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Petroleum Hypothecation: Consequences for Mexico in Latin America since the Peso Crisis*

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ABSTRACT

How did the Mexican Peso Crisis, a critical juncture which took place historically, take place in contemporary Latin America? The answer is absent within the linchpins theorized by classical approaches like modernization theory and dependency theory, as they reduce the South's agency to the immanent and the structural. A teleological standpoint of the 1994-1995 events shows that what prevented debt default was a US loan explicitly collateralized with oil income, which inaugurated Mexico's age of isolation from diverse Latin American attempts at integration. Teleology effectively places agency within the theory debate through the acknowledgment of Mexico and its Latin American peers not as structural objects, but as regional agents able to exert purposive action and build their own history.

Key Words: monetary policy, Mexican peso crisis, Pemex, Petrosur, teleology

INTRODUCTION

"In the politics of civilizations, the peoples and governments of non-Western civilizations no longer remain the objects of history as targets of Western colonialism but join the West as movers and shapers of history". With these words, Samuel Huntington (1993, 23) delved into a twenty-first century affair about the role of the South, regions like Latin America,

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in the discipline of International Relations: Are these countries full-fledged agents at the international stage? If not, are they then just mere structural outcomes? In answering those questions, twentieth-century academia suggested two contrasting formulations, the Modernization theory and the Dependency theory. Both approaches, however, focused more in northern dilemmas and less in southern choices, reduced agency debates, and fell prey to determinism. The financial turmoil which lashed the hemisphere in the 1990s proved that decision-making was far from homogeneous; therefore agency claims its place back onto the roundtable. The Mexican Peso Crisis of 1994 particularly illustrates emergency measures, taken by the Mexican government in coordination with the United States and the International Monetary Fund, which turned into enduring monetary and energy policies. In this time lapse, Mexico kept itself apart from integration initiatives occurring south of the border. In view of the limitations of the abovementioned theories to offer a dynamic argument that does justice to history and agency, a teleological explanation comes to posit mutual constitution between agents and structures urging to consider the internal realm in the making of international relations. Mexican agency thus becomes a renewed subject of theorization.

This article suggests that Mexico's disengagement from Latin America since 1994 is a consequence of purposive action based on the accumulation of central bank international reserves using oil revenue. It is organized in five sections. A brief description of the Peso Crisis and a general view over the Latin American integration drive are addressed in the first section. The second starts examining the role of Pemex, the state-owned energy company, in the 1982 debt crisis, and subsequently deals with the conditions of the US loan that averted default in 1995 leading to the institutionalization of the policies here examined. In the third section, Modernization and Dependency are discussed to show their limits. The teleological standpoint explains in the fourth section how purposive action by Mexico and other Latin American states produces intended and unintended structural consequences in terms of integration and isolation. Finally, the conclusion draws a forward-looking glimpse towards domestic trends in the escalation of Mexican isolation from the South of the hemisphere.

BACKGROUND: *TEQUILA*, FINANCIAL TURMOIL

Prior to the 2010 celebrations of the bicentennial of Mexico's Independence and centennial of the Mexican Revolution, a pair of books appeared authored by two preeminent Mexican politicians. Inside those pages, former President Carlos Salinas and two-times presidential runner Andrés Manuel López Obrador aired their appraisals on the state of the nation. Unsurprisingly, both publications contain attacks from one to the other, as López Obrador alleges cronyism in the privatization agenda undertaken during Salinas's mandate. The two, however, criticize the main decisions of then President Ernesto Zedillo during the Peso Crisis.

This excerpt of *La década perdida: 1995-2006 neoliberalismo y populismo en México*, captures Salinas's view:

> During 1995, the Mexican government took three greatly adverse decisions to national development: to tackle the solvency crisis which the government itself provoked, assistance from the US government was requested – an unprecedented event in the 20th century. This meant the acceptance of the measures proposed by that government. As a consequence, interest rates in said year abruptly rose, which led thousands of businesses to bankruptcy and hundreds of families lost their properties (2008, 145).

Likewise, in *La mafia que se adueñó de México... y el 2012*, López Obrador quotes the measure devised to counter the insolvency situation:

> We must remember that, back then, Ernesto Zedillo resorted to oil revenue as collateral for a loan granted through the Exchange Stabilization Fund by the United States Treasury Department. In the event, the proceeds from oil exports were deposited in a bank account in New York which could not be touched by the Mexican government, and whose exclusive goal was the payment of that loan's liabilities; a sort of petroleum hypothecation (2010, 77).

The Mexican Peso Crisis, otherwise known as the Tequila effect due to its chain reaction across Latin America, was considered "the first financial crisis of the 21st century" (Boughton 2000). It was basically characterized by the government's reliance on capital markets and instruments that exhausted the central bank international reserves (also known as foreign-exchange reserves or hard currency reserves), prompting a violent devaluation and uncertainty of defaulting on sovereign and private debt. The politics account of this crisis argues that assassinations and the uprising of the Zapatista Army of National Liberation triggered capital flight in

1994. The economics account, complementarily, contends that the Salinas and Zedillo administrations decided to stick to the sustained currency peg instead of pursuing an earlier, and perhaps less severe, devaluation of the real exchange rate (Sachs, Tornell, and Velasco 1996).

Although Mexico avoided default, the fiscal policy undertaken to allay insolvency fears following the devaluation witnessed a GDP downfall of approximately six percent by 1995 (Carstens and Werner 1999, 9). Notwithstanding the heavy criticisms by Salinas and López Obrador with the tags of "greatly adverse decisions to national development", and "petroleum hypothecation", this fiscal response, and the larger policy set to which it belongs, came under international praise since the US loan was timely repaid (Barro 1998).

