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Summary

Congress has maintained significant interest in neighboring Mexico, an ally and top trade partner. U.S.-Mexican relations have been strengthened through cooperative management of the 2,000-mile shared border, the North American Free Trade Agreement (NAFTA), and security cooperation under the Mérida Initiative. They have been tested over the past year, however, by President Donald J. Trump's proposed shifts in U.S. immigration and trade policies.

President Enrique Peña Nieto of the centrist Institutional Revolutionary Party (PRI) assumed the Mexican presidency for a six-year term on December 1, 2012. During his first year in office, Peña Nieto shepherded economic, political, justice-sector, education, and energy reforms through the Mexican Congress. He has since struggled to implement those structural reforms and to address human rights abuses, corruption, and impunity. Violence in Mexico is reaching historic levels, hurting Peña Nieto's already historically low approval ratings (19% in May 2017) and diminishing the PRI's chances in the 2018 elections. Andrés Manuel López Obrador, the leftist populist leader of the National Regeneration Movement (Morena) party, may win the presidential race unless the opposition is able to unite in a coalition.

U.S. Policy

U.S.-Mexican relations remain relatively strong, but periodic tension has emerged since President Trump took office in January 2017. In recent years, both countries have prioritized bolstering economic ties, modernizing the border, and promoting educational exchanges. Bilateral energy cooperation also has accelerated. Security cooperation has continued under the Mérida Initiative, a security partnership for which Congress has provided Mexico more than \$2.8 billion since FY2008. With U.S. support, Mexico has stepped up efforts to stop migrants attempting to transit its territory and to eradicate opium poppy and interdict heroin and fentanyl.

In January 2017, President Trump's assertion that Mexico should pay for a border wall that it has consistently opposed led President Peña Nieto to cancel a White House visit. Although Mexico continues to oppose the border wall, its leaders have pledged to continue bilateral security and migration cooperation and to support U.S. efforts to promote economic growth and security in Central America. The Trump Administration's FY2018 budget request includes \$85 million for the Mérida Initiative (a 38.8% decline from the FY2017 estimate). Mexican leaders are cautiously optimistic that President Trump has decided to renegotiate rather than withdraw from NAFTA. The two leaders met for the first time on July 7, 2017, to discuss NAFTA and how to confront regional challenges, including drug trafficking, illegal migration, and the crisis in Venezuela.

Legislative Action

The 115th Congress has considered legislation affecting Mexico. Congress provided \$139 million in FY2017 for the Mérida Initiative in the FY2017 Consolidated Appropriations Act (P.L. 115-31), \$10 million above the budget request; it is now considering the FY2018 budget request. The Senate passed a resolution (S.Res. 83) calling for U.S. support for Mexico's efforts to combat illicit fentanyl. Bipartisan resolutions that are similar, but not identical, have been introduced in both chambers reiterating the importance of bilateral cooperation (e.g., H.Res. 336 and S.Res. 102). Other proposed legislation relates to combating firearms trafficking to Mexico (H.R. 1692).

Further Reading

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

CRS In Focus IF10400, *Heroin Production in Mexico and U.S. Policy*, by (name redacted) and (name redacted).

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

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

CRS In Focus IF10047, *North American Free Trade Agreement (NAFTA)*, by (name redacted) .

CRS Report R44875, *The North American Free Trade Agreement (NAFTA) and U.S. Agriculture*, by (name redacted)

CRS Report R44747, *Cross-Border Energy Trade in North America: Present and Potential*, by (name redacted) et al.

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

Contents

Introduction	1
Political Situation	1
Elections: Results from 2017 and Prospects for 2018.....	3
Leadership in the Peña Nieto Administration	4
Structural Reforms: Enacted but Implemented Unevenly.....	5
Security and Human Rights: Setbacks and Challenges.....	6
Foreign Policy	10
Economic and Social Conditions.....	11
Factors Affecting Economic Growth.....	11
Combating Poverty and Inequality.....	12
U.S. Relations and Issues for Congress.....	13
Security, the Mérida Initiative, and U.S. Assistance	14
State Department Assistance	14
Department of Defense Assistance	17
Extraditions	17
Human Rights.....	18
Economic and Trade Relations.....	19
Migration and Border Issues	21
Mexican-U.S. Immigration Issues	21
Dealing with Central American Migration, Including Unaccompanied Children	22
Modernizing the U.S.-Mexican Border.....	23
Energy	25
Water and Floodplain Issues	26
Rio Grande Water Management.....	27
Colorado River Cooperative Management	27
Border Floodplain Encroachment	28
Environment and Renewable Energy Policy.....	28
Educational Exchanges and Research	30
Outlook.....	30

Figures

Figure 1. Mexico at a Glance	2
Figure 2. Gubernatorial Election Results: 2016 and 2017.....	4
Figure 3. Estimated Organized Crime-Related Violence in Mexico	8
Figure 4. Extraditions from Mexico to the United States: 1995-2016	18
Figure 5. U.S.-Mexican Border	24

Tables

Table 1. Key Reforms Enacted During 2013-2014	5
Table 2. Estimated Mérida Initiative Funding: FY2007-FY2018 (Request).....	16

Contacts

Author Contact Information 31

Introduction

Congress has maintained interest in Mexico, a top trade partner and energy supplier with which the United States shares a border and strong cultural, familial, and historical ties. Economically, the United States and Mexico are heavily interdependent, and the U.S. economy could benefit if Mexico is able to regain currency stability, fully implement the reforms it has enacted, and attract greater investment.¹ Similarly, security conditions in Mexico affect U.S. national security, particularly along the U.S.-Mexican border.² Observers are concerned about resurgent violence in Mexico, which is reaching historic levels (see **Figure 3**).³

President Enrique Peña Nieto, former governor of the state of Mexico, is in the fifth year of his six-year term. He cannot be reelected. During 2013, President Peña Nieto shepherded significant structural reforms through a fragmented Mexican Congress by forming an agreement among his Institutional Revolutionary Party (PRI), the conservative National Action Party (PAN), and the leftist Party of the Democratic Revolution (PRD) (see **Table 1**). Some of those reforms have advanced, including energy reforms that enabled Mexico to auction off deepwater oil fields in December 2016. However, many other reforms have stalled.⁴

President Peña Nieto's approval rating has remained extremely low since 2014 (19% in May 2017), as his government has struggled to solve high-profile human rights cases, become embroiled in scandals, and faced security challenges. The PRI won two of three gubernatorial contests held in June 2017, but its narrow margin of victory over the candidate from Andrés Manuel López Obrador's Morena party in the state of Mexico (a historic PRI stronghold) revealed the party's potential vulnerabilities heading into the July 2018 presidential contest. Several former governors from the PRI have been indicted or are facing criminal charges as the federal government is under scrutiny for allegedly using software purchased to combat criminals to spy on journalists, opposition politicians, and international experts.⁵ Discontent with the major parties could lead voters to elect populist López Obrador, unless the other opposition parties are able to form an alliance.⁶

This report provides an overview of political and economic conditions in Mexico, followed by assessments of select issues of congressional interest in Mexico: security and foreign aid, extraditions, human rights, trade, migration, energy, education, environment, 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 1990s, presidential power has become more

¹ The Mexican peso lost more than 15% of its value against the dollar between October 2015 and late 2016 due to low oil prices, rising debt, low interest rates in the United States, and uncertainty about U.S. trade and immigration policies. It has since regained some of that value as the Mexican economy has fared better than expected in 2017. See CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by (name redacted).

² See, for example, Eric Farnsworth, "America's Very Own Mexican Standoff," *National Interest*, October 20, 2016.

³ Robbie Whelan, "11,155 Dead: Mexico's Violent Drug War is Roaring Back," *Wall Street Journal*, July 5, 2017.

⁴ Gustavo A. Flores-Macías, "Mexico's Stalled Reforms," *Journal of Democracy*, vol. 27, no. 2, April 2016. Hereinafter, "Flores-Macías, 2016."

⁵ "Mexican Opposition Officials Targeted by Government Spying: Report," Reuters, June 29, 2017; Azam Ahmed, "Spyware Sold to Mexican Government Targeted International Officials," *New York Times*, July 10, 2017.

⁶ "Three Way Contest for the Presidency," *Latin News Mexico & NAFTA* report, July 2017.

balanced with that of Mexico’s Congress and Supreme Court. Partially as a result of these new constraints on executive power, the country’s first two presidents from the PAN—Vicente Fox (2000-2006) and Felipe Calderón (2006-2012)—struggled to enact some of the reforms designed to address Mexico’s economic and security challenges.

Figure I. Mexico at a Glance



Mexico at a Glance

Size: 14th largest country in the world, slightly smaller than three times the size of Texas
Population: 123.2 million (July 2016 estimate)
Ethnic Groups: Mestizo (Amerindian-Spanish) 62%, Amerindian 28%, other 10% (mostly European)
Gross Domestic Product (GDP): \$2.3 trillion (12th largest in the world)
GDP per Capita: \$18,900 in 2016 (upper middle income)
Population below Poverty Line: 46% (2014 estimate from Mexican government)

Key Exports: manufactured goods, oil and oil products, silver, fruits, vegetables, coffee, cotton
Mexico was the 13th largest oil producer in 2016
Major Export Market: United States (destination for 80% of exports in 2016)
Key Imports: metalworking machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircraft, and aircraft parts
Import Partners: U.S. 46.4%, China 18%, Japan 4.6% (2016)

Sources: Graphic created by the Congressional Research Service (CRS). Map files from Map Resources. Trade data from Global Trade Atlas. Data are from CIA, *The World Fact Book*, updated July 2017.

The Calderón government pursued an aggressive anticrime strategy and increased security cooperation with the United States. Mexico arrested and extradited many drug kingpins, but some 60,000 people died due to organized crime-related violence. Mexico’s security challenges

overshadowed some of the government's achievements, including its economic stewardship during the global financial crisis, health care expansion, and efforts on climate change.

Twelve years after losing the presidency for the first time in 71 years, the PRI, led by Peña Nieto, won the 2012 presidential election by a relatively narrow margin (6.6% of the vote) over López Obrador of the leftist Party of the Democratic Revolution (PRD). López Obrador subsequently left the PRD and founded his own "Morena" party. 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 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. The PRI/PVEM's control over the legislature and governorships has declined as a result of elections held since 2015.

