MEXICAN TOURISM:
Export Growth and Structural Change since 1970*

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Abstract: Over the past three decades, tourism has become integral to the Mexican economy. Mexico easily leads Latin America in tourism exports, the provision of tourist-related services to foreigners visiting the country. Today tourism also serves as the second-largest employer in Mexico and ranks consistently among the top three earners of foreign exchange. This study traces the origin of Mexico's tourism boom by examining state policies and private-sector activity during the last thirty years. It also presents data on distributional patterns associated with tourism in an effort to evaluate Mexico's tourism record within the larger context of development.

For most countries, *tourism exports*—the provision of tourist-related services to foreign visitors—have become a significant part of the external sector and even the economy as a whole. This trend reflects in part tourism's status as one the fastest growing industries in the world over the past forty years. Today tourism constitutes the world's largest service industry and the single largest item in international trade of services. According to the World Tourism Organization, international tourism arrivals exceeded 625 million persons in 1998, while receipts grew to almost 445 billion dollars (WTO 1999).[1] Tourism has also become increasingly significant economically in what has been referred to as the third world. From a developmental standpoint, however, tourism is controversial. Proponents claim that tourism provides valuable foreign exchange, creates jobs, and produces tax revenues. Critics argue that most of these benefits are overstated due to the capturing of benefits by powerful groups including transnational corporations (TNCs) and "leakages" (export revenues that leak out of the receiving country due to imports of tourism-related goods and services as well as profit repatriation). Although the debate continues, about

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1. It is generally accepted that for every international tourist, ten more travel domestically. Some argue that tourism is the largest single industry in the world.

30 percent of international tourism expenditures take place in third world countries today,[2] in many cases as a result of conscious policy choices made by their governments. Several governments have targeted tourism exports as an integral part of a larger development strategy.

In Latin America, no country rivals Mexico in foreign tourism arrivals and earnings. Tourism is now central to the Mexican economy. Although the country has achieved significant levels of industrialization over the past half-century, today more Mexicans work in the tourism sector than in any other except agriculture. Tourism also constitutes the largest service export in Mexico and consistently ranks in the top two or three exports. Finally, the industry accounts for a significant share of the Mexican gross domestic product.

This research note seeks to document the dynamism of recent tourism exports in Mexico. How did Mexico's foreign tourism market come to rank seventh in the world in popularity, and what structural changes have accompanied this growth? These questions may shed light on what drives tourism development and reveal implications for larger development theory in illuminating the manner in which state action and market forces together shape development outcomes. The findings presented here challenge two pieces of conventional wisdom on Mexican development policy prior to the debt crisis of the 1980s: that the Mexican government did not engage in export promotion, and that state intervention in the economy distorted market signals sufficiently to produce negative outcomes in development.

The next section will describe the recent record of tourism growth in Mexico. A second section will examine the role played by state policy in the tourism sector in Mexico, and a third will present a detailed look at the hotel industry to highlight structural changes in industrial development. The conclusion offers observations relating to the state and the market in Mexican tourism development.

MEXICAN TOURISM, 1970–1998

According to balance of payments statistics, tourism has been a major export for Mexico since at least the end of World War II. But as Rafael Izquierdo has pointed out, early figures overstated tourism revenues because most border transactions were simply counted under the residual category of "tourism" in trade statistics (Izquierdo 1964, 247). Before 1970, Mexican tourism exports were significant but localized. Most politicians felt ambivalent about attracting more international travelers, and development policy concentrated instead on industrialization. Growth in tourism

2. World Trade Organization, "Tourism Grows Steadily despite Asian Financial Crisis," press release, 26 Jan. 1998.

during this period resulted primarily from a larger global boom coinciding with rapid postwar economic growth and increased leisure for inhabitants of advanced industrialized countries. Technological improvements in transportation, especially development of the jet engine, also fostered international travel. Finally, Mexico benefited from its proximity to the United States, the largest tourism sending market in the world. These factors were all exogenous in nature. Moreover, because prior to 1970 most foreign tourists visited border regions, Mexico City, or Acapulco, the benefits and costs of foreign tourism remained invisible to most Mexicans.

Since 1970, however, Mexico has gradually become one of the most popular destinations in the world and tourism a major component of the Mexican economy. By the 1990s, the country ranked first in arrivals in Latin America, drawing nearly 40 percent of all international travelers to the region. Mexico also ranked first in international receipts among all third world countries (WTO 1994, 23).[3] The numbers are even more impressive when reviewed over time. Arrivals in Mexico tripled between 1970 and 1991, while foreign exchange earnings from tourism soared to more than ninefold, from 415 million to 3.8 billion dollars.[4] Figures in table 1 demonstrate that from 1970 to 1991, international arrivals grew at an average annual rate of 5 percent, while the rate for receipts was 11 percent. Rapid growth continued during the 1990s. In 1998 Mexico drew almost 20 million foreign visitors, who spent more than 7.8 billion dollars (WTO 1999). The tourism industry has consistently ranked as the second- or third-largest source of foreign exchange for Mexico in recent years. Government figures show that by the early 1990s, almost 2 million Mexicans were employed in jobs related to tourism (SECTUR 1992, 99). Another source reported that figure to have grown to nearly 3 million by 1998, accounting for nearly 12 percent of the overall Mexican economy.[5]

Most signs suggest that Mexican tourist exports will continue to grow steadily in the future. Tourism remains one of the most dynamic industries in the world, and Mexico continues to benefit from its proximity to the world's largest sending market, the United States, which provides roughly 85 percent of foreign visitors to Mexico. Finally, tourism continues to be a central pillar of the government's export-centered strategy for growth development. State-led efforts continue to expand, promote, and diversify Mexican destinations.

3. Mexico has since been overtaken by China (formerly ranked sixth).

4. The World Tourism Organization (WTO) defines tourists based on length of stay rather than purpose of travel. Travelers who stay in a foreign country more than one night and less than a year are counted as international tourists, while travelers who cross borders but stay less than a day are considered excursionists.

