

MICROECONOMICS OF COMPETITIVENESS

THE BAJA CALIFORNIA SUR TOURISM CLUSTER IN MEXICO

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Profile of Mexico

Mexico covers an area of 1,964,382 square kilometers (758,452 square miles). With a population of 105 million, Mexico is the 11th most populous country and the most populous Spanish-speaking country in the world. The nation's capital, Mexico City, is the second largest city in the world. Mexico is composed by 31 states congregated in a federal representative democratic republic. The constitution establishes three levels of government: federal, state, and municipal. The federal government is constituted by the Legislative branch, composed by the Senate and the Chamber of Deputies, the Executive branch, headed by the President who is elected for a single term every six years by a direct national election and is also commander in chief of the military forces, and the Judicial branch, comprised by the Supreme Court.¹

Recent Political and Economic Situation

The economic policy from 1920 until the end of the 1980's was based on a centralized economy driven by strong government intervention. During the 1950's postwar years, Mexico pursued an economic development strategy of "stabilizing development" that relied on heavy public-sector investment to modernize the national economy. Concurrently, Mexican governments followed conservative policies on controlled interest and exchange rates that helped maintain low rates of inflation and attracted external capital to support industrialization. This dual strategy helped maintain steady economic growth and low rates of inflation through the 1960s (Cypher, 1990). From the 1960's until the 1980's an import substitution strategy was adopted to protect and develop local industry.

During the 1970's, the public sector grew dramatically and state-owned enterprises became a mainstay of the national economy. Massive government spending was sustained by oil exports. In

¹ Instituto de Investigaciones Jurídicas, Constitución de los Estados Unidos Mexicanos, <http://info4.juridicas.unam.mx/ijure/fed/9/>

mid-1981 Mexico was beset by falling oil prices, higher world interest rates, rising inflation, a chronically overvalued peso, and a deteriorating balance of payments that spurred massive capital flight. In 1982, the Mexican government defaulted on scheduled debt repayments. During the next few years a plan of economic austerity was implemented that laid the groundwork for economic recovery.

At the end of the 1980's a sweeping liberalization of the economy began. Reforms included the privatization of hundreds of state-owned enterprises, liberalization of foreign investment laws, deregulation of the financial services sector, and across-the-board reductions in tariffs and non-tariff trade barriers. Mexico became a GATT signatory in 1986 and economic liberalization culminated in the negotiation of the North American Free Trade Agreement (NAFTA) in 1992.

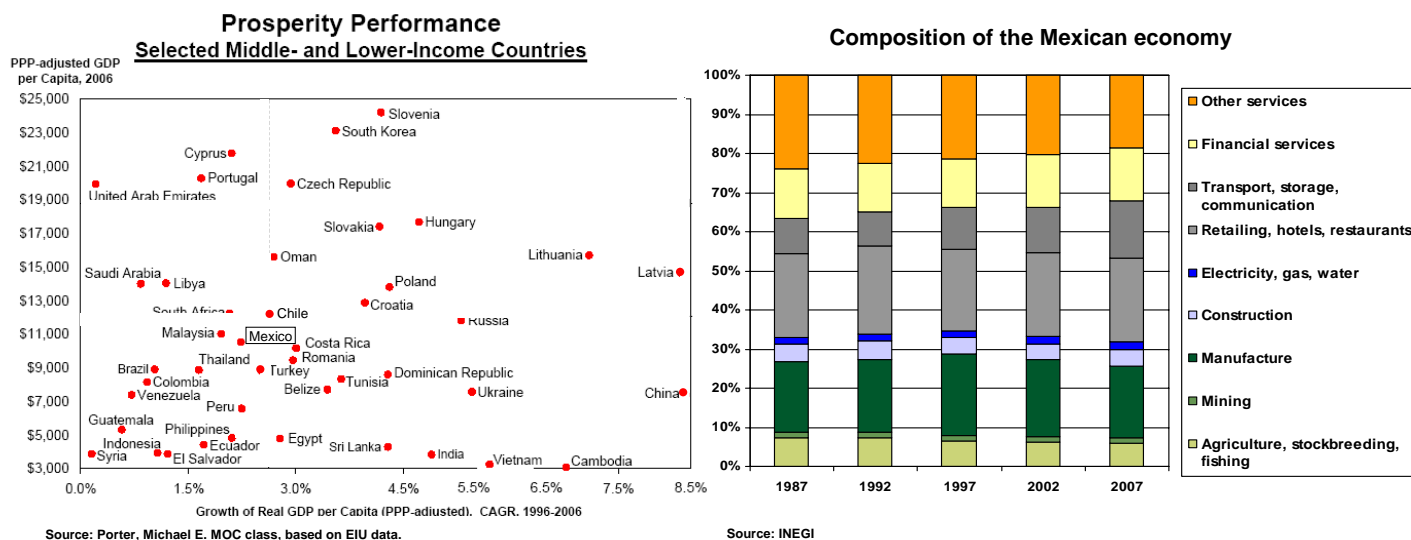
At the end of 1994, an economic crisis stemming from an unsustainable current account deficit and mismanagement of the government bond market plunged Mexico into a severe recession. The next few years were spent restoring macroeconomic imbalances and responding to demands for greater accountability and transparency of public institutions. In the political realm, advanced electoral system reforms took place that leveled the playing field for opposition parties.

In 2000, after 71 years of rule by the PRI party, Vicente Fox was elected President of Mexico. Despite strong public support early in its term, the Fox administration was unable to craft a legislative coalition in support of its reform agenda. By the end of his term in 2006, much of President Fox's structural reform program remained unfulfilled (Robertson, 2007).

Felipe Calderón was elected President in 2006 after a close election. He promised to continue the reform agenda by promoting greater foreign investment and increasing the competitiveness of Mexico's economy. During his first year in office Calderon was able to pass important fiscal reform, pension reform for civil servants, and electoral reform. In March of 2008, discussion on an energy reform started to take place.

Current Economic Performance

In 2006, Mexico was the 14th largest world economy based on market exchange rates and the 11th largest based on purchasing power parity² (Exhibit 1 & 2). GDP per capita (PPP) in 2007 was US\$11,880 (IMF), making it the second highest in Latin America after Chile (excluding the Caribbean), according to the World Bank 2006 rankings. Mexico is the only Latin American member of the Organization for Economic Co-operation and Development (OECD). Despite structural reforms implemented over the last two decades, the structure of the economy has remained practically constant over the last 20 years, with agriculture representing 3.9% of GDP, industry 26.3%, and services 69.9% in 2007.



Due the 1994-1995 “Tequila” crisis, the Mexican economy contracted 6% in 1995. From 1996 until 2000, Mexico’s GDP grew at an average rate of 6%, mainly due to increased export competitiveness due to the peso’s devaluation and structural reforms enacted by former President Zedillo. From 2001 until 2003, Mexico grew at an average rate of 1%, mainly due to the deceleration of the US economy and the lack of structural reforms. However, a stable macroeconomic environment was achieved. From 2004 until 2007, Mexico grew at an average

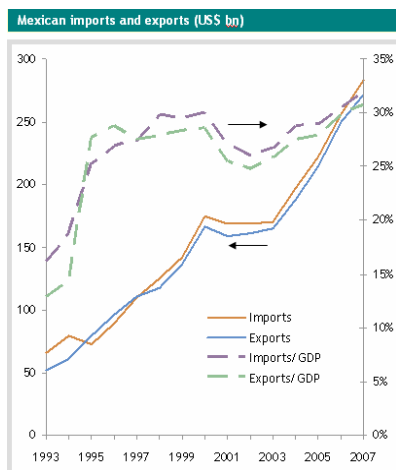
² http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP_PPP.pdf,
<http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>

rate of 4%, mainly due to higher US growth weighted down by lack of structural reforms. The stable macroeconomic environment remained in place.

Mexico has a free market and export-oriented economy, as Mexico is one of the most liberalized countries in the world in terms of openness to trade. Mexico has signed more than 40 free trade agreements (FTAs), and trade with those countries account for more than 90% of Mexican trade (including the European Union, Japan, Israel, and much of Central and South America).³ The most influential FTA is the North American Free Trade Agreement (NAFTA), which came into effect in 1994 between Canada, the US, and Mexico.

It is important to note the speed at which Mexico adopted free trade, as in the mid 1980's Mexico was still a closed economy. In 1993 exports amounted to US\$52 billion or 13% of GDP, while in 2007 these figures had significantly increased to US\$272 billion or 31% of GDP. The United States is Mexico's most important trade partner, accounting for 82% of all exports and 50% of all imports. Although the US share of Mexican exports has remained stable over the last 15 years, the US has lost a 20% share in terms of imports, especially to China which has rapidly become Mexico's second source of imports.