Mexico went through its economic crisis and the resulting banking bailout under a rapprochement between the Institutional Revolutionary Party (PRI) and the National Action Party (see Hamilton 2009, 331). Meanwhile, similar economic downturns prompted different political shifts in a number of South American countries. The Fifth Republic Movement trumped the Punto Fijo Pact in Venezuela nearly ten years after the *Caracazo* riots – originated from an adjustment in transport prices to alleviate the debt-ridden public sector in 1989 (Gott 2011). Equally, both a stream of Justicialismo and the Workers' Party rose to power in Argentina and Brazil respectively following Tequila, the East-Asian, and Russian crises of the late 1990s.

During this interval, the Venezuelan government in particular pursued an integral foreign policy with other Latin American countries (Hellinger 2009). Multilateral initiatives like the Bolivarian Alliance for the Americas (ALBA) and the Union of South American Nations (UNASUR) are worth mention in this intent of integration. ALBA aims to consolidate a regional bank endowed with its own currency in order to diminish dependence on the US dollar as prime medium of exchange (Hart-Landsberg 2009). UNASUR was created in 2008 to coordinate political dialogue as an intergovernmental body based on the Southern Common Market (MERCOSUR) and the Andean Community of Nations. UNASUR and MERCOSUR proved clout, for instance, by expelling Paraguay from both organizations after the impeachment of former President Lugo in 2012 (Wallerstein 2012).

Energy development also protrudes within this integration drive. Petróleos de Venezuela (PDVSA), the Venezuelan national energy company, has provided oil and expertise in joint ventures at the Caribbean basin, Central, and South America. Framed into ALBA, the Petrocaribe initiative implies the barter trade of Venezuelan oil to state companies from 18 countries, and the construction and revamping of refineries in Curacao, Bahamas and Cuba (Jácome 2011). Another energy project is Petrosur, devised for upstream operations, exploration and production of crude oil and natural gas, amongst national companies from Brazil, Uruguay, Venezuela, and Argentina (Kozloff 2008, 33-42). The 2012 partial expropriation of Yacimientos Fiscales Argentinos (YPF), the Argentine oil company, broadens the scope for Petrosur and the Latin American project on energy development.

In comparison, Venezuela and Mexico ship large amounts of oil to the United States due to the need of foreign exchange for macroeconomics, and the lack of infrastructure for heavy crude. Whereas the first country uses its energy sector to bolster Petrocaribe and Petrosur, the second nonetheless uses its oil earnings in a different way. For Mexico it relates to the Petroleum Hypothecation: a US loan collateralized with oil income in the midst of the Peso Crisis which afterwards became enduring policy.

PRACTICE OF THE PETROLEUM HYPOTHECATION

Prior to 1994, Mexico was already familiar to debt crises and devaluations. The 1980s were considered the "lost decade" for Latin America at large because of growing poverty resultant of a debt calculated around US$500 billion (Pastor 1989).

Pemex played a major role across the debt quagmire of 1982. The discovery of the Cantarell supergiant oil field opened the credit valves in foreign banks for the country, and for the company, which totalized ten percent of capital goods imports towards 1979 (Pasdirtz 2007, 7). During those years, world oil prices rose as rapid as Mexican government expenditures. External indebtedness rose from US$36.4 billion to US$74.4 billion between 1978 and 1981 (Bazdresch and Levy 1991, 249). The bubble burst when the US Federal Reserve increased its interest rates as an anti-inflationary strategy (Veigel 2009, 70). Mexican finances shook at the increase in borrowing costs: lenders, plunged into low capitalization, refused to refinance the syndicated debt of Mexico's public and private sectors. Ultimately, national authorities devalued the peso and fetched help from the IMF and the US government.

In spite of the reluctance of outgoing President López Portillo to accept the conditions from the United States and the IMF by means of nationalizing domestic banks and imposing capital controls, incoming President De La Madrid welcomed the rescue package (Sigmond 2011). Mexico was given initially a US$4.5 billion loan by the Fund in pursuance of restructure arrears of more than US$80 billion (Markham 2002, 129). Subsequently, federal levies on Pemex were increased to a 91 percent ratio of its before-tax profits. The company paid nearly US$12 billion in late 1982: a fivefold increment of its 1979 contribution (Ascher 1999, 226).

By 1988, a new debt-restructuring program arrived: the Brady Bonds. These consisted in transforming outstanding liabilities with the banks into capital instruments supported by the IMF and the US Treasury in order to make debt governable (Markham 2002, 131). Mexico enforced the Brady plan with domestic reform: capital controls were lifted, domestic banks were re-privatized, state enterprises were sold.

Six years later, however, Mexico's economy weakened owing to intense inflows of short-term dollar-denominated debt, to the currency peg, and to insufficient hard currency reserves, enlarging a maturing public sector debt of US$30 billion (Agénor 2004, 317). This crisis was arguably different from that of 1982 because here the debt was atomized through financial instruments, *tesobonos*, rather than syndicated loans. A credibility crisis ensued at the twilight of a politically turbulent year that was on the verge of shutting the doors of foreign financing for Mexico. Once again, national authorities devalued the peso and fetched help from the IMF and the US government.