5. World Travel and Tourism Council, "Mexico Can Lead the Way with Sustainable Travel and Tourism Job Creation and Wise Growth," news release, 26 Apr. 1998.

TABLE 1 Mexican Tourism Arrivals and Receipts, 1970–1996

Year	*Arrivals (millions of travelers)*		*Variation (%)*	*Receipts (billions of dollars)*		*Variation (%)*	
1970	2.25			.415			
1971	2.51		11.5	.461		11.1	
1972	2.92		16.2	.563		22.0	
1973	3.23		10.7	.724		28.7	
1974	3.36		4.2	.842		16.3	
1975	3.22		-4.3	.800		-5.0	
1976	3.11		-3.4	.836		4.4	
1977	3.25		4.5	.867		3.7	
1978	3.75		15.6	1.121		29.4	
1979	4.13		10.1	1.443		28.8	
1980	4.14		0.2	1.671		15.8	
1981	4.04		-2.6	1.759		5.3	
1982	3.77		-6.7	1.405		-20.1	
1983	4.75		26.1	1.625		15.5	
1984	4.66		-2.0	1.953		20.2	
1985	4.21		-9.6	1.720		-11.9	
1986	4.63		9.9	1.792		4.2	
1987	5.41		16.9	2.274		26.9	
1988	5.69	(14.14)	5.3	2.544	(4.0)	11.9	
1989	6.19	(14.96)	8.7	2.954	(4.7)	16.1	
1990	6.39	(17.18)	3.3	3.40	(5.5)	15.1	
1991	6.37	(16.28)	-0.3	3.783	(5.9)	11.3	
1992		(17.27)	6.8		(6.0)		(1.6)
1993		(16.44)	(-3.1)		(6.2)		(1.4)
1994		(17.18)	(4.5)		(6.4)		(3.2)
1995		(20.04)	(16.6)		(6.2)		(-3.1)
1996		(21.41)	(7.8)		(6.9)		(11.9)
1997		(19.48)	(-9.0)		(7.6)		(10.0)
1998[a]		(19.30)	(-0.3)		(7.9)		(3.4)

Sources: SECTUR (1992); WTO yearbooks for various years; WTO 1999.

Note: Figures in parentheses reflect a revised methodology for counting arrivals and receipts.
[a] Preliminary figures.

THE MEXICAN STATE AND TOURISM DEVELOPMENT

A noteworthy aspect of the development of Mexican tourism has been the active participation of the government, especially since the late 1960s. Such intervention is controversial from the standpoint of development theory and practice. Countries pursuing late late development face difficult choices. Internal markets are underdeveloped or noncompetitive, while competition from external sources is keen. States are therefore frequently called on to undertake what Douglas Bennett and Kenneth Sharpe (1980) have called a "last-resort role" in development by serving surrogate functions for the underdeveloped domestic capitalist class. The dilemma is that states throughout Latin America (and elsewhere) have increasingly been viewed as the problem rather than the solution to reaching developmental goals (Evans 1992, 1995). Much of the neoliberal revolution going on in Mexico and throughout Latin America is predicated on evaluations of previous state activities ranging from wrongheaded adherence to import-substitution industrialization (ISI) (Balassa et al. 1986; Haggard 1990) to outright corruption. This situation is compounded in the area of tourism, where high start-up costs make public participation in tourism development common. My task here is not to examine the state role in promoting tourism post hoc for evaluative purposes. Policy is seldom if ever the sole cause of developmental successes or failures. Rather, it is helpful to describe state activities in order to understand their role and their limits in shaping the trajectory of the economic activity in question.

The predominant form of tourism found in Mexico today is export-oriented, large-scale, mass-based, and centered around beaches. Evidence shows that this brand of Mexican tourism has been significantly affected by state action. Policy makers began to emphasize tourism by planning and creating five new tourist resorts in the 1970s after a three-year study by the Banco de México to identify possibilities for expanding Mexican exports.[6] The five new facilities included Cancún on the eastern coast of the Yucatán Peninsula, Ixtapa, not far from Acapulco in the state of Guerrero, Los Cabos and Loreto on the western peninsula of Baja California, and the Bahías de Huatulco in the poor southern state of Oaxaca. All were beach resorts and were completely planned from the bottom up. The state played a strongly interventionist role in "pushing" tourism through planning, providing infrastructure, and acting as entrepreneur and banker (Bennett and Sharpe 1980, 1985).

The State as Planner and Provider of Infrastructure: The Poles

From the beginning of the tourism export push, state officials favored large-scale planned destinations that were envisioned as "poles." One advantage was locational. Planning allowed for strategic placement of the resorts with regard to sending markets. Additionally, all five poles were

6. The bank put forth a series of studies and documents in 1968, including the Plan Nacional de Desarrollo Turístico and a detailed urban development plan for Cancún. The studies were assembled by a team of forty-six in the central bank operating on a budget of two million dollars. For a summary, see "Why the Computer Chose Cancún," *The New York Times*, 5 Mar. 1972, sec. 10, p. 1. On Cancún, see INFRATUR-BANXICO (n.d.) and Hiernaux (1989, 111–12).

located in some of the least populated and poorest areas of Mexico, thereby meeting regional development goals. A third attraction was that by organizing resorts from the ground up, some of the more negative aspects of unregulated tourism development could be avoided. Planning was seen as the key to maximizing the benefits of tourism while minimizing costs like pollution, land speculation, hyperinflation, and rapid unzoned growth that often lead to the growth of large shantytowns near resorts.[7]

To carry out the planning and creation of infrastructure, several institutional changes were undertaken. First, the federal government created a new agency, the Fondo de Promoción de Infrastructura Turística (INFRATUR) in May of 1969. INFRATUR was located within the central bank (BANXICO) and administered by the bank. The agency was staffed primarily by bank officials, including several who had undertaken the original study of tourism.[8] INFRATUR was to be the primary state bureaucracy charged with carrying out development of the new poles. In Cancún, for example, INFRATUR was assigned to planning the site, building basic infrastructure, promoting private investment, developing and selling land, and maintaining general oversight and coordination with other government entities involved in the project. The agency was well funded and granted legal powers such as the ability to expropriate land. In 1974 INFRATUR merged with FOGATUR (Fondo de Garantía y Fomento del Turismo), a government trust fund for hotel development founded in the 1950s, and was renamed the Fondo Nacional de Fomento al Turismo (FONATUR). That same year, the department of tourism, which had existed in various forms for several years, was granted cabinet-level status as a secretariat or ministry entitled Secretaría de Turismo (SECTUR).

