



DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY

NATIONAL TOURISM POLICY REVIEW OF MEXICO

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NATIONAL TOURISM POLICY REVIEW
TOURISM POLICY AND TRENDS IN MEXICO

(Note by Mexico)

On December the 1st, 2000, a new administration was inaugurated. In accordance with the “Ley de Planeación”, the Planning Law, the National Development Plan 2001 – 2006 was published last May, setting out the overall government strategy for the coming six years. Deriving from the national plan, a number of sectoral programmes have been published or are in the process of being published. One such is the National Programme for Tourism due to appear in late October 2001. It is on the different drafts for that document that the present paper draws for its policy sections.

I. TRENDS IN TOURISM ACTIVITY

The annex to the document provides a very detailed overview of tourism trends in Mexico. It complements the following paragraphs.

Macroeconomic stability in the transition to a new administration

Even if important challenges lie ahead, in the form of further structural reforms in the fields of fiscal and energy policy, and in spite of a bleaker short term outlook as a result of slow growth or recession abroad, the medium term prospects for the economy, and for tourism in particular seem bright and among the best for any emerging economy. Financial markets have begun, in fact to recognize this, as the risk premium on Mexican sovereign debt has fallen consistently below that of other emerging countries.

Economic impact of tourism

The share of tourism in total GDP was 8.9% in 2000 according to preliminary figures, up from 8.1% in 1993. Available data on the breakdown of tourism activities show that, on average for the period 1993 – 1998, transport services linked to tourism represented 29.2% of tourism GDP, restaurants and bars accounted for 24.8%, hotels and other lodging services, 12.7%, commerce, 12.3%, handicrafts and other goods were responsible for a further 11.4%, with other miscellaneous activities making up the remaining 9.6% of tourism GDP. More than half of the gross value added of hotels and restaurants (51.4%) is explained by tourism demand, as is 28.6% of transport activities and 18.6% of all leisure activities.

International and domestic tourism trends

International tourism: inbound flows: During the 90’s the number of tourists visiting Mexico grew at an annual average rate of 1.9%, reaching 20.6 million arrivals in 2000, well below the growth of total international tourism arrivals. Day visitors over the decade grew at annual rate of 2.7% surpassing 80

million visitors a year in 2000 as the Mexico – US border became one of the busiest in the world after the implementation of NAFTA in 1994.

Expenditure by all visitors rose from 5.5 to 8.3 billion USD between 1990 and 2000, an annual rate of growth of 4.1%. Again, this meant underperforming when compared to world revenues from tourism which grew, according to WTO figures, at a rate of 6% per annum over the decade as a whole. Performance almost matches global growth, however, when one looks at revenues from tourists alone. These grew at 5% annually, not far from the world market's average. By 2000, revenues from tourism accounted for 78% of total visitor revenues.

International tourism: outbound flows: International outbound flows in Mexico, as elsewhere, are closely related to the domestic business cycle and to fluctuations in the real exchange rate, both of which experienced wide variations during the nineties, especially around the 1995 crisis, during which GDP fell by an unprecedented 6.2% and the peso lost 45% of its value in real terms.

Starting from a level of 7.4 million outbound tourists in 1990, during the consumer led expansion period of 1991 –1994, the number of Mexican residents traveling abroad grew by 13.2% annually and reached 12 million in 1994. In the wake of the December 1994 crisis and devaluation this flow fell by 30% in 1995, and has since been growing at an annual rate of 5.6%, reaching 11 million outbound travelers in 2000.

International tourism: balance of payments: The data on international tourism flows discussed in the previous sections shows wild fluctuations in outbound monetary flows around a stagnating trend in the nineties, coupled with steady growth in incomes from tourism which tend to accelerate in the second half of the decade. Most of the growth in receipts since 1995 has, thus, tended to add to the overall surplus from tourism. Thus, up to 1994 the bottom line in the visitors account of the balance of payments, while recording surpluses almost every year, seldom reached the 1 billion USD mark. From 1995 to 2000, however surpluses have been in the 2.6 to 3.5 billion range, greatly increasing the role of tourism as a source of finance for the deficit in other areas of the economy.

Domestic tourism: Domestic travelers are the mainstay of the tourism industry. As expressed above, more than 80% of total expenditure by travelers on the domestic market corresponds to residents traveling within the country. The importance of domestic tourism varies considerably, however, between destinations and between the different sub-sectors that make up the tourism industry.

Distribution in space and time of tourism demand

Seasonal fluctuations in demand: The monthly flow of inbound tourists into Mexico (excluding those who stay on the border strip) averaged 883 thousand persons during 2000. The largest deviations from the mean value are to be found in March, July and December, on the upside, in association with the spring break, the summer and the Christmas holidays in the US. These deviations are in the order of 24, 16 and 14% for each of these three months. The low season, on the other hand is to be found throughout September and October, with flows a third and a fifth below average respectively. Although, these variations are considerable, they are less so than is the case with many other countries. This is due to climate reasons, in the case of beach resorts which are open year round, and to the diversity of destinations on offer in Mexico which implies, for example, that the worst month in terms of occupancy in beach destinations, October, coincides with the best month for urban destinations.

Geographical distribution of tourism: Tourism has made an impact in the development of many parts of the country. It has, however, remained concentrated in a few destinations, particularly when it comes to international tourism. The contribution of tourism to regional development, a long held objective of tourism policy has been important but much remains to be done in this respect

II. MEXICO'S NATIONAL TOURISM POLICY

BACKGROUND AND OBJECTIVES

Tourism policy within the framework of the National System of Participative Planning

The National Program for Tourism 2001 - 2006 is the basic instrument of the federal government for planning the policy of the institutions in the sector and their relationship with other government institutions. It is also the framework for setting the guidelines for coordination with local government, the private sector and other relevant actors in the industry.

The Program is inscribed in the overall framework of the National Development Plan, 2001 - 2006. It is instrumental in reaching three of its objectives:

- to increase the level of competitiveness throughout the economy;
- to promote balanced regional economic development and,
- to create the conditions for sustainable development.

