Widening Scholarly Horizons: Theoretical Approaches for the Study of U.S.-Mexican Relations

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December 1995
How can Mexico "live" with the United States? This has been a central question for Mexico's national experience for centuries, and it remains no less important during the closing years of the millennium. The specific scholarly answer to the question has varied in its formulation over time but, in terms of its overall framework, it remained consistently, even effortlessly "realist" until the late 1980s. Whether the change in U.S.-Mexican relations in the first half of the 1990s will be permanent or transitory is too soon to tell, but much has changed already in the bilateral relationship and in the conditions that underpin it.i

This essay suggests some analytical strategies to sort out these new circumstances, focusing on the international behavior of the Mexican government, principally though not limited to its "foreign policy." I will first discuss why realist approaches seemed so successful in explaining Mexico's international circumstances and then explore why these intellectual approaches proved insufficient in more recent years and how might other explanations be helpful.

Realism and Mexican Foreign Policy until the 1980s

Three fundamental neorealist assumptions have been 1) that the most important actors in world politics are territorially organized entities called states; 2) that the behavior of states is substantively and instrumentally rational; and 3) that states seek power, and calculate their interests in terms of power, relative to the nature of the international system that they face, which is marked by the absence of effective centralized international authority, i.e. inter-state anarchy.ii One consequence of this reasoning is to discount fully what might occur at the "unit level," that is, to disregard for the most part the impact of domestic circumstances on the international behavior of states.

The modern re-shaper of the realist intellectual tradition in international affairs, Kenneth Waltz, has emphasized additional propositions which bear specifically on scholarly expectations about the nature of U.S.-Mexican relations. Writing about the international system after the end of the Cold War, Waltz argues (as he had argued consistently about the international system
before 1989) that "the response of other countries to one among them seeking or gaining
preponderant power is to try to balance against it. Hegemony leads to balance, which is easy to
see historically and to understand theoretically." In the post-Cold War world, Waltz averred,
"that is now happening, but haltingly so because the United States still has benefits to offer and
many other countries have become accustomed to their easy lives with the United States bearing
many of their burdens."iii

Realism (or, reinterpreted by Waltz and others as neorealism) has no difficulty explaining
why Mexico in the nineteenth and early twentieth centuries sought to counter or, at least, to
balance the power of the United States in the northern half of the western hemisphere.iv No
realist would ever be surprised that the German empire in 1917 sought an alliance with Mexico,
as the United States prepared to enter World War I.

There is, moreover, a good realist answer to explain the pattern of Mexico's international
behavior since World War II. It was first formulated by Thucydides: "The strong do what they
can and the weak suffer what they must."v That answer is evoked in the opening line of Mario
Ojeda's classic study of Mexican foreign policy after World War II, when he proposes to explain
Mexican foreign policy not as a peculiar expression of the nation's history but, instead, as a
foreign policy similar to "that of any weak country." Occasionally successful examples of
Mexico's international assertiveness, Ojeda argues, had a realist explanation: logically, President
Lázaro Cárdenas could expropriate foreign-owned petroleum firms only because the event
occurred on the eve of World War II. That systemic condition enabled Mexico to emerge
successfully from that politico-economic conflict because it could obtain concessions from the
United States in exchange for Mexican cooperation during the war.vi

At the end of World War II, Ojeda notes that "Mexico did not escape from the
phenomenon of the construction of U.S. hegemony as a result" of that war. Instead, "as a weak
country, Mexico must juggle pragmatically its national interests with the reality of international
politics and its propinquity to the United States."vii In pursuit of this objective, Mexico
developed a foreign policy to retain substantial independence from the United States in various
issue areas, even if Mexico aligned firmly with the United States on many other issues. In the construction of their relationship, the United States and Mexico seemed to operate according to a key rule:

The United States recognizes and accepts Mexico's need to dissent from U.S. policy in everything that is fundamental for Mexico, even if it is important but not fundamental for the United States. In exchange Mexico cooperates in everything that is fundamental or merely important for the United States, though not for Mexico.\textsuperscript{viii}

In this fashion, the scholarly realist, Ojeda, explained the apparent anomaly that, after World War II, Mexico did not seek to balance U.S. power across all issue areas. Contrary to Waltz's expectation that "hegemony leads to balance," a weak country such as Mexico could not attempt to balance the United States in general but would try to do so over particular issues, in the context of otherwise generalized "bandwagoning" with the United States.

Beginning in 1959, policy toward Cuba has been a key example of the relative independence of aspects of Mexican foreign policy from that of the United States. In the 1970s and early 1980s, Mexico sought as well to become relatively more independent from the United States in the conduct of its international economic relations. At that time Mexico increased its regulations over foreign direct investment, sought to limit its exports of hydrocarbons to the United States, and attempted to diversify the geographic distribution of its foreign trade.

Beginning in the late 1970s and continuing through most of the 1980s, Mexico sought also to conduct a policy toward Central America that was rather independent of U.S. policy. President José López Portillo had pursued a policy toward Nicaragua and El Salvador that was sharply at variance with that of the United States. In 1979, departing from its own traditions, Mexico broke diplomatic relations with the government of Nicaragua, thereby increasing the likelihood of Sandinista revolutionary victory. In the years that followed, Mexico was a major donor to Nicaragua's Sandinista government. In 1980, Mexico recalled its ambassador from El Salvador and, in 1981, it joined France to recognize the "representative political character" of El
Salvador's Revolutionary Democratic Front (FDR), the political arm of the Salvadoran insurgency. These attempts to balance U.S. policy, albeit in limited ways, would warm the heart of card-carrying scholarly realists.ix

A New Puzzle

This long-lasting era of Mexican foreign policy may have come to an end. It certainly seems to have ended with regard to economic matters. As Lorenzo Meyer has put, "The year 1990 shall be considered an historic date in the evolution of U.S.-Mexican relations" because Mexican elites decided to bring about "an historic shift in the definition of the national interest facing the powerful northern neighbor."x Mexico at long last chose to "bandwagon" with the United States on virtually all issues.

