

Foreign Currency Income From Tourism

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GENERATING FOREIGN CURRENCY IN TOURISM: BASIC CONCEPTS

Recognizing that tourism contributes a large amount of foreign currency to the country's economy has been part of the official discourse and also the opinion of the man in the street for several decades now. This implies that it is seen as an extremely healthy activity for any economy, particularly developing ones.

It is a good idea, then, to ask ourselves about this process of "attracting foreign currency" to understand how it works and its implications for Mexico's economy and society.

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The starting point is recognizing that tourism is a very special activity in several senses. First of all, there is no kind of "tourism" activity as such: taking a plane, staying at a hotel, enjoying a beach or a restaurant is not something reserved for "tourists," but can be done by anyone. There is, therefore, no activity that can be considered exclusively tourism; rather, so-called "tourism" is made up of a series of activities that can be done by anyone during his or her free time. This implies that it is particularly complicated to delimit what is tourism and what is not, and that any quantitative approximation is essentially imprecise.

From another point of view, tourism or the group of activities we understand as "tourism", which can be classified in four categories (transportation, accommodations, food and beverage services and recreational activities), is interpreted by economists as an export service that must

be consumed where it is produced.¹ Although it sounds paradoxical, this is easily clarified: the service provider offers a service but it must be consumed where it is produced, which implies that the consumer must move around.

This has implications on all geographical scales: when a national tourist (someone who does not cross the borders of the country where he/she resides) travels to another region, he/she spends money using resources produced in another region, where he/she resides. In other words, he/she “exports” resources, transferring them from one region to another.²

On the international level, the same pattern is reproduced, but in this case, the international tourist brings resources from another country and, therefore, imports foreign currency that benefits the destination country that hosts him/her.

This brief explanation is the basis for understanding how a country obtains the currency generated by international tourism.

FOREIGN CURRENCY INCOME FROM TOURISM IN MEXICO

As I already pointed out, the fact that international tourism generates foreign currency has been one of the main reasons for promoting it, particularly since the 1960s when intense economic growth centered on import substitution prompted a high demand for imported goods without being balanced by substantial exports that could compensate for the need for foreign currency required to pay for the imports.

The opening of the Mexican economy begun in the 1980s has perhaps made the demand for foreign currency from tourism less pressing since other

TABLE I
TOURISM BALANCE OF PAYMENTS, 1980-2004
(MILLIONS OF DOLLARS)

YEAR	SPENDING OF ALL VISITORS		BALANCE OF PAYMENTS (3)=(1)-(2)	RATIO (%) OF OUTGOING TO INCOMING (4)= (2)/(1)*100
	INCOMING (1)	OUTGOING (2)		
Total	144,444.24	105,348.18	39096.06	72.93
1980	3,201.25	3,062.55	138.70	95.67
1981	3,332.64	4,056.13	-723.49	121.71
1982	2,642.87	2,207.69	435.18	83.53
1983	2,761.47	1,592.91	1168.56	57.68
1984	3,319.73	2,168.56	1151.17	65.32
1985	2,948.66	2,258.33	690.33	76.59
1986	3,025.73	2,177.20	848.53	71.96
1987	3,545.40	2,365.22	1180.18	66.71
1988	4,048.07	3,200.75	847.32	79.07
1989	4,821.80	4,247.39	574.41	88.09
1990	5,526.38	5,518.68	7.70	99.86
1991	5,959.01	5,812.40	146.61	97.54
1992	6,084.79	6,107.43	-22.64	100.37
1993	6,167.01	5,561.82	605.19	90.19
1994	6,363.00	5,337.99	1025.01	83.89
1995	6,179.50	3,170.71	3008.79	51.31
1996	6,756.17	3,387.16	3369.01	50.13
1997	7,376.19	3,891.46	3484.73	52.76
1998	7,493.13	4,209.13	3284.00	56.17
1999	7,222.90	4,541.26	2681.64	62.87
2000	8,295.03	5,499.47	2795.56	66.30
2001	8,400.60	5,701.88	2698.72	67.87
2002	8,857.99	6,059.70	2798.29	68.41
2003	9,361.73	6,253.31	3108.42	66.80
2004	10,753.19	6,959.05	3794.14	64.72

Source: Developed by the author using information from Datatur, Mexican Ministry of Tourism.

branches of the economy, particularly industry and the perennially large contribution of foreign currency from the sale of oil, generate a goodly part of Mexico's foreign currency income. We must also not forget the role of dollar remittances from our compatriots living outside Mexico, a point I will refer to further along because of their impact on foreign currency inflows.