State agencies began by concentrating on Cancún and Ixtapa. NAFINSA (Nacional Financiera, S.A.), the national development bank, secured a loan of 21.5 million dollars from the Inter-American Development Bank (IDB) in 1971 for the first stage of infrastructure development in Cancún (IDB 1972; Cowan 1987, 336). Later that year, the World Bank announced its first direct loan for tourist infrastructure, a twenty-two-million-

7. Planners and observers have often compared the new poles with existing tourist areas, especially Acapulco. For a summary of the problems associated with unregulated tourism there, see Ramírez Saiz (1989).

8. The first head of INFRATUR, for example, was Antonio Enríquez Savignac. He had earlier overseen the central bank study and became known as "the father of Cancún." Later he headed FONATUR, SECTUR, and finally the World Tourism Organization. The original central bank team was made up of attorneys, architects, and urban planners. The initial study began in 1967 with 2 million dollars in funding. The final product represented the ultimate in economic and social planning. According to Enríquez, "As bankers, we approached this from a banker's point of view, taking everything measurable into account, feeding it into a computer, and leaving nothing to chance." Quoted in "Why the Computer Chose Cancún," *The New York Times*, 5 Mar. 1972, sec. 10, p. 1.

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dollar credit for the initial development of Ixtapa (Tancer 1975, 31; Islas Guzmán 1989, 95). The loans financed large-scale airports, modern sewer and water facilities, electricity, and other amenities that foreign tourists and private investors are accustomed to. Foreign financial support became indispensable for developing the poles. The IDB, for example, approved two further loans for Cancún. The first in 1976 financed much of the second stage of construction of the resort with twenty million dollars.

Because the new resorts were built from the ground up, the tourist bureaucracy became the governing power within the area. This outcome was especially true in the initial phase of construction. In Cancún, for example, INFRATUR and its successor FONATUR assumed broad powers. The first mayor of the resort had served previously as the director of FONATUR's community development office.[9] The agencies expropriated land on the island and surrounding area, cleared the land (including some dredging of lagoons), and essentially erected a complete city.

In addition to basic infrastructure, the state also took on projects viewed as necessary to attract foreign tourists yet unprofitable or profitable only over the long term. Foremost among these in Cancún were a golf course and a central market (INFRATUR-BANXICO n.d.; Hiernaux 1989, 116–17). Both were considered indispensable for attracting not only tourists but private investment in hotels. In addition, state officials planned and built Cancún City, a worker city nearby on the mainland. The initial phase of the project also included the refurbishing of nearby archaeological sites (INFRATUR-BANXICO n.d.; García de Fuentes 1979).

State action in planning and providing infrastructure for the planned resorts did not occur without costs or controversy. The sites chosen for tourism development were populated, and little evidence exists of gathering input from local residents. Reports of forced relocation and even violence were not unusual in Cancún. Conflicts between the state and local populations were common at other planned poles also. In Zihuatanejo, a village adjacent to what would become Ixtapa, FONATUR's plans to expropriate land and redesign streets met with strong local opposition (Reynosa y Valle and de Regt 1979, 111–13; Islas Guzmán 1989; Cowan 1987). More recent efforts by FONATUR to resettle the small village of Santa Cruz from what would become one of the central bays at Huatulco in Oaxaca led to considerable disputes between the seven hundred residents and FONATUR. Local residents were unhappy with the elimination of communal land, the indemnification process, inflation, and a lack of opportunities in the new tourism enterprises, and they ultimately held FONATUR community development officials responsible. Ultimately, the dispute escalated and resulted in forced relocation of local residents and at least one violent death (Long 1991).

9. Interview with an anonymous source in Mexico City, 1992.

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TABLE 2 Tourist Arrivals in Cancún, 1975–1991

Year	*Arrivals*[a] *(thousands)*	*Variation (%)*	*Nationals (%)*	*Foreigners (%)*
1975	99.5		72.5	27.5
1976	180.5	81.4	62.9	37.1
1977	265.2	46.9	56.0	44.0
1978	309.8	16.8	51.7	48.3
1979	395.9	27.8	49.5	50.5
1980	460.0	16.2	47.5	52.5
1981	540.8	17.6	48.8	51.2
1982	643.8	19.0	47.8	52.2
1983	754.7	17.2	32.4	67.6
1984	713.9	-5.4	30.0	70.0
1985	729.9	2.2	31.1	68.9
1986	869.3	19.1	26.2	73.8
1987	960.6	10.5	20.1	79.9
1988	838.2	-12.7	21.6	78.4
1989	1,153.6	37.6	25.7	74.3
1990	1,575.7	36.6	25.1	74.9
1991[b]	1,912.1	21.4	25.1	74.9

Source: Calculated using data from FONATUR, reported in SECTUR (1992).

[a] Includes visitors staying in hotels.
[b] Preliminary figures.

