currency depreciation, and necessitated steep budget cuts. Advances in implementing a new criminal justice system have been overshadowed by an increase in homicides in 2015 and the government's inability to resolve emblematic cases, such as the 43 students who were forcibly abducted—and likely murdered—in Guerrero in September 2014.

U.S. Policy

U.S.-Mexican relations have remained strong despite periodic tensions. President Obama has embraced Peña Nieto's desire to bolster economic ties and focus on issues such as trade facilitation and education. Those issues figured prominently during a January 2015 bilateral meeting between the presidents and during Vice President Biden's participation in the third High-Level Economic Dialogue in February 2016. U.S.-Mexican rule-of-law cooperation has continued under the Mérida Initiative, which focuses on justice sector reform and securing Mexico's southern border. The governments are in the process of developing a bilateral plan to combat increasing heroin production and trafficking in Mexico. Energy cooperation has accelerated, particularly in the hydrocarbons sector. In January 2016, Mexico repaid its water debt from the 2010-2015 delivery cycle as per a 1944 Rio Grande water-sharing treaty, easing a source of bilateral tension.

Legislative Action

The 114th Congress has considered legislation affecting U.S.-Mexican trade and security cooperation. Congress enacted legislation giving President Obama trade promotion authority (P.L. 114-26), which likely helped to advance negotiations for a Trans-Pacific Partnership (TPP) trade agreement signed in February 2016 that would alter the provisions governing bilateral trade. The FY2016 Consolidated Appropriations Act (P.L. 114-113) ended the U.S. crude oil export ban, which could enhance bilateral energy trade. In response to Mexico and Canada's threats to impose retaliatory tariffs for U.S. country-of-origin labeling on meat products, P.L. 114-113 ended the labeling requirements.

Congress has continued oversight of the Mérida Initiative, a bilateral security effort for which it appropriated nearly \$2.5 billion from FY2008 through FY2015. P.L. 114-113 provided at least \$147.5 million for Mexico in FY2016, including \$139 million in accounts that have funded the Mérida Initiative. The final amount destined for the Mérida Initiative is as yet unclear, however. The act carried forward reporting requirements from P.L. 113-235 related to the adequacy of Mexico's water deliveries in the Rio Grande Valley. Congress is now considering President Obama's FY2017 aid request for Mexico, which totaled \$133.5 million, including \$129 million for the Mérida Initiative.

Along with this action on some issues of bilateral interest, the Senate continues consideration of the Obama Administration's nominee for U.S. Ambassador to Mexico.

Further Reading

CRS Report R41349, *U.S.-Mexican Security Cooperation: The Mérida Initiative and Beyond*, by (name redacted) and (name redacted).

CRS Report R41576, *Mexico: Organized Crime and Drug Trafficking Organizations*, by (name redacted)

CRS In Focus IF10215, *Mexico's Recent Immigration Enforcement Efforts*, by (name redacted)

CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by (name redacted).

CRS Report RS22955, *Country-of-Origin Labeling for Foods and the WTO Trade Dispute on Meat Labeling*, by (name redacted)

CRS Report R43313, *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*, coordinated by (name redacted).

CRS Report R43312, *U.S.-Mexico Water Sharing: Background and Recent Developments*, by (name redacted), (name redacted), and (name redacted).

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Introduction

Congress has maintained 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 reforms its legislature enacted in 2013.¹ 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 underscored the need for continued cooperation on those issues.

President Enrique Peña Nieto, former governor of the state of Mexico, is in the fourth year of his six-year term. During 2013, President Peña Nieto shepherded significant structural reforms through a fragmented Congress by forming a "Pact for Mexico" agreement with his Institutional Revolutionary Party (PRI), the conservative National Action Party (PAN), and the leftist Party of the Democratic Revolution (PRD). The reforms addressed a range of issues, including education, telecommunications, politics, and energy (see **Table 1**).

President Peña Nieto's approval rating has remained low since 2014 (it was 32% in March 2016) as he has struggled to respond to the September 2014 enforced disappearance and likely murder of 43 students in Iguala, Guerrero, conflict-of-interest scandals, and security challenges. Additionally, despite the reforms, Mexico's economic growth rates have been moderate (2.1% in 2014 and 2.5% in 2015) and the country's poverty rate has slightly increased (to 46.2% in 2014).² Despite these challenges, the PRI and its allies captured a majority in the chamber of deputies in the 2015 midterm elections and are predicted to perform well in upcoming gubernatorial elections due, in part, to problems within the PAN and PRD.³ After the June 2016 gubernatorial elections, attention will increasingly turn to the 2018 presidential contest; discontent with the three major parties could lead voters to support a populist candidate, such as Andrés Manuel López Obrador.⁴

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 and foreign aid, extraditions, human rights, trade, migration, energy, education, and water issues.

Political Situation

Over the past two decades, Mexico has transitioned from a centralized political system dominated by the PRI to a true multiparty democracy. Since the PRI last governed in the 1990s, presidential power has become more constrained by Mexico's Congress, Supreme Court, and increasingly

¹ See, for example, Testimony of Eric Farnsworth, Vice President of the Council of the Americas, in U.S. Congress, House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, *Pursuing North American Energy Independence: Mexico's Energy Reforms*, 114th Cong., 1st sess., July 23, 2015.

² According to Mexico's National Council for the Evaluation of Social Development Policy (CONEVAL), Mexico's poverty rate increased from 45.5% in 2012 to 46.2% in 2014.

³ The National Action Party (PAN) faced bitter internal elections in spring 2014 that divided the party, while several prominent Party of the Democratic Revolution (PRD) figures resigned due to dissatisfaction with the way party leaders responded to events in Iguala, Guerrero (where PRD officials were allegedly complicit in the students' disappearances).

⁴ Andrés Manuel López Obrador finished second in the 2006 and 2012 presidential contests as the candidate of the PRD. He subsequently split with the PRD and started the National Regeneration Movement (Morena) party. Morena first competed in the 2015 midterm elections.

powerful governors.⁵ Partially as a result of those constraints, two successive PAN administrations struggled to enact the structural reforms needed to boost Mexico's economic competitiveness and address the country's security challenges.

Figure I. Mexico at a Glance



Sources: Graphic created by the Congressional Research Service (CRS). Map files from Map Resources. Trade Data from Global Trade Atlas. Unless otherwise noted, other data are from CIA, *The World Fact Book*, updated February 2016.

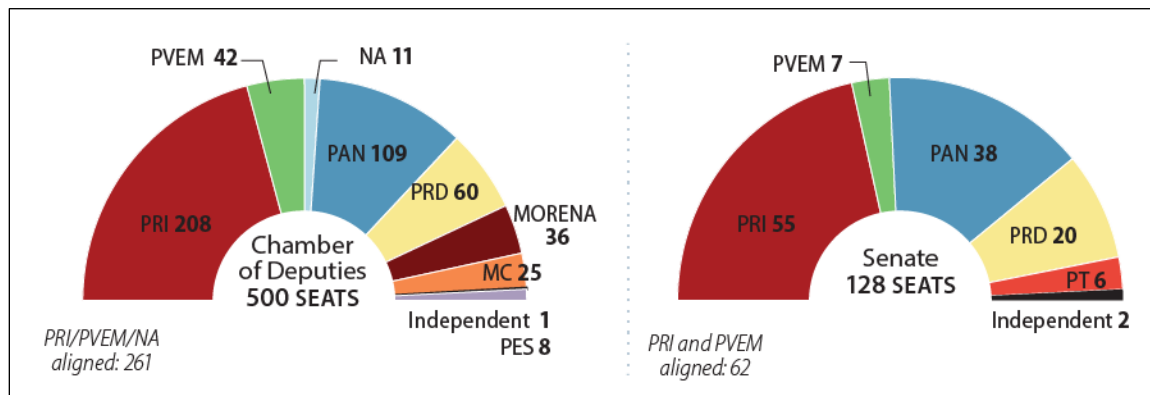
⁵ For background, see Andrew Selee and Jacqueline Peschard, eds., *Mexico's Democratic Challenges: Politics, Government, and Society* (Stanford, CA: Stanford University Press, 2010).

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 died as a result of organized crime-related violence. 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.

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 Congress, and three of six gubernatorial contests in July 2012. Voters appeared to view the PRI as the party best equipped to reduce violence and hasten economic growth despite concerns about its past reputation for corruption. Enrique Peña Nieto won by a narrow margin (6.6% of the vote) over López Obrador of the leftist PRD. Peña Nieto took office with his party controlling 20 of 32 governorships, but his PRI/Green Ecological Party (PVEM) coalition lacked a majority in either legislative chamber.

Following June 2015 midterm elections,⁶ the PRI-PVEM-New Alliance (AN) coalition garnered a majority in Mexico's chamber of deputies. That coalition is the largest voting bloc in the senate, but the PAN and PRD have a significant presence in that chamber as well. The deputies are to serve for three-year terms, and the newly elected senators are to serve for six years.

Figure 2. Composition of Mexico's 2015-2018 Congress by Party Affiliation



Source: Mexico's Chamber of Deputies and Senate; prepared by CRS graphics.

Notes: PRI = Institutional Revolutionary Party; PVEM = Green Party; NA = New Alliance Party; PAN = National Action Party; PRD = Party of the Democratic Revolution; MORENA = National Regeneration Movement; MC = Citizen's Movement Party; PT = Worker's Party; PES = Social Encounter Party.

