

CA1
EA533
96P02
ENG
DOCS

POLICY STAFF PAPER

No. 96/02

Department of Foreign Affairs
and International Trade



Ministère des Affaires étrangères
et du Commerce international

CANADA

CHANGES in the NEIGHBOURHOOD:

Reflections on Mexico in Transition

by

Thomas Legler

Norman Robertson Fellow
Economic and Trade Policy Division (CPE)

(February 1996)

SP75A

Policy Staff papers are intended to foster discussion of international trends and issues by the foreign policy community. The opinions expressed are not necessarily those of the Government of Canada.

Please address any comments and questions concerning this paper to Policy Staff (CPB), Foreign Affairs and International Trade, 125 Sussex Drive, Ottawa, Ontario K1A 0G2. (Tel.: (613) 944-0367; fax: (613) 944-0375.) For copies of this paper, please contact the Department's Info Centre (SKIO) (1-800-267-8376; Ottawa region tel: (613) 944-4000 fax: (613) 996-9709) and indicate Code SP75A.

Ce document est également disponible en français.

**Changes in the Neighbourhood:
Reflections on Mexico In Transition**

Executive Summary.....3

Résumé.....4

1. Introduction.....6

2. Conjunctural Political Factors.....7

 2.1 The Political Shocks of 1994.....7

 2.2 Political Cyclical Factors.....10

3. Mexico's Systemic Transition.....13

 3.1 The Logic of the Post-Revolutionary Order.....13

 3.2 The Rules of the Game.....15

 3.3 The Gradual Demise of the System.....16

 Diagram: Political Continuity and Change.....20

4. Political Change: Evolution, Devolution or Revolution?.....24

5. Implications for Canada.....26

 5.1 Mexico as a "Pilot Partner".....27

 5.2 Enhancing Surveillance Through a Political Economy Approach.....28

 5.3 Indirect Support of Reforms.....28

 5.4 Cultivating Influence.....30

43 276 037

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.

- Canada should seek to project its values abroad -- respect for human rights, democracy and the rule of law -- by enhancing its *indirect* means of supporting the consolidation of reform in Mexico.
- Canada should strive to cultivate opportunities for greater personal contacts between the two countries.

Résumé

Contrairement aux analyses courantes à tendance économique de la crise du peso et de ses suites, le présent document présente une interprétation politico-économique de la situation mexicaine actuelle. C'est dans un contexte de secousses politiques constantes que s'est dessinée la genèse de la crise. La juxtaposition de la turbulence politique et de la vulnérabilité économique croissante a sapé la confiance des investisseurs et a servi d'entrée en matière aux événements dramatiques de décembre 1994 et de début 1995.

Outre les facteurs politiques conjoncturels, les événements politiques de 1994 étaient symptomatiques d'une transition plus profonde et davantage systémique dans l'ordre politique post-révolutionnaire du Mexique. Ainsi, le document porte surtout sur les changements importants qu'ont subis les institutions fondamentales et les règles du jeu politique du pays. Jusqu'à ce que les bases d'un nouvel ordre aient été jetées — un nouveau consensus social — le Mexique demeurera susceptible à la turbulence politique épisodique et à l'instabilité des marchés financiers résultante. L'analyse souligne le fait que le Mexique doit d'abord rétablir sa situation politique pour pouvoir progresser sur le plan économique. L'élite, les classes sociales et les groupes d'intérêt doivent se mettre d'accord sur l'adoption et l'institutionnalisation d'un nouveau mode de vie afin que le pays puisse se redéfinir avec succès. En dépit de nouveaux accommodements, il reste beaucoup à accomplir, ce qui exigera de la persistance et de la patience.

Le document examine la direction des changements politiques actuels au Mexique. Bien qu'une issue révolutionnaire soit improbable, il existe dans le processus de transition des tendances à l'évolution aussi bien qu'à la dégénérescence. Par ailleurs, des éléments de continuité avec le passé, comme une présidence forte, ont un effet stabilisateur sur l'avenir du Mexique.

La dernière section porte sur les incidences de l'analyse du document pour le Canada. Quatre recommandations modestes y sont formulées :

- Le Canada devrait considérer le Mexique comme un « partenaire-pilote » et s'inspirer des leçons tirées de son expérience avec le Mexique et des perspectives qu'elles confèrent pour façonner ses relations avec d'autres partenaires en développement.
- Afin d'améliorer la surveillance et le système d'avertissement rapide préconisé par le G-7 et le FMI, il faudrait adopter une approche politico-économique de l'analyse des marchés naissants.
- Le Canada devrait chercher à projeter ses valeurs à l'étranger, à savoir le respect des droits de la personne, la démocratie et la primauté du droit, en améliorant les moyens *indirects* d'appuyer la consolidation de la réforme au Mexique.
- Le Canada devrait chercher à susciter les occasions de multiplier les contacts personnels entre les représentants des deux pays.

Changes in the Neighbourhood: Reflections on Mexico in Transition

1. Introduction¹

On December 20, 1994, Mexican authorities announced their decision to devalue the Mexican peso by 15 percent, triggering a major panic in Mexican financial markets. When international reserves fell dangerously low after two days of trying to defend the new exchange rate band, Mexican authorities had to adopt a floating exchange regime. Only a timely rescue package on January 31, 1995 assembled by the United States and the International Monetary Fund together with assistance from Canada was able to prevent a total collapse of the Mexican financial system.²

The peso crisis led to a search for explanations. Most of the interpretations underscored the importance of economic factors, such as Mexico's overvalued exchange rate, its reliance on an exchange rate anchor against inflation, the conversion of short-term peso-denominated government securities called *cetes* to short-term dollar-denominated treasury bonds called *tesobonos* at a time of dwindling international reserves, and Mexico's unsustainable current account and trade deficits.³

However, it was against the back-drop of a set of political shocks that the genesis of the peso crisis occurred. This Paper offers a political economy interpretation of Mexico's present crisis. The juxtaposition of political turbulence and

¹The author wishes to acknowledge the generous support furnished by a Norman Robertson Fellowship at the Policy Staff of the Department of Foreign Affairs and International Trade in the preparation of this paper. Useful comments and insights were provided by Keith Christie, Nicholas Coghlan, Robert Noble, Renata Wielgosz, Prakash Sharma, Allen Sutherland and Patricia Fuller. The Mexico Division (LMR) must also be thanked for its assistance. Of course, any shortcomings in the analysis are the sole responsibility of the author.

²The financial assistance package consisted of US\$20 billion from the United States and US\$17.8 billion from the IMF. As part of a Canada-U.S.-Mexico trilateral swap facility established in April 1994, the Bank of Canada provided an expanded Cdn\$1.5 billion line of credit to the bailout.

³For a sample of the more economically-oriented analyses, see Miguel A. Savastano, Jorge Roldós, and Julio Santaella, "Factors Behind the Financial Crisis in Mexico," Annex I, in IMF, *World Economic Outlook* (May 1995): 90-7; OECD, *Economic Survey: Mexico* October 1995; "What Went Wrong With Mexico? - A Post-Mortem. A Symposium of Views," *The International Economy* (March-April 1995): 24-31; Jeffrey Sachs, Aaron Tornell and Andres Velasco, "The Real Story," *The International Economy* (March-April 1995): 14-17, 50-1.

