PUBLIC INTEREST AND THE FORMULATION OF INTERNATIONAL AIR TRANSPORT POLICY IN A DEVELOPING NATION: MEXICO VIS-À-VIS THE UNITED STATES

by

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Submitted in Partial Fulfillment
of the Requirements for
the Degree of

DOCTOR OF PHILOSOPHY

at the

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July, 1981

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ABSTRACT

The United States-Mexico air passenger market ranked second highest of all U.S. international markets in 1980. Yet, information regarding the market is scarce and the underlying reasons for its impressive growth are unclear. In addition, with respect to policy, U.S. observers claim to be receiving mixed signals from the Mexican authorities and perceive the latter's attitude as inconsistent with their own national interests. Under these conditions, planning is difficult.

Following an interdisciplinary approach, this study sets forth a conceptual model of the direction and prospects of the United States-Mexico air passenger market. It is demonstrated that Mexico has a coherent international air transport policy. Law, regulation and policy are differentiated and an analysis is made of the market's growth and structural change. The functional structure of the Mexican air transport industry is explored; the country's program of tourist development is analyzed; and there is a comprehensive examination of the United States-Mexico air transport bilateral agreement. In addition, the market is measured: statistical information never organized before in one coherent body is introduced and a significant number of numerical findings are presented. Finally, the limitations of econometric modeling of aggregate demand in such a dynamic market are established.

The study fosters understanding of air transport cause-effect mechanisms in developing nations whose philosophy of growth and change has often been misunderstood by more industrialized societies.

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In memory of my dear grandmother,
Dr. Clara Lisker, whose intelligence,
clarity of mind and hard-working life
I shall never forget.

I dedicate this study to
my beloved wife, Heidi,
who makes it all worthwhile.

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PREFACE

Air transportation is not only one of the greatest areas of international enterprise today, but also an increasingly interdisciplinary field of knowledge. Mathematics, economics, systems engineering, management and political science intertwine to shape the complex array of decision-making guidelines that the industry follows.

Throughout the years of my training at MIT, it was precisely the interdisciplinary nature of the field which attracted me to this type of work. The ideas developed in this study are a direct reflection of this.

The Flight Transportation Laboratory, where I have had the opportunity of studying and conducting research for five years, provides a unique environment conducive to this type of academic endeavor. It was thanks to this superbly-adaptive center and the varied academic background of its faculty, that I was able to expand my horizons beyond the borderlines of econometric modeling, which I dealt with during my Master's thesis. The years of my doctorate helped me to acquire a much broader perspective of air transportation. This study is a partial result of these years of further training.

I would like first to express my gratitude to the laboratory's Director, Professor Robert W. Simpson, chairman of my doctoral committee. This most gracious man is the driving force at the laboratory. His open-door policy makes him not only a distinguished researcher, but also a true teacher, a combination not often found. I will always remember his support during critical times of my research.

Professor Charles O. Cary is one of the newest instructors at the laboratory. He has brought with him many decades -- an entire life -- of priceless experience in the aviation industry. His background in aspects of policy-making analysis was invaluable to me. He was extraordinarily generous with his time (both at MIT and at home) and represented a constant source of stimulus and counsel. In addition to this, his editorial help and inquisitive ways of analyzing my writing contributed very much to my work.

Professor John R. Wiley has been a source of encouragement and guidance beyond this investigation and even beyond the boundaries of my academic life. He has been my teacher and friend since I first came to MIT. His students --scattered all over the world -- always remember his instructive lectures and his warm personality.

This work has been typed by Ms. Abigail Crear. Her outstanding typing skills and her commitment have been greatly appreciated. She has worked with me practically day and night during the final preparation of this thesis.

Last but not least, I wish to express my deepest gratitude to my wife, Heidi Lisker, for her unceasing encouragement and many months of help and patient proof-reading. During the already-difficult time of her medical internship, Heidi accepted, with no lessening of spirit, the added pressures and lost weekends caused by this work.

BERNARDO LISKER-MELMAN
Cambridge, Massachusetts,
July 1981.

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CHAPTER I
INTRODUCTION

Beginning in the mid-1960's, air transportation in Mexico acquired an unprecedented importance. Air passenger traffic (domestic and international) boomed from 2 million revenue passengers in 1963 to almost 20 million in 1980; the Mexican airport network was modernized and extended; and the two international Mexican airlines grew rapidly: an 83% passenger growth during the past four years alone.

The international air passenger market to and from Mexico played an important role in the overall air transportation scene described above. While in the late 1950's only eight foreign airlines served Mexico, by the end of 1980 this figure had increased to 33 carriers representing 23 nations. Eleven of these airlines were U.S. carriers, serving the United States-Mexico market along with six other airlines.

This market has not only reached unprecedented rates of traffic growth and passenger volume, but also has acquired significant importance in the context of the total U.S. international air passenger traffic. In the year 1980, approximately 14.6% of all international air travelers to and from the United States traveled between Mexico and the United States. For Mexico, the market was even more impotant: during the same year, approximately 80% of all air travelers to and from Mexico flew on United States-Mexico routes.