The PRI controls 18 of 32 governorships, but 12 gubernatorial elections are scheduled to take place on June 5, 2016. Nine of these elections are in states now controlled by the PRI.⁷ The PAN and PRD have formed alliances in at least four states to challenge PRI candidates, but the prospects for those candidates remain unclear given the PRI's formidable state and local machinery. Violence could pose problems for the electoral process in states such as Sinaloa,

⁶ On June 7, 2015, Mexico's new electoral agency, the National Electoral Institute, which was created as part of the political and electoral reforms described in **Table 1**, oversaw both federal and state elections. At 47%, voter turnout proved to be higher than in midterm elections held in 2003 and in 2009. All 500 seats in the Chamber of Deputies were up for election, with 300 selected by direct election and 200 chosen by proportional representation.

⁷ For details, see Instituto Nacional Electoral, "Calendario Electoral," at http://www.ine.mx/archivos3/portal/historico/contenido/Calendario_Electoral/. Tania L. Montalvo, "Elecciones 2016: las alianzas PAN-PRD vs candidatos de unidad en el PRI," *Animal Político*, January 25, 2016.

Tamaulipas, and Veracruz. The 2015 victory of independent candidate Jaime Rodríguez in Nuevo León could give hope to other outsiders or candidates from small parties.

As the 2018 presidential elections approach, President Peña Nieto and the PRI are seeking to convince voters that the reforms they enacted have been beneficial, but concerns about corruption, combined with security and economic challenges, could prove difficult to overcome.

Leadership in the Peña Nieto Administration

Mexico's presidential transitions are characterized by a high level of turnover in government agencies that is often accompanied by large overhauls in governmental structures and organizational patterns. President Peña Nieto returned to the interior ministry (SEGOB) much of the power that the ministry had before the PAN took office. With congressional approval, he placed the secretariat of public security (including the federal police)⁸ and intelligence functions under the authority of the interior ministry. That ministry now coordinates security efforts with the military and state and municipal authorities. It also commands the new militarized police entity within the federal police, the national gendarmerie.⁹

Some have criticized Peña Nieto's structural and budgetary priorities. SEGOB has gotten larger and more powerful, while the attorney general's office has remained comparatively weak and underfunded. In 2015, the National Institute of Migration (INM) within SEGOB had a larger budget than the intelligence service or the foreign ministry.¹⁰

Key positions in the government are filled by the president's close confidantes. Luis Videgaray Caso is the minister of finance, a post he held in the state of Mexico during Peña Nieto's governorship. Miguel Angel Osorio Chong is minister of the interior. Osorio Chong served as governor of Hidalgo, which borders the state of Mexico, when Peña Nieto governed. Both Videgaray and Osorio Chong reportedly have presidential aspirations but have been criticized for their performance. Osorio Chong came under heavy criticism after Joaquín "El Chapo" Guzmán's prison escape.¹¹ Videgaray's reputation has been marred by Mexico's middling economic performance and by allegations of a conflict-of-interest scandal.¹²

The remainder of the Cabinet consists of a combination of PRI technocrats with postgraduate education abroad, senior PRI politicians, and a few outsiders. Most of the technocratic leaders are in the economic ministries. The current secretary of social development and former foreign minister, José Antonio Meade, served as finance minister for former President Calderón.

Peña Nieto's government has avoided the public infighting that occurred among former President Calderón's ministers, but it struggled to manage public relations effectively in 2014 amid a political crisis. By mid-2014, many prominent news outlets that once praised the Peña Nieto government's reformist zeal had begun to criticize its handling of government officials' alleged

⁸ The Peña Nieto government retained 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 Manuel Ureste, "Migración Triplica su Gasto, pero Deja a Migrantes Detenidos en Condiciones Precarias," *Animal Político*, March 11, 2016.

¹¹ Mark Stevenson, "Mexican Gov't Reticent to Make Changes After Chapo Escape," AP, July 14, 2015.

¹² Juan Montes, "New Details Emerge on Mexican Finance Minister's Property Deal," *Wall Street Journal*, March 18, 2015.

involvement in extrajudicial killings and forced disappearances. After months of domestic and international criticism, President Peña Nieto replaced his attorney general with Arely Gomez, a former senator more amenable to cooperating with U.S. officials than her predecessor.¹³

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. Leaders of the conservative PAN and leftist PRD surprised many analysts by signing 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. Although some opposition legislators later balked at their leaders' decisions to endorse the pact, during its first session the Congress approved education and telecommunications reform legislation, two measures that Peña Nieto had identified as short-term priorities, as well as a crime victim's law.

Investors and analysts initially praised President Peña Nieto and his advisers for focusing their attention and political capital on shepherding structural reforms through the Mexican Congress in 2013-2014 (see **Table 1**). Many of the reforms that Peña Nieto prioritized have long been recommended by the Organization for Economic Cooperation and Development (OECD) and others as crucial for boosting Mexico's competitiveness. These reforms were enacted despite large-scale protests from interest groups, such as Mexican teachers' unions.

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). In August 2014, secondary laws to implement those reforms officially opened Mexico's oil, natural gas, and power sectors to private investment.¹⁴ Despite the challenges posed by low oil prices, Mexico's National Hydrocarbons Commission has conducted the first rounds of public bidding in a relatively transparent fashion and modified the terms offered to make them more attractive to international companies.¹⁵ Since the dissolution of the Pact for Mexico, the pace of reforms has slowed considerably.

¹³ E. Eduardo Castillo and Katherine Corcoran, "Mexico Extraditions Part of new Working Relationship with U.S.," AP, October 22, 2015.

¹⁴ CRS Report R43313, *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*, coordinated by (name redacted) .

¹⁵ Elisabeth Malkin, "Successful Auction for Oil Drilling Rights in Mexico Follows Weak Debut," *New York Times*, September 30, 2015.

Table 1. Key Reforms Enacted During 2013-2015

- **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 and gives the commission the power to oversee mergers, regulate industries, and sanction monopolistic practices.
- **Telecommunications Reform:** increases consumers' access to more affordable and reliable television, 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% from 11% in northern border states, 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. In June 2015, Mexico's Supreme Court upheld the constitutionality of removing teachers who fail evaluation exams from instructional positions.
- **Unified Code of Criminal Procedure (CPC):** replaces the procedural rules that existed in the country so that the same general rules apply to all states and the federal government; 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 reelection of federal deputies for up to four terms beginning in 2015 and of senators for up to two terms beginning in 2018; provides for 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).
- **Anticorruption Reform:** a constitutional reform that establishes a national anticorruption system with a special prosecutor to handle cases of corruption. The law also gives more power to the existing federal audit office and the public administration ministry.

Source: For information on the reforms, see Government of Mexico, "Reforms in Action," at <http://reformas.gob.mx/en/reforms>.

Note: The only major reform passed in 2015 was the anticorruption reform.

Security, Institutional Reform, and Human Rights

Upon taking office, President Peña Nieto made violence reduction one of his priorities. The six pillars of his security strategy are (1) planning, (2) prevention, (3) protection and respect of human rights, (4) coordination, (5) institutional transformation, and (6) monitoring and evaluation. Peña Nieto has taken action on two priority proposals on security: launching a national crime prevention plan¹⁶ and establishing a unified code of criminal procedures to cover

¹⁶ Peña Nieto budgeted \$19 billion for prevention efforts in 2013-2014, but the program's budget has been cut since then. Federal funds are providing a variety of interventions in municipalities with high crime rates that also exhibit social risk factors. The program has been criticized by Mexican analysts for lacking a rigorous methodology for (continued...)

judicial procedures for the federal government and the states. Other key proposals—creating a large national gendarmerie (militarized police) and a strong central intelligence agency—have been either delayed or significantly watered down.¹⁷

In addition to enacting a unified code of criminal procedure, the Peña Nieto government has allocated additional funds to support implementation of judicial reforms enacted in 2008. As per those constitutional reforms, Mexico has until June 2016 to replace its trial procedures, moving from a closed-door process based on written arguments presented to a judge to an adversarial system with oral arguments and the presumption of innocence. These changes are expected to make the system more transparent and impartial. Through alternative dispute resolution, the system aims for flexibility and efficiency. Significant work remains to be done, as only six states have fully implemented the system. Eight other states have been identified as far behind.¹⁸

Criticism of Peña Nieto's security strategy has mounted since mid-2014. Many argue that Peña Nieto has struggled to define his security priorities and how they will be achieved. Others assert that he has maintained Calderón's reactive approach of deploying federal forces—including the military—to areas in which crime surges rather than engaging in a proactive effort aimed at strengthening institutions to deter crime and violence. High-value targeting of top criminal leaders has continued; at least 96 of 122 high-value targets identified by the government have been detained.¹⁹ That figure includes "El Chapo" Guzmán, who was recaptured in January 2016 after escaping from Mexico's highest-security prison in July 2015. High-value targeting has contributed to crime groups splintering and diversifying their illicit activities into kidnapping, alien smuggling, and oil theft. Organized crime-related deaths trended downward in 2013 and 2014; nevertheless, homicides increased in 2015 for the first time since 2011.²⁰

Criminal groups, sometimes in collusion with public officials, as well as state actors (military, police, state prosecutors, and migration officials) have continued to commit incidents of serious human rights violations. The vast majority of those abuses have gone unpunished.²¹ In December 2014, the U.N. Special Rapporteur on Torture published a report asserting that the use of torture by security forces in Mexico is widespread and is primarily employed to gather coerced statements. The attorney general's office (PGR) has secured 15 convictions for torture. The U.N. Committee on Enforced Disappearances has described a "context of generalized disappearances in a large part of Mexican territory, many of which could be described as forced disappearances." The PGR has secured six convictions for enforced disappearances since the mid-1970s.