The Program results from a wide reaching exercise in consulting all relevant actors. This was achieved through 43 public opinion meetings; 32 forums, one in each state of the union; 11 planning sessions with experts in different fields; 5 regional meetings with local government tourism authorities and 6 meetings with private sector bodies and academics working in the field of tourism. With more than 2,600 active participants contributing more than 400 papers, the consultation process took up almost every topic related to tourism. The most frequently raised questions had to do with regional development and the relationship with local authorities, sustainable development, quality in tourism services, competitiveness and promotion.

The vision of what the Industry and Government expect of tourism in the long run, as set out in the Program, states that:

“By 2025 Mexico will be a leading country in tourism, since it will have diversified its markets, products and destinations, and its firms will be competitive at the domestic and international level. Tourism will be recognized as playing a key role in economic development and it will have grown with full respect for the natural, cultural and social environment, contributing all the while to enhancing national identity.”

Reaching this state of things will require the joint effort of all actors in the industry. The bodies of the Federal Government directly in charge of tourism should provide guidance in this process. Hence the mission defined for the public sector at the federal level:

“To lead national tourism development, coordinating the actions of the different entities and levels of government, by means of planning activities, the promotion of the development of supply, the support for the operation of tourism services and the promotion of Mexico in the market, “

Objectives, strategies and policy actions

Tourism policy is articulated around four interrelated sets of objectives. In each of them an effectiveness area is defined for the goals the program seeks to achieve:

- The first of these is the consolidation of **tourism as a national priority** and acts as the focal point for the other three policy axes;
- The second set of objectives strives to achieve the **total satisfaction of tourists** traveling in Mexico;
- The third deals with the actions directed at attaining **sustainable destinations**; and
- Finally, the fourth axis of tourism policy seeks to enhance the development of **competitive firms**.

TOURISM AS A NATIONAL PRIORITY

Despite the large contribution of the tourism industry to national development, there exists only a dim perception of its importance. Tourism is frequently regarded as a rather frivolous activity and it has only recently begun to be granted the recognition it deserves, in public opinion as well as in decision-making circles. It is common to hear its virtues as an engine of development extolled in discourse, and yet in practice it has been denied the public resources, both economic and political, it needs in order to realize its potential.

The National Development Plan seeks to escape this contradiction. It establishes that “Tourism is a priority for the State, therefore it is determined to ensure its competitiveness”. It is through the National Program for Tourism that this is to be achieved. The strategies and policy actions to make tourism a national priority are the following:

Design and implementation of a national tourism policy.

Planning for tourism development

- National Program for Tourism 2001 - 2006
- Incorporation of tourism in the National System of Participative Planning
- Annual operative programs for public tourism entities
- Definition of strategic long-run (2025) scenarios and guidelines
- Permanent technical assistance in planning to local governments

Articulation with other policies: Tourism is affected by a large number of policies in which the sector’s interest is frequently neglected in favor of other, more articulate, constituencies. It is of paramount importance that this situation is modified if tourism is to fulfill its promise of contributing as much as it potentially can, to economic and social development. Intersectorial working groups with other ministries are already being set up to search for consensus in areas of concurrent responsibility to ensure that the point of view of the industry is given due consideration. These include: Transport policy; Promotion; Sustainable development; Training and human resources; Fiscal policy; Facilitation for tourists and firms; Culture and heritage policy; Security and order; Ecotourism; Social development; Information and statistics; Tourism and health and Infrastructure policy.

Permanent relationship with Congress: As part of the search for consensus, and as a means for greater transparency and accountability, monthly meetings are held with the Tourism Commissions of both the Senate and the Chamber of Deputies.

Sectorial Evaluation. Constant evaluation against quantified goals and targets, as well as impact evaluation of public action on the sector's targets will allow the authorities to gauge efficiency and to reconsider actions and targets as necessary.

- Monthly and annual reports on the performance of public sector entities
- Evaluation of emerging facts and trends
- Public policy impact evaluation

Redefinition of the legal framework for the Ministry of Tourism. Renewed legal attributions for the Ministry of Tourism will be sought in the fields of territorial planning, service classification and the right to be consulted in matters affecting tourism in fiscal, environmental and transport regulation among others.

Generation and diffusion of relevant information

Tourism statistics and information in general have advanced considerably in recent years. The publication of the TSA and the improvement in the State's System of Tourism information are proof of this. Nevertheless, decision-making, both by the private and the public sectors requires better and more systematic information, available with shorter time lags and moreover, information which is more readily accessible. Much more research into tourism trends and into specific markets is needed.

Tourism research

- Conducting and distributing the results of research projects
- Making fuller use of information technology
- Coordinating research efforts with higher education institutions
- Providing technical assistance to those involved in research on tourism

Monitoring tourism performance

Tourism statistics in Mexico tend to lack full credibility, especially in the private sector. At the same time there is a certain reticence on the part of private firms to provide the basic information on which the sector's statistics are based. An initiative is being implemented to establish a National System of Statistical Information in collaboration with local authorities, business organizations and the relevant official entities in charge of basic statistics. This system will be independently audited to assess the quality of its methods and results.

- Technical Committee for Tourism Statistics
- Creation and permanent updating of a National Inventory of Tourism Services
- Redesign of the weekly and monthly survey of hotel activity
- Redesign of the State System of Tourism Information
- Establishment of the National System of Statistical Information on Tourism

Measurement of the economic impact of tourism

- Permanent updating of the TSA
- Extensions to the TSA
- Study on the profitability of tourism businesses
- Economic analysis of tourism

Improvements to the regulatory framework

Excessive regulation, both on the supply and the demand side, has long been recognized as an important factor limiting the growth of tourism. Although important steps have been taken in the past to deal with this problem, conflicting missions on the part of the different agencies directly or indirectly involved with regulating the activities of firms and travelers have hampered progress in this field. It is to be expected that the new institutional arrangements giving greater voice to the sector in a wide range of coordinating bodies, will result in greater progress in this area.

Regulatory improvements.

As part of the initial 100 days action program, the new administration launched an ambitious National Project of Tourism Facilitation. This project attempts to deal with 147 specific issues grouped in seven general headings dealing with all sorts of impediments to tourism activities both on the part of travelers (everything from difficulties in the temporary internationalization of vehicles to fishing permits and access to heritage sites) and firms (use of beaches, environmental impact studies, regulation of marine services etc.)

The Executive Commission, which brings together representatives from all ministries having an impact on tourism and the representatives of all segments of the industry, plus local authorities, will be given the task of overseeing progress in the implementation of the facilitation project.