³ <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=MX>



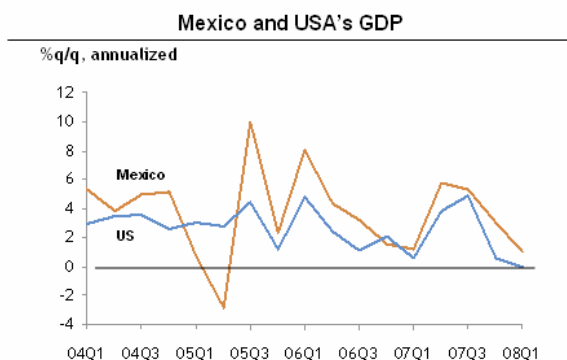
Source: INEGI

Exports and imports per country as percentage of total

Exports	US	Canada	Germany	Spain	Colombia	Venezuela	Other
1993	82.7%	3.0%	0.8%	1.7%	0.5%	0.4%	10.9%
1998	87.6%	1.3%	1.0%	0.6%	0.4%	0.5%	8.6%
2001	88.5%	1.9%	0.9%	0.8%	0.3%	0.4%	7.0%
2004	87.5%	1.8%	0.9%	1.1%	0.4%	0.4%	7.9%
2007	82.1%	2.4%	1.5%	1.3%	1.1%	0.9%	10.7%
Imports	US	China	Japan	South Korea	Germany	Canada	Other
1993	69.3%	0.6%	6.0%	1.3%	4.4%	1.8%	16.7%
1998	74.4%	1.3%	3.6%	1.5%	3.6%	1.8%	13.8%
2001	67.6%	2.4%	4.8%	2.1%	3.6%	2.5%	17.0%
2004	56.3%	7.3%	5.4%	2.7%	3.6%	2.7%	22.0%
2007	49.6%	10.5%	5.8%	4.5%	3.8%	2.8%	23.0%

Source: INEGI

As a consequence of the close trade integration with the US, the Mexican economy and the US economy are highly correlated, especially in terms of manufacturing activity, as much of Mexico's exports to the US are intermediate goods rather than final consumption goods. As such, Mexico is heavily vulnerable to downturns in the US economy, especially to slowdowns in the US manufacturing sector. According to the IMF, changes in US real economic variables can account for as much as 45% of Mexican output fluctuations.



Source: INEGI, Federal Reserve Board, JP Morgan



From 1997 to 2005, the six largest clusters by exports were automotive, oil and gas products, communication equipment, entertainment and reproduction equipment, information technology and hospitality and tourism (see exhibit 3). It must be noted that while Mexico's dependence on oil has diminished substantially (oil exports accounted for more than 70% of total exports in the

early 1980's while only 16% in 2007), oil exports accounted for 40% of the federal government budget in 2007, making the country still heavily dependent on oil. Tax revenues are low, at 10.5% of GDP in 2006. Fiscal reform enacted by President Calderon increased this figure to 12.5% of GDP in 2007. Additionally, Mexico enjoys a large and steady flow of FDI (US\$19 billion, 2005) and worker remittances (US\$25 billion, 2006).

Mexico's Competitiveness

According to the 2007-2008 Global Competitiveness Report (GCR), Mexico obtained a ranking of 52 out of 131 countries (Exhibits 4 & 5), positioning the country in second place in Latin America after Chile. Uneven performance over the various pillars is observed. Macroeconomic management and the size of the market obtain strong marks, creating conditions for rapid growth. Similarly, Mexico has relative good scores on health and primary education enrollment, goods market efficiency, and selected components of technological readiness such as FDI and technological transfers, which may reflect the links of the Mexican market to the United States in the context of NAFTA. Additionally, Mexico receives strong marks in terms of low restriction on capital flows, high prevalence of foreign ownership, and strength of investor protection.

However, Mexico lags other countries in several important areas. Efficiency in the labor market is a significant constraint for business. Firing costs are in average 74 weeks of salary, giving Mexico a GCR ranking of 95 in this area. Non-wage labor costs such as high payroll taxes and social security contributions discourage job creation in the formal sector (GCR rank: 92). Other constraints are inflexibility in the wage determination and poor union/employer relations.

According to the IMCO,⁴ about 60 percent of the total workforce is in the informal sector, a situation that diminishes productivity and tax collection.

Quality of education in Mexico is low. Mexico has a GCR ranking of 95 in terms of quality of primary education, 92 in terms of quality of the overall educational systems, and an alarming 113 in terms of the quality of math and science education meaning strong technical skills are not being developed among Mexican students.

In terms of institutions, Mexico also performs poorly. Mexico operates within a culture of bureaucracy and corruption. Property rights are weak (GCR rank: 77), regulation is burdensome (GCR rank: 112), and the legal framework is inefficient (GCR rank: 96).

Mexico is perceived as a dangerous place. The three lowest scores for Mexico according to the 2007-2008 Global Competitiveness Report are organized crime (120 out of 131), reliability of police services (119), and business costs of crime and violence (119). Crime escalated during the second half of the 1990's, exacerbated by the economic crisis of 1995 and by pervasive corruption and criminality in law-enforcement institutions (EIU). Theft of merchandise and assaults on staff are among the main security concerns of businesses operating in Mexico (EIU). The judiciary and municipal police are often corrupt, making the arrest and prosecution of criminals more difficult. Large firms allocate about 10 percent of their total expenses to security costs.⁵ A worrying trend has been a sharp increase in drug abuse in recent years.

Similarly, infrastructure represents another challenge. The GCR ranks Mexico 69 in terms of quality of overall infrastructure. Maintenance, upgrading and expansion of the existing infrastructure are required.

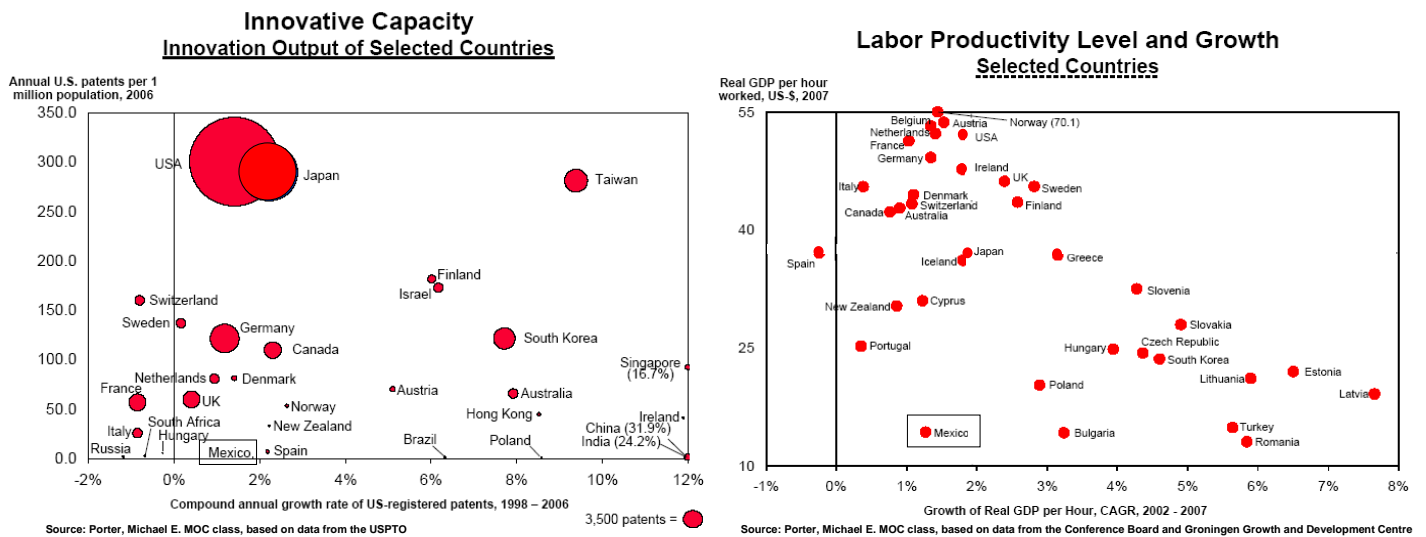
Monopolies and lack of competition also harm Mexico. The country ranks 87 in terms of extent of market dominance and 77 in terms of effectiveness of anti-monopoly policy. Policy

⁴ <http://www.imco.org.mx/puntodeinflexion/punto.htm>

⁵ Ibid.

efforts seem to be encouraging structural reforms to regulate monopolistic practices to increase competition and reduce costs in telecommunications, power generation and distribution, water supply, and railways.⁶

Mexico also lacks from low productivity and innovation capabilities. The GCR ranks Mexico 71 in term of innovation. From 2005-2007, the average number of annual patents for the whole country was just 67.⁷ Labor productivity growth averaged just 0.7% from 1995 until 2007.⁸ While Mexico boasts one of the highest hours worked per employee in the world (2,150 hours per year), in terms of labor productivity (GDP/hour) Mexico has a low figure of US\$14.2.⁹



Mexico also lags in socioeconomic indicators (Exhibits 1, 2, 4, and 5). 24% of the population lives below the poverty line. In 2005, the national infant mortality rate was 27 per 1000 (compared to 7 in the 23 most developed countries), and only 24 percent of school-aged children actually attend high school. Inequality in incomes is an important issue in Mexico, as 40 per cent of the population has an average income 13 times less than the richest 10 per cent. According to

⁶ Plan Nacional de Desarrollo 2007-2012, Presidencia de la República. <http://pnd.presidencia.gob.mx/>

⁷ US Patent Office.