Elections: Results from 2017 and Prospects for 2018

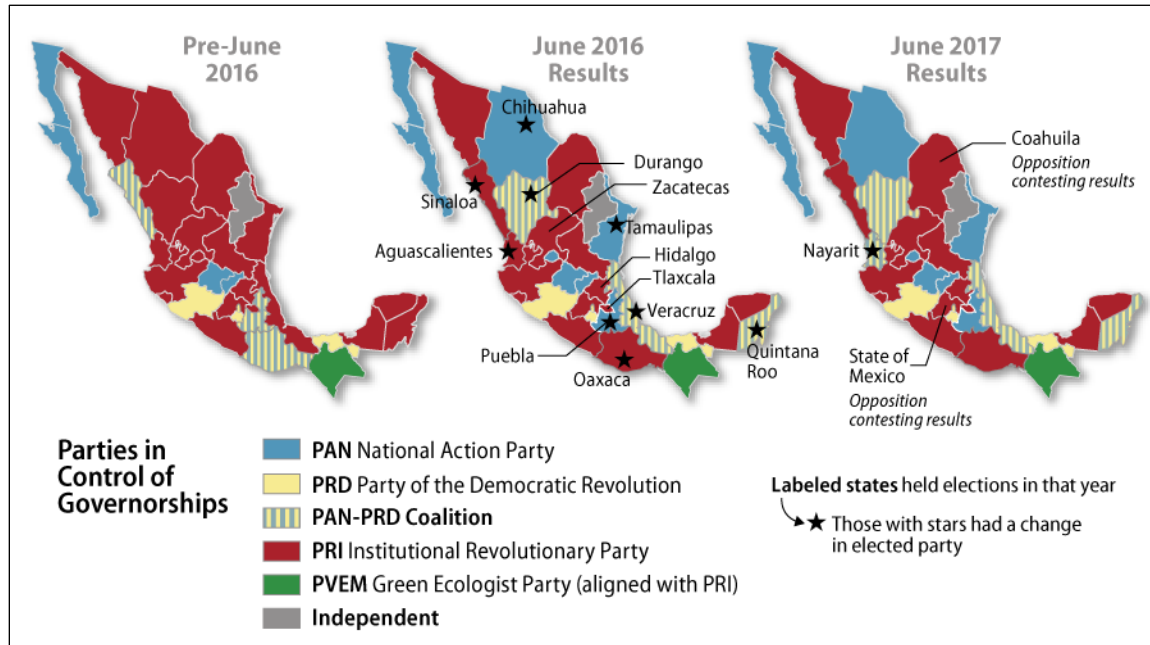
Mexico held midterm legislative elections in June 2015. President Peña Nieto's governing coalition remains the largest bloc in Congress but was unable to obtain a majority in either chamber. The PRI/PVEM coalition now controls 240 of the 500 seats in Mexico's Chamber of Deputies (48%) and 61 of 128 seats in the Mexico's Senate (48%).

In June 2016, 12 of Mexico's 32 states held elections. Eight states saw the incumbent party lose; in four—Veracruz, Quintana Roo, Chihuahua, and Durango—the PRI lost for the first time in the party's history. The PAN emerged stronger from the gubernatorial elections, winning 11 governorships, either by itself or in a coalition with the PRD. The PRI/PVEM maintained control of 16 governorships (see **Figure 2**).

The last major elections before the 2018 presidential contest took place on June 4, 2017. Those elections included gubernatorial contests in the state of Mexico (President Peña Nieto's home state), Nayarit, and Coahuila. The PRI won in Coahuila and in the state of Mexico, but the opposition is contesting the results. The PRI's relatively narrow margin of victory over the Morena candidate (less than 3%) in the state of Mexico may not bode well for the party's prospects in the 2018 elections.

Although serious campaigning for the 2018 presidential election is not permitted to begin until 2018, there are several potential presidential candidates for the major parties at this time, including the following:

- **PRI:** Secretary of the Interior Miguel Ángel Osorio Chong, Finance Minister Jose Antonio Meade, and/or Eruviel Ávila Villegas (outgoing governor of the state of Mexico)
- **PAN:** Margarita Zavala (wife of former President Calderón), Ricardo Anaya (head of the party and a former legislator), and Rafael Moreno Valle (governor of Puebla)
- **PRD:** Miguel Ángel Mancera, mayor of Mexico City; Juan Zepeda, former mayor in state of Mexico
- **Morena:** Andrés Manuel López Obrador, a populist former Mexico City mayor who ran unsuccessfully for the PRD in 2006 and 2012, has already launched his candidacy for the Morena party.

Figure 2. Gubernatorial Election Results: 2016 and 2017

Source: Mexico's National Electoral Institute.

Leadership in the Peña Nieto Administration

Upon taking office, President Peña Nieto restored much of the power that the interior ministry (SEGOB) had before the PAN took office. With congressional approval, he placed the secretariat of public security (including the federal police) 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.⁷ SEGOB has gotten larger and more powerful under Peña Nieto, whereas the attorney general's office has remained comparatively weak and underfunded.

Key Cabinet positions generally have been filled by the president's close confidants. Interior Minister Miguel Ángel Osorio Chong served as governor of Hidalgo (which borders the state of Mexico) when Peña Nieto governed and is arguably the most powerful Cabinet member. In September 2016, Luis Videgaray Caso, the finance minister who organized the visit of then-Republican candidate for U.S. President Trump, resigned after the visit was widely criticized in Mexico.⁸ In January 2017, Videgaray became Mexico's foreign minister. José Antonio Meade, the former foreign minister and secretary of social development, has replaced Videgaray at the finance ministry. He served as finance minister under former President Calderón.

In October 2016, President Peña Nieto replaced his attorney general, Arely Gómez—a former senator who had cooperated with U.S. officials but failed to resolve high-profile cases—with

⁷ 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.

⁸ Luis Videgaray Caso also faced criticism over a 2014 conflict-of-interest scandal, Mexico's lackluster economic growth rates, and the country's growing debt levels. See, for example, Dolia Estevez, "Minister who Masterminded Mexican President Peña Nieto's Meeting with Trump Ousted," *Forbes*, September 7, 2016.

Raúl Cervantes Andrade, a PRI senator and former judge who is well respected but lacks experience as a criminal prosecutor.⁹ In response to popular concern about Cervantes’s ties to the PRI, President Peña Nieto introduced a constitutional reform to establish that Cervantes will not remain in his position as the attorney general’s office transitions to a prosecutor general’s office.¹⁰ Instead, the senate will select the prosecutor general, as he or she is to lead an entity meant to have greater independence from the presidency than the attorney general’s office has had.¹¹ Gómez now heads the public function secretariat that forms part of the new national anticorruption system.

Structural Reforms: Enacted but Implemented Unevenly

In 2013, President Peña Nieto shepherded structural reforms through a fragmented legislature by forming a “Pact for Mexico” agreement among the PRI, PAN, and PRD. The reforms addressed a range of issues, including education, telecommunications, access to finance, and politics (see **Table 1**). Constitutional reforms on energy opened Mexico’s oil, natural gas, and power sectors to private investment for the first time in more than 70 years but led to the collapse of the pact in late 2014, due to the PRD’s opposition to the energy reform.

Table 1. Key Reforms Enacted During 2013-2014

- **Energy Reform:** creates several different types of contracts, including production-sharing and licensing; allows companies to post reserves for accounting purposes; gives Petroleos Mexicanos (Pemex) budget autonomy; establishes a sovereign wealth fund; creates new regulators; and removes the union from the Pemex board.
- **Antitrust Reform:** creates an autonomous Federal Economic Competition Commission to regulate all sectors except telecommunications and energy 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.

⁹ “Seeking to Bolster PGR and SFP Amid Persistent Corruption,” *Latin American Regional Report: Mexico & NAFTA*, November 2016.

¹⁰ Anthony Harrup and Juan Montes, “Mexican President Enrique Peña Nieto Yields to Criticism Over Independent Prosecutor,” *Wall Street Journal*, November 29, 2016.

¹¹ Ximena Suarez-Enriquez, “Three Key Points about Mexico’s New Fiscalía,” Washington Office on Latin America (WOLA), October 25, 2016.

- **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).

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

Analysts praised President Peña Nieto and his advisers for focusing their attention and political capital on shepherding structural reforms through the Mexican Congress but predicted that the reforms' impact would depend on how well they were implemented. Mexico's ranking in the World Economic Forum's Global Competitiveness Index for 2016 improved, in part due to some of the reforms. Nevertheless, although some of Peña Nieto's reforms have begun to be implemented, many—particularly the education reform—have stalled.

Some of Mexico's reforms have faced problems due to issues in implementation; others have faced opposition from entrenched interest groups; and still others have been hindered by unfavorable global conditions. Fiscal reforms have been inhibited by challenges in tax collection, and a court challenge now threatens the telecommunications reform.¹² Teachers unions, particularly in Mexico's southern states, have vehemently opposed education reforms requiring teacher evaluations and accountability measures. In June 2016, 8 people died and more than 100 were injured after unions and police clashed in Oaxaca.

Low oil prices initially dampened interest in Mexico's hydrocarbons sector and have caused *Petróleos Mexicanos* (Pemex)—the state oil company, which once contributed 30% of government revenue—to record huge losses that led to government bailouts.¹³ That, in turn, has prompted steep budget cuts, which have hindered the government's ability to invest in infrastructure and social programs. Despite low prices, domestic and international oil companies have thus far committed to invest some \$49 billion in 48 onshore and offshore blocks.¹⁴

Security and Human Rights: Setbacks and Challenges

Upon taking office, President Peña Nieto made violence reduction one of his main priorities. However, five years later, rising insecurity has increased concerns about his security policies (see **Figure 3**). Early in his term, President Peña Nieto launched a national crime prevention plan, established a unified code of criminal procedures to cover the federal and judiciaries, and increased funding for the country's transition to an accusatorial justice system.¹⁵ In June 2016, Mexico transitioned from an inquisitorial, closed-door process based on written arguments presented to a judge to an adversarial system with oral arguments and the presumption of innocence. During its first year in operation, however, the system has manifested many of the

¹² Flores-Macías, 2016; "Mexico President Fetes Telecom Law as Top Court Weighs Slim Challenge," Reuters, June 26, 2017.

¹³ Jude Webber, "Mexico Bails Out Pemex, but Is It Enough?" *Financial Times*, April 13, 2016.

¹⁴ Adrian Duhalt, "Bid by Bid, Mexico Is Building a Private Oil and Gas Sector," *Houston Chronicle*, June 30, 2017.

¹⁵ Octavio Rodríguez Ferreira and David A. Shirk, *Criminal Procedure Code Reform in Mexico, 2008-2016: the Final Countdown*, Justice in Mexico, University of San Diego, October 2015.

same issues as the old system: only 15% of indictments occurred as a result of a police investigation; the rest were caught in the act of committing a crime (such as possessing arms or drugs).¹⁶

Criticism of Peña Nieto's security strategy has mounted since 2014. Many observers assert that he has maintained Calderón's reactive approach of deploying federal forces—including the military—to areas in which crime surges rather than proactively strengthening institutions to deter crime and violence.¹⁷ The Mexican Congress is debating legislation that would provide a legal framework for the military to have a permanent role in public security. High-value targeting of top criminal leaders has continued; at least 107 of 122 high-value targets identified by the government had been detained or killed during law enforcement operations as of June 2017.¹⁸ That figure includes Joaquín "El Chapo" Guzmán, who was recaptured in January 2016 after escaping from 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 homicides in Mexico rose slightly in 2015 and significantly in 2016 (see **Figure 3**, below).¹⁹ Violence has escalated even further thus far in 2017 (4,370 such killings recorded in the first quarter as compared to 2,538 for that period in 2016), reaching levels similar to, or even higher than, those recorded in 2011. Infighting among criminal groups has intensified since the rise of the Jalisco New Generation, or CJNG, cartel, a group that shot down a police helicopter in September 2016. The January 2017 extradition of "El Chapo" Guzmán has prompted succession battles within Sinaloa and emboldened the CJNG and other groups to challenge Sinaloa's dominance.

