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Mexico Counts on Tourism to Help Ease Negative Impact of Devaluation

by LADB Staff

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On Jan. 18, President Ernesto Zedillo announced plans to allocate government resources and take other steps to boost the Mexican tourism sector, which he said was one of the "strategic industries" that would help the Mexican economy recover from the effects of the recent devaluation of the peso. To underscore the importance of tourism, Zedillo announced that all cabinet departments that deal with any aspect of tourism would work together in what he designated as an informal "tourism cabinet."

The informal designation of a special tourism cabinet is similar to the practice of recent Mexican administrations to bring together a financial cabinet, which consolidates the work of various department heads on economic matters. The tourism cabinet, which will be coordinated by Tourism Secretary Silvia Hernandez, includes key cabinet departments such as the Finance Secretariat (SHCP); the Communications and Transportation Secretariat (SCT); the Trade Secretariat (SECOFI); and the Environment, Natural Resources, and Fisheries Secretariat. The cabinet is scheduled to hold its first meeting in the first half of February. To support the aims of the tourism cabinet, in late January Hernandez met in Madrid with Enriquez Savignac, president of the World Tourism Organization. She obtained a pledge of technical assistance from Savignac and the tourism organization.

According to Hernandez, the informal cabinet is expected to deal with all aspects of support for tourism-related industries, including financing of hotel and resort construction, increasing overseas promotions of Mexican tourist destinations, and creating a strategic plan to induce foreign visitors to spend more money in Mexico. The more immediate mission of the cabinet, however, will be to find financing for companies involved in the development of tourist resorts such as Grupo Situr, whose costs of borrowing increased significantly after the peso lost 40% in value since late December. Situr, a subsidiary of Grupo Sidek, is in the process of constructing 17 large-scale beach-side resorts. In addition, Situr had planned to build five more such facilities in the next several years. The cabinet is also expected to consider whether to take steps to assist other tourism-related industries deeply affected by the devaluation, such as the airline industry.

President Zedillo's commitment to reduce government spending, however, will severely restrict any direct financial assistance from the government for these industries. Indeed, the airline industry has been hit particularly hard by the devaluation. According to the government's airline support agency Aeropuertos Y Servicios Auxiliares (ASA), Mexican airlines have operated on average at 30% of capacity since late December, when the peso was devalued. The situation has affected not only the large companies such as Mexicana and Aeromexico, but also medium-sized and small companies. The small firm Servicios Aereos Rutas del Oriente (Saro), for example, has been forced to suspend discount fares and other promotions. In fact, on Jan. 18, Saro announced the cancellation of five routes because of Mexico's current economic problems. The airline discontinued flights between

Mexico City and the cities of Acapulco, Zihuatanejo, Mazatlan, Minatitlan, and Torreón. Saro officials cited the need for an urgent "reorganization of finances" because of increased domestic and foreign debts and other rising costs.

The depressed travel industry has created concern for unions such as the Asociación Sindical de Pilotos Aviadores de México (ASPAM), which in the past has aggressively sought raises and other benefits from Mexicana and Aeroméxico. ASPAM spokesman Enrique Albores told *La Jornada* newspaper in late January that unions representing pilots, flight attendants, and flight crews have agreed to work fully with the airlines to find ways to reduce costs of operation. Theoretically, the devaluation of the peso is expected to attract an influx of foreign visitors seeking bargains in Mexico. At least one US airline during January announced a reduction in fares for all trips between the US and all its Mexican destinations. The airline, American Airlines, cut fares on Jan. 19 by 30% for flights from US cities to Acapulco, Puerto Vallarta, Monterrey, Guadalajara, León, and Mexico City.

According to some tourism industry executives, companies such as American Airlines are partially justified in anticipating an increase in business for Mexico-bound flights. On the other hand, these analysts suggest that increases in foreign visitors to Mexico will not be as great as those in 1982, when the peso was devalued five-fold. "More foreign visitors will be drawn to Mexico, but not in great numbers until next winter," said Situr director general Kenneth Pryor Jones in an interview with *El Financiero* International weekly business newspaper. For his part, Marcos Romano Galante, vice president for tourism at the Confederación de Cámaras Nacionales de Comercio (Concanaco), said his organization is pushing for the Zedillo administration to ease government restrictions on the temporary importation of foreign motor vehicles, which he said will increase the number of US tourists visiting Mexico by car. According to Romano, if the restrictions are eased, the number of foreign tourists traveling to Mexico could increase to one million tourists.

Meantime, Situr's Pryor suggests that the greatest impact of the devaluation is that those Mexicans with some money to spend will opt to visit a domestic destination rather than take a trip overseas, especially if the Mexican economy stabilizes by the peak vacation period during May-August. Notwithstanding Pryor's predictions, the Mexican tourism industry has remained depressed in recent weeks. According to some informal government estimates, the number of Mexicans traveling both within their country and overseas has declined by about 43% since the end of December. The devaluation has reduced the purchasing power of most of the Mexican population. Many Mexicans have eliminated non-essential expenditures such as pleasure travel. The US tourism industry is already anticipating a decline in the number of Mexicans traveling to the US. In an interview with *Agence France-Presse*, US tourism industry executive Colleen Flannery projected that the number of Mexican visitors to the US during 1995 would decline by 24% from 1994. In contrast, the Mexican Tourism Secretariat (Sectur) and the US Embassy in Mexico both recently projected a decline of only 8%. According to Flannery, a total of 11 million Mexican tourists visited the US during 1994, while about five million US tourists traveled to Mexico that year. Each group spent about US\$5.5 billion. (Sources: *La Jornada*, 01/18-21/95, 01/29/95; *El Financiero* International, 01/23/95, 01/30/95; *Agence France-Presse*, Notimex, 01/31/95)

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