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,

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*"--

⁴See 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.

into dollar-indexed treasury bonds called "*tesobonos*", effectively transferring much of the risk of devaluation from investors onto its own shoulders. Finally, with Ernesto Zedillo's relatively trouble-free election as president on August 21, it looked as if Mexico were now on a more stable course. From the end of April until early November, international reserves remained fairly stable at around US\$16-17 billion.

But events during the autumn months would quickly shatter that illusion. On September 28, the secretary-general of the PRI, José Francisco Ruiz Massieu, was assassinated. Shortly thereafter, there were rumours of an attempt on Zedillo's own life. There were also public allegations by the chief investigator of Ruiz's death, his own brother Mario, that the very executive of the PRI itself, party president Ignacio Pichardo, and secretary-general María de los Angeles Moreno, were involved in the crime.⁵

While these developments were not responsible by themselves in accounting for the peso crisis, they did merge with the growing awareness of Mexico's vulnerable economic position and doubts about the competence or political control of the new Zedillo cabinet to undermine both general domestic and international investor confidence in the country. From a level of roughly US\$16 billion at the end of October, international reserves dwindled to just US\$10.5 billion by December 20. Another political shock would prove the straw that broke the camel's back. On December 19, it was reported that *Subcomandante* Marcos and the *zapatista* guerrilla army had broken through the military cordon and occupied 38 municipalities in Chiapas.⁶ The occurrence helped trigger a renewed capital flight and contributed to the Mexican authorities' decision the following day to devalue the new peso by 15 percent.

Quite simply, had the political situation not been so volatile during 1994, the Mexican Administration would have been better positioned to confront the difficult financial predicament it found itself in at the end of the year. The crucial bridging factor between political events and the economic roots of the peso crisis was investor

⁵These allegations were never substantiated, nor were Ignacio Pichardo or María de los Angeles Moreno ever subsequently brought up on criminal charges. The example is used to demonstrate the open discord within the PRI.

⁶It was subsequently learned that the Mexican press had considerably exaggerated the events of December 19 in Chiapas. Substantially fewer than 38 municipalities were occupied by the *zapatistas*. Nonetheless, in the sensitive market climate of December 1994, the *perception* of imminent, renewed armed conflict in the state strongly contributed to the erosion of investor confidence at the moment.

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

⁷The 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.

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

subsequently contributed in a very strong way to the December balance of payments crisis. Electoral concerns also help explain the adoption of expansionary fiscal and monetary policy that year.⁹ Increased social spending on programs such as the National Solidarity Programme and the agricultural income subsidies programme PROCAMPO together with expanded credit on the part of Mexico's commercial and development banks also added fuel to the fire.

Second, the election run-up unfolded in a climate characterized by unprecedented uncertainty. The open non-conformity of Manuel Camacho, Mexico City's former mayor and the loser in the PRI's presidential candidate selection process, with the nomination of Luis Donaldo Colosio on November 28, 1993 caused much consternation. When Colosio's image was tarnished by the Chiapas uprising, rumours abounded of his possible eleventh hour replacement by Camacho. Even after Colosio's death, Camacho continued to be a thorn in the side of the PRI. Discord between Camacho and Zedillo would eventually lead to the former's resignation as chief government negotiator for the Chiapas peace talks. Colosio's assassination on March 23 precipitated a major panic in Mexican financial markets. Thereafter, the brief resignation in June of Jorge Carpizo, Minister of the Interior and chief executive of the Federal Electoral Institute, triggered momentary alarm about a crisis of governance and the future of the August 21 elections. Just as in the case of the political shocks mentioned above, the prelude to the 1994 election contributed to a steady erosion of investor confidence in Mexico.

The other political cyclical factor affecting the peso crisis was the handover period comprising Salinas's last few months in office and the first months of the new Zedillo government. As one administration wound down and the other prepared to take office, a costly leadership and administrative vacuum developed which seriously inhibited any timely and decisive response to Mexico's pending economic and financial problems. This void was exacerbated by another characteristic of the Mexican political system: the widespread replacement and rotation of the outgoing president's bureaucratic and political personnel by the new president's team. It is often said that due to the immense turnover in personnel, a new administration typically requires from a year to a year-and-a-half to learn the ropes. Despite some important senior-level continuity from the previous Administration, Zedillo's appointees were barely settling

⁹For example, real public sector programme expenditure grew by 5.58 percent between 1992 and 1993 and 12.34 percent between 1993 and 1994. The increase in 1994 of real programme expenditure was more than twice the rate of increase in 1993. These calculations are based on statistics found in Ernesto Zedillo, *Primer Informe de Gobierno: Anexo*(Mexico City: Poder Ejecutivo Federal 1995), p. 46.

into their new positions when the alarming current account situation and problems of capital flight and foreign reserve depletion were thrust upon them.

In the past, Mexican presidents often did their successors the favour of undertaking necessary but unpopular economic corrective measures during their last few months in office. For example, Luis Echeverría in 1976 and José López Portillo in 1982 both undertook a substantial devaluation of the peso. In the words of López Portillo: "A president who devalues is a devalued president". By shouldering the blame, these outgoing presidents made life easier for their successors.

Carlos Salinas de Gortari, however, refused to do the same favour for Zedillo. His reticence was partly due to a desire to go down well in history; it was also attributable to his candidacy to win the nomination to become the World Trade Organization's first director.

As much as the leadership vacuum and administrative turnover reflect a structural weakness of Mexico's political cycle, their impact was reinforced by another trait of the Mexican political system: the largely unaccountable concentration of power in the office of the presidency. This permitted Salinas' personal agenda to take precedence over the economic problems facing the country during the autumn of 1994.

Many Mexico-watchers have observed the cyclical nature of crisis in Mexico. Beginning with the balance of payments crisis at the end of the Luis Echeverría presidency in 1976, it appears that each outgoing administration has ended with and each incoming one has confronted one major crisis or another. In 1982, the departing López Portillo administration passed on a major debt and balance of payments crisis to its successor, the De La Madrid presidency. In turn, Carlos Salinas de Gortari assumed power at the end of 1988 following an uncommonly narrow victory margin in the presidential election and with an economy recently racked by hyperinflation. And of course, the Zedillo government has been handicapped by the peso crisis of December 1994.

It is perhaps too simplistic though to interpret Mexico's present crisis as just another manifestation of a cyclical tendency. After all, before the 1976 crisis Mexico did not have this problem. From the early 1950s through the early 1970s, Mexico enjoyed prolonged economic growth, low inflation and a stable peso which earned it the nickname of the "Mexican Miracle". The "cyclical" nature of the present crisis was not exactly cyclical, nor were the dramatic political events of 1994 entirely isolated or spontaneous occurrences; they were manifestations of a deeper systemic change in Mexico's political economy.

3. Mexico's Systemic Transition

Mexico is presently undergoing a profound political and economic transition from a longstanding post-revolutionary order to a still incomplete new system. Since 1982, many of the economic foundations of a new order have been laid thanks to economic liberalization, particularly during the Salinas *sexenio*. Nevertheless, the corresponding political and social institutions remain largely undefined. A *modus vivendi* remains elusive.

3.1 The Logic of the Post-Revolutionary Order¹⁰

It took nineteen years for order to be reestablished after the Mexican Revolution of 1910 and its bloody aftermath. In 1929, the Institutional Revolutionary Party (PRI) was founded by the previously feuding elites of the country and over the next decade the institutional foundations and a social contract for the new political system were set.¹¹ The formula that its founders concocted has kept it in power ever since.