President Clinton's Mexican Stabilization Act of 1995, US$40 billion in guarantees and swaps, was rejected by the US Congress on grounds of budgetary compromise (Henning 1999, 63). The alternative then was granting US$20 billion via the Exchange Stabilization Fund (ESF), a "revolving fund" whose disbursements require collateral (Wertman 2002, 103). Since Mexico received simultaneously US$17.8 billion from the IMF through a stand-by arrangement, the ESF resources had to be collateralized with other assets. 1982 had left a thought-provoking debate about whether Mexico was insolvent or illiquid in view of its "tradable assets (oil reserves) that were enormous in relation to the government's external debt [···]" (Boughton 2000, 28). Echoing in that discussion, by 1995 Pemex's income went to a series of accounts of the Bank of Mexico (Banxico) and the Federal Reserve as collateral from the Mexican government to the ESF: the Oil Proceeds Facility. Growing concern in the Capitol to supervise the rescue, nevertheless, prompted the passage of tailor-made legislation (Lavelle 2011, 137). The Mexican Debt Disclosure Act of 1995 obliged the US president and the treasury secretary to provide detailed information on the Mexican government's disbursements, applications, and reforms "to further privatize the economy of Mexico" (2013, 7).

Specifically, the act required intelligence about "[t]he progress the Government of Mexico has made in stabilizing the peso and establishing an independent central bank or currency board". It also urged Treasury Secretary Robert Rubin to report on "[t]he reserve positions of the Mexican Central Bank and data relating to the functioning of Mexican monetary policy", and "[t]he amount of payments made by customers of Mexican petroleum companies that have been deposited in the account at the Federal Reserve Bank of New York [Oil Proceeds Facility] established to ensure repayment of United States guarantees or swaps".

In its first months, the Oil Proceeds Facility accumulated over US$3.5 billion (Wertman 2002, 106). Mexico meanwhile had drawn US$11.5 billion from the ESF. The Mexican government began repaying in October 1995 and, two years later, had fully met debt obligations with the United States (Henning 1999, 70). Regarding the IMF, Mexico drew approximately US$13 billion from the stand-by arrangement. At the end, the Federal Reserve left the Oil Proceeds Facility unused and Pemex's income was sent back south of the Rio Grande.

Observing the positive and normative provisions from the US government for its peer is possible across the Mexican Debt Disclosure Act. On the positive, the reporting requirements showed how the Federal Reserve and the Treasury should manage the income and information of Pemex. On the normative, the act contained congressional oversight about the monetary policy guidelines to Mexico; namely, the establishment of an independent central bank with reserve positions. International reserves were deemed fundamental since Banxico had suffered drastic capital flight throughout 1994, as was the case of US$8 billion gone shortly after a rise of the federal funds rate of the Federal Reserve, and the assassination of the PRI's presidential candidate Donaldo Colosio (Lustig 1998, 158).

On the one hand, the independence of Banxico, whose main target is assuring stability of purchasing power for the national currency, was already sanctioned in 1993 (Turrent y Díaz 2007). Banxico deployed its new faculties in the crisis scenario by letting the peso float and adopting a restrictive stance over the monetary base. Interest rates jumped from 16 percent to 86 percent in three months (Carstens and Werner 1999, 15). On the other hand, the consolidation of reserve positions serves the theoretical purpose of central bank participation in forex markets through purchases and auctions to ensure currency stability. In the post-crisis scenario, circa 1996, oil income was again intervened by the Mexican government on these grounds:

> The specific strategy that Banco de México applies when dealing with public sector entities relies on the use of international reserves as a buffer stock. Hence, Pemex's net foreign exchange receipts (from oil exports and external financing) have been partially used to finance the federal government's foreign exchange requirements to service its external debt. Since Pemex's receipts have usually exceeded the federal government's external debt servicing needs, the central bank has ended up with a larger stock of international reserves (Sidaoui 2005a, 212).

The following table illustrates the contribution that Pemex makes in terms of foreign-exchange reserves, notice that the company often contributes with more than the annual total amounts:

Table 1. Flows of Net Foreign Assets: Decomposition by Source (US$ billion)

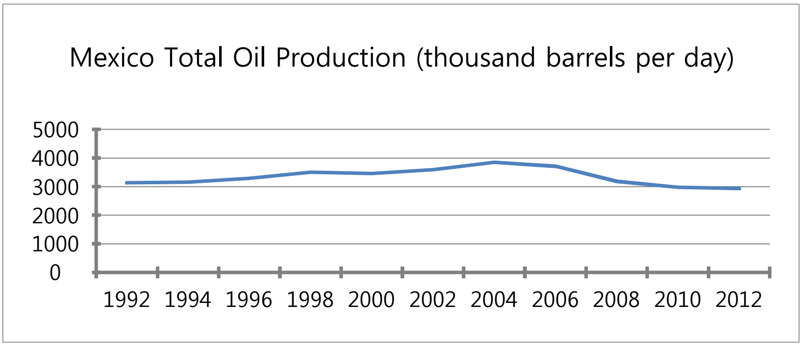
	Total	Pemex	Federal Government	Market Operations	Others*
1996	6.3	9.0	-2.7	0.9	-0.9
1997	13.5	8.5	0.9	3.8	0.4
1998	3.7	5.4	-3.3	0.3	1.2
1999	3.9	7.4	-6.5	1.8	1.2
2000	8.2	11.2	-6.8	1.8	2.1
2001	9.2	8.9	-2.4	1.4	1.4
2002	5.9	10.0	-6.2	0.0	2.1
2003	8.3	15.4	-5.8	-3.2	2.0
2004	5.2	13.8	-3.2	-6.7	1.3

* Includes net income generated by investing Banco de Mexico's international assets.

Source: Bank of Mexico quoted in Sidaoui (2005a, 213)

Given that Pemex must pay federal levies in Mexican pesos with the finance ministry, exchange with the central bank becomes mandatory in spite of legal prerogatives (Sidaoui 2005b, 219). Banxico, besides, is just partially independent from the federal government in foreign exchange policy as it must coordinate these affairs with the Foreign Exchange Commission, body presided by the finance minister. Decision-making over international reserves accumulation by means of oil income intervention is further concentrated in Mexico's executive branch through the appointment of the chairman of Pemex. Hence, the president enjoys considerable discretion over foreign exchange policy and upstream oil sector.

