

Economic update

This week brought bad news from the U.S. as Mexico's northern labour market showed stronger than expected gain in employment, which once again has unleashed talk on the Fed's decision to raise rates during the second half of the year. The peso's exchange rate, which has already received a battering during the past eight months, could potentially hit as high as 20 per dollar.

Further to the peso's fate, the Head of Mexico's Central Bank, Agustín Carstens' term is soon to come to a close, yet could serve yet another term, which would have to be proposed by the President to congress. Yet given Carsten's highly praised performance at the helm of the bank it is highly likely that he will serve his second six-year term.

Despite these new market jitters, a stronger U.S. will act as a driver of growth for Mexico's economy. However, another upset coming from the U.S. which does curb Mexico's long-term potential was the unyielding resistance from the American congress to smoothen things for President Barak Obama, in order to move forward the negotiations of the Transpacific Trade Partnership (TPP).

If the deal does come through, it would link 12 countries (U.S., Japan, Australia, Canada Brunei, Chile, Malaysia, Mexico, New Zealand, Peru and Vietnam), which account for 40 per cent of the world's GDP.

Although critics of the deal in Mexico argue that it would expose Mexico to compete with countries that have cheaper lower costs, its defenders point out that in addition to its competitive labour force, Mexico could leverage its strategic location next to the U.S. as a further competitive advantage.

Teacher's union challenges governance and productivity

In the run up to Mexico's mid-term elections, which took place on the 7th of June, not only was there high degree of uncertainty regarding the outcome of various contests across the country, but also regarding the possibility that Mexico's most disruptive teachers union, known as the CNTE, would sabotage the electoral process in the state of Oaxaca, one of its main strongholds as it had threatened to do.

The CNTE, which has evolved into an almost professional body of protest, strongly opposes teacher's assessments, which are one of the cornerstones of the education reform passed under the umbrella of the Pact of Mexico, an alliance by Mexico's three main parties to pass through a series of structural reforms orchestrated by President Enrique Peña Nieto's team.

Although the CNTE has made various shows of strength since the passage of the reform -such as by creating chaos in Mexico's City traffic through the protests it stages- the threat to sabotage the elections would have escalated its standoff with the Mexican government to a much higher level.

In fact, only two days prior to the election, the Secretary of Education announced that the government had suspended the policy in question “indefinitely”. After the elections had passed in peace –yet with strong presence of the Army and a veiled warning by the Secretary of Defence to the CNTE- the government revoked its decision.

The CNTE in response has promised not only to continue with its protests in Mexico City but also to boycott assessments in Oaxaca. Thus, the tussle is beginning to escalate to what could become an issue of governance for the government in a state that has a notorious history of radical social movements, one that will undergo elections for its new governor in 2016.

It should be noted that in 2006 the governor of Oaxaca was practically overthrown by a conglomerate of social protest organizations, known as APPO. The detonating incident then was also a protest by teachers.

Yet perhaps the biggest issue in the long-term is the fact that education reform could be imperilled. Mexico, let alone Oaxaca, scores abysmally in international competency tests. Furthermore, it currently has the lowest productivity levels out of all OECD countries.

In light of this, the government faces the tough challenge of imposing its authority on a particularly unruly union, not only to protect the future of 1.3 million young students in Oaxaca (one of the poorest states in the country) but also to prove to stakeholders in other sectors such as energy (which is also undergoing a process of reform) that it can fully implement the reforms it passed through congress.