After years of debilitating inner-elite struggle, the birth of the PRI was a deliberate attempt to bury the hatchet and get the country's competing power interests to agree to a standard set of rules of the game. Rather than continue to fight over the economic pie of the country's wealth, the new agreement was to share it. The construction of a national governing party was meant to internalize distributive conflict among contending actors; party loyalty would be rewarded by patronage and governmental favour. Political stability would pave the way for more than a generation of impressive economic growth, low inflation and a stable currency.

The new order rested on seven key cornerstones. First, it was characterized by strong **presidentialism**. Just like the colours of the Mexican flag that adorned his ceremonial sash, the president was the embodiment of the nation and its finest traditions. In the tradition of Spanish kings and Aztec monarchs, he was revered and reified above all others. The president enjoyed a vast array of prerogatives: the exclusive right to select his cabinet, appoint candidates for elected posts, governors,

¹⁰For further reading on the basic tenets of the Mexican political system, see Roderic Ai Camp, *Politics in Mexico* (New York: Oxford University Press, 1993). One of the most enjoyable and insightful reads on Mexican political culture by a foreigner is Alan Riding, *Distant Neighbours: A Portrait of the Mexicans* (New York: Vintage Books, 1989 [1984]).

¹¹The original name of the PRI was the National Revolutionary Party (NRP). In 1938, the NRP was renamed the Party of the Mexican Revolution, which in 1946 became the Institutional Revolutionary Party, the name the party has kept until the present.

the mayor of Mexico and Supreme Court judges and to hand-pick his successor.¹² Congress and the Supreme Court typically served as loyal extensions of presidential will and processed presidential initiatives.

Second, **revolutionary nationalism** was the ideology that underpinned the new system of governance. Based on the Constitution of 1917, it prescribed a strong interventionist role for the state in the economy and advocated social equality and justice. It promoted a secular state and education at the expense of the traditionally powerful role of the Catholic Church. The nationalist component of the ideology consisted of inward-oriented, protectionist economic policies and anti-American sentiment. The extensive agrarian reform and nationalization of the petroleum industry during the 1930s by then President Lázaro Cárdenas were characteristic of revolutionary nationalism.¹³

Third, a **social contract** underwrote the new order. In exchange for their political support for and acquiescence to the party and its leadership, Mexico's workers and peasants were guaranteed a share of the fruits of economic growth. The contract originated in the egalitarian spirit of the 1917 Constitution and in the efforts to rally disparate social forces under the banner of the new party.

Fourth, the major interest groups in the nascent party were organized according to **corporatism**. The five original corporatist groups were business, labour, peasants, public sector employees and the military.¹⁴ The leaders of these sectors were important members of the party and government. This system of interest representation provided an important communication link between the party executive and the grassroots, allowing the party "to keep its ear to the ground" and impose its control over a large segment of society. It also reinforced the social contract: as the officially-recognized representative for each sector, each corporatist organization and its leadership would receive benefits for endorsing party policies.

¹²The crucial presidential prerogative of hand-picking his successor has come to be known as the "*dedazo*" (finger-pointing) or "*destape*" (unveiling).

¹³Between 1934 and 1940, Cárdenas' government founded some 180,000 "*ejidos*" or agrarian communities, distributing some 46 million hectares to 750,000 families. See Alan Riding, *Distant Neighbours*, 53-4.

¹⁴The military was later eliminated as a corporatist sector, although in practice it continued to be loyal to the party.

Fifth, the system was essentially one of **single party rule**. As previously mentioned, the PRI was founded to internalize conflict within a single, broad-based ruling coalition. There was little separation of party and state; the two were virtually one and the same. A limited degree of party pluralism was condoned for the sake of appearances, but the PRI seldom lost. The system's real pluralism was found within the PRI itself, where rival political groups, corporatist sectors and ideological factions vied for power.

Sixth, external challenges to the party's dominance were successfully countered by an elaborate **system of cooptation**. Through systematic use of bureaucratic and political appointments and generous pay-offs, "autonomous" protest movements that posed any perceived threat to the interests of the PRI-government soon found themselves robbed of their leaders or compromised. While this cooptation process left a persistent leadership vacuum among grassroots organizations and opposition parties, it helped to rejuvenate continually the PRI-government with new, creative, energetic individuals with proven leadership skills.¹⁵

Finally, as one of its more authoritarian traits, the system depended on **control of the mass means of communication**. Open, public criticism of the government was seldom permitted, especially on radio and television.

3.2 The Rules of the Game

Alongside its cornerstones mentioned above, the Mexican post-revolutionary political system also developed a strongly institutionalized set of rules by which all actors within the PRI-government abided. The highly institutionalized character of Mexico's regime distinguished it from many neighbouring Latin American countries, where political turmoil and frequent regime change prevailed.¹⁶ Four such rules are identified here:

¹⁵Sergio Zermeno calls this twin process of rejuvenating the PRI-government and creating a leadership vacuum among the opposition "bureaupolitics". See Sergio Zermeno, "Crisis, Neoliberalism, and Disorder," in **Popular Movements and Political Change in Mexico**, eds., Joe Foweraker and Ann L. Craig (Boulder, CO.: Lynne Rienner, 1990), 160-80.

¹⁶See Dan A. Cothran, **Political Stability and Democracy in Mexico: The "Perfect Dictatorship"?** (Westport, Conn.: Praeger, 1994); Laurence Whitehead, "Prospects for a Transition from Authoritarian Rule in Mexico," in **The Politics of Economic Restructuring: State-Society Relations and Regime Change in Mexico**, eds., María Lorena Cook, Kevin J. Middlebrook and Juan Molinar Horcasitas (La Jolla, CA.: Centre for U.S.-Mexican Studies, University of California, San Diego, 1994), 327-46.

No reelection. Neither the president, governors, senators, nor state or federal deputies could seek reelection to the same post. This effectively reinforced the "temporary monarch" phenomenon of Mexican *sexenios*: each six-year term would bring a new president to the fore with his entourage and cause an extensive re-shuffling of politicians and bureaucrats. The rule also hindered elected politicians from developing bases of power separate from that of the president.

A fixed electoral calendar. Regular elections for Congress or the Presidency were upheld on dates set out in the federal or state constitutions. Changes to electoral dates could only be brought about through constitutional amendment and not by arbitrary means.

Party loyalty. To recapitulate, the whole original reason for being of the PRI was to share the economic pie rather than fight over it. In other words, membership had its privileges. But in order to receive benefits, a member had to toe the party line. While a considerable degree of internal dissent was permitted to members, public criticism was not. Party faithful were generously rewarded while perceived traitors were treated severely. A crucial test of party loyalty was enduring the "freezing" that came when a party member fell into disfavour or lost a leadership bid to a more influential opponent. While in the short term he/she might suffer a demotion or career setback, patience and party discipline in the longer term would often be generously rewarded.

High level impunity. High ranking party and government officials were generally "untouchable". Perhaps most importantly, this rule applied to outgoing presidents. Present or past presidents cannot be impeached or prosecuted under the Mexican Constitution. In general, corruption or criminal scandals within the Mexican media have traditionally focused only on those functionaries who have fallen into disrepute with the executive leadership of the PRI-government.