Despite these conflicts, central government officials continued the tourism push. Fruits of the planned resorts began to appear as early as 1974, when Cancún started to attract foreign tourists. As table 2 demonstrates, more than twenty-seven thousand foreign tourists visited the island in 1975, when the first of three phases of development was completed (Hiernaux 1989). From that point, Cancún set off on the path to becoming a world-class resort destination. The number of hotels increased from nine to forty-two between 1975 and 1979, while room totals doubled (Acuña Juaregui and de la Garza 1989, 124). Between 1975 and 1984, international arrivals to the island grew at an average annual rate of 38 percent, and by the mid-1980s, the destination accounted for more than a tenth of all foreign visitors to Mexico (SECTUR 1986). In 1986 Cancún drew more foreign tourists than Acapulco for the first time, and by 1989, it surpassed the Federal District surrounding Mexico City to become the single most popular Mexican destination for international tourists (SECTUR 1992).

Similar if less spectacular results were recorded later at the other four poles. Ixtapa-Zihuatanejo began to attract foreign tourists by the mid-1970s. In Baja California, Los Cabos and Loreto came on line in 1980 and 1981 respectively, and Huatulco finally began to attract foreigners in 1987. Together the five poles accounted for about one-quarter of all international tourist arrivals in Mexico by the early 1990s, just fifteen years after they began to receive visitors.

The State as Financier and Risk Taker

In addition to helping shape the general trajectory of Mexican tourism, the state also took on an array of entrepreneurial risks inherent in developing the new poles. It entered the hospitality business, for example, by acquiring and expanding the hotel chain Nacional Hotelera in 1973. The central problem facing tourism officials was that despite public provision of infrastructure, most private actors were unwilling to risk investing in a new tourist zone.[10] FONATUR responded by building new hotels, and Nacional Hotelera operated them. Presidente hotels were among the first to open in Cancún, Ixtapa, and Loreto. Primarily through investment from FONATUR, the chain expanded from seven to twenty-eight hotels operating under the commercial name of Presidente before it was reprivatized in 1985 (Jiménez 1990, 187).

FONATUR pursued a similar strategy in choosing to develop all-inclusive resorts where tourists paid one price in return for a multitude of services from one provider. The agency reached a franchising agreement with Club Méditerranée and then built and operated Club Med resorts in Cancún, Ixtapa, and later Huatulco. The all-inclusive resort-hotels were among the first establishments to open in the poles and were intended to attract tourists into the new zones soon after the airport became operational. The all-inclusive resort-hotels served the dual purposes of making the poles more attractive to investors and bringing tourists into an area that still lacked many support services. Finally, FONATUR often built hotels that were sold during various phases of construction and operated by the private sector.

In addition to building and operating hotels, the state also expanded its efforts in financing hotel construction. FOGATUR had earlier subsidized lending for hotel construction in the late 1950s, but its budget was limited. Now FONATUR altered market incentives for potential investors by establishing an extensive program offering private investors preferential credit for creating lodging. Again the agency was aided in this process by access to international monies. Between 1978 and 1986, the World Bank and the IDB made available almost three hundred million dollars to Mexico for hotel construction, with FONATUR administering the loans (Schédler 1988). During the first ten years of operation, FONATUR offered hotel financing to the private sector totaling 1.5 billion dollars. The agency guar-

10. In referring to the difficulty of drawing investors into virgin territory, one SECTUR official told me, "Not one hotel chain wanted to operate a hotel in a place where there was nothing." Interview, 16 July 1992, Mexico City.

anteed the loans through national financial institutions and subsidized the cost of money by offering preferential interest rates.[11] Between 1974 and 1992, FONATUR financed the construction of more than a hundred thousand new hotel rooms, making Mexico first among developing nations in the stock of hotel rooms by the 1990s (WTO 1994).

Through all these activities, the Mexican state assumed a new role as the primary initiator and overseer of tourism development. In pursuing development of the poles, the bureaucracies were instrumental in changing Mexico's image among foreigners. By acting as banker and entrepreneur, the state overcame collective action problems within the private sector and pushed tourism. Finally, concentrating on the poles advanced the sun and sea segment to the forefront of Mexican tourism. All five of the planned tourist poles were coastal attractions and were marketed as such. By the early 1980s, the "traditional" Mexican tourist centers were drawing less than a third of international arrivals. For many foreigners, the Mexico they came to know was based on a tourist experience at Cancún or one of the other beach resorts.

PATTERNS OF TOURISM DEVELOPMENT: EVIDENCE FROM THE HOTEL INDUSTRY

A central controversy associated with third world tourism is the question of who benefits. Because much of the employment created by tourism is seasonal and low-paying, debate has centered on ownership patterns in key subsectors of the industry. One claim commonly made by critics of third world tourism is that transnational corporations tend to gain ownership control of tourism-related enterprises and thus the bulk of tourism benefits (Britton 1981; Lea 1988). Equally important is understanding why development patterns took place in a particular way. Certainly, state policy affects ownership and control trajectories of all industries, but specific and particularistic market forces are also central. Strands of industrial organization theory, for instance, contend that international industrial structures often tend to be reproduced on a local level (Caves 1974; Newfarmer 1985). Much of this outcome results from the nature of the product itself, which creates assets for existing firms. For instance, technology, cap-

11. The figure of 1.5 billion dollars is based on my calculations using FONATUR data from 1974 (when FONATUR was created) through 1983 and converted to dollars using exchange-rate data from the Banco de México. The data were reported in SECTUR (1986). The agency would underwrite up to 80 percent of the total value of the loan, depending on the size and scale of the hotel. Typical terms called for repayment to be made over fifteen years with a three-year grace period. FONATUR records show that between 1974 and 1986, the first twelve years of stepped-up lending, interest rates of state loans averaged more than 19 percent lower than market rates (SECTUR 1986; Ortiz de la Peña Rodríguez 1981, 21–24; Jiménez 1990, 177–78; FONATUR 1985; n.d.b).

ital requirements, and marketing or managerial expertise may each produce competitive advantages or entry barriers that reproduce global patterns of ownership and control locally. The evidence to be presented on hotels demonstrates that while activist state policy affected change in the local industry, existing structural factors associated with the global organization of the industry also shaped development in Mexico.