In all, this monetary policy affects the sensitivity of oil recovery (Simmons 2005, 144). That is, the sort of hard currency accumulation discussed here has an impact over quantity and quality of Mexico's proven petroleum reserves:



Source: US Energy Information Administration (2013)

Figure 1. Mexico Total Oil Production 1992-2012

As seen graphically, the start of a definitive peak in oil production becomes distinguishable in 1994, simultaneous to the Peso Crisis. Large-scale production reached a first peak in 1998, boosted by the use of geological pressure inside the wells. Afterwards, Pemex resorted to nitrogen injection in Cantarell to sustain a new increase that peaked circa 2004 (Breglia 2013, 56). Following these two peaks, Mexico is listed as the world's 7th crude producer: "A comparison with Saudi Arabia is instructive. Mexico's production is about one-fourth of Saudi Arabia's, but its reserves are only one-twentieth that of Saudi Arabia [...] At present rates of production, the estimated life of proven reserves is low – about nine years" (Talwani 2011, 10). As oil prices march along an upward trend, Mexico's international reserves behave likewise: approximately US$167 billion were garnered as of 2013 (CIA 2013). Thus, in the Petroleum Hypothecation, crude production and world prices are associated to the international reserves of Banxico.

Having observed that oil is used to service debt and to pile up foreign currency, one can ask whether the fundamental logic of the ESF lingers within the social imaginary of Mexican policy-makers. In principle, that fundamental logic consists in the accumulation of hard currency, international reserves, by means of exploiting a subsoil resource in order to avoid financial instability. This is a part of the Petroleum Hypothecation. The hoarding of international reserves, however, bears costs in the interest rates that governments pay for credit (Jeanne and Ranciere 2006). And yet, successive Mexican administrations since 1995 embraced and interpreted this international reserves device as undisputed symbol of responsible macroeconomics (Marois 2012).

As this monetary policy became enduring, the Peso Crisis proved a tipping point for Mexico in Latin America's landscape. The energy agenda opened a window of participation to Mexico in times of simultaneous existence between Petrocaribe, Petrosur, and the Petroleum Hypothecation; needless to mention the possibility of an active role in UNASUR. Unsurprisingly, the official energy debate in Mexico narrowed to Pemex's overture for private investment in upstream operations (Baker 2012). Surprisingly, though, Mexican authorities also remain sympathetic to energy reforms made in Latin America prior to the 1990s financial turmoil, such as the Petrobrás and YPF conversions into publicly traded companies (De Oliveira 2012, 536). For the authorities, the oil sector should be managed as though the 1990s were not worth being considered another Latin American lost decade.

An appraisal of energy policies exceeds the reach of these lines, whose thesis is to argue, rather, that decision-making in the Peso Crisis brought consequences for Mexico in Latin America. Until now, this manuscript examined in a first glance the how and the why the federal government has steered oil production on grounds of monetary policy, the practice of the Petroleum Hypothecation. To say that Mexico consequently has isolated, moreover, implies purposive action, free and uncoerced at the international arena. Is financial/currency stability the only key to understand Mexican isolation from the South? How can agents and structures explain this isolation? Answering these questionings requires a theoretical dialogue with the Modernization and Dependency schools, and their revisions. As it shall be argued, both approaches, imbued in determinism, lack a dynamic account of agency ‒the capability to "act otherwise" and "make a difference" into a state of affairs (Cohen 1987)‒ as they actually reduce decision-making to the immanent and the structural. What follows examines Modernization and Dependency to signal their limitations and look towards the complete nature of the Petroleum Hypothecation.

MODERNIZATION AND DEPENDENCY: DETERMINISM

Two theoretical frameworks dealing with Latin America's underdevelopment appeared during the past century: the Modernization theory and the Dependency theory. Both drew conclusions on the role of national and international actors and the relationships sprung from their interaction. Through their prisms, the Latin American countries were either portrayed as latecomers in, or victims of, the international economy. Portrayals as they are, both offer incomplete abstractions which focus excessively on northern dilemmas and reify structures that negate agency; therefore hindering an ampler understanding of how the external and, fundamentally, the internal, account for the Mexican pathway since 1994.

A first version of the Modernization theory uses a Parsonian model of adaptable society: cultural and social changes provoke economic development and produce democracy (Weber 2010, 162). National societies dispose of traditional institutions and values in favor of modern ones as they develop. Since the examples of modernity were northern countries as these were thought to have already achieved this transition from traditional to modern, southern countries should heed them. To this extent, Modernization steers its focus from national societies towards the international stage; the North assists the South through policy recommendations. Development acquired then a linear dynamic (Valenzuela and Valenzuela 1978).

This approach, however, underwent revision to concentrate first on political order and later on economic adjustment (Weber 2010, 164); "[t]he most important political distinction among countries concerns not their form of government but their degree of government" (Huntington 1968, 1). Revised Modernization ponders economic adjustment based on solid political order because rests over classical economics: individuals show rationality by means of entrepreneurial activity, and thus rationality becomes a social institution embedded in the efficient distribution of wealth; economic processes are harmonious and pivotal to build a society complex enough as to become democratic (Lipset 1959). Because traditional values and institutions often hamper rationality and entrepreneurship in the South, modern nations like the "United States should 'tip the domestic political scales' in the direction of 'modernizing groups'" (Silvert quoted in Valenzuela and Valenzuela 1978, 542). Under this light, nondemocratic regimes harbor the democratic seed when equipped with a modernizing agenda founded on laissez-faire economics. Democracy, remarked Carlos

Salinas, does not flourish out of poverty.