The convergence between Mexican and U.S. policies would not be limited to economic matters. Mexican policy toward Central America changed at first gradually during Miguel de la Madrid's presidency and then more markedly during Carlos Salinas' administration. In the early and mid-1990s, Mexico and the United States worked closely to bring to an end the civil and international wars that had plagued Nicaragua and El Salvador and that continue to affect Guatemala. Though there were subtle differences in approach and in their respective definition of objectives, the new relationship between the United States and Mexico toward Central America could best be characterized as an alliance, not an antagonism.

The extent and pervasiveness of Mexican bandwagoning with the United States is difficult to explain from a realist or neorealist perspective. Consider Ojeda's rule, quoted above. If it were still at the core of the bilateral relationship, it would imply that the only significant difference between the United States and Mexico is their respective policies toward Cuba. One does not need a neorealist theory to explain such a single anomaly, which could be seen as a vestige of a world that has disappeared, an atavism to be corrected when circumstances in Cuba change.
Neorealists expect that international cooperation will be difficult because of fears about cheating, dependency, and relative gains. These concerns were very much a part of the fears of many Mexicans over time about close economic collaboration with the United States or with U.S. firms. These fears were part of a broad consensus in Mexico at least through the 1988 presidential election. As then-candidate Carlos Salinas put it: "Listen -- on the record -- Canada and the United States have almost similar economies. The U.S. and Mexico have very dissimilar economies, it's so uneven the relationship that that's the reason why I have rejected the idea of entering a North American common market."\(^{\text{xi}}\)

Neorealists explained the emergence of the European Community as a by-product of U.S.-Soviet rivalry during the Cold War, which came to be seen as a necessary condition for the emergence and consolidation of otherwise improbable international institutions. That is, states cooperate in order to balance against powerful other states, i.e. European cooperation within Europe and with the United States was explained as an attempt to balance the Soviet Union. Consequently, with the end of such U.S.-Soviet rivalry, European powers should be expected to return to worry about each other's behavior. Instead, in the early 1990s European countries strengthened their Economic and Monetary Union through the Maastricht Treaty. The likelihood of cooperation in Europe should have declined at the very moment that it increased.\(^{\text{xii}}\)

Similarly, the pattern of U.S-Mexican collaboration after World War II was also a result of the Cold War, which firmly set limits that Mexico would not transgress in its foreign policy and identified zones of international behavior to which the United States did not object -- Ojeda's rule. The United States demanded Mexican cooperation to balance the Soviet Union, and Mexico complied because it gained also substantial independence within the bilateral relationship. With the end of the Cold War, the basis for the old bilateral relationship was shattered. If neorealist premises were correct, Mexico should have sought greater independence from the United States at the very moment when, in fact, it sought closer collaboration.

With regard to Mexico, a possible neorealist reply could be that the Cold War ended in Europe, not in North America, where it continues between the United States and Cuba. But by
the 1990s Cuba had ceased to pose an international security threat to any of its neighbors. It had become an object, not a subject, in international politics. Fear of Cuba in the 1990s bears no parallel to fears of global nuclear warfare under the Cold War.

A second neorealist reply might derive from Kenneth Waltz's remarks (quoted at the beginning of this essay) that in the 1990s countries would continue to bandwagon with the United States for a while because they were accustomed to a "free ride" from the United States which, according to Waltz, "still has benefits to offer." Prior to the major shift in its foreign policy, however, Mexico had not been receiving a free ride from the United States. True, the United States provided "free" security protection from a possible Soviet conquest, but Mexico did not fear Soviet assault and was not constrained by such a fear. Nor did Mexico receive much foreign aid from the United States apart from sums dedicated to fighting drug trafficking. Nor had the United States provided generous terms to Mexico to settle its international debt crisis prior to the realignment of Mexican policies in the late 1980s.xiii

Neorealists could also reply the U.S.-Mexican economic cooperation was a response to the emergence of new economic powers which required balancing. That is, the rise of Japan and other east Asian countries as powerful economic actors, and the consolidation of the European Union around a united Germany, posed threats which warranted economic cooperation in North America. This argument has a logical problem, however: why bandwagon with the country that, from Mexico's perspective, most needed balancing? A cardinal rule of neorealism is that states do not bandwagon toward the hegemon. Empirically, even as Mexico was preparing to negotiate the North American Free Trade Agreement (NAFTA), the U.S. government invaded Panama, increased its military threats against Cuba, and escalated its "war" on drug traffickers in a manner highly intrusive within Mexico, including the kidnapping of a Mexican citizen (Dr. Humberto Alvarez Macháin) in Mexico to bring him to trial in the United States without the prior authorization of the Mexican government -- an action eventually upheld by the U.S. Supreme Court.xiv Contrary to what actually occurred, neorealists would expect that these actions should propel Mexico toward balancing.
In short, neorealism does not provide a good enough guide to trends in U.S.-Mexican relations in the 1990s. Its principal forecast would have been the distancing between the United States and Mexico, and a renewed Mexican assertion of independence from its northern neighbor. That is exactly what did not happen. We need to reach into the scholarly tool box to find better instruments to assess these new realities.