A FAVORABLE TOURISM TRADE BALANCE FOR MEXICO

Table 1 presents the quantification of the foreign currency balance of pay-

ments between 1980 and 2004. In the first place, we should note that the positive contribution of international tourists visiting Mexico is strongly counterbalanced by the expenses of Mexicans in their trips abroad; the foreign currency that leaves the country in this way was equivalent to 73 percent of the foreign currency that entered the country in this period.

From a certain angle, this is a positive sign since it shows that Mexico is sufficiently developed to be able to allow its citizens to make trips abroad. However, undeniably the balance of payments of foreign currency is not very favorable due to this situation. It is even

striking that at the moments of greatest national economic bonanza, the balance sheet can turn negative: this can be seen in both 1981, at the height of the oil boom, and in the middle of the Salinas administration in 1992, although less intensely in the latter case. In addition, in recent years, after the 1994 crisis, marked by economic and, particularly, monetary stability and by growing integration with the two other countries of North America in the context of NAFTA, there is greater stability and substantial growth of the foreign currency balance of payments in favor of Mexico. In this way, the ratio between foreign currency entering and leaving the country was 64.7 percent in 2004, compared to the 73 percent overall in the 24 years examined.

VARYING BALANCE OF PAYMENTS BY KINDS OF TOURISM

These totals deserve more attention; it is significant that each kind of tourism performs differently. The first distinction is between international tourism (travelers who stay overnight in the country) and international same-day visitors (who cross the border and return the same day to their country of origin). International tourism can be divided into non-border tourism and border tourism; the former reach destinations in the interior of the country (beaches, colonial cities, metropolises, medium-sized cities, etc.), and the latter stay within the border area. Same-day visitors can travel to border areas or be passengers on cruise ships.

Table 2 is very instructive in this regard. While international tourism contributes a significant amount to the tourism balance of payments, the specific balance of payments for same-day

The hotel chains, through different legal means or tricks, have managed to repatriate to their offshore headquarters a substantial part of the foreign currency they had taken in.

visitors is unfavorable to Mexico. While there is a favorable total balance of U.S.\$39 billion in 24 years, international tourism contributes U.S.\$62 billion, but that amount is offset by the very negative balance sheet of border same-day visitors, with a deficit of almost U.S.\$26 billion, which has a substantial effect on the total.

THE GEOGRAPHIC DIMENSION OF THE TOURISM BALANCE OF PAYMENTS

One issue not dealt with in great depth in the literature on this topic is the geographic dimension of the tourism balance of payments. In the context of this article, I will only formulate two basic questions in this regard. The first is what is the role of Mexican residents abroad in contributing foreign currency? And the second has to do with the main countries and regions that contribute more to the accumulation of foreign currency.

The first question is unavoidable because of the growing participation of emigrant compatriots in the Mexican economy.³ We must respond both quantitatively and qualitatively. On the one hand, we must take into account that 86 percent of international tourism demand *vis-à-vis* Mexico, and therefore,

the kind that “contributes foreign currency,” is generated by U.S. residents, which means that the United States is the main tourism market for Mexico despite all the efforts made to diversify. The Latino population in the United States is growing steadily, but, in addition, we know that the percentage of legal and illegal Mexican residents in the United States is also growing. This inevitably plays a significant role in the tourist market: according to official figures, the participation of Mexican residents abroad in non-border tourism in Mexico is a little over 20 percent.

Undoubtedly, it would be necessary to consider the proportional part of the foreign currency accumulated as one more aspect of the remittances from Mexican residents abroad in the sense that it is a service they come here to consume and a significant contribution to the Mexican economy.