3.3 The Gradual Demise of the System

For many years, Mexico's post-revolutionary formula of one party rule and state-sponsored, inward-oriented growth produced political stability and economic dynamism. However, in many ways the model sowed the seeds of its own demise. The continuous expansion of the public sector generated sizeable new middle classes, eager to make their own imprint on society. At the same time, not all benefitted from Mexico's impressive economic growth. Poverty and increasing urbanization problems accompanied progress. In what was partially a sign of the times, discontent crystallized in the emergence of a student democracy movement during 1968. In October of that year, the movement was silenced by a hail of gunfire at Tlatelolco and subsequent police and military repression. A similar clampdown took place in 1971.

The failure of peaceful dissent led some radicals to organize a guerrilla uprising in the rural state of Guerrero during the early 1970s. This was also firmly suppressed by Mexican authorities.

Over time, the heavy-handed response of Mexican security forces to pressures for political change seriously eroded regime legitimacy within a society becoming more diverse and critical. However, instead of introducing significant political reforms, under the banner of "shared development" the Echeverría (1970-1976) and López Portillo (1976-1982) administrations opted rather to regain popularity by increasing public spending: accelerating the country's economic growth and implementing populist economic policies to reconsolidate support among Mexico's working and peasant classes.

The strategy enjoyed considerable success for a time but was ultimately unsustainable. Mexico's gross domestic product grew by close to seven percent on average during the years 1970 to 1981.¹⁷ However, Mexico had to rely increasingly on foreign loans to finance its expansionary fiscal policy. A balance of payments crisis in 1976 that triggered Mexico's first devaluation since 1953 should have been the signal to begin the quest for an alternative economic strategy. However, the timely discovery of large petroleum deposits in the mid 1970s helped delay Mexico's economic day of reckoning until 1982. Anticipating few foreseeable problems, international banks recycled "petrodollars" and eagerly funded Mexico's ambitious plans for petroleum sector development and expanded public sector programming. "Mortgaged development" came to a dramatic halt during the summer of 1982. Dramatic increases in international interest rates and a sharp drop in petroleum prices led Mexico into a situation where it could no longer maintain payments on its hefty 100 billion dollar external debt.

In the wake of the 1982 debacle, the De La Madrid government (1982-1988) struggled to impose painful economic stabilization and structural adjustment measures in order to cope with its balance of payments, inflation and debt problems. With the drastic decline in petroleum revenues -- its number one export -- and the drying up of international credit, the Mexican government was compelled to dismantle the expensive state-driven economic model developed during the post-revolutionary era and search for an alternative. While many of the economic measures introduced by De La Madrid and later accelerated by Salinas -- fiscal austerity, devaluation, deregulation, privatization and trade liberalization -- made sound economic sense, they

¹⁷Nora Lustig, *Mexico: the Remaking of an Economy* (Washington, D.C.: Brookings Institution, 1992), pp. 15, 22.

exacerbated distributive conflict within Mexico's elites and among its social classes and interest groups.¹⁸ In other words, the transition from state-financed development to a liberalized market economy has dramatically reduced the economic resources available to the PRI-government to keep its traditional, broad governing coalition together. Distributive conflict has been manifested in various ways: inner-elite infighting, middle class and popular pressures for democratic reform, the "birth" of civil society through the emergence of new protest movements, and the disturbing rise in illegal narcotics trafficking and related violence. While such conflict continues to lack a single focus, it has intensified steadily since 1982.

Consequently, many of the cornerstones and political rules of the post-revolutionary order have been subjected to considerable stress. A quick look at the changes they have undergone supports the notion of a system under profound transition.

Presidentialism. Presidential authority reached its zenith under Carlos Salinas de Gortari. Decision-making power was concentrated among Salinas and a select group of cabinet-level technocrats. But in the wake of the Colosio assassination, the peso crisis and allegations of corruption against the Salinas family, presidentialism has come into serious disrepute. Entering office without much of a power base of his own and under considerable pressure for political reform, Zedillo has promised to curb presidential prerogatives substantially, including not interfering in candidate selection processes for state governors within the PRI, making Congress and the Supreme Court truly independent, decentralizing many powers to the states, and creating a Federal Auditor's Office to provide congressional oversight of the executive.¹⁹

At the same time, Mexico's changing presidentialism is characterized by two interesting paradoxes. First, Mexico requires a strong presidency to continue successfully its economic and political reforms. Second, while demanding greater democratization, most Mexicans continue to look to and rely on their president to instigate and oversee reforms. Thus, while Mexican presidentialism may be weakening

¹⁸For a similar interpretation of the politics of economic reform, see Robert H. Bates and Anne O. Krueger, "Generalizations Arising from the Country Studies," in *Political and Economic Interactions in Economic Policy Reform: Evidence from Eight Countries*, eds., Robert H. Bates and Anne O. Krueger (Oxford, UK: Blackwell Publishers, 1993), 444-72.

¹⁹A number of the Zedillo government's political reform proposals and pledges can be found in Ernesto Zedillo, "First State of the Nation Report," Mexico City, September 1, 1995; Poder Ejecutivo Federal, *National Development Plan 1995-2000* (Mexico City: Presidencia de la República, 1995); Ernesto Zedillo, "Toma de Posesión de Ernesto Zedillo," Mexico City, December 1, 1995.

in comparison with its past heyday, Mexicans will likely continue to have a strong office of the president under a new system of governance.

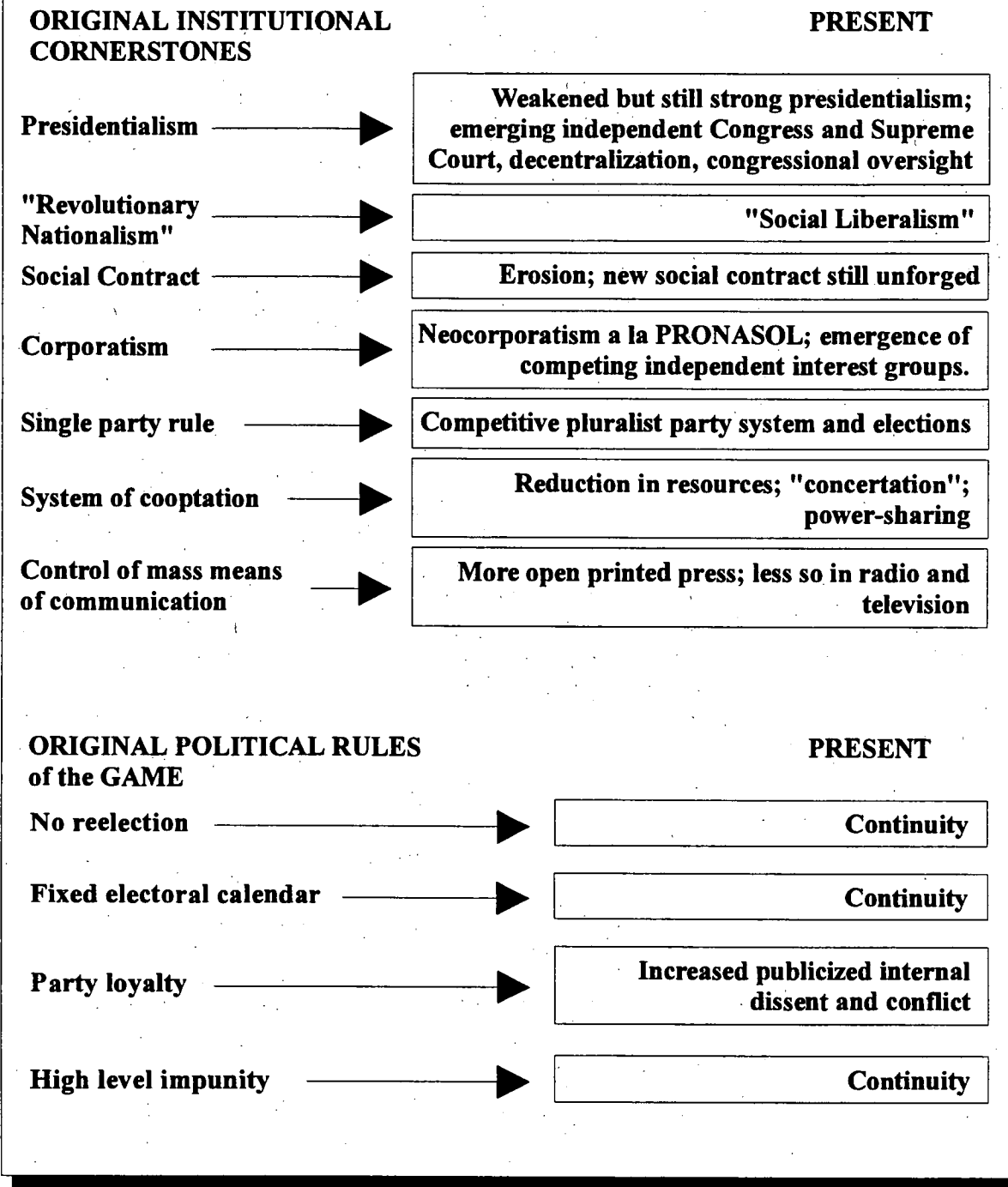
Revolutionary nationalism. Long after the Revolution ended, it was customary to pay at least frequent lip service to the ideals of that watershed event. In this regard, Salinas made a definitive break with Mexico's revolutionary heritage. Revolutionary nationalism was officially replaced in 1992 by "social liberalism". Under the new official ideology, the country undertook a *rapprochement* with the United States, culminating in the signing of the North American Free Trade Agreement. Article 27 of the Constitution, which had enshrined Mexico's agrarian reform tradition, was reformed in 1992 in order to privatize communal land holdings, permit their sale, protect private property and promote private sector investment in agriculture. Under the new ideological rubric, the state took a clear back-seat to the market as the country's principal agent of development.

