confidence. This was both the linchpin and the Achilles heel of the emerging market-oriented model. In a capital-deficient economy with low domestic savings such as Mexico's, economic growth depended on steady inflows of investment from abroad. A great deal of governmental effort was put into public relations, or "expectations management": selling the country as a promising destination for investment.[7] Market reforms, the decline in inflation from 160 percent in 1987 to less than 10 percent in 1994, a seemingly stable currency, and the signing of the NAFTA made Mexico initially quite easy to sell. The odd, isolated political shock might have been possible to account for, but persistent political turbulence badly damaged the country's sales pitch. As quickly as it arrived, investment capital fled the country, especially when more secure and financially attractive alternatives appeared in the context of rising interest rates in the United States and elsewhere.[8] In retrospect, the combination of political instability and economic vulnerability, together with international capital mobility, proved a recipe for disaster.

2.2 Political Cyclical Factors

The peso crisis also had a lot to do with timing, with Mexico's political cycle. The Mexican political system is characterized by six-year presidential terms called "*sexenios*". Two major events occurred during the last year of the Salinas *sexenio*: the presidential election of August 21 and the formal transfer of power from Salinas to Zedillo on December 1. These factors constrained the ability of Mexican authorities to respond effectively to growing economic and financial problems.

The presidential election contributed to the peso crisis in two ways. First, the Mexican authorities' scope for economic measures was constricted by the government's desire for its candidate to win. In the competitive climate of 1994, a pre-election devaluation of the new peso and the resulting increase in inflation could have negatively affected the electoral fortunes of Colosio, or Zedillo. Political survival concerns also prevented the adoption of higher interest rates after the assassination of Colosio as a countermeasure against capital flight and attacks on the peso. Instead, authorities opted to defend the exchange rate, reassuring investors by converting short-term peso-denominated *cetes* into short-term dollar-indexed *tesobono* government securities. In retrospect, we know that the *tesobono* policy decision

[7]The salesmanship or "expectations management" characteristic of the emerging market-oriented model in developing countries is discussed in Ian Roxborough, "Neo-liberalism in Latin America: Limits and Alternatives," **Third World Quarterly** 13, 3 (1992):421-40.

[8]It is worth noting that Mexican investors themselves were among the first to abandon the peso.