In contrast, Dependency theory argues that wealth concentration in the North comes at expense of surplus extraction from the South. Dependency looks straight towards the insertion of former colonies in the international economic system (Vernengo 2006). As for the internal sphere, native landowning classes act as cogwheels of the international structure, and hence early versions of Dependency resemble Marxism and World-System theory. Political independence brought little change as core countries dominate the production of capital goods, forcing the periphery to export commodities and exploit its unskilled workforce (Vanden and Prevost 2009, 162). The South, in response, could cushion this dependency relation by spending less in imported finished goods and more in domestic manufacturing, the so-called Import Substitution Industrialization. From Marxism, though, enduring forms of dependency would prevail provoking a "long process of political and military confrontations and of profound social radicalization" (Dos Santos 1970).

An overhauled version endorsed the view of a persisting dependency imposed by the financial system and by production technology, but concluded that albeit this relation was still asymmetrical and structural, was nonetheless dynamic. The revised version switched towards the internal, searching for specific dependency relations mediated by diverse national societies, thus producing country-by-country outcomes. Financial dependency implied shifting towards export-oriented economies, and production dependency towards technology transfers from multinational corporations (Cardoso and Faletto 1979). Countries like Mexico or Brazil, endowed with sizable domestic markets, could renegotiate dependency, whereas small countries like Bolivia would be left into international system integration under the shape of illegal economies such as cocaine traffic (Castells and Laserna 1989).

Mexico's economic underperformance compared to other Latin American countries since the Peso Crisis throughout the 2000s (Weisbrot and Ray 2012), could be explained using the prisms of Modernization or Dependency. Albeit empirical data might be interpreted pointing out to either direction, however, those two approaches, and their revisions, neglect and under-theorize Mexico's agency almost by default, which severely reduces their scope at explaining integration and isolation in early twenty-first century Latin America.

Since Modernization implies cultural and social change from the traditional to the modern, Huntington (1996, 150) noted: "[…] Salinas's reforms were designed to change Mexico from a Latin American country into a North American country [⋯] the overwhelming bulk of the political, economic, and intellectual elites of the recipient civilization have favored Mexico's cultural realignment". Contrastingly, years later he observed: "The single most immediate and most serious challenge to America's traditional identity comes from the immense and continuing immigration from Latin America, especially from Mexico [...]" (Huntington quoted in Dan Glaister 2004). As the effects of Mexico's economic underachievement were felt at the United States, Modernization proponents attributed Mexican stagnation to cultural difference, immanent source of instability and conflict, which should ultimately be tackled by the United States with securitization of migration and consent toward Mexican governments conducive of drug wars (Martinez Valenzuela 2013). Mexico, from a revised Modernization standpoint, owes fortune and misfortune to its insurmountable cultural identity; if Mexico has an agency at all, it is that of difference (Weber 2010, 162). Existing dilemmas such as whether to "tip domestic political scales", to "further privatize Mexico's economy", or to address the "serious challenge to America's traditional identity", are actually US dilemmas. Therefore, Mexico would be incapable to be confronted with the isolation/integration dilemma before its Latin American peers.

Dependency has its own way to reduce southern agency. From its revised version, old and new structures of dependency embedded in global finance and production technology offer two scenarios; renegotiation of dependency, or perverse system integration. A process of "technoeconomic restructuring" brings the means to renegotiate dependency: entice technology transfers and manage external debt judiciously (Castells and Laserna 1989, 546). Successful technoeconomic restructuring, however, is just available for the very few, as noted by Castells and Laserna (1989, 546): "Mexico's geopolitical value for the US government seems to guarantee unlimited support from the United States to prevent any major political or economic breakdown, thus providing the feeling of stability essential for foreign investment and foreign lending [...] Mexico has much greater international credit than any other Latin American country".

Technoeconomic restructuring also needs the domestic political element: "Mexico can become fully integrated into a more dynamic world economy, closely linked to the evolution of the U.S. economy, only if the PRI manages the transition towards this new system. Power and privilege will have to be shared with the old and new elites both mobilized and threatened by the prospects of the new system" (Castells and Laserna 1989, 552).

According to proponents of revised Dependency, the international system pushes a politically solid native regime to lure foreign involvement and implement technoeconomic restructuring, since Mexico is one of Latin America's most creditworthy nations. Dependency thus resembles Modernization, for which the quest for modernization pushes the Mexican regime to seek foreign assistance and implement transition from the traditional to the modern as Mexico should redefine itself from a Latin American identity to a North American identity. If the "push" predicate is what provides the latter two phrases with its deterministic twist, then the subjects behind the very same predicate, the international system and the quest for modernization, refer to the very same actor: the North. In other words, determinism pervades Modernization and Dependency inasmuch as the North invariably pushes the South, either through cultural modernization or through technoeconomic restructuring. Specifically, revised Dependency remains sensitive to a structure that places the South vis-à-vis the North, and remains oblivious to a new and alternative structure that places the South vis-à-vis the South.

Summing up, both theories end up rather limited at offering an encompassing account of the Peso Crisis and its consequences. By rendering the North and the South "ontologically primitive" (Wendt 1987, 339), that is, transforming identities into independent variables, Modernization presents Mexico's actions as preordained, natural reactions from a pre-modern society. Likewise, as Dependency depicts the international economic system as ontologically primitive, reifying an abstract structure, it leaves Mexico's actions under-theorized. Seen from these latter prisms, the Petroleum Hypothecation would be taken erroneously as a depoliticized instrument of modernization or technoeconomic restructuring. Instead, it reflects International Political Economy involving economic decision-making on political grounds, and vice versa (Conley 2007). Mexico does have an agency apt to theorizing; namely, the Petroleum Hypothecation and its consequences in Latin America are phenomena less explained by forces ontologically primitive than by purposive action.