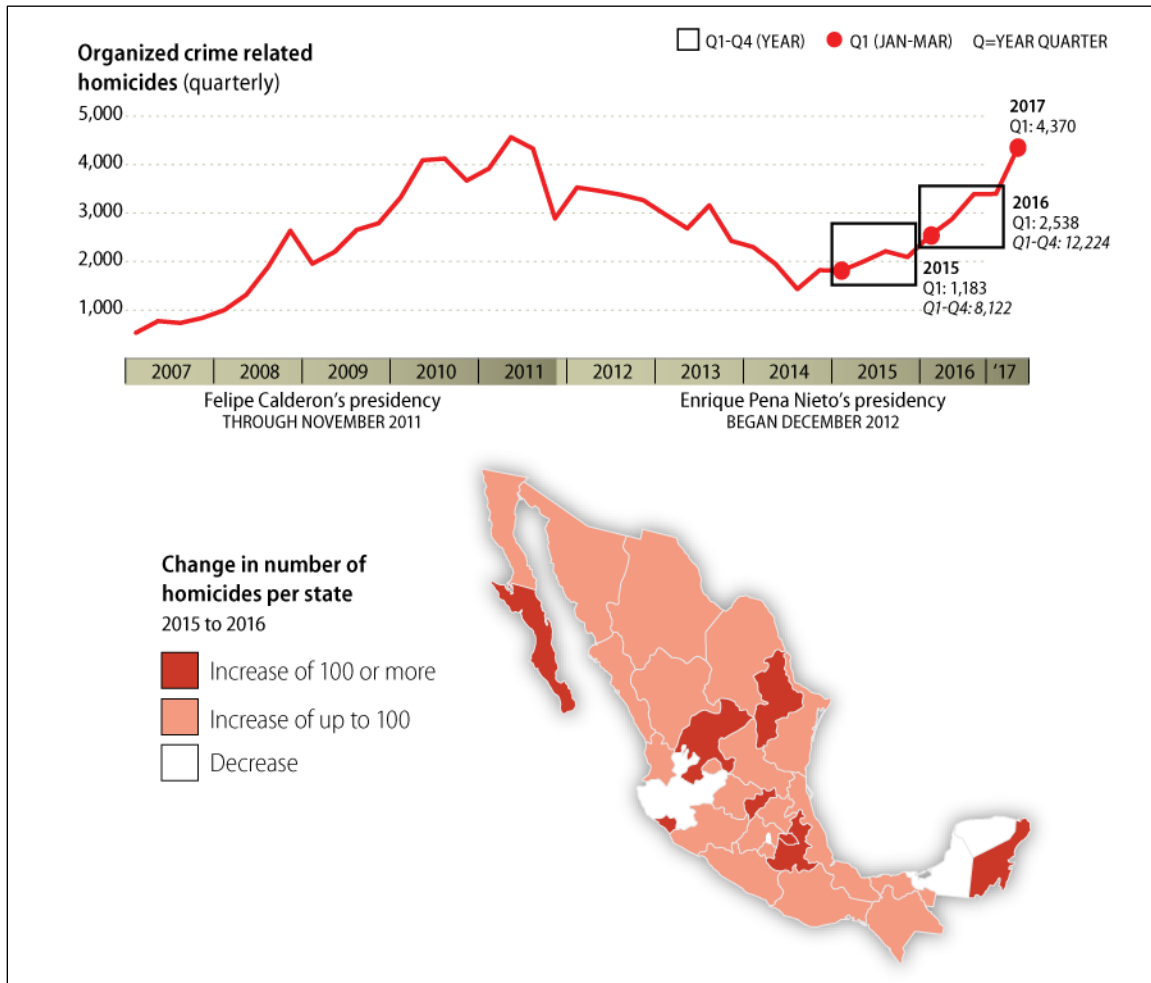
¹⁶ Arturo Angel, "Tras 8 años, la Policía no Cambia: Solo 15% de los detenidos cae por una Investigación," *Animal Político*, June 28, 2017.

¹⁷ Vanda Felbab-Brown, "Hooked: Mexico's Violence and U.S. Demand for Drugs," Brookings Institution, May 30, 2017.

¹⁸ Patrick Corcoran, "Mexico President Reprises Controversial Kingpin Strategy," *Insight Crime*, June 6, 2017.

¹⁹ Kimberly Heinle, Octavio Rodríguez Ferreira, and David A. Shirk, *Drug Violence in Mexico: Data and Analysis Through 2016*, Justice in Mexico Project, University of San Diego, March 2017.

Figure 3. Estimated Organized Crime-Related Violence in Mexico
(2007-2017)



Source: Lantoria Consultores, a Mexican security firm. Graphic prepared by CRS.

In addition, 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.²⁰ Incidents such as the forced abduction and killing of 43 students in Iguala, Guerrero, in September 2014 have galvanized protests against impunity in Mexico. On average, fewer than 20% of homicides have been successfully prosecuted, suggesting high levels of impunity.²¹

²⁰ Open Society Justice Initiative, *Undeniable Atrocities: Confronting Crimes against Humanity in Mexico*, June 2016.

²¹ Raúl Zepeda Lecuona and Paula Guadalupe Jiménez Rodríguez, “Impunidad Frente al Homicidio Doloso en México,” *Impunidad Cero*, December 2016.

Some 75% of journalists surveyed by Freedom House and others do not have faith in the mechanisms created to protect them.²⁶ That figure is likely even higher now that news outlets have reported that the Peña Nieto government has used spyware it purchased from Israel to monitor its critics, including journalists.²⁷ The government has acknowledged purchasing the spyware but denied using it for espionage.²⁸

In response to criticism of the aforementioned human rights incidents, President Peña Nieto proposed 10 actions to improve the rule of law in November 2014.²⁹ Proposals that have advanced include launching a national 911 emergency line, strengthening the national anticorruption system, and enacting a law against torture (in April 2017). A proposed law against enforced disappearances is pending. Additional policy changes, including police reforms, have been broadly debated in civil society and academia but have not been enacted.

While President Peña Nieto's proposals focus on confronting corruption at the municipal level, corruption is also a major problem at the state and federal level. Although President Peña Nieto and his wife, as well as former 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

Extrajudicial Killings, Torture, and Enforced Disappearances

For years, human rights groups and annual U.S. 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 witnesses to the killings by officials from the state of Mexico. The last three soldiers in custody for killing eight people on that day were released in May 2016.²³

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 protests in Mexico and globally. 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 worked with those experts to reinvestigate the case in 2015-2016 but denied their requests to interview soldiers who were in the area of the incident. The mandate of the experts expired in April 2016. In July 2016, the government formed a follow-up mechanism with the IACHR to help ensure that the experts' lines of investigation were followed up on by Mexico's Attorney General's Office, but many observers maintain that little progress had been made in resolving the case as of April 2017.²⁴ New revelations allege that the Mexican government used spyware against some of the IACHR experts.²⁵

²² See U.S. Department of State, *Country Report on Human Rights Practices for 2016: Mexico*, March 2017.

²³ Seven state policemen who allegedly tortured three witnesses to the crime remain under investigation. Michael Evans, *Tlatlaya Revealed: Archive Petition Cracks Open Investigative File on Mexican Army Massacre*, National Security Archive, March 6, 2016; E. Eduardo Castillo, "Court Absolves Last 3 Soldiers Charged in Tlatlaya 'Massacre,'" AP, May 14, 2016.

²⁴ Maureen Meyer and Hannah Smith, *One Year Since the Group of Experts Left Mexico: The Ayotzinapa Case is Still Unresolved and Disappearances Remain High*, Washington Office on Latin America (WOLA), April 26, 2017.

²⁵ Azam Ahmed, "Spyware Sold to Mexican Government Targeted International Officials," *New York Times*, July 10, 2017.

²⁶ Emir Olivares Alonso, "Periodistas Desconfían de Instituciones," *La Jornada*, June 27, 2017.

²⁷ Azam Ahmed and Nicole Perlroth, "Using Texts as a Lure, Government Spyware Targets Mexican Journalists and Their Families," *New York Times*, June 19, 2017.

²⁸ Azam Ahmed, "Mexican President Says Government Acquired Spyware but He Denies Misuse," *New York Times*, June 22, 2017.

²⁹ "Estos son los 10 Puntos que Anunció Peña Nieto en Respuesta al Caso Ayotzinapa," *Animal Político*, November 28, 2014.

contracts tarnished the government's image.³⁰ Eight former governors (six from the PRI) either have already been convicted or face criminal charges. Three of those governors are being extradited back to Mexico after having fled the country, and one remains at large.³¹

In July 2016, Mexico's Congress approved secondary legislation to fully implement the national anticorruption system that was created by a constitutional reform in April 2015. Although the final legislation was somewhat altered, it reflected several of the proposals that had been pushed by a broad spectrum of Mexican civil-society groups. The reforms gave the anticorruption system investigative and prosecutorial powers and a civilian board of directors; increased administrative and criminal penalties for corruption by public officials and private companies; and required three declarations (taxes, assets, and conflicts of interest) from public officials and contractors.³² Some analysts praised the reforms as a step forward for efforts aimed at combating official corruption, whereas others cast doubt on the likelihood that they would be implemented effectively.

Foreign Policy

President Peña Nieto has prioritized promoting trade and investment in Mexico as a core goal of his Administration's foreign policy. During his term, Mexico has begun to participate in U.N. peacekeeping efforts and to speak out in the Organization of American States on the deterioration of democracy in Venezuela, a departure for a country with a history of nonintervention. Peña Nieto has sought to create closer trade ties with Europe, Asia, and the rest of Latin America; these efforts could become more important should Mexican-U.S. trade decline.³³ He has hosted Chinese Premier Xi Jinping for a state visit to Mexico, visited China twice, and vowed to bolster ties.³⁴

The Peña Nieto government negotiated and signed the proposed Trans-Pacific Partnership (TPP) trade agreement with other Asia-Pacific countries (and the United States and Canada). Even after President Trump withdrew the United States from the TPP agreement, Mexico has continued talks with other signatories about how to move a similar agreement forward, possibly involving China. Mexico has prioritized economic integration efforts with the protrade Pacific Alliance countries of Chile, Colombia, and Peru and expanding markets for those governments.³⁵ Mexico may seek a free-trade agreement (FTA) with the United Kingdom. Relations with Canada have improved since Prime Minister Justin Trudeau removed a visa requirement for Mexicans visiting that country.³⁶

Mexico is investing in Central American energy integration projects and supporting the "northern triangle" (Guatemala, El Salvador, and Honduras) governments' "Alliance for Prosperity" proposal to promote development. The Mexican and U.S. governments cohosted a conference on growth and investment in security in Central America in June 2017.

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

³¹ Patrick J. McDonnell, "Mexico Seeks Extradition of yet Another Ex-governor Facing Criminal Charges," *Los Angeles Times*, June 5, 2017.

³² Viridiana Rios, "Mexico Wins: Anti-Corruption Reform Approved," *Forbes*, July 18, 2016.

³³ Economist Intelligence Unit (EIU), "Mexico Faces Difficult Outlook After Trump Win," November 9, 2016.