The United States-Mexico air passenger market is growing rapidly. In the recession year of 1980, traffic

rose 12.1% and revenue passengers ranked second highest of all U.S. international markets[1]. The importance of the market is heightened by the observation that fully 17% of all scheduled passengers carried by U.S. carriers in 1980 traveled between the United States and Mexico; that is, about one-sixth of their international total.

Yet, despite its importance, numerical and non-numerical information regarding the United States-Mexico market is appallingly scarce. In addition, the existing literature on the subject does not go beyond a few reports and bulletins that often reveal a fundamental lack of knowledge of factors affecting the air passenger demand in this market. These factors particularly relate to structural differences between air passenger demand in a developing economy as compared to that in a more industrialized society. Thus, the underlying reasons for the impressive growth of the market have remained unclear.

Mathematical modeling and systems analysis are helpful in understanding, albeit only partially, the demand scenario. However, when society and the economy undergo a process of change as dynamic as that under way in the United States-Mexico market, econometric modeling has to give way to more comprehensive, conceptual approaches of analysis.

The most important factors leading the process of change mentioned above can be traced to the following four elements:

1. The deregulation of the U.S. airline industry and American pressure for liberalization of international air transport policy.

[1] United States-Canada traffic is considered local by the U.S. authorities. Traffic to the United Kingdom was the highest.

2. The 1978 United States-Mexico air transport bilateral agreement and, very soon, the negotiation of its extension and/or expansion.

3. The Mexican oil boom and its consequences upon the economy, especially in relation to the dollar-peso exchange rate and the development of the tourist industry.

4. Important changes in the Mexican government approaches to planning.

At a critical time such as today, when the U.S. airline industry is afflicted by massive financial stress and declining demand, it is extremely important, and in a sense urgent, *to understand* and take advantage of a profitable, expanding market such as the Mexican one. However, U.S. observers, especially government officials, claim to be receiving mixed signals from the Mexican authorities.

There are a number of reasons contributing to this perception. U.S. policy-makers often follow the erroneous approach of assessing and predicting the policies and behavior of their southern neighbor according to patterns that apply only to the United States. On the other hand, Mexico has never published a clear-cut statement of international air transport policy or a document containing its air transport negotiating guidelines. This, of course, has promoted misunderstandings. While the Mexican government feels that its air transport policies are consistent with the plans of development of Mexico, American observers often perceive the Mexican attitude as irrational.

The present study is an elucidation of a number of subjects that shed light on the air transport-related decisions of the Mexican government. The approach utilized is interdisciplinary by necessity. The author has drawn on a variety of fields, including demography, economy, air transport analysis and political science to set forth a conceptual model of the direction and prospects of the United States-Mexico air passenger market. The limitations of econometric modeling when analyzing aggregate demand in such a dynamic market are established and a comprehensive, less-rigid approach is followed.

This work pursues two general objectives. First, measurement of the market; the assembly of statistical information never organized before in one coherent body. This includes not only aggregate statistics and analysis of trends but also origin-destination disaggregation and the examination of a large number of surveys that quantify who travels and why. Second, and more important in the long run, this work sets forth the international air transport policy framework upon which Mexico bases its actions. This is accomplished after a careful review of the Mexican air transport industry and consideration of the particular *modus operandi* of government and business in Mexico. Three different but interrelated aspects of the Mexican government policies are introduced: air transport itself, tourist development, and the United States-Mexico bilateral relationship.

A number of recommendations are included. These relate to the current structure of the Mexican air transport agencies as well as to future United States-

Mexico air transport bilateral negotiations. It is very important to note that this is an interpretative analysis. The author obviously does not *make* policy. Rather, an effort is made to interpret and translate into policy past and present governmental attitudes and actions.

Basically, the study is organized in the following manner.

Chapters 2 and 3 deal with facts whose importance might not be immediately apparent to the reader. These include sociodemographic, economic and legal aspects essential for conceptualizing air transportation trends in Mexico. Both chapters give the reader much more than "background" material and should not be considered as "introductory".

Chapter 4 examines the Mexican air transport regulatory framework, the functional structure of the industry (government agencies and airlines) and its main aggregate indicators.

Chapter 5 analyzes the United States-Mexico air passenger market in depth, both quantitatively and qualitatively.

Chapters 6, 7 and 8 examine questions of air transport policy and attitude within the context of Mexican interests *vis-à-vis* the United States. Chapter 6 deals with the international air transport negotiating principles of Mexico. Chapter 7 is the result of a search to understand the basic philosophy that the Mexican government has followed in the process of developing a stronger tourist industry. Chapter 8 studies the past, present and future of the United States-Mexico air transport bilateral agreement.

Chapter 9 summarizes some of the basic conclusions of the study and states its limitations as well as directions for future research.

Chapters 2 through 8 each contain an introduction that orients the reader to the content of the respective chapter.