On the other hand, from a qualitative point of view, it is clear that the behavior of the “*paisano*” tourist — as they are called in Mexico — meaning the visiting Mexican migrant, is different from that of the traditional WASP tourist: they are more likely to visit relatives during their vacations outside of traditional beach or other non-border destinations. Everything seems to indicate (although we lack the necessary study of this particular segment of tourists) that Mexicans residing abroad tend to spend less on international structures (hotel chains, for example, or even airlines) and more, though perhaps a moderate sum, on the consumption of local goods, the purchase of crafts, etc. In summary, tourist expenditures of Mexican residents abroad when visiting Mexico may be more directly applied to the country’s local development, as opposed to the to a certain extent

TABLE 2
TOURISM BALANCE OF PAYMENTS BY KIND OF TOURISM
TOTAL 1980-2004 AND 2004

	TOTAL 1980-2004	% TOTAL	TOTAL 2004	% TOTAL
Earnings (millions of dollars)				
1. International visitors to Mexico	144,444.24	100.0	10,753.19	100.00
a. International tourists	107,173.15	74.20	8,382.23	77.95
a.1 Inbound non-border tourism	95,145.01	65.87	7,783.47	72.38
a.2 Inbound border tourism	12,028.18	8.33	598.79	5.57
b. International same-day visitors	37,271.11	25.80	2,370.95	22.05
b.1 Same-day border visitors	34,543.42	23.91	1,992.53	18.53
b.2 Cruise-ship passengers	2,727.60	1.89	378.44	3.52
Spending abroad (millions of dollars)				
2. Mexican visitors abroad	105,348.18	100.00	6,959.05	100.00
c. International tourists	44,971.72	42.69	3,227.33	46.38
c.1 Outbound non-border tourism	38,952.46	36.97	2,910.94	41.83
c.2 Outbound border tourism	6,019.67	5.71	316.39	4.55
d. Same-day border visitors	60,376.37	57.31	3,731.70	53.62
Balance of payments (millions of dollars)				
3. International visitors [1-2]	39,096.06	100.00	3,794.14	100.00
e. International tourists [a-c]	62,201.43	159.10	5,154.90	135.86
e.1. Non-border tourism [a1-c1]	56,192.55	143.73	4,872.53	128.42
e.2. Border tourism [a2-c2]	6,008.51	15.37	282.40	7.44
f. Same-day international visitors [b-d]	-23,105.26	-59.10	-1,360.75	-35.86
f.1. Same day-border visitors [b1-d]	-25,832.95	-66.08	-1,739.17	-45.84
f.2. Cruise-ship passengers [b2]	2,727.60	6.98	378.44	9.97

Source: Developed by the author using data from Datatur, of the Mexican Ministry of Tourism.

more “multinational” expenditures of the WASP tourist. This point, of course, is presented here only as a hypothesis and deserves greater research.

Geography’s contribution to foreign currency income is quite clear given the figures about tourist flows from Mexico’s federal Ministry of Tourism. On the one hand, as was stated above, this is essentially foreign currency contributed by North American residents, essentially from the United States. In the second place, it is noteworthy that tourists to Mexico come mainly from certain states, particularly along the border: California and Texas together made up 48 percent of non-border tourism in 2004. This may be related to the

greater historic contact with Mexico, the shorter distances and the growing presence of a population of Mexican origin in those states.

Finally, it is clear that Mexico’s tourism policies have been the incentive for certain privileged tourism destinations: apart from the traditional Acapulco (with its considerable drop in attracting non-border tourism), we can cite the so-called “planned tourism destinations” —to a great degree a euphemism— like Cancún, Ixtapa, Los Cabos and Huatulco, and places like Vallarta, Cozumel and Manzanillo, among others.⁴ Although it would be a good idea to use detailed data to construct the information about foreign currency spend-

ing by destination (given the variation in expenditures according to destination), in a preliminary way we can say that the Cancún-Mayan Riviera micro-region is the destination *par excellence* for attracting foreign currency; public and private efforts have been concentrated here for its development, although with somewhat moderate results in several areas, particularly the environment and social aspects.