(...continued)

selecting and evaluating the communities and interventions it funds. The program's director was removed in November 2015 because he was being investigated for corruption; his named replacement appears to lack experience in crime prevention. José Antonio Román, "Dudas Entre ONG por Nombramiento de Begné," *La Jornada*, March 11, 2016.

¹⁷ 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.

¹⁸ The eight states identified as "far behind" are Baja California, Campeche, Guerrero, Jalisco, Michoacán, Sonora, Tamaulipas, and Veracruz. See "Presentan 8 Estados Retrasos en Implementación del Nuevo Sistema Penal," *SDP Noticias.com*, February 19, 2016.

¹⁹ Alejandro Hope, "Embracing a 'Failed Strategy'?", *Daily Post*, March 10, 2016.

²⁰ CRS Report R41576, *Mexico: Organized Crime and Drug Trafficking Organizations*, by (name redacted) Juan Montes, "Murders Jumped 8.7% in Mexico in 2015; First Increase Since 2011," *Wall Street Journal*, January 21, 2016.

²¹ Information in this paragraph draws from Inter-American Commission on Human Rights (IACHR), *Situation of Human Rights in Mexico*, December 31, 2015.

Incidents such as these galvanized protests against impunity in Mexico. On average, fewer than 20% of homicides have been successfully prosecuted, suggesting high levels of impunity.²⁵ Prosecution rates are often even lower for other crimes. Overall, few crimes—perhaps 10%—are reported, and, on average, more than 90% of all reported crimes go unpunished.²⁶

In response to criticisms of these incidents, Mexican President Enrique Peña Nieto proposed 10 actions to improve the rule of law in November 2014. One of those actions was the *mando único* (unified command)—a constitutional reform that would *require* states to remove the command of police forces from municipalities and to place it at the state level. This plan aims to reduce police corruption and improve coordination with federal forces. Some experts question the notion that state forces are any less corrupt and maintain that this change will not prevent abuses or strengthen accountability.²⁷ No reform has been passed, but a revised *mando único* reform is expected to be enacted soon. The revised reform will likely include institutional certification for police forces at all levels, the creation of an autonomous police oversight body, and improved benefits for police (PRD and PAN proposals).²⁸ Mexico's Congress is also considering laws against torture and enforced disappearances that President Peña Nieto introduced in December 2015.

Extrajudicial Killings, Torture, and Enforced Disappearances

For years, human rights groups and annual State Department human rights reports have chronicled cases of Mexican security officials' involvement in extrajudicial killings, torture, and enforced disappearances.²²

Tlatlaya, State of Mexico. In October 2014, Mexico's National Human Rights Commission (CNDH) issued a report concluding that at least 15 people had been killed execution-style by the Mexican military in Tlatlaya on July 1, 2014. The military originally claimed that the victims were criminals killed in a confrontation. The CNDH also documented claims of the torture of two witnesses to the killings by the military and prosecutors from the state of Mexico. Three soldiers remain in custody for killing 11 people on that day; four have been released. No higher-level officials have been accused of involvement in the killings or in trying to cover them up.²³ Mexico has pledged to give some \$3.3 million to the Tlatlaya victims' families (as required by a 2011 victims' law), but it is unclear whether that funding has been distributed.

Iguala, Guerrero. The unresolved case of 43 missing students who disappeared in Iguala, Guerrero, in September 2014—which allegedly involved the local police and authorities—galvanized large protests in Mexico and around the world. Remains sent by the Mexican government to Austria to be examined have been confirmed to match one missing student's DNA. The government's investigation has been widely criticized, and aspects of it have been disproven by a group of experts from the Inter-American Commission on Human Rights (IACHR). The government has been working with those experts to reinvestigate the case but has denied their requests to interview soldiers who were in the area of the incident. The mandate of the experts expires in April 2016 and is not being renewed.²⁴

²² See, for example, U.S. Department of State, *Country Report on Human Rights Practices for 2014: Mexico*, June 2015, at <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2014&dliid=236702>.

²³ Michael Evans, *Tlatlaya Revealed: Archive Petition Cracks Open Investigative File on Mexican Army Massacre*, National Security Archive, March 6, 2016.

²⁴ Maureen Meyer and Hannah Smith, "Ayotzinapa Fact Sheet: Investigating the Enforced Disappearance of 43 Students in Mexico," Washington Office on Latin America (WOLA), February 26, 2016; "Mexico: International experts no longer welcome in Iguala case," *Latin News Daily*, March 30, 2016.

²⁵ Guillermo Zepeda, *Seguridad y Justicia Penal en los Estados: 25 Indicadores de Nuestra Debilidad Institucional*, Mexico Evalua, March 2012.

²⁶ Marguerite Cawley, "Mexico Victims' Survey Highlights Under-Reporting of Crime," *Insight Crime*, October 1, 2014.

²⁷ These experts cite the example of the January 2016 Tierra Blanca case, in which five people were allegedly taken by Veracruz state police and handed over to a transnational criminal organization that subsequently killed them, thinking they were members of a rival criminal group. "Mexico's Tierra Blanca Case Sparks Fear of Second Iguala," *Latin News Daily*, March 2, 2016.

²⁸ "Mexico: Green Light to Police Reform," *Latin American Security & Strategic Review*, February 2016.

In addition, Mexico's Congress is debating secondary legislation to fully implement the anticorruption system created by a constitutional reform in April 2015. Some analysts praised the reform as a step forward for efforts aimed at combating official corruption, whereas others cast doubt on its provisions and the likelihood that it would be implemented effectively. Leaders from all major parties have backed aspects of a proposal submitted by civil society that would give more investigatory and prosecutorial power to anticorruption entities and require public disclosure of assets and potential conflicts of interest by public officials and candidates for office.²⁹

Corruption remains a major obstacle to reform efforts. Mexico ranked 95 of 175 countries in Transparency International's 2015 Corruption Perception Index. President Peña Nieto has portrayed corruption as mainly a local-level issue present in some parts of Mexico, but many experts have cited corruption at all levels of government. Although President Peña Nieto and his wife, as well as finance minister Videgaray, have been cleared of misconduct by a government auditor, allegations of how they benefitted from ties to a firm that has won lucrative government contracts tarnished the government's image.³⁰ The PGR's inability to prosecute Humberto Moreira, the former head of the PRI who was arrested in Spain on money-laundering charges committed when he was governor of Coahuila, have added to popular frustration.³¹

Foreign Policy

President Peña Nieto has prioritized promoting trade and investment in Mexico as a core goal of his Administration's foreign policy, and he has signaled Mexico's willingness to participate in U.N. peacekeeping efforts, a departure for a country with a history of nonintervention. President Peña Nieto has reoriented U.S.-Mexican relations to focus on economic issues but also sought to create closer trade ties with Europe, Asia, and the rest of Latin America. President Peña Nieto has hosted Chinese Premier Xi Jinping for a state visit to Mexico and visited China twice. His government negotiated and signed the Trans-Pacific Partnership (TPP)³² trade agreement with other Asia Pacific countries and prioritized economic integration efforts with the pro-trade Pacific Alliance countries of Chile, Colombia, and Peru.³³ Mexico is investing in Central American energy integration projects, most notably in Guatemala, and supporting the "northern triangle" (Guatemala, El Salvador, and Honduras) governments' "Alliance for Prosperity" proposal to promote development in that subregion.³⁴

²⁹ "Mexican Anti-Corruption Debate Heats Up," *Latin News Daily*, March 18, 2016.

³⁰ Alexandra Alper, "Mexico President, Finance Minister Cleared in Ethics Probe," Reuters, August 21, 2015.

³¹ Elisabeth Malkin and Raphael Minder, "A Former Mexican Governor Is Arrested, but Not by His Own Country," *New York Times*, January 21, 2016. The Mexican government reportedly assisted Humberto Moreira in gaining release from prison; he returned to Mexico in February 2016. José María Irujo, "Misión: salvar en Madrid a Humberto Moreira," *El País*, February 22, 2016.

³² See CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by (name redacted) .

³³ CRS Report R43748, *The Pacific Alliance: A Trade Integration Initiative in Latin America*, by (name redacted) .

³⁴ CRS Report R43702, *Unaccompanied Children from Central America: Foreign Policy Considerations*, coordinated by (name redacted)

Economic and Social Conditions

Over the last 25 years, Mexico has transitioned from a closed, state-led economy to an open market economy.³⁵ The transition began in the late 1980s, and it accelerated after Mexico entered into the North American Free Trade Agreement (NAFTA) with the United States and Canada in 1994. Since NAFTA, Mexico has increasingly become an export-oriented economy, with the value of exports equaling more than 30% of Mexico's gross domestic product (GDP), up from 10% of GDP 20 years ago. Mexico remains a major U.S. crude oil supplier, but its top exports to the United States include automobiles and auto parts, television receivers, and other manufactured goods. States in central Mexico (Querétaro, Aguascalientes, and Guanajuato) with automotive and aerospace production hubs experienced rapid economic growth rates of 7% or more in 2014, as compared to the country's overall growth rate of 2.1%.³⁶ Mexico has entered into free trade agreements (FTAs) with at least 47 countries.

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 2015 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 States. When the U.S. economy is expanding, the Mexican economy tends to grow as well. However, when the U.S. economy stagnates or contracts, the Mexican economy also tends to contract, often to a greater degree. In 2009, for example, GDP growth in the United States fell by 2.5% and Mexico's GDP contracted by 6.5%.

