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Executive Summary

Through years of neglect, the challenge of corruption in Mexico has grown to unsustainable levels, with significant repercussions domestically and abroad. President Andrés Manuel López Obrador's campaign to confront corruption and money laundering presents an opportunity to make progress on these daunting issues. However, this push against corruption also features worrying trends such as politicizing anti-corruption actions, shielding allies, centralizing power, and ignoring the threats of corruption and money laundering linked to cartels. The recent US arrest of a high-ranking Mexican security official spotlights some of these deficiencies and should force a reckoning of the impact of corruption and money laundering on the US-Mexico relationship.

This report analyzes the effects of corruption on Mexico's democracy, economy, and security, with an emphasis on US-Mexico cooperation. It also examines the Mexican government's efforts to combat corruption and money laundering, both before President López Obrador took office and during the first two years of his administration.

The report finds that public corruption increasingly acts as a destabilizing force in Mexican politics, partly due to its heightened visibility through journalistic investigations and expanded access to information via social media. Corruption also creates significant barriers to the efficiency and development of Mexico's economy and North American economic integration by enabling the theft of public funds, distorting competition among firms, and directly undermining the ability to promote formalization of workers and businesses. Lastly, as the Mexican government struggles to contain the outgrowth of organized crime and record violence, corruption compromises Mexico's security institutions and turns key officials into allies of the drug cartels they are meant to combat. Corruption in Mexican security institutions

has also contributed to distrust and dysfunction in US-Mexico security cooperation.

Corruption and money laundering are examined in this report as intimately connected and mutually reinforced challenges. Money laundering vulnerabilities, for example, enable drug cartels to access substantial illicit wealth and offer high-value bribes to gain corrupt officials' cooperation. Similarly, the ability to launder illicit funds enables officials to hide and enjoy the proceeds of corrupt activities such as bribery and the siphoning of funds from public works projects. Additionally, corruption promotes impunity by undermining the Mexican government's efforts to combat money laundering and criminality.

When López Obrador was elected in 2018, both corruption and money laundering had risen to dangerous levels. Key institutions, such as the Financial Intelligence Unit (FIU), were woefully underused, and anti-corruption reforms, such as civil society oversight in the National Anti-Corruption System, were largely marginalized after their adoption.

Since taking office, President López Obrador's administration has ramped up anti–money laundering actions through the FIU and adopted some notable reforms to increase oversight of the financial system. Mexico's president has also given unprecedented visibility to anti-corruption efforts while targeting multiple high-level officials from past administrations.

However, prosecutions against money launderers remain low relative to the prevalence of money laundering activity, and they rarely result in convictions. Financial accounts frozen by the FIU are therefore often unblocked by the Mexican judiciary, limiting the impact of this spike in enforcement action against corruption. President López Obrador's broader anti-corruption campaign is also undermined by politicization, a lack of attention to corruption in the security forces and Mexican bureaucracies, and

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the neglect of civil society and some public institutions as key sources of accountability. After a recent diplomatic row regarding the US arrest of a former Mexican defense minister, the US-Mexico relationship faces a pivotal moment for cooperation on corruption and security threats. Distrust reigns over cooperation between US and Mexican officials charged with combating drug cartels, corruption, and money laundering as these expanding threats promote record violence, degrade the rule of law, and undermine economic growth. The US and Mexico must work together to restore confidence among officials.

The trajectory of President López Obrador's anti-corruption campaign illustrates the need for concerted US engagement. Expanded US-Mexico cooperation, diplomatic engagement, strategic unilateral actions, and renewed efforts to combat domestic illicit financial activity should form the basis of the US strategy to combat corruption and money laundering on both sides of the Rio Grande. By working to implement such a strategy and restore trust in the bilateral relationship, the Joe Biden administration and President López Obrador can avoid a deeper crisis and make much-needed progress on shared threats to prosperity and the rule of law.

Money Laundering and Corruption in Mexico

CONFRONTING THREATS TO PROSPERITY, SECURITY, AND THE US-MEXICO RELATIONSHIP

Andrés Martínez-Fernández

Corruption and the ability to launder illicit wealth exacerbate the most daunting threats and challenges facing Mexico, including transnational organized crime, poverty and economic inequality, and political instability, elevating their importance as a priority for government and civil society. Despite this emphasis, corruption remains a widespread challenge, with past anti-corruption initiatives largely stagnating, undermined primarily by a lack of political will.

Corruption in Mexico also has significant repercussions for the United States, limiting the benefits of economic integration in North America, promoting drug trafficking, compromising the integrity of US financial institutions, and directly undermining stability and security in both countries. While the US and Mexico engage in broad security cooperation, corruption and mistrust undermine the effectiveness of bilateral cooperation and enable drug cartels to thrive. Simultaneously, the US also shares blame for the epidemic of corruption in Mexico. US drug consumption motivates and enables drug cartels to bribe Mexican officials with millions of dollars at a time. The US financial system and economy also offer cartels and corrupt officials ample opportunities to launder and access illicit funds.

In 2018, Mexicans elected Andrés Manuel López Obrador president after he positioned himself as an anti-corruption crusader directly opposed to the country's political establishment, which many voters believe has embraced corruption. In office, President López Obrador has ramped up Mexico's anti-corruption efforts, emphasizing and empowering anti–money laundering investigations and actions by the government's Financial Intelligence Unit (FIU) and targeting high-profile cases of corruption at the highest levels of government.

However, he has also drawn criticism domestically for centralizing power and allegedly taking selective action against political opponents to silence dissent while protecting allies and key institutions from scrutiny. Unaddressed deficiencies in the anti–money laundering and anti-corruption frameworks continue to undermine Mexico's capacity to effectively investigate and prosecute offenders. Concerning actions by the López Obrador government also compromise the independence and effectiveness of Mexican anti-corruption entities.

Mexico's current government has also neglected the threat of cartel corruption in the security forces, largely excluding the issue from López Obrador's anti-corruption platform. More recently, this neglect has deepened to an active resistance to scrutinizing Mexican security institutions, visible in the Mexican president's handling of the US arrest of former Mexican Defense Minister Gen. Salvador Cienfuegos.

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This diplomatic skirmish also raises serious questions about already troubled US-Mexico security cooperation and leaves the Joe Biden administration with an unprecedented challenge to face in its first months.

With less than four years in his term and a strong mandate from voters, Mexico's president can still correct these serious issues and have a lasting impact on corruption in Mexico. However, this will require a disciplined, apolitical, and technocratic approach to corruption and money laundering that addresses the realities of these challenges. US diplomatic engagement, enforcement actions, and cooperation will also be key to addressing Mexico's anti-corruption and anti–money laundering blind spots, including cartel corruption and politically protected targets.

López Obrador's Anti-Corruption and Anti–Money Laundering Campaign

President López Obrador has focused significant energy into clamping down on corruption in Mexico, naming it his government's number one priority.[1] This has included increasing investigations, adopting legal reforms, and showcasing the government's anti-corruption accomplishments with high-profile actions. In May 2019, for example, López Obrador announced the creation of the Institute to Return to the People What Was Stolen, which organizes highly publicized auctions of items such as jewelry, art, and cars seized in connection to corruption and organized crime.[2] The Mexican president has also repeatedly highlighted the importance of leading by example, arguing that, by remaining personally uncorrupted, others in his government will do the same.

However, as the president's anti-corruption strategy develops, anti–money laundering has become its central focus. The FIU is a key figure in President López Obrador's anti–money laundering push. Before the López Obrador administration, the FIU maintained low levels of investigatory activity relative to Mexico's money laundering threats, largely reacting to prominent money laundering accusations rather than actively seeking unusual financial activity.[3] By contrast, President López Obrador has empowered the FIU, giving it additional resources, appointing aggressive leadership, and providing political cover for wide-ranging investigations.

Under the forward-leaning direction of FIU Director Santiago Nieto, FIU activity has dramatically increased. In 2018, for example, the FIU blocked 800 accounts linked to suspected money laundering transactions. In 2019, López Obrador's first full year in office, that number rose to 12,085, an increase of over 1,400 percent.[4] (See Figure 1.) Similarly, the amount of money blocked by the FIU has risen substantially, with the total amount of Mexican pesos that have been frozen increasing by over 5,500 percent from 2018 to 2019.[5] (See Table 1.)

The López Obrador government has addressed some legal vulnerabilities to money laundering. Last year, for example, the president issued an executive order increasing penalties for falsifying tax invoices, which covers trade-based money laundering. López Obrador also announced that the FIU would increase scrutiny of companies seeking government contracts.[6]

Mexico's congress has also adopted important reforms enabling non-conviction-based asset forfeiture, an important tool in combating and disrupting corruption and organized crime.[7] This reform can be key to addressing the country's low levels of seizures of illicit assets related to money laundering, though some have expressed concern about its potential misuse.[8]

These positive steps come amid a backdrop of inadequately addressed corruption and money laundering challenges in Mexico. Significant progress is still needed to combat illicit financial flows as the country continues to lag significantly in fully implementing Financial Action Task Force (FATF) recommendations.[9] For example, lack of coordination among relevant authorities remains a major challenge that prevents ramping up successful prosecutions and leaves enforcement actions, such as freezing bank accounts, vulnerable to reversal by courts.[10] Other shortcomings that remain are the limited resources made available for investigators and prosecutors and the insufficient oversight of new technologies and money laundering threats through nonfinancial businesses.