Social contract. Alongside the demise of revolutionary nationalism, the country's social contract has also eroded. Since the debt crisis of 1982, the public resources necessary for the PRI-government to keep its side of the bargain have sharply declined in comparison to the high-spending days of the Echeverría and López Portillo presidencies. Where once favoured under populism, labour and peasants have been hit hard by painful structural adjustment measures. Consequently, the social bases of state power have narrowed.

Corporatism. The corporatist institutional framework has also come under attack. Given the resistance of their leadership to economic reform, Salinas attempted to circumvent the traditional corporatist sectors and forge a new model of state-society relations which linked the president more directly with popular groups. The resulting social spending programme, the National Solidarity Programme (PRONASOL), became one of the cornerstones of the Salinas reform effort. As part of PRONASOL, some 250,000 local "Solidarity Committees" channelled federal funding into community development projects and served as the president's "ear to the ground".²⁰ On the other hand, Solidarity's other function must also be recognized: to serve as a compensatory programme meant to shield the poor from the harsh social impact of economic restructuring. Following the peso crisis, PRONASOL's efficacy as both a neo-corporatist instrument and a social buffer has waned thanks to fiscal austerity.

²⁰On the National Solidarity Programme, see Wayne A. Cornelius, Ann L. Craig and Jonathan Fox, eds., **Transforming State-Society Relations in Mexico: The National Solidarity Strategy** (La Jolla, CA.: Centre for U.S.-Mexican Studies, University of California, San Diego, 1994).

Political Continuity and Change



The decline of corporatism is also reflected in the diminishing number of corporatist leaders that occupy senior positions within the government. In addition, a slew of independent interest groups has arisen in Mexico to challenge Mexico's official corporatist sectors for membership. Official sectoral leaders also do not as readily fall into line as previously. President Zedillo met with unprecedented resistance from officially-sanctioned business, labour and peasant leaders in renewing a key instrument of incomes policy, the Economic Solidarity Pact. Finally, in a clear sign of corporatist crisis, rank and file discontent led official leaders of organized labour to cancel the important annual May Day parade in Mexico City in 1995.

One Party Rule. Starting with Salinas' narrow victory over opposition leader Cuauhtémoc Cárdenas in the 1988 presidential election, it became evident that the ruling PRI could no longer take electoral victories for granted. Electoral reforms begun during the late 1970s largely as "window-dressing" measures have gradually improved the opposition's chances of winning elections, particularly given the social impact of structural adjustment and stabilization measures on the country's popular and middle classes. Mexico's opposition parties have made important gains since 1988, especially the centre-right National Action Party (PAN).²¹ In 1989, the PAN was the first opposition party to ever win a governorship, taking the state of Baja California. In 1995, it set a new landmark: the first opposition party to be reelected successfully in a governorship -- Baja California -- under its control. Voter backlash after the peso crisis has increased the party's electoral fortunes remarkably. The PAN now holds four governorships -- Baja California, Chihuahua, Guanajuato and Jalisco -- and occupies the mayorship of eight of the ten largest cities outside of Mexico City. It is conceivable that the combination of authentic electoral reforms during 1996-1997 and voter frustration with Mexico's economic crisis could even lead to a PAN majority in the mid-term congressional elections of 1997. From one-sided staged events, Mexico's elections have become increasingly competitive.

The System of Cooptation. As mentioned above, the resources available to the regime for disbursing patronage and incorporating dissidents have dropped after 1982, particularly since December 1994. At the same time, opposition forces are becoming a potentially viable longer-term option for gaining real power. Consequently, the task of coopting dissenting voices is becoming more difficult, although not impossible. Under Salinas and Zedillo, "concertation" -- the process of negotiating concessions to and expanding the policy-making input of opposition parties and interest groups -- has increasingly come to the fore. Electoral reform and agricultural policy are two

²¹It should be noted that the dominant line in the PAN supports market-based reforms and, important from a Canadian perspective, the NAFTA.

prominent examples of areas where many decisions have been reached by concertation.

Cooptation is also giving way to formal power-sharing to some extent. As mentioned above, opposition parties have made significant electoral gains, including control of an unparalleled four governorships. In an unprecedented move, President Zedillo also appointed a member of the opposition PAN party -- Antonio Lozano -- to be his attorney general.

Control of the Mass Media. Government influence over the media has been gradually weakening. One can now find substantial criticism of government policy in Mexico's printed press. Mexicans also can watch critical coverage of news events through television programmes beamed in via satellite from abroad. Domestic radio and television stations, however, remain in the hands of pro-government owners and have been repeatedly cited by Mexican and other observers for a lack of objective news programming and political analysis. Control of the electronic means of communication is one of the last hold-outs from Mexico's less democratic past.

There has been evidence of both continuity and change among Mexico's aforementioned institutionalized rules of the game. With respect to the no reelection tradition, there has not as yet been any discernible change, although President Zedillo has reportedly stated that he would be in favour of a relaxation of the ban on reelection, so long as it did not apply to the executive.²² This type of alteration would have powerful consequences. For instance, if governors, deputies and senators were allowed to serve for more than one term of office, they would be able to develop independent bases of power, further undermining presidentialism.