Systemic Explanations

A New North American "Concert"?

"There are two ways of constructing an international order," Henry Kissinger wrote in explaining the formalization of the concert of European powers at the Congress of Vienna, "by will or by renunciation; by conquest or by legitimacy." At the conclusion of the twentieth century as during the second decade of the nineteenth, an era of the international system came to its end. A major empire collapsed in continental Europe, permitting other states to act in concert to establish a legitimate international system -- an "agreement about the nature of workable arrangements and about the permissible aims and methods of foreign policy," an international system that enshrined aspects of renunciation in order to set the foundations of the new international order.\textsuperscript{xv}

The change in Mexico's international behavior in the early 1990s was comprehensive and nearly all-encompassing. It included a major re-orientation of economic policy, to be discussed in later sections. As already noted, Mexico also worked cooperatively with the United States to settle the war in El Salvador and it has continued to collaborate with the United States to seek to bring the war in Guatemala to an end. As in 1815 in Europe, so too in the early 1990s in North and Central America: The key powers worked to end revolutionary situations and to create a more moderate domestic and international order in the belief that such cooperation in economic and security matters would best serve their respective national objectives.

The emergence of a concert of powers begins with a proposition consistent with neorealism. As Benjamin Miller has argued, in international politics "the dominant great power
will tend to exclude other powers from international diplomacy in the regions or issues involved, and will prefer unilateral management ... In contrast, the weaker powers will prefer a multilateral framework in which they will be able to take part alongside the leading power in the management of regional problems.\textsuperscript{xvi}

This proposition goes a long way to explain the respective behavior of the United States and Mexico with regard to Central America in the 1980s, with the United States acting unilaterally and through war while Mexico promoted the Contadora process to bring about a negotiated settlement to the same wars. The U.S. unilateral invasion of Panama in 1989 no doubt confirmed the wisdom of Mexico's preference for multilateral processes.

There remain several unexplained puzzles, however. Mexico's cooperation within Contadora had sought to balance the United States, not to collaborate with it, while the U.S. government had resisted deferring to the views of others in the conduct of its policy toward Central America. Mexico had distrusted the United States; the United States did not need Mexico. Why, then, did the former antagonists choose to cooperate in the early 1990s to pacify the region over which their foreign policies had diverged?

Scholars of the emergence of "concert" regimes emphasize two "unit level" factors, that is, domestic conditions: ideological similarity, and moderation with respect to the status quo including the belief that peaceful action was the only legitimate method for international change. Both were central to the Congress of Vienna system. Karl Deutsch and his associates also called attention to the importance of the similarity among societal attributes to explain the emergence of even more far-reaching "security communities" in which conflict was settled peacefully without resort to war.\textsuperscript{xvii} Similarity and moderation help to overcome the predisposition of the most powerful to go it alone; they narrow the scope of policy differences; and they foster a more benign image of other states.\textsuperscript{xviii}

In the late 1980s and early 1990s, there is persuasive evidence of growing moderation in international affairs in both the United States and Mexico. For example, in 1990 the Bush administration sought approval and support of the United Nations Security Council to construct a
grand coalition to reverse Iraq's invasion of Kuwait. The Bush and Clinton administrations encouraged the development of United Nations peace keeping operations as a substitute for unilateral U.S. intervention. In 1994, for the first time ever in the case of such an action in the Americas, the United States sought prior approval from the U.N. Security Council for its military intervention in Haiti. And, as noted, in the mid-1980s the government of Mexico had already cooled its earlier ardor for the Sandinista government in Nicaragua and for the insurgency in El Salvador. In each instance, the two governments behaved in ways most likely to reassure the other. The United States eschewed unilateral intervention, Mexico eschewed support for revolutionaries. Both sides relied more upon the legitimate rules of the current international order.

The "similarity" explanation does not, however, fit the U.S.-Mexican case. Mexico and the United States remain very different countries, even if their economic policies and practices have converged. In the United States, there is a strong perception that Mexico's political system is quite different. In the Fall 1993, U.S. Vice President Albert Gore and former presidential candidate Ross Perot debated the merits of NAFTA on U.S. national television. They disagreed on virtually every topic but one: Mexico was not a democracy.

Nor did the image that U.S. and Mexican citizens hold of each other's countries change before and after 1990 to help to explain the change in government behavior. Mexicans have long had a good opinion of the United States, before as well as during the 1990s. From the mid-1950s to the late 1970s, for example, typically two-thirds of Mexicans held a good opinion of the United States; the percentage never fell below 54 percent and never rose above 71 percent. U.S. citizens have also had a good opinion of Mexico for many years, even when the policies of the two governments diverged. Since 1978, the Chicago Council on Foreign Relations has been taking "thermometer" readings of the feelings of U.S. citizens toward other countries. The thermometer reading for Mexico has oscillated between 56 and 60 degrees. In the esteem of U.S. citizens, Mexico ranked fifth in 1978; in 1982, it ranked third; in 1986, it ranked fifth; in 1991, it ranked seventh; in 1994, it tied Germany for fourth place. For the most part, the result is nearly
invariant. Public opinion images were constants in both countries; they cannot explain the change toward cooperation in the early 1990s.xxi

Finally, there is certainly no North American concert of powers with regard to policy toward Cuba. As the 1990s progressed, Mexican and Canadian policies toward Cuba have increasingly diverged from U.S. policy.