Hotels are central to analysis of the political economy of tourism. Because official statistics omit air travel from aggregate international tourism totals, most of those figures actually reflect expenditure for lodging. This finding suggests that owners and operators of motels, hotels, and other lodging facilities are some of the primary beneficiaries of tourism. In addition, hotel and motel workers make up a significant portion of most aggregate figures on tourism employment. Finally, hotels, especially higher classes of hotels, make up the majority of establishments frequented by international tourists.

The Hospitality "Product" and the International Hotel Industry

Hotel chains are primarily a postwar phenomenon. With more tourists traveling abroad, chains have expanded globally and consolidated. As of 1997, the top ten chains in the world controlled 2.7 million rooms, and every one of the world's thirty largest hospitality firms were based in advanced industrialized countries (*Hotels* 1998). For purposes of this study, two aspects of the hospitality industry stand out. First is the nature of the product itself, which creates firm-specific competitive advantages. Second is the ability to separate those advantages from actual ownership. Among the most important competitive advantages enjoyed by hotels and hotel chains is the reputation for trust embodied in their brand names. A stay in a hotel room is "an experience good," meaning that unlike most goods, it cannot be closely inspected before being consumed (Dunning and McQueen 1982, 83; Witt et al. 1991, 61). Customers therefore take extra risk in purchasing the product and often attempt to contain that risk through relying on firm reputation. This firm-specific advantage creates incentives for the formation of chains and also gives chains advantages in expanding abroad. Trust becomes especially powerful when customers go to an unfamiliar environment such as a foreign country. Put simply, mass tourists tend to favor hotel names that they know.[12]

12. Trust is not necessarily the only advantage that chains enjoy. They also hold competitive advantages in advertising, purchasing, and accounting due to managerial expertise, knowledge embodied in technology, and economies of scale. For hotel transnational corporations, technology, particularly in computer reservation systems, has given many international chains an edge over local competitors. Hotels, like airlines, were among the first businesses to utilize computers. The linking of hotel and airline computer reservation systems has allowed consumers in the country of TNC origin to book hotel rooms along with flights.

The second pertinent factor associated with the hotel business is that strategic assets may be unpackaged. In other words, the firm-specific advantages just noted may be separated from actual ownership of hotels. The result has been expansion of hotel transnational corporations largely through alternatives to equity participation, especially since the 1960s. The most common forms of this practice have been entry into new markets through leasing agreements, management contracts, and franchising. By the mid-1980s, several international hotel chains could be called chains only in the sense of associating through these non-equity agreements. Among the chains that owned no hotels were Hyatt and Best Western. More than 85 percent of the hotels called Ramada Inn, Holiday Inn, and Howard Johnson were owned by someone else (UNCTC 1990). For critics of transnational corporations, this arrangement amounts to the worst possible outcome. Chains gain control over assets but have no sunken costs and contribute little to the market they enter (Britton 1981).

Evolution of the Mexican Hotel Sector

Due in part to the complexities of ownership and the constantly changing nature of affiliation, data on the structure of hotel ownership in Mexico are at best incomplete. Before 1970 most hotels were independent, and few had links to foreigners. Most were small family-run operations. A few chains established an early presence in Mexico. Inter-Continental and Hilton were pioneers, having moved into Mexico as early as the 1940s (Cockroft 1983, 152; Schédler 1988, 138). Most chains entered twenty or thirty years ago and concentrated in the major cities and Acapulco. But as tourism demand grew in Mexico, so did TNC activity in the hotel sector. John Dunning and Matthew McQueen reported that by 1978, thirty-nine TNC-affiliated hotels offering more than eleven thousand rooms were located in Mexico (1982, 77). This total is not particularly high, given that Mexico had a stock of about two hundred and fifty thousand hotel rooms at the time. Yet the hotel market is segmented, and chains tended to concentrate in the luxury categories of grand tourism and five- and four-star places.[13] Mexico also ranked first among developing countries in foreign-affiliated hotels and rooms at that time, more than double its closest rival, the Philippines. Only three of the 128 developed and developing countries surveyed by Dunning and McQueen had more TNC-affiliated hotels than Mexico, and only four had more rooms (Dunning and McQueen 1982, 77).

13. Hotels in Mexico have traditionally been graded by stars, ranging progressively in quality from one to five stars and on top the category of "Gran Turismo." One- and two-star status are generally reserved for small family-run motels with limited services. As of 1991, Mexico had 345,159 rooms (SECTUR 1992) in the following classifications: Gran Turismo and special class (5 percent); 5-star (10 percent); 4-star (13 percent); 3-star (14 percent); 2-star (13 percent); 1-star (10 percent); "economical" (13 percent); and unclassified (19 percent).

Despite incomplete data, broad structural patterns in the hotel industry may be identified. They consist of fluid relationships between foreign chains and a wide range of domestic investors, including the state, and are a product of firm strategies and market conditions. Early on, a clear division of labor emerged in which international hotel chains entered the market by means other than equity investment, and local investors fulfilled the capital requirements. Although some exceptions existed, this pattern was the prevailing form of association (Mateo 1987). The fluid partnerships tended to be particularly lucrative for the chains. As in other third world countries, chains usually affiliated with individual properties for short periods and at the end of the contract often moved on.