³⁴ Rafael Bernal, "Mexico Seeks Closer Engagement with China," *The Hill*, December 13, 2016.

³⁵ CRS Report R43748, *The Pacific Alliance: A Trade Integration Initiative in Latin America*, by (name redacted).

³⁶ Alexander Panetta, "Canada, Mexico Unite in Willingness to Talk NAFTA with Trump," *Toronto Star*, November 16, 2016.

Economic and Social Conditions³⁷

Over the last 25 years, Mexico has transitioned from a closed, state-led economy to an open market economy that has entered into free trade agreements with at least 47 countries. The transition began in the late 1980s and 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 38% of Mexico's gross domestic product (GDP) in 2016, up from 10% of GDP 20 years ago. Mexico remains a U.S. crude oil supplier, but its top exports to the United States are automobiles and auto parts, computer equipment, and other manufactured goods. One report estimates that 40% of the content of those exports contain U.S. value added content.³⁸

Despite attempts to diversify its economic ties and build its domestic economy, Mexico remains heavily dependent on the United States as an export market (roughly 80% of Mexico's exports in 2016 were U.S.-bound) and as a source of remittances, tourism revenues, and investment. Due to declines in oil prices and production, remittances have become Mexico's largest source of foreign exchange. Annual remittances increased by 8.7% in 2016 to a record-high \$27.0 billion. A weakened peso has helped the tourism industry and some export industries, but the uncertainty that has contributed to its decline also has weakened foreign direct investment (at a time when public investment has declined), consumer confidence, and growth prospects in Mexico.³⁹

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. However, when the U.S. economy stagnates or contracts, the Mexican economy also tends to contract, often to a greater degree. Sound macroeconomic policies and a strong banking system, backed by a flexible line of credit with the International Monetary Fund (IMF), have helped Mexico weather recent economic downturns, but the IMF has recommended additional steps to deal with potential external shocks.⁴⁰ Uncertainty about potential changes in U.S. trade policy by the Trump Administration has weakened growth forecasts for Mexico, although not as severely as originally predicted.⁴¹ After relatively modest growth of 1.6% in 2016, Mexico is predicted to grow by 2.0% in 2017.⁴²

Factors Affecting Economic Growth

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—have been counted on to help Mexico's economy grow faster in the future. Those factors could be bolstered by implementation of some of the reforms described in **Table 1**, assuming external conditions are favorable.

³⁷ This draws from CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by (name redacted).

³⁸ Robert Koopman, William Powers, and Zhi Wang, et al., *Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains*, National Bureau of Economic Research, Working Paper 16426, Cambridge, MA, September 2010, p. 8.

³⁹ EIU, *Country Report: Mexico*, Generated July 8, 2017.

⁴⁰ International Monetary Fund (IMF), *Country Report No. 16/361: Mexico: Financial System Stability Assessment*, November 22, 2016.

⁴¹ Anthony Harrup, "Economists Upgrade Mexico's Growth Forecast," *Wall Street Journal*, May 2, 2017.

⁴² EIU, *Country Report: Mexico*, Generated July 8, 2017.

At the same time, continued insecurity and corruption, a relatively weak regulatory framework, and a substandard education system may hinder Mexico's future industrial competitiveness. Corruption costs Mexico as much as \$53 billion a year (5% of GDP).⁴³ A lack of transparency in government spending and procurement has caused waste that has likely discouraged investment.⁴⁴ According to the World Economic Forum's Global Competitiveness Index for 2016, corruption, crime, and weak institutions are the most problematic barriers for doing business in Mexico.

Another factor affecting the economy is the price of oil. Because oil revenues make up almost one-third of the country's budget, low oil prices since 2014 have necessitated budget cutbacks. The Mexican government adopted an austere 2016 budget but had to make further cuts mid-year. In April 2016, the finance ministry transferred more than \$4 billion in capital to Pemex, which recorded record losses in 2015 and has struggled to pay its dollar-denominated debts.⁴⁵ The 2017 budget included spending cuts for all ministries, including the ministries of communication and transport, environment and natural resources, and education.⁴⁶

Many analysts predict that Mexico will have to combine efforts to implement its economic reforms with other actions to boost growth. A 2015 report by the Organisation for Economic Co-operation and Development (OECD) 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.⁴⁷ For example, should the new anticorruption system be effective, that system, combined with the reforms, could add more than one percentage point to annual GDP growth.⁴⁸

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), particularly in rural regions in southern Mexico and among indigenous populations.⁴⁹ Some assert that conditions in indigenous communities have not measurably improved since the Zapatistas launched an uprising for indigenous rights in 1994.⁵⁰ Traditionally, those employed in subsistence agriculture or small, informal businesses tend to be among the poorest citizens. Many households rely on remittances to pay for food, clothing, health care, and other basic necessities.

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

⁴³ Mexican Institute for Competitiveness (IMCO), *Índice de Competitividad Internacional 2015. La Corrupción en México: Transamos y no Avanzamos*, November 2015.

⁴⁴ CIDAC, *El Ajuste Presupuestal: un Síntoma de los Vicios del Gasto Público*, February 23, 2016.

⁴⁵ Elisabeth Malkin, "Can Oil Help Mexico Withstand Trump's Attacks on Trade? It's Hard to See How," *New York Times*, November 27, 2016.

⁴⁶ Dainzú Patiño, "Recorte para 2017 castigará a todas las dependencias," *El Financiero*, November 13, 2016.

⁴⁷ OECD, *OECD Economic Surveys, Mexico*, January 2015, pp. 4-5.

⁴⁸ EIU, *Country Report: Mexico*, Generated November 22, 2016.

⁴⁹ 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>.

⁵⁰ Tania L. Montalvo, "A 20 Años del EZLN, Indígenas Siguen en la Pobreza," *Animal Politico*, January 2, 2014.

in part to the country's regressive tax system, oligopolies that have dominated particular industries, a low minimum wage, and a lack of targeting in some social programs.⁵¹

Economists have maintained that reducing informality is crucial for addressing income inequality and poverty, while also expanding Mexico's low tax base. The 2013-2014 reforms sought to boost formal-sector employment and productivity, particularly among the small- and medium-sized enterprises (SMEs) that employ some 60% of Mexican workers, mostly in the informal sector. Although productivity in Mexico's large companies (many of which produce internationally traded goods) increased by 5.8% per year between 1999 and 2009, productivity in small businesses fell by 6.5% per year over the same period.⁵² 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 that register with the national tax agency.

The Peña Nieto Administration has sought to complement economic reforms with social programs. It expanded access to federal pensions, started a national antihunger program (which benefits 7 million people), and increased funding for the country's conditional cash transfer program.⁵³ 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 programs have been criticized for a lack of efficacy. For example, the antihunger program has been criticized for failing to empower its beneficiaries to play a part in designing and overseeing the program and for lacking coordination between the various levels of government involved in its efforts.⁵⁴

U.S. Relations and Issues for Congress

U.S.-Mexican relations have remained strong despite periodic tensions. President Obama embraced Peña Nieto's desire to bolster economic ties and focus on issues such as border trade facilitation, clean energy and climate change, and educational exchanges. Those issues figured prominently during the June 2016 North American Leaders Summit hosted by Canadian Prime Minister Justin Trudeau and a July 22, 2016, White House meeting between Presidents Obama and Peña Nieto.⁵⁵

Some analysts are concerned that bilateral cooperation and close economic linkages could be jeopardized if the Trump Administration introduces protectionist trade measures such as tariffs or quotas in the renegotiation of NAFTA.⁵⁶ Others maintain that President Peña Nieto's primary task, which is likely to be difficult but achievable, is to establish a working relationship with the Trump Administration that is mutually beneficial.⁵⁷ These theories are likely to be tested soon, as

⁵¹ Gerardo Esquivel Hernandez, *Concentration of Economic and Political Power*, Oxfam Mexico, 2015.

⁵² McKinsey Global Institute, *A Tale of Two Mexicos: Growth and Prosperity in a Two-Speed Economy*, March 2014.

⁵³ *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.

⁵⁴ CIDAC, op. cit.; Nayeli Roldán, "La Cruzada Contra el Hambre ha Fallado en sus Objetivos: CONEVAL," *Animal Político*, December 19, 2016.

⁵⁵ The White House, Office of the Press Secretary, "Fact Sheet: United States Key Deliverables for the 2016 North American Leaders' Summit," June 29, 2016; "Fact Sheet: United States-Mexican Relations," July 22, 2016.

⁵⁶ Dan Restrepo, Michael Werz, and Joel Martinez, *Preserving and Strengthening the U.S.-Mexico Relationship*, Center for American Progress, January 30, 2017.

⁵⁷ Duncan Wood, et. al. *Charting a New Course: Policy Options for the Next Stage in U.S.-Mexican Relations*, Woodrow Wilson Center: Mexico Institute, March 2017.

President Trump sent Congress a 90-day notice of his intent to begin NAFTA renegotiation talks on May 18, 2017.

Rhetoric regarding Mexican migrants during the U.S. electoral campaign, executive orders to increase deportations and hasten the construction of a border wall, and President Trump's calls for Mexico to pay for the wall resulted in a canceled presidential meeting in January 2017. Tensions in bilateral relations have continued despite meetings between Cabinet officials, including a visit to Mexico by Secretary of State Rex Tillerson and Secretary of Homeland Security John Kelly on February 23, 2017; a visit to Washington by Mexico's Foreign Minister Luis Videgaray and Interior Minister Osorio Chong on May 18, 2017; and Secretary Kelly's three-day visit to Mexico in July 2017.⁵⁸ Uncertainty about U.S. policy toward Mexico has persisted, in part, because of contradictions between tough statements periodically expressed by President Trump and the more conciliatory statements of his Cabinet officials.⁵⁹

President Peña Nieto may have limited room to maneuver in future negotiations with the Trump Administration, as many legislators and businesspeople are urging him to defend Mexican interests more vigorously.⁶⁰ On trade issues, it is unclear what the outcome of the upcoming NAFTA renegotiations will be, but the Mexican government hopes they will be completed by the end of 2017 so as not to impact the country's 2018 presidential elections.⁶¹ Foreign Minister Videgaray has suggested that if the Trump Administration adopts trade or migration policies that run counter to Mexican interests, his government likely would have to review cooperation in other areas, including security.⁶²

Security, the Mérida Initiative, and U.S. Assistance⁶³

State Department Assistance

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 program developed by the George W. Bush and Felipe Calderón (2006-2012) governments. As proposed, the Mérida Initiative was to provide some \$1.4 billion in assistance to Mexico and Central America, largely in the form of equipment and training for security forces, from FY2008 through FY2010.⁶⁴ Between FY2008 and FY2017, Congress appropriated nearly \$2.8 billion for

⁵⁸ U.S. Department of State, "Press Availability With Secretary of Homeland Security John Kelly, Mexican Secretary of Foreign Relations Luis Videgaray Caso, and Mexican Secretary of Government Miguel Angel Osorio Chong," May 18, 2017; "Mexico, U.S. vow to Bolster Joint Fight Against Drug Cartels," Reuters, July 7, 2017.