Similarly, in terms of the **fixed electoral calendar**, there have not been any really important changes that have taken place. Two important exceptions are the states of Guanajuato and Yucatán, where the election dates for state governorships were revised. In Guanajuato, interim elections had to be held in May 1995, fully a year before previously scheduled, as a result of the fraudulent elections of August 1991. Against a storm of civic protest, Yucatán's electoral calendar was altered by the local PRI government in 1993 in order to create an 18-month mini-governorship and synchronize the subsequent 6-year governorship with the current presidential cycle. Nonetheless, the continued overall respect of constitutionally-set election dates by all parties bodes well for an orderly democratic transition.

²²"Mexico Stumbles Towards Political Fairness," *The Economist*, 13 January 1996, 40.

Party loyalty has definitely come under the most strain. The first major crack in the PRI came in 1987 when Cuauhtémoc Cárdenas and Porfirio Muñoz Ledo, both high ranking members, split from the party together with numerous followers in order to form a left-leaning electoral coalition against the PRI's presidential candidate, Carlos Salinas de Gortari. While Salinas managed to reimpose order and improve morale in the party during most of his term of office, open and highly publicized dissent began anew after the nomination of his successor, Luis Donaldo Colosio, on November 28, 1993. Whereas past losers in the presidential nomination process bravely bore their defeat and disappointment in self-imposed silence, Manuel Camacho made little attempt to veil his discontent. Camacho's loyalists reputedly worked behind the scenes to discredit Colosio. After Colosio's death in March 1994, tension continued between Camacho and the new presidential candidate Ernesto Zedillo, leading shortly thereafter to Camacho's dismissal as chief peace negotiator in Chiapas. Camacho would eventually resign his membership in the PRI on October 13, 1995. It is widely believed that he will form his own political party and run for president in the year 2000.

The murders of Luis Donaldo Colosio and party secretary-general José Francisco Ruiz Massieu during 1994 were symptomatic of internal strife within the PRI. The country had not witnessed such high level assassinations since the 1930s. After Ruiz Massieu's death, his brother Mario openly accused party president Ignacio Pichardo and secretary-general María de los Angeles Moreno of complicity in the murder.

Finally, recently there was an unprecedented display of public criticism by Mexican parliamentarians of their government. On January 12, 1996, a group of 255 legislators of the PRI allegedly sent a letter to their party president, Santiago Oñate, attacking the government's free market policies and lack of "sensitivity" to the plight of the poor. The incident made front-page headlines in the Mexican press.²³

There are increasing popular demands for an end to **high level impunity**. In a poll conducted by the pro-democracy organization *Alianza Cívica* on February 26, 1995, over 96 percent of those surveyed were in favour of making Salinas stand trial for his role in the peso crisis and for alleged corruption. The prosecution of an ex-president would be a clear sign of a definitive break with past traditions. However, it could also be a possible double-edged sword. While a fair trial or judicial inquiry might reinforce the rule of law in Mexico, it could also lead to even further political destabilization.

²³See Linda Diebel, "Trouble Brewing for Mexican Leader: Insider Rebellion May Spell End of Ruling Party's 67-year Reign," *The Toronto Star*, 23 January 1996.

4. Political Change: Evolution, Devolution or Revolution?

The preceding section highlighted the current systemic transition that Mexico is undergoing. Under a process of institutional change and ongoing redefinition of state-society relations, the cornerstones and rules of the game of the country's postwar political order are being slowly but surely altered. The political events of 1994 were signs of a longstanding system in transition. The fundamental question is the direction these profound changes are taking Mexico. What type of new political system is being constructed to take the place of the old?

The Chiapas uprising raised the possibility, albeit slim, of a social revolution on the horizon. Two years after the initiation of the conflict, however, this trajectory seems doubtful. First, while electronic communications extended the voice of the *zapatistas* across Mexico and the world, Mexican security forces successfully contained the guerrilla presence to a small, confined area of the state of Chiapas. Moreover, while solidarity marches and demonstrations for the *zapatistas* occurred with some frequency in Mexico City, their appeal did not resonate much beyond the limited membership of existing progressive interest groups in the country, despite the new depths of the economic crisis. A national plebiscite organized by them during the summer of 1995 to define their future direction yielded a disappointing turn-out of roughly one million citizens in a country of over ninety million.

Second, the *zapatistas* recently announced their decision to convert themselves into a political movement. To symbolize the change in strategy, the *Zapatista* National Liberation Army (EZLN) has been renamed the *Zapatista* National Liberation Front (FZLN). While trying to expand their influence across the country, they will now attempt to do so by peaceful means rather than through armed conflict.

Third, several factors have served to mitigate the social pressures arising from Mexico's peso crisis and painful stabilization and structural adjustment process. Illegal migration to the United States continues to be an important safety valve and the dollar remittances that these migrants send back to Mexico help households to cope. Mexico's extended family networks serve in lieu of more formal social safety nets. An extensive informal economy absorbs surplus labour that would otherwise be left unemployed by the country's formal economy. To some extent, compensatory programmes such as the National Solidarity Programme or PROCAMPO have helped to ease poverty. Finally, electoral reform permits the middle classes to vent their frustration via the ballot box.

But the biggest impediment to a revolutionary outcome to political change is the remarkable resilience of the Mexican people. They continue to search for non-

confrontational ways of coping with crisis. As long as adequate formal and informal mechanisms for adjusting continue to exist, then a radical path to change is unlikely to occur. Two key ingredients would have to be present. First, Mexicans en masse would have to make the conceptual leap of identifying what have until now been perceived as individual or household problems as collective problems requiring collective responses. This, however, goes against the Mexicans' age-old sense of survival. Second, it would need strong, charismatic and unifying revolutionary leadership, which seems to be in relatively short supply in Mexico.

There are, however, both evolutionary and devolutionary tendencies in the course presently taken by political change. On the positive side, important political reforms have been or are in the process of being realized. President Zedillo has promised that authentic electoral reforms will be in place in time for the 1997 mid-term elections. It is encouraging that, even before assuming office, Zedillo began to search for a better relationship with the opposition parties. In January 1995, a National Political Accord (APN) was signed between the government and opposition parties, committing them to cooperate toward democratic reform. While electoral incidents in the states of Tabasco and Yucatán temporarily soured inter-party working relations, it now appears as if they are once again cooperating with the goal of greater transparency and fairness in the mid-term elections of 1997 in mind. For the first time, it is likely that Mexico will have an independent federal electoral institute,²⁴ and greater enforcement of the electoral code. President Zedillo has also made reinforcing the rule of law among his top priorities.

Nonetheless, there are also disturbing signs on the horizon. Fiscal restraint has led to institutional decay, particularly among Mexico's law enforcement agencies. Authorities may have become more susceptible to narcotics-related corruption as witnessed by the recent allegations against Mario Ruiz Massieu and Raúl Salinas de Gortari, and drug-related violence is increasing.²⁵ Mexico's narco-penetration undoubtedly contributes to violent outcomes in the country's already heated distributive conflicts.

²⁴There is some debate whether an independent electoral authority is at all essential for Mexico. After all, a number of democracies, such as the Scandinavian countries of Norway and Sweden, possess electoral apparatuses that fall under government supervision. However, the author contends that, given Mexico's electoral history, an autonomous electoral institute is the only form that Mexican citizens will accept as legitimate and truly democratic.

²⁵See Silvana Paternostro, "Mexico as a Narco-democracy," *World Policy Journal* 12, 1 (Spring 1995): 41-7.