It is important to mention, in order to avoid confusion, that U.S. sources are always clearly indicated as such. Thus, whenever a source is not identified as American, it means the source is Mexican. For instance, "1960 Census" refers to the Mexican 1960 Census. Otherwise it would be labeled as "1960 U.S. Census". It is equally important to mention the convention followed with respect to Spanish accents marks. Accent marks were used whenever correct Spanish spelling dictated their use. The exception to this rule was the case of geographical names. The reason is straightforward: American cities with Spanish names (v.g., San Jose, California) are normally written without an accent mark while Mexican cities (v.g., San José del Cabo, Southern Baja California) always carry an accent mark, whenever Spanish grammar dictates. Even the word Mexico is spelled with an accent mark. Therefore, for the sake of consistency, it was elected to omit accent marks in the case of geographical names. Finally, but not less important, the term "currently", as used in this work, refers to April-May 1981, unless otherwise indicated.

This work is the result of extensive research conducted in a large number of Mexican and American agencies and airlines. The research involved data collection; more than thirty hours of tape recordings of interviews and discussions with former and current Mexican and American

officials; and the examination of over two thousand governmental communiqués, minutes of years of air transport negotiations and many other documents. The most laborious part of all was data collection. Most of it was obtained in a highly-disaggregate fashion and it was necessary to compute many important figures. Needless to say, problems of lack of consistency were commonplace and it took a major effort to produce a reliable collection of air passenger statistics such as the one presented here. Demographic statistics had similar faults. Even the documents sometimes lacked consistency, contradicting one another and leaving this author in despair.

The matter was further complicated by the fact that in Mexico the bulk of the information collected by the civil aviation authorities is not readily available to the general public and few figures are actually published. It is no exaggeration to note that pure institutional help would have been insufficient to conclude this work. It was thanks to special, informal contacts that most of the information was obtained. This is regrettable but true.

This study is primarily addressed to the U.S. policy-maker. It is hoped that both government officials and airline planners will find it a valuable tool in their endeavors. On the other hand, it should help Mexicans to analyze their own policies in a more organized manner and from different perspectives at a time when bringing together

both parties is, perhaps, more important and difficult than ever.

While the author recognizes that air transport forecasting is more often than not an exercise in futility, he would like to assert, assuming the risk of error, that the issues described here, relating to population growth, air transport policy and tourism development, will remain valid for the rest of this decade.

CHAPTER II

MEXICO: THE PEOPLE, THE GOVERNMENT, AND AIR TRANSPORTATION

2.1 Introduction

A few comments about the content of this chapter are pertinent at this point. With the exception of a few lines pertaining to history and geography, the focus here has been to concentrate upon those characteristics of the land, the people and the government of Mexico which foster understanding of the air transportation scene in that country.

The subject dealt with here is a broad one. Hence, a special effort has been made in selecting only those facts relevant to the subject matter, although the importance of these facts might not always be immediately apparent to the reader.

There were some difficulties in compiling updated demographic statistics. The results of the 1980 Census are still not available. However, in several cases, thanks to the cooperation of various officials at Mexico's Secretariat of the Interior, it was possible to calculate estimates that are more current.

The chapter is divided into three sections. The first one deals with sociodemographic issues essential for conceptualizing air transportation trends in Mexico. It includes analyses of topics such as population dispersion and its effects on air passenger demand. The second section puts the Mexican legal and governmental system into perspective. Finally, the third section complements the second one by elaborating upon the discussion of the executive branch

of the Mexican government. This is necessary because of the substantial power that this branch wields in the Mexican system.

For those not familiar with the Mexican scene, this chapter should provide the necessary facts for understanding the social and institutional constraints upon air transportation in Mexico.

2.2 The Land and the People

The importance of sociodemographic factors in the process of understanding air transportation trends in any country has long been recognized. A large number of authorities in Mexico and abroad have given different explanations, often contradictory, of the behavioral patterns of society and culture in Mexico. Society, on the other hand, is not an isolated subject: history, geography and institutions intertwine in Mexico to an extent that separate analyses would be invalid. This section presents an examination of sociodemographic variables that are of interest in the context of air transportation analysis.

Mexico, or Estados Unidos Mexicanos (United Mexican States) is a federal republic divided into 31 states and a Federal District, with the capital (Mexico City) located in the latter. The country has a federal and democratic Constitution, modeled on that of the United States of America, although when analyzed in detail, as shown later, it has important departures from the American Constitution.

Mexico's 761,600 square miles make it the third largest country in Latin America (about a quarter of the size of the continental United States). With a population of over 70 million, Mexico is second only to Brazil in Latin America. Tables 2.1 and 2.2 are illustrative of the size

Table 2.1

BASIC GEOGRAPHIC DIMENSIONS OF MEXICO

Total Area	761,600 sq. mi.
Islands	1,978 sq. mi.
Coastline	6,153 mi.
Gulf of Mexico and Caribbean Sea	1,712 mi.
Pacific Ocean	4,441 mi.
Borders	2,694 mi.
With the United States	1,936 mi.
With Guatemala and Belize	758 mi.

Table 2.2

POPULATION OF MEXICO

	1960[1]	%	1970[2]	%	1980[3]	%
Total (Millions)	34.9	100.0	48.2	100.0	70.1	100.0
Urban	17.7	50.7	28.3	58.7	46.2	65.9
Rural	17.2	49.3	19.9	41.3	23.9	34.1
Annual Growth (per 1000)						
Birth Rate	46.0		42.1		35.5	
Death Rate	11.5		9.6		6.5	
Net Growth	34.5		32.5		29.0	

[1] 1960 Census

[2] 1970 Census

[3] Estimated

and population growth of Mexico.