⁵⁹ Kirk Semple and Paulina Villegas, "Mexico Welcomes Possible U.S. Shift on Nafta, but Mistrust of Trump Persists," *New York Times*, March 31, 2017; David Agren, "Trump Humiliates Mexican president Again Over Border Wall," *The Guardian*, July 7, 2017.

⁶⁰ Ibid.

⁶¹ Roberta Rampton, "Trump Hails NAFTA Progress, Mexico Eyes General Deal by End-2017," Reuters, July 7, 2017.

⁶² Frank Jack Daniel, "Mexico Talks Tough on Trump with NAFTA Talks Looming," Reuters, April 25, 2017.

⁶³ CRS Report R41349, *U.S.-Mexican Security Cooperation: The Mérida Initiative and Beyond*, by (name redacted) and (name redacted).

⁶⁴ The Central American portion of the Mérida Initiative evolved into the Central American Regional Security Initiative (CARSI). See CRS Report R41731, *Central America Regional Security Initiative: Background and Policy Issues for Congress*, by (name redacted) and (name redacted).

the Mérida Initiative in Mexico, of which more than \$1.6 billion has been expended (see **Table 2**, below).⁶⁵

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.

In 2011, the U.S. and Mexican governments agreed to broaden the scope of bilateral efforts to include economic development and community-based social programs, a focus on institution building over technology transfers, and assistance for states and municipalities (especially on the U.S.-Mexican border). As announced in March 2010, the Mérida Initiative now has four pillars: (1) disrupting organized criminal groups, (2) institutionalizing the rule of law, (3) creating a 21st-century border, and (4) building strong and resilient communities.

Within those broad pillars, the Obama and Peña Nieto governments agreed in 2013 to focus on justice-sector reform, money laundering, police and corrections professionalization at the federal and state levels, border security along both of Mexico's borders, and piloting approaches to address root causes of violence. Since then, the governments also have focused on addressing opium production, heroin trafficking, and U.S. heroin demand.

Congressional appropriations for the Mérida Initiative have reflected this shift in priorities. From FY2011 onward, the amount of Foreign Military Financing (FMF) provided to Mexico declined; it is no longer considered part of the Mérida Initiative. Funding for pillar two—institutionalizing the rule of law—has exceeded assistance for all other pillars.

It has been difficult for Congress to ascertain the success or failure of the Mérida Initiative due to the lack of publicly available data on its impact. In the absence of publicly available performance measures, the State Department has pointed to a number of developments as indications of the Mérida Initiative's success, including

- cooperation among law enforcement and intelligence officials that has led to the capture of top criminal leaders, including “El Chapo” Guzmán;
- increased extraditions from Mexico (see **Figure 4**);
- Mexico's transition to an accusatorial justice system with oral trials in June 2016;
- Mexico's seizure of more than \$4 billion in illicit drugs and currency; and,
- the Mexican government's apprehension of more than 150,000 Central American migrants in FY2015 and FY2016 (according to SEGOB figures).

Despite these achievements, Mexico continues to face considerable security challenges. The Peña Nieto government has been criticized for its security policy failures, particularly the escape of “El Chapo” Guzmán from a prison that had been internationally accredited through the Mérida Initiative.⁶⁶ Mexico's human rights record has been widely criticized, as has the continued corruption and impunity in its justice system. As previously discussed, Mexico's attorney general's office has not solved emblematic cases, even with international support.

⁶⁵ U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs (INL), “Mérida Status Update for CRS,” November 2016.

⁶⁶ Dolia Estevez, “Five Facts That Suggest Drug Kingpin El Chapo Guzmán Was Let Out Of Prison,” *Forbes*, July 22, 2015.

Table 2. Estimated Mérida Initiative Funding: FY2007-FY2018 (Request)
(\$ in millions)

Account	ESF	INCLE	FMF	Total
FY2007	11.4	36.7	0.0	48.1
FY2008	20.0	263.5	116.5	400.0
FY2009	15.0	406.0	39.0	460.0
FY2010	9.0	365.0	265.2	639.2
FY2011	18.0	117.0	8.0	143.0
FY2012	33.3	248.5	Not Applicable	281.8
FY2013	32.1	190.1	Not Applicable	222.2
FY2014	35.0	143.1	Not Applicable	178.1
FY2015	33.6	110.0	Not Applicable	143.6
FY2016	39.0	100.0	Not Applicable	139.0
FY2017 (est.)	49.0	90.0	Not Applicable	139.0
Total	284.0	2,033.2	428.7	2,745.9
FY2018 (request)	25.0 ^a	60.0	Not Applicable	85.0

Sources: U.S. Agency for International Development (USAID) budget office, November 3, 2016; U.S. Department of State, November 18, 2016; U.S. Department of State, *Congressional Budget Justification for Foreign Operations, FY2018*.

Notes: ESF = Economic Support Fund; INCLE = International Narcotics Control and Law Enforcement; FMF = Foreign Military Financing. FY2008-FY2010 included supplemental funding.

- a. In the FY2018 budget request, the Trump Administration proposes a new aid account to merge the Economic Support and Development Fund accounts. It is to be known as the Economic Support and Development Fund account, or ESDF.

Although budget requests for the Mérida Initiative have been declining, there has been bipartisan support in Congress for sustaining relatively level funding for the initiative. In FY2015, Congress provided \$28.6 million above the Administration's request in P.L. 113-235, with additional funding for justice-sector programs and efforts to help secure Mexico's southern border. In FY2016, Congress provided \$20 million above the Obama Administration's \$119 million request for the Mérida Initiative in P.L. 114-113. The Consolidated Appropriations Act, 2017 (P.L. 115-31), signed into law on May 5, 2017, provides \$139 million for the Mérida Initiative, some \$10 million above the Obama Administration's request.

Congress is considering the FY2018 budget request and overseeing previously appropriated funding. The Trump Administration's FY2018 budget request suggests that the Administration intends to reduce U.S. assistance to Mexico while shifting toward a more security-oriented strategy. As noted previously, the Administration has requested \$85 million in assistance for the Mérida Initiative in FY2018, which is \$54 million (38.8%) less than the FY2017 estimate and the FY2016 enacted funding level. Given its previous support for the Mérida program and security cooperation with Mexico, Congress is likely to set its own level of funding for the Mérida

Initiative at a time when Mexico continues to struggle to address violence, corruption, and human abuses and is working closely with the United States on migration enforcement and antidrug efforts.

Department of Defense Assistance

In contrast to Plan Colombia, DOD did not play a primary role in designing the Mérida Initiative and is not providing assistance through Mérida accounts. However, DOD oversaw the procurement and delivery of equipment provided through the FMF account. Despite DOD's limited role in the Mérida Initiative, bilateral military cooperation has been increasing. DOD assistance aims to support Mexico's efforts to improve security in high-crime areas, track and capture suspects, strengthen border security, and disrupt illicit flows.

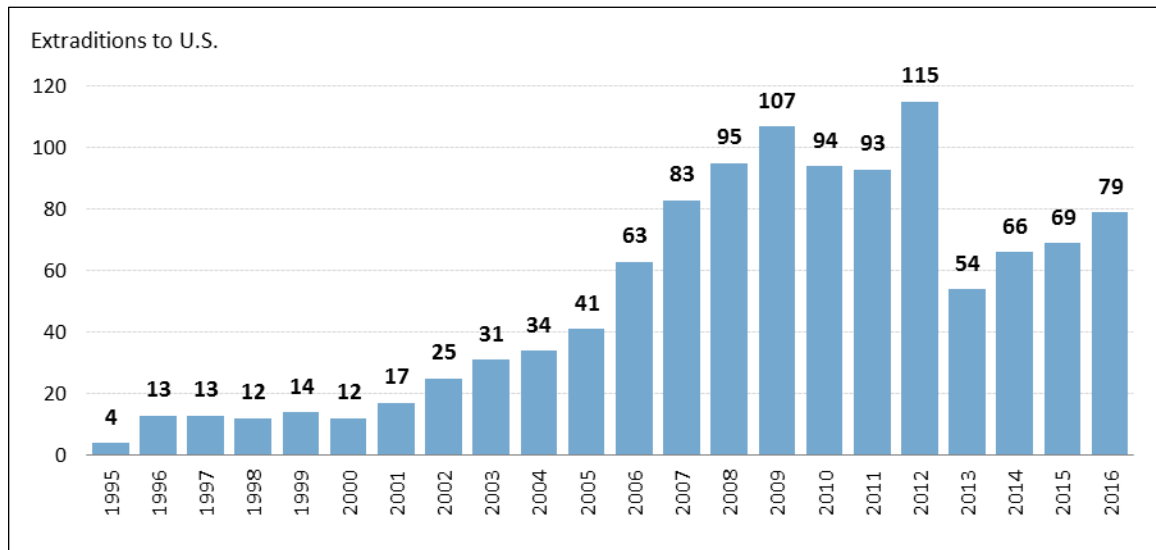
A variety of funding streams support DOD training and equipment programs. Some DOD equipment programs are funded by annual State Department appropriations for FMF, which totaled \$7.0 million in FY2016. The FY2018 budget request would eliminate the FMF account. International Military Education and Training (IMET) funds, which totaled \$1.5 million in FY2016, support training programs for the Mexican military, including courses provided in the United States.

Apart from State Department funding, DOD provides additional training, equipping, and other support to Mexico that complements the Mérida Initiative through its own accounts. Individuals and units receiving DOD support are vetted for potential human rights issues in compliance with the Leahy Law. DOD programs in Mexico are overseen by U.S. Northern Command, which is located at Peterson Air Force Base in Colorado. DOD support to Mexico totaled approximately \$64.2 million in FY2016.

Policymakers may want to receive periodic briefings on DOD efforts to guarantee that DOD programs are being adequately coordinated with Mérida Initiative efforts, complying with U.S. vetting requirements, and not reinforcing the militarization of public security in Mexico.

Extraditions

During the Calderón government, extraditions were another indicator that the State Department used as an example of the Mérida Initiative's success. During the final years of the Calderón government, Mexico extradited an average of 98 people per year to the United States, an increase over the prior Administration. When President Peña Nieto took office, extraditions fell to 54 in 2013. They rose to 79 in 2016 (see **Figure 4**, below).

Figure 4. Extraditions from Mexico to the United States: 1995-2016

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

Some U.S. policymakers hope that “El Chapo” Guzmán’s July 2015 prison escape and subsequent extradition has definitively changed the Peña Nieto government’s position on extraditions. Although Mexico resisted pressure to extradite Guzmán to the United States (where he faces multiple charges) following his initial capture in 2014, the Mexican government has since demonstrated more willingness to approve U.S. extradition requests. 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. He was extradited to the United States on January 19, 2017.

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 general corruption in its criminal justice system.

Human Rights⁶⁷

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), which pertains to State Department aid, and 10 U.S.C. 2249e, which guides DOD funding. 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.⁶⁸ 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 \$5.5 million in funding due

⁶⁷ 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) .

⁶⁸ 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.

to human rights concerns.⁶⁹ For FY2016 and FY2017, human rights reporting requirements pertained to FMF rather than to Mérida Initiative accounts.