In short, there are some elements of an evolving North American concert explained principally by the growing international moderation of both the United States and Mexico toward international issues that concern them. But the concert remains fragile because of the persisting dissimilarity between domestic political systems as well as important disagreements over the most significant security issue that affects them, namely, Cuba. A North American concert of powers will not be consolidated until there is greater similarity in domestic political arrangements and greater convergence toward common security issues.

Institutionalism

In North America in the early 1990s, the three key states -- Mexico, Canada, and the United States -- redefined their understanding of sovereignty, agreeing to establish supranational procedures to govern their trade among themselves. They created new international institutions within the framework of the NAFTA to foster trade in general, to limit it for specified years and in agreed upon ways in certain sectors and products, and to provide for dispute resolution mechanisms. In addition to specific changes in trade policy, there have been associated fundamental changes in the flow of international capital across boundaries, both for direct and portfolio investment. The liberalization of the Mexican economy fostered a much closer integration with the U.S. economy than had ever been possible and, in some quarters, ever thought possible.

In Mexico "sovereignty" had been seen as a consumption item. It was to be enjoyed, relished, defended, and asserted within the general limitations of Mexican foreign policy. The NAFTA embodied a different conception of sovereignty as a production factor. Sovereignty was
to be invested to achieve other valuable goals, in particular a shared prosperity. Consistent also with arguments about trends toward creating a North American concert, sovereignty was to be renounced in important respects in order to improve the prospects of rescuing Mexico from the economic depression of the 1980s. These were stunning changes, unexpected from past Mexican foreign policy or from past U.S. behavior toward Mexico.

What are the gains from creating such international institutions? As noted earlier, neorealism accords little significance to international institutions as such and, therefore, has difficulty explaining why they emerge and develop. Nonetheless, from a modified neorealist tradition, Joseph Grieco has proposed a useful first step toward such understanding. Grieco's empirical problem is to explain why weaker European states chose to bandwagon with a united Germany to strengthen the European Union after the Cold War. Grieco argues that these European states had a common interest in maintaining their shared prosperity. Moreover, the "weaker but still influential partners will seek to ensure that the rules so constructed will provide sufficient opportunities for them to voice their concerns and interests and thereby prevent or at least ameliorate their domination by stronger powers."xxii The search for "voice" as a substitute for balancing departs significantly from neorealist arguments, though in concept it embodies a mild aspect of balancing.

This approach fits well the foundations of the NAFTA. Mexico sought a free trade agreement with the United States, in part, to ensure that Mexican exports would not be locked out of U.S. markets at a moment when the tides of protectionism appeared to be rising in the United States. The signing of the U.S.-Canada free trade agreement was an additional incentive for Mexico to pry open the gates of the U.S. market. In response to these threats, Mexico sought an institutionalized voice in its relations with the United States. Moreover, Mexico sought to create institutionalized dispute settlement mechanisms that would rely upon commonly agreed to rules and, in this way, ameliorate the exercise of sheer U.S. power to settle future bilateral trade disputes.xxiii
Mexico's interests in the NAFTA and the U.S. interest in Mexico went beyond these defensive crypto-neorealist arguments, however. The problem with such arguments is that they rest on the implicit proposition that those who are about to increase their level of cooperation substantially, in fact, distrust each other profoundly. Though states are, indeed, motivated (as was Mexico) to anticipate potential future trouble, the construction and deepening of cooperation at very high levels must surely be motivated by additional factors.

Robert Keohane has identified several additional reasons why states may choose to construct international regimes and institutions such as the NAFTA. Regime architects "anticipate that the regimes will facilitate cooperation," not just ward off trouble. International regimes help to organize relationships in mutually beneficial ways. Actors conform to practices "not because they are uniquely best but because others conform to them as well." Regimes and institutions establish stable mutual expectations about the patterns of behavior of others and "they develop working relationships that will allow the parties to adapt their practices to new situations." Oddly, therefore, each partner may be somewhat unhappy with the outcome -- as were many people in all participating countries in the case of the NAFTA -- but the governments signed on because the commitment of the others to predictable behavior was a major accomplishment.

Second, Keohane argues, international regimes and institutions alter the relative costs of transactions. They prohibit certain discriminatory trade and other policies, except under clearly specified conditions. The main insurance against violation is not some centralized authority but the growing linkage among issues and the inter-penetration of economies. The transaction costs of misbehavior rise at the same time that the transaction costs of lawful behavior are lowered. It is cheaper for governments and for firms to reach agreements and make deals once a stable international regime has been instituted. Firms can begin to take advantage of economies of scale.

Governments, too, find it easier to reach agreements beyond the one that founded the international regime. For example, the signing of the NAFTA fostered the conditions that
increased financial cooperation among the governments and the central banks of the NAFTA partners. When Luis Donaldo Colosio (the presidential candidate of the governing party, the Institutional Revolutionary Party, or PRI) was assassinated in March 1994, the central banks and governments of the United States and Canada immediately intervened to stabilize currency markets. Within weeks (though it had been under discussion well before the assassination), a formal cooperative agreement among the central banks was signed, a prelude to the much larger and important financial cooperation evident in December 1994 and early 1995 when the peso collapsed relative to the U.S. dollar.xxv

Finally, Keohane notes, international regimes and institutions reduce uncertainty and facilitate the transfer of information. Through the NAFTA, Mexico gained extraordinary access to U.S. government officials, institutions, associations, and business firms to an extent and degree that was utterly unprecedented in relations between both governments. The official access was especially valuable in January and February, 1995, when Mexican government officials played a constructive and decisive daily role in helping to shape the U.S. government response to Mexico's financial crisis. Above all, Mexican and U.S. officials assisted each other by providing crucial and timely information to help their respective governments to act appropriately.xxvi

The growth and spread of information within the context of international regimes and institutions, in turn, facilitates reaching new agreements. Beyond the NAFTA itself, the United States supported Mexico's entry into the Association of Pacific Economic Cooperation (APEC) and the Organization for Economic Cooperation and Development (OECD), widening even further the networks of contacts and information available to Mexico. And, of course, the U.S. government's financial support package for Mexico in February 1995 was greatly facilitated by the established habits and procedures of cooperation deepened by the NAFTA negotiating experience and new institutions.