The profile of typical domestic investors in hotel properties during the 1970s remains difficult to pin down because they came from various backgrounds. Some Mexican investors were leading national industrialists seeking to diversify holdings, but the majority were an array of local professionals and business owners. Investors rarely held more than one or two properties.[14] Foreign equity in hotels remained insubstantial during this period, and these national private investors, joined by state-owned Nacional Hotelera, provided most of the capital. One SECTUR official estimated that more than 90 percent of overall investment in hotels during this time was domestic.[15] Foreign chains nevertheless continued to move into the Mexican market via non-equity means throughout the 1970s. Because most foreign tourists came from the United States, it was crucial that hotels be linked to computer reservation systems, toll-free numbers, and travel agencies in the United States. Mexican real estate investors needed the chains more than the chains needed them, and at a time when the tourism export push still carried significant risks, the TNCs found it more attractive to enter the market through contractual means.

Growing affiliation with chains was especially the trend in the larger high-category hotels in the tourist zones. While the most common arrangement was for hotels owned by Mexicans to be operated by foreign firms, the arrangements gradually began to take on greater complexities. For example, the Mexican hotel management company Posadas de México (now called Grupo Posadas) operated its own hotels and as well as those of others. Several hotels operated by Posadas were under franchise agreements with Holiday Inn (Alisau 1992, 12; Molinero Molinero 1982, 6). Thus a hotel

14. The point was first made to me by Daniel Hiernaux. This impression was shared by a longtime Mexican hotelier active in tourism organizations. Personal interview, 23 July 1992, Mexico City. One of the first large conglomerates to enter into the accommodation sector was Grupo Alfa, part of the famous Monterrey Group. It purchased a luxury hotel in the mid-1970s. Most hotel owners, however, were smaller investors in real estate, many of them locals who owned a single property.

15. Interview with a SECTUR employee, 2 July 1992, Mexico City.

might be owned by one firm and operated by a second while under a franchise agreement with a third.

Despite this complexity, the larger division of labor between Mexican capital and international hotel chains remained relatively constant until the mid-1980s. Some analysts have argued that since then (if not earlier), the Mexican hospitality industry has increasingly fallen into the hands of TNCs as has happened in other third world countries. The argument takes two forms. The first holds that foreign chains have accelerated actual capital investment to become majority owners of many hotels (Molinero Molinero 1982, 94–95). Little evidence supports this position, however. A second argument acknowledges the division of labor, in which Mexican investors provide most of the capital and TNCs the expertise or name. Holders of this perspective argue that despite little or no equity holdings, TNCs have wrested actual control of the most dynamic areas of the industry. According to Schédler, for example, while only 9 percent of Mexican hotel rooms were tied to TNCs in 1987, the picture was very different among international-class establishments (1988, 38). Schédler found that 100 percent of rooms in the luxury "Gran Turismo" category were tied to foreign chains, and almost 71 percent of Gran Turismo and five-star rooms combined were linked to TNCs.

More recent data confirm ties between local investors and TNC hotel chains, but the relationship is more fluid and complex than reported by Schédler and others. First, the state had largely withdrawn from ownership in the hospitality sector as part of larger privatization efforts beginning in the mid-1980s. Second, the profile of Mexican investors in hotels had changed. Several of the largest Mexican industrial and financial groups expanded aggressively into the hospitality sector during this period, and they began to compete with and replace smaller investors. Finally, while TNC chains continued to be active in Mexican hotels, their relationship to the Mexican firms was becoming more strategic, long-term, and complex.

Table 3 summarizes the structure of hotel chains by brand name in Mexico at the end of 1991. The top fifteen hotel chains, ranked by number of rooms, represent less than 1 percent of all the hotels in Mexico but account for 25 percent of the hotels and 43 percent of the rooms among those ranked in the three top categories. While the list includes a number of familiar TNC-based chains, Mexican firms are also well represented. This feature is hidden to some extent. For example, the top two chains on the list, Holiday Inn and Fiesta Americana, are both operated by the Mexican firm Grupo Posadas.[16] Different estimates from 1992 indicate that Posadas was

16. Of the twenty-nine hotels held between the two in Mexico, all but three were associated in some way with Grupo Posadas at this point.

TABLE 3 *Hotel Chains in Mexico, 1991*

Ranking	*Hotel Chain*	*Rooms*	*Hotels*
1	Holiday Inn[a]	4,950	16
2	Fiesta Americana	4,944	13
3	Sheraton	2,818	6
4	Best Western	2,658	21
5	Calinda Clarión	2,544	15
6	Camino Real	2,387	8
7	Stouffer Presidente	2,252	7
8	Vista	2,066	7
9	Melia	2,034	7
10	Exelaris Hyatt	1,862	6
11	Misión Park Inn	1,752	12
12	Princess	1,363	2
13	Krystal	1,304	4
14	Paraíso Radisson	1,285	5
15	Plaza Las Glorias	1,173	8

Source: PKF (1991).

Note: The chains are listed by trade names. At times the same firm will operate or franchise hotels under different names. This list does not cover all-inclusive chains, which charge customers one price that includes lodging, meals, and activities.

[a] Includes Holiday Inn and Holiday Inn Crowne Plaza names and three hotels not operated by Grupo Posadas.

associated with a quarter to a half of all the four- and five-star hotels in Mexico. It owned fully a third of the properties and held a minority stake in another third (Alisau 1992).[17]

Grupo Posadas, initially involved in hotels as the junior operating partner of a large transnational corporation, grew but diversified as well by moving into more lucrative areas of hotel operation and control that were previously dominated by foreign firms. Posadas continued to own properties and to operate hotels under the names Holiday Inn, Holiday Inn Crowne Plaza, and Fiesta Americana. Posadas also launched its own franchise trade name, Fiesta Inn. Posadas diversified its investment partners, developing new properties with Swiss, German, and other Mexican investors in the 1990s. Finally, Posadas itself became a transnational corporation by opening new hotels in Venezuela, Texas, and California. Today it is the largest hotelier not only in Mexico but in all Latin America (*Hotels* 1996).

