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Tourism Industry Yet To Recover From H1n1 Impact; Drug-related Violence, Slump In U.S. Economy Worsen Situation

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Mexico's tourism industry has yet to recover from the devastating impact of an outbreak of the H1N1 virus about a year ago. The disease, first uncovered in Mexico in the spring of 2009, infected more than 71,000 people in Mexico, with the number of deaths reported at more than 1,000. Concerns about H1N1 are not as prevalent this year as they were in 2009, but the escalating drug-related violence and a global economic slowdown continue to severely hamper the Mexican tourism industry in 2010. While the situation seemed mostly beyond the control of President Felipe Calderon's administration, many in the tourism industry blamed Tourism Secretary Rodolfo Elizondo for not doing enough to reverse the slide. This prompted Elizondo to resign in early March. He was replaced by tourism-industry executive Gloria Guevara Manzo, who is charged with turning Mexico's tourism fortunes around.

Foreign tourism fell 11.4% in 2009 The slide in the tourism sector is extremely worrisome to the Mexican government, since the industry accounts for 8% of Mexico's GDP and expenditures by foreign visitors are one of Mexico's principal sources of foreign exchange. The UN's World Tourism Organization (WTO) estimates that the number of foreign visitors to Mexico declined by 11.4% in 2009, in large measure because of the outbreak of H1N1, which was first detected in the country in March and April of 2010 (SourceMex, April 29, 2009 and May 06, 2009). Sen. Luis Coppola Joffrey, who chairs the tourism committee (Comision de Turismo) in the upper house, said the decline was the worst in 27 years. Francisco Madrid Flores, director of a tourism-studies program at Universidad Anahuac in Mexico City, estimates that Mexico lost US$2 billion in potential revenues in 2009 as a result of the drop in the number of foreign visitors. Revenues from foreign visitors totaled US$11.3 billion in 2009 compared with US$13.3 billion in 2008.

The concerns about H1N1 are not as prevalent this year because the government has done a fairly good job of implementing preventative health measures, and no major outbreaks have been reported thus far this year. But this does not mean that foreign tourists are returning to the country. The US economy remains in a general slump, despite a few signs of recovery. This is one factor keeping US visitors from traveling to Mexico. US and Canadian visitors account for about 80% of all foreign visitors to Mexico. In addition to the economic situation, the explosion in drug-related violence in Mexico kept many visitors away in 2009. This continues to be a significant deterrent in 2010, especially since the violence appears to be worsening, not only in the states bordering the US but also in states popular with foreign visitors such as Guerrero, Michoacan, and Quintana Roo.

In early April, the Consejo de Promocion Turistica (CPT), a unit if the Secretaria de Turismo (SECTUR), presented the Senate with a poll bearing extremely bad news for the Mexican tourism industry. The poll, conducted in the US and Canada in conjunction with the Mexico City daily newspaper El Universal, asked 4,000 residents of the two countries whether they would visit Mexico. In the US, 67% of respondents said that the increase in violence would keep them from traveling to

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Mexico; In Canada, 81% said no and cited the same reason. Drug-related violence deters US visitors Even more discouraging was that the poll was conducted in 2009, and the level of violence appears to have increased significantly in the first several months of 2010.

Unofficial estimates from El Universal indicate that drug-related violence claimed 7,700 lives in 2009, and the number of victims in the first three months of 2010 already stood at about 2,700. What is worse is the perception that the drug cartels might not hesitate to kill US citizens. Among the victims this year were three people linked to the US Consulate in Ciudad Juarez, including two US citizens. As a result of the explosion of violence in northern Mexico, the US State Department has issued a travel advisory urging US citizens to avoid visiting the US-Mexico border cities of Tijuana, Nogales, Juarez, Nuevo Laredo, and Matamoros. The advisory, which has been extended through May, also includes Monterrey, where drug cartels have recently increased their activity. In mid-March, cartels blocked several streets to prevent military reinforcements from arriving in the city, creating chaos in Mexico's third-largest city. Because of the continuing violence, the prognosis for 2010 is not good.