The principal language of the country is Spanish, although more than 2 million persons speak only an Indian language (of which there are 26). About 84% of the population over the age of 10 can read and write (1979).

Mexico has been an independent country since 1821 when Spain relinquished its control over Mexico and most of Latin America. The first Constitution was enacted in 1824, and was amended by the sweeping reforms of 1857 by the liberal administration of Benito Juárez separating State from Church and nationalizing all the latter's property in Mexico. The country entered into a period of dictatorship in 1876, which eventually led to a civil war (the "Mexican Revolution") in 1910. The war ended when in 1917 the Constitutional Congress enacted the Constitution that today remains in force in Mexico. Since then, Mexico has enjoyed the longest period of political stability of its history and certainly the longest in Latin America and most of the world.

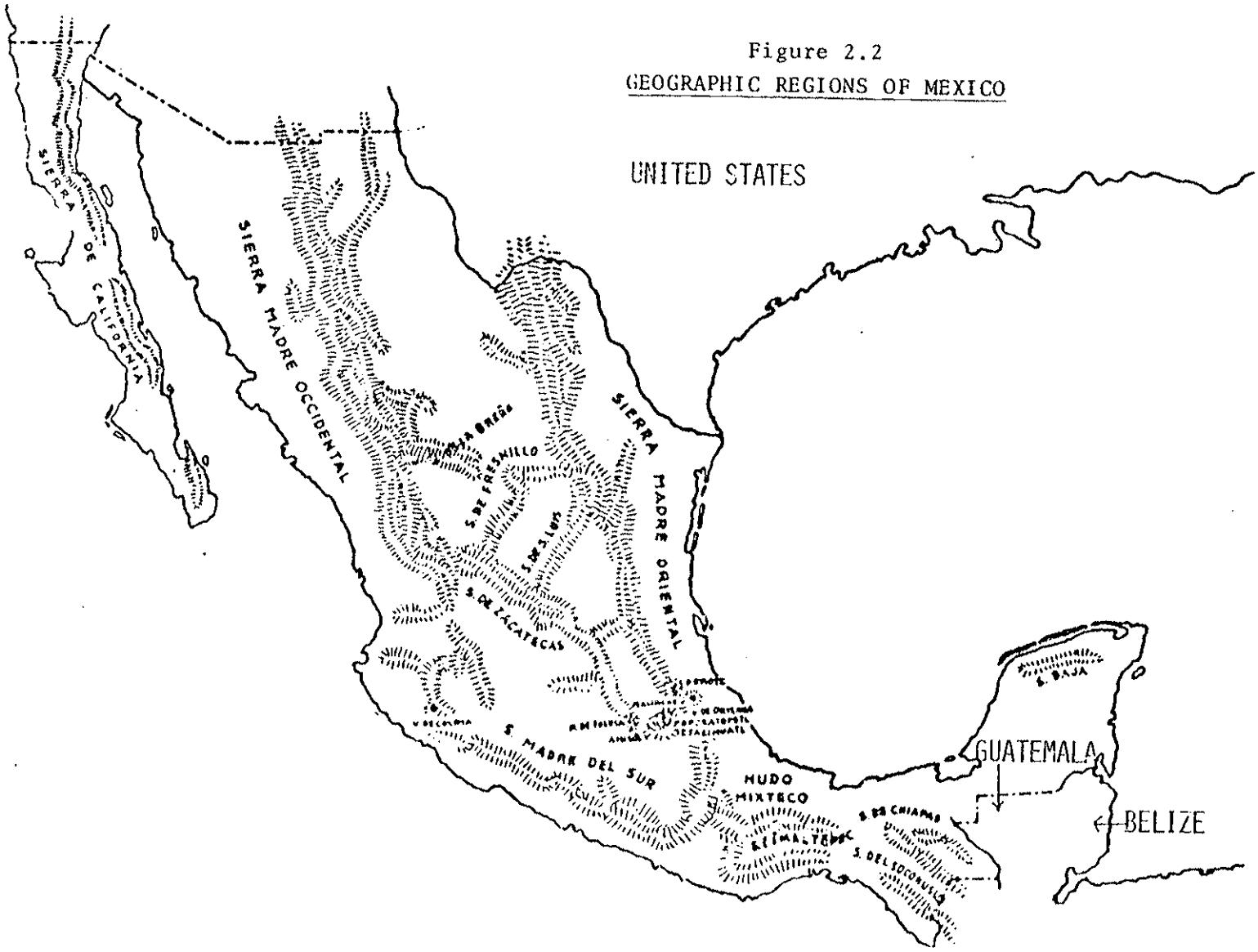
Mexico's geography, physically very diverse, is divided into coastal plains and a vast highland zone bounded by the Eastern Sierra Madre, the Western Sierra Madre and the Southern Sierra Madre. The highland zone, covering almost 40 percent of the territory, is in turn divided into two distinctive regions: the Northern Plateau, and the Southern Plateau. The latter contains Mexico's capital and is traversed by numerous valleys with an average altitude of 6,500 feet above sea level. It holds about 15 percent of the territory and encompasses the states of Aguascalientes, Guanajuato, Queretaro, the Federal District and parts of Hidalgo, Jalisco, Mexico, Michoacan and Zacatecas. The greatest economic and demographic concentration in Mexico is found there. Figures 2.1 and 2.2 show the political and geographical division of Mexico.