COLLATERAL DAMAGE: KINDS OF TOURISM AND FOREIGN CURRENCY

Something usually little taken into account but fundamental to attracting

TABLE 3
ORIGINS OF NON-BORDER TOURISM (1980-2005)

NON-BORDER TOURISM	THOUSANDS OF TOURISTS	% TOTAL
Total	179,420.70	100.00
From the United States	154,920.85	86.35
Total foreign nationals	143,098.78	79.76
Total Mexican nationals	36,322.67	20.24

Source: Developed by the author using data from Datatur, of the Mexican Ministry of Tourism.

foreign currency is the form the tourism model takes: that is, the kind of tourism. The results are very different if an international tourist stays at a five-star international chain hotel or if he/she uses local infrastructure (small hotels, for example).

Since the 1960s, the evolution of Mexico's model of tourism has been characterized by a strong push toward a luxury, transnational model.⁵ This implied that preference was given to investments in luxury hotels that had to be operated as part of a chain. Also, the "sun and beach" model, almost exclusively promoted by authorities in the tourism sector and by business organizations for decades until recently, has fostered a certain type of tourist consumption with specific characteristics: high-rise hotels, international food, operations using international models, which led to growing consumption of imported products, both by the tourist directly (meals, for example) and by hotels themselves, and different services (furnishings, physical installations, etc.).

All of this has played a leading role in foreign currency leaving the country: the chains, through different legal means or tricks (over-billing or inflated payments to employees or subsidiaries, for example), have managed to repatriate to their offshore headquarters a

substantial part of the foreign currency they had taken in and that could have been used in the national economy if there had been a kind of tourism that was more akin to the national and regional supply. The foreign currency drain due to these mechanisms is so high that a few decades ago, a high Mexican government official said off the record that the tourism balance of payments was probably zero because of the effects of collateral drain.

Undoubtedly a kind of tourism more suited to the national situation, that is, closer to the production of local goods (traditional regional food, for example), and not highly "industrialized" (demanding air conditioning, elevators, speed boats and other goods not produced or only partially produced in Mexico), has fewer negative effects on the attraction of foreign currency. In addition, it generally creates local jobs, which is particularly positive when it takes place in relatively non-developed areas. In that sense, eco-tourism and other forms of alternative tourism may not attract much foreign currency because of their small but growing participation in the market, but they seem to be more beneficial even from the macro-economic perspective, in addition to their well-known environmental or social advantages.

FINAL THOUGHTS

Undoubtedly, tourism is and will continue to be a beneficial activity economically, socially, environmentally and generally for both national and regional development. Specifically, attracting foreign currency is often seen as one of its main advantages, and there can be no doubt about that. However, it would be a good idea to study mechanisms so that the process does not include financial "drains," or at least to lessen the drains, in addition to improving other aspects of tourism to favor host countries. ■■■

NOTES

¹ Daniel Hiernaux, "Elementos para un análisis sociogeográfico del turismo," Adyr A. Rodrigues, comp., *Turismo e Geografía. Reflexões Teóricas e Enfoques Regionais* (São Paulo: Editora Hucitec, 1996), pp. 39-54.

² Daniel Hiernaux, "La dimensión territorial de las actividades turísticas," *Teoría y praxis del espacio turístico* (Mexico City: Universidad Autónoma Metropolitana-Xochimilco, 1989), pp. 51-73.

³ See Cristóbal Mendoza's article about remittances in this issue. [Editor's Note.]

⁴ See Daniel Hiernaux, "Cancún Bliss," Dennis Judd and Susan Fainstein, *Tourist Cities* (New Haven: Yale University Press, 1999), pp. 125-139; Daniel Hiernaux, "Mexico: Tensions in the Fordist Model of Tourism Development," Lily M. Hoffman, Susan S. Fainstein and Dennis R. Judd, eds., *Cities and Visitors. Regulating People, Markets and City Space* (Oxford: Blackwell Publishing, 2003), pp. 187-199; and Ludger Brenner, "State-Planned Tourism Destinations: The Case of Huatulco, Mexico," *Tourism Geographies* 7, no. 2, 2005, pp. 138-164.

⁵ Ludger Brenner and Guillermo A. Aguilar, "Luxury Tourism and Regional Economic Development in Mexico," *The Professional Geographer* 54, no. 4, 2002, pp. 500-520.