

Peña Nieto faces risk and opportunity in tug-of-war with teachers union

After a long standoff between the 22nd section of the Teachers Union (CNTE as known by its Spanish acronym) and Mexico City's and federal authorities, the former staged a three-day protest this week on Avenida Reforma, one of the city's main arteries.

Notwithstanding that the Secretary for Governance Miguel Osorio Chong had recently warned that the government would no longer tolerate highly disruptive protests and that officials from Mexico City's government had explicitly stated that they would not allow the CNTE to take over the capital's main avenues, thousands of teachers from the state of Oaxaca marched and setup camp in the heart of Mexico City.

The CNTE –which are dissident offshoot from the official teachers union the SNTE- are notorious for using aggressive mobilization tactics and for their unyielding approach to negotiations, which is why this week's event is business as usual for the union. However, this show of force does represent a new and significant risk for Mexico's government.

The education reform was the first of many ambitious and long awaited changes in legislation that President Enrique Peña Nieto passed through congress with the backing of Mexico's three main political parties. The reform was coupled with the arrest of Elba Esther Gordillo, the seemingly almighty and controversial leader of Mexico's largest teacher's union who was accused of embezzlement. Considering this was achieved two months into Mr. Peña Nieto's administration, it sent a powerful message regarding his political ability and that the federal government was reclaiming a position of leadership among Mexico's various power groups, which it had lost during the previous decade.

One crucial aspect of the new law is that the Secretariat of Education is now in charge of handling teachers' salaries, as opposed to state level governments who were normally too weak to negotiate with the union. Furthermore, the reform also required the National Institute of Statistics to carry out a census to register teachers nationwide, in order to end one of the unions' most nefarious practices which consists in enlisting members who receive a salary without ever setting foot inside a classroom.

The CNTE has so far vehemently opposed plans to the census of teachers. Although this is problematic in itself, what makes matters more complicated is that the CNTE's stronghold is located in the neighbouring states of Michoacan, Guerrero and Oaxaca, which are located on the southern part of Mexico's Pacific coastline. These three states have been among the poorest in the country and as such constitute part and parcel of the education reform's purpose.

Moreover all three states suffer from serious governance issues due to weak or corrupt local governments, which in the case of the Michoacan and Guerrero has

translated into high levels of presence of organized crime groups. In fact the vast majority of events related to violence in Mexico that have garnered the attention of international media during Peña Nieto's administration took place in the region. These three states accounted for close to 20 per cent of all homicides in the country, which is comprised of 32 states.

The governance issues faced by this region are further exacerbated by the CNTE, which has no qualms in going on strike for days and leaving idle over 1 million students in Oaxaca, staging week on week protests in Michoacan or attempting to block an airport in Guerrero.

The federal government has so far been sucked into the CNTE's vicious circle whereby it makes ever more generous concessions to the union –as was the case this week. This not only consistently weakens the reform with which Peña Nieto inaugurated his administration, but also add to the sense that he's lost his stride in the face of recent events such as the disappearance of 43 students at the hands of an organized crime group the was colluded with a mayor and accusations of conflict of interest directed at the President and his Secretary of Finance.

As the CNTE becomes further emboldened and mid-term elections on June 7th loom closer, the federal government faces the dilemma of relinquishing its first major victory –and losing the leadership it had begun to recover- or take the union head-on with what electoral risks this could entail, including the CNTE attempting to sabotage elections in the states where it holds most sway.

In spite of this bleak scenario, there is a silver lining and potential, albeit slim, opportunity for President Peña Nieto. The CNTE is widely unpopular given both that its practices are perceived to border on extortion and that its ultimate victims are children. If there is one issue on which there is a consensus among Mexican opinion leaders and the media its that the CNTE should be tamed.

If Mr. Peña Nieto were to adequately muster his proven political ability whilst leveraging popular sentiment against the CNTE as a mandate to defend the education reform, he could strengthen his claim as a modernizing president who upholds the rule of law.

This week's protest came to a somewhat confusing resolution, in that the government ceded on the negotiating table, yet also disconcerted the CNTE by deploying a joint force comprised of Mexico City and federal policemen that cleared the protesters from the streets.

Critics pointed out that this move was merely window dressing the government's defeat. However the possibility that it is a sign of the government –which has shown in the past that it can take on the teachers' unions - making a first warning to the CNTE should not be discarded hastily. This will be known soon enough, given that the leader of the 22nd section of the CNTE stated that the union will come back with even larger numbers to Mexico City in May.

Economy back on track?

There was a litany of encouraging news throughout the week pointing to the possibility that Mexico's economy is gaining steam.

Boosted by construction's revival and advances in both manufacturing and utilities, Mexico's industrial sector managed to grow at its strongest pace in nine months, hiking 3.0% year on year in December. On a monthly basis, industrial output declined 0.3% to a 0.13% gain in in the last quarter of 2014.

The National Institute for Statistics and Geography published further good news in the labour market, which gives the government much-needed breathing space, as well as arguments to rebut critics of its economic strategy. Unemployment dropped to 4.38 per cent in December, its lowest in five years and its trajectory is headed to pre-crisis levels.

Perhaps even more importantly is the fact that during the last quarter of 2014, the informal sector decreased 1.4 per cent year on year. Although this is a modest gain it points in the right direction, given that Mexico's close to 29 million informal workers have been long decried as one of the main obstacles to growth in the country.

Cheaper telephony services –a victory for the government given the 2013 telecoms reform- and a minor adjustment in gasoline prices drove consumer prices to beat estimates at the beginning of 2015. While monthly CPI dropped 0.09%, the annual inflation rate settled at 3.07% in January—its lowest level since March 2011- which would indicate that interest rates are to remain at record lows.

Furthermore, the Governor of Mexico's Central Bank, Agustín Carstens, announced that said institution will publish its revised growth forecast next week, without indicating in which direction the current 3 to 4 per cent range will move. However he did point out that internal consumption is recovering and that the budgetary cut for 2015 due to falling oil revenues -which account for a third of government funding- will only have a marginal impact on the economy.

Mr. Carstens' statement echoes two key figures, namely, the 21.3 per cent year on year increase in domestic sales of cars in January and a 5.6 per cent increase in sales in Walmart Mexico, the country's largest retailer. It should be noted that in the case of Walmart's sales, 2015 figures are still 3.5 per cent below 2013 levels, given that the government's fiscal reform pushed down consumption in 2014.

A further external boost is also coming from the U.S. -Mexico's largest trading partner- where small business confidence has reached a nine year high and consumer confidence is at its highest in 11 years.

Finally, Pemex announced that it will be the first Mexican company to issue debt through Euroclear. The financial services company recently launched a platform of debt instruments denominated in pesos, which will give Mexican companies access

to one of the largest sources of international finance at much cheaper rates than they can find domestically. Euroclear's move indicates that whilst growth has remained sluggish during the past two years -giving rise to a despondent mood at home- foreign investors are still confident that this state of affairs will be soon reversed.