International regimes and institutions are not a substitute for bargaining. On the contrary, they authorize and create the conditions for more productive bargains. They increase as well the
likelihood of compliance because they permit cross-issue linkages among actors who routinely and repetitively must interact with each other to advance their interests.

International institutionalist explanations, therefore, go a long way toward explaining the defensive and, more importantly, the positive reasons for the changes in U.S.-Mexican relations that occurred in the late 1980s and early 1990s. A great many of Mexico's goals could be achieved, perhaps paradoxically, by joining with the United States. Better than the alternatives, this strategy of creating institutions to restrain and, especially, to engage the United States in constructive behavior motivated Mexico's elites to make an historic change in the country's foreign policy.

Such institutionalist arguments must be treated as hypotheses, however, not as verified eternal truth. These are good reasons for the creation of the NAFTA. But the NAFTA agreements and institutions are just beginning. An appropriate research program, therefore, ought to assess whether the NAFTA institutions do, in fact, create stable expectations that create guarantees for actors; whether the costs of illegitimate transactions are increased and of legitimate transactions lowered; and whether uncertainty is reduced as information is disseminated and shared. There is, of course, the additional important empirical work required to determine why Mexican elites came to believe these institutionalist reasons when they did but not before.

Boundary Transgressions

International systemic arguments -- be they neorealist or institutionalist -- shy away from including domestic factors in these explanations. For neorealists, keeping the analysis above the "unit level" is a key scholarly commitment. Institutionalists necessarily include a number of domestic considerations in their analysis but tend to retain the argument at the systemic level and, in so doing, fall short of capturing some of the most important aspects of the transformation of U.S.-Mexican relations.
The relations between the United States and Mexico are, and have long been, inter-societal, not just inter-governmental -- an aspect that realist arguments have never explained. The contents of this book provide an excellent illustration. Many of the topics addressed in this work would be difficult to imagine in a similar book on U.S.-Russian, U.S.-German, U.S.-Japanese, U.S.-South African, or U.S.-Chilean relations: cooperation with regard to drug trafficking, migration, the policies of the governments of the states of California and Texas, and the role of non-governmental organizations concerned with democracy, human rights, and the environment. To be sure, there are other more conventional international relations topics, such as financial networks, inter-governmental institutions, energy, and so on. And yet, the conclusion is inescapable that the study of U.S.-Mexican relations should not ignore the domestic level. Instead of delving into the subjects of other chapters, I will call attention to one valuable way of thinking about the links between domestic and international levels.

Two-Level Games

Robert Putnam has employed the metaphor of "two-level games" to illustrate a common and very important problem in international bargaining. Bargaining between government negotiators leads to a tentative agreement. But the agreement will only hold if it is ratified within each government. The state is Janus-faced. Government officials must negotiate simultaneously with government officials from other countries but also with their own constituencies. International negotiators must keep in mind the domestic constituencies figuratively sitting behind the person across from the table.

A good example of the centrality of two-level games in U.S.-Mexican relations was evident near the end of the U.S.-Mexican negotiation in January and February, 1995, over the U.S. government commitment of $20 billion to rescue the Mexican economy from further collapse. In the speech announcing the agreement, Mexico's Finance Minister Guillermo Ortiz spoke first in Spanish, and then in English. For the most part, the latter remarks were not a translation. In fact, Ortiz delivered two very different speeches at the same occasion.
In his Spanish language remarks, the Minister addressed a key fear among his fellow citizens: Did this agreement sell out the country to the United States? Ortiz emphasized the Clinton administration's "great understanding" as well as "leadership." The United States, said the Minister, was being very helpful; these sums would turn the economy away from the abyss. Moreover, the financial package included "no political conditionality at all" upon Mexico. To ensure transparency, the agreement would be forwarded to the Mexican Congress for its inspection and approval. In addition, the part of the agreement that, were Mexico to default, would allow the U.S. government to obtain payment from the proceeds of Mexican petroleum exports was described as relatively similar to those in past circumstances. The U.S. government, affirmed the Minister, would have no rights over the assets of Mexico's state-owned oil company, PEMEX, nor would it have rights over the design or implementation of Mexican oil policies.

The Minister had to reassure his constituency for various reasons. The concern about political conditionality -- which, indeed, was not imposed -- stemmed from demands, extensively discussed in the press, from a number of U.S. members of Congress that Mexico break its economic relations with Cuba as a pre-condition for any financial assistance. More serious was the concern about the tough economic terms (which U.S. negotiators, in turn, required to reassure their constituency); these economic terms had alarmed many Mexicans and had been published by The New York Times prior to the formal announcement of the agreement. PEMEX's international clients would pay for its products into an account at a U.S. bank, which was obligated to transfer funds to a Bank of Mexico account at the Federal Reserve Bank of New York. According to the agreement, were Mexico to default, the U.S. Treasury through the New York Fed "would be entitled to set off its claims against the Bank of Mexico account."xxx

In his English language remarks, the Finance Minister addressed his other key audience for the day: The constituencies of the Clinton administration in the United States, in effect seeking to bolster his negotiating partner. Ortiz pledged the toughest domestic policies to end the
financial crisis, and to use the U.S. funds in the most conservative fashion to move away from reliance on short-term financing for Mexican public sector operations.