Many economists praised the sound fiscal policies of the past two PAN administrations but faulted the administrations for failing to address some of the structural issues that have constrained the country's growth potential. With prudent economic policies, the Mexican economy recovered from the 2009 crisis, with growth rates averaging 4.4% from 2010 to 2012. Despite that recovery, economists criticized the PAN's failure to address Mexico's low tax base and overreliance on declining oil revenues, weak education system, and lack of competition in some sectors.

Will Reforms Improve Economic Conditions?

Over the past 30 years, Mexico has recorded a somewhat low average economic growth rate of 2.6%. Some factors—such as plentiful natural resources, a young labor force, and proximity to markets in the United States—are being counted on to help Mexico's economy grow faster in the future. Those factors should be bolstered by implementation of some of the reforms described in **Table 1**. However, continued insecurity and corruption, a weak regulatory framework, and a substandard education system may hinder Mexico's future industrial competitiveness. Corruption reportedly costs Mexico as much as \$53 billion a year (5% of GDP).³⁷ A lack of transparency in government spending and procurement has caused waste³⁸ that has likely discouraged investment.

Another factor affecting the economy is the price of oil. Low oil prices and the depreciation of the peso have dampened Mexico's economic prospects. Oil revenues make up almost one-third of the

³⁵ CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by (name redacted).

³⁶ Shannon K. O'Neill, "Mexico's Economic Divide," June 30, 2015.

³⁷ Mexican Institute for Competitiveness (IMCO), *Índice de Competitividad Internacional 2015. La Corrupción en México: Transamos y no Avanzamos*, November 2015.

³⁸ CIDAC, *El Ajuste Presupuestal: un Síntoma de los Vicios del Gasto Público*, February 23, 2016.

country's budget. The Mexican government put mitigation strategies in place for 2015 and adopted an austere 2016 budget, but it recently had to cut spending by an additional \$7 billion (0.7% of GDP). The finance ministry is reportedly preparing to transfer capital and/or lower the tax burden of Pemex (the state oil company), which recorded record losses in 2015 and—like many state oil companies in Latin America—has struggled to pay its dollar-denominated debts.³⁹ Although private investors are still interested in Mexico's oil and gas industry, particularly its deepwater fields in the Gulf of Mexico, the aforementioned energy reforms took effect at an inauspicious time (see "Energy" section).

In addition to bringing in more investment, a key goal of the reforms that were enacted in 2013-2014 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. Most of those workers are in the informal sector. Although 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.⁴⁰ To address that discrepancy, the financial reform aimed to increase access to credit for SMEs and the fiscal reform sought to incentivize SMEs' 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.⁴¹ Economists maintain that reducing informality is crucial for addressing income inequality and poverty, while at the same time expanding Mexico's low tax base.

Many analysts predict that Mexico will have to combine efforts to implement its economic reforms with other actions in order to boost growth. Should the government successfully attract investment and overcome opposition to the implementation of reform from teachers' unions and other entrenched interest groups, many analysts estimate that the reforms could add more than one percentage point to annual GDP growth. A 2015 OECD report suggests that Mexico will need to enact complementary reforms to address issues such as corruption, weak administrative governance, and lack of judicial enforcement to achieve its economic growth potential.⁴²

Combating Poverty and Inequality

Mexico has long had relatively high poverty rates for its level of economic development (45.5% in 2012 and 46% in 2014),⁴³ 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 20 years since the Zapatistas (*Ejército Zapatista de Liberación Nacional*), a leftist revolutionary group based in Chiapas, launched an uprising for indigenous rights in 1994.⁴⁴ The same could be said about neighboring Guerrero as well. A bill to establish

³⁹ Eric Martin, "Mexico Finance Ministry Preparing Pemex Support, Official Says," *Bloomberg*, March 8, 2016.

⁴⁰ McKinsey Global Institute, *A Tale of Two Mexicos: Growth and Prosperity in a Two-Speed Economy*, March 2014.

⁴¹ "Mexico: Peña Nieto Wants 30 Million Mexicans to Join the Formal Economy," *Latin News Daily Briefing*, September 9, 2014.

⁴² OECD, *OECD Economic Surveys, Mexico*, January 2015, pp. 4-5.

⁴³ 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 declined 0.6 percentage points from 2010 to 2012 as the country recovered from the effects of the 2008-2009 global financial crisis and U.S. recession.

⁴⁴ Tania L. Montalvo, "A 20 Años del EZLN, Indígenas Siguen en la Pobreza," *Animal Politico*, January 2, 2014.

special economic zones to promote development in those states, as well as in Oaxaca, has been approved by Mexico's Chamber of Deputies and is under consideration in its Senate.

Mexico also experiences high income inequality. According to the *2014 Global Wealth Report* published by Credit Suisse, 64% of Mexico's wealth is concentrated in 10% of the population. Mexico is among the 25 most unequal countries in the world included in the *Standardized World Income Inequality Database*. According to a 2015 report by Oxfam Mexico, this inequality is due in part to the country's regressive tax system, oligopolies that have been permitted to dominate particular industries, wage policies that have kept the minimum wage too low, and a lack of targeting in some social programs.⁴⁵

Upon taking office, the Peña Nieto Administration expanded access to federal pensions, started a national anti-hunger program (that benefits 7 million people), and increased funding for the country's conditional cash transfer program.⁴⁶ Peña Nieto renamed that program *Prospera* (Prosperity) and redesigned it to encourage its beneficiaries to engage in productive projects. Despite recent budget austerity, funding for these programs has been largely protected, but some have been criticized for a lack of efficacy. For example, the anti-hunger program has been criticized for insufficient targeting and for its dependence on the willingness of state and local governments to collaborate.⁴⁷

U.S. Relations and Issues for Congress

U.S.-Mexican relations are strong, but there has been periodic friction in the bilateral relationship. President Obama and Vice President Biden initially embraced President Peña Nieto's desire to bolster economic ties and focus on issues beyond security, including education, energy, and border trade facilitation. Those issues have figured prominently during several of their visits to Mexico, including Vice President Biden's participation in the third High-Level Economic Dialogue held between the two governments in February 2016. Although some analysts assert that the Senate's handling of the Obama Administration's nominee to be Ambassador to Mexico "undermines U.S. interests in Mexico," Mexico's Ambassador to the United States has recently characterized bilateral relations as "excellent."⁴⁸

President Peña Nieto initially preferred to focus on the U.S.-Mexican economic relationship as opposed to security cooperation; however, by 2014 it had become apparent that his economic agenda could not be successful without addressing Mexico's rule-of-law challenges. Since then, the Peña Nieto government has renewed Mexico's commitment to the Mérida Initiative, approved more than 100 bilateral projects worth more than \$600 million, and agreed to extradite some high-level drug traffickers to the United States. Some observers predict that bilateral security cooperation may advance further during the remaining years of the Peña Nieto government than was originally predicted.⁴⁹ The Peña Nieto government has already been working with U.S. officials to prevent Central American migrants from crossing Mexican territory.

⁴⁵ Gerardo Esquivel Hernandez, *Concentration of Economic and Political Power*, Oxfam Mexico, 2015.

⁴⁶ *Prospera* is Mexico's main antipoverty program. It provides cash transfers to families in poverty that demonstrate that they regularly attend medical appointments and can certify that their children attend school.

⁴⁷ CIDAC, op. cit.; Tania L. Montalvo, "Cruzada Contra el Hambre, Sometida a la Buena Voluntad de los Gobernadores," *Animal Político*, March 7, 2016.

⁴⁸ Lisa Troshinsky, "Despite Election-Year Bashing, Envoy Says U.S.-Mexico Ties 'Excellent'," *Washington Diplomat*, March 1, 2016.

⁴⁹ Azam Ahmed, "El Chapo Case Draws Mexico Closer to U.S.," *New York Times*, January 11, 2016.

Security and U.S. Assistance Through the Mérida Initiative⁵⁰

U.S.-Mexican cooperation to improve security and the rule of law in Mexico has increased significantly as a result of the development and implementation of the Mérida Initiative, a bilateral partnership developed by the Bush and Calderón governments. As part of the Mérida Initiative's emphasis on *shared responsibility*, the U.S. government pledged to address domestic drug demand and the illicit trafficking of firearms and bulk currency to Mexico. The Mexican government pledged to tackle crime and corruption. Both governments have struggled to fulfill some of those commitments.⁵¹

Between FY2008 and FY2015, Congress appropriated almost \$2.5 billion for Mérida Initiative programs in Mexico. (See **Table 2** for recent Mérida Initiative aid figures and **Table 3** for overall assistance figures). More than \$1.5 billion worth of training, equipment, and technical assistance had been provided to Mexico as of December 2015. Mexico, for its part, has invested some \$84 billion of its own resources on national security and public safety, including roughly \$15.4 billion in 2016.⁵²

Figure 3. Pillars of the Mérida Initiative



Source: CRS graphics.

Whereas U.S. assistance 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 strategy now focuses more on institution building than on technology transfers and broadens the scope of bilateral efforts to

⁵⁰ CRS Report R41349, *U.S.-Mexican Security Cooperation: The Mérida Initiative and Beyond*, by (name redacted) and (name redacted).

⁵¹ See, for example, Government Accountability Office (GAO), *U.S. Efforts to Combat Firearms Trafficking to Mexico Have Improved, but Some Collaboration Challenges Remain*, GAO 16-223, January 11, 2016.