The experience of Posadas reflects a larger transformation of the hotel sector in Mexico marked by increasing internationalization but not necessarily denationalization. Over the last ten to fifteen years, several large Mexican business groups have moved into the hospitality sector, commonly through developing strategic alliances with international hotel

17. Also based on a private-sector internal market study made in 1992.

TABLE 4 Strategic Alliances in the Mexican Hotel Sector, 1992

Firms	*Flag*	*Hotels*	*Rooms*
Posadas/Holiday Corp.	Fiesta Americana	13	4,975
	Holiday Inn	9	2,487
	Holiday Inn Crowne Plaza	3	1,309
	Fiesta Inn	4	457
	various others[a]	7	1,431
Situr/Posadas/Sheraton	Continental Plaza	13	3,902
	Plaza las Glorias		
	Fiesta Americana		
	Sheraton		
Carso/Choice	Calinda Quality Inn	18	3,002
ICA/Banamex/Radisson	Paraíso Radisson	4	1,176
Banamex/Inter-Continental	Sierra	3	847
ICA/Sheraton	Sheraton	6	1,741
	Pirámides del Rey		
Xabre/Westin	Camino Real	8	1,108
Bancomer/Hilton	Conrad Hotels	3	
Presidente/Stouffer	Stouffer Presidente	7	2,170
Cemex/Marriott	Marriott	2	883
	Marriott Courtyard		

Sources: Compiled from company reports, an internal private-sector market study (March 1992), an undated overview of lodging companies in Mexico produced by Morgan Stanley, newspaper reports, and personal interviews in Mexico City, 1992.

[a] Others refer to management and ownership interest in seven additional hotels in the United States operating under the names Holiday Inn, Sheraton Fiesta, Border Inn, and Hampton Inn.

firms. Among the Mexican investors entering the hotel sector are industrial conglomerates ICA, Cemex, Gutsa, and Sidek, the telecommunications giant Carso (primary holder of Telmex), and the large domestic banks Banamex and Bancomer.[18] Table 4 summarizes the primary actors in Mexican hotel chains in the early 1990s. The Mexican partners included in the table tend to be among the most powerful internationally oriented Mexican business groups. Each is represented in Expansión 500, the Mexican equivalent of the Fortune 500, and most of them trade publicly on the New York Stock Exchange.

The more recent alliances are not set in stone, however. Posadas and Holiday Inn began steadily diverging in the late 1980s and later parted ways. Situr, the tourism subsidiary of the conglomerate Sidek, invested in several Fiesta Americana hotels with Posadas at one time and teamed with Holi-

18. This information came from personal interviews in the public and private sectors in Mexico City, July–Aug. 1992, along with newspaper articles and an undated overview of selected lodging companies and their partners, produced by Morgan Stanley.

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day Inn on some properties in the 1990s before running into severe financial difficulties at the onset of the peso crisis. Since 1992, Inter-Continental and Banamex have split, Inter-Continental moving to associate with Presidente. Banamex also withdrew from its partnership with ICA and Radisson after being privatized, and Situr snapped up several of the properties. Shortly thereafter, Radisson split with Situr. Bancomer and Conrad Hilton also parted ways in late 1992.[19] Hyatt, a privately held chain, had seven different partners among its seven properties in Mexico in 1991 (Russell 1993).

Despite these changes and caveats, several conclusions regarding hotels are apparent. First, the Mexican hotel sector has not been denationalized. By 1996 three of the five largest chains operating in Mexico were domestically owned (*Hotels* 1996). Instead, the market has become more segmented, with top categories of hotels establishing ties with international capital and the most dynamic fraction of domestic capital. Second, if the predominant pattern in the 1960s and 1970s was a division of labor between foreign operators and domestic investors, the relationship has blurred at least somewhat in recent years. This finding suggests that strategic advantages of TNCs—operational expertise, technological advantages, name recognition, and trust—are also not set in stone. But it indicates that these advantages and trust are very difficult to overcome. Only the most dynamic fraction of Mexican business has been able to gain access to the more lucrative operation and franchising aspects of the hospitality sector. Even then, Mexican firms continue to maintain ties with the international chains.

CONCLUSION

Tourism exports in Mexico have grown rapidly and also experienced significant structural changes over the past quarter-century. The sector now has greater overall capacity, more central organization, and some diversification. According to more conservative estimates, arrivals grew by almost 300 percent and receipts by nearly 900 percent between 1970 and 1991 (SECTUR 1992, 34, 93). What explains this dynamism? State policy certainly goes a long way in accounting for part of the growth. Other factors are improvements in infrastructure, growth in the transport and hospitality sectors, and concentration on the poles to relieve pressure on the traditional tourist destinations while creating employment and funneling export earnings into several of the poorest areas of the country. Finally, the Mexican state became both financier and entrepreneur, especially in lodging, where private-sector initiative was initially lacking.

It is difficult if not impossible to imagine this transformation having

19. Author's interviews with private-sector officials, 23 July 1992, Mexico City; and telephone interviews, 8 and 25 May 1995.

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taken place without an activist Mexican state. This interpretation is not to claim that the state was in this case a lifeboat of efficiency in a larger ocean of red tape. Rumors and stories of corruption and other inefficiencies surrounding tourism development are common. Individuals with political ties clearly benefited from the growth of the industry, although some of the worst abuses appear to have occurred after the neoliberal revolution. Nor am I suggesting that state planning completely averted problems like those affecting Acapulco. SECTUR and FONATUR officials openly admit that they overbuilt Cancún.