Finally, while many social actors push for democratic change both from inside the government and within civil society, there are still important elements who remain steadfastly committed to defending the old order and the privileges that go along with it. Zedillo faces deep-rooted resistance to reform from many local strongmen in the PRI.²⁶

Nonetheless, for all the momentous change that is occurring, there are also important signs of continuity with the past. To reiterate, while his authority has been weakened in terms of its past levels, the president continues to wield considerable power within the Mexican political system. He remains the single most important power broker in the polity. Continuity with the past undoubtedly adds an element of stability to the course of change in Mexico.

While democracy is the eventual desirable outcome, it is not necessarily the most important immediate political concern in Mexico. The preceding analysis has stressed that the country is undergoing a profound systemic transition. A new set of institutional cornerstones and political rules of the game must be worked out both formally and in practice with the participation of all social actors. Only when a new social consensus is arrived at and institutionalized among and within the elite, social classes and interest groups, will the country be clearly back on track. And at the centre of Mexico's present crossroads is a distributive question: all Mexicans must come to enjoy a political and economic stake in the emerging order that they are willing to accept. The political preconditions mentioned above must be met in order for economic recovery and growth to resume and remain sustainable over the long haul.²⁷

5. Implications for Canada

The previous discussion has underlined the need for Mexico to get its politics right in order for it to progress economically over the longer term. While the dramatic political events of 1994 did not lead directly to Mexico's peso crisis, they contributed

²⁶For example, some observers point to recent attempts by local authorities in the states of Tabasco and Yucatán to thwart fair elections as disturbing signs that the "old ways" often persist.

²⁷This assertion is corroborated by the recent comments of Michel Camdessus, Managing Director of the IMF. Speaking in Paris in mid January, Camdessus stated that the return of confidence to Mexico will depend on the reform of political institutions and that markets are less indifferent to the quality of political consensus than previously supposed. The author is grateful to the Canadian Embassy in Mexico and the Mexico Division (LMR) of the Department of Foreign Affairs and International Trade for this reference.

strongly to an erosion of investor confidence that eventually made the country's vulnerable current account position untenable. These political shocks were symptomatic of a more profound systemic shake-up in Mexico's post-revolutionary political order. The original institutional cornerstones and political rules of the *ancien régime* have come under considerable stress and change. Most importantly, the previous formula for elite accommodation and a social contract has begun to dissolve.

Mexico's transition raises a number of implications for Canada. Four modest proposals are outlined below with a view to enhancing Canada's Mexico policy in ways that could also have broader significance.

5.1 Mexico as a "Pilot Partner"

Since joining the Organization of American States in January 1990, signing the North American Free Trade Agreement and committing itself in December 1994 along with the other 33 signatories of the Miami Summit Declaration to hemispheric free trade by the year 2005, Canada has increasingly become a "nation of the Americas".²⁸ Thanks to its membership in the NAFTA, Mexico has the dual privilege of being our country's first Latin American partner in the region and first among developing countries.²⁹ As such, it should be considered a "pilot partner" for Canada. Many of the other countries in Latin America and the developing world with which Canada is presently expanding ties are also experiencing economic and political transitions. While each country's situation is obviously unique, the case of Mexico is illustrative of many of the potential challenges that Canadians might expect in other emerging markets. The lessons and insights from Canada's ongoing experience with Mexico should not be confined solely to those interested in Mexico. They should be

²⁸On Canada's evolving role in the Americas, see Keith Christie, "The Four Amigos and Beyond: Towards the Free Trade Area of the Americas," Policy Staff Paper No. 95/10 (Ottawa: Economic and Trade Policy Division (CPE), Policy Staff, Dept. of Foreign Affairs and International Trade, October 1995); Conrad Sheck, Colin Robertson, Jamal Khokhar, Nicolas Dimic and Keith Christie, "Canada in the Americas: New Opportunities and Challenges," Policy Staff Paper No. 94/06 (Ottawa: Economic and Trade Policy Division (CPE), Policy Staff, Dept. of Foreign Affairs and International Trade, April 1994).

²⁹Thanks to its entry into the Organization for Economic Cooperation and Development in 1994 -- a privilege traditionally reserved for upper income countries -- Mexico enjoys a unique status among states otherwise widely regarded as "developing countries". Nonetheless, it continues to display many of the characteristics of the latter group and thus ought to be considered as representative of developing countries.

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 Communique," 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.

directly influence political reform in Mexico. At the same time, the projection of our values abroad -- respect for human rights, democracy and the rule of law -- is a stated objective of our official foreign policy.³¹ While direct forms of promoting this goal are limited, there are nevertheless some important indirect means -- both bilateral and multilateral -- for influencing positive political change in Mexico:

- augmenting the resources disbursed by the Canadian Embassy-based Canada Fund for Local Initiatives to Mexican human rights, environmental and other organizations in order to support their democratization and civic education efforts;
- promoting human rights and democratic development through grassroots linkages between Canadian non-governmental organizations and their Mexican counterparts;
- fostering and expanding media exchange programmes along the lines of an innovative initiative by the Canadian Foundation for the Americas (FOCAL),³² in order to heighten domestic awareness in Canada of Mexican issues and to promote mutual understanding;
- continuing active support for trilateral cooperative activities under the aegis of the NAFTA's side agreements on labour and environmental cooperation, including the participation of non-governmental organizations in this work;
- continuing to advance the cause of human rights and democratic development under the aegis of the Organization of American States' Unit for the Promotion of Democracy, an institution established largely through Canadian initiative; and
- encouraging Mexico's active, constructive participation in the implementation of the Plan of Action of the Summit of the Americas (Miami, December 1994), which emphasized the strengthening, effective exercise and consolidation of democracy as the main political priority of the Americas.

³¹See the Government of Canada, *Canada in the World*, Government Statement, 1995.

³²FOCAL's initiative is called the Media Fellowship Programme.

5.4 Cultivating Influence

Canada should adopt a longer-term outlook on projecting its values. Influence must be gradually cultivated through a variety of means at our disposal with an emphasis on fostering opportunities for personal contact between our two respective populations:

- marketing Canadian educational institutions as high quality, affordable alternatives to U.S. and European counterparts;
- expanding contacts between Canadian and Mexican parliamentarians;
- in keeping with expanding bilateral trade and investment ties, encouraging Canadian business people to project our country's values in their dealings with Mexico;
- supporting cultural, educational, sports and media exchanges; and
- encouraging the twinning of Canadian and Mexican cities.