Figure 1. Number of Financial Accounts Blocked for Suspicion of Money Laundering, 2014–20
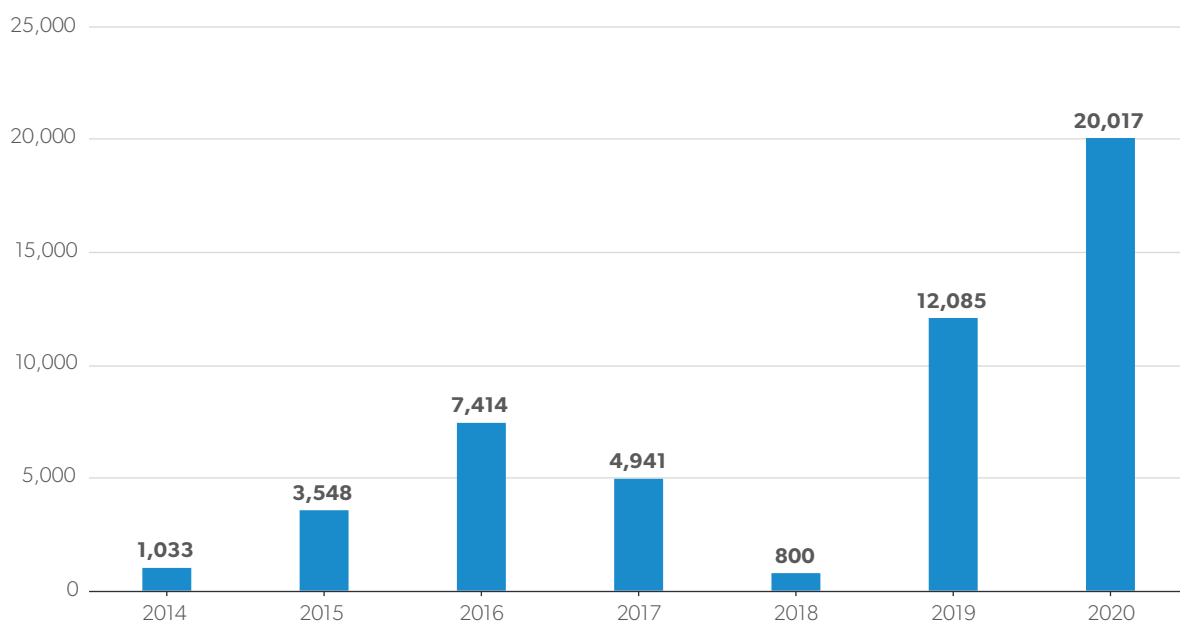
Source: Ministry of Finance and Public Credit, Financial Intelligence Unit, *Listas de Personas Bloqueadas* [*List of Blocked Persons*], https://www.uif.gob.mx/work/models/uif/librerias/documentos/estadisticas/lpb_abr20.pdf.

Table 1. Funds Blocked by Mexico's Financial Intelligence Unit, 2015–20

	Mexican Pesos	US Dollars	Euros
2015	11,078,729.71	0.78	—
2016	907,875,425.89	276,817.30	—
2017	92,413,177.36	421,971.65	—
2018	70,630,347.57	4,262.89	—
2019	3,985,654,815.49	50,187,444.16	877.18
January–August 2020	1,591,729,094.03	294,628,876.87	5,598.46
Total	6,659,381,590.04	345,519,373.64	6,475.64

Source: Ministry of Finance and Public Credit, Financial Intelligence Unit, *La UIF en Números 01/01/2015–31/08/2020* [*The FIU in Numbers 01/01/2015–31/08/2020*], https://www.uif.gob.mx/work/models/uif/librerias/Infografias/La%20UIF%20en%20n%C3%BAmeros.pdf.

In addition, López Obrador's anti–money laundering and anti-corruption campaign features some concerning tendencies by his government, including potential bias and political motivations in the selection of anti-corruption targets, consolidation of power under select anti-corruption institutions, and neglect of independent anti-corruption actors and institutions.

Corruption Realities in Mexico

Corruption is a widespread challenge in Mexico that has increasingly shaped the country's sociopolitical realities. Allegations of corruption have directly affected multiple Mexican presidents and prominent officials across different levels of the Mexican government, including the police force, judges, and

Table 2. Corruption Cases in Mexico, 2013–16

	2013	2014	2015	2016	Total
Investigations Initiated	3,065	4,410	3,810	1,702	12,987
Prosecutions	492	502	397	353	1,744
Convictions	10	11	17	13	51

Source: Financial Action Task Force and Financial Action Task Force of Latin America, *Anti-Money Laundering and Counter-Terrorist Financing Measures: Mexico,* January 2018, https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Mexico-2018.pdf.

bureaucrats. In 2018, at least 14 current or former Mexican governors were under investigation for corruption.[11] The accusations include alleged collaboration with transnational criminal organizations and theft of public funds.

The increasing visibility and awareness of corruption and the apparent impunity for violators have also significantly affected Mexican society. On Transparency International's corruption perceptions index, Mexico scored 29 of 100, with zero indicating the highest level of corruption and 100 indicating the lowest.[12] A seemingly constant stream of credible accusations and revelations of corruption, including scandals that cross political and ideological lines, has contributed to the broad erosion of trust in Mexican democracy and political institutions.

Corruption goes beyond a theoretical discussion for many Mexicans who are affected by officials stealing money from public works projects, demands for payoffs from government bureaucrats and security forces, and other forms of corruption. In 2019, 34 percent of Mexicans who used public services also reported having to pay a bribe during the process.[13] A recent investigation exemplifies how corruption drains the quality of public services, finding the embezzlement of over $4 billion (88.4 billion pesos) of public health spending over five years.[14]

Mexico's high rate of impunity magnifies the prevalence of corruption by allowing government officials and others engaged in corruption to often go unpunished. According to Mexico's National Institute of Statistics and Geography, 93 percent of crimes, including acts of corruption, were unreported or uninvestigated.[15] The UN special rapporteur on human rights estimates that 98 percent of crimes in Mexico go unsolved.[16]

Impunity also extends to acts of corruption, as few officials with credible allegations of corruption face prison or even investigation. Mexicans Against Corruption and Impunity reports that, while several governors are targeted by corruption investigations, dozens more who face allegations of corruption have not been investigated.[17] The international Odebrecht corruption scandal is often held up as an example of impunity in Mexico. After the scandal broke in 2015, countries across the region began charging numerous corrupt officials for accepting nearly $1 billion in bribes from the Brazilian construction firm Odebrecht. However, despite being one in over 10 countries where Odebrecht actively engaged in corruption, Mexico did not bring charges against officials linked to the scandal until 2019, raising concerns from observers and drawing comparisons to the lack of progress in Venezuela.[18]

Even when corruption investigations are initiated, data from the Mexican authorities show that they rarely result in a conviction. (See Table 2.) Between 2013 and 2016, Mexican officials launched 12,987 corruption investigations. However, as of 2018, fewer than one-tenth of those led to prosecutions, and only 51 resulted in convictions.[19]

Despite the gravity of the corruption challenge, past Mexican presidents have been accused of simply paying lip service to anti-corruption without actually investing the requisite political will for support or shining the light on political allies. The National Anti-Corruption System (NAS), a key measure adopted by former President Enrique Peña Nieto that produced great optimism, has instead fallen victim to this tendency. Peña Nieto had originally proposed a less robust effort under a national anti-corruption commission, but civil society, experts, and the public

rejected it as insufficiently independent and successfully pushed for the adoption of the NAS, giving the body significant influence in the anti-corruption landscape, at least on paper.[20]

In principle, the NAS serves as an independent coordinating body to facilitate cooperation and a systemic approach to corruption, integrating civil society and existing local, state, and national institutions tasked with combating corruption. The body was partly designed to overcome the policy gaps and poor coordination among government entities that have undermined past efforts to combat corruption.

However, the anti-corruption body quickly suffered the same pitfall that has undermined countless anti-corruption initiatives: a lack of political will and follow-through. Just two years after the NAS was approved, leaders of the entity reported that the Peña Nieto government and Mexico's congress continually undermined their ability to carry out the mandate.[21] This included the failure to fill key appointments needed for the anti-corruption body to function. Simultaneously, the NAS and its civil society members lacked the power to direct or influence the actions of the government agencies involved in anti-corruption efforts, leaving crucial decisions and actions at the discretion of those institutions, including those led by political appointees. As a result, corruption remained a significant problem throughout Peña Nieto's term, with allegations afflicting his government and him personally.[22]

Economic Cost of Corruption

Corruption creates significant economic costs for Mexico. According to the Mexican Institute for Competitiveness, corruption costs equaled 5 percent of Mexican gross domestic product in 2018, while the Organisation for Economic Co-operation and Development estimates the cost could reach as high as 10 percent.[23] Widespread corruption takes a financial toll on the Mexican economy in multiple ways, including by undermining the profitability of businesses, the operations of public enterprises, and the impact of public investments. Corruption in bureaucracies

also distorts other aspects of the Mexican economy, including the labor market and business landscape. All this adds a significant drag on the Mexican economy's development, with reduced opportunities for Mexicans' economic prosperity and diminished benefits to North American economic integration.

For the Mexican private sector, corruption is a business reality and often simply an additional set of operating costs and barriers to consider. Businesses, investors, and entrepreneurs have to account for the costs of paying bribes, navigating corruption in permitting processes, and losing business and contracts with the state, among other considerations. A recent survey by an international accounting firm found that 72 percent of business executives in Mexico report that corruption increases costs for their businesses. Additionally, 90 percent of business executives report that corruption costs between 5 percent and 35 percent of their firms' profits.[24]

Corruption saps the efficiency of the private sector as firms that engage in corruption are given advantages by the state. When operating in a corrupt business environment, firms with superior productivity and technological advantages, for example, may be unable to secure a permit for new factories or retail locations in a timely manner while firms that engage in bribery of government officials can bypass time-consuming or otherwise costly procedures. The ability to navigate corrupt bureaucracies also favors established firms and discourages new entrants into a market, particularly when firms are unable or unwilling to engage in corruption. Such distortions to market competition raise prices and reduce quality, ultimately harming consumers.