⁸ The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008

⁹ Ibid.

official estimates, 40% of the population is poor and 18% is considered to live in extreme poverty.¹⁰

Mexico's national competitiveness diamond

Factor Conditions	Context for Rivalry	Demand Conditions	Related and Supporting Industries
<ul style="list-style-type: none"> ⊕ Wages <ul style="list-style-type: none"> • Low real wages • Good labor – employer relations ⊕ Natural resources <ul style="list-style-type: none"> • 5th country with most petroleum production (2006) • Sun & beach, ecotourism, cultural heritage, vegetation ⊕ Universities <ul style="list-style-type: none"> • High quality of management schools • Good internationally competitive universities (Tec de Monterrey, UNAM, Ibero, etc) ⊖ Education public system <ul style="list-style-type: none"> • Overall low quality and outdated teaching in public primary schools • Old and bad school infrastructure ⊖ Government and legal system <ul style="list-style-type: none"> • Inefficient government, high levels of bureaucracy and corruption ⊖ Organized crime main competitive disadvantage of doing business in Mexico <ul style="list-style-type: none"> • Mexico ranks 120/137 in organized crime and 119/137 on both reliability of police services and cost of crime in doing business ⊖ Infrastructure <ul style="list-style-type: none"> • Low quality of infrastructure • High electricity and gas costs • High communication costs 	<ul style="list-style-type: none"> ⊕ Foreign ownership <ul style="list-style-type: none"> • Low restriction on foreign ownership attracts foreign players ⊕ Low tariffs increase competition from imports ⊕ NAFTA and other treaties <ul style="list-style-type: none"> • NAFTA allows for US and Canadian imports • "Puebla – Panamá" seeks to better integrate Mexico with Central America • Free trade agreements with 40 nations ⊕ No restrictions on foreign exchange, capital flows, or profit repatriations ⊕ Relatively few procedures to start a business, relatively fast to start a business ⊖ Weak IP protection ⊖ Protection of minority shareholder rights ⊖ Deficient anti-trust laws <ul style="list-style-type: none"> • Low rank in anti-monopoly policies and national competition • Historically protected monopolies in telecom, oil, gas, water, electricity, sugar • Weak enforcement of anti-trust laws 	<ul style="list-style-type: none"> ⊕ Large and sophisticated foreign markets to export to <ul style="list-style-type: none"> • NAFTA • Free trade agreements with 40 nations ⊕ Large domestic market <ul style="list-style-type: none"> • Population of 105 million (however, small middle class) • Young population demographics • GDP of US\$886 billion in 2007 ⊕ Increased consumer credit stimulates internal demand ⊕ Mexico exports its own values and tastes to the US and Central America <ul style="list-style-type: none"> • Large US hispanic population • Geographic proximity to both areas ⊖ Reliance on US <ul style="list-style-type: none"> • Mexico greatly depends on US for both imports and exports ⊖ Mexico imports US values and tastes <ul style="list-style-type: none"> • American brands and culture prominent in Mexico ⊖ Although large consumer market, 24% of people living below the national poverty line 	<ul style="list-style-type: none"> ⊕ Debt capital markets <ul style="list-style-type: none"> • Sophisticated public debt market • Pension system reform deepened the availability and sophistication of capital markets ⊕ Local suppliers quality ⊖ Local suppliers quantity ⊖ Equity capital markets need to be strengthened <ul style="list-style-type: none"> • Low venture capital / private equity availability • Low number of IPOs ⊖ Banking Sector <ul style="list-style-type: none"> • 88% of banking assets owned by foreign interests, allowing for best foreign practices in the sector, but also exposing Mexico to business cycles in other countries • Difficult for small and medium enterprises to obtain loans ⊖ Capacity for innovation <ul style="list-style-type: none"> • Mexico ranks low in R&D spend & quality; also low in quality of scientific institutions as well as number of patents ⊖ Air travel <ul style="list-style-type: none"> • Poor and outdated overall quality of transportation infrastructure

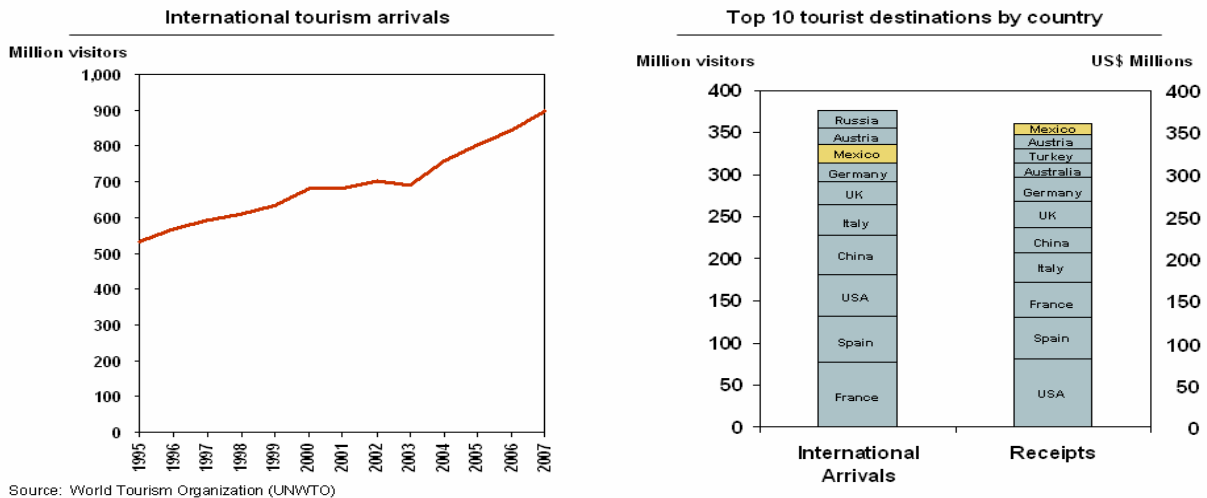
Source: The Global Competitiveness Report, Wikipedia; Tornell, Weteman, Martinez, *NAFTA and Mexico's less-than-stellar performance*, January 2004; Interview with Bolsa Mexicana de Valores

These elements are reflected in the national diamond. Inefficiencies in government, low quality of education, infrastructure, and crime are constraining factor conditions. Advantages in the context for rivalry are weakened by a poor legal framework and weak law enforcement. Demand conditions have been improved due to macroeconomic stability and Mexico's FTAs, however, high dependence to the US business cycle is definitely a potential risk. Supporting industries also need to be developed more, especially those which play an important role in financing projects and improving Mexico's capacity of innovation.

¹⁰ <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/MEXICOEXTN/>

Mexican Tourism Industry Overview

The international tourism industry has grown considerably over the last few years, increasing from 691 million international tourists in 2002 to 898 million in 2007,¹¹ representing a CAGR of 7%. Europe receives 54% of all international tourists, while Asia receives 20% and the Americas 16%. With 21.4 million international tourists in 2007, Mexico is the eighth largest tourist destination in the world in terms of number of international arrivals, and the second largest in the Americas, after the US.¹² When measured in terms of international tourism receipts, Mexico is the eleventh most important destination in the world and the second largest in the Americas, after the US.



Tourism currently and historically has represented around 8% of Mexico's GDP, and it is the third largest source of foreign exchange earnings after oil and foreign remittances.¹³ In 2007, 92.2 million international visitors entered Mexican soil; 70.8 million were same-day visitors, while 21.4 million were international tourists (those who spend at least one night in Mexico).¹⁴ The economic implications of these two groups are very different. While same-day visitors spend on average US\$35 per trip, full-time tourists tend to spend US\$485 per trip. International tourists can be

¹¹ World Tourism Organization.

¹² Ibid.

¹³ Banco de Mexico.

¹⁴ Secretaria de Turismo. Turismo de Internacion – Visitantes Internacionales Hacia Mexico.

categorized into two different groups, full-time tourists and border zone tourists (those who stay within the border influence area). In 2007, there were 13.0 million full-time international tourists in Mexico, each spending \$751 per trip, while the 8.4 million border zone tourists spent on average \$74 per trip (for a combined total of \$485).¹⁵ As such, full-time tourists are the most important segment of all international visitors, as they generate 76% of tourism income in Mexico, while representing only 14% of the total number of visitors.

2007	Number of people (000's)	Total expenditures (US\$mm)	Average expenditure per trip (US\$)
Total visitors	92,233	12,901	140
Tourists	21,424	10,389	485
Within border zone	8,414	624	74
Full-time tourist	13,010	9,766	751
Same-day visitors	70,810	2,512	35
Within border zone	63,995	2,024	32
Cruise ships	6,815	488	72

Source: Secretaria de Turismo.