Legislative changes

The Federal Tourism Law and its deriving rules will be updated to bring them into line with changes in the reality of the industry. In particular, further decentralization of functions to local authorities will be emphasized.

Modernization of the public sector in tourism

Given the need to improve efficiency and the quality of public service if the objectives set out in the Program are to be met, the sector's entities have embarked on a process of innovation and quality improvement along the following strategic lines

Realignment of the public entities of the Tourism sector in the administration.

As part of its initial actions, the institutions that conform the sector underwent a process whereby their functions were redistributed to increase specialization, avoid overlapping functions and improve efficiency. The ministry is to be in charge of overall planning, matters referring to the operation of tourism services and the provision of services to tourists. FONATUR, the real estate and financial services agency of the government in tourism will be in charge of matters dealing with the growth of supply. The Tourism Board

will concentrate all promotion activities, including the organization of the annual trade fair in Acapulco that was hitherto in the hands of the ministry.

- Results oriented budgeting and management of administrative processes
- Redesign of operational rules
- Introduction of performance related rewards
- Refocusing of management towards results, quality improvement and organizational effectiveness.
- Implementation of a Civil Service scheme.

Improving day to day management in the public sector

The second stage in the process of innovation and quality improvement will involve the following measures:

- Creation of task forces to promote innovation and quality of service
- Redefinition of administrative processes and projects inline with strategic goals
- In job training to increase skills and improve attitudes
- Redesign of intra organizational communication

Mexico in the global context

In the context of the new global positioning of Mexico's international policy, tourism is seen as a means to promote national interest through cooperation in multilateral organisms and through bilateral agreements with a view to increasing links and exchanges with other nations. Mexico looks forward to learning from other countries' experience as well as to share its own experience with those that might find it useful.

Active participation in multilateral tourism forums

Mexico will continue to participate in the main multilateral forums connected with tourism, both at the regional and global levels. Among these are World Tourism Organisation, OECD, the Association of Caribbean States, APEC and PATA. Special consideration will be given to the integration efforts in relation to the Puebla Panama Plan, which provides for important actions in the field of tourism development and cooperation. Policy within these organizations will point to:

- Strengthening Mexico's role in organizations in which tourism issues are dealt with.
- Emphasize cooperation topics within these organizations, in particular regarding sustainable development of tourism.
- Emphasize, within these organizations, the issues more closely related to Mexico's policy concerns in the field of tourism.

Updating bilateral relations in tourism.

Mexico will seek to introduce tourism cooperation in the bilateral relationships with countries, such as several in the Caribbean area, that find in tourism a key engine of economic development. As for bilateral agreements already in place or to be signed in future, emphasis will be placed in the operational mechanisms to guarantee that their provisions are actually complied with within the time horizon agreed upon.

FULLY SATISFIED TOURISTS

Technological progress and globalization have greatly increased access to a growing number of destinations all over the world. Competition has greatly increased and it is not far fetched to say that tourism has turned from a supplier-dominated industry to a consumer driven business. The choice made by travelers is increasingly determined by the uniqueness of the experience and activities on offer in a particular destination. Promotion, based on the differentiating qualities of the experience it offers is increasingly expensive in terms of the market share it can expect to attract for a given level of expenditure. Consumer satisfaction, however, requires that travelers' experience is in accord with the expectations created by promotional efforts on the part of host destinations. It requires, increasingly, not only a safe environment, but also one that is perceived to be safe. Continuous quality improvement in the supply of tourism services is seen, in an increasingly competitive market, as a prerequisite for maintaining and increasing market share. Having totally satisfied tourists involves every aspect of the traveler's experience, from the moment he, or she, is first touched by a promotion action to the moment the traveler is back home. The objectives and actions in this field are summarized in what follows:

Strengthening promotion

Promotion is the responsibility of Mexico's recently created Tourism Board, in coordination with the Ministry of Tourism, whose head also acts as chairman of the board. It is a results oriented organization in which the decision-making bodies include federal authorities, representatives of local government and prominent members of the private sector. The private sector has 14 out of 29 votes in the board, with 12 going to local authorities and 3 to the federal government. The Tourism Board is market oriented, it conducts its campaigns on a multi annual basis and is relatively isolated from contingent political changes. It draws its funding from the incoming tourist tax and from the hotel tax levied by local governments in 30 states who then engage in matching fund operations with the Tourism Board. Its actions are a constituent part of the National Program of Tourism and they include:

- Strategic marketing planning
- Promotion in the domestic and international markets, including public relations, advertising campaigns and direct marketing.
- Schemes to induce and coordinate promotional efforts by other agents in order to multiply the resources allocated to promotion. These include destinations, local government, domestic firms, and foreign wholesalers.

Security, tourist assistance and information

Security is a growing concern of travelers and an increasingly important factor in determining travelers choice. Perceptions of security have always been critical to travelers' evaluation of destinations. In response to the events of 11 September enhanced security measures have included the Ministry of Tourism in the high level Committee dealing with this question, with travelers' safety being among its main concerns. Leaving aside emergency measures, policy guidelines in this field include:

- Increased safety and tourist assistance in roads. Mexico's unique "Green Angels Corporation" providing assistance to road tourists is being extended, its equipment renovated and its members given training to acquire new skills.
- Better coordination with local authorities to make destinations safer for tourists, including the creation of specialized corporations.

- Consolidation of tourism information services through information modules, telephone, fax and the internet.
- Facilitation of migratory services to Mexicans living abroad

Improving the quality of tourism services

In the increasingly competitive environment of today's tourism, quality is often the main determinant of the ability to maintain or increase market share. The rapid growth of employment in tourism and the incorporation of technical change by firms demand skills that are not always readily available in the market. Quality must, furthermore, be measured and certified so that it can more easily constitute information of use to consumers when deciding what to purchase. But quality depends also on the attitudes of those who deal directly with visitors and of the host communities at large. What we can be called "tourism culture" is an area in which collective action can fruitfully be pursued. The policy actions designed to improve the quality of tourism service included in the new administration Program are the following:

Improving human resources in the tourism sector

- Evaluation of needs and opportunities for the improvement of human resources.
- Creation of a National System of Tourism Training,
- Certification of skills and abilities in collaboration with workers' unions, employers' associations and local authorities.
- Support for the design of educational and training material.