A particular challenge for firms regarding corruption stems from the public procurement process, wherein businesses compete for government contracts. Significant losses are associated with corruption in government procurement processes, with 30 percent of businesses surveyed reporting having lost bids for public contracts because of their failure to pay a bribe.[25]

Another avenue through which corruption takes a toll on the Mexican economy is by promoting negative economic distortions such as informality, which has

long undermined economic development. Approximately 60 percent of Mexican workers and two of three businesses are informal,[26] meaning they engage in economic activity without legally registering with the government, paying taxes, or following regulatory oversight. This undermines informal firms' ability to grow by restricting their access to credit and other banking and government support while leaving informal workers without the same benefits and protections offered to formalized workers. The existence of such a large informal sector also denies the government significant tax revenue, creating additional challenges to fiscal solvency, shifting tax burdens, and restricting expenditures.

Research by Aziz Berdiev, James Saunoris, and other academics has documented corruption's effect on informality, showing that corruption deters entrepreneurship in the formal sector and fosters activity in the informal sector.[27] By adding costs and complexity to licensing processes and procedures for starting a business, for example, corruption can make the requisite processes for formalization prohibitively costly for many entrepreneurs.

Survey data by Mexico's National Institute of Statistics and Geography examining the Mexican public's experience with corruption reveal frequent corruption in bureaucratic procedures. The 2019 survey found that over 15 percent of Mexicans who reported contact with a public servant personally experienced an act of corruption. Of that 15 percent, 7.6 percent experienced corruption when attempting to register a new business. Over 22 percent experienced corruption when going through bureaucratic procedures with the municipal government, including securing permits to sell a product on a public road, and 25 percent experienced corruption during procedures related to securing property permits. Additionally, even if an informal entrepreneur or business is not subjected to bribery demands during a bureaucratic process, the high levels of corruption perceived to be involved in such processes are a strong disincentive to even attempt to formalize business activities.[28]

Corruption in public procurement processes, including embezzlement and kickbacks, also blunts the effect of public expenditures and investments aimed at promoting economic growth and development. A common corruption typology regarding government contracts and public procurement for infrastructure construction, for example, involves a firm coming to an accord with a corrupt official or officials charged with awarding a contract. Under the illicit accord, the firm inflates the price for a public contract or takes funds meant for construction materials, workers, and so forth and instead gives the money as a kickback to the official(s) in exchange for being awarded the contract.

Such corruption undermines public spending's impact on many levels. The stolen funds for the project lead to significantly overpriced public works projects and poor-quality projects that may break down or otherwise not create the same economic benefits they were designed for. Such corrupt awarding processes also undermine competition and efficiency, rewarding firms that engage in corruption even if they are not the most efficient choice for a project.[29]

The stolen funds and additional costs associated with corrupt public procurement processes also drain the overall budgets of government entities, leaving them with fewer resources for other spending initiatives or requiring additional taxation to compensate for funds lost to corruption. Similar corruption occurs when a firm offers financial support to a political campaign in exchange for favorable treatment in procurement processes.

These and other forms of corruption add significant barriers, costs, and inefficiencies to the Mexican economy, affecting major firms and fledgling entrepreneurs alike. Corruption's cumulative impact also harms the Mexican economy more broadly, limiting its development and even undermining Mexico's role in international supply chains and the benefits of North American integration. While the US-Mexico-Canada trade pact dedicates a chapter to corruption issues, the ultimate impact of its provisions will continue to hinge on implementation, historically a pitfall for anti-corruption initiatives.

Corruption, Organized Crime, and US-Mexico Security Cooperation

Corruption is a central factor in the record rise of violence and organized crime in Mexico. Corrupt officials, particularly in Mexico's security forces, empower drug cartels to grow, carry out violent attacks, and engage in massive drug trafficking operations. This corruption also directly affects the US through the flow of illicit drugs and the spread of regional violence and criminality while directly undermining the effectiveness of US-Mexico security cooperation.

As violence and organized crime spiral out of control in Mexico, the central role of corrupt security officials in empowering cartels has become undeniable. As one academic put it, "Mexican [transnational criminal organizations] thrive due [to] a culture of corruption and impunity in Mexico and weak government institutions responsible for countering them."[30] Over the past decade, homicide rates in Mexico have increased significantly, with warring drug cartels launching increasingly violent attacks at unprecedented levels. The years 2017, 2018, and 2019 have each brought record highs in homicide rates, while cartel violence has spread into previously secure regions of the country, including parts of the Mexican capital.

Corruption is also a key facilitator of the record rise of cartel violence in Mexico. The 2019 massacre of women and children of the LeBarón family drew significant concern and denunciations from the US, including President Donald Trump, partly due to their dual citizenship in the US and Mexico but also because of the abhorrent nature of the attack. Officials have charged at least one corrupt security official, the police chief in the Janos municipality, for aiding the cartel and participating in the attack against the LeBarón family.[31] Public corruption has also played a key role in other recent atrocities, including the 2014 Ayotzinapa massacre of 43 students.

Corrupt security officials are also partially responsible for the flourishing drug trade between the US and Mexico and the rise of a deadly drug epidemic in the US. The crucial role of Mexican criminal organizations in the movement of illicit drugs toward the US is well established, as is Mexico's status as a primary source and transit country for illicit drugs in the US including heroin and cocaine. Mexican cartels also play a central role in the synthetic opioid crisis in the US. According to the US Drug Enforcement Administration (DEA), Mexico and China are the primary source countries for fentanyl smuggled into the US.[32] Mexican cartels process and traffic fentanyl and other illicit drugs in high-volume loads, fueling drug use and its associated impact on the US population.

As the US State Department finds, corruption "continues to significantly impede Mexico's drug control efforts."[33] For drug cartels, corrupt Mexican security officials play an essential role in facilitating the flow of illicit drugs through Mexico and across the US border by actively undermining efforts to disrupt trafficking routes and operations.

Anatomy of Security Corruption. Cartel corruption targeting Mexico's security forces takes many forms, depending on the cartels' needs and a security official's capacity to support them. In exchange for sizable bribes, corrupt security officials aid cartels by providing them with classified intelligence, supporting the movement of illegal drugs, targeting rival criminal groups, and actively handicapping security operations. This cooperation empowers drug cartels and leaves the Mexican government incapable of effectively confronting them.

Low- and mid-level corruption in Mexico's security forces is well-known, particularly in local police forces. However, the recent investigations against Gen. Cienfuegos and former Secretary of Public Security Genaro García Luna and other cases show that the reach of cartels' corrupting influence rises to the highest levels of power. US investigators revealed that Gen. Cienfuegos, who oversaw Mexico's army and air force from 2012 to 2018, and García Luna, who oversaw Mexico's federal police from 2006 to 2012, were actively supporting drug cartels in exchange for bribes.

In addition to aiding cartels through leaking sensitive information and redirecting security operations, senior officials such as García Luna and Gen. Cienfuegos allegedly used their power in Mexico's security forces to promote corruption. This includes

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connecting cartels with corrupt officials with whom they can cooperate and moving corrupt officials into positions and postings where they can assist cartels.[34]

The case of Gen. Cienfuegos is particularly concerning since the Mexican armed forces generally maintain a reputation of integrity and effectiveness. This has led the government to give the Mexican military a prominent and seemingly perpetual role operating domestic security and combating cartels. However, it is increasingly apparent that the current institutional checks on corruption in Mexico's military are insufficient. Yet, combating and preventing corruption in Mexico's security forces, particularly the armed forces, has not been prioritized by the government. Indeed, President López Obrador has taken important steps to protect the military from scrutiny while expanding its power and influence.

Corruption and Dysfunction in US-Mexico Security Cooperation. The security of Mexico and the United States is deeply interconnected. As criminal organizations strengthen and spread in Mexico, criminality such as money laundering and illicit drug flows multiply in the US. Demand for illicit drugs, the supply and trafficking of weapons, and vulnerabilities to money laundering in the US also facilitate criminality and insecurity in Mexico. Similarly, the repercussions of corruption, an engine for these threats, do not end at national borders.

Given the United States' national interest in combating the flow of illicit drugs and the spread of cartel violence and the transnational nature of these threats, the US engages in broad-ranging security cooperation with Mexico. This includes capacity building for Mexican security and justice institutions, largely under the framework of the Mérida Initiative, and more operational cooperation against specific targets. However, even as Mexico and the US expend significant resources and adapt strategies to combat drug cartels, corruption undermines these efforts at nearly every turn.

There is a noteworthy history of mutually beneficial and effective cooperation between US and Mexican officials. Multiple Mexican presidents, including Vicente Fox and Felipe Calderón, have catalyzed the transformation of the bilateral security relationship, promoting cooperation and transparency with US officials while establishing important mechanisms for sharing intelligence, training, and developing institutional capacity. This has enabled both governments to make invaluable achievements and progress in combating the shared threats of cartel violence. Nonetheless, bilateral security cooperation has also been severely troubled at times and limited by distrust between US and Mexican officials.

The corruption of some elements of Mexico's police, prosecutors, and armed forces is a primary factor undermining the depth and effectiveness of US-Mexico security cooperation, adding a high level of uncertainty to any joint investigatory or enforcement effort. In reviewing the state of US-Mexico security cooperation, the US Government Accountability Office has repeatedly found that "concerns about corruption within Mexican government agencies often limit U.S. officials' ability to develop a full partnership with their Mexican counterparts."[35]

US concerns about the leaking of intelligence shared with Mexican officials create barriers to operations targeting cartel leaders, drug shipments, and corrupt officials. Such concerns are more than justified given the levels of corruption in Mexican security forces and the frequency of security officials actively cooperating with drug cartels, as exhibited by multiple high-profile cases.

