August, compared with 3.6 percent a year earlier. True unemployment is much higher because the official rate excludes the informal economy.

The effects of the devaluation on industrial production were concentrated on industries with a combination of large foreign inputs and heavy dependence on domestic consumer sales. The consumer price index rose by almost 8 percent in April 1995 alone, and the increase for the full year was about 52 percent. In general, the exporting industries gained, as the cheap peso stimulated sales. In the first three quarters of the year, production was up by 2 percent in the paper industry and almost 10 percent in the basic metal industry. Mining production also increased sharply.

Privatization and Deregulation

Following a major economic crisis brought on by the drop in oil prices in the early 1980s, the government was forced to consider alternatives to its longstanding protectionist policies. The president at the time, Miguel de la Madrid, liberalized trade, joined the General Agreement on Tariffs and Trade (GATT), and began to sell-off state enterprises. Soon after coming to power in 1988, former president Carlos Salinas committed his government to aggressively continue these policies. Trade barriers were chopped, state subsidies were drastically cut, and the economy was opened up to private-sector participation. During his term, the number of state enterprises was cut to 215 from 1,115 when de la Madrid came to power in 1982. Salinas was also responsible for initiating the trade talks that eventually led to the creation of the North American Free Trade Agreement (NAFTA). These policies helped to stabilize public finances, and generate economic growth. The inflation rate dropped from 52 percent in 1988 to 7 percent in 1994.

President Zedillo has continued the policies of his predecessor. In early 1995, the privatization program was stepped up. Petrochemical refineries, natural gas pipelines, electricity plants and railway operations were added to the list of government assets for sale. The new government is also committed to fully implementing the agrarian reforms enacted by its predecessor. Within a few weeks of coming to office, the Zedillo government streamlined the government bureaucracy in a series of moves that have been interpreted as encouraging the private sector.

The National Development Plan

In May 1995, President Zedillo fulfilled his constitutional obligation to present the nation with an economic plan for his six-year term. The *Plan Nacional de Desarrollo (PND)*, National Development Plan, incorporates five broad objectives:

- strengthening national sovereignty and improving the country's international image;
- eliminating corruption;
- developing democracy through electoral reform;
- fostering social development by improving education, expanding health care and anti-poverty programs; and
- achieving an annual growth rate of 5 percent or more, and generating an extra one million jobs a year.

In addition, the Zedillo government wants to reduce its dependence on foreign investment to 2 percent of gross domestic product (GDP) or less by the close of the century. Realizing this objective will mean increasing domestic savings and reforming the tax system to encourage the reinvestment of profits.

Foreign Trade

The United States is Mexico's largest trading partner by far, accounting for 85 percent of the nation's imports and 69 percent of its exports. Canada is the second largest export market and the fourth largest source of imports. The leading Canadian exports to Mexico are manufactured goods, followed by agriculture, mining and forestry products. Motor vehicles and parts account for almost 40 percent of Canada's imports from Mexico, followed by machinery, with another 36 percent. Services and Canadian value-added incorporated into American exports to Mexico are not included in the trade data.

Under the previous government, Mexico's imports grew much faster than exports, leading to a serious trade deficit. Canadian exports to Mexico increased by 37 percent in 1994 alone. The devaluation of the peso has had the expected effect of reversing this trend. In the first three quarters of 1995, exports rose by 33.2 percent while imports fell by 7.7 percent. As a result, Mexico posted a merchandise trade surplus of US $5.4 billion over the period. This compares with a trade deficit of US $13.6 billion in the same three quarters of 1994. Exports increased in all of the major manufacturing sectors. The biggest winners were basic metals with an 88 percent increase in exports, and paper with a 58 percent increase. Textile exports were up by more than 50 percent. The smallest gain was in wood products with a 3.7 percent rise. The wood industry is typical of several Mexican industries, where low product quality and production bottlenecks have limited the ability of manufacturers to take advantage of the devaluation.

Outlook for 1996

After a tumultuous 1995, Mexico anticipates recovery in 1996. Much