The analysis of two-level games goes beyond such illustrations to generate some more specific hypotheses. An old yet still pertinent insight was articulated by Thomas Schelling: "The power of a negotiator often rests on a manifest inability to make concessions and meet demands." The more constrained I am as a negotiator, the more credible will my statements be that I cannot yield to you. Schelling went on to note that U.S. negotiators often make effective use of the constraints imposed by law and in particular by Congress.xxxi

Putnam uses Schelling's insight to generate some hypotheses that can be applied to U.S.-Mexican relations. For example, Putnam notes that "institutional arrangements which strengthen decision-makers at home may weaken their international bargaining position, and vice versa." Historically, the extraordinary power of the Mexican president to govern, and to get its way in Congress, the courts, and with the political parties has had the paradoxical effect of weakening Mexico's capacity to negotiate effectively with the United States. Mexican president Carlos Salinas would have been literally "incredible" if he had attempted to argue, in negotiations with the United States, that he was constrained by Congress or the courts in making or unmaking commitments.

In contrast, a weak and often vacillating Clinton administration used Schelling's strategy effectively in its conduct of the NAFTA negotiations with Mexico. First, the U.S. government forced the Mexican government to re-open the negotiations in order to reach parallel agreements on labor and the environment. Second, close to the Congressional vote on the NAFTA, the U.S. government obtained from Mexico a series of concessions on specific sectors and products to "buy" votes for ratification in the U.S. Congress. In addition, in February 1995 the Clinton administration was able to use Congressional reluctance to approve a financial rescue package for Mexico to induce Mexican negotiators to agree to very tough terms -- the use of petroleum exports as collateral and, especially, Mexican commitments about fiscal and monetary policies.
Curiously perhaps, greater democratic competition in Mexican politics might be expected to strengthen the hands of Mexican officials in negotiations with the United States.

Schelling and Putnam thus show that domestic factors can be used as an instrument of foreign policy, effectively changing the behavior of one's negotiating partner. The explanation is rooted not in the nature of the international system but in the nature of domestic politics and the skill of the negotiators.

And yet, Putnam also argues, that is only half of the story. Government officials can also reach international agreements that will re-shape important aspects of domestic politics, committing governments to pursue a given course and to desist from others. In Mexico's case, this is, of course, the most often-cited reason for President Salinas' decision to seek a free trade agreement with the United States: to lock in the policy reforms adopted under the de la Madrid and his own administrations, and to commit Mexico through this international agreement to implement further changes to complete its substantial economic transformation.

The process of reaching agreement also "unpacks" the state because different government officials have different preferences. This opening up of the state, in turn, creates avenues of influence for societal actors. The penetrability of the state, Putnam suggests, varies depending on whether domestic interests are homogeneous (simply pitting "hawks" versus "doves") or heterogeneous so that domestic cleavages might foster international cooperation. When President Salinas took the initiative to approach the United States for a free trade agreement, he knew that there would be divisions within the United States -- some would no doubt work against Mexico, but many more would see great advantage in reaching such agreements.

A last example from Putnam's work is the problem that can emerge from the international implications of a political leader's "fixed investments in domestic politics." In 1994, President Salinas, Finance Minister Pedro Aspe, and Central Bank President Miguel Mancera made twin decisions which derived from their fixed investments in domestic politics: to facilitate credit to business to reactivate the economy\textsuperscript{xxxii} and to maintain a fixed exchange rate for the sake of political stability through the presidential elections, especially in the light of threats to such
stability from the insurgency in Chiapas and the assassination of the leading presidential candidate. This policy was possible so long as international investors chose to believe in the "hard peso" and failed to see the deepening domestic macroeconomic disequilibrium.

The Mexican government leadership chose to sustain the disequilibrium because it was politically optimal (though it would prove economically costly) in order to make it through the August 1994 presidential election. The hard peso made it easier for the urban middle class to purchase imports; the easier credit to firms was popular with business and labor. The resulting growth in political support reduced the need to commit electoral fraud. The consequences of those policies were economically untenable in due course, setting the background to the financial panic which broke out in December 1994, but they were politically productive because Ernesto Zedillo was elected president in elections widely perceived as fair enough.

Signaling

The discussion of two-level games takes us to a consideration of the signals that key actors may send to each other. The transformation of Mexico's international financial relations provides further need to re-examine the tools ordinarily used to analyze U.S.-Mexican relations. At the time of the debt crisis in 1982, Mexico had to deal with just a few hundred private banks and a few dozen governments, central banks, and international financial institutions and related agencies. At the time of the financial panic of December 1994 and the weeks that followed, Mexico had to deal with tens of thousands of investors who made instant decisions about the funds they had invested in the Mexican stock exchange.

This is, of course, the ultimate boundary transgression, for the decisions about international capital flows are as fundamental to Mexico's economic health as they are difficult to control. At this point in the analysis, we are far, far from neorealist assumptions about the absolute centrality of states in international affairs, and we are even quite distant from institutionalist arguments. And yet, as events have shown, these capital transfers are very much a
part of U.S.-Mexican relations, broadly construed, and are deeply affected by the behavior of the Mexican government, among other factors.

