

Executive Summary

In contrast to the prevalent economically-oriented analyses of the Mexican peso crisis and its aftermath, this Paper offers a political economy interpretation of Mexico's current situation. It was against the backdrop of persistent political shocks that the genesis of the crisis occurred. The juxtaposition of political turbulence and growing economic vulnerability eroded investor confidence in Mexico and set the ground for the dramatic events of December 1994 and early 1995.

While the role of conjunctural political factors is examined, the political events of 1994 were symptomatic of a deeper, more systemic transition in Mexico's post-revolutionary political order. The Paper thus concentrates on important changes to the country's institutional cornerstones and political rules of the game. Until the foundations of a new order are laid -- a new social consensus -- Mexico will continue to be prone to episodes of political turbulence and the resultant repercussions of financial market instability. The analysis underscores the need for Mexico to get its politics right in order for it to progress economically. A new *modus vivendi* must be agreed upon and institutionalized among Mexico's elites, social classes and interest groups in order for the country to redefine itself successfully. In this regard, new accommodations are occurring, but much work remains, requiring persistence and patience.

The Paper considers the direction of current political change in Mexico. While a revolutionary outcome is unlikely, there are both evolutionary and devolutionary tendencies in the country's transition process. At the same time, important continuities with the past -- such as a strong presidency -- have a stabilizing effect on Mexico's path forward.

A final section considers the implications of the Paper's analysis for Canada. Four modest recommendations are made:

- Mexico should be considered a "pilot partner" for Canada. The lessons and insights from Canada's ongoing experience with Mexico should be brought to bear on Canada's evolving relations with other developing country partners.
- In the interest of improving the surveillance and early warning system advocated by the G-7 and IMF, a political economy approach to analyzing emerging markets should be adopted.