Is Mexican tourism good for development? The axiom that development lies in the eyes of the beholder rings especially true for third world tourism, and Mexico is no exception. For the more orthodox development analysts, tourism appears to be successful. The activity is export-oriented and largely in the hands of the private sector. The benefits of 6 to 7 billion dollars in annual export revenue and roughly 3 million jobs are easy to measure. Little reliable data are available, however, on the leakage effect caused by imports consumed by tourists and dollars repatriated by transnational corporations. Moreover, many tourism jobs are seasonal and low-paying. In Mexico, SECTUR figures reported in Hiernaux and Rodríguez Woog (1991) show that the top three categories of jobs are in the "miscellaneous" category of restaurants and hotels. This finding suggests that for many Mexicans, tourism means employment opportunities as waiters, maids, cab drivers, and small vendors. Other problems have also emerged. Rumors abound that groups involved in illicit narcotics began to launder profits through tourist real estate holdings in Mexico as early as the 1970s. Today narcotics money has permeated much of Mexican society and the economy and is believed to be especially common in tourism.

If tourism is evaluated on its own developmental terms, however, the primary stated goals of government officials—increased export revenues and the creation of regional employment opportunities—have for the most part been met. Yet it is ironic that international tourism to Mexico tends to flourish during periods of developmental setbacks, such as the debt and peso crises. Each produced a strong dollar and stimulated demand. This point notwithstanding, to the extent that state goals were met, state action requires explanation. Two lessons are apparent. First, the same Mexican state that frequently was viewed as protectionist and inward-oriented prior to the 1980s engaged in export promotion. Second, export promotion in tourism was not market-driven. Rather, the state "got the prices wrong" through subsidizing credit and acting as entrepreneur. Both of these conclusions challenge conventional neoliberal expectations.

But why was the Mexican state more effective in this arena than elsewhere in the economy? Part of the "success" lies in the insulation and self-sufficiency enjoyed by bureaucrats within INFRATUR and later FONATUR, especially early in the tourism export push. The fact that INFRATUR originated within the central bank is significant in reflecting that tourism promotion came in response to balance of payments pressures and was conceived mainly as an export project. Also, many of the individuals who first staffed the agency came from the central bank, one of the most orthodox institutions associated with the central government. Together with the Secretaría de Hacienda (Treasury) and later the Secretaría de Programación y Presupuesto (SPP, Programming and Budget), the central bank became a source from which the orthodox technocratic revolution would later originate (Maxfield 1990, 1991; Centeno 1994). Moreover, state actors were not confronted initially by well-organized societal groups in putting the project into action. They also had access to significant material resources, mainly through loans from the World Bank and the IDB. In short, state officials enjoyed internal capacity and relational autonomy that allowed the state to intervene effectively as planner, financier, risk taker, and entrepreneur.

But as the hotel sector demonstrates, state action did not lack constraints. Initially, because the market was geared toward exports and mass tourism, certain choices were closed off. To attract large numbers of foreign tourists, the state first needed to attract foreign hotel chains. One piece of evidence that supports this claim is the fact that during the 1970s, the same government that effected a restrictive law on foreign investment almost simultaneously eased restrictions on foreign investment in hotels in coastal regions. This evidence is consistent with the idea that name recognition, trust, and ties to related areas of tourism markets in sending countries made hotel chains all but indispensable. The chains moved only slowly into the planned poles and with little equity involvement. Instead, they allied with a series of mainly Mexican investors. Over time, Mexican investment became primarily large-scale outward-looking capital.

The resulting transformation of the Mexican hotel sector into a more structured and internationalized entity also constrained state action. Private-sector hotel and tourism interests were no longer confined to hotel associations and local and national tourism organizations. They were represented by powerful business groups such as the Consejo Coordinador Empresarial (CEE), the Consejo Mexicano de Hombres de Negocio (CMHN), the Confederación Patronal de la República Mexicana (COPARMEX), the Asociación de Banqueros de México (ABM), and the Confederación Nacional de Cámeras de Comercio (CONCANACO). These organizations historically have influenced state policy most (Camp 1989; Luna 1992; Maxfield and Anzaldúa 1987).

It is therefore not surprising that the core strategies promoted by state officials in recent years have benefited those same interests. State lending for hotel construction increasingly went to large-scale capital-intensive hotels. From 1984 to 1991, the number of hotel rooms in Mexico grew by 32 percent, but rooms in the top three categories increased by 67 percent (SEC-

TUR 1991; 1992, 315).[20] The two most significant state initiatives recently—general privatization of tourist holdings and initiation of tourism megaprojects—have favored the private sector and especially the part that has paired up with TNCs. With the megaprojects (first referred to as *megaproyectos* and currently called *projectos turísticos integrales* or PTIs), a new series of mini-poles designed by FONATUR, the Mexican state is continuing its role as planner, but the plans themselves clearly benefit large business interests. The scope of most projects, along with the manner in which concessions are granted, effectively shut off access to all but the biggest tourism developers and operators.[21]

Ultimately, as Peter Evans (1992) has pointed out, states are seldom the sole problem or solution. The fact that Mexican state actors were able to meet the goals they set out resulted from a unique set of circumstances. In addition, what they set out to accomplish was almost certainly limited by the nature of the international tourism industry. Together, both factors have shaped the trajectory of tourism development in Mexico. In the final analysis, development patterns in the Mexican tourism industry have changed significantly over the past quarter-century. The hotel industry has become more structured, in part because of the entrance of large domestic business groups in recent years. The presence of transnational corporations has indeed increased, but so has that of the most powerful fraction of Mexican capital. With the export push, tourism became big business in Mexico. Evidence from the hotel sector suggests that the primary beneficiaries of the push are large foreign firms combined with dynamic, outward-looking Mexican firms.

20. According to one SECTUR official, FONATUR financed roughly 85 percent of hotel construction during that period, again suggesting that owners and operators of luxury hotels received the most public funds. Interview, 25 June 1992, Mexico City.

21. For example, Puerto Cancún, one of the most ambitious projects, has been projected to cost 1.5 billion dollars. Most of the megaprojects also aim at especially affluent tourists. Puerto Cancún calls for building a wharf with five hundred slips for yachts, a golf course, and luxury hotels and condominiums. The plan also includes a series of navigable canals, somewhat like a residential Venice (FONATUR n.d.a).

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