The obvious departing point for a different analysis is the examination of those who "favored Mexico's cultural realignment", and shared "power and privilege" in the years surrounding to the Peso Crisis: the elites. Teleology, the explanation of a phenomenon by allusion to a purpose towards which is steered, reaches the complete nature of the Petroleum Hypothecation as determinism has granted Mexican elites excessive theoretical privilege.

TELEOLOGY: THE STRUGGLES FOR INCREASING RETURNS AND THE LOGIC OF INTERNATIONAL FINANCE

By reference to purposiveness, a teleological standpoint observes this accumulation of international reserves as outcome of the interaction between domestic dynamics and external boundary conditions (Wendt 2003). The Mexican elites, economic and political, are purposive actors waging "struggles for increasing returns" from the agent-level as they interact with the "logic of international finance" at the structure-level. This interplay produces intended and unintended structural consequences (Carlsnaes 1992), because Mexico and other Latin American countries now have full-fledged agent status. The struggles for increasing returns imply "the use of political authority to magnify power asymmetries" (Pierson 2000), which thus takes the analysis back to the Peso Crisis as the critical and initial ordering juncture.

In his theory of causation, Aristotle suggested four explanatory principles for "why?" questions about phenomena: The efficient cause, the material cause, the formal cause, and the final cause (von Glasersfeld 1990). A classic illustration of this is a marble statue; the marble relates to the material; the archetype relates to the formal; the workforce that sculpts relates to the efficient; and the purpose of the statue relates to the final. For the Petroleum Hypothecation, the material cause is oil income; the formal cause is the monetary policy orientations from the logic of international finance; the efficient cause is the struggles for increasing returns; and the final, teleological, cause is the ultimate purpose of the Petroleum Hypothecation. Final causation specially stems from the interaction between formal and efficient causes (Wendt 2003, 498). In turn, the efficient is identified with the agent-level and the formal with the structure-level. Although agents and structures are mutually constituted, both have explanatory autonomy so as to integrate the temporal dimension which allows explaining how the Peso Crisis becomes present in Mexico's consequent disengagement from Latin America (Carlsnaes 1992, 258). The efficient cause, a criticism goes, must be identified with true scientific knowledge because endorses a cause-and-effect mechanistic view, thus dismissing final causation as unscientific since the future would come to determine the present (Russell 2004, 73). Mechanistic views like those of Modernization and Dependency, as discussed above, obscure the political aspect of policy-making taking agency off the roundtable. "The origin of action ¬its efficient, not its final cause⌐ is choice, and that of choice is desire and reasoning with a view to an end" (Aristotle 2009, 103). In this way, the efficient and the final causes are intimately related in function to purposiveness, which transforms agency discussions into historical analyses.

The agency of Mexico is then understood as teleological: it is purposive and dependent on economic and political increasing returns, positive feedback (Mackie 1974, 281), at the interaction with the international system. If Mexico's actions and omissions have been consistently isolationist since 1994, this is due to effective struggles for increasing returns by and for domestic elites. In economics, the principle of increasing returns, unlike diminishing returns, defies both the classical tenet of perfect competition typical to Modernization theory, and the structural scheme of core-periphery typical to Dependency theory. Comparative advantages and technology transfers thus need not explain the whole picture of trade and development. Rather, pecuniary externalities directly affecting supply and demand in a market conducive to monopolistic competition open a gap between core and peripheral countries, and, crucially, amongst regions within countries themselves (Krugman 1991). "[...] [O]ne might well argue that divergent growth performance generally reflects internal factors, not the inevitable consequence of national roles in the international economic system" (Krugman and Venables 1995, 858). What is more, increasing returns postulates that early events in a given juncture ensure economic advantages and, hereinafter, these become self-reinforced and path-dependent (Arthur 1994, 111). These early events ensuring economic edge for early participants might be historically accidental, or might be produced by straight political intervention (Krugman 1987, 142).

The Petroleum Hypothecation reflects struggles for increasing returns, for it has been sustained despite the disappearance of its originating conditions. Being the initial juncture in which oil was explicitly used to collateralize debt, the Peso Crisis and its aftermath deserve revision. Between 1995 and 1997, the Mexican economy recovered at an average of 5.6 percent of the GDP:

> This remarkably quick recovery in aggregate activity has not been uniform across the economy [⋯] The asymmetric response of the tradable and non-tradable sectors is intimately linked with the severe credit crunch that Mexico has experienced since 1995. Although fresh domestic bank lending dried up in Mexico, it was still possible for export firms to obtain financing in the international capital market, or to receive credit from upstream firms. Hence, the credit crunch did not deter the tradable sector from growing

> at spectacular rates. On the other hand, firms in the non-tradable sector were adversely affected by the lack of credit, as these firms had no access to international financial markets [···] [T]he small and non-tradable firms have recovered only sluggishly and are starved for credit. It is only the creditworthiness of the large and tradable firms that has enabled them to obtain financing internationally at reasonable rates (Krueger and Tornell 1999, 33).

The rescue package was used by Mexican authorities to service sovereign debt, refinance the domestic banks' foreign currency liabilities, and increase international reserves. Tacitly, those emergency funds persuaded stock markets of Mexico's renewed liquidity in order to avoid default and international credit disruption. Such was too the purpose behind the post-1995 Petroleum Hypothecation, as one official of Banxico remarked: "Reserve accumulation was also a signal to investors and international rating agencies that associate a higher level of international reserves with lower country risk. Consequently, a large stock of international reserves would be a positive externality, *since all Mexican borrowers* could gain access to foreign financing on better terms" (Sidaoui 2005, 211) [Emphasis added].

