

brought to bear on Canada's evolving relations with other neighbours in the hemisphere and the developing world.

5.2 Enhancing Surveillance Through a Political Economy Approach

According to the G-7 and the International Monetary Fund,³⁰ one of the most important lessons of the Mexican peso crisis is the need for enhanced surveillance of national economic policies and financial market developments in order to reduce the likelihood of future crises. The preceding analysis has underscored the importance of political factors in the genesis of the events of December 1994. Therefore, improving surveillance and the early warning system recommended by these multilateral institutions requires adopting a political economy approach to emerging markets.

As Canada deepens its ties with its neighbours, it will require better knowledge of them. Canadians must be better prepared to anticipate the next time a Mexican-style crisis arises among future partners. The Government of Canada can improve its own analysis of emerging markets in several ways:

- designating the political economy of emerging markets as a priority area for independent research and analysis through the outreach funding programme announced following the conclusion last year of the federal government's foreign policy review; and
- arranging periodic internal seminars or "reality check" sessions that bring together government officials and outside experts in focused but informal discussion. These events should be concentrated as much on anticipating future developments and prospects as on learning from past experiences. Concerning Mexico, a medium-run concern should be to assess the potential political, economic and financial market implications of Mexico's 1997 mid-term elections.

5.3 Indirect Support of Reforms

Canada's respect for the sovereignty of its neighbours, its official assistance policy toward middle-income countries and the relatively small size of its economic relationship with Mexico in comparison with the United States limit its ability to

³⁰See G-7, "Halifax Summit Communiqué," June 15-17, 1995; G-7, "Review of International Financial Institutions: Background Document," Halifax Summit, June 15-17, 1995; IMF, **Annual Report 1995**; Paul R. Masson and Michael Mussa, "The Role of the IMF: Financing and Its Interactions With Adjustment and Surveillance," IMF Pamphlet Series No. 50, 1996.