While some forecasts indicate that that the number of US, Canadian, and other foreign tourists is bound to show some recovery from last year, the increase is not expected to be significant. As a result, revenues from foreign tourism could decline again this year from last year's level of US$11.3 billion. Gabriel Casillas, chief economist at JPMorgan Chase & Co. in Mexico City, estimates that drug-related violence costs the Mexican economy about one percentage point of GDP because of reductions in tourism and investment. The Banco de Mexico (central bank) estimates that foreign tourists who traveled beyond the US-Mexico border area spent an average of US$732 per visit. The decline in foreign visitors is evident in Mexico's most popular beach destinations. The airport operating company Aeropuertuario del Centro Norte reports the number of international visitors flying into the Pacific resort of Acapulco was down about 25% in the first three months of this year relative to the same period in 2009. The state of Guerrero, including Acapulco, is one area where drug cartels are fighting for territorial control. By some estimates, more than 300 people have been killed because of drug-related violence in and around Acapulco since 2007, when Calderon launched his campaign against drug traffickers.

Most of the killings have occurred away from sites frequented by foreign visitors, but the violence at times has reached into the tourist areas in Acapulco (SourceMex, February 08, 2006, November 29, 2006 and March 11, 2009). In the most recent incident, on April 14, six people were killed in drug-related violence on the Costera Miguel Aleman, a boulevard that runs through the heart of the tourist district. Foreign tourists have also been reluctant to visit the Caribbean resort of Cancun, which has also seen its share of drug-related violence. Airport management company Aeropuertos del Sureste (ASUR) said international arrivals to the popular destination declined about 4% in January-March relative to the same time in 2009.

Local authorities said the number of college students and other visitors during the traditional US spring break were down this year. "The fall in foreign tourists in Cancun is certainly noticeable. Mexico's bad image abroad means tourists, mostly the Americans, are not coming as much," local pleasure-boat operator Roberto Diaz told Reuters. The violence in Cancun and nearby areas in Quintana Roo has not affected the tourist areas as much as it has in Acapulco. And many tourism-related businesses in Cancun are blaming the Mexican and international news media for

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exaggerating the extent of violence in that resort city. "We are not seeing here confrontations like in the cities in the north of the country and the border," said Rodrigo de la Pena Segura, head of the Asociacion de Hoteles de Cancun (AHC). Domestic tourism helped ease the impact of the reduction in foreign visitors, but only marginally. In mid-April, SECTUR reported that expenditures during Easter Week, a traditional tourism period in Mexico, surpassed US$723 million (8.8 billion pesos), an increase of 12.2% relative to 2009. But the increase was not as significant considering that tourist activity during Easter Week in 2009 was hampered severely by the H1N1 virus.

During Easter Week 2008, tourist activity was reported at about the equivalent of about US$2.8 billion, nearly three times higher than during the same period this year, said Miguel Torruco Marques, president of the Confederacion Nacional Turistica (CNT). Calderon replaces tourism secretary With the slump in the Mexican tourism sector, the industry put pressure on the Calderon administration to make some changes. While some in the industry, including Torruco, thought that Rodolfo Elizondo performed reasonably well as tourism secretary, there was wide agreement that a change at the top of SECTUR would be beneficial. In early March, Elizondo tendered his resignation and was replaced by Guevara, an executive with the Sabre Travel Network Mexico. Elizondo, a holdover from the administration of former President Vicente Fox, was already considered a lame duck. His position was almost eliminated when Calderon proposed in 2009 doing away with three Cabinet ministries, including SECTUR, as part of a budget-cutting measure (SourceMex, September 09, 2009).