Figure 2.1

STATES AND STATE CAPITALS OF MEXICO



Figure 2.2
GEOGRAPHIC REGIONS OF MEXICO



The Baja California and Yucatan Peninsulas stand out as distinctive geographical regions. Baja California is divided lengthwise by the California mountain range, while Yucatan is an almost totally flat platform with no rivers at all and water coming from numerous underground wells. With the exception of the deserts near its boundaries with New Mexico and Arizona, Mexico has many rivers.

About 26 percent of the country enjoys a temperate, rainy climate with temperatures always well above freezing and generally below 80°F. About 13 percent of the land (mainly the borders with Central America) has a tropical climate and around 61 percent consists of dry areas, mainly located in the north.

As a general rule, state capitals are the largest cities of each state. Table 2.3 illustrates this. As Table 2.3 shows, the largest cities are Mexico City, Guadalajara and Monterrey. When the metropolitan population of the three cities is taken into account, the total represents 27% of the country's population. This poses one of the most challenging problems confronting Mexico, since population concentration has also meant concentration of political and economic power. This has left large areas of the country impoverished (excluding the tourist areas and a few agricultural or industrial spots) and has promoted, in turn, chaotic and excessive migration to the large cities. As expected, and once again excluding the main tourist areas, the above-mentioned cities are the largest source of air passenger traffic in Mexico.

The Mexican government has implemented a number of programs to encourage decentralization of the country, including extremely generous tax relief to industry and other help. However, the problem has proven to be intractable. This author does not believe at this point that

Table 2.3

POPULATION OF THE STATES AND STATE CAPITALS OF MEXICO (1977)[1]

State[2]	Population (millions)	Capital	Population (000)
Federal District	9.234	Mexico City	12,578[3]
Aguascalientes	0.448	Aguascalientes	239
Northern Baja California	1.320	Mexicali	361
Southern Baja California	0.188	La Paz	75
Campeche	0.349	Campeche	99
Coahuila	1.364	Saltillo	234
Colima	0.332	Colima	73
Chiapas	1.984	Tuxtla Gutierrez	97
Chihuahua	2.062	Chihuahua	387
Durango	1.149	Durango	209
Guanajuato	2.896	Guanajuato	45
Guerrero	2.075	Chilpancingo	62
Hidalgo	1.435	Pachuca	102
Jalisco	4.294	Guadalajara	1,725
Mexico	6.684	Toluca	154
Michoacan	2.873	Morelia	230
Morelos	0.906	Cuernavaca	358
Nayarit	0.699	Tepic	127
Nuevo Leon	2.457	Monterrey	1,132
Oaxaca	2.337	Oaxaca	127
Puebla	3.133	Puebla	516
Queretaro	0.639	Queretaro	167
Quintana Roo	0.139	Chetumal	38
San Luis Potosi	1.561	San Luis Potosi	304
Sinaloa	1.787	Culiacan	282
Sonora	1.468	Hermosillo	281
Tabasco	1.101	Villahermosa	163
Tamaulipas	1.969	Ciudad Victoria	123
Tlaxcala	0.512	Tlaxcala	12
Veracruz	5.091	Jalapa	195
Yucatan	0.926	Merida	250
Zacatecas	1.115	Zacatecas	71

[1]Estimate.

[2]In alphabetical order (Spanish form).

[3]Population of the complete metropolitan area, including parts outside of the Federal District boundaries.

Source: Secretariat of the Interior.

the government will be successful in significantly changing the present pattern before the end of this century and, indeed, not even then without the implementation of more coordinated, stronger and compulsory programs. For air transport planners, the former means that business travel patterns will not show any significant change over the next two decades. Thus, business travel growth will have to be addressed only from the standpoint of population and economic growth in each area, and will not be due to the emergence of new economic centers. The exception to the rule will probably be the states of Tabasco, Campeche and Chiapas, where fast urbanization is taking place because of the newly discovered oil fields. Leisure travel requires separate in-depth analysis since not only are the patterns rapidly changing, but in addition, the changes have little or nothing to do with the natural growth of the population. Tourism is the subject of Chapter 7 and there a regional and city-by-city analysis is presented.

Table 2.2 gives some indication of the natural growth of the population, one of the major problems confronting Mexico today. As can be seen, due to enhanced sanitation and medical services throughout the country, the death rate has steadily decreased during the past 20 years. On the other hand, the birth rate has also decreased, especially over the past few years. This has occurred mainly in the large cities, where the government is intensively engaged in a program utilizing radio, television and social action to reduce the birth rate of Mexican families. As a result, the annual, overall growth rate[1] appears to have decreased from almost 3.5% in the 1960's to 2.9% now. This level of growth is still unacceptable and government programs call for an optimistic 1% rate by the year 2030. It is

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[1] Note the distinction between natural growth rate (births-deaths) and overall growth rate (births-deaths ± migration).

believed, however, that Mexico will not be able to lower its growth rate to that level within that period. A more realistic estimate, given the present life expectancy at birth (63 years for men and 67 for women, up 20 years since 1940) and the composition of the population, is that annual growth will be around 1.5% by the year 2000. This would mean around 104 million Mexicans by that year, 50% more than today (88 million by 1990 and 96.5 million by 1995).