Improving quality in service

The "H" label is already recognized in Mexico as a symbol of high standards of hygiene in food and drinking water management. The system whereby firms achieve this label will be modernized and extended. On the basis of this example the possibility of establishing similar systems for other aspects of tourism activity will be explored.

- Establishment of a national inventory of training firms, certification bodies and consultants in food management subject to strict standards of quality
- Support for training courses on hygienic food management
- Extension of the H program, with the Health Ministry, to include a growing number of firms
- Support for internationally recognized systems of hotel certification

Improving the quality of tourism education

The linkages between higher education institutions and firms, in collaboration with tourism authorities will be fostered with a view to increasing the efficiency of the educational system and its relevance to the labor market. Some specific actions to achieve this goal are:

- The establishment of a national council to bring together academic institutions and tourism firms. It will run an employment exchange, will deal with on the job training programs, curriculum design and scholarship programs.
- Keeping statistical records of tourism education

Spreading tourism culture.

In collaboration with the private sector, the Ministry of Tourism seeks to promote the concepts, values and attitudes that are part of a culture of tourism. These will focus on the characteristics and needs of local communities, and are seen not only as an asset for the development of tourism, but also as a means to a greater ability, on the part of the community, to benefit from tourism.

Domestic tourism development

Domestic tourism represents four fifths of total tourism demand. It has, however, played a secondary role in discourse as well as in practice. Beyond its economic significance, domestic tourism is now viewed as an end in itself. Recreation through the sustainable enjoyment of the country's natural and cultural heritage is a valuable end in itself. It strengthens national identity and family ties. Universal access to tourism goods and services has been hampered not only by Mexico's inequality and the poverty of large groups of the population, but also because of the lack of an adequate diversification to cover all market segments. Domestic tourism, furthermore, provides fertile ground for the development of small and medium scale enterprise. For all these reasons, the federal government is determined to promote domestic tourism. Needless to say, the satisfaction of domestic tourists ranks equally high as that of international tourism in the priorities of the National Program for Tourism. Strategy and actions for this huge segment include:

Contributing to the organization of supply for the domestic market.

With a view to increasing access to tourism by way of diversifying supply, and in close collaboration with businesses, tour operators and other agents, the ministry of tourism will:

- Provide technical support for the development of the supply of adequate products.
- Coordinate the bundling and operation of packages suited to the characteristics of different income groups.
- Promotion support for firms and organizations dealing in domestic tourism, in particular those dealing in social tourism.

Develop and deliver information on alternatives for domestic travelers

Develop and coordinate a Program for Social Tourism

SUSTAINABLE DESTINATIONS

For several years now, Mexico has acknowledged the need to strive for sustainable economic development. In the case of tourism this need is all the more visible given the trend, among a growing number of consumers, to demand sustainable practices in the places they choose to visit. The National Development Plan, from which the National Program for Tourism derives, stresses sustainability as a fundamental trait of the "Growth with Quality" that it seeks to promote throughout the economy. Beyond this national dimension, sustainable development is seen as a crucial element in regional development which continues to be one of the underlying themes of tourism policy.

Support for regional, state and local tourism development

The Federal Government sees tourism as “promoting balanced regional development”, according to the National Development Plan, seeking to “strengthen local and regional capacities”. In the past, the commitment to balanced regional development has ended up playing a secondary role to the objective of maximizing growth. In the tourism sector, this has meant that promising projects have received full support from local, state and federal institutions, but have failed to fulfill their promise to jump start regional development to the extent expected. In fact, it has been found that while tourism development is closely associated with an increase in human development indices in the particular destinations in which it takes place, the irradiation effects to their “hinterland” is quite limited. With a view to enhancing the regional development effects of tourism, the following strategies and actions are proposed:

Strengthening programs for regional development and promotion.

The countries states have been grouped into seven regions which will integrate regions with specific tourism circuits. This will generate synergies and add value to existing products, while spreading the benefits of tourism over the territory.

- Elaborate and establish yearly programs for the regions in collaboration with local authorities and local agents.
- Technology transfer to the regions, seeking to adapt the products on offer to local advantages in the context of sustainable processes.
- Design of marketing campaigns for integrated regional products
- Promotion of improved access to regional attractions

Promotion of coordination and participation schemes with local authorities

The “Promotion and Development Agreements” through which the Federal Government transfers matching funds to local authorities will be greatly increased. The goal is that the share of the Ministry of Tourism’s budget allocated to these agreements rises from the present 20% to at least 40% in the coming six years.

- Setting of priorities through regular coordination and fund allocation agreements.
- Periodic evaluation of Programs
- Continuous technical assistance in the elaboration of plans and projects
- Integrated approach to promotion

Promote the sustainable development of tourism

For the reasons outlined above, and in full accord with the local communities, sustainability will be pursued through the following actions:

Elaborate, seeking consensus, and implement a Program for Sustainable Tourism

In collaboration with the Ministry for the Environment and Natural Resources, the National Institute for History and Anthropology and the National Council for Culture and the Arts, and with the contribution of several other ministries, a Program will be drawn up to regulate new developments and to ensure the

reversal of environmental damage in existing destinations, following the recommendations set out in Agenda 21.

- Participation of relevant ministries, the private sector, NGO's and academic experts.
- Elaboration, with the Ministry for the Environment, of a Municipal Agenda for Environmental Urban Management and an Environmental Agenda for Coastal Localities
- Reform of environmental regulation with the Ministry for the Environment with a view to making it more agile and effective
- Continuous evaluation of progress in local programs for sustainability

Implementation of a system of sustainability indicators.

In order to adequately evaluate the state of the environment in destinations and to measure progress in this respect, a system of indicators, following international best practice, will be adopted for tourism destinations.

Promoting the growth of supply

The Government will continue its task of promoting new developments and investment as it has in the past. Environmental considerations, however, will be given top priority in the process. The promotion of private investment in new developments will be pursued through different policy actions.

Consolidating existing Integrally Planned Centers and launching new ones.

In the past 27 years IPC's developed by FONATUR have shown varying degrees of success. Cancun and Los Cabos have been highly successful. Ixtapa is in the process of maturing while Huatulco and Loreto have seen their development stalled at different stages. FONATUR intends to:

- Consolidate Cancun and Los Cabos
- Relaunch Huatulco and Loreto
- Initiate new ICP's in the Nautical Project in the Sea of Cortes, the Maya Coast and Palenque.