In the cases of Gen. Cienfuegos and García Luna, both high-ranking security officials were charged with actively cooperating with drug cartels and giving them access to classified information, including US intelligence, to avoid capture by security forces and prevent the interdiction of drug shipments.

The case of Joaquín Guzmán, or "El Chapo," also demonstrates how corruption directly undermines bilateral security cooperation. While the notorious drug kingpin was on the loose, US intelligence officials identified his location at least seven times through intercepted communications. However, corruption in Mexico's security forces made it difficult for US agents to identify reliable partners with whom to share the information and capture El Chapo. Multiple planned raids on El Chapo's locations based on

US intelligence reportedly failed due to corrupt counterparts giving the cartel advanced warnings of the planned operations.

The consequences of leaked intelligence go beyond failed raids or the failure to interdict drug shipments. For example, in 2016, Iván Reyes Arzate served as commander of the Mexican federal police's Sensitive Investigative Unit (SIU), in which he served as the "principal point of contact for information sharing between U.S. and Mexican law enforcement personnel assigned to the SIU."[36] In exchange for sizable bribes, Reyes Arzate provided multiple drug cartels with access to US intelligence, including the identity of a DEA informant who was helping the US intercept multiple drug shipments. After the informant's identity was revealed, he was executed by the Beltrán-Leyva cartel.[37] The leaking of US intelligence shared with Reyes Arzate also allegedly set off a 2011 wave of violence and retribution by the Los Zetas cartel in the border municipality of Allende.[38]

The corruption challenges highlighted in these cases represent the broader dysfunction of operational US-Mexico security cooperation due to corruption. Compromised intelligence-sharing channels, endangered sources, purposefully delayed action against targets, and the co-opting of public resources in support of cartels are realities honest officials from both the US and Mexico struggle to contend with. As a result, drug cartels prosper, staying two steps ahead of enforcement actions. Regarding El Chapo, for example, reliable cooperation from Mexican security forces would likely have led to his capture years earlier.

Combating corruption in Mexico's security forces should be a primary priority for the US and Mexico. Without reliable security institutions, cartels will continue to frustrate efforts to dismantle their illicit structures and block their drug shipments. The US and Mexico will also remain severely limited in their ability to cooperate on an operational level against this threat, leading to the continued divergence of security priorities.

Against this backdrop of intelligence leaks and cartel corruption, Mexico's congress has taken the worrying step of passing legislation removing legal protections for DEA agents and obligating them to share all intelligence gathered in Mexico. Beyond the dubious enforceability of these demands, adopted in the wake of the Gen. Cienfuegos incident, such restrictions would effectively dismantle bilateral security cooperation. This prospect is particularly concerning amid the unprecedented security crisis Mexico faces.

Impact of Corruption on Mexican Democracy

Corruption takes a toll on public resources, government effectiveness, economic growth, and security, but perhaps its most worrying effect is on the public's political attitudes: the erosion of public trust in government and political stability. A steady stream of corruption revelations and a seeming lack of accountability have chipped away at the Mexican public's confidence in both its politicians and the underlying political system. The advent of social media and new journalistic platforms have magnified this effect by amplifying the public's awareness of corruption allegations and scandals in Mexico.

In polling by Vanderbilt University's Latin America Public Opinion Project (LAPOP), over the past decade, an average of more than 80 percent of Mexicans said there is broad corruption implicating public officials. In 2016, fewer than half of Mexicans said they supported democracy, and only 26.5 percent said they were satisfied with democracy.[39] Polling also indicates how corruption shapes Mexican attitudes toward government institutions. In 2018, 67.5 percent of Mexicans believed judges were corrupt. A majority of Mexicans also said police and prosecutors were corrupt.[40] (See Figure 2.)

In many ways, these perceptions paved the way for López Obrador's election, bringing broad support for his antiestablishment platform and criticisms of Mexico's political elite. In 2018, the year of López Obrador's election, Mexicans said corruption was the second most important problem facing the country, naming criminality as the first.[41] Corruption allegations against President Peña Nieto and the ineffectiveness of past efforts to combat corruption bolstered López Obrador's candidacy, given his

Figure 2. Perception of Corruption in Mexican Institutions
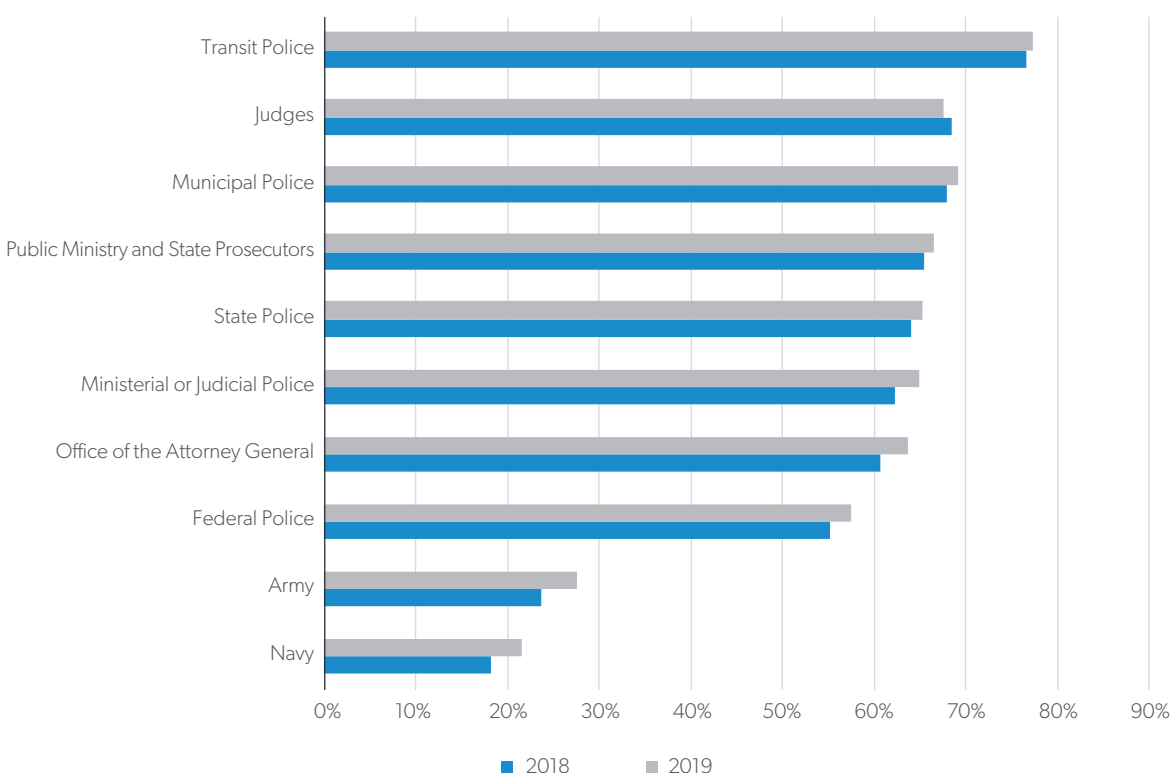
Source: National Institute of Statistics and Geography, *Encuesta Nacional de Calidad e Impacto Gubernamental 2019* [*National Survey on Governmental Quality and Impact 2019*], May 2020, https://www.inegi.org.mx/contenidos/programas/encig/2019/doc/encig2019_principales_resultados.pdf.

general opposition to Mexico's traditional political parties and emphatic calls to end corruption.

The importance of López Obrador's anti-corruption, antiestablishment campaign is visible in the notable shift in attitudes toward Mexican democracy and even Mexican institutions after the 2018 election. According to LAPOP, Mexicans reporting satisfaction with democracy rose by 20 percentage points between 2016 and 2019, to over 46 percent.[42] Confidence in political parties, elections, and congress each increased by approximately 10 percentage points during the same period, after a decade of declines in confidence.

Clearly, a significant portion of the Mexican public puts great faith and optimism in López Obrador's leadership and saw his election as a positive signal of the Mexican political system's health. This also has

created significant expectations for the López Obrador government and its anti-corruption campaign. A failure to meet the Mexican public's expectations could bring devastating results for an already tenuous level of faith in the system of government.

Money Laundering Realities in Mexico

A notable feature of President López Obrador's anti-corruption campaign is its heavy focus on money laundering, including the FIU's central role. Money laundering makes it more difficult to identify illicit origins of the proceeds of corruption and other criminal activity by using shell corporations, funnel bank accounts, and the purchase of real estate and other high-value assets to create distance between illicit

funds and their criminal origins. López Obrador's focus on money laundering is appropriate given the prominence of this activity in Mexico and its role in facilitating corruption and organized crime. However, the challenge of combating money laundering is complex and requires significant and difficult reforms that go beyond the FIU.

While money laundering is a widespread challenge in Mexico, the government has struggled to keep pace with the threat. According to an estimate by Mexico's FIU, $50 billion was laundered in Mexico in 2019.[43] However, Mexico's attorney general reportedly seized only $300 million from money laundering investigations between 2001 and 2014.[44] This has enabled brazen money laundering activity to become common. One recent case revealed that a single address in Mexico City was fraudulently listed as the headquarters of over 1,000 shell corporations.[45]

The ability to launder illicit proceeds from corruption, such as bribery and graft, is key to enabling offenders to enjoy the fruits of their illicit activity without fear of prosecution. FATF, which sets international standards for anti–money laundering policies, states that money laundering and corruption are "intrinsically linked."[46] In its 2020 national risk assessment, Mexico's FIU also identifies corruption as a structural threat and one of three top factors that promote money laundering in the country.[47]

FATF warns that "corruption is more likely to go unpunished in opaque circumstances where the proceeds of such crimes are laundered and cannot be traced back to the underlying corrupt activity."[48] That opacity is a reality in Mexico, where money laundering remains a widespread challenge that facilitates corruption.