While 61% of international full-time tourists visit Mexico for leisure, 27% do so to visit family; 6% are business travelers, 4% go to Mexico to visit friends, and 2% do so for other reasons.¹⁶ The most important destinations in Mexico for international tourists are Cancun and Cozumel (22%), Guadalajara (7%), Los Cabos (7%), Puerto Vallarta (6%), Mexico City (5%), Acapulco (4%), Monterrey (3%), and Mazatlan (2%).¹⁷ Mexico's proximity to the US is reflected in the fact that 68% of all international full-time tourists in Mexico arrive from the US, followed by Canada (5%), the UK (2%), and Spain (2%).¹⁸

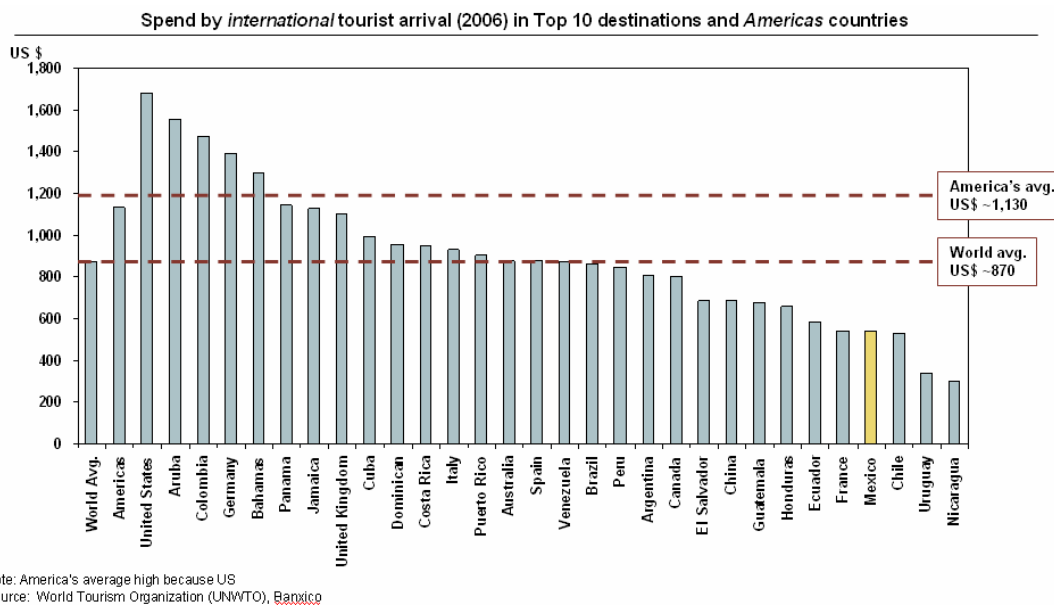
According to Mexico's Tourism Ministry, 59% of full-time international tourists in Mexico stay in the country between six and ten days, while 19% spend less than five days in the country, 10% of them stay between 11 and 15 days, and 12% spend more than 15 days in Mexico. 80% of them arrive by air, while 20% arrive by car. In terms of travel preferences, 63% choose to travel independently while 37% prefer to utilize a tour operator.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.



When comparing the average expenditure per trip of tourists in Mexico vis-à-vis competing tourism destinations in the region, it can be observed that Mexico underperforms its peers. There are several reasons for this. First, Mexico caters to a less sophisticated clientele than other destinations in the region. Mexico attracts a large number of budget travelers and ‘spring breakers,’ who tend to be more frugal than more sophisticated travelers. Also, due to the proximity of Mexico to the US, many travelers can take shorter vacations, as it is actually possible to take weekend getaways and short trips. In comparison, when travelers decide to visit places like Jamaica, Aruba, Bahamas, Panama, or Costa Rica, they tend to stay longer as the destination is far away from home and hence it is less likely that tourists will take a two-day vacation to one of these spots.

The 2008 Travel and Tourism Competitiveness Index ranks Mexico 55 out of 130 countries. Mexico ranks highly in terms of its natural and cultural resources, as well as in prioritizing travel and tourism. However, Mexico ranks especially low in safety and security, as well as in affinity for tourism, environmental sustainability, price competitiveness, and ground transportation infrastructure. Mexico performs particularly well in terms of number of World Heritage cultural sites (rank: 6), total know species (8), number of World Heritage natural sites (15), available seat

kilometers (18), and openness of bilateral air service agreements (21). On the other hand, the country is deficient in threatened species (126), ticket taxes and airport charges (124), quality of the natural environment (122), business costs of crime and violence (119), and reliability of police services (118). As this analysis reveals, while Mexico enjoys great endowments that foster tourism, such as a vast number of natural and cultural sites, it also suffers greatly due to crime and lack of safety. In fact, when comparing Mexico with some of its peers, safety and security are the main reason why Mexico ranks below its peers.

Travel & Tourism Competitiveness Index - Mexico

	2008 Rank (out of 130)	Score (out of 7)	2007 Rank (out of 124)	07-08 Change
Index	55	4.2	49	(6)
T&T regulatory framework	71	4.3	48	(23)
Policy rules and regulations	49	4.6	33	(16)
Environmental sustainability	85	4.2	47	(38)
Safety and security	122	3.6	104	(18)
Health and hygiene	79	4.2	49	(30)
Prioritization of Travel & Tourism	31	4.9	29	(2)
T&T business environment and infrastructure	61	3.6	57	(4)
Air transport infrastructure	42	3.8	32	(10)
Ground transport infrastructure	82	3.3	62	(20)
Tourism infrastructure	49	4.0	47	(2)
ICT infrastructure	64	2.7	60	(4)
Price competitiveness in the T&T industry	83	4.4	85	2
T&T human, cultural, and natural resources	19	4.6	50	31
Human resources	52	5.0	50	(2)
Education and training	64	4.7	61	(3)
Availability of qualified labor	42	5.4	63	21
Affinity for Travel & Tourism	86	4.6	NA	NA
Natural resources	25	4.4	29	4
Cultural resources	25	4.4	29	4

Source: The Travel & Tourism Competitiveness Report 2008

Travel & Tourism Competitiveness Index – Mexico vis-avis peers

	Index	Regulatory framework	Business environment and infrastructure	Human, cultural, and natural resources
Mexico	55	71	61	19
Argentina	58	65	64	27
Barbados	29	16	32	46
Brazil	49	84	67	6
Colombia	71	95	83	38
Costa Rica	44	48	56	24
Dominican Republic	63	54	63	67
Jamaica	57	51	48	66
Panama	50	52	47	47
Puerto Rico	46	40	40	80
Trinidad & Tobago	74	87	50	104
United States	7	49	1	2
Peer average	50	58	50	46

Source: The Travel & Tourism Competitiveness Report 2008

The Baja California Sur Tourism Cluster

Baja California Sur (BCS) is located in the Northwestern part of the Mexican territory. It is the bottom half of the Baja Peninsula expanding 73,475 square kilometers (28,369 square miles), or 3.6% of the land mass of Mexico. The state has more than 1,200 kilometers of coast line. It has the lowest population density of any state in Mexico with only 512,170 total inhabitants. BCS is composed of 5 municipalities: Mulegué, Loreto, Comondú, La Paz, and Los Cabos, with the Los Cabos Tourism Corridor being the most important zone.

Throughout its history, BCS' GDP distribution has maintained relatively stable. In 2006, its GDP was US\$5.2 billion, with most proceeds coming from tourism related sectors. From 2000 to 2006, BCS' economy grew at an annual rate of 3.9%, higher than the national average. The unemployment rate of 2.1% is the fifth lowest in Mexico (INEGI). When compared against other regions in Mexico, one can see that apart from the low population density and low share of national GDP (0.6%), BCS boasts a higher income per capita than the national average (ninth highest in Mexico) boasted by international tourism. (Exhibit 5).

BCS is one of the main tourist destinations in Mexico, both for foreigners and for Mexican nationals. In 2006, BCS received 1.8 million tourists, of which 0.7 million tourists were Mexican nationals while 1.1 million were foreigners. In 2006, BCS ranked 6th out of 32 Mexican states in GDP arising from the hotel & motel industry, and it ranked 18th out of 32 in GDP from restaurant proceeds (INEGI).

Early Development of the Cluster¹⁹

The area was first visited by Hernan Cortes himself in 1535. It was missionary zeal that first brought European civilization to San Jose. Years later it became a provision stop for pirates in the area. In 1730, a Jesuit mission was built to indoctrinate the Percu Indians of the region and

¹⁹ BCS tourism history pieced together from several sources (see *References*).

European traditions and customs were brought to the area. In the nineteenth century, San Jose slowly evolved into a modest commerce center for passing ships.

After World War II, a handful of sportsmen pilots discovered 500-pound marlins in the Sea of Cortez and lit the fuse of a big tourist explosion in the area. They flew down to hunt dove and to wrestle fighting fish out of the sea. They built simple fishing and hunting lodges along the Baja coast that are the forefathers of the grand resorts today. These early hostelries were small, but some had their own airstrips.

In 1948, the first signs of organized tourism emerged in Baja California Sur when the region's first resort at La Paz was built by a group of wealthy American actors, among them John Wayne and Bing Crosby. Soon thereafter, in 1973, the Trans-Peninsular Highway was finished, a 1,700 kilometer (1,060 mile) highway which was the first paved road that extended over the entire Baja California peninsula. It was built by the Mexican government to enhance tourism and the economy in the peninsula. As this highway practically started in San Diego, it eased access to the peninsular to Southern California surfers, campers, and RV enthusiasts. Word soon got out that Los Cabos – more than 1,000 miles from Hollywood – was the ultimate celebrity hideout, attracting even more yachts and fishing boats.

It was only in 1976 that FONATUR, the Ministry of Tourism's development branch, pushed for the development of its third large tourist destination in Mexico: Los Cabos. It laid out a master plan of the area, including San José del Cabo, Cabo San Lucas, and the Los Cabos Corridor, and determined what each piece of land was to be used for: marina, hotels, shopping center, golf courses, etc. Streets were paved and desert dunes turned into green fairways creating some of the most challenging and expensive golf courses in Mexico.²⁰ Los Cabos began with 10 hotels offering 544 rooms. Many of these properties fell into the super luxury category. In 1986, Los Cabos International Airport, then government owned, expanded to accommodate more flights. Sammy

²⁰ www.zonaturistica.com, MOC Team Analysis

Hagar from Van Halen opened Cabo Wabo Cantina, the most popular nightclub in BCS with an international reputation. Meanwhile, over 3,000 private residences were built for foreign vacationers and retirees. Because of its geographic separation from the rest of Mexico and its closeness to the US, Los Cabos developed closer ties with US visitors than with Mexican visitors.