U.S. assistance to Mexico has increasingly focused on supporting the Mexican government's efforts to reform its often corrupt and inefficient judicial system and to improve human rights conditions in the country. Congress has provided funding to support Mexico's transition from an inquisitorial justice system to an oral, adversarial, and accusatory system that aims to strengthen human rights protections for victims and the accused. The U.S. Agency for International Development (USAID) has \$25 million in human rights programming that is part of the Mérida Initiative and planned to run through 2018, including training for self-protection and digital security for journalists and a national campaign against torture.

In recent years, the Peña Nieto government has been faulted for not investigating and punishing serious human rights abuses committed by government officials and for not protecting journalists, migrants, and other vulnerable groups. 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.⁷⁰ Others recommend increasing U.S. support for judicial and police reform (particularly accountability and anticorruption programs) under pillar two of the Mérida Initiative.⁷¹ 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.

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 included in the FY2016 Consolidated Appropriations Act (P.L. 114-113) and the FY2017 Consolidated Appropriations Act (P.L. 115-31), are likely to be closely monitored. Some Members of Congress have written letters to U.S. and Mexican officials regarding human rights concerns, including emblematic cases and concerns about abuses of Central American migrants transiting Mexico, and may continue to do so.

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 Relations⁷²

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-

⁶⁹ As a result of the State Department's decision not to submit a report for Mexico, some \$5 million in FY2014 International Narcotics Control and Law Enforcement (INCLE) assistance was reprogrammed by the State Department to Peru. Mexico lost close to \$500,000 in Foreign Military Financing (FMF), as well.

⁷⁰ Christy Thornton, "Stop Arms Sales to Pressure Mexico," *New York Times*, December 2, 2014.

⁷¹ 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.

⁷² This section draws from CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by (name redacted). See also CRS In Focus IF10047, *North American Free Trade Agreement (NAFTA)*, by (name redacted), and CRS Report R42965, *The North American Free Trade Agreement (NAFTA)*, by (name redacted) and (name redacted).

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.-Mexican trade has increased rapidly since NAFTA. 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 \$525.2 billion in 2016. Much of the bilateral trade between the United States and Mexico occurs in the context of supply chains, as manufacturers in each country work together to create goods. The expansion of trade has resulted in the creation of vertical supply relationships, especially along the U.S.-Mexican border. The flow of intermediate inputs produced in the United States and exported to Mexico and the return flow of finished products greatly increased the importance of the U.S.-Mexican border region as a production site.

Foreign direct investment (FDI) is also an integral part of the bilateral economic relationship. The stock of U.S. FDI in Mexico increased from \$17.0 billion in 1994 to \$92.8 billion in 2015. Mexican FDI in the United States is much lower than U.S. investment in Mexico but also has increased in recent years. In 2015, Mexican FDI in the United States totaled \$16.6 billion.

The Obama Administration 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 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. 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 Center Border Management, which is part of pillar three of the Mérida Initiative.

Mexico, Canada, and the United States participated in negotiations for the Trans-Pacific Partnership agreement (TPP), a proposed free-trade agreement with nine other Asia-Pacific countries that was signed on February 4, 2016.⁷³ On January 23, 2017, President Trump directed the United States Trade Representative (USTR) to withdraw the United States as a signatory to the TPP agreement; the acting USTR gave notification to that effect on January 30.⁷⁴ Mexico's economy minister stated that Mexico is willing to negotiate a new agreement with the Asia-Pacific region that may be similar to TPP and to include China in the discussions.⁷⁵

Despite positive advances on many aspects of bilateral and trilateral economic relations, trade disputes continue to cause tension in some areas. The United States and Mexico have had a number of trade disputes over the years, many of which have been resolved. These issues have involved trade in sugar, country-of-origin labeling, tomato imports from Mexico, dolphin-safe

⁷³ CRS In Focus IF10000, *TPP: Overview and Current Status*, by (name redacted) and (name redacted) .

⁷⁴ CRS Insight IN10646, *The United States Withdraws from the TPP*, by (name redacted) and (name redacted) .

⁷⁵ Gabriel Stargardter, "Mexico Sees Trade Deals in TPP Leftovers, Flags China Opportunity," *Reuters*, November 22, 2016.

tuna labeling, and NAFTA trucking provisions. Mexico and the United States recently concluded a suspension agreement on a U.S. antidumping and countervailing duty investigation on Mexican sugar exports to the United States in which Mexico agreed to certain limitations on its access to the U.S. sugar market.⁷⁶

President Trump has stated repeatedly that he intends to either renegotiate or withdraw from NAFTA. On May 18, 2017, the Trump Administration sent a 90-day notification to Congress of its intent to begin talks with Canada and Mexico to renegotiate NAFTA.⁷⁷ Reactions to the announcement have been mixed: some industries support NAFTA “modernization” as a way to address a range of trade concerns; others express the need to proceed cautiously so as to avoid destabilizing current U.S. export markets.⁷⁸

Consultations between the Trump Administration and the relevant congressional committees have begun. At least 30 days prior to the start of negotiations, USTR is to publish “a detailed and comprehensive summary of the specific objectives with respect to the negotiations, and a description of how the agreement, if successfully concluded, will further those objectives and benefit the United States.” Based on the May 18 notification date, negotiations could start on August 16, 2017, at the earliest. NAFTA negotiations are likely to be a primary oversight issue for Congress in the coming months.

Migration and Border Issues

Mexican-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.⁷⁹ Due to a number of factors, more Mexicans have been leaving the United States than arriving,⁸⁰ and apprehensions are at 40-year lows.⁸¹ Nevertheless, protecting the rights of Mexicans living in the United States, including those who are unauthorized, remains a top concern of the Mexican government.⁸²

Since the mid-2000s, successive Mexican governments have supported efforts to enact immigration reform in the United States, while being careful not to appear to be infringing upon

⁷⁶ U.S. Department of Commerce, “U.S. and Mexico Strike Deal on Sugar to Protect U.S. Growers and Refiners, Ensure Supply to Consumers,” June 6, 2017.

⁷⁷ CRS In Focus IF10047, *North American Free Trade Agreement (NAFTA)*, by (name redacted).

⁷⁸ CRS In Focus IF10682, *NAFTA Renegotiation: Issues for U.S. Agriculture*, by (name redacted); CRS Report R44875, *The North American Free Trade Agreement (NAFTA) and U.S. Agriculture*, by (name redacted).

⁷⁹ Mexicans are by far the largest group of immigrants in the United States, accounting for about 11.3 million people in 2014, or 27.7% of the U.S. foreign born population. Anna Brown and Renee Stepler, *Statistical Portrait of the Foreign-Born Population in the United States*, Pew Research Center, April 19, 2016.

⁸⁰ Although Mexicans still comprise roughly 49% of the U.S. unauthorized population, the number of unauthorized Mexicans living in the United States declined from roughly 6.9 million in 2007 to an estimated 5.6 million in 2014. Ana Gonzalez-Barrera, *More Mexicans Leaving Than Coming to the U.S.*, Pew Research Center, November 19, 2015.

⁸¹ For more information, see CRS Report R42988, *U.S. Immigration Policy: Chart Book of Key Trends*, by (name redacted).

⁸² “Mexican Foreign Secretary: ‘No Negotiating’ on the Wall,” *PBS News Hour*, November 20, 2016; Mexico, Foreign Ministry, November 14, 2016.

U.S. authority to make and enforce immigration laws. Mexico has aggressively combated transmigration by unauthorized migrants and worked with U.S. law enforcement to combat alien smuggling and human trafficking.⁸³ In FY2015, the most recent year available, the Obama Administration removed (deported) some 146,132 Mexicans.⁸⁴

In recent years, progress has been made in addressing some of Mexico's concerns about U.S. removal policies, including nighttime deportations and issues with use of force by U.S. Border Patrol, through bilateral migration talks and letters of agreement.⁸⁵ Nevertheless, the potential for large-scale deportations is a primary concern of the Mexican government that reportedly has repeatedly been expressed to Trump Administration officials.⁸⁶ Mexico's consular network in the United States has bolstered the services offered to Mexicans in the United States, including access to identity documents and legal counsel. It has launched a 24-hour hotline and mobile consultants to provide support, both practical and psychological, to those who may have experienced abuse or are facing removal. Mexico will not accept immigrants deported from third countries (as DHS had proposed) and has said that it opposes another DHS proposal that would separate women from their children upon apprehension on the southwestern border.⁸⁷

Dealing with Central American Migration, Including Unaccompanied Children⁸⁸

In 2014, the United States and Mexico experienced an unprecedented surge in the undocumented migration of unaccompanied children and family units from Central America. In response, Mexico—with U.S. support—greatly increased its immigration enforcement efforts through the implementation of a Southern Border Plan. In 2015, Mexico apprehended nearly 172,000 migrants who came from the “northern triangle” (El Salvador, Honduras, and Guatemala) of Central America. In 2016, Mexico apprehended another 153,000 migrants from northern triangle countries, as well as more than 16,500 Africans, 4,500 Haitians, and 4,800 Asians. Although overall apprehensions of people from northern triangle countries declined in 2016, Mexico apprehended more unaccompanied minors from those countries. Although Mexico's monthly apprehensions of Central American migrants declined significantly in the first five months of 2017 compared to 2016, they have begun to creep upward as of May 2017 (to more than 6,200 detentions).⁸⁹

Mexico's Southern Border Plan has involved the establishment of 12 naval bases on the country's rivers and three security cordons, which stretch more than 100 miles north of the Mexico-

⁸³ As a result of a U.S.-Mexican Bilateral Human Trafficking Enforcement Initiative in effect since 2009, some 170 individuals have faced U.S. federal indictments. See U.S. Department of Justice, U.S. Attorney's Office, Eastern District of New York, “Eight Members Of Mexican Sex Trafficking Enterprise Plead Guilty To Racketeering, Sex Trafficking, And Related Crimes,” April 21, 2017.

⁸⁴ Information provided by the Department of Homeland Security (DHS), Immigration and Customs Enforcement, Office of Enforcement and Removal.

⁸⁵ Maureen Meyer, et. al., *Not a National Security Crisis: the U.S.-Mexican Border and Humanitarian Concerns, Seen from El Paso*, WOLA, October 27, 2016.

⁸⁶ Steve Herman, “Mexican Leaders Tell U.S. Cabinet Members About ‘Worry, Irritation.’” *Voice of America*, February 23, 2017.

⁸⁷ “Mark Hensch, “Mexico ‘Will Not Accept’ Trump Deportation Guideline,” *The Hill*, February 22, 2017; “Mexico Makes Strong Defense of Migrant Rights in U.S.,” *Latin News Daily*, March 10, 2017.

⁸⁸ CRS In Focus IF10215, *Mexico's Immigration Control Efforts*, by (name redacted).

⁸⁹ These statistics are available in Spanish at Mexico's Interior Ministry's website at http://www.politicamigratoria.gob.mx/es_mx/SEGOB/Boletines_Estadisticos.