Statistics can easily mislead: the national overall annual growth rate of about 2.9% is generally lower and sometimes even much lower than the rate in the largest cities. In 1970, when the overall figure was around 3.3%, almost every state capital had a larger figure: Mexico City, 3.6%; La Paz, 6%; Chihuahua, 5.67%; Chilpancingo, 7.45%; Monterrey, 3.8%; Guadalajara, 5.1%, etc. The average annual growth of the capitals was 4.76%! Table 2.4 shows the population of other large cities of Mexico for which the same cautious criteria should be followed in analyzing their growth. Their average annual growth in 1970 was 5.53%. However, despite this surprising growth, the air transport analyst should realize that personal income distribution in Mexico is extremely uneven so appropriate adjustments must be made to calculate the growth of the real "air passenger population." Chapter 3 deals with that subject.

Another point of confusion would be to conclude, wrongly, that <u>natural</u> growth in the rural areas is very low, since the <u>overall</u> annual growth of the cities is above the national average. Actually, the opposite is true. The reason is that peasant and other low income people born in the countryside are migrating to the cities at an accelerated rate. As Table 2.2 shows, the rural population share has gone from almost 50% in 1960 to 34.1% only 20 years later. Needless to say, this migrating flow does not

Table 2.4

POPULATION OF THE LARGEST CITIES OF MEXICO, EXCLUDING STATE CAPITALS (1970)[1,2]

City	Population (000)
Acapulco, Guerrero	174
Ciudad Juarez, Chihuahua	407
Ciudad Obregon, Sonora	114
Irapuato, Guanajuato	117
Leon, Guanajuato	365
Matamoros, Tamaulipas	138
Mazatlan, Sinaloa	120
Nuevo Laredo, Tamaulipas	149
Poza Rica, Veracruz	120
Reynosa, Tamaulipas	137
Tampico, Tamaulipas	180
Tijuana, Northern Baja California	277
Torreon, Coahuila	223
Veracruz, Veracruz	214

[1] 1970 Census

[2] Do not use these figures for any analysis beyond 1975.

contribute to air passenger traffic. On the other hand, as contrasted to the United States, middle and upper middle class migration is negligible in Mexico.

Another statistic of primary importance to the transportation analyst, particularly when studying less developed countries, is the degree of dispersion of the population. Table 2.5 is very revealing in that respect. A careful look at the percentages shows the increasing number of population centers of over 5,000 people. It provides a better measure of disaggregation, as opposed to the relatively vague "urban-rural" division. However, this is not to say that knowledge of the urban-rural breakdown should be neglected: essential social and economic differences between both groups produce different transportation demand. On the other hand, the analyst should measure dispersion to evaluate long-run patterns of the disaggregate demand. The information for 1950, 1960 and 1970 came from the respective censuses. The one for 1978 was estimated by the Secretariat of the Interior in Mexico City. It is instructive to observe that in 1950 almost one-third of Mexico's population lived in settlements of fewer than 500 inhabitants. By the year 1978, this had decreased to 14%, an increase in absolute terms of only 1.5 million people in that group. From the point of view of air transportation, the last two groups are relevant. Here, the population has increased, in absolute terms, by about 22 million between 1960 and 1978. On the other hand, the total number of settlements has increased in every group except the lowest one. This is another consequence of urban concentration.

Table 2.5

POPULATION DISPERSION IN MEXICO

Settlement Size (Inhabitants)	Number of Settlements (Towns, Cities, Villages, Etc.)	%	Total Population (Inhabitants)	%
Year 1950 (1950 Census)				
Less than 500	90,069	90.953	7,525,251	29.18
500 to 4,999	8,147	8.227	9,328,515	36.17
5,000 to 499,999	373	0.377	6,702,456	25.99
500,000+	1	0.001	2,234,795	8.66
Not specified	438	0.442	N.A.	N.A.
Total	99,028	100.000	25,791,017	100.00
Year 1960 (1960 Census)				
Less than 500	78,653	87.777	7,968,482	22.82
500 to 4,999	10,363	11.565	12,208,979	34.96
5,000 to 499,999	593	0.662	10,579,786	30.29
500,000+	3	0.003	4,165,872	11.93
Total	89,612	100.000	34,923,129	100.00
Year 1970 (1970 Census)				
Less than 500	83,705	85.780	8,360,231	17.33
500 to 4,999	12,906	13.227	15,686,323	32.53
5,000 to 499,999	965	0.989	18,643,571	38.66
500,000+	4	0.004	5,535,113	11.48
Total	97,580	100.000	48,225,238	100.00
Year 1978 (Estimated)				
Settlement Size (Inhabitants)	Total Population (Inhabitants)			%
Less than 500	9,000,000			14
500 to 4,999	20,000,000			30
5,000 to 499,999	29,000,000			44
500,000+	8,000,000			12
Total	66,000,000			100

Source: Secretariat of the Interior

A continuation of present trends toward a greater population concentration in the cities is expected during the 1980's. How fast is a different question, as the outcome will be strongly affected by governmental policies. Further, decisions of the American government with respect to Mexican migrant workers entering the United States could affect the whole scenario. Here it is assumed that at least during the Reagan Administration the American policies with respect to those workers will be more favorable or will show no significant change.