Tourism in Baja California Sur

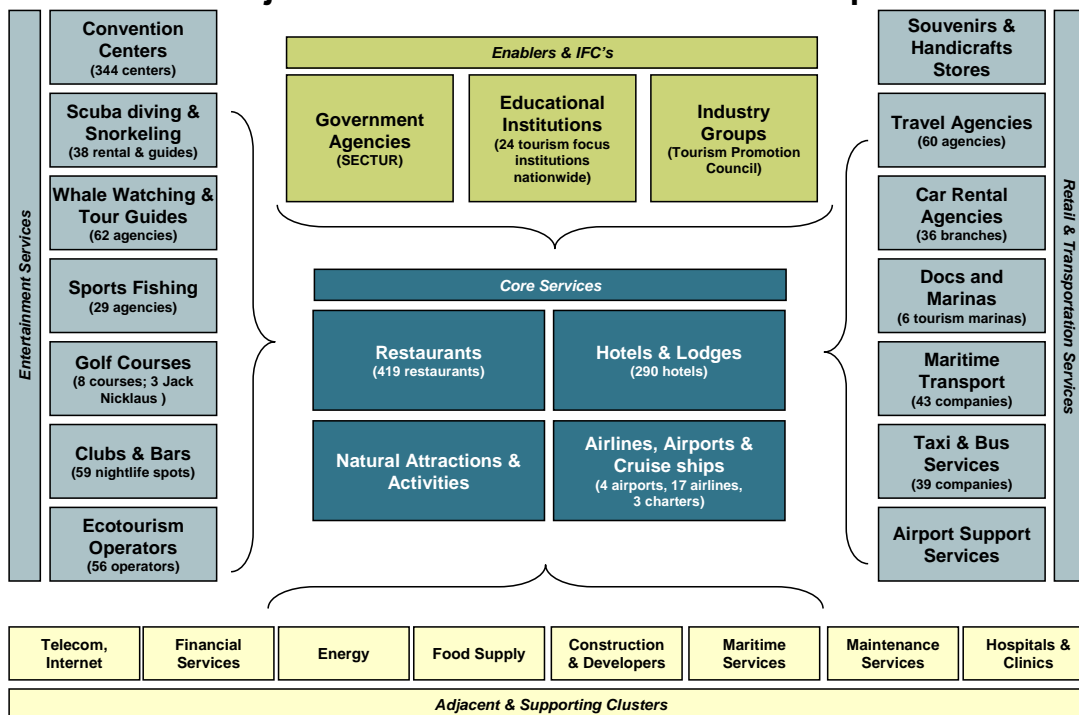
The Ministry of Tourism has actively pursued a 5-star tourism development in Los Cabos. Today, there are 4 airports in the state, with the most active one being the International Airport in San Jose del Cabo, located minutes from San José del Cabo. In order to make it easier for private jet owners to fly to BCS, a new private jet airport recently opened just outside of Cabo San Lucas.²¹ Each airport is located on each side of the Cabo Corridor. There has also been a strong restaurant development, although high class restaurant offerings are not as prominent as in other tourism destinations.

The cluster has developed the necessary services to aide tourists in exploring BCS' natural wonders. There are 62 whale watching and tour guide agencies, 56 ecotourism operators, and 38 scuba diving and snorkeling rental agencies. The cluster also has a well developed line of other supporting services like docks and marinas, souvenir stores, taxis and bus services, among others.²²

²¹ <http://caboairport.caboconnections.com/>

²² Baja California Government www.bcs.gob.mx

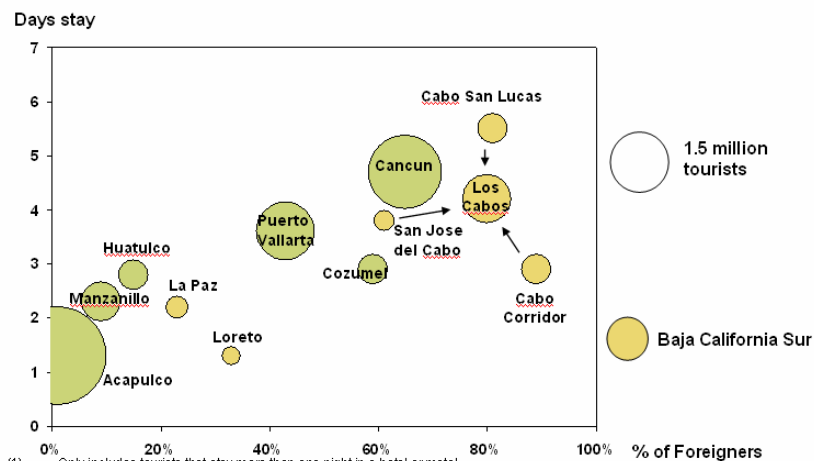
Baja California Sur Tourism Cluster Map



Source: MOC Team Analysis

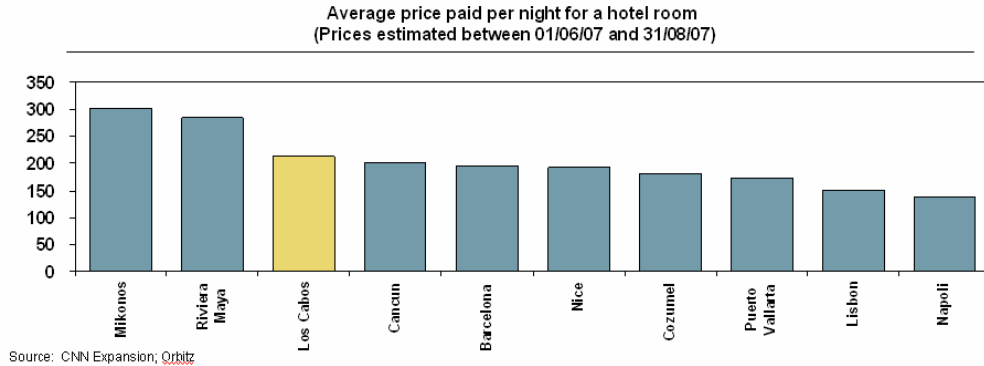
Los Cabos alone received 1.07 million tourist visits in 2006. Contrary to other main tourism destinations in Mexico, 80% of visitors to Los Cabos are non-Mexicans. This, in turn, has led to longer average stays. Given BCS' isolation from Mexican mainland, it is not easily accessible by car from most of Mexico, reducing the possibility of weekend driving trips to the area. In addition, BCS' closeness to the US and good airline connections to US cities, has led to 91% of foreign visitors to Los Cabos to be US nationals.

Comparison between % of foreign tourists vs days stayed by tourist destination (2006)



(1) Only includes tourists that stay more than one night in a hotel or motel
 Note: "Los Cabos" includes San José del Cabo, Cabo San Lucas and Cabo Corridor
 Source: INEGI, MOC Team Analysis

When compared to its international competitors, Los Cabos, at USD \$212 in average hotel cost per night, ranks above Nice, Barcelona, and Puerto Vallarta. In this measure, Los Cabos ranks second in Mexico being only surpassed by the Mayan Riviera.



This price high point is backed up by hotel infrastructure. The Los Cabos Corridor is the only mayor destination in Mexico with 100%²³ room offerings being 5-star, followed by the Mayan Riviera (72%) and Cancun (71%). Overall, Los Cabos offers 69% of their rooms as 5-star rated (INEGI). Other tourist destinations offer a lower percentage of 5-star hotels.²⁴

The Baja California Sur Tourism Cluster Diamond Analysis

Factor Conditions

The weather in BCS is a main driver attracting tourists from around the world. BCS holds prime weather conditions for a beach destination: only 10 inches of rain per year, 325 days of sunshine per year, and an average temperature of 78°F / 25°C. The water temperature is sometimes on the cold side for swimming (average sea water 72°F / 21°C),²⁵ but most hotels have their own pools.

BCS is a natural wonder. It has beautiful sandy beaches, blue seas, vivid landscapes, and the famous Arch, a stone formation that is one of the area's main attractions. BCS has 244 islands and

²³ The Los Cabos Corridor houses 38 luxury hotels

²⁴ % of hotel room offerings that are 5-star: Cozumel 35%; Loreto 33%; Puerto Vallarta; 27%; La Paz 15%

²⁵ www.visitcabo.com, www.loscabosguide.com

the famous El Vizcaino Biosphere that has been declared a World Heritage by UNESCO. El Vizcaino is a 2.5 million hectare area, the largest protected area in Mexico and one of the largest in Latin America. Another main attraction is the Sea of Cortez, a natural whale breeding area which holds hundreds of species of plants and animals, some of them in danger of extinction.²⁶

All these natural wonders are supported by a number of services and activities that make it possible for tourists to enjoy them. Tourists can enjoy aquatic sports like fishing, sailing, and whale watching, as well as other more extreme sports like plane & helicopters riding, off-road motor vehicles, and yacht rentals. Some 5-star hotels themselves offer these rentals to their customers. Golf is also enjoyed by many visitors to BCS, as the state holds 9 golf courses in total, with the Los Cabos Corridor holding 8 of them (3 of those being Jack Nicklaus signature golf courses). Some of these golf courses are owned by hotel complexes.²⁷

Although few world renowned hotel names are present in Los Cabos, most of them are 5-star luxury hotels, where service works as a competitive advantage since it is frequently rated as impeccable. The low-waged, high quality service staff in BCS, combined with the marvelous natural resources, hotel and activities offerings, have given BCS its well-deserved reputation as a high quality, relaxing tourism destination spot.