Michael Spence has developed analytical models of labor markets whose properties are not unlike the circumstances that Mexico faced in late 1994 and early 1995. Labor market signaling games had two characteristics not shared by all market signaling games: "One is the relatively large number of people in the market at any one time. The other is the relative infrequency with which any one individual appears in the market. These two factors conspire to eliminate investment in signaling by the primary signalers." Under these conditions, Spence suggests, there may be "drastic increasing returns to the collection of information" and, consequently, Spence expects the development of "economic organizations whose primary function is to collect and disseminate information." These informational intermediaries are one connection between this kind of analysis and some of the institutionalist arguments reviewed earlier. Labor markets are stabilized once these informational intermediaries (employment agencies) centralize the screening process for standardized jobs.\textsuperscript{xxxiv}

This framework applies well to international investment in Mexico, where there were many individual investors who had become involved with Mexican markets only recently and infrequently. Spence helps us to hypothesize that neither Mexico nor international financiers invested in signaling to each other, and both thus relied greatly on informational intermediaries: the mutual funds. Mexico relied on the mutual funds to round up investment capital, and individual investors relied on the mutual funds to deal with Mexico on their behalf. The government of Mexico understood too late that these myriad international investors knew very little about Mexico and would thus respond to gross and simple signals.

In December 1994, the Zedillo government attempted to justify the devaluation of the peso, in part, on the grounds that Mexico had been weakened by acts of violence during 1994 and, most recently, by the reactivation of the insurgency in Chiapas.\textsuperscript{xxxv} Even five weeks after the beginning of the financial panic, President Zedillo's principal public explanation remained that international investors had withdrawn their funds "in the face of political events and
violence in our country."xxxvi What did this signal? Individual investors who thought that they had invested in an OECD country discovered overnight that, instead, they had invested in a country described by its President as unstable and violent-prone.

The government of Mexico sent other destabilizing signals which accentuated the perception that it was either inept or deceitful. Wall Street investors came to believe that the Mexican government would defend the "crawling peg" exchange rate policy notwithstanding growing financial difficulties.xxxvii Immediately after a first devaluation within the context of a crawling peg policy on December 20, Finance Minister Jaime Serra assured investors on Wall Street that Mexico remained committed to this policy, eschewing a maxi-devaluation.xxxviii As the peso tumbled out of control, Wall Street had two options. One possibility was that Serra did not know how grave Mexico's circumstances were, in which case investors panicked because they could not rely on the Finance Minister's competence. Another possibility was that Serra did know, and lied, in which case investors panicked because they could not rely on the Finance Minister's credibility. A talented and honorable public official,xxxix Serra found himself in an untenable position; he resigned.

President Zedillo himself compounded the problem by his actions and inaction: "The argument that Zedillo acted without a plan on December 20 seems well-buttressed by the overwhelming impression of fiscal chaos and political confusion created when he repeatedly delayed for 20 hours a speech on the national economy ... Zedillo's tardiness, and the bromides he ultimately delivered, proved especially disconcerting to foreign investors because they followed nearly two full weeks during which information about the devaluation was maddeningly scant."xl Unfair as these comments may be, they represent the signal received.

The Mexican government thus unwittingly sent the most disturbing of possible signals. Individual investors did not need informational intermediaries to explain these events to them. Mexico's signal seemed blunt and clear -- investors told their brokers to sell Mexican stocks, bonds, and pesos.xli
A fundamental reason for the devaluation of the peso was the outsized deficit in the balance of payments current account; the central bank ran out of reserves. But the signals sent and not sent by the Zedillo administration helped to turn a severe problem into a runaway panic.

Spence's framework highlights another interesting property of markets of this sort: Information is often transmitted through statistical indices. Such statistical information is crucial in markets where primary participants otherwise invest so little in signaling because they are engaged infrequently in such transactions (as may be the case of numerous individual investors).

And yet, the Bank of Mexico had not adjusted its policies despite changes in this financial market environment. It continued to behave as if participants in Mexico's financial markets could be counted (as in 1982-83) in the 3-digit, not the 6-digit range, and as if such participants engaged in this market frequently and, therefore, were fully informed. Information on the Bank of Mexico's "international reserves were announced only three times a year," perhaps in the expectation that fully informed market participants (who had in fact become a minority) had informal ways of obtaining information.

In contrast, Argentina's Economy Minister Domingo Cavallo had understood accurately the nature of this signaling problem. Upon creating a "currency board" mechanism for its central bank, Argentina adopted the policy of publishing a great quantity of financial information frequently. When the Mexican devaluation panic hit, the Argentine central bank was publishing statistical information on its international reserves position and many other indices every week.

In the agreement reached on February 21, 1995, between the U.S. and Mexican governments concerning the U.S. government's commitment of $20 billion to support the Mexican government, the Bank of Mexico became obligated "to improve the transparency of operations of the Government and the Bank of Mexico by introducing new publications with timely and accurate data reporting operations and financial statistics and by placing that information on the Internet in the near future." The Bank of Mexico, alas, was forced to invest
in more effective signaling, publishing information on monetary aggregates and international reserves on a weekly basis.\textsuperscript{xlvii}

Mexican financial markets have become central to the country’s economic health and to its international economic relations. The participants in this market are more numerous and less well informed than has been typical in years past. Scholarly and applied policy research on signaling strategies is long overdue.\textsuperscript{xlviii}

Conclusion

Two observations can be made about the long and impressive scholarly tradition concerned with U.S.-Mexican relations. First, the dominant approach has been realist, analyzing the Mexican government as a unified and calculating rational actor. Second, much
of the reality of U.S.-Mexican relations has never been explained well by that approach. Instead, there has long been a need to understand the importance of international regimes and institutions, "games" played at multiple levels, and signals sent and received by key actors.