⁵² Government of Mexico, "Mexico's Fight for Security: Strategy and Main Achievements," June 2011; Marciel Reyes Tepach, *El Presupuesto Público Federal para la Función Seguridad Pública, 2012-2013 and 2013-2014*, Cámara de Diputados, March and December 2013; U.S. Department of State, *International Narcotics Control Strategy Report (INCSR)*, March 2015 and March 2016.

include economic development and community-based social programs. It also includes increased funding at the subnational level for Mexican states and municipalities.

For most of 2013, delays in implementation occurred largely due to the fact that the Peña Nieto government was still honing its security strategy and determining the amount and type of U.S. assistance it needed. Nevertheless, Mexican law enforcement agencies continued intelligence sharing and coordination with their U.S. counterparts, capturing top drug-trafficking leaders, including “El Chapo” Guzmán. The U.S. and Mexican governments eventually agreed to focus on justice sector reform, money laundering, police and corrections professionalization at the federal and state levels, border security (both north and south), and piloting approaches to address root causes of violence. After initial delays, more than \$600 million in new projects have been approved since Peña Nieto took office. The U.S. and Mexican governments held the third Security Cooperation Group meeting during the Peña Nieto government in Mexico City in October 2015 to oversee the Mérida Initiative and broader security cooperation efforts. Issues such as how to combat drug trafficking—including opium poppy production—were addressed.⁵³

The 114th Congress has held hearings⁵⁴ examining how the Mérida Initiative and related Department of Defense (DOD) assistance have been used, including the extent to which this assistance has prioritized heroin interdiction and strengthening immigration enforcement in Mexico. Congressional consultation would be needed should the State Department look to reprogram some of the funding in the pipeline for Mérida or seek new funding to align with new priorities that may emerge. Congress also may seek to reexamine how the Mérida Initiative could be leveraged to encourage Mexican officials to take increasing steps to root out official corruption.

The Consolidated Appropriations Act, 2016 (P.L. 114-113), provided at least \$147.5 million for Mexico, including \$139 million in accounts that have funded the Mérida Initiative (International Narcotics Control and Law Enforcement [INCLE] and Economic Support Fund [ESF]). The final amount destined for the Mérida Initiative is as yet unclear. The act did not condition Mérida Initiative funding on human rights reporting requirements.

President Obama’s FY2017 budget request includes \$129 million for the Mérida Initiative. According to the State Department’s *Congressional Budget Justification for Foreign Operations*, INCLE funds requested would support initiatives under all four pillars of the initiative, with a priority on training and equipping federal and state criminal justice sector institutions. ESF funds for the Mérida Initiative would support justice-sector reform, human rights programs, and community-level prevention efforts.

⁵³ U.S. Embassy in Mexico City, “Third Meeting of the U.S.-Mexico Security Cooperation Group- Joint Statement,” October 16, 2015.

⁵⁴ See, for example, U.S. Congress, Senate Caucus on International Narcotics Control, *Drug Trafficking Across the Southwest Border and Oversight of U.S. Counterdrug Assistance to Mexico*, 114th Cong., 1st sess., November 17, 2015.

Table 2. FY2012–FY2017 Mérida Funding for Mexico

(\$ in millions)

Account	FY2012	FY2013	FY2014	FY2015	FY2016 Request	FY2016 (est.)	FY2017 Request
ESF	33.3	32.1	35.0 ^a	33.6 ^b	39.0	39.0	49.0
INCLE	248.5	195.1	148.1	110.0	80.0	100.0	80.0
Total	281.8	227.2	194.2	143.6	119.0	139.0	\$129.0

Sources: U.S. Department of State, *Congressional Budget Justification for Foreign Operations FY2013–FY2017*.

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

a. \$11.8 million of ESF was designated for Global Climate Change (GCC) programs in Mexico.

b. \$12.5 million was designated for GCC programs.

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.

Table 3. U.S. Assistance to Mexico by Account, FY2012–FY2017

(\$ millions)

Account	FY2012	FY2013	FY2014	FY2015	FY2016 (req.)	FY2016 (est.)	FY2017 request
INCLE	248.5	195.1	148.1	110.0	80.0	100.0	80.0
ESF	33.3	32.1	46.8	46.1	39.0	39.0	49.0
FMF	7.0	6.6	6.6	4.7	7.0	7.0	3.0
IMET	1.0	1.2	1.4	1.5	1.5	1.5	1.5
NADR	5.4	3.8	3.9	2.9	0.0	Not Available	Not Available
GHCS	1.0	0.0	0.0	0.0	0.0	0.0	0.0
DA	33.4	26.2	0.0	0.0	12.5	0.0	0.0
TOTAL	329.6	265.0	206.8	165.2	140.0	147.5	133.5

Sources: U.S. Department of State, *Congressional Budget Justification for Foreign Operations FY2010–FY2017*.

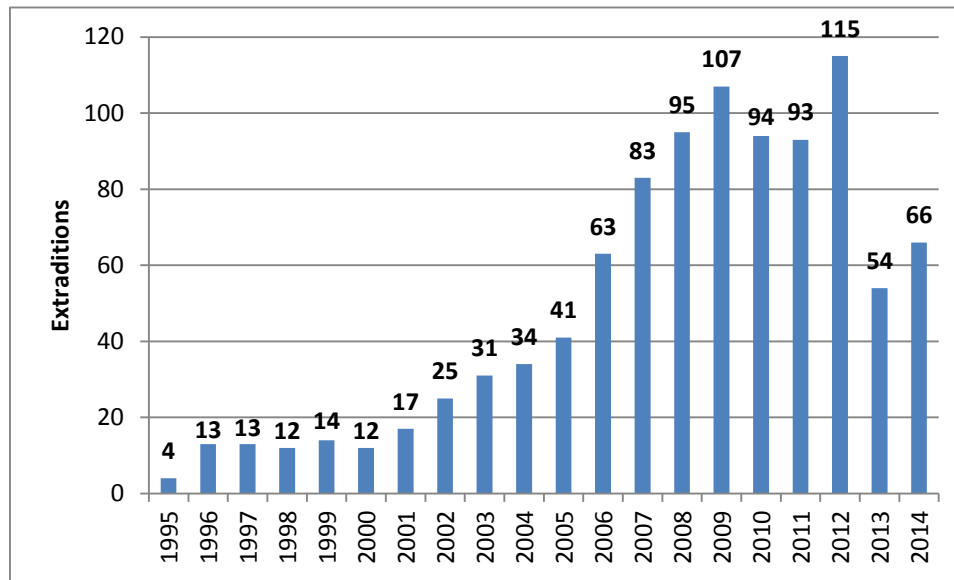
Notes: GHCS = Global Health and Child Survival; DA = Development Assistance; ESF = Economic Support Fund; FMF = Foreign Military Financing; IMET = International Military Education and Training; INCLE = International Narcotics Control and Law Enforcement; NADR = Nonproliferation, Anti-terrorism, Demining, and Related Programs.

Extraditions

Some U.S. policymakers are hoping that “El Chapo” Guzmán’s July 2015 prison escape has changed the Peña Nieto government’s position that he and other kingpins be tried in Mexico even though few, if any, transnational criminal organization leaders have been successfully tried in recent years. Under the Calderón government, Mexico extradited more than 100 individuals per year to the United States, on average. When President Peña Nieto took office, extraditions fell to 54 in 2013 and 66 in 2014 (see **Figure 4**, below).

Although Mexico resisted pressure to extradite Guzmán to the United States (where he faces multiple charges) following his capture in 2014, the Mexican government has demonstrated more willingness to approve U.S. extradition requests in the past year. Mexico extradited 13 top drug traffickers to the United States in September 2015 and quickly initiated procedures to extradite Guzmán following his January 8, 2016, recapture. The process could reportedly take from several months to a year or more, however, due to injunctions and other delaying tactics that Guzmán's defense attorneys are using.⁵⁵ Congress may increase pressure on the Department of Justice and the State Department to push harder for extraditions in the future due to concerns about the security of Mexico's prisons and the general corruption in its criminal justice system.

Figure 4. Extraditions from Mexico to the United States



Sources: U.S. Department of Justice and U.S. Department of State.

Human Rights⁵⁶

The U.S. Congress has expressed ongoing concerns about human rights conditions in Mexico. Congress has continued to monitor 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),⁵⁷ and annual Department of Defense (DOD) appropriations⁵⁸ for Mexican security forces⁵⁹ to receive

⁵⁵ Christopher Woody, “Here’s Why El Chapo Guzmán may not Face Trial in the U.S. Anytime Soon,” *Business Insider*, February 13, 2016.

⁵⁶ See CRS Report R43001, *Supporting Criminal Justice System Reform in Mexico: The U.S. Role*, by (name redacted), and CRS In Focus IF10160, *The Rule of Law in Mexico and the Mérida Initiative*, by (name redacted).

⁵⁷ The codified Leahy law (22 U.S.C. 2378d) prohibits the furnishing of assistance authorized by the Foreign Assistance Act (FAA) of 1961 and the Arms Export Control Act, as amended, to any foreign security force unit that is credibly believed to have committed a gross violation of human rights.

⁵⁸ A provision in the annual Department of Defense (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. Current prohibitions cover DOD equipment assistance programs as well.

⁵⁹ 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, at <http://www.dtic.mil>.)

