a declining domestic savings rate (especially private savings), increasing reliance on external inflows of short-term, speculative capital from abroad, pronounced sensitivity to interest rate trends in the United States and generally lacklustre GDP growth performance. In fact, several well-respected economists including Rudiger Dornbusch, Christopher Whalen and Moisés Naím had underscored the need to redress these problems and devalue the peso well before the fateful devaluation decision of December 20 1994.[4]

Nevertheless, some point out that the country's international reserves reached a record level of close to US$30 billion in early March 1994, *after* and *despite* the January 1 uprising of the *zapatista* rebels in Chiapas. That is, instead of falling, they grew from US$25.5 billion at the end of 1993.

There are two responses to this seeming paradox. First, the Chiapas crisis was overshadowed by the U.S. Congress' recent ratification of the North American Free Trade Agreement (NAFTA) in November 1993; the successful passage of NAFTA was the green light for a subsequent deluge of foreign direct and portfolio investment inflows into Mexico.

Second, it was the *persistence* and *accumulation* of political shocks that contributed to subsequent strong financial and economic reverberations. Chiapas on its own put international investors into yellow alert, as many clearly sensed that all was not well in Mexico. At the same time, Chiapas was perceived to be too geographically removed from central and northern Mexico to be any real threat to foreign investment. However, the tandem of Chiapas and the assassination of the PRI's presidential candidate Luis Donaldo Colosio on March 23, 1994 put international investors on red alert; something was definitely wrong with Mexico. There was open speculation that the principal architects of the crime came from within the PRI itself. In the weeks immediately following Colosio's tragic death, international reserves dropped to $US17 billion as authorities defended the peso against attack.

Subsequently, several confidence-building measures temporarily helped restore faith in the Mexican authorities' ability and intent to defend the exchange rate. For instance, the governments of the United States and Canada extended timely US$6 billion and Cdn$1 billion lines of credit respectively to bolster the peso. In addition, the Mexican government began to convert peso-denominated public securities --"*cetes*"--

---

[4]See Rudiger Dornbusch and Alejandro Werner, "Mexico: Stabilization, Reform, and No Growth," **Brookings Papers On Economic Activity** 1 (1994): 253-315; Christopher Whalen, "The Coming Mexican Devaluation," **The International Economy** (January/February 1993): 61-5; Moisés Naím, "Latin America: Post-Adjustment Blues," **Foreign Policy** 92 (Fall 1993): 133-50.