POLICY STAFF PAPERS/DOCUMENTS DU GROUPE DES POLITIQUES

Recent Papers on Economic and Trade Policy Issues/Récents documents sur des questions économiques et de politique commerciale:

A) TRADE POLICY SERIES

1. Globalization and Public Policy in Canada: In Search of a Paradigm, by Keith H. Christie. 93/01 (January 1993) * SP19
2. Trade and the Environment: Dialogue of the Deaf or Scope for Cooperation?, by Michael Hart and Sushma Gera. 92/11 (June 1992) SP18
3. Globalization: The Impact on the Trade and Investment Dynamic, by Dennis Seebach. 93/07 (June 1993) * SP25
4. Merger Control Under Trade Liberalization: Convergence or Cooperation? by Nicolas Dimic. 93/09 (August 1993) * SP27
5. Technology Consortia: A Prisoner's Dilemma? by Rhoda Caldwell. 93/10 (August 1993) * SP28
6. Optimal Patent Term and Trade: Some Considerations on the Road Ahead by I. Prakash Sharma. 93/12 (October 1993) * SP30
7. And the Devil Take the Hindmost: The Emergence of Strategic Trade Policy by I. Prakash Sharma and Keith H. Christie. 93/14 (December 1993) * SP32
8. Stacking the Deck: Compliance and Dispute Settlement in International Environmental Agreements by Keith H. Christie. 93/15 (December 1993) * SP33
9. Financial Market Integration: The Effects on Trade and the Responses of Trade Policy, by James McCormack. 94/01 (February 1994) * SP35
10. The New Jerusalem: Globalization, Trade Liberalization, and Some Implications for Canadian Labour Policy, by Rob Stranks. 94/02 (February 1994) * SP36
11. Competition Policy Convergence: The Case of Export Cartels, by William Ehrlich and I. Prakash Sharma. 94/03 (April 1994) SP37
12. The Day After: An Agenda for Diversifying Free Trade, by Keith H. Christie. 94/04 (January 1994) * SP38
13. Global Strategies and Foreign Direct Investment: Implications for Trade and the Canadian Economy, by Julie Fujimura. 94/07 (March 1994) * SP41
14. Delivering the Goods: Manufacturer-Retailer Relations and The Implications for Competition and Trade Policies, by I. Prakash Sharma and Prue Thomson with Keith Christie. 94/11 (December 1994) * SP45
15. Le libre-échange nord-américain, les subventions et les droits compensateurs: la problématique et les options, par Gilbert Gagné. 94/13 (Juillet 1994). SP47

16. Dangerous Liaisons: The World Trade Organization and the Environmental Agenda, by Anne McCaskill. 94/14 (June 1994) SP48
17. Damned If We Don't: Some Reflections On Antidumping and Competition Policy, by Keith H. Christie. 94/15 (July 1994)* SP49
18. Pandora's Box?: Countervailing Duties and the Environment, by Robert T. Stranks. 94/19 (October 1994)* SP53
19. Diplomacy at the Leading Edge: Advanced Technology and Canadian Trade Policy, by Gary Luton. 95/12 (December 1995) SP70

B) TRADE DEVELOPMENT SERIES

1. From a Trading Nation to a Nation of Traders: Towards a Second Century of Trade Development, by Andrew Griffith. 92/05 (March 1992)* SP12
2. Exports and Job Creation, by Morley Martin. 93/06 (June 1993)* SP24
3. The Impact of Exports: An Input-Output Analysis of Canadian Trade, by James McCormack. 94/24 (December 1994)* SP58

C) REGIONAL TRADE AND ECONOMIC SERIES

1. Different Strokes: Regionalism and Canada's Economic Diplomacy, by Keith H. Christie. 93/08 (May 1993) * SP26
2. Japan Trading Corp.: Getting the Fundamentals Right by I. Prakash Sharma. 93/16 (December 1993) * SP34
3. Canada in the Americas: New Opportunities and Challenges, by Conrad Sheck, Colin Robertson, Jamal Khokhar, Nicolas Dimic, and Keith Christie. 94/06 (April 1994) * SP40
4. China 2000: The Nature of Growth and Canada's Economic Interests, by Steve Lavergne. 94/10 (May 1994)* SP44
5. The Japanese Way: The Relationship Between Financial Institutions and Non-Financial Firms, by James McCormack. 94/16 (July 1994)* SP50
6. Towards Regional Economic Blocs: Are We There Yet?, by Julie Fujimura. 95/01 (February 1995)* SP 59
7. Changing Partners: Trends in Canada's Regional Economic Relations, by Steve Wilson. 95/02 (March 1995)* SP60
8. Fact or Fancy?: North Asia Economic Integration, by Steve Lavergne. 95/03 (March 1995)* SP61
9. With or Without You: Argentina, Brazil & NAFTA, by Stephen Wilson. 95/09 (August 1995)* SP67A.
10. The Four Amigos and Beyond: Towards the Free Trade Area of the Americas, by Keith Christie. 95/10 (October 1995)* SP68A.

D) OTHER ECONOMIC PAPERS

1. World Population Growth and Population Movements: Policy Implications for Canada, by Michael Shenstone. 92/07 (April 1992) SP14
2. Pour des sanctions efficaces et appropriées, par Jean Prévost. 93/04 (mars 1993) * SP22
3. Black Gold: Developments in the World Oil Market and the Implications for Canada, by Sushma Gera. 93/05 (February 1993) * SP23
4. Determinants of Economic Growth in Developing Countries: Evidence and Canadian Policy Implications, by Rick Mueller. 94/08 (April 1994) * SP42
5. Still an Albatross? The LDC Debt Crisis Revisited, by Rick Mueller. 94/09 (May 1994) * SP43
6. Pro-Active Sanctions: A New/Old Approach to Non-Violent Measures, by Dr. Nicholas Tracy. 94/17 (June 1994) * SP51A
7. A View of the Forest: Environmental Stress, Violent Conflict, and National Security, by Rob Stranks. 95/05 (April 1995) * SP63A
8. The Geographic Distribution of Canada's Bilateral Assistance: Alternative Approach, by Nicolas Dimic. 95/11 (August 1995) SP69A.
9. Dealing with Diversity: Canada's Economic Relations with Developing Countries, by Keith Christie and David Preston. 95/15 (December 1995) SP73A.
10. China: Environmental Stress and National Security, by Rob T. Stranks and Nicolino Strizzi. 96/01 (February 1996) SP74A.


POLICY STAFF COMMENTARIES

- No. 1 The Uruguay Round: What's In It For The Developing Countries, by Robert T. Stranks * (March 1994)
- No. 2 Outward Direct Investment: Implications for Domestic Employment, by Robert T. Stranks and Julie Fujimura* (April 1994)
- No. 3 Trade and Direct Investment Statistics: The Twain Have Met, by James McCormack * (May 1994)
- No. 4 Economic Sanctions: Foreign Policy Foil or Folly?, by Robert T. Stranks * (May 1994)
- No. 5 Recent Capital Flows to Latin America: Too Good to Last?, by Richard E. Mueller * (August 1994)
- No. 6 Not Out of the (Bretton) Woods Yet: Exchange Rate Disequilibria, Trade and Suggested Reforms, by James McCormack* (February 1995)
- No. 7 Takin' Care of Business: The Impact of Deficit Reduction on the Trade Sector, by James McCormack* (March 1995)
- No. 8 The Trouble with Numbers: Military Spending in Developing Countries, by James McCormack* (June 1995)

- No. 9 Unfinished Business: Towards a Global Environmental Organization, by Rob Stranks* (July 1995)
- No. 10 Alternative Financing for the United Nations: An Idea Whose Time Has Finally Come?, by James P. Walker (December 1995)
- No. 11 Traders in Tennis Shoes: Derivatives, Volatility, Risk and Supervisory Issues, by James McCormack* (May 1995)
- No. 12 Prospects of Further Reforms in India, by I. Prakash Sharma (December 1995)
- No. 13 Restructuring Japan's Financial System: Looking Beyond the Storm, by Julie K. Fujimura (February 1996)

* available in french/disponible en français

LIBRARY E A/BIBLIOTHEQUE A E



3 5036 20082663 7

CA1 EA533 96P02 ENG DOCS
Legler, Thomas
Changes in the neighbourhood
43276037