Hard currency accumulation using oil revenue to persuade capital markets of Mexico's creditworthiness illustrates the interaction between the struggles for increasing returns and the logic of international finance. The logic of international finance informs policy-making through the principle of creditworthiness, and the threat of credit crunch (Caballero and Krishnamurthy 2001), hanging over the federal government and those players from the private sector who participate in international financial markets. Rating agencies, for instance, exert "downward causation" from the structure-level to the agent-level: An IMF report on sovereign rating failures between 1997 and 2002 suggests that miscalculations ensued when countries like Russia, South Korea, Thailand and Uruguay suffered evaporation of reserves reminiscent to the Peso Crisis (Bhatia 2002, 40). After the 1990s financial turmoil, international reserves became key prerequisite for the grant of investment status by these agencies; so the Mexican government, consistent with the Mexican Debt Disclosure Act, resorted to Pemex's income. As the nature of the world oil market is essentially one of imperfect competition (Puiseux 1973), the government takes advantage of a subsoil resource whose price appreciates consistently. In this way Mexico complies with the logic of international finance and remains locked into struggles for increasing returns.

If avoidance of financial instability appeared in principle as the goal of the Petroleum Hypothecation, then its goal in conclusion is the collateralized access to international debt markets. Paraphrasing Pierson (2000, 255): access to international credit generates the positive feedback that defines struggles for increasing returns by the Mexican elites. Collateralized credit is the final cause of the Petroleum Hypothecation just as the sculpting of a marble statue pays obedience to a final purpose.

Agency, capability to act otherwise, was present during the transition from the Oil Proceeds Facility towards Banxico's subsequent reserve accumulation. Albeit the formal cause of the Petroleum Hypothecation, the logic of international finance, partially bounds its efficient cause, the struggles for increasing returns, choice at this latter confers multiple-realizability to compliance procedures (Wendt 1999, 152): "In reality, PEMEX export sales are not the only manner in which the Mexican government can obtain the necessary dollars to repay U.S. loans. The Mexican government also obtains dollars by exchanging pesos for the hard currency earnings of Mexico's private sector exporters. In that manner, the Mexican government builds its dollar reserves" (Wertman 2002, 106). The post-crisis scenario could have opened a broader macroeconomics debate. Instead, Mexican decision-makers transformed the emergency measures into enduring policies. In fact, the Mexican government responded to the 2009 world financial crisis by joining the international reserves with an IMF contingent credit line, and another Federal Reserve loan, into a potential rescue package totalizing US$170 billion; shortly before, Banxico and the finance ministry had sold US$31.4 billion from reserves to refinance private sector deficits (Marois 2012, 155-157). Restore the lenders' confidence and prevent a credit crunch was again the raison d'être behind these actions (Sidaoui, Ramos-Francia, and Cuadra 2010, 290). This constitutes the use of political authority to magnify power asymmetries.

Who are the Mexican elites? Assume for a moment that they are indeed the purposive actors whose presence is inferable through the outcomes of their actions, but the processes that constitute them as decision-makers are unobservable. In view of this epistemological obstacle, the above argument, that the Petroleum Hypothecation has a final cause, would suffer circular reasoning: "[W]e assert that a structure exists because it has the observed effects which we posited for the structure in the first place" (Wendt 1987, 357). A solution for this problem resides in demonstrating the presence and workings of the elites over fields other than monetary and energy policies.

Consider the so-called Televisa Law of 2006 in telecommunications policy. Then, the executive issued an act approved unanimously and uncontested within the legislative in benefit of two private media outlets. The act, later declared unconstitutional, granted both networks the costless digital use of Mexico's electromagnetic spectrum while excluded non-private media from digital broadcasting (Klinger 2011, 12). The Televisa Law permits building an argument similar to that of the Petroleum Hypothecation. Interaction between formal causation (the international transition from analogue to digital broadcasting) and efficient causation (the struggles for increasing returns by elite players), directs the material cause (the exploitation of the electromagnetic spectrum) towards the final cause (advantageous and exclusive access to digitalization), deploying political authority to magnify power asymmetries (Mexico's lawmaking and executive bodies privileging two media outlets); further isolating the country from Latin America. The absence of TeleSUR, the pan-Latin American network sponsored by seven South American governments (Kozloff 2008, 198), from TV screens in Mexico is hence explained by the clout of domestic media networks.

The processes that constitute the Mexican elites as purposive actors are however as observable as prone to theorizing (see, for instance, McNamara 1998). Agency also has a discursive dimension since politics is subject to the prevalence of collective action; individuals act in complex environments through social interpretation and positive feedback (Pierson 2000, 258). The analysis of this discursive dimension, in which purposive action is rendered meaningful, inquires into the accepted practices of the elites' production, reproduction, and contestation. Such a task merits a separate work which fundamentally avoids the use of the "ontologically -primitive" status towards elite and non-elite actors.

Another problem for this argumentation could be the choice to dialogue with the more classical Modernization and Dependency schools in detriment of the growing literature about resource rents in Latin America and elsewhere. The latter, insightful and robust, unfortunately offers functional explanations of state behavior and hence resembles Modernization and Dependency. It generally takes resource wealth, or dependence on it, as the independent variable for the dependent variables of economic performance and political stability (see Collier and Hoeffler 2005; Ross 1999), pointing to natural riches as "curses", "blessings", or neither of both (van der Ploeg and Poelhekke 2010). Ross (2012) specifically analyzes the "antidemocratic effects of oil" in poor countries through intervening variables like unstable commodity markets, appearance of rentier states, and failure of resource income to provoke the social changes that produce democracy. See state behavior as function of resource rents, however, leaves natural wealth as ontologically primitive; and fails to explain integration and isolation within the South itself. This manuscript stands rather with the findings of Brunnschweiler (2008), insofar as policy choices determine resource dependence and not the other way round; and Manzano and Rigobón (2007), who see the resource curse actually as an issue of indebtedness during a historical period.[1] In other words, a major stream of this literature examines "the winners of resource abundance", whereas examining the resource abundance (be it petroleum, foreign financing, or the electromagnetic spectrum) of the winners constitutes the different view of state behavior and agency offered by teleology.