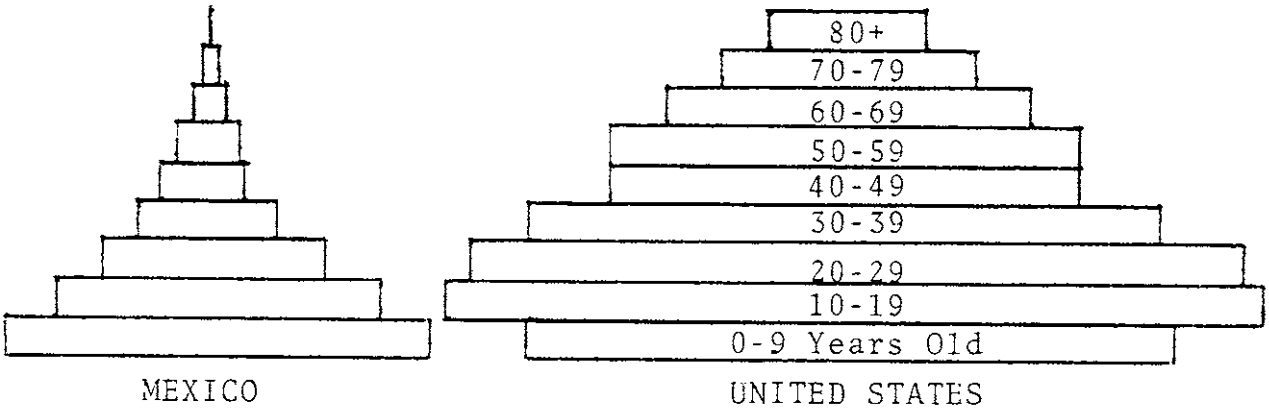
The age and distribution of the population has always played a significant role in studying trends of air transportation demand. Hence, a brief discussion of the Mexican picture is presented here. It is important to note the unevenness of income distribution in Mexico, which, in turn, has caused some unevenness in the age distribution of the population once it is divided into income groups.[1] Bearing this in mind and assuming sustained economic growth in the years ahead (avoiding increasing concentration of income), the statistics that follow will serve as a good guide.

Figure 2.3 shows the population profiles of Mexico and the United States. As can be seen, the Mexican pyramid is an almost symmetrically "perfect" one, meaning that Mexico's young far outnumber the old. Concomitantly, this means that the population of fertile young women is larger than ever before. Average family size is about five (down from six in 1970), still well above the average of two children needed to achieve the government's stated goal of 1% annual growth by the year 2000. The average family in the United States has 1.8 children and annual growth is

[1] In general, the lower the income the lower the educational level and thus the higher the birth rate, with the consequent disruption of the age distribution in low-income families.

Figure 2.3

POPULATION PROFILES: MEXICO AND THE UNITED STATES (1978)



Source: U.S. Bureau of the Census

0.7%. A population pyramid, like the one shown for Mexico in Figure 2.3, means that the economic burden of the lower part of the pyramid (the young) rests entirely on fewer older people. Notice how in the American profile, the layers corresponding to the age groups 10-19 and 20-29 are also slightly "pyramidal". Part of those layers include the "baby boom" that followed the post-war years in the United States. However, that process has already been reversed. This still has not occurred in Mexico.

For the air transportation industry, this means an acute increase in potential travelers once the lower age groups "climb" to the appropriate levels of age and income. This is already being felt in Mexico where the population under 20 years of age represented 57% of the total in 1978 (estimated). There is a potential of disparate growth, unless the family-planning campaigns are intensified.

Table 2.6 is an estimation of the age profile of the Mexican population in 1978. It was prepared, like the measurements of dispersion, using data from the Secretariat of the Interior. The table does not need further explanation. The double-digit percentages of the low-age groups show how dramatic the growth will be in higher-age brackets during the coming years.

Keeping in mind the above comments, air transport studies focusing on future air passenger demand in Mexico should be concerned with three types of population growth. First, the so-called natural growth, shown in Table 2.2. This is the real aggregate growth of the country's population, and it is of extreme importance in long-run analyses. Then, second, the actual growth of the cities and regions, which in the case of Mexico is following a pattern of urbanization as well as of less dispersion, as discussed above. This is of special importance

Table 2.6

MEXICAN POPULATION, BY AGE GROUP (1978)[1]

Age	Population (000)	%
0- 4	11,579.9	17.6
5- 9	9,837.1	15.0
10-14	8,596.4	13.0
15-19	7,228.2	11.0
20-24	5,888.7	8.9
25-29	4,750.2	7.2
30-34	3,840.8	5.8
35-39	3,139.9	4.8
40-44	2,618.0	4.0
45-49	2,183.3	3.3
50-54	1,751.2	2.7
55-59	1,298.4	2.0
60-64	966.5	1.4
65-69	797.1	1.2
70-74	629.9	1.0
75-79	405.0	0.6
80-84	208.8	0.3
85 and more	144.4	0.2
Total	65,863.8	100.0