Investment promotion.

As the sector's main real estate agent and developer, FONATUR is in a privileged position to promote investment along sustainable lines. It will induce investment through the aggressive use of the instruments at its disposal:

- Commercialization policy. The sale of land against the commitment to develop businesses in the short run
- Co investment program, through which FONATUR will participate temporarily and as a minority partner using land and technical assistance as its contribution in the development of new investments.
- Technical assistance to local governments in their tourism planning activities
- Bringing together developers, authorities and investors through its yearly Tourism Investment Bourse.

Integral financial policy for tourism

Lack of adequate finance is probably the main factor limiting growth in tourism. FONATUR will head the official efforts leading to the development of a financial policy for sustainable tourism, orientated mainly towards small and medium sized firms.

- Technical and financial assistance to tourism SME's through a Project Evaluation Project which will facilitate access to credit from commercial banks.
- To facilitate access to credit a Guarantees Program will be established
- FONATUR will join local governments and the private sector in establishing trust funds designed to provide funds for viable, FONATUR approved, projects

Promoting the expansion of infrastructure

The basic access infrastructure in destinations, as well as urban equipment and public services for the permanent population of many destinations is recognizably not up to standard in a competitive environment. Although many of the necessary actions in this area are outside the field of responsibility of the Ministry of Tourism, the new institutional arrangements provide useful space in which the tourism industry can voice its needs.

Making the case for tourism infrastructure before other Government agencies.

The Ministry of Tourism will act as a link between local authorities and federal agencies in an effort which will require upgrading the planning abilities of local authorities.

- Continuously update the National Catalogue of Tourism Infrastructure Needs in consultation with local authorities.
- Permanently bring the case of tourism infrastructure before the relevant agencies and promoting the inclusion of tourism related public works in their annual programs.

Strengthening urban equipment and municipal services in tourism destinations

Urban equipment and services, adapted to the type of tourism each locality receives is fundamental to the quality of a destination but usually tends to receive little attention by comparison with big public works programs. Elements of the urban landscape such as parking lots, bus stops, benches, handicrafts markets, beach accesses, wharfs, sighting platforms etc. must receive much more attention than in the past.

- Promote the inclusion of urban equipment needs, according to market segment, in local planning activities.
- Promote the participation of local government, local investors and the community in the supply of urban amenities through concessions to the private sector or to local community groups.

Actions to improve urban planning and housing

Appropriate housing, education and health services are a legitimate aspiration of residents in tourism destinations. Their improvement is one of the most important ways in which the community benefits from tourism development. An integrated urban environment in destinations, on the other hand, makes for a

more attractive destination thus creating a virtuous circle between social development and the growth of tourism at the local level.

- Promote the development of local urban planning initiatives that provide for appropriate land reserves for new social housing.
- Promote the association of development banks, tourism businesses and local investors to develop and finance new housing schemes. The inclusion of informal incomes (e.g. tips) in the income of credit users is being negotiated to expand the potential client base of housing developments.
- Present the case for investment in public services and utilities before the appropriate federal agencies

Improving tourism signalling in roads and destinations.

An important factor in limiting the territorial spread of the impact of tourism is the lack of adequate signals and symbols directing tourists to different attractions.

- Promote the standardization of signs and symbols between the Ministry of Transport and Communications, local governments and The Ministry of Tourism.
- Provide matching funds to local authorities in order to encourage them to participate in the national effort to improve signaling.
- Integrate regional program brands into signaling to promote the development of their market identity.

COMPETITIVE FIRMS

The effort to position tourism as a national priority, to have fully satisfied tourists and to progressively build sustainable destinations demands that firms thrive in an increasingly competitive environment. The Ministry of Tourism sees two fields in which state action, or the commitment of public resources is justified in the quest for competitiveness. The first one has to do with the development of small and medium sized enterprises (SME's) and the other is the development of new products. Without the coordinating role of Government fewer resources would be invested in these fields than is socially optimal.

Helping SME's to modernize

Introducing client and quality focused management practices, improving human resources, extending best practices in hygienic food and drinking water management and the promotion of a continuous process improvement in SME's are seen as the cornerstone of policy towards SME's

SME Modernization Program.

This Program will involve a growing number of tourism firms in the process of achieving ISO 9000 standards, in the certification of skills of their workforce and in the achievement of the "H" certificate as part of an integral package of entrepreneurial development. The Ministry of Tourism will provide technical assistance and coordination of the agencies and firms involved plus a limited amount of direct financial support for each participating firm.

Participation of tourism SME's in promotion

The Ministry of Tourism will encourage the association of SME's participating in the Modernization Program in each destination, with a view to their inclusion in the promotion efforts of the tourism sector, in particular via the tourism sector's internet portal.

Facilitating access to finance modernization

Technical assistance will be provided to SME's seeking credit for their modernization process. Additionally, the Ministry will encourage the inclusion of tourism SME's in the credit schemes of other government agencies.

Developing competitive products.

Mexico's tourism development has been heavily dependent on beach destinations. Although this segment will continue to be of fundamental importance in the future, other, more dynamic segments are expected to make a growing contribution given the ongoing changes in the pattern of demand. Rural tourism, adventure, ecological and cultural tourism are seen as promising segments in which new products must be developed. The private sector is aware of these trends, but realizing its full potential will require government participation in several areas.

Developing products for specific market segments

- Conducting research into the viability of specific products in specific destinations, and diffusion of best practice cases.
- Identification of specific infrastructure requirements for specific products and market segments. Negotiation of the creation of this infrastructure with the appropriate government agencies.
- Technical assistance to local governments intent on developing new products.
- Technology transfer to the private sector through specialized publications, seminars and meetings on specific products.

ANNEX: TRENDS IN TOURISM ACTIVITY

Macroeconomic stability in the transition to a new administration

The process of defining tourism policy for the coming six years is set within the wider context of economic policy and performance. At the macroeconomic level, the most salient feature is that of stability and sound fundamentals. It is worth noting that for the first time since the mid seventies, the transition between administrations has taken place in the context of a stable exchange rate under a floating parity regime and rapidly diminishing inflation. The fiscal deficit is under control at less than 1% of GDP; public debt stands at a manageable level; the current account deficit is under 3 percent of GDP, and is moreover financed to a large extent by foreign direct investment flows, and the Central Bank reports a historically high level of reserves. In late 2000 Mexico was widely expected to enjoy its sixth consecutive year of high growth in 2001, but has seen growth dwindle since then as a result of the global slowdown, in particular, that of the United States, its main trading partner.