U.S. support.⁶⁰ DOD reportedly suspended assistance to a brigade based in Tlatlaya, Mexico, due to concerns about the brigade's potential involvement in the extrajudicial killings previously described.⁶¹ From FY2008 to FY2015, Congress made conditional 15% of U.S. assistance to the Mexican military and police until the State Department sent a report to appropriators verifying that Mexico was taking steps to comply with certain human rights standards. In FY2014, Mexico lost funding due to human rights concerns.

U.S. assistance to Mexico has increasingly focused on supporting the Mexican government's efforts to reform its corrupt and inefficient judicial system and to improve human rights conditions in the country. 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. USAID has some \$35 million in human rights programming planned to run through 2018, including training for self-protection and digital security for journalists, support for legislative initiatives, and a national campaign against torture.

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. 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, some criticized the government's lack of concrete efforts to promote and protect human rights.⁶²

More recently, the Peña Nieto government has been faulted for failing to advance police reforms and for not investigating and punishing serious human rights abuses committed by government officials. Observers are particularly concerned about cases of torture, extrajudicial killings, and enforced disappearances. Some urge 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 anticorruption programs) under pillar two of the Mérida Initiative.⁶⁴ Many others recommend working with nongovernmental organizations to strengthen communities' abilities to exert oversight over the police and to report human rights abuses under pillar four of the Mérida Initiative.

In an October 19, 2015, briefing, a spokesperson said that although the State Department was "unable to confirm and report to Congress that Mexico fully met all of the [human rights] criteria in the Fiscal Year 2014 appropriation legislation (P.L. 113-76) ... [it continues] to strongly support Mexico's ongoing efforts to reform its law enforcement and justice systems." As a result of the State Department's decision not to submit a report for Mexico, some \$5 million in INCLE assistance was reprogrammed by the State Department to Peru. Mexico lost close to \$500,000 in Foreign Military Financing (FMF) as well.

⁶⁰ CRS Report R43361, "*Leahy Law*" Human Rights Provisions and Security Assistance: Issue Overview, coordinated by (name redacted) .

⁶¹ Michael Evans, *US: Mexico Mass Graves Raise "Alarming Questions" About Government "Complicity" in September 2014 Cartel Killings*, NSA Archive Electronic Briefing Book No. 515, May 2015.

⁶² José Miguel Vivanco, *Mexico: President's Disappointing First Year on Human Rights*, Human Rights Watch, November 26, 2013.

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

The U.S. Congress may choose to augment Mérida Initiative funding for human rights programs, such as ongoing training programs for military and police, or to create new efforts to support human rights organizations. Human rights conditions in Mexico, as well as compliance with conditions on Mérida assistance included in the FY2015 Consolidated and Further Continuing Appropriations Act (P.L. 113-235),⁶⁵ likely will continue to be oversight issues. The FY2016 Consolidated Appropriations Act (P.L. 114-113) attached similar human rights reporting requirements to FMF for Mexico but not to Mérida Initiative aid accounts.

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.

Economic and Trade Relations⁶⁶

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 nontariff 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 effect of NAFTA on the United States and Mexico has been small but positive, though there have been adjustment costs to some sectors in 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. Nevertheless, U.S.-Mexico trade has increased rapidly since NAFTA, with U.S. exports to Mexico increasing 313% and imports from Mexico increasing 444% since its entry into force.

The United States is Mexico's leading partner in merchandise trade, and Mexico is the United States' third-largest trade partner after China and Canada. Mexico ranks second among U.S. export markets after Canada and is the third-leading supplier of U.S. imports. Total trade (exports plus imports) amounted to \$531.1 billion in 2015.

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 \$107.8 billion in 2014. Mexican FDI in the United States is much lower than U.S. investment in Mexico but has also increased in recent years. In 2014, the stock of Mexican FDI in the United States totaled \$17.7 billion.

⁶⁵ In the FY2015 Consolidated and Further Continuing Appropriations Act (P.L. 113-235), conditions apply to 15% of certain U.S. assistance to the Mexican military and police. These 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 by military personnel 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 investigating and prosecuting those responsible for such crimes.

⁶⁶ This section draws from CRS Report R42965, *The North American Free Trade Agreement (NAFTA)*, by (name redacted) and (name redacted), and CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by (name redacted).

The Obama Administration has engaged in bilateral efforts, both with Canada and with 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.-Mexican High-Level Economic Dialogue, launched on September 20, 2013, is a bilateral initiative to advance economic and commercial priorities through annual meetings at the cabinet level. These meetings also include leaders from the public and private sectors. After the January 2015 High-Level Economic Dialogue meeting, both governments pledged their support for a \$3 billion capital increase over five years for the North American Development Bank (NADB). Any capital increase for the NADB would have to be approved by both the U.S. and Mexican Congresses to take effect.

Other bilateral efforts with Mexico include the High-Level Regulatory Cooperation Council 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, which is part of pillar three of the Mérida Initiative (see “Modernizing the U.S.-Mexican Border”).

Mexico, Canada, and the United States participated in negotiations for the Trans-Pacific Partnership agreement (TPP), a proposed free trade agreement with nine Asia-Pacific countries that was signed on February 4, 2016.⁶⁷ The agreement must be ratified by at least six countries to take effect. If the TPP is approved by the U.S. Congress, it may alter some of the rules that have governed North American trade since NAFTA entered into force in 1994. Changes are particularly likely in areas such as intellectual property rights protection, investment, services, rules of origin, government procurement, worker rights, and the environment.

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.⁶⁸ Others include better coordinating and financing border infrastructure projects; harmonizing regulations; establishing one common customs approval process for the

North American Development Bank

The North American Development Bank (NADB), capitalized by the United States and Mexico, was created in 1994 as part of negotiations for the North American Free Trade Agreement (NAFTA). It finances environmental infrastructure projects in the U.S.-Mexican border region. As of September 30, 2015, the NADB's outstanding portfolio was \$1.3 billion. Its sister organization, the Border Environment Cooperation Commission (BECC), certifies potential NADB projects. In recent years, the NADB and BECC have approved projects providing renewable energy to residents in the border region and promoted new private-sector investments in the United States and Mexico.

In FY2016, the Administration requested authorization for U.S. participation in a capital increase, up to \$1.5 billion for the NADB. Paired with matching funds from the Mexican government, this request would support a doubling of the NADB's capital over five years, from \$3 billion to \$6 billion. Although the FY2016 omnibus measure provided some appropriations (\$10 million) toward this first contribution for the NADB capital increase, the authorization language was not included.

For FY2017, the administration is requesting appropriations for the second contribution (\$45 million) to the capital increase and has resubmitted the authorization request.

⁶⁷ CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP): An Overview*, by (name redacted) and (name redacted).

⁶⁸ See Robert A. Pastor, *The North American Idea, A Vision of a Continental Future*, Oxford University Press, 2011.

United States, Mexico, and Canada; building human capital; and fostering technology transfers and innovation.⁶⁹

Despite positive advances on many aspects of bilateral and trilateral (with Canada) economic relations, trade disputes continue to cause tension in some areas. Over the years, the United States and Mexico have had several trade disputes under NAFTA or the World Trade Organization. Trade disputes involving trucking, sugar, tomatoes, and, most recently, meat labeling requirements have been largely resolved.⁷⁰

Congress is likely to continue monitoring how the United States, Mexico, and Canada might work bilaterally and trilaterally to advance North American industrial competitiveness, TPP and NAFTA, and trade disputes. In the trade realm, potential questions for congressional consideration include how U.S.-Mexican economic ties can be deepened, how efficiency on the border can be improved without compromising security, and how NAFTA can be built upon.

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 both the largest source of migrants in the United States and a continental neighbor means that U.S. migration policies—including stepped-up border and interior enforcement—have primarily affected Mexicans.⁷¹ 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,⁷² while also legalizing about 3 million people. According to the Pew Research Center, the number of unauthorized immigrants in the United States grew from about 3.2 million in 1986 to about 11.3 million in 2009, an amount that remained roughly level through 2014.⁷³ At a broad level, congressional debate on immigration has 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. There is also debate as to which component Congress should work on first and whether reform in one area should be contingent on reform in another. During the 113th Congress,

⁶⁹ Council on Foreign Relations, *North America: Time for a New Focus*, Independent Task Force Report no. 71, October 2014, at <http://www.cfr.org/north-america/north-america/p33536>.

⁷⁰ CRS Report RS22955, *Country-of-Origin Labeling for Foods and the WTO Trade Dispute on Meat Labeling*, by (name redacted).

⁷¹ 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 also CRS Report R42560, *Mexican Migration to the United States: Policy and Trends*, coordinated by (name redacted).

⁷² For a fuller discussion, see CRS Report R42138, *Border Security: Immigration Enforcement Between Ports of Entry*, by (name redacted).

⁷³ CRS Report R42988, *U.S. Immigration Policy: Chart Book of Key Trends*, by (name redacted) and (name redacted).

the Senate passed CIR legislation (S. 744), and House committees reported a series of discrete bills, some of which focused on border security.⁷⁴

Since the mid-2000s, successive Mexican governments have supported efforts to enact CIR 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.⁷⁵ Due to a number of factors, more Mexicans are leaving the United States than are arriving, and unauthorized arrivals are at 40-year lows.⁷⁶ The proportion of apprehensions of Mexicans with respect to all apprehensions at the southwestern border is also decreasing.⁷⁷

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 has stepped up Mexico's efforts 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;⁷⁸ some 3 million of the estimated 5.2 million unauthorized immigrants who could qualify for the programs Obama announced are Mexican.⁷⁹ Those programs are on hold pending legal challenges.