Air traffic represents 85% of all tourism traffic into the area.²⁸ Access to the busiest San José del Cabo airport is quite easy, and it is just a 15 minute taxi ride away from San José del Cabo. Six Mexican airlines and eleven international airlines serve the airport, as well as three additional charter airlines.²⁹ This has created easy connections to many of Mexico's largest cities as well as to several US cities. On the negative side, the airport needs a renovation in order to serve its 5-star tourists better. Checking in and security procedures can be take a long time and can be quite tedious. Like the airport, and despite government efforts in the early 1980's, infrastructure in

²⁶ www.visitcabo.com, www.loscabosguide.com

²⁷ www.golfvisitoloscabos.com, www.bajacaliforniagolf.com

²⁸ caboairport.caboconnections.com

²⁹ www.bcs.gob.mx

general tends to be old and outdated. BCS ranks 30th out of 32 Mexican states in kilometers of roads per kilometer of land.³⁰

Safety and security are also a concern for international tourists. Contrary to Mexico's main land and border cities (especially in Baja California, BCS's Northern state neighbor), BCS is a remarkably safe state, with low crime rates with zero murders in the last three years, the lowest anywhere in Mexico. Unfortunately for BCS, tourism is negatively impacted due to the reputation spillover effect of Mexico's terrible crime situation, and the easy confusion between Baja California Sur and organized crime infested Baja California.

Firm Strategy, Structure, and Rivalry

Competition in BCS is abundant. There are many hotels (290) and restaurants (419), as well as many supporting activities and services for this industry (see cluster map above).³¹ A main issue for many investors is the fact that foreigners cannot own land in restricted zones. The restricted zones encompass all land located within 100 kilometers (about 62 miles) of any Mexican border, and within 50 kilometers (about 31 miles) of any Mexican coastline. However, this is not really a problem as there is a legal way around it: in restricted zones, foreigners need to form a *fideicomiso*, or partnership, with a bank or a Mexican national and have the partner act on their behalf on paperwork and contracts.³² Inefficient bureaucracy and lengthy wait times for permits sometimes favor corruption. This is not unique to BCS, as it is present throughout Mexico.

³⁰ www.bcs.gob.mx

³¹ www.bcs.gob.mx, MOC Team Analysis

³² <http://www.loscabosguide.com/realestate/fideicomiso.htm>

Demand Conditions

BCS' geographical closeness to the USA makes it an idea vacation spot for some Americans. Historically, Los Cabos has been one of American and Mexican A-list celebrities, businessmen, and politicians' favorite destination "get-away" spots. It caters to a very sophisticated and elite clientele which allows the cluster to develop expertise and competitiveness and permits it to stay ahead of other competing destinations. 80% of tourists to Los Cabos stay in 5-star hotels (INEGI). So, in fact, the demand for 5-star hotels is higher in percentage terms than the supply (see above for room supply data).

The tourism industry in all Baja California is heavily dependent on the USA. Tourism was hard hit after the September 11th attacks in 2001. Foreigner occupancy rates in Los Cabos dropped to 9% in 2002, but in 2006, increased to 46% (INEGI). In 2007, the US instituted a new policy requiring all US citizens visiting Mexico to have a US passport, as opposed to being able to return to the US with just a driver's license. This will negatively impact the number of tourists in BCS, but due to the sophistication of the clientele, the effect will be much smaller than in other tourist destinations in Mexico.

Related & Supporting Industries

Although most industries that support the cluster are present, some are better developed and more competitive than others. Top quality health clinics and hospitals, like AmeriMed, are aimed to serve sophisticated tourists in the area. These hospitals and clinics offer medical treatment and accommodations that would resemble those offered in developed countries.³³ Closeness to the USA might lead to an opportunity, as this supporting industry could show potential for medical tourism, especially given the fact that for regular procedures, the cost could be up to 50% lower in

³³ www.amerimed-hospitals.com/

Mexico.³⁴ The cost of more complicated procedures could be reduced by as much as 80% (Expansion).

Construction and development is also an industry that is present and well developed. Mexican construction giants and local firms have developed projects in the area. Although prices may vary, these companies are usually accessible to anyone wanting to build in BCS.

Even though BCS has a reputation for being a high quality get-away spot for A-list celebrities and high profile individuals, night life spots lack the sophistication that other beach destinations worldwide have. There are only 59 “night life”-labeled spots in the whole state;³⁵ this includes bars, cantinas, and discotheques. These night-life spots are mostly dirty, old, and do not cater to the 5-star clientele that visits the state, especially in Los Cabos. Although tourists in Los Cabos do not necessarily require many night clubs, the lack of a sophisticated night club / bar offering could create a competitive disadvantage for the cluster.

Another negative aspect is the prevalence of quasi-monopolies in Mexico’s business society. The presence of these dominating firms has sometimes lowered quality but, most importantly, has kept high prices for inputs. (i.e. telecommunications and cement). Also, given the lack of competition, telecom and internet services in BCS are not to the highest standards. In some areas, including luxury hotels, there is poor or no cell phone reception. BCS ranks 31st out of 32 states in Mexico in number telephone lines per 100 inhabitants.³⁶

The Role of the Government and Institutions for Collaboration

The Ministry of Tourism has played a vital role in the development of BCS’ tourism cluster. When it was needed, the Ministry coordinated with the necessary parties to invest in growing the airport, to create the inter-peninsular highway, and to improve local infrastructure. The Ministry of Tourism continues to be a main driver of this cluster as it coordinates tourism and country

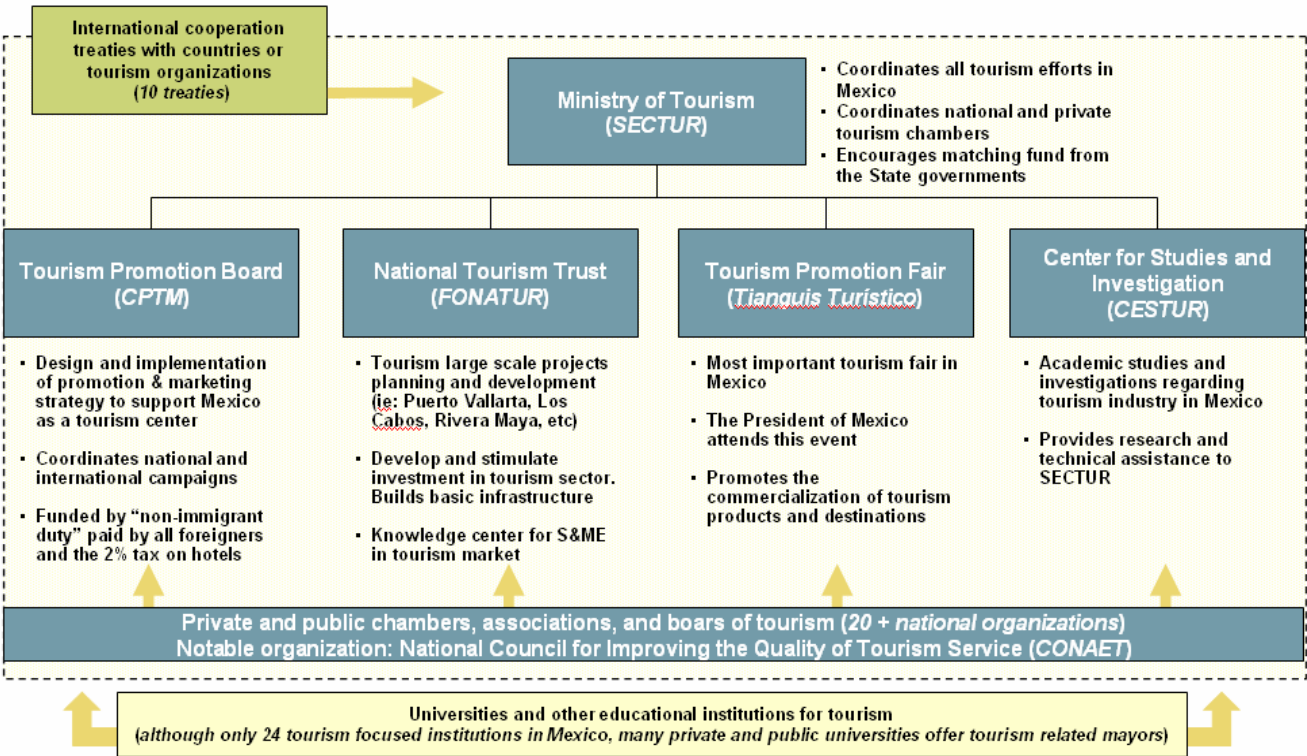
³⁴ www.amerimed-hospitals.com

³⁵ www.bcs.gob.mx

³⁶ www.bcs.gob.mx

promotion and advertising, research and development, and industry chambers, associations, and tourism boards. All local government tourism agencies fall under the Ministry of Tourism’s supervision. After the airport’s privatization in 1998,³⁷ the airport has not expanded accordingly with the industry’s growth. There is currently a lack of communication and coordination between the Ministry of Tourism and the recently privatized *Grupo Aeroportuario del Pacífico*, the main airport’s holding company.