In a context of fiscal and monetary discipline, the exchange regime, in place since 1995, has demonstrated its effectiveness allowing gradual and ordered adjustments in the presence of external shocks, promoting the entrance of long term capital flows and effectively reducing the threat of speculative attacks against the national currency. The exchange rate has strengthened in the last months, with the spot rate standing at 8.97 pesos to the US dollar last May 21st, its lowest level since August 1998. In the aftermath of the attacks on New York and Washington, the peso slipped slightly and now trades at around 9.4 to 9.5 pesos per dollar.

International reserves reached a historical high at more than 39 billion dollars in July 2001. Most importantly, inflation has been reduced considerably since December 2000. In February, for the first time in 30 years, a month of actually falling consumer prices was recorded and by July inflation for the previous twelve months was 5.93%, which compares favourably with the 8.96% inflation during 2000. The fall in inflation, has led to a recovery in the spending power of wages.

The combination of the smaller inflationary expectations and the consistency of monetary and fiscal policy have also allowed for a significant reduction in interest rates. In the fourth week of August the 28 days CETES primary rate stood at 6.97 percent, which represents an historical minimum for this instrument.

Lower inflation, the stability of the exchange rate and the reduction in the perception of the country's risk have led to important foreign capital inflows during the first quarter of 2001. In that period, 45 percent of foreign capital inflows consisted in direct foreign investment which financed 82 percent of the current account deficit.

Economic impact of tourism

For the year 1998, the last for which data are available, tourism consumption demand was the equivalent of 17.8% of total private consumption. 73.5% of these expenditures came from domestic tourism, 15.4% is explained by inbound international tourism and the remaining 11.1% corresponded to expenditure by outbound travelers. Total consumption by travelers amounted to almost 56 billion current US dollars in

1998 according to that year's TSA estimate, rising to an estimated 73 billion USD by 2000, partly as a consequence of a falling real exchange rate. Again in 1998, expenditure by tourists on the domestic market amounted to just over 51 billion USD.

Expenditure on the domestic market in 1998 is explained mainly by domestic tourism. 80.5% of all expenditure corresponds to this segment. Within it, 44.4% was originated by tourists on pleasure trips, 15.6% by tourists on business trips and the rest by people on day trips or tourists visiting friends and relatives. Inbound international visitors accounted for 16.9% of expenditure on the domestic market. Within this segment, 61.5% corresponds to tourists visiting Mexico for vacations, less than 5% to business tourists and 21.3% to day visitors which include people entering the country for the day from the US and tourists on cruises.

It can be seen from these figures that, as is the case in most large countries, the domestic market constitutes the mainstay of the industry, that the potential exists for further development of the business travel segment and that international day visitors constitute a large and potentially very dynamic market.

The publication of the TSA's findings has allowed the ministry of tourism to highlight the economic relevance of tourism. Until this happened, the economic weight of tourism was related, exclusively, to the measured output of hotels and restaurants as defined in the System of National Accounts. This approach put the share of tourism in GDP at around 5%, thus grossly understating its true importance. With the TSA's estimates, tourism turns out to be larger, in terms of value added, than agriculture (58% larger), mining (6 times larger) or the construction industry (78% larger). Although value added in supplying tourism demand is roughly equivalent to 40% of manufacturing value added, tourism is about the same size as the food, beverages and tobacco industry, the clothing and textile industry and the paper and printing industry put together.

In terms of employment, tourism directly supports around 1.9 million salaried occupations with an average wage 32% above the national average. This represents a share of just under 6% in total employment in the national accounts definition. The largest employer within tourism is the restaurant industry with 38.5% of all jobs in the sector. Hotels and other lodging services, as well as transport services in second place with 18.2% of employment each. Using estimations based on partial sources for 1999 and 2000 suggests that average annual employment in tourism has grown at an annual rate of 2.2% between 1993 and 2000. It must be noted that these figures exclude all self employed workers and the informal sector, both of which are probably significant in specific subsectors of the tourism industry.

International and domestic tourism trends

International tourism: inbound flows

On both these counts, tourists arrivals and revenues from visitors, it would seem that Mexico did not do very well over the nineties. In fact, market share fell from 3.7% in terms of tourists in 1990 to 3% in 2000. In terms of monetary flows, market share also fell, from 2.1% in 1990 to 1.7%. These figures, however, seem to defy the impressionistic evidence readily available from visiting Mexico's main destinations, and from figures on hotel and other tourism activity discussed below. Two very important qualifications to the aggregate picture appear on closer inspection of the data which tend to change the initial impression of poor performance into one of dynamic expansion of tourism, notably during the second half of the nineties.

The first one has to do with the time dimension in the trends just presented. Indeed, the picture changes radically if we divide the nineties into two periods. The first one, from 1990 to 1994 is broadly one of stagnation in the wake of the Gulf war which led to a steep fall in the number of Americans traveling

abroad. It must be remembered that the US is Mexico's main international market for tourism services, providing 87% of all international tourists which penetrate beyond the border zone and practically all of those who stay within the border strip. Between 1990 and 1991 the number of Americans traveling abroad, according to figures compiled by the Travel Industry Association (TIA) fell by 6.9%, and it was only in 1994 that the 1990 figure was again reached. Americans traveling to Mexico fell by 8.2% in 1991, and recovery of 1990 levels was recorded only in 1995. On the other hand, the fall in the overall number of tourists visiting Mexico was smaller, 6.4% in 1991. This implies that inbound flows from other countries actually grew by more than 3% in 1991, a year when, according to WTO, world international tourist arrivals grew by only 1.1%.

Even if other factors were surely at work, it seems difficult to escape the conclusion that stagnation in the flow of tourists to Mexico during the first half of the nineties was closely linked to the sequels of the Gulf War on US foreign travel demand. From 1995 onwards, once US travel abroad had gone back to its pre Gulf War level, and up until 2000 tourist arrivals grew at 3.1% a year and receipts from tourists (excluding day visitors) grew at 4.8%. These rates are not far from those for the world market over the same period: 4.2% for arrivals and 5.2% for receipts.