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 addressed in bilateral migration talks.⁸⁰

⁷⁴ CRS Report R43320, *Immigration Legislation and Issues in the 113th Congress*, coordinated by (name redacted)

⁷⁵ Testimony of Alan D. Bersin, Assistant Secretary for International Affairs, Department of Homeland Security, in U.S. Congress, House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, *Border Security Challenges in Latin America and the Caribbean*, 114th Cong., 2nd sess., March 22, 2016.

⁷⁶ Researchers attribute this decline to the U.S. recession, stepped-up U.S. border security and interior enforcement, demographic changes in Mexico, abuses of migrants by smugglers and transnational criminal organizations, and expanding job opportunities in Mexico, among other factors. Ana Gonzalez-Barrera, *More Mexicans Leaving Than Coming to the U.S.*, Pew Research Center, November 19, 2015.

⁷⁷ U.S. Border Patrol, "Total Illegal Alien Apprehensions By Fiscal Year: FY2000-FY2015," at <https://www.cbp.gov/sites/default/files/documents/BP%20Total%20Apps%2C%20Mexico%2C%20OTM%20FY2000-FY2015.pdf>.

⁷⁸ See CRS Report R43798, *The Obama Administration's November 2014 Immigration Initiatives: Questions and Answers*, by (name redacted).

⁷⁹ Ellen Patten and Jeffrey S. Passel, *How Obama's Executive Action will Impact Immigrants, by Birth Country*, Pew Research Center, November 21, 2014.

⁸⁰ See, for example, Adam Isacson, Maureen Meyer, and Ashley Davis, *Border Security and Migration: A Report from Arizona*, WOLA, December 5, 2013, at http://www.wola.org/publications/border_security_and_migration.

Dealing with Central American Migration, Including Unaccompanied Children⁸¹

The Obama Administration and Congress have supported the Mexican government's efforts to secure its porous southern borders and enhance its immigration enforcement. Mexico's Southern Border Plan, announced in July 2014, includes increased security at 12 ports of entry into Guatemala and Belize and increased immigration enforcement along known migration routes, including northbound trains and bus stations. Mexico's National Institute of Migration (INM) has created more than 100 mobile highway checkpoints and increased the number of cases it refers to prosecutors for crimes against migrants.

The State Department has allocated \$130 million of Mérida Initiative assistance for border security in Mexico, at least half of which will support southern border efforts. This figure includes \$70 million in FY2013-FY2015 appropriations and \$60 million in FY2010-FY2012 appropriations that have been reprogrammed.⁸² As of February 2016, the State Department had delivered \$20 million of assistance for Mexico's southern border region, mostly in the form of nonintrusive inspection equipment, mobile kiosks, canine teams, and training in immigration enforcement. Additional funding will support a biometrics system, a secure communications network for Mexican agencies in the southern border region, and other new projects. The U.S. government likely will provide additional support for these efforts using a portion of the roughly \$139 million in Mérida aid appropriated in FY2016; an additional \$129 million in Mérida aid is requested in FY2017.

The Mexican government's implementation of the U.S.-backed Southern Border Plan has coincided with a sharp increase in apprehensions and deportations of Central Americans. In FY2015, Mexico apprehended nearly 167,000 migrants from the northern triangle countries, up from 102,000 in FY2014. During the same time period, U.S. apprehensions of northern triangle nationals fell from 239,000 to fewer than 135,000. These figures suggest that migration outflows from Central America remained fairly stable throughout 2015 but fewer migrants reached the U.S. border as a result of increased apprehensions by Mexican authorities.⁸³

Human rights advocates have voiced concerns regarding Mexico's Southern Border Plan, asserting that it has led migrants to take more dangerous routes that expose them to new vulnerabilities while hindering their access to shelters and humanitarian assistance.⁸⁴ In 2015, complaints of human rights violations by Mexican migration agents to the National Human Rights Commission increased 53% as compared to the previous year. Migrants' rights proponents also maintain that Mexico has not sufficiently increased its capacity to screen apprehended migrants for protection concerns, potentially denying refugees from northern triangle countries access to asylum.⁸⁵

⁸¹ CRS In Focus IF10215, *Mexico's Recent Immigration Enforcement Efforts*, by (name redacted), and CRS Report R43702, *Unaccompanied Children from Central America: Foreign Policy Considerations*, coordinated by (name redacted).

⁸² Electronic correspondence with State Department official, February 26, 2016.

⁸³ Muzaffar Chishti and Faye Hipsman, "Increased Central American Migration to the United States may Prove an Enduring Phenomenon," *Migration Policy Institute*, February 18, 2016.

⁸⁴ Adam Isacson, Maureen Meyer, and Hannah Smith, *Increased Enforcement at Mexico's Southern Border: An Update on Security, Migration, and U.S. Assistance*, Washington Office on Latin America, November 2015.

⁸⁵ Ibid.

Modernizing the U.S.-Mexican Border

The Department of Homeland Security's 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. Although enforcement efforts at the southwest border tend to focus on unauthorized 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 dramatically increased, but large investments in port infrastructure and staffing of customs officials along the border have not, until recently, been made. Since the terrorist attacks of September 11, 2001, there have been significant delays and unpredictable wait times at the U.S.-Mexican border.⁸⁶ Concerns about those delays have increased in recent years because the majority of U.S.-Mexican trade must pass through a port of entry along the southwest border, often more than once, as manufacturing processes between the two countries have become integrated.

Figure 5. U.S.-Mexican Border



Source: U.S. Department of State data. CRS graphics.

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 (see **Figure 5**).⁸⁷ A Twenty-First Century Border Bilateral Executive Steering Committee (ESC) has met annually since then to develop binational 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 preclearance, improving cross-border commerce and ties, and bolstering information sharing among law enforcement agencies. In 2015, the two governments opened the first railway bridge in 100 years at Brownsville-Matamoros and launched two cargo pre-inspection test

⁸⁶ Christopher E. Wilson, Erik Lee, et al., *The State of the Border Report: a Comprehensive Analysis of the U.S.-Mexico Border*, Woodrow Wilson Center, COLEF, and North American Center for Transborder Studies, May 2013.

⁸⁷ 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.

locations at Laredo International Airport and near Mesa de Otay, where U.S. and Mexican customs officials are working together.⁸⁸ The third trial program at San Jeronimo, Chihuahua, Mexico, will focus on the pre-inspection of finished electronics shipped into the United States and is planned for inauguration in mid-2016. A new Mexican law allowing U.S. customs personnel to be armed in Mexico has hastened these bilateral efforts.

Congress authorized a pilot program in the FY2013 Consolidated and Further Continuing Appropriations Act (P.L. 113-6, Div. D) that permitted CBP to enter into public-private partnerships with localities and permitted the private sector to fund improvements in border facilities and port services.⁸⁹ Enacted on January 17, 2014, the FY2014 Consolidated Appropriations Act (P.L. 113-76, Div. F) extended the pilot program and allowed CBP to accept donations to expand port operations.

As Congress carries out its oversight function on U.S.-Mexican migration and border issues, questions that may arise include the following: 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.-Mexican border?

Energy⁹⁰

The future of oil and natural gas production in Mexico is important for Mexico's economic growth, as well as for the U.S. energy sector. As previously mentioned, Mexico's state oil company, Petroleos Mexicanos (Pemex), has struggled to counter declining oil production and reserves and been forced to postpone investments due to fiscal challenges that have been exacerbated by low oil prices.⁹¹ Mexico has significantly increased natural gas imports from the United States due to its inability to meet rising demand for gas. Still, shortages have hindered the country's economic performance and caused electricity costs to rise.

U.S. policymakers are closely monitoring the implementation of the historic December 2013 constitutional reforms and August 2014 implementing laws that opened Mexico's energy sector to private investment. Hailed by many analysts as the most significant economic reform undertaken by Mexico since its entrance into NAFTA in 1994, the energy reforms could boost Mexico's long-term oil production potential to 3.7 million barrels per day (b/d) by 2040, according to the U.S. Energy Information Administration (EIA). That estimate is 75% higher than the EIA's 2013 forecast for Mexico's long-term oil production, which was issued prior to the enactment of the reforms.⁹² Mexico produced 2.2 million b/d in 2015.

⁸⁸ The White House, Office of the Vice President, "Joint Statement: 2016 U.S.-Mexico HLED," February 25, 2016.

⁸⁹ See §560 of the FY2013 Consolidated and Further Continuing Appropriations Act (P.L. 113-6, Div. D). The FY2013 pilot program permitted five such partnerships in Dallas, TX; Houston, TX; and Miami, FL and land points of entry in El Paso, TX, and Laredo/McAllen, TX.

⁹⁰ For background on Mexico's energy reforms, see CRS Report R43313, *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*, coordinated by (name redacted). This section does not focus on U.S.-Mexico cooperation in renewable energy. For information on that sector, see BECC-NADB, http://www.becc.org/uploads/files/oct_2015_renewable_energy_rev_eng.pdf. The NADB has provided more than \$1 billion in loans for wind, solar, and biogas programs in the U.S.-Mexico border region.

⁹¹ Duncan Wood, "What's Next for Pemex?" *Forbes*, February 9, 2016.

⁹² Energy Information Administration, "Energy Reform Could Increase Mexico's Long-Term Oil Production by 75%," (continued...)