For Mexico, a major factor in its vulnerability to money laundering stems from its interconnectedness with the United States. The FIU's 2020 national risk assessment identifies Mexico's geographic proximity to the US ("a major drug consuming country") as a key vulnerability, highlighting that "the daily flow of pedestrians, cars, and merchandise along the border" offers ample opportunities for smuggling illicit drugs, money, and weapons.[49] The US has also been a preferred destination for illicit assets of corrupt officials and criminal organizations through the US financial system and the purchase of high-value goods, such as real estate and art.

The threat posed by pervasive money laundering vulnerabilities goes beyond corrupt officials. The main predicate crimes generating money laundering activity in Mexico are drug trafficking, corruption, and tax evasion, and drug-related activity is believed to be the primary source of money laundering activity in Mexico.

Cartel Money Laundering. For transnational criminal organizations, the ability to move and launder illicit wealth is essential. Access to billions of dollars in drug profits enables cartels to partner with international criminal groups, pay their *sicarios* (hit men), offer large bribes to maintain the loyalty of government officials, and purchase high-powered weapons and equipment to carry out attacks. Laundering methods create distance between illicit funds and the criminal act from which they derive and conceal their true ownership, making it more difficult for investigators to uncover the money's origins.

The expansion of money laundering activity in Mexico is also linked to the growth of transnational organized crime and the increase of violence. In recent years, violence in Mexico has reached record highs even as the Mexican government increases the deployment of resources for its security forces. From 2010 to 2020, there were over 200,000 homicides in Mexico, an increase of 68 percent from the previous decade.[50] Recent years, including 2017, 2018, and 2019, have brought record-high homicide rates in Mexico, propelled primarily by transnational criminal organizations. This comes amid significant increases in spending on public security. Between 2008 and 2015, Mexico increased spending on internal security by 61 percent.[51]

Cartels and illicit actors heavily rely on the ability to move money from the sale of drugs and other illicit activity in the US back into Mexico. Drug cartels and money launderers have developed various methods for accomplishing this, ranging from simple smuggling to more complex methods in which drug profits travel throughout the global financial system.

Laundering and the repatriation of drug profits can be carried out directly by cartel members or outsourced to professional money launderers. Drug trafficking organizations also co-opt various formal businesses, professions, and other actors to obscure the illicit origins of drug money. Notaries, real estate professionals, casinos, and other nonfinancial professions and businesses in Mexico are a particular concern for their prominent role in money laundering and for the continued challenges in ensuring their compliance.

Multiple sources, including reviews by governments and nonprofits, find that bulk cash smuggling remains a dominant drug-related money laundering typology employed by Mexican criminal organizations to repatriate drug profits from the US.[52] This method exploits the daily formal and informal cross-border movements of individuals, containers, and commercial trucking to hide the movement of large amounts of cash. In some cases, this involves additional laundering of illicit funds once they are in Mexico, often through shell companies, foreign currency exchanges, and the purchase of high-value assets with cash, including real estate and fine art.[53]

Apart from bulk cash smuggling, Mexican criminal organizations use well-known laundering methods that exploit formal financial systems such as shell companies, funnel accounts, and the black-market peso exchange to move drug profits from the US to Mexico. Mexico's FIU also warns that cartels increasingly use new methods and technologies such as cryptocurrencies to launder drug funds.[54]

Another novel and worrying method of Mexican cartel money laundering relies on launderers in Asia. The DEA warns that Mexican drug cartels increasingly use Chinese money launderers and the Chinese financial system to launder and move drug profits between the US and Mexico.[55] This trend is partly due to China's foreign exchange controls, resulting in an underserved demand for US dollars in China. This creates an opening for Asian money launderers, in cooperation with Mexican drug cartels, to purchase large quantities of US dollars gained from drug profits. A related cartel money laundering scheme that passes through China involves large international mirror transactions. By colluding with businesses in

the US and Mexico with links to the Chinese financial system, money launderers have transferred substantial drug profits through mirror transactions in Chinese banks. The indirect nature of these transactions, coupled with Chinese authorities' limited cooperation, makes these methods harder to uncover and combat, adding a new and complex challenge for US and Mexican officials tracing cartel finances.

Another essential element of money laundering linked to cartels relates to corrupt Mexican officials, including members of security forces, judges, and prosecutors. As discussed, the ability to corrupt these institutions is essential to the growth of Mexico's drug cartels, enabling them to evade and co-opt the Mexican justice system. The laundering of cartel bribes is a similarly essential component of the illicit relationship between cartels and corrupt officials. Like its predicate crimes, the laundering of illicit revenue from corruption is often international. This can include shell companies, foreign bank accounts, and high-value foreign assets such as real estate. The US, in particular, is a favored destination for corrupt Mexican officials' illicit wealth, as protections for companies and valuable real estate offer opportunities to avoid the detection of illicit wealth.[56]

Anti–Money Laundering Deficiencies. As Mexico has experienced the spread of cartel-related violence over the past several years, the government's increased investment in the security forces has been accompanied by comparatively minimal attention to money laundering as an element of the cartel threat. As a result, serious deficiencies in the country's anti–money laundering framework remain unaddressed.

A 2018 FATF evaluation identified several weaknesses in Mexico's anti–money laundering capacity. These vulnerabilities primarily center on resource constraints, poor coordination among government entities, and legal and regulatory deficiencies, including insufficient oversight of certain forms of business activity and restrictions on the ability to freeze assets.

Some key money laundering vulnerabilities also exist in Mexico's regulatory framework. FATF found that designated nonfinancial businesses, which are often used to launder money, such as casinos, jewelry

Table 3. Money Laundering Prosecutions and Convictions in Mexico, 2010–16

	2010	2011	2012	2013	2014	2015	2016
Number of Prosecutions	115	108	145	111	109	76	43
Number of Convictions	—	—	—	40	23	34	6
Number of Convicted Persons	12	19	19	17	11	15	10

Source: Financial Action Task Force and Financial Action Task Force of Latin America, *Anti-Money Laundering and Counter-Terrorist Financing Measures: Mexico*, January 2018, https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Mexico-2018.pdf.

stores, and real estate, lack sufficient oversight and do not record and report the extent of potentially illicit transactions they observe. Legal challenges, including recent supreme court decisions, also limit the Mexican government's ability to freeze and seize assets suspected to be connected to money laundering and illicit activity. As a result, FATF found that "proceeds of crime are rarely confiscated, and are not pursued as a policy objective."[57]

Another concern for auditors is the insufficient resources given to prosecutors and investigatory bodies focused on money laundering, such as the anti–money laundering offices of the attorney general and FIU. The limited investigatory capacity of these key institutions leaves a significant vulnerability in Mexico's anti–money laundering framework. FATF evaluators noted the impact of limited resources.

> Authorities are not proactive in seeking assistance for international cooperation in an appropriate and timely manner to pursue [money laundering] and associated predicate offenses that have transnational elements, given the lack of capacity to pursue parallel financial investigations and inability to prioritize investigations to trace assets.[58]

FATF also warned that, partly due to resource limits, money laundering is "not investigated and prosecuted in a proactive and systematic fashion, but rather on a reactive, case-by-case basis."[59]

Beyond resource or regulatory challenges, Mexico's anti–money laundering framework has also suffered from deeper structural deficiencies. These include poor coordination among anti–money laundering entities and what FATF describes as the lack of a "comprehensive policy . . . to prioritize the financial investigation and prosecution of [money laundering]

as a standalone offense."[60] As a result, while the FIU can gather a wide range of information on suspicious financial transactions and activity, FATF found that this intelligence does not often lead to launching money laundering investigations and that few cases are presented to prosecutors in Mexico.

A review of case data by Mexicans Against Corruption and Impunity supports FATF's findings. It identified that nearly all money laundering investigations were initiated after individuals were caught in flagrante delicto, or red-handed, by security forces, either transporting illicit cash or otherwise engaged in criminality, rather than originating after the FIU's detection of illicit transactions in the financial system.[61]

Mexico's record of prosecuting money laundering offenses illustrates the cumulative effect of these deficiencies. (See Table 3.) For example, over the past 13 years, the Attorney General's Office opened investigations into over 16,000 suspected cases of money laundering, yet only 44 of those cases concluded in successful prosecutions.[62]

According to other official data, from 2016 to 2018, there were fewer than 20 successful money laundering convictions annually.[63] In its 2020 *International Narcotics Control Strategy Report*, the US State Department found that "the paucity of money laundering convictions is representative of Mexico's prosecutorial capacity."[64]

These vulnerabilities and deficiencies in Mexico's anti–money laundering framework, combined with the level of corruption and organized criminal activity in Mexico, make money laundering a widespread challenge for the country. It is therefore not surprising that anti–money laundering measures were also underused in past anti-corruption initiatives by the Mexican government. For example, the NAS implemented under Peña Nieto sought to coordinate

anti-corruption efforts across government entities; however, its central committees did not incorporate Mexico's FIU. These deficiencies opened a pathway for President López Obrador's anti-corruption campaign to make significant progress on anti–money laundering initiatives, an opportunity his government has only partially seized.

Assessing López Obrador's Anti-Corruption and Anti–Money Laundering Campaign

As President López Obrador ramps up his government's anti-corruption crusade, his efforts are increasingly scrutinized. Observers accuse López Obrador of centralizing power over anti-corruption actions and removing important checks and balances.[65] The result, according to critics, is the targeting of political opponents by officials that play fast and loose with due process rights.[66] The record of high-profile anti-corruption targets, the personalization of anti-corruption initiatives, and the degraded barriers to political independence of investigatory entities are concerning tendencies. In addition, López Obrador's anti-corruption push seems to ignore vitally important corruption challenges, including cartel corruption of the security forces and the lower-level bureaucratic corruption that most directly affects Mexicans.