A noteworthy organization that the Ministry of Tourism coordinates is the National Council for Improving the Quality of Tourism Service (CONAET), a non-profit organization founded in 2002 by public and private tourism alliances, including universities, tourism related programs, tourism associations, non-profit foundations, and the Ministry of Tourism, in order to increase the quality of tourism education in Mexico through program certification and training. Since its inception, it has certified 24 programs in different universities throughout Mexico (CONAET).



Source: OECD Mexico Tourism Study, *Sectur*, *Fonatur*, *CPTM*, *Tianquis Turístico*.

³⁷ <http://www.aeropuertosgap.com.mx>

Opportunities

Mexico has unique conditions to continue expanding its tourism sector given its rich natural endowment, biodiversity, weather, and closeness to the United States. Los Cabos Corridor and BCS have a tremendous opportunity for future expansion. Given its geographical proximity to the US, the region has been successful in attracting a large number of tourists from the US. The following could be important opportunities for the BCS tourism cluster:

Second-home ownership trends in the US: According to the US Census Bureau, the number of households currently owning a second home is 6.4 million. By 2010, it is expected that 10 million households will have second homes. A substantial part of those second houses are used as cottages or vacation homes.

Medical tourism: This is becoming highly popular in the US given the rising cost of healthcare. Los Cabos Corridor will require upgrading its current medical base and hospital infrastructure but due to its closeness to the US and its excellent reputation and weather, this could become an important growth opportunity for the cluster.

Retirement communities for Americans: According to the AARP,³⁸ it is expected that in 2010 there will be 39 million Americans aged 65 years or older, and this figure is expected to increase to 63 million by 2020. Retired seniors could value living in a retirement community that is cheaper than alternatives in the US, has excellent weather, is an attractive destination for visitors, and is close to the US.

Target European tourists: The current strength of the Euro presents an opportunity to market BCS to Europeans.

³⁸ American Association of Retired Person. "A Profile of Older Americans," 1999.

National Recommendations

► Improve the perception of public safety and security

Security and safety are some of the most important elements taken into account when deciding to travel abroad. In general, tourism centers are safer than other cities. The current fight against drug cartels in Mexico has given the impression that crime is on the rise as the number of murders among members of drug cartels has increased and become national headlines. With better information, visitors would be able to differentiate between different regions in Mexico. Mexico should work closely with the US Department of State to narrow the scope of travel warrants to ensure that those warrants are limited to specific regions where dangerous conditions exist. *(High priority/easy implementation)*

The police force in special tourism centers should be better trained and its presence strengthened. A stronger and larger police force will generate positive word-of-mouth with respect to security. *(Medium priority/medium implementation)*

► Tackle corruption at all levels

Mexico should create an anti-corruption agency with significant power and independence from political parties and government branches. This has proven effective in other countries. In order for this to work, it is crucial to reform the judicial system to improve enforcement and make it less corrupt. *(High priority/difficult implementation)*

► Modify the labor legal regime to grant a more flexible labor market

According to the 2008 GCR, labor market efficiency is a huge disadvantage for Mexico (rank 92). Restrictive labor regulations are one of the main constraints to the business environment according to the latest Doing Business Report. High severance payment, rigid workweeks, and legal uncertainties, together with the prevalence of powerful unions in the main industries, increase the cost of labor workforce in Mexico. Labor laws and regulations should be relaxed and made more flexible. *(High priority/difficult implementation)*

► Improve levels of business competition and strengthen anti-monopoly laws

Regulatory agencies should be granted more autonomy and the competition legal framework should be strengthened. Mexico has high levels of concentration in most of its industries (cement, telecoms, electricity, etc.) It is crucial to ensure equal conditions for all competitors in order to reduce the cost of inputs. Higher competition will increase the attractiveness of the country to foreign investors and will detonate the expansion of current clusters and expand the scope of those existing already. Higher competition will also make exports more competitive. *(High priority/difficult implementation)*

Cluster Recommendations

► Increase marketing of the cluster

Increase the effort toward marketing Los Cabos Corridor as an exclusive destination. The Tourism Board should devote more resources toward an aggressive and specific marketing campaign. In the past, the national government has attracted international events like the Ministerial Meeting for APEC. The attraction of high-status events will benefit the cluster's image. *(High priority/easy implementation)*

Los Cabos should be continually portrayed as luxury destination. A possible coordinated effort would be to attract the PGA tour, the Rolex Fishing Championship, or the America's Cup (a sailing competition). *(Medium priority/medium implementation)*

Currently, BCS has been targeting Americans, mainly because of its closeness to the US. In order to "hedge" against the US' business and economic cycles and to take advantage of the strength of other currencies, BCS could target Europeans, Middle Easterners, or Asians. *(Medium priority/easy implementation)*

► Increase the availability of world class hotel names and restaurants in the region

Even when all hotels in Los Cabos Corridor are 5-star destinations, a very small number of well-known luxury hotel chains operate in the area (Ritz, Fairmont, Four Seasons, are not in the

area, to name a few). A coordinated effort to attract some of those chains will increase Los Cabos' awareness as a luxury destination and will attract higher-value visitors. *(High priority/medium implementation)*

To improve the restaurant offering, a world wide gastronomic summit held in Locos could help. By launching an international culinary competition, the region could attract branches of well known restaurants in other parts of the world. This could be strengthened by establishing a culinary school in the region to direct exchange programs with top schools and restaurants. *(Medium priority/easy implementation)*

► Improve the quality of infrastructure associated with tourism

Upgrade infrastructure (airport, highways, ports, etc) in order to respond to increasing and more sophisticated international visitors. Coordinate actions between local government and private companies to ready the infrastructure for a sophisticated clientele. *(Medium priority/medium implementation)*

► Continuously improve the local labor force through training to maintain advantage

Like with the restaurant industry, the government could push world renowned hotel training schools to set a small campus in BCS as a training facility for their students. Ideally, an “exchange” or “visiting professor” program could be offered to locals. *(High priority/medium implementation)*

► Support the expansion of other clusters such as retirement communities, second homes, and medical tourism

Efforts should be made with the real estate industry to facilitate paperwork and time required for Americans to acquire second homes in BCS. Efforts should also be coordinated with the Ministry of Health to ensure that hospital infrastructure is up to first world standards—possibly force hospitals and clinics to get certified to US standards—and located near the tourism areas and retirement centers. *(Medium priority/difficult implementation)*

Exhibit 1	2000	2005	2006	2007
People and surface				
Population, total	98.0 million	103.1 million	104.2 million	105.2 million
Population growth (annual %)	1.4	1.0	1.1	1.0
Net migration rate (per 1000)	-4.0	-4.0	-4.0	-4.1
Surface area (million sq. km)	2.0	2.0	2.0	2.0
Economy				
GDP (current US\$ billion)	581.4	767.7	839.2	886.4
GDP growth (annual %)	6.6	2.8	4.8	2.9
GDP per capita (PPP)	9,038	10,626	11,369	11,880
Inflation in consumer prices (average %)	9.5	4.0	3.6	3.9
Agriculture, value added (% of GDP)	4.2	3.8	3.9	na
Industry, value added (% of GDP)	28.0	26.0	26.7	na
Services, etc., value added (% of GDP)	67.8	70.2	69.4	na
Exports of goods and services (% of GDP)	30.9	30.0	31.9	na
Imports of goods and services (% of GDP)	32.9	31.5	33.2	na
Gross capital formation (% of GDP)	23.9	21.8	22.0	na
Unemployment (%)	2.6	3.6	3.6	3.7
Oil exports (million barrels / day)		1.8	1.8	1.7
Innovation				
Patents	76	80	66	55
Labor Productivity Growth (GDP per hour, annual average, percent)	na	0.4	2.8	0.6

Exhibit 2	2000	2005
Health and education		
Poverty headcount ratio at national poverty line (% of population)	24.2	..
Life expectancy at birth, total (years)	74.0	75.4
Mortality rate, under-5 (per 1,000)	30.0	27.0
Education		
Primary completion rate, total (% of relevant age group)	97.0	99.7
School enrollment, secondary (% gross)	71.8	80.2
School enrollment, tertiary (% gross)	19.4	24
Literacy rate, adult total (% of people ages 15 and above)	90.5	91.6
States and markets		
Time required to start a business (days)	..	58
Market capitalization of listed companies (% of GDP)	21.5	31.1
Fixed line and mobile phone subscribers (per 1,000 people)	269.6	649.7
Internet users (per 1,000 people)	51.6	180.6
Roads, paved (% of total roads)	..	50.0
High-technology exports (% of manufactured exports)	22.4	19.6
Global links		
Merchandise trade (% of GDP)	60.0	58.1
Net barter terms of trade (2000 = 100)	100.0	103.2
Foreign direct investment, net inflows (BoP, current US\$ billion)	17.8	18.8
Long-term debt (DOD, current US\$ billion)	131.4	160.6
Net external debt (Current US\$ billion)	39.3	-4.8
Present value of debt (% of GNI)	..	26.1
Workers' remittances and compensation of employees, received (US\$ billion)	7.5	21.9

Source: World Bank, WDI, IMF, Conapo, INEGI, Pemex, US Patent Office, JPM, The Conference Board and Groningen Growth and Development Centre Total Economy Database