Business firms, migrants, smugglers, diplomats, Hollywood actors, scholars, individual investors, non-governmental organizations, and many others have long acted on the great canvass of U.S.-Mexican relations. This essay seeks to open up the theoretical space to address these important empirical concerns.

I have argued that realist approaches do, indeed, explain significant dimensions of the history of U.S.-Mexican relations, but that the utility of this approach has dropped markedly in the 1990s. Scholars would benefit from examining arguments related to the construction of concerts and other international regimes and institutions as well as from greater attention to multiple-level games and to signaling which incorporate domestic factors in the systematic explanation of U.S.-Mexican relations.

In the 1990s, these approaches help to explain the convergence of U.S. and Mexican policies, the investment in the creation of new international institutions, the relative bargaining strength of the United States and Mexico in their epochal negotiations, and the severe under-investment in signaling that helped to transform a financial problem into a panic in December 1994 and the early weeks of 1995.

Notes

An earlier version of this paper was presented at the Seminar, "La Nueva Agenda en la Relación Bilateral México-EUA," held at the Instituto Tecnológico Autónomo de México (ITAM), May 19-20, 1995. I am grateful to the
editors, to the conference participants, to fellow authors, and to Robert Keohane and Robert Putnam for comments on that version.


vii Ojeda, Alcances y límites, pp. 26, 79.

viii Ibid., p. 93.

ix There is a vast literature on these themes and years. See particularly insightful studies such as Centro de Estudios Internacionales, Continuidad y cambio en la política exterior de México: 1977 (Mexico: El Colegio de México, 1977); Lorenzo Meyer, ed., Mexico-Estados Unidos, 1982 (Mexico: El Colegio de México, 1982); Olga Pellicer, ed., La política exterior de México: desafíos en los ochenta (Mexico: CIDE, 1983); Manuel García y Griego and Gustavo Vega, Mexico-Estados Unidos, 1984 (Mexico: El Colegio de México, 1985); Yoram Shapira, "Mexico's Foreign Policy under Echeverria," Inter-American Economic Affairs 31 no. 4 (Spring 1978): 29-61; Robert Pastor and


xi Interview with Carlos Salinas de Gortari, May 29, 1988, conducted in English by myself along with Delal Baer, William Schneider, and Cathryn Thorup. Technically, of course, Salinas did not reverse himself; the North American Free Trade Agreement creates a free trade area, not a common market.


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Grieco, "The Maastricht Treaty," p. 34.


Keohane's insight that a first fundamental agreement facilitates the signing of subsequent agreements is not at all obvious. On April 16, 1990, within days of the announcement that Mexico was seeking a free trade agreement with the United States, I participated in a debate at El Colegio de México and argued, among other points, that a "free trade treaty [would have the effect] of a greater coordination of monetary policies," making it likely that the U.S. Federal Reserve Bank would become Mexico's bank of last resort. At the time, no one agreed with this argument. See Gustavo Vega, *México-Estados Unidos, 1990*, pp. 223-261.


"Palabras del Dr. Guillermo Ortiz, Secretario de Hacienda y Crédito Público de México," February 21, 1995, courtesy of the Embassy of Mexico to the United States.


For example, one very large U.S. mutual fund, Fidelity Asset Manager, reduced the percentage of the Fund's investments in Mexico from 14.7 percent to 1.1 percent during the six months that ended on March 31, 1995. The amount withdrawn from Mexico by this single Fund amounted to over $1.5 billion during those months. To put this withdrawal in perspective, it was the equivalent of not less than 12 percent of the reserves of Mexico's central bank on the eve of the devaluation crisis (November 30, 1995). See Fidelity Asset Manager, *Semiannual Report* (Boston: Fidelity Investments, March 31, 1995), pp. 9-10; Pedro Aspe, "Mexico's Ex-Finance Minister Sets the Record Straight," *The Wall Street Journal*, July 14, 1995, p. A13.

xxxv  *New York Times*, December 23, 1994, p. C4. See also "Agreement for Unity in Overcoming the Economic Emergency," paragraph e, January 3, 1995, courtesy of the Embassy of Mexico to the United States: "it is a well known fact that the political and criminal events of 1994 caused insecurity among participants in the markets. Thus, in view of some of these events, several episodes of considerable losses in the reserves were incurred."


xxxix  Jaime Serra is an articulate, intelligent, and knowledgeable economist and politician, the successful negotiator of the NAFTA on Mexico's behalf. The situation in which he found himself when he took office as Finance Minister on December 1 was structurally unsustainable. Equally talented is his successor, Guillermo Ortiz. Serra and Ortiz have collaborated over the years. Ten years before this financial panic, they co-authored a technical paper that highlighted the problem posed by Mexico's low internal savings rate and the close connection between it and the availability of foreign savings to understand broad macroeconomic outcomes. See Guillermo Ortiz and Jaime Serra Puche, *A Note on the Burden of the Mexican Foreign Debt*, Documento de Trabajo no. 1984-II (Mexico: El Colegio de México, 1984).


xlii  See Sachs, Tornell, and Velasco, *The Collapse of the Mexican Peso*.


Confidential discussions indicate that senior Mexican government officials did believe that this informal informational process was at work.

"Resumen de las acciones en materia de política económica presentadas por México," February 21, 1995, courtesy of the Embassy of Mexico to the United States.

Valenzuela, "No More Mysteries about Mexico Economy."