While López Obrador has strengthened some aspects of Mexico's anti-corruption framework such as the FIU, others have been underused and even weakened by his government. López Obrador's proclivity for austerity, for example, has affected his government's anti-corruption framework. The 2020 federal budget included steep cuts—1.5 billion pesos, or approximately USD 60 million—for the Attorney General's Office that directly affect investigatory capacity.[67] Other institutions with a role in monitoring and combating corruption have also been targets for budget reductions, such as the Secretariat of the Civil Service and the Supreme Audit Institution.[68] López Obrador's administration has also sought to

cut judicial capacity and assumed new oversight over Mexico's judges, including control over assignments and promotions.

Mexico's NAS has also been an awkward element of López Obrador's anti-corruption campaign. In 2016, before becoming president, he criticized the proposed adoption of the NAS, saying it would simply be another "extremely expensive bureaucratic entity" and have no impact on corruption.[69] As president, López Obrador's emphasis on the FIU has left the NAS without a significant role in his anti-corruption push. The 2020 budget was also selective in its support for the NAS, increasing funding for NAS offices that López Obrador controls while leaving others under-resourced.[70] Additionally, López Obrador has been slow to appoint independent magistrates to the NAS.[71] The recent appointment of some of the president's allies to the NAS came after increased pressure from civil society and may bring new concerns over the body's independence.[72]

Even as Mexico's FIU has ramped up its efforts against corruption and money laundering by freezing record amounts of suspicious funds, coordination with the Attorney General's Office has been poor. For example, despite the dramatic rise in frozen accounts, a 1,411 percent increase between 2018 and 2019, the number of criminal complaints referred to the attorney general has increased by just 89 percent. In 2020, this divergence grew as the FIU froze a record 20,017 accounts while the number of criminal complaints fell. (See Figure 3.)

Of the cases presented to the Attorney General's Office in 2019, fewer than 1 percent were prosecuted.[73] These figures point to significant and ongoing coordination issues between the FIU and Mexico's attorney general. The failure to promote coordination among essential anti-corruption institutions has resulted in few prosecutions and the frequent release of frozen funds by Mexican judges.

Despite the government's increasing scrutiny of companies involved in public procurement processes, critics have also grown concerned by the current government's increased use of invitation-only public procurement rather than open tender

Figure 3. Accounts Frozen by FIU vs. Criminal Complaints Presented to the Attorney General
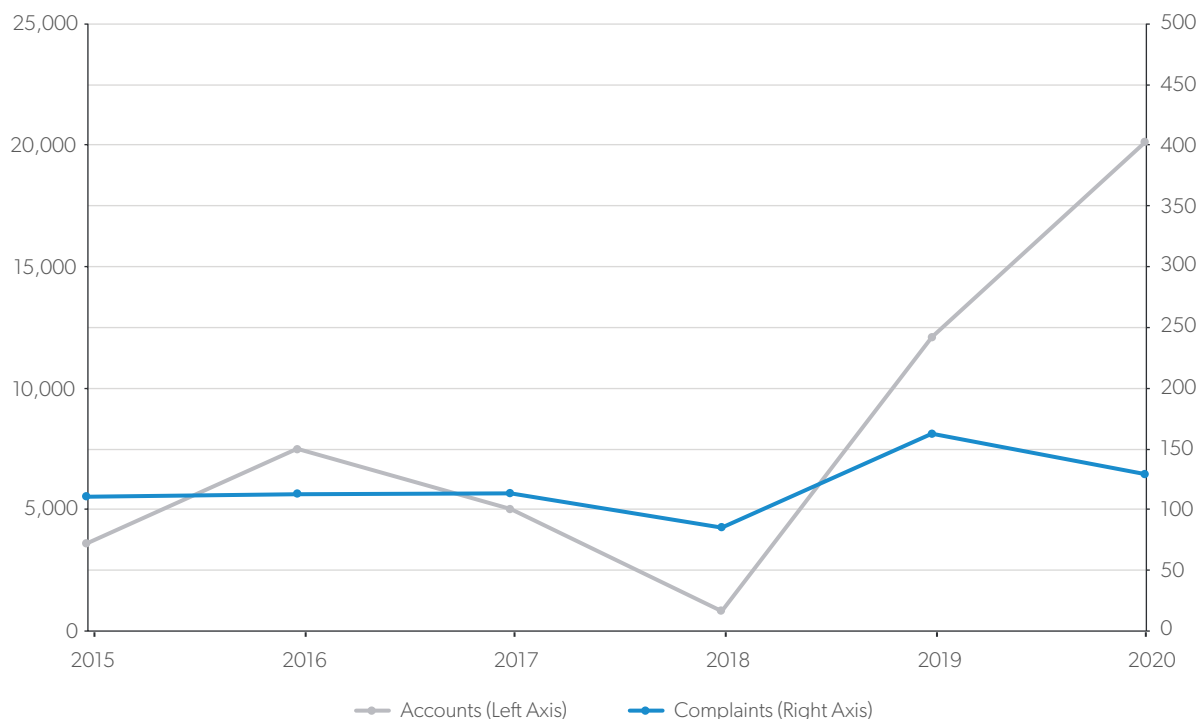
Source: Ministry of Finance and Public Credit, Financial Intelligence Unit, *La UIF en Números 01/01/2015–31/08/2020* [*The FIU in Numbers* 01/01/2015–31/08/2020], https://www.uif.gob.mx/work/models/uif/librerias/Infografias/La%20UIF%20en%20n%C3%BAmeros.pdf; and Jannet López Ponce, "UIF presentó 129 denuncias ante la FGR en 2020 y mantiene 20 mil cuentas blo-queadas" [FIU Presented 129 Complaints Before the FGR in 2020 and Maintains 20,000 Blocked Accounts], *Milenio*, January 6, 2021, https://www.milenio.com/policia/uif-presento-129-denuncias-fgr-2020.

procurement.[74] The best anti-corruption practices indicate the increased transparency and competition of open tender procurement reduce opportunities for corruption. However, the López Obrador government and its allies in congress have instead increased government officials' control over procurement processes, including through the recent adoption of legal reforms.

Of even more concern to some observers has been the alleged misuse and politicization of López Obrador's anti-corruption efforts. The Mexican president bolsters this perception with his own rhetoric by calling critics of his efforts "accomplices of corruption" from the opposing National Action Party and Institutional Revolutionary Party.[75] López

Obrador has also personalized his government's anti-corruption campaign, making himself a key voice for highlighting corruption allegations and instances of successful anti-corruption actions. Politicized rhetoric combined with López Obrador's significant involvement in his government's anti-corruption efforts have raised concerns by observers who fear that due process and impartiality of institutions are in jeopardy.

López Obrador's FIU? President López Obrador's empowerment of the FIU and his efforts to increase its role in the government's anti-corruption strategy are welcome developments, particularly given that past administrations have not prioritized combating

money laundering. However, this empowerment and the FIU's significant increase in activity also raise concerns about the FIU's political independence and its use to target López Obrador's political opponents.[76]

Significant concerns about the FIU center on selecting targets of investigations, freezing assets without a court ruling or order, and selectively releasing information about investigations. The FIU's actions have even drawn criticism from Mexico's attorney general, who suggested the anti–money laundering body did not respect due process and the presumption of innocence.[77]

In some cases, the release of information about ongoing investigations has benefited López Obrador, ending conflicts with critics in the government. In early 2019, during a political row between López Obrador and Guillermo García Alcocer, then head of Mexico's Energy Regulatory Commission, the FIU publicly released details of alleged corruption implicating García Alcocer. Shortly after, García Alcocer resigned and was replaced by an official appointed by President López Obrador, even though García Alcocer's term would have lasted through 2023.

The case of Eduardo Medina Mora raises similar concerns as to the political motivations behind corruption investigations under the López Obrador government and FIU. Medina Mora was appointed as a supreme court justice in 2015, after serving in various government positions including attorney general, director of Mexico's Investigation and National Security Center, and ambassador to the United Kingdom.[78] Medina Mora was reported to have an antagonistic relationship with President López Obrador and frequently frustrated his anti-corruption push by ordering the unfreezing of accounts targeted by the FIU.[79] In July 2019, Santiago Nieto presented allegations of money laundering and corruption against Medina Mora, centering on a prominent IT company owned by the Mora family. While Medina Mora denied the allegations, he resigned in October 2019, hours after the FIU froze bank accounts belonging to him and his family.

Whether the investigations against individuals such as Medina Mora and García Alcocer uncover corruption is beside the point. How investigations

are conducted, particularly regarding the release of information, rightly raises concerns about their use to silence critics. Such concerns are further amplified when the investigations lack clear, condemnatory evidence when they are made public, which is a recurring complaint against FIU investigations.[80]

On multiple occasions, President López Obrador has given the appearance that he exercises an unusually high degree of involvement and control over the FIU. During a press conference, for example, the Mexican president attempted to defend the FIU against criticism by saying, "Santiago [Nieto] does nothing without consulting the president."[81] Critics rightly point out that the level of control López Obrador claims to exert over the FIU is highly inappropriate, breaks with international standards, and undermines the independence and credibility of its actions.

To ensure their effectiveness, financial intelligence units are given significant powers to combat wide-ranging threats posed by corruption and criminality throughout financial systems and economies. This includes access to privileged information on financial activity and even the ability to freeze financial assets and restrict access to the financial system. However, governments also can abuse these powers for political gain; therefore, financial intelligence unit independence is essential.