Exhibit 3

Source: Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

Exports Portfolio by Cluster, 1997-2005

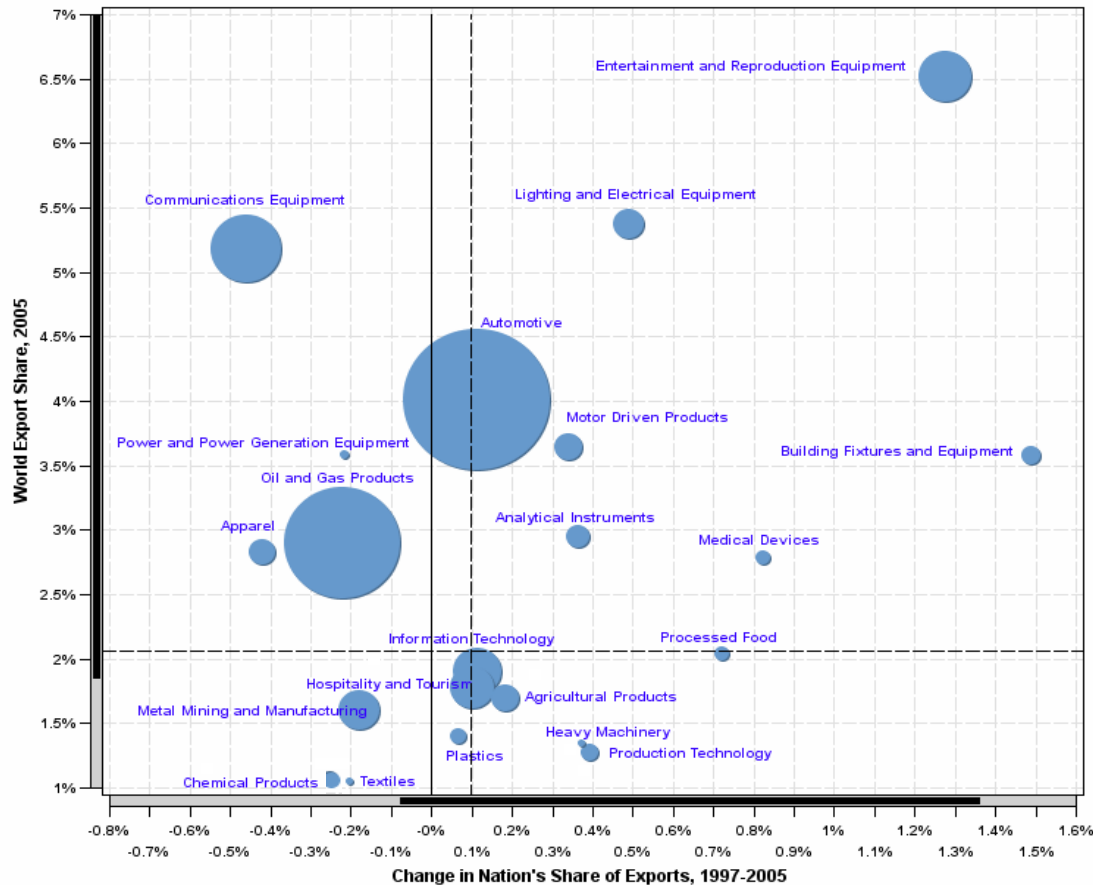


Exhibit 4 (Source: Global Competitiveness Report 2007 – 2008)

NOTABLE COMPETITIVE ADVANTAGES	Rank/131
Domestic market size index (hard data)	12
Foreign market size index (hard data)	17
Available seat kilometers (hard data)	18
Government debt (hard data)	23
Primary enrollment (hard data)	23
Strength of investor protection (hard data)	25
Restriction on capital flows	31
Prevalence of foreign ownership	32
Education expenditure (hard data)	33
Total tax rate (hard data)	34

NOTABLE COMPETITIVE DISADVANTAGES	Rank/131
Organized crime	120
Reliability of police services	119
Business costs of crime and violence	119
Legal rights index (hard data)	118
Quality of math and science education	113
Burden of government regulation	112
Female participation in labor force (hard data)	112
Agricultural policy costs	105
Trade-weighted tariff rate (hard data)	102
Efficiency of legal framework	96

Exhibit 5												
Selected statistics for the 32 states in Mexico	GDP (2006 US\$ billion)	Size of the economy (state GDP / national GDP)	Income per capita in US\$ (2006)	FDI as a share of the national (1999-2007)	Average rate of growth (real, 2000-2006)	Years of schooling (2006)	Unemployment rate (2006)	Commerce, restaurants and hotels as share of GDP (2006)	Average length of stay in hotels and motels (2006) Nationals	Average length of stay in hotels and motels (2006) Foreigners ¹	Room occupancy rate by foreigners	Foreign % of total tourist arrivals
National	839.2	100.0%	7,194	100.0	3.2%	8.1	3.6	20.8	1.74	3.37	34%	22%
Aguascalientes	10.7	1.3%	8,740	0.4	2.9%	8.7	4.5	20.1	1.86	2.06	11%	9%
Baja California	30.2	3.6%	9,258	4.8	5.5%	8.9	1.8	28.6	1.41	1.36	34%	39%
Baja California Sur	5.2	0.6%	8,760	0.9	3.9%	8.9	2.1	17.9	2.29	4.17	70%	64%
Campeche	10.3	1.2%	11,960	0.1	5.0%	7.9	2.3	7.8	10.33	1.53	81%	79%
Coahuila	27.6	3.3%	9,756	NS	3.2%	9.0	5.4	20.4	NA	NA	0%	0%
Colima	4.5	0.5%	7,065	4.9	3.6%	8.4	3.4	18	5.13	2.11	89%	93%
Chiapas	13.6	1.6%	2,787	1.0	2.0%	6.1	1.8	10.4	8.61	1.37	80%	80%
Chihuahua	38.1	4.5%	10,413	0.1	2.4%	8.3	2.9	32.8	6.10	2.20	11%	81%
Distrito Federal	180.6	21.5%	18,495	56.9	3.9%	10.2	5.6	18	14.88	1.94	27%	73%
Durango	10.9	1.3%	6,405	0.3	1.7%	8.0	3.8	18.2	1.29	1.62	3%	97%
Guanajuato	29.0	3.5%	5,258	0.7	3.6%	7.2	3.5	16.5	3.26	1.48	8%	95%
Guerrero	13.4	1.6%	3,845	0.1	3.8%	6.8	1.3	26.2	7.67	1.40	17%	95%
Hidalgo	10.8	1.3%	4,091	NS	1.5%	7.4	3.5	11.4	1.06	1.22	4%	97%
Jalisco	52.1	6.2%	6,821	3.0	1.7%	8.2	3.6	25.1	16.95	1.96	34%	80%
México	81.3	9.7%	5,130	5.6	2.4%	8.7	4.7	20.5	2.81	1.37	8%	95%
Michoacán	17.9	2.1%	4,046	1.2	3.1%	6.9	2.8	16.6	1.26	1.30	5%	8%
Morelos	11.2	1.3%	6,194	0.7	1.4%	8.4	2.8	17.2	1.75	1.76	7%	6%
Nayarit	4.7	0.6%	4,404	0.3	3.3%	8.0	2.8	15.7	3.05	4.70	59%	49%
Nuevo León	63.1	7.5%	13,215	10.3	2.4%	9.5	5.0	21.1	2.01	1.97	18%	17%
Oaxaca	12.7	1.5%	3,243	NS	4.2%	6.4	1.8	15.7	1.60	2.81	18%	11%
Puebla	30.9	3.7%	5,073	2.4	2.1%	7.4	3.2	22	1.51	1.79	14%	11%
Querétaro	15.3	1.8%	8,361	0.7	2.8%	8.3	4.0	20.1	1.64	1.70	11%	8%
Quintana Roo	13.3	1.6%	9,938	0.5	3.8%	8.5	2.7	53.9	3.10	5.57	84%	73%
San Luis Potosí	15.9	1.9%	5,861	0.6	4.6%	7.7	2.6	18.3	1.46	1.35	9%	12%
Sinaloa	15.9	1.9%	5,422	0.2	4.2%	8.5	3.1	20.4	2.23	5.76	29%	16%
Sonora	23.9	2.8%	8,804	1.4	3.1%	8.9	3.3	23.4	2.10	1.97	21%	28%
Tabasco	10.7	1.3%	4,750	0.2	3.8%	8.0	3.4	14.6	1.76	1.79	4%	4%
Tamaulipas	27.0	3.2%	7,859	1.9	2.2%	8.7	4.6	24.3	NA	NA	0%	0%
Tlaxcala	4.4	0.5%	3,639	0.1	3.7%	8.3	4.7	13.9	1.37	1.87	5%	5%
Veracruz	35.7	4.3%	4,469	0.3	2.8%	7.2	2.3	17.6	1.75	1.79	23%	23%
Yucatán	11.9	1.4%	5,727	0.2	2.6%	7.6	2.2	21.6	1.68	1.67	11%	16%
Zacatecas	6.3	0.7%	4,093	NS	3.9%	7.2	3.7	15.3	1.67	1.67	16%	16%

Source: INEGI and SECTUR http://datatur.sectur.gob.mx/jsp/consulta_nacional.jsp

¹Includes border zone tourists

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