The reforms also opened Mexico's electricity sector to private generators.⁹³ U.S. companies are increasingly moving in to Mexico's electricity market; some participated in Mexico's first electricity auction, held in March 2016.⁹⁴ If power sector 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 they made it subject to competition with private investors. The reforms created different types of contracts for private companies interested in investing in Mexico, including production sharing and licensing; allowed companies to book reserves for accounting purposes; established a sovereign wealth fund; and created new regulatory agencies. In August 2014, Mexico's Secretariat of Energy announced the results of "Round Zero," which defines the exploratory and production areas that Pemex can retain. Pemex is partnering with private companies to exploit some of those areas.

In December 2014, the Mexican government announced the terms of part one of Round 1, under which shallow-water offshore exploratory blocks available for public bidding would be auctioned. On July 15, 2015, Mexico's Energy Ministry announced the bidding results for all of those blocks. The results were deemed disappointing by some energy analysts, as 2 of the 14 blocks available were awarded to successful bidders.⁹⁵ The government then altered the terms offered, including the amount of investment required by companies and its share of the profits, to attract more interest. Subsequent bidding rounds held in 2015 proved more successful and earned praise for the transparent way in which they were conducted.⁹⁶

The opening of Mexico's oil and natural gas sector could expand U.S.-Mexican energy trade and provide opportunities for U.S. companies involved in the hydrocarbons sector, as well as infrastructure and other oil field services. Industry analysts maintain that the reforms are generally well designed but that the way they are implemented will determine their impact.

The reforms' success may also depend on trends in global oil prices. Should oil prices remain at current levels, shale resources and other unconventional fields may not be feasible to develop. With global oil prices much lower than they were in 2014, many companies have cut their capital investment budgets. Some of Mexico's oil and natural gas fields are highly sought after by industry, but the decline in global prices likely will affect the prices companies are willing to pay for access to those resources.

In terms of energy trade, enactment of P.L. 114-113 allows U.S. crude oil to be marketed and sold to international buyers by repealing Section 103 of the Energy Policy and Conservation Act of 1975 (EPCA; P.L. 94-163).⁹⁷ By removing the crude oil export restrictions, U.S. oil exports to Mexico can occur more efficiently and shippers/buyers will not need to arrange an oil-for-oil exchange, nor will they have to apply with the Department of Commerce for approval. Instead of

(...continued)

press release, August 25, 2014.

⁹³ Lisa Viscidi and Paul Shortell, *A Brighter Future for Mexico: The Promise and Challenge of Electricity Reform*, Inter-American Dialogue, June 2014, at http://archive.thedialogue.org/uploads/IAD9603_MexicanEnergyFINAL.pdf.

⁹⁴ Harry L. Webber, "Cash-hungry U.S. Power Producers Lured by Mexico Energy Reforms," *Dallas Morning News*, March 23, 2016.

⁹⁵ "First Phase of Mexico's 'Round 1' Oil Concessions Disappoints," *Latin News Daily*, July 16, 2015.

⁹⁶ "Mexican Oilfield Auction Thrives Despite Low Prices," *Financial Times*, December 15, 2015.

⁹⁷ CRS Report R44403, *Crude Oil Exports and Related Provisions in P.L. 114-113: In Brief*, by (name redacted), (name redacted), and (name redacted).

having to arrange an exchange transaction with counterparty, exporters from the United States can simply sell and export crude oil to Mexico without restriction.

Opportunities may exist for greater U.S.-Mexican energy cooperation in the hydrocarbons sector. The first leases have already been awarded in the Gulf of Mexico under the U.S.-Mexico Transboundary Agreement that was approved by Congress in December 2013 (H.J.Res. 59/P.L. 113-67).⁹⁸ 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 expanded educational exchanges and training opportunities for Mexicans working in the petroleum sector. The United States and Mexico are also working together to provide natural gas resources to help reduce energy costs in Central America and connect Mexico to the Central American electricity grid. Analysts have urged the United States to offer more technical assistance to Mexico—particularly in deepwater and shale exploration—and to ensure that new cross-border pipelines are approved expeditiously.⁹⁹

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 deepwater drilling; and the fairness of the terms Mexico offers to private companies interested in investing in its hydrocarbons industry. Policymakers are also likely to follow the effects of security conditions in Mexico, on the one hand, and global energy prices, on the other, both of which affect the attractiveness of Mexico's energy sector.

Water Sharing¹⁰⁰

Management of shared water resources is significant for U.S. and Mexican interests in the border region, and it is a contributing factor to the level of cooperation or tension between the two countries. Multiple rivers cross or form the U.S.-Mexican 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.-Mexican 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).¹⁰¹ The 1944 Treaty reconfigured an existing entity into the International Boundary and Water Commission (IBWC),¹⁰² 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.

⁹⁸ "BOEM Awards Leases in US-Mexico Transboundary Area to ExxonMobil," *Oil & Gas Journal*, May 30, 2014.

⁹⁹ David L. Goldwyn et al., *Mexico's Energy Reform: Ready to Launch*, Atlantic Council, August 2014.

¹⁰⁰ This section draws from CRS Report R43312, *U.S.-Mexico Water Sharing: Background and Recent Developments*, by (name redacted), (name redacted), and (name redacted).

¹⁰¹ 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., February 3, 1944, 59 Stat. 1219 (hereinafter Treaty).

¹⁰² The International Boundary and Water Commission (IBWC) is an international body consisting of a United States section and a Mexican section, which are overseen by the State Department and Mexico's Foreign Ministry, respectively.

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.¹⁰³ The 1944 Treaty requires that the United States provide Mexico with 1.5 million acre-feet (AF) of Colorado River water annually,¹⁰⁴ roughly 10% of the river's average annual flow. Binational disputes have arisen over water quantity, quality, and conservation.

Recent U.S.-Mexican 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. For the Colorado River basin, issues before Congress may be largely related to oversight of the impacts and implementation of Minute 319.

Rio Grande

Whereas Colorado River Basin relations have been increasingly collaborative, the delivery of water from Mexico to the United States in the Rio Grande basin at times 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.¹⁰⁵ 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 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. Mexican interests maintained that "extraordinary drought" conditions hampered deliveries in the early part of the 2010-2015 cycle but that deliveries subsequently picked up. According to the IBWC, Mexico made up its water debt from the 2010-2015 cycle, which ended in October 2015, by January 2016.¹⁰⁶ Despite that development, Texas interests remain concerned about the predictability of future deliveries (i.e., they would like Mexico to maintain deliveries at the target annual delivery rate).

¹⁰³ When the 1944 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.

¹⁰⁴ Treaty, Article 10.

¹⁰⁵ 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. Article 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)).

¹⁰⁶ IBWC U.S. Section, "Mexico Pays Rio Grande Water Debt in Full," February 24, 2016.

Since 2013, several Members of Congress have written letters to the Administration and enacted provisions in legislation related to the Rio Grande water dispute.¹⁰⁷ Most recently, the FY2016 Consolidated Appropriations Act (P.L. 114-113) required a report within 45 days of the bill's enactment "detailing efforts taken to establish mechanisms to improve transparency of data on, and predictability of, the water deliveries from Mexico to the United States to meet annual water apportionments to the Rio Grande, and actions taken to minimize or eliminate the water deficits owed to the United States." That report was submitted in February 2016.

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 such as those employed to manage the previous water debt would be necessary or effective.

Educational Exchanges and Research

Educational and research exchanges between the United States and Mexico have been occurring for decades, but they have risen to the top of the bilateral agenda relatively recently as part of the High-Level Economic Dialogue. President Obama has established a program called "100,000 Strong in the Americas" to boost the number of U.S. students studying in Latin America (including Mexico) to 100,000 (and vice versa) by 2020. Similarly, President Peña Nieto has implemented *Proyecto 100,000*, which aims to have 100,000 Mexican students and researchers studying in the United States by 2018. Together, the U.S. and Mexican governments launched a Bilateral Forum on Higher Education, Innovation, and Research (FOBESII) in May 2013. FOBESII has led to the establishment of more than 80 partnerships between U.S. and Mexican universities.¹⁰⁸

Country and bilateral efforts have begun to bear fruit. In 2015, the number of U.S. students studying in Mexico increased by 19% and the number of Mexicans studying in the U.S. increased by 15%, as compared to 2014. While these figures are impressive, many of the Mexican students coming to the United States have done so for short-term language-acquisition programs. Mexico ranks 10th on the Institute of International Education's list of countries with students studying in the United States. China is number one, and Brazil is number six. A lack of scholarship funding and a lack of English language skills have been barriers for many Mexican students.

Outlook

President Peña Nieto began his Administration focused on enacting economic reforms. By 2014, it had become clear that his economic agenda could not be successful without addressing the rule-of-law challenges that have long held back the country. Moreover, Peña Nieto's mishandling of several high-profile cases of human rights abuses allegedly involving security officials increased pressure on him and his government to strengthen the country's criminal justice institutions and demonstrate the political will necessary to address crime and corruption.

¹⁰⁷ For example, Letter from Reps. Cuellar, Gallego, Hinojosa, O'Rourke, and Vela, to the Honorable U.S. President Barack Obama, April 11, 2013.

¹⁰⁸ The White House, Office of the Vice President, "Joint Statement: 2016 U.S.-Mexico HLED," February 25, 2016.

U.S.-Mexican relations are strong but constantly evolving. Advances have occurred in some areas of the bilateral relationship, such as trade and energy cooperation, and setbacks have occurred in others. The 114th Congress is likely to closely monitor conditions in Mexico and U.S.-Mexican cooperation on key issues as part of its legislative and oversight capacities.

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