A report by the Egmont Group of Financial Intelligence Units, an international network designed to promote cooperation and information sharing, highlights the nature and importance of a fully independent financial intelligence unit, stating, "The foundational assumption is that the FIU has the authority and capacity to carry its functions freely, including the autonomous decision to analyse, request and/or disseminate specific information."[82] FATF also strongly emphasizes the importance of protecting the independence and autonomy of key government agencies as a measure against corruption. It advises that this "reduces the likelihood of [institutions] falling under the influence or control of corrupt persons."[83]

The apparently close relationship between López Obrador and the FIU chief also escalates concern over potential bias in the FIU's actions.

A New Protected Elite. Impunity for well-connected Mexican officials engaged in corruption has long been a challenge. Public frustration with this reality helped propel López Obrador into the presidency. The Mexican president's and his government's actions illustrate his commitment to holding accountable previously untouchable officials. However, his actions also suggest that, instead of combating corruption impunity across the board, López Obrador is shifting the shield of political protection to a new group of officials, comprised of his political allies and useful institutions.

That the López Obrador government's most prominent anti-corruption targets can be classified as political opponents can be partially explained by the previously long-standing dominance of establishment political parties. However, the relative lack of investigations and anti-corruption actions targeting the suspect activities of his own officials and allies bolsters the credibility of accusations that López Obrador is misusing anti-corruption institutions. While López Obrador rails against his political opponents' corruption, he consistently dismisses credible allegations of corruption against his supporters and the institutions he favors.

The case of Manuel Bartlett has been held up as an example of the selective nature of the president's anti-corruption push. A journalistic investigation found that Bartlett, who serves as the head of Mexico's state energy company Federal Commission of Electricity (CFE), had hidden nearly two dozen high-value properties and residences, omitting them from mandatory disclosure documents. Bartlett is accused of declaring just one-sixteenth of his actual net worth, with numerous properties fraudulently listing his spouse and children as the owners.[84] Following public pressure, the López Obrador government's federal comptroller launched a probe into Bartlett's case. The short-lived probe ended in December 2019 with the comptroller declaring no evidence of wrongdoing. However, critics question the depth of the probe and point out that it investigated only Bartlett's actions during the year he had already served as head of the CFE. López Obrador, meanwhile, dismissed the accusations

against Bartlett as a ploy by his political opponents. He has similarly dismissed broader critiques of his anti-corruption push, saying those who criticize him do so because they seek to protect the system of corruption he aims to dismantle.[85]

On multiple additional occasions, López Obrador has defaulted to downplaying corruption allegations against his political allies, associates, and even family members.[86] Recent events, including the arrest and release of Gen. Cienfuegos, suggest the veil over accountability also covers institutions that are politically important for López Obrador such as the armed forces.

Ignoring Security Corruption. The Mexican government's insufficient attention to deep and expanding corruption in security forces is an especially worrying deficiency of the current anti-corruption campaign. López Obrador is not the only Mexican president who has failed to properly address this challenge. Corruption in the police forces, for example, has been a persistent issue. However, the increasingly perilous security and corruption challenges facing the country raise the stakes.

Inattention to security and cartel corruption aligns with López Obrador's broader downplaying of security threats and transnational organized crime in Mexico. While corruption and transnational organized crime are intimately connected, López Obrador often treats them as separate issues, even claiming that corruption is more harmful than organized crime.[87] These beliefs have apparently shaped the direction and priorities of his government's anti-corruption and anti–money laundering efforts, leaving security corruption as a general blind spot. As a result, much of the increase in high-profile anti-corruption activity primarily centers on political corruption such as graft while giving less attention to cartel-related corruption and laundering of drug money.

In addition, little progress has been made in addressing the challenge of corruption in Mexico's security forces, including police forces and some military branches. High-level investigations and actions focused on corruption involving cartels and members of the security forces remain largely

reactive to public outrage over shocking attacks or to investigations by the US government.

The Mexican government's handling of the case of Gen. Cienfuegos also reveals a disconcerting attitude toward cartel corruption. Mexico's aggressive diplomatic effort to secure the return of Gen. Cienfuegos and the government's subsequent, uncharacteristically rapid decision to not prosecute the military leader show a willingness to proactively block anti-corruption scrutiny targeting the armed forces. This is generally believed to be due to a mixture of nationalistic motivations and the central role of the armed forces in ensuring governance and stability. The additional threats by the Mexican government to undermine US-Mexico security cooperation, including endangering the DEA's operations and releasing sensitive US case documents, in the wake of this diplomatic incident strongly suggest that the López Obrador government will continue to resist deep scrutiny of cartel corruption in the military.[88]

Measuring Public Support and Impact. Despite the controversies surrounding López Obrador's anti-corruption campaign, the Mexican public generally supports the government's handling of corruption and efforts to hold past officials accountable. However, a closer examination of survey data shows that the most prevalent forms of corruption remain unaddressed.

In 2019, Mexicans' rating of their government's anti-corruption efforts was among the highest in Latin America, with 61 percent approving of how the government is addressing corruption, compared to 36 percent who disapprove.[89] By comparison, in 2017, Peña Nieto's fifth year in office, only 24 percent of Mexicans approved of the government's handling of corruption, while 61 percent disapproved.[90] Polling from 2020 shows that the public's confidence in the government's anti-corruption efforts remains high despite rising concerns and criticism by observers.[91]

López Obrador's election and his anti-corruption efforts also improved the public's perception of corruption levels in Mexico. From 2017 to 2019, the percentage of Mexicans who believed corruption in their state was frequent or very frequent fell from 91.1 percent to 87 percent, with only one of

32 Mexican states seeing a statistically significant increase in perceptions of corruption prevalence.[92] Mexico also rose eight places in Transparency International's corruption perceptions index from 2018 to 2019.[93] Notably, López Obrador's efforts do not enjoy the support of the political class outside his political movement, largely due to the politicization of anti-corruption efforts. This may endanger the viability and longevity of his government's reforms and even the institutions he has empowered.

Additionally, the anti-corruption efforts during López Obrador's first year in office did not reduce the Mexican public's personal experience with corruption. Survey data show a statistically significant increase from 2017 to 2019 in the percentage of Mexicans reporting personal experiences with corruption during interactions with government officials. From 2017 to 2019, the proportion of Mexicans who reported contact with a public servant and experienced an act of corruption during the related procedure rose by 7.5 percent.[94]

This discrepancy suggests that the reduction in the perceived frequency and level of corruption after López Obrador took office was initially disconnected from the Mexican public's reality of corruption experiences. The discrepancy may also be a result of the nature of the government's anti-corruption campaign. While there is progress in targeting some high-profile corruption by political elites and former officials at the highest levels of the Mexican government, such progress has been largely absent from the middle and lower levels of government, where Mexicans most sharply feel the direct impact of corruption. This reveals the need to reorient and expand anti-corruption efforts to address corruption challenges beyond high-profile cases at the top government levels.

Recommendations for the US

The Gen. Cienfuegos incident has heightened the Mexican government's resistance to US anti-corruption actions and brought the broader security relationship to a perilous moment. Nonetheless,

decreasing US efforts to combat corruption in Mexico would be the wrong response. Turning a blind eye to corruption and permitting a cloud of distrust to form over US-Mexico security cooperation are what led to this crisis moment. Such a response would also send an unmistakable and dangerous signal of permissiveness for corruption in Mexico's security forces and beyond.

Instead, the Biden administration must promote anti-corruption as a central issue in the bilateral relationship. It can do this by working to rebuild trust between US and Mexican officials, address legal and regulatory vulnerabilities to money laundering, and combat cartel money laundering. It must not shy away from shining a light on corruption that may exist in uncomfortable places.

US officials will have to strike a balance between securing Mexico's cooperation on anti-corruption efforts and using unilateral action to target address-shielded corruption targets, particularly when corruption directly affects the US.

Commission a Binational Study of Money Laundering Linked to Corruption. Money laundering practices are constantly evolving to exploit new opportunities, meet shifting demands, and adapt to new regulatory and enforcement actions. Corrupt officials and money launderers thrive partly because of the barriers that national borders pose to investigators, disconnect among investigators from different governments, and differing national understanding and prioritization of the threats. Therefore, promoting a shared and up-to-date understanding of money laundering linked to corruption is crucial for bilateral cooperation on enforcement and investigatory efforts by the United States and Mexico. This exercise, and any follow-on actions, should also be built around the urgent goal of creating and restoring trust between US and Mexican investigators.

The US and Mexico should jointly commission a binational study and report on corruption and money laundering, bringing together officials and investigators from the US Treasury Department, Mexico's FIU, and other agencies and ministries focused on anti–money laundering and anti-corruption. The study

should center on identifying trends, typologies, and vulnerabilities regarding the cross-border movement of these illicit financial flows and emphasize novel threats such as the role of Chinese money laundering and cryptocurrencies. Past examples of such initiatives serve as a model, including the 2010 *United States of America–Mexico Bi-National Criminal Proceeds Study* involving the US Department of Homeland Security, Mexico's FIU, and other government entities.[95] A public report should be presented before appropriate Mexican and US congressional committees to highlight and promote the need for any legislative remedies.

Beyond providing essential insights into trends in the laundering of corrupt proceeds, a binational study can and should be used to launch a renewed bilateral commitment to combating this threat. Such an effort should include new, specialized funding to bolster the investigatory capacity of the US Treasury Department and Mexico's FIU to identify illicit financial flows between the US and Mexico tied to government corruption. Other mechanisms, such as the creation of complimentary bilateral task forces on corrupt financial flows, should also be explored as potential measures to ensure an ongoing bilateral commitment and the effective, secure exchange of information.