The second qualification that needs to be made has to do with the peculiar nature of international tourism in a country neighboring the United States. The very long, tightly integrated and densely populated border that Mexico shares with the US gives rise to more than 200 million international visits a year when the flows both ways are added (216 million in 2000). These are both day trips and trips that classify as tourist arrivals since the people involved stay overnight in the visited country. Their main characteristic, however, is that these visitors do not travel beyond a narrowly defined border zone, usually 25 or 30 kms. deep into each country. These flows are very volatile as they respond to numerous causes, ranging from changes in the peso – dollar parity and relative prices for goods such as medicines and fuel, to changes in the strictness of border controls and a host of other phenomena linked to everyday life concerns in a series of tightly integrated pairs of cities which happen to be crossed by a border line. Needless to say, many of those visiting the other side of the border travel to visit friends or relatives.

For all these reasons, border tourists form a clearly differentiated group from non border tourists. Average expenditure fluctuates between 50 and 60 dollars, vis a vis nearly 600 USD for non – border tourists, their trips are shorter and they tend to use hotel accommodation to a very small extent. In sum, this is a segment which is much less marketable. Their number has fluctuated between 9.5 and 12.5 million tourists a year over the nineties and they account for under 10% of earnings from tourism. Even when day visitors are included, visitor activity over the border accounts for barely over a quarter of all earnings from tourism.

If we concentrate on the remaining 10.6 million international tourists, those that penetrate beyond the border strip, and who come closer to the expenditure pattern of the normal tourist which the industry usually has in mind, the picture of Mexico as a country losing market share over the nineties changes dramatically. The number of these "inland tourists" grew at an average annual rate of 2.8% in 1990 – 1994, still short of the world market but almost one percentage point faster than total tourists. From 1995 to 2000, however, arrivals of inland tourists have been growing at an annual rate of 6.8%, that is 60% faster than world arrivals, reaching 10.6 million in 2000. Income from these tourists, in turn, grew at 5.8% per annum between 1990 and 1994, reflecting an increase in average expenditure associated with a steadily stronger peso, and at 5.4% a year in 1995 –2000, just above the growth of the world market, in spite of a large real devaluation in 1995 which brought down average expenditure by 13% in 1995 – 96.

When considering only inland tourists, then, one finds that, in spite of being a relatively mature destination in a decade of intense diversification and growth of emerging destinations, and in spite of the Gulf War shock in the early nineties, Mexico increased its share in total international arrivals over the nineties from

1.39% to 1.52%. Mexico's market share in money terms, on this definition, fell slightly from 1990 (1.28%) to 1994 (1.21%) and has since started a slow recovery, standing at 1.22% in 2000.

The fall in average expenditure per tourist, relative to world averages, which this performance implies is surely explained in part by the shifts in the real exchange rate of the peso over the nineties, but also points to one of the main challenges facing Mexico's tourism industry and policy, namely the need to diversify in terms both of products on offer within destinations and in terms of destinations themselves with a view to attracting higher income and longer stay tourists and increasing average expenditure.

Turning now to the travel profile of inland tourists, we find that 20% of these, more than 2 million tourists, are actually Mexicans living abroad, basically in the US; a further 7.4% are Americans of Mexican descent, while 72.6% are foreigners with no kinship relationship with Mexico. This last group accounts for most of the marketable travel to Mexico, and is responsible for 86% of inland tourist expenditure. Their average expenditure, excluding air fares was 650 USD in 2000, which compares favourably with inland tourists with a Mexican background who spend 250 USD each on average. The two groups belong to very different income brackets: 81% of Mexicans abroad and tourists of Mexican descent earn under 40,000 USD a year while 89% of the second grouping earn over 40,000 USD, with more than half earning more than 60,000 USD. Roughly half of inland tourists without a Mexican background travel on their own while the other half does so on tours. Two thirds of them travel alone or in couples, suggesting there is a large marketing opportunity in targeting family groups. Finally, more than 40% of these tourists, according to the 2000 survey, had been in Mexico at least once before during the previous two years

International tourism: outbound flows

In money terms, expenditure by all visitors (including day visitors to the US) remained flat at around 5.4 billion between 1990 and 1994. It collapsed in 1995 to 3.2 billion and has recovered since 1996, growing at 11.6% annually, reaching 5.5 billion USD in 2000. It is worth noting, however, that over 3 billion USD (55.5% of the total) are accounted for by day visitors to the US, with tourists spending 2.44 billion USD in 2000, barely up on the 1990 figure of 2.17 billion USD.

Mexican outbound tourism seems to be quite polarized. While those traveling to the US make up 92.2% of all tourists, they represent only 74% of total tourist expenditure abroad in 2000. The second destination, Europe, on the other hand, receives only 4.3% of Mexican tourists, but 15.2% of their expenditure, while Latin America as a whole is the destination of 2.2% of these flows while receiving 8% of total expenditure.

International tourism: balance of payments

During 2000, expenditure by international visitors, excluding airfares, reached 8.3 billion dollars 4.8% more than in 1999. This figure came close to being half of the current account deficit (17,690 million dollars) for that year. With a total expenditure by outbound visitors of 5.5 billion dollars, tourism recorded a surplus of 2.8 billion dollars (4.3% greater than in 1999).

It should be noted finally, however, that the aggregate figure fails to capture two very different, indeed opposed, situations. In 2000, income and expenditure by day visitors over the US – Mexico border shows a 1.4 billion USD deficit, while the balance for tourists is in surplus by almost 4.2 billion USD (including receipts from cruise passengers for 200 million dollars).

Domestic tourism.

