



Tourism Policy Review of Mexico – Executive Summary

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Executive summary

Tourism is an important economic sector in Mexico, and the country plays a prominent role in tourism globally. The sector directly accounts for 8.5% of GDP, 5.8% of full-time paid employment (in the formal sector), and 77.2% of service exports. It contributes positively to Mexico's Balance of Payments, and generates higher than average value to the economy. A record 32.1 million international tourists contributed MXN 246.1 billion (USD 15.5 billion) to the economy in 2015, with growth in people and monetary flows to the country outstripping growth in many advanced and emerging tourism economies in recent years. This follows a prolonged period of more modest growth. Domestic tourism is also significant, contributing 88 of every 100 Mexican pesos consumed by tourists in the country and supporting employment and development in regions which do not attract international visitors.

The sector quickly adjusted and recovered to pre-crisis GDP growth levels following the impact of the international financial crisis and H1N1 influenza outbreak in 2009. International tourist arrivals have also performed strongly. However, tourism growth has lagged overall growth in the wider economy over the last decade. Mexico's travel and tourism sector has faced several difficulties, including challenging economic conditions in key source markets, natural disasters, health scares and security concerns. Tourism's potential to promote local and regional development remains largely unrealised, and the sector faces competitiveness and sustainability challenges.

This review focuses on priority areas to help strengthen Mexico's tourism sector and take advantage of opportunities with strong potential for economic growth, investment and development, including: the policy making environment and governance; transport, mobility and connectivity; inclusive growth, regional and destination development, and product diversification; and investment and SME financing.

Tourism is high on the policy agenda in Mexico, and is identified as one of six priority economic sectors in the National Development Plan 2013-18. The country has a remarkable range of well-articulated tourism plans and programmes which aim to spur investment and economic growth, promote balanced regional development and stimulate more productive, inclusive and sustainable growth. Ensuring these plans and programmes are effectively co-ordinated and implemented will be vital to realising Mexico's tourism development potential, and delivering on these objectives. This requires a stronger and more efficient governance framework, and an integrated and well co-ordinated approach across many government departments, at different levels of government, and with closer involvement of the private sector. Mexico would particularly benefit from a more strategic policy approach to tourism development, and a stronger focus on implementation. The recent public sector spending cuts makes this situation more challenging, but also more necessary.

Transport is a key enabler of tourism, and the Mexican transport system has a vital role to play in moving domestic and international tourists from their place of residence to, and around, their final destination. While the transport system appears to work well for visitors to coastal resort destinations, it gets more complex outside of these tourism zones. Closer inspection reveals areas requiring attention and policy co-ordination, including

taking steps to strengthen air connectivity (particularly with emerging markets in Asia), make ground transportation more user-friendly for visitors, and improve inter-modal connectivity. Mexico's challenge is to develop a transport system that is both global and local in reach, and is safe, secure and simple to navigate, easy to understand and accessible. Addressing this challenge of better connecting tourists with destinations, and on to various attractions, is necessary if Mexico is to diversify its tourism offer and source markets, strengthen tourism in regional areas, and better spread the benefits.

Mexico has a well-established model of tourism development, which has benefited from significant public investment to successfully leverage the country's natural climate and coastline endowment. Attention over the last four decades has mainly focused on the development of highly concentrated coastal resorts, which in turn is reflected in tourism demand, marketing and promotion. This model is now maturing, and is vulnerable to challenge, including from changing consumer demand patterns, and environmental considerations. It is unlikely that this model, in its current form, can support tourism policy objectives to promote more inclusive and sustainable growth. Mexico will need to evolve the model to compete in the changing tourism marketplace and support more inclusive, sustainable growth. It will mean greater involvement by government agencies with a more diverse and fragmented group of small and micro-enterprises, and policies to support smaller scale projects and small tourism businesses. This will require a deliberate and market-led policy focus on destination development and product diversification, supported by private sector investment.

Access to finance is one of the key underlying conditions required if tourism in Mexico is to deliver on its economic potential. Mexico has in place a comprehensive public framework to provide finance for tourism-related projects under the existing model of tourism development, but public sector financing supports will need to be adjusted if they are to encourage greater supply-side innovation and support a more diversified model. Opportunities exist to better target financing to viable tourism projects of all scales, and to mobilise private sector funds to finance product and destination diversification. Small and micro-enterprises face particular financing constraints on the supply (small scale of funding relative to transaction costs) and demand side (lack of financial knowledge, culture and collateral, high informality). Financial and non-financial public supports have an important role to play in this context, to capture the wider economic and social benefits and support the finance needs of firms in regional areas.

Key policy recommendations

- **Promote a more integrated approach and stronger governance for tourism policy.** Develop a more strategic approach to tourism in Mexico. Improve the effectiveness of the Tourism Cabinet as a strategic tool for integrated policy development. Strengthen the linkages between policy, product and promotion, and promote a more participative, market-led approach to tourism policy. Strengthen the evidence base to support policy development.
- **Boost connectivity to support market diversification and move visitors around the country.** Better align transport and tourism policy from point of origin to destination, and make the transport system integrated and seamless for visitors and residents alike. Continue efforts to liberalise air service agreements to better support tourism and increase connectivity for all Mexican airports. Improve road transport by making it safer, more secure and more efficient for tourists.

- **Promote inclusive tourism growth, product diversification and destination development.** Evolve the model of tourism development. Target policies and interventions to support businesses in a more fragmented, smaller-scale tourism sector. Support a consumer-centric, market-drive approach to product and destination development.
- **Target investment and SME financing to support supply-side innovation.** Direct financing to tourism projects offering the strongest potential and ensure more strategic and efficient use of public monies. Support better uptake and use of financing opportunities by small and micro-enterprises. Capitalise on the capacity for the National Fund for Tourism Development to be a pivotal actor in financing and engineering a new model of tourism development.