Guatemala and Mexico-Belize borders, as well as the use of drones. Because Mexico does not have a border patrol, its National Institute of Migration (INM) agents are operating under a new enforcement directive alongside federal and state police forces and the military. These unarmed agents have worked with security forces to increase immigration enforcement along known migrant routes, including northbound trains and at bus stations. INM has improved the infrastructure at existing border crossings and created more than 100 mobile highway checkpoints. Increased operations along known migrant routes have led migrants to seek out more clandestine, and often extremely dangerous, pathways north. Crimes against migrants, sometimes committed by corrupt public officials, have continued unabated.⁹⁰

Many migrants' rights activists have maintained that very few migrants have been informed by INM agents of the right to request asylum, as required by Mexican law. Asylum applications increased significantly from 2014 to 2016, yet Mexico's Commission for the Aid of Refugees (COMAR) has reportedly had insufficient asylum officers to conduct outreach to inform individuals of their right to seek protection or to process claims efficiently. In 2016, the Mexican government increased the number of requests for asylum and humanitarian visas it granted with support from the U.N. High Commissioner for Refugees (UNHCR). UNHCR estimates that Mexico may receive up to 20,000 asylum requests in 2017.⁹¹

The State Department has allocated more than \$100 million in Mérida Initiative funds to support Mexico's southern border efforts. The State Department has delivered more than \$24 million of that assistance, mostly in the form of nonintrusive inspection equipment, canine teams, and training. Two new projects that are national in scope but will impact the southern border also have begun. One project is designed to create an automated biometrics system (worth \$75 million); another is designed to develop a secure communications network for Mexican agencies (worth \$75 million). The Department of Defense (DOD) has held training events for Mexican marines posted on the southern border and supported workshops involving Mexican, Guatemalan, and Belizean military forces. DOD also has provided at least \$22 million in equipment for constructing navy bases, boats, and other supplies. U.S. funding implemented by UNHCR has helped INM develop a training program for migration officials to interview vulnerable populations, support COMAR, and conduct humane repatriations.

Modernizing the U.S.-Mexican Border

Since the terrorist attacks of September 11, 2001, there have been significant delays and unpredictable wait times at the U.S.-Mexican border.⁹² Concerns about those delays have increased in recent years as the majority of U.S.-Mexican trade is passing through a port of entry along the southwestern border, often more than once, as manufacturing processes between the two countries have become deeply integrated. Due to bilateral efforts discussed below, reductions in wait times at some points of entry have been achieved, yet infrastructure and staffing issues remain on both the U.S. and Mexican sides of the border.⁹³

⁹⁰ Adam Isacson, Maureen Meyer, and Hannah Smith, *Mexico's Southern Border: Security, Central American Migration, and U.S. Policy*, WOLA, June 29, 2017.

⁹¹ Ibid.

⁹² 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.

⁹³ CRS Report R43356, *Border Security: Immigration Inspections at Ports of Entry*, by (name redacted), and CRS Report R43014, *U.S. Customs and Border Protection: Trade Facilitation, Enforcement, and Security*, by (name redacted) and (name redacted)

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.⁹⁴ 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 locations where U.S. and Mexican customs officials are working together.⁹⁵ A Mexican law allowing U.S. customs personnel to be armed in Mexico has hastened these bilateral efforts.

Figure 5. U.S.-Mexican Border



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

Note: San Ysidro is one of the crossings near San Diego and Tijuana.

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?

⁹⁴ 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.

⁹⁵ The White House, Office of the Vice President, “Joint Statement: 2016 U.S.-Mexico HLED,” February 25, 2016.

Energy⁹⁶

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. Mexico's state oil company, *Petroleos Mexicanos* (Pemex), has struggled to counter declining oil production and been forced to postpone investments due to fiscal challenges that have been exacerbated by low oil prices. Fuel theft from Pemex pipelines now costs the company some \$1 billion in lost revenue each year, and violent clashes have taken place in cases where federal security forces have battled fuel thieves.⁹⁷ However, Pemex reduced its losses in 2016 as compared to prior years and stabilized production at roughly 2.1 million barrels per day (bpd).⁹⁸ The company is now promoting joint ventures and farm-out agreements to boost its performance.⁹⁹

Mexico has significantly increased natural gas imports from the United States due to its inability to meet rising domestic demand for gas. According to the U.S. Department of Energy, Mexico's demand could more than double by 2020, as long as cross-border pipelines continue to be built and energy trade is allowed to continue unimpeded.¹⁰⁰ Some experts are concerned, however, about potential U.S. tax or trade policy changes that could hinder energy trade. For example, a tax on Mexican exports could dampen U.S. demand for Mexican crude oil and, in turn, prompt retaliatory tariffs that could reduce Mexican demand for U.S. refined exports.¹⁰¹

Mexico's 2013-2014 energy reforms were designed to transform Pemex into a "productive state enterprise" with more autonomy and lower taxes that is subject to competition with private investors. The reforms created different types of contracts for private companies interested in investing in Mexico, allowed companies to book reserves for accounting purposes, established a sovereign wealth fund, and created new regulatory agencies. Analysts maintain that the reforms were generally well designed but that the way they are implemented—and the price of oil—will determine their impact. Should oil prices remain at current levels, shale resources and other unconventional fields may not be feasible to develop.

In July 2015, Mexico's Energy Ministry announced the bidding results for the first round of public bidding for shallow-water offshore exploratory blocks. The results were deemed disappointing by energy analysts: only 2 of the 14 available blocks were awarded. The government then altered the terms offered to attract more interest. Subsequent bidding rounds held in 2015 proved more successful, and, in December 2016, Mexico auctioned off 44 blocks of deepwater resources. Mexico then auctioned off 10 of 15 shallow-water blocks available in a June 2017 offering, with much higher participation than in its 2015 shallow-water lease auction.¹⁰²

The reforms also opened Mexico's electricity sector to private generators. U.S. companies are increasingly moving into Mexico's electricity market; some participated in Mexico's first

⁹⁶ 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) ; CRS Report R44747, *Cross-Border Energy Trade in North America: Present and Potential*, by (name redacted) et al.

⁹⁷ "Is Liquid Gold the New Cocaine?" *Latin News: Mexico & NAFTA report*, June 2017.

⁹⁸ David Alire Garcia, "UPDATE 1-Mexico's Pemex Sharply Reduces Losses as Oil Prices Rise," Reuters, February 27, 2017.

⁹⁹ Pemex, "González Anaya Presents Pemex Infrastructure Projects at the Pacific Alliance," May 30, 2017.

¹⁰⁰ James Osborne, "Mexico's Thirst for U.S. Gas on the Line; Uncertainty Hits Market in Wake of Election," *Houston Chronicle*, November 25, 2016.

¹⁰¹ Lisa Viscidi and Rebecca O'Connor, *US-Latin America Energy Investment: Proposals for Policy Engagement*, Inter-American Dialogue, May 16, 2017.

¹⁰² Nathaniel Gronewold, "Mexico Sees More Interest in Second Lease Sale," *Energywire*, June 20, 2017.

electricity auction, held in March 2016.¹⁰³ If power-sector reforms reduce Mexico's electricity costs, then Mexico's manufacturing sector, which is highly integrated with U.S. industry, likely will become more competitive.

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). By removing crude oil export restrictions, U.S. oil exports to Mexico can occur more efficiently. Shippers and buyers will not need to arrange an oil-for-oil exchange, nor will they have to apply with the U.S. Department of Commerce for approval.

Opportunities may exist for greater U.S.-Mexican energy cooperation in the hydrocarbons sector. The first leases already have been awarded in the Gulf of Mexico under the U.S.-Mexico Transboundary Agreement, which was approved by Congress in December 2013 (P.L. 113-67). 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. regulatory entities. Educational exchanges and training opportunities for Mexicans working in the petroleum sector could expand. The United States and Mexico could build upon efforts to provide natural gas resources to help reduce energy costs in Central America and connect Mexico to the Central American electricity grid, as discussed at a June 2017 conference on Central America cohosted by both governments.¹⁰⁴ Analysts also 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.

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 also are 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. Congress also may monitor whether the upcoming NAFTA renegotiations include talks on liberalizing foreign investment in Mexico's energy sector, which was excluded under NAFTA's original investment provisions.

Water and Floodplain Issues¹⁰⁵

Various U.S.-Mexican boundary and water treaties and conventions designate the International Boundary and Water Commission (IBWC) responsible for facilitating the resolution of issues arising during the application of these agreements.¹⁰⁶ IBWC and Congress may confront concerns on a few issues related to these binational treaties, including water management in the Rio Grande basin, the future of certain measures for binational cooperation in the Colorado River basin, and binational floodplain concerns related to proposals for border security structures.

¹⁰³ Harry L. Webber, "Cash-hungry U.S. Power Producers Lured by Mexico Energy Reforms," *Dallas Morning News*, March 23, 2016.

¹⁰⁴ Mexico's Secretariat for Foreign Relations, "Conference on Prosperity and Security in Central America Foreign Ministry - Interior Ministry Joint Press Release," June 16, 2017.

¹⁰⁵ This section was authored by Nicole M. Carter, Specialist in Natural Resources Policy. See also CRS Report R43312, *U.S.-Mexican Water Sharing: Background and Recent Developments*, by (name redacted), (name redacted), and (name redacted).

¹⁰⁶ For the text of the various treaties, see https://www.ibwc.gov/Treaties_Minutes/treaties.html.

Rio Grande Water Management

A 1944 water treaty establishes water allocations for the United States and Mexico from certain shared rivers.¹⁰⁷ In the lower Rio Grande basin, it is largely Mexico that is obligated to deliver water to the United States.¹⁰⁸ Mexico's compliance with treaty delivery requirements often has been accomplished through wet-weather flows (i.e., excess flows) during the five-year cycle rather than through purposeful releases from Mexican reservoirs to provide reliable delivery to the United States. In recent years, some congressional and Texas interests have raised concerns about the economic impacts of low or unpredictable water deliveries on Texas border counties. 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. The Senate Appropriations Committee requested similar reporting in FY2017.¹⁰⁹

In the future, as the result of anticipated onshore oil and gas development in northeastern Mexico, the use of basin water for hydraulic fracturing and the disposal of wastewaters may draw attention to binational water quality protections and monitoring.

For waters of the Rio Grande near El Paso, water sharing is determined largely by a 1906 convention.¹¹⁰ Texas and New Mexico stakeholders are interested in how water is delivered to Mexico when this portion of the Rio Grande basin is affected by drought.

Colorado River Cooperative Management

Under the 1944 water treaty, new concerns can be resolved through agreed interpretations of the treaty, called minutes. In 2012, Minute 319 established a set of binational cooperative measures in the Colorado River basin, including conserving water to allow for environmental flows to restore riverine habitat, Mexico sharing in cutbacks during water shortage conditions in the basin (such cutbacks are not required under the 1944 water treaty), and allowing Mexico to delay its water deliveries from the United States and store its delayed deliveries in Lake Mead, thereby increasing the lake's elevation. Lake Mead's elevation is the baseline used for determining shortage conditions in the lower Colorado River basin and associated water delivery cutbacks for Arizona, California, and Nevada. Minute 319 is to remain in force through December 31, 2017. Given basin stakeholders' support for the innovative arrangements introduced by Minute 319 and

¹⁰⁷ 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.