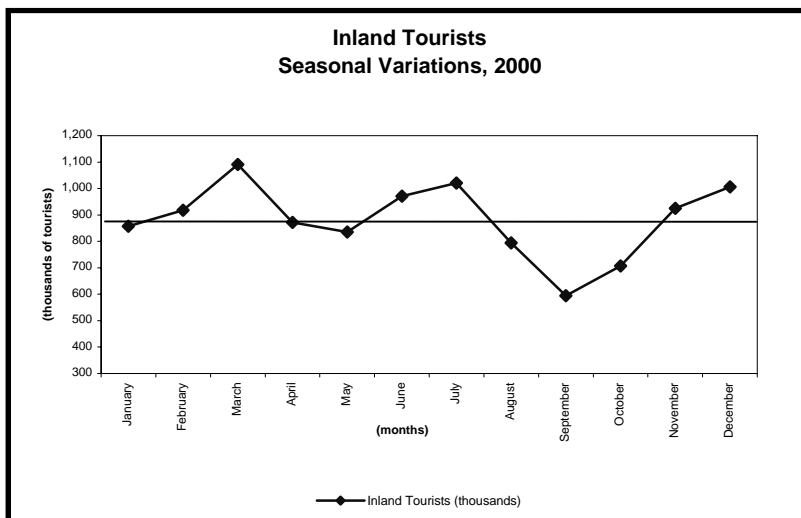
In terms of activities, the share of domestic travelers in tourism demand is 92% in land transport services, but only 67% in the case of air travel on domestic airlines. 74% of the demand for hotel accommodation comes from domestic travelers since a relatively higher proportion of domestic travel is done in order to visit friends or relatives. These differences stem from the different spending partners of domestic and international travelers. Thus domestic tourists spend a smaller proportion of their budgets in hotels, air fares and leisure activities than their international counterparts, but they spend more on transport by bus, handicrafts and other goods and restaurants and bars.

The relevance of domestic tourism for different destinations registers much larger differences. It varies with the type of destination. For example, in beach destinations hotel occupancy depends on domestic travelers for 82% of rooms sold in the case of Acapulco, a traditional center, but only for 20% of rooms sold in Cancun or 15% of those in Los Cabos in Baja California, both being integrally planned destinations built for the purpose of attracting international visitors. In large cities the relevance of domestic tourism is larger and it tends to vary less. Mexico City’s hotels depend on domestic tourists for 72% of their trade, while in Guadalajara and Monterrey, the corresponding figures are 87% and 83%. Smaller towns show an even larger dependence on domestic travel, while, perhaps surprisingly, a border town such as Tijuana depends on domestic travelers for 78% of the hotel nights it sells.

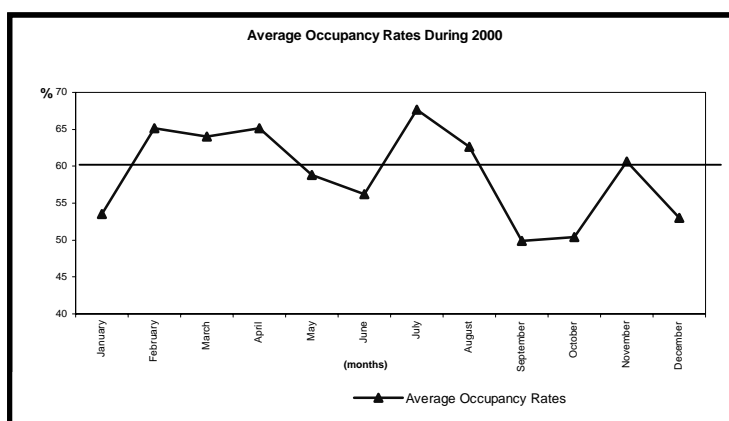
Data from Mexico’s TSA estimates at constant prices for the 1993 – 1998 period show domestic tourism consumption growing at an average annual rate of 1.9%. This rate, however, underestimates growth for the decade as a whole since it is biased by the crisis year of 1995 when domestic tourism demand fell by 9.7%, two and a half points more than GDP. An alternative proxy measure of domestic tourism is provided by the figures on domestic tourist arrivals in hotels. These data are compiled since 1992, and they show an annual rate of growth of 3.8% between that year and 2000. Data on the number of hotel rooms available, on the other hand, yield a 2.4% annual rate of growth for the nineties as a whole.

Distribution in space and time of tourism demand

Seasonal fluctuations in demand



Some of the seasonal fluctuations in demand from international tourists, furthermore, are dampened by the seasonal pattern of demand by domestic travelers. Deviations from the mean value for the occupancy rate in the largest 55 destinations are, thus, smaller than deviations from the average monthly inflow of international tourists. The average of monthly occupancy rates in 2000, for example, was 58.9%. The month with the highest occupancy in that same year was July, which at 67.6% was 15% above average. The month with the lowest occupancy was September with 49.9% occupancy. This was, again, 15% below the mean value for monthly occupancy rates.



Geographical distribution of tourism

Mexico is a multidestination country. Although figures for tourism GDP are unavailable on a local basis, one may have an idea of the geographical distribution of tourism activity by examining the figures on tourist arrivals in hotels for a sample of select destinations in which the Ministry of Tourism, with the collaboration of local authorities, conducts weekly and monthly surveys of hotel activity. These destinations are located in all 31 states of the Republic and in Mexico City.

When looking at total tourist arrivals (domestic plus international tourists) one finds that the six busiest destinations account for 52% of all arrivals. These include the three largest cities in the country (Mexico City leads the table with 20.6% of arrivals in 2000, Guadalajara, 4.9% and Monterrey with 3.3%), two traditional beach destinations, Acapulco and Veracruz, and Cancun, an integrally planned center. Seven other destinations, which include smaller cities, border cities and beach destinations, account for between 2.1 and 3.1% of all tourist arrivals, and push the share of the top 13 destinations to just over 70% of arrivals. The remaining 30% is shared by 42 destinations spread all over the country.

If one considers international tourists only, a more concentrated picture appears. Cancun receives 22% of arrivals, and if one adds neighboring Playa del Carmen the figure goes up to more than 30%. Mexico City registers 20.6% of international arrivals in hotels, so that more than half of all international tourists are accounted for by only three destinations. The following four most important destinations in this respect (Puerto Vallarta, Acapulco, Los Cabos and Cozumel) account for a further 25% of international arrivals, so that over three quarters of arrivals are concentrated in seven destinations, six of which are beach destinations.

In contrast, domestic tourism is much more evenly spread in the territory. Although Mexico City still takes more than 20% of domestic arrivals and the six main destinations account for roughly 50% of domestic arrivals, there are only six other destinations accounting for between 2 and 3% of arrivals with 43 destinations between 0.1 and 2% of arrivals.