The Congress staunchly opposed eliminating the three ministries, eventually forcing the president to change his stance (SourceMex, October 28, 2009 and November 18, 2009). "This process generated serious uncertainty, considering that the industry was going through one of its worst moments, including the health emergency [H1N1]," said Universidad Anahuac's Madrid. "This uncertainty was one that Rodolfo Elizondo could not withstand." Others suggested that Elizondo's less-than-stellar performance was evident in the loss of competitiveness in the Mexican tourism sector during his tenure both in the Fox and Calderon governments. "One of the most serious failures of the outgoing secretary was his inability to reverse the loss of competitiveness of the Mexican tourism industry at the global level," said Primitivo Sanchez, a private tourism consultant and director of the private company Mercadotecnia Turistica Integral. "Mexico's participation in the global tourism market at one time was 3%, but it has gradually eroded to 2.1%." Guevara's appointment has created some optimism in the industry, with many executives suggesting that the industry and the new secretary would be on the same page on many issues. "This designation could help move forward all the tasks that are needed in our sector," said Pablo Azcarraga, president of the Consejo Nacional Empresarial Turistico (CNET). "She certainly has the credentials, but the fact that she comes from an industry so closely related to tourist activities greatly reduces the learning curve." "This is a person with strong technical knowledge, not a politician," said Cristina Alcayaga, president of the Cancun chapter of the Consejo Coordinador Empresarial (CCE). "This is good because the position requires an expert who is committed to the industry." But others were skeptical that Guevara could make much difference, especially when others with similar credentials have been appointed to the post.

Fox's first tourism secretary was Leticia Navarro, a private-sector executive with a strong track record. "She had to resign after encountering resistance at all levels of government and from business interests and politicians who control the development of the tourism industry," wrote Samuel Garcia in Milenio.com. Syndicated columnist Miguel Angel Granados Chapa was more

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critical, pointing out that Guevara's appointment was a symptom of a lack of long-term vision in this sector. "The irresponsible appointment of individuals who only have a marginal link to tourism which is the case for the new secretary is a reason why the industry has fallen on hard times," said the columnist. "At one time, tourism was our primary source of foreign exchange, but now it has fallen to third place.

Even though last year was an aberration [because of H1N1 scare], the decline of 15% in tourism revenues nevertheless reveals the absence of a sustained and consistent policy, as growth in previous years has fallen below expectations." New secretary Gloria Guevara announces long-term strategy At the press conference in which Calderon announced Guevara's appointment, the new secretary expressed strong optimism about the future of the sector and outlined her plans for her tenure in office. She said her priorities would be to promote tourism infrastructure, support thousands of small and medium-sized tourism-related enterprises, and work closely with all tourism-related companies. "We have to strengthen the planning and development process for all tourism-related activities, using the criteria of respect for the environment, social benefit, and balanced development in every region," said Guevara. Two weeks after assuming her post, Guevara unveiled more detailed plans for the long-term development of Mexico's tourism industry, including eliminating red tape for potential domestic and foreign investors in the tourism sector, increasing credit for industry-related companies, expanding infrastructure projects, and easing restrictions for foreign visitors.

Among the projects under discussion is a proposal by the Instituto Nacional de Migracion and the Secretaria de Relaciones Exteriores (SRE) to allow foreigners who have obtained visas to travel to the US to enter Mexico without having to obtain a Mexican visa. The infrastructure projects include constructing at least one new air terminal. In late March, Calderon gave the green light for the construction of a new airport serving the Riviera Maya to allow visitors easier access to popular tourist destinations like Playa del Carmen, Akumal, and Tulum. Communications and Transportation Secretary Juan Molinar Horcasitas said construction of the facility, which requires an investment of 3.2 billion pesos (US$263 million), would be able to handle about 3 million passengers per year. The new air terminal would be constructed entirely with private capital. Other proposals have been presented by elected officials to stimulate the tourism industry.

In January, the governors of Quintana Roo, Nayarit, and Guanajuato states suggested that the federal government allow foreign airlines to increase their flights to Mexico as long as the domestic airline industry is not harmed. "Opening the air space is an international trend that we have to examine in Mexico to strengthen our tourism sector," said Guanajuato Gov. Juan Manuel Oliva Martinez. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 15, reported at 12.15 pesos per US$1.00]

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