¹⁰⁸ Mexico has the rights to two-thirds of the flows that feed into the Rio Grande from the six major tributaries that enter from Mexico: the Conchos, San Diego, San Rodrigo, Escondido, and Salado Rivers and the Las Vacas Arroyo (stream). The United States receives all flows from Rio Grande tributaries in the United States and one-third of flows from the six Mexican tributaries. Mexico's water delivery from these six tributaries must average at least 350,000 acre-feet per year, measured in five-year cycles. The current cycle began in October 2015 and will end in October 2020; for the current and past status of Mexico's deliveries since 1992, see https://www.ibwc.gov/wad/_images/Recent_10_Cycles.pdf.

¹⁰⁹ The explanatory statement accompanying Division J of P.L. 115-31 provides that the language in S.Rept. 114-290 accompanying S. 3117 is not negated unless addressed in the explanatory statement or contradicted by House report language. Although the Senate report language directed for the water delivery reporting to continue in FY2017, the House report language and the enacted bill's explanatory statement were silent on water delivery reporting.

¹¹⁰ Convention of May 21, 1906, on the Equitable Distribution of the Waters of the Rio Grande.

the utility of continuing them given persistent drought conditions, U.S. and Mexican negotiators are negotiating a more comprehensive and longer-term minute.¹¹¹

Border Floodplain Encroachment

Discussion of increased U.S. security measures along the border, particularly the border between Texas and Mexico, may revive concerns regarding compliance with treaty provisions related to the construction of structures in the binational floodplain that increase flood risk.¹¹²

Environment and Renewable Energy Policy

In addition to the water management and conservation issues addressed by the IBWC, the U.S. and Mexican governments have been working together on broader environmental issues in the border region since signing the La Paz Agreement in 1983.¹¹³ Led by the U.S. Environmental Protection Agency (EPA) and the Mexican secretary of environmental resources, the agreement committed the two governments to regularly consult and review environmental concerns. Federal funding and interest in border environmental issues peaked in the 1990s during the negotiations for and implementation of the environmental side agreement to NAFTA that created the North American Development Bank (NADB) and the Border Environment Cooperation Commission.¹¹⁴ In recent years, there has been federal interest on the part of both the U.S. and Mexican governments in overseeing projects related to wind and solar energy that the NADB has financed; it is unclear whether that interest will continue under the Trump Administration.¹¹⁵

Even after federal funding for border environmental projects decreased post-2000, the U.S. and Mexican governments have continued to design and implement binational environmental programs.¹¹⁶ The current 10-year border program, Border 2020, is focused on cooperation in five areas: (1) reducing air pollution; (2) improving access to clean and safe water; (3) promoting

¹¹¹ Gary Pitzer, "Two Countries, One River: Crafting a new Agreement," *Western Water*, 2016; Electronic correspondence with the Department of State, June 30, 2017.

¹¹² Article IV of the 1970 Treaty to Resolve Pending Boundary Differences and Maintain the Rio Grande and Colorado River as the International Boundary, U.S.-Mex, included the following language

Both in the main channel of the river and on adjacent lands to a distance on either side of the international boundary recommended by the Commission and approved by the two Governments, each Contracting State shall prohibit the construction of works in its territory which, in the judgement of the Commission, may cause deflection or obstruction of the normal flow of the river or its flood flows.

It further describes that any works causing adverse flood effects shall be removed or modified and that repair or compensation for damages provided. In the late 2000s and early 2010s during construction of border fencing, particularly in the lower Rio Grande Valley of Texas, various stakeholders, including representatives from the Mexico section of the IBWC according to news reports, raised concerns related to construction of security works within the shared U.S.-Mexico floodplain (S. Nicol, "New Border Walls Designed to Flood Texas Towns," *Texas Observer*, July 11, 2012; C. Sherman, "U.S., Mexico disagree over border fence plan in Texas," *Houston Chronicle*, July 24, 2012.).

¹¹³ This agreement is also known as the United States-Mexico Agreement on Cooperation for the Protection and Improvement of the Environment in the Border Area. For an assessment of progress since then, see Steve Mumme and Kimberly Collins, "The La Paz Agreement 30 Years On," *The Journal of Environment & Development*, August 2014.

¹¹⁴ CRS In Focus IF10480, *The North American Development Bank*, by (name redacted) and (name redacted)

¹¹⁵ For information on U.S.-Mexican cooperation in renewable in the border region, see BECC-NADB, at http://www.becc.org/uploads/files/renewable_energy_rev_eng_nov_2016.pdf. From FY2011-FY2016, the NADB financed \$1.4 billion in wind, solar, and biogas projects in the U.S.-Mexican border region.

¹¹⁶ For the results of Border 2012, see <https://www.epa.gov/border2020/border-2012-bi-national-success-story>. For current efforts under Border 2020, see <https://www.epa.gov/border2020>.

materials and waste management; (4) enhancing joint preparedness for environmental response; and (5) enhancing compliance assurance and environmental stewardship. The Trump Administration's FY2018 budget request would zero out funding and staff for the U.S.-Mexican border programs run by the EPA.¹¹⁷ In FY2016, those programs received \$2.9 million in EPA funding.

On April 16, 2009, President Obama and then-Mexican President Calderón announced the Bilateral Framework on Clean Energy and Climate Change to jointly develop clean energy sources and encourage investment in climate-friendly technologies. Among others, its goals included enhancing renewable energy, combating climate change, and strengthening the reliability of cross-border electricity grids. USAID and Mexico also expanded cooperation through the Mexico Global Climate Change (GCC) Program, which began in 2010 and provided \$50 million in funding through FY2016, although bilateral efforts on climate change began around 1990. Part of the GCC program helped Mexico design its climate change strategy, reduce emissions from the energy sector, manage its forest resources, and put together long-term, low emissions development planning.¹¹⁸

Supporting environmental protection and advancing clean energy also became a priority for North American cooperation late in the Obama Administration.¹¹⁹ At the June 2016 North American Leaders' Summit, the leaders set a target to increase clean power to 50% of the electricity generated across North America by 2025. They also pledged to reduce methane emissions by 40%-45% by 2025.

Mexico, Canada, and the United States all became parties to the Paris Agreement, which entered into force on November 4, 2016,¹²⁰ under the United Nations Framework Convention on Climate Change. To become parties, the Mexican Congress and the Canadian Parliament ratified the Paris Agreement.¹²¹ In contrast, U.S. executive branch officials stated that the Paris Agreement is an executive agreement not requiring Senate advice and consent to ratification.¹²² President Obama signed an instrument of acceptance on behalf of the United States on August 29, 2016, without submitting it to Congress. Under Mexico's Intended Nationally Determined Contribution for the Paris Agreement, Mexico pledged to reduce 25% of its greenhouse gases and short-lived climate pollutants emissions by 2030.¹²³

On June 1, 2017, President Trump announced his intention to withdraw from the Paris Agreement.¹²⁴ The Administration's FY2018 budget request, released on May 23, 2017, proposes to "eliminate U.S. funding for the Green Climate Fund (GCF) in FY2018, in alignment with the

¹¹⁷ U.S. Environmental Protection Agency, *FY2018 Justification of Appropriation Estimates for the Committee on Appropriations*, p. 195.

¹¹⁸ USAID, "Mexico: Global Climate Change Fact Sheet," November 2016.

¹¹⁹ The White House, Office of the Press Secretary, "Fact Sheet: United States Key Deliverables for the 2016 North American Leaders' Summit," June 29, 2016.

¹²⁰ The remainder of this section draws from CRS Report R44609, *Climate Change: Frequently Asked Questions About the 2015 Paris Agreement*, by (name redacted) and (name redacted).

¹²¹ See https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en.

¹²² CRS Report RL32528, *International Law and Agreements: Their Effect upon U.S. Law*, by (name redacted).

¹²³ The 25% reduction commitment could potentially increase up to a 40%, subject to a global agreement on topics such as an international carbon price, carbon border adjustments, technical cooperation, access to financial resources, and technology transfer. See Mexico, Intended Nationally Determined Contribution, available at <http://www4.unfccc.int/submissions/INDC/Published%20Documents/Mexico/1/MEXICO%20INDC%2003.30.2015.pdf>.

¹²⁴ CRS Report R44870, *Paris Agreement: U.S. Climate Finance Commitments*, by (name redacted).

President's promise to cease payments to the United Nations' climate change programs." The FY2018 budget request also eliminates funding for Global Climate Change programs run by USAID, the Department of State, and the Department of the Treasury. Given these developments, it is unlikely that trilateral efforts on advancing clean energy and meeting the aforementioned emissions targets will continue under the Trump Administration.

Educational Exchanges and Research

Educational and research exchanges between the United States and Mexico have been occurring for decades, but they rose higher in the bilateral agenda during the Obama Administration as part of the High-Level Economic Dialogue. In 2011, President Obama 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, which has led to more than 80 partnerships between U.S. and Mexican universities.¹²⁵ Both programs are still being implemented.

Country and bilateral efforts face continued challenges. In 2015-2016, the number of U.S. students studying in Mexico increased by 6% compared to 2014-2015, but the number of Mexicans studying in the United States decreased by 1.9%.¹²⁶ 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 eight. 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 country's rule-of-law challenges. Moreover, Peña Nieto's reported mishandling of several high-profile cases of human rights abuses allegedly involving security officials increased pressure on him and his government to strengthen Mexico's criminal justice institutions to address crime and corruption. Three years later, President Peña Nieto's approval ratings have declined, partially due to his government's inability to tackle those issues. Numerous former PRI governors are facing criminal charges, and President Peña Nieto is fending off allegations that his government illegally spied on some of its critics in the media, nonprofits, and opposition parties. As President Peña Nieto approaches the end of his term, it may become even more difficult for him to address Mexico's domestic challenges.

Mexican-U.S. relations have generally grown closer over the past two decades. Common interests in encouraging trade flows and energy production, combating illicit flows (of people, weapons, drugs, and currency), and managing environmental resources have been cultivated over many years. A range of bilateral talks, mechanisms, and institutions have helped the Mexican and U.S. federal governments—as well as stakeholders in border states, the private sector, and nongovernmental organizations—find common ground on difficult issues, such as migration,

¹²⁵ The White House, Office of the Vice President, "Joint Statement: 2016 U.S.-Mexico HLED," February 25, 2016.

¹²⁶ This data is available at <https://www.iie.org/Research-and-Insights/Open-Doors/Data/International-Students>.

water management, and trade disputes. U.S. policy changes that run counter to Mexican interests in one of those areas could trigger responses from the Mexican government on other areas where the United States benefits from Mexico's cooperation, such as combating transmigration or illicit drug production.

As Mexico's 2018 presidential elections approach, observers will be watching to see what impact, if any, lingering tensions in bilateral relations over issues such as trade or border barriers have on the Mexican elections. Recent surveys demonstrated that the percentage of Mexicans with a favorable view of the United States has fallen from 66% in 2015 to 30% in 2017.¹²⁷ Some analysts are concerned that Mexicans may elect leftist populist Andrés Manuel López Obrador, who would be less inclined to continue close bilateral cooperation, if they feel that other candidates would not adequately defend Mexico's sovereignty vis-à-vis the United States.¹²⁸

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¹²⁷ Richard Wike et al., *U.S. Image Suffers as Publics Around World Question Trump's Leadership*, Pew Research Center, June 26, 2017.

¹²⁸ "Mexican Leftist Politician Rising In Polls With Anti-American Rhetoric," *NPR*, March 12, 2017.

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