If the way in which Mexico's elites strive for increasing returns has consequentially isolated the country from the Latin American integration drive, it is also due to shifts within boundary conditions in the logic of international finance. Teleological explanations encompass intended and unintended structural consequences. Avoiding determinism thus requires accept the mutual constitution between the structure-level and the agent-level: the logic of international finance comes into being by the concrete practice of the struggles for increasing returns (Wendt 1987, 368). The logic of international finance, of course, is not exclusively reproduced by Mexico and its elites, but by other state and non-state agents; thus, the unintended consequences of purposive action become clearest at the structure-level, where other practices and struggles are performed too. In this perspective, Mexican isolation is an unintended consequence also provoked by other Latin American countries in the exercise of their own agencies.

Besides its absence from Latin American projects on energy development, Mexico is absent from the Bank of the South. This latter, which is not to be confused with the ALBA bank, surged as an initiative between Argentina and Venezuela that incorporated Brazil, Uruguay, Ecuador, Paraguay, and Bolivia. Despite debates about its governance and scope, the Bank of the South protrudes due to the criticisms of its members to the Bretton Woods Institutions after the 1990s financial turmoil (Hart-Landsberg 2009, 15). Whereas Mexico averted default back then, Argentina defaulted on its sovereign debt and had its tug-of-war with the IMF in 2003 – the collapse of the principle of creditworthiness. With US$178 billion in liabilities, the Argentine government bypassed the IMF by means of liquidating a loan of US$9.8 billion, assisted with US$3.5 billion from Venezuela (Hellinger 2012, 40). More than ten years later,

1 Manzano and Rigobón even mention the implicit use of natural resources as collateral for debt during the 1970s and 1980s.

Argentina still battled legally against vulture funds (Stiglitz 2013), but its breakaway with the IMF prompted observers to claim that had managed to write "new rules of the game" (Grugel and Riggirozzi 2007). South American countries, hence, exert their agencies to move from determinate features of the logic of international finance, for instance, through membership in the Bank of the South. This provokes the intended structural consequence of integration. In contrast, Mexico funds the Petroleum Hypothecation which, as an intended consequence, grants collateralized access to international borrowing on the one hand; on the other, as a unintended consequence, distances the country from the economic, political, and energy developments in the southern hemisphere. Purposive action of diverse Latin American countries that shifts boundary conditions in the logic of international finance explains integration and isolation within the South itself.

A teleological standpoint does justice to agency, history, and purposive action in terms of Mexico's trajectory in the Latin American picture since 1994. Moreover, see the Petroleum Hypothecation through teleology reaches its complete nature: not a depoliticized instrument of modernization or technoeconomic restructuring, but an effective vehicle through which the elites wage their struggles for increasing returns at interaction with the logic of international finance. At the hand of questioning the tenets of perfect competition and core-periphery which underlie Modernization and Dependency, the principle of increasing returns posits internal factors, political intervention, as key for the transit from the Oil Proceeds Facility toward the institutionalized storage of Pemex's income into the international reserves of Banxico. The prevalence of the use of political authority to magnify power asymmetries goes beyond energy and monetary policies, as illustrated by the Televisa Law, and infers the not so invisible hand of those who shared power and privilege in the years surrounding 1994. Lastly, this teleological approach postulates the mutual constitution between the structure-level (formal cause) and the agent-level (efficient cause) to direct the exploitation of the material cause; the logic of international finance bounds and comes into existence by purposive action that provokes intended and unintended structural consequences (final cause). Albeit Mexico's isolation from Latin America was unintended, it was certainly not accidental and much less inevitable.

CONCLUSION

Arguing for the inclusion of teleology inside the toolbox of International Relations, Wendt (2003, 496) made two basic observations. The first one concerns the categorization of the intended and the unintended as equally teleological. The second contends that backward-looking and forward-looking explanations are likewise complementary and teleological.

According to the first observation, the Petroleum Hypothecation obeys the purpose of effective access to international financing; by the same token, reflects the unintended but not accidental process in which Mexico disengages from the South. As for the first element of the second observation, backward-looking explanation, this manuscript has examined the US loan collateralized with oil income that averted Mexico's default in 1995, that vindicated the principle of creditworthiness, and that became lasting monetary and energy policies. The forward-looking aspect of teleology has yet to be addressed. Irrespective of the specific forms which the material cause and the formal cause might take, the distinctive feature of the efficient cause will persist: the use of political authority to amplify power asymmetries. For all of the criticisms directed towards Modernization and Dependency, both approaches mention at least between lines the monopoly of the elites on Mexico's agency, even to the extreme of leaving it under-theorized and granting them analytical privilege.

Yet, the steady magnification of power asymmetries cannot conceal that the Mexican path since 1994 was neither purely economic nor apolitical. Agency was at the heart of the Peso Crisis just as it is present in the Latin American integration drive of the early twenty-first century. Critical junctures which took place historically and become present demonstrate that agency matters. In the 1990s, paraphrasing Huntington's words, Mexico was no object of history as target of some Northern commandment, but the shaper and mover of its own history.

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