Increase Funding to Identify and Disrupt Illicit Financial Flows in the US. While the US has an advanced anti–money laundering framework, the US financial system and economy continue to attract the money laundering of billions of dollars of illicit drug and corruption funds. US banks, real estate, trade transactions, luxury goods markets, shell companies, and nonfinancial businesses continue to serve as paths for the flow and laundering of illicit cartel and corruption money in the US, thus facilitating the expansion of these key threats.

The challenge in blocking these funds stems from the sheer scope of the money laundering threats facing the US. Officials in the Treasury Department are charged with the daunting but essential task of protecting the global financial system from the constant flow of illicit funds from global kleptocracy,

tax evasion, drug trafficking, global terrorism, and other predicate crimes. However, key institutions such as the Financial Crimes Enforcement Network operate with minimal budgets. In addition, the post-9/11 priority of combating terrorist finance continues to draw attention and resources away from threats such as Mexican cartels and corruption.

To remedy this, the Biden administration and US Congress should provide additional and specialized funding to the Treasury Department with the express purpose of boosting its capacity to investigate the US-based money laundering activity of cartels and corrupt officials in Mexico. This measure would also be an important signal to Mexico about the United States' commitment to addressing these shared threats on both sides of the border.

Increase US Sanctions and Operationalized Anti-Corruption Actions in Mexico. Anti-corruption assistance and cooperation between the US and Mexico largely center on the broad promotion of transparency and accountability through trainings for officials, the empowerment of civil society, and support for reforms to the judicial system. Such assistance is necessary and has the added benefit of generally not irritating the larger bilateral relationship. However, reforms and training are not sufficient to extricate deeper, more entrenched corruption seen in many parts of the Mexican government.

In many ways, operational US actions in Mexico around targets such as El Chapo, García Luna, and Gen. Cienfuegos have been the most effective in uncovering and extricating resilient, high-level corruption in Mexico. However, these operations have been limited in scope due to their inherent complexity, resource constraints, concerns about diplomatic implications, and other limiting factors.

Operational anti-corruption actions, including the investigations, sanctions, and prosecutions carried out by the DEA, Department of Justice, and Treasury Department, are needed to root out and uncover corruption in Mexico's security forces and beyond. While recent legislation in Mexico threatens the DEA's ability to operate in Mexico, it is vital that the US and Mexico work together to preserve the DEA's presence. The US should also increase its support for these efforts by designating additional resources and prioritizing anti-corruption and anti–money laundering in the bilateral relationship.

One sphere ripe for expanded action is US sanctions against corrupt individuals in Mexico. Sanctions offer the US the ability to name and shame corrupt officials and others who either can evade detection by Mexican investigators or enjoy special political protections putting them beyond accountability. Sanctions and related financial investigations by the US are also an essential tool for supporting the Mexican government's anti-corruption efforts, as such actions can enable Mexican authorities to bypass domestic legal barriers on freezing financial accounts and other anti-corruption actions. The US should particularly prioritize expanding the capacity of the Treasury Department's Office of Foreign Assets Control by allocating additional resources and personnel dedicated to targeting cartel-linked corruption and money laundering in the US and Mexico.

When used strategically, sanctions and other US actions can help force Mexico's attention to and action against targets that otherwise occupy anti-corruption blind spots or benefit from political protection, such as targets in the security forces. Even if the Mexican government does not take subsequent action, sanctions will deny targets access to the US while naming and shaming them, which can effectively marginalize corrupt officials if they are in sensitive positions of power.

Combat Anonymous Shell Companies and Bolster Detection of Bulk Cash Smuggling. The US can and should do more to combat corruption and money laundering in Mexico by addressing prominent vulnerabilities exploited by illicit actors. While multiple issues need addressing, two top priorities center on the requirements for beneficial ownership of corporations and insufficient controls over bulk cash smuggling. Addressing these US vulnerabilities is also an important step toward securing increased commitments from Mexico to address issues of US concern.

Corrupt officials and drug traffickers often maneuver illicit funds through the US financial system by using shell companies. Until recently, money launderers could create and use anonymous shell companies to hide illicit funds, creating a dead end for numerous financial investigations. The recent adoption of beneficial ownership requirements through the Corporate Transparency Act marked a major achievement in US anti–money laundering efforts. However, examples from abroad show that the effectiveness of beneficial ownership requirements depends greatly on their implementation. The Biden administration must work to ensure proper implementation through guidance and evaluation with relevant private-sector partners. The new information gained through beneficial ownership requirements must also be integrated into a renewed and targeted effort by the Treasury Department to uncover how corrupt officials use shell corporations to launder the illicit funds.

Another issue the US should address more extensively is bulk cash smuggling between the US and Mexico. Generally regarded as a dominant method in moving illicit drug profits into Mexico, bulk cash smuggling is a key aspect of illicit financial flows funding cartel activity and corruption. Much of the operational activity of bulk cash smuggling occurs on the US side, including identifying routes, recruiting smugglers, and securing vehicles or other means of transporting illicit cash. The US should bolster its focus on combating bulk cash smuggling by increasing training and coordination with local law enforcement and federal agencies and increasing detection mechanisms and protocols at border crossings. It should also monitor and combat changing methods in bulk cash smuggling such as clandestine maritime transport to Central America.

Addressing these issues also offers the US valuable diplomatic leverage to pressure Mexico into addressing its own anti-corruption and anti–money laundering deficiencies, including an increased focus on security corruption.

Priorities and Recommendations for Mexico

The US should also use the tools and strategies in the preceding recommendations, combined with diplomatic engagement, to push Mexico to address the following deficiencies and blind spots in its anti-corruption and anti–money laundering efforts.

Depoliticize Anti-Corruption Efforts in Mexico. Anti-corruption investigations are key to building the capacity of Mexican institutions and bolstering the rule of law. While corruption investigations should not shy away from holding even prominent politicians accountable, prosecutors and other officials should ensure the equitable and fair treatment of suspects. The perception that López Obrador and his predecessors have shielded allies from corruption investigations while targeting opponents delegitimizes anti-corruption efforts for certain sectors of the Mexican public, making it less likely that positive reforms will outlast the presidencies that implement them.

Therefore, President López Obrador must work to build a broad political consensus for his anti-corruption campaign and address concerns that political motivations may be influencing his government's investigations. López Obrador should reverse his push for centralized power and protect the independence of institutions such as the FIU. The NAS, properly used, can also play an important and positive role in ensuring the unbiased investigation and penalization of corruption.

Broaden Anti–Money Laundering Capacity. To reverse the tide of violence in Mexico, the López Obrador government should continue its emphasis on money laundering by taking additional steps to empower the various Mexican institutions tasked with preventing this activity. As the US State Department concludes, "To increase the number of money laundering convictions, the government needs to combat corruption and improve investigative and prosecutorial capacity."[96]

President López Obrador's empowerment of Mexico's FIU is an important step toward this goal. However, the Attorney General's Office, the NAS, and specialized units in the Tax Administration Service are also key institutions to anti–money laundering efforts that remain under-resourced. The Mexican government should also increase its oversight of designated nonfinancial businesses such as real estate, casinos, and jewelry stores to reduce the widespread use of these businesses by money launderers.

Expand Focus on Corruption Linked to Organized Crime. Rising violence levels and the continued dominance of cartels in some parts of Mexico make combating organized crime a vital task. President López Obrador has focused his government's anti-corruption campaign on political corruption with a particular focus on high-level political officials. However, this campaign should expand its focus on organized crime.

Political corruption and organized crime are intimately linked. However, cracking down on high-profile cases of graft and vote buying will have little comparative effect on the urgent challenges of organized criminal activity and cartel corruption. Cartels rely on bribing judges and security officials such as police and customs officers to facilitate their illicit activity and promote impunity. Recent cases, including those against top Mexican security officials, show the deep penetration of cartel corruption into security and judicial institutions. Therefore, President López Obrador should direct Mexico's attorney general and FIU to increase their focus on addressing corruption on these levels and in the government institutions most likely to be compromised by cartel corruption. This directive should include the appropriate resources for investigators and prosecutors.

Increase Anti-Corruption Focus on Mid- and Lower-Level Officials. Corruption at the national level implicating top officials is undoubtedly important to combat. Such corruption attracts the most attention, can shape the public's perceptions about corruption and the state of the country, and sends

a signal to officials about the risks of engaging in corruption.

However, combating corruption at the highest levels cannot be the sole focus of a successful anti-corruption campaign, particularly in a country such as Mexico where the corruption that most directly affects citizens exists in local bureaucratic offices and police forces. To truly combat corruption and its effects, Mexico should expand its focus to address the mid- and low-level corruption that has taken root in government bureaucracies and security forces.

Beyond expanding the investigatory focus of anti-corruption efforts to increase scrutiny on mid- and low-level officials, one important way to combat lower-level bureaucratic corruption is to promote simplifying bureaucratic procedures. Doing so can reduce opportunities for corrupt officials to abuse their power and victimize those seeking to engage in government procedures.

Conclusion

A diplomatic row over the US arrest of a former Mexican defense minister has propelled anti-corruption and bilateral security cooperation to the top of the agenda in the US-Mexico relationship. However, such a crisis may have been inevitable, as both governments have too often downplayed or looked away from rising corruption and high levels of distrust between US and Mexican officials.

As with the drug epidemic, both the US and Mexico bear responsibility for addressing corruption and money laundering. This includes addressing the domestic and bilateral vulnerabilities of financial systems and enforcement institutions.

The Biden administration can work with Mexico to turn the tide for the bilateral relationship and in the struggle against the shared threats of corruption and money laundering, but it must not shy away from targeting corruption. The US should promote enhanced cooperation on investigating corruption, money laundering, and cartel finances and prioritize efforts to build and restore trust between US and Mexican officials.

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