growing economic vulnerability eroded investor confidence in Mexico and set the ground for the dramatic events of December 1994 and early 1995.

Yet the political events of 1994 were not just isolated occurrences. To a considerable degree, they were symptomatic of a more profound systemic transition in Mexico's post-revolutionary political order. The institutional cornerstones and political rules of the *ancien régime* have come under duress. As of yet, the foundations of a new order -- a new social consensus -- have still not been laid. Until they are, Mexico will continue to be prone to episodes of political shocks and the consequent repercussions of financial market instability.

The Paper is divided into four parts. First, it examines the political shocks and cyclical factors during 1994 that set the background for the December peso crisis. Second, it looks at the systemic roots of the present crisis, focusing on the pressures for change in the post-revolutionary order's institutional cornerstones and political rules. The following section addresses the question of which direction political change is taking Mexico: revolution, evolution or devolution. The Paper concludes with a discussion of the implications for Canada.

2. Conjunctural Political Factors

There were two sets of conjunctural political factors that compounded Mexico's economic weaknesses during 1994: a series of political shocks and problems inherent in Mexico's six-year political cycle.

2.1 The Political Shocks of 1994

During 1994, Mexico encountered a degree of political turbulence unknown since the violent days of the Mexican Revolution. The year was marked by an indigenous peasant rebellion in the southern state of Chiapas, the assassinations of two high-level political leaders, the kidnappings of several prominent business people, and open political infighting among the elites of Mexico's longstanding ruling party, the Institutional Revolutionary Party, or "PRI" for short.

There has been considerable debate over the role played by these political shocks throughout the course of the year on the Mexican peso crisis. After all, economists correctly point out that Mexico had developed a number of economic weaknesses that could not be sustained in the long run. These included: a growing current account deficit that reached eight percent of Gross Domestic Product (GDP) by the end of 1994, a record trade deficit of US$18.5 billion for the year, an overvalued peso, a mounting problem of non-performing loans in the banking sector,