[1]Estimated

Source: Secretariat of the Interior.

in dealing with city-pair air passenger demand in the short and medium-run. Policy changes can sharply affect this type of growth. Thirdly, there is the growth by age groups, often forgotten, but very important when analyzing countries like Mexico, particularly if the focus is the aggregate medium to long-run air passenger demand. Mexico might have by the end of the century a 1.5% annual population growth. However, its teenagers will be growing at a rate of 3.0%. This is not a problem of concern in parts of Europe and elsewhere where population growth has been quite stable for many years.

Let us now examine Table 2.7. This is a computation of population growth, by age group, between now and the year 2000, using different growth scenarios. The computation was performed relying on aggregate natural growth, so changes due to decreased birth and death rates were taken into account. The estimates assume that Mexico's population will be growing at a 2.5% annual rate by 1982, which is what some demographers expect. For simplicity, age was divided into three groups, the one from 15 to 64 years of age being the most important in analyzing air passenger demand.[1]

Notice several interesting features. First, as one would expect, the average population growth rate for every period and the growth rate of each one of its component age groups is different. Second, no matter which scenario you select, the absolute totals for the age group "65 or more" are already predetermined for each year from now until the year 2000. The same applies for the group "15-64" until 1995.

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[1] Incidentally, in Mexico, the age 65 does not have the same connotation as in the U.S. The whole American concept of "retiring" is different: it depends on one's occupation, union and seniority in the company or government. The "senior citizen" concept is alien and there is no "Florida" or its equivalent for retirement. People usually retire and simply stay at home.

Table 2.7

MEXICAN POPULATION GROWTH, BY AGE GROUP[1,2]

Growth Alternatives by Year 2000	2.0%		1.5%		1.0%	
Age Group	Population (000)	%	Population (000)	%	Population (000)	%
1985						
0 - 14	33,498	42	33,405	42	33,382	41
15 - 64	43,280	55	43,280	55	43,280	55
65 and more	2,580	3	2,580	3	2,580	4
Total	79,358	100	79,265	100	79,242	100
1990						
0 - 14	34,470	39	33,820	37	33,106	37
15 - 64	51,369	58	51,369	58	51,369	59
65 and more	3,014	3	3,014	4	3,014	4
Total	88,853	100	88,203	100	87,489	100
1995						
0 - 14	34,987	35	32,777	34	30,714	33
15 - 64	60,139	61	60,139	62	60,139	63
65 and more	3,611	4	3,611	4	3,611	4
Total	98,737	100	96,527	100	94,464	100
2000						
0 - 14	36,817	34	32,117	31	27,990	28
15 - 64	68,046	62	67,958	65	67,938	68
65 and more	4,322	4	4,322	4	4,322	4
Total	109,185	100	104,397	100	100,250	100

[1] Some figures are rounded or adjusted to match the totals.

[2] The estimates assume that Mexico's population will be growing at a 2.5% annual rate by 1982.

Source: Secretariat of the Interior.

Obviously, the percentages are not predetermined since they are dependent upon the totals. Third, no matter what scenario turns out to be the actual one, the group "15-64" will steadily increase in importance, both in absolute and relative terms. In the meantime, the group "0-14" will have a substantial relative decrease, although moderate in absolute terms. Finally, the "65 or more" group will maintain its relative importance throughout the period under consideration. Fourth, further partition of the "15-64" group might be of value. Notice that under the second scenario (1.5% annual growth), twenty years from now, Mexico's potential air passengers (people over 15 years old) will have increased by 25 million.

Let us now turn to some questions of importance to the understanding of travel patterns in Mexico; specifically, let us concentrate on some of the differences in travel patterns between Mexicans and Americans.

There are social and demographic realities in Mexico which obviate many of the reasons for which Americans travel. First of all, the factor of mobility. Excluding migrant workers, who are mostly rural or urban poor moving to larger cities seeking better opportunities, mobility is not a Mexican fact of life. This is not to underestimate the huge number of people that comprise internal migration as well as legal and illegal emigration to the United States. However, that sector of the population would mostly travel by land. The rest of the population, the middle and upper classes (the ones that travel by air) do not move. Strong familial cohesiveness and the fact that economic and political power is concentrated in a few centers, create little necessity for permanent relocation. This means that

relatives stay together and do not need to travel for family visits. For similar reasons, retired citizens usually do not relocate.

International ethnic travel is another pattern of little importance in Mexico, at least in comparison to the United States. Ethnically, Mexico's population is quite homogeneous. Roughly, its composition is as follows: 55% Mestizo (descendents of Indian and Spaniard people); 29% Indian; 15% white; and 1% other (oriental and a few black people, the latter mostly in some coastal towns). Thus, the only significant portion of international travel for ethnic reasons that can be clearly characterized is the following: American and Latin American residents of Mexico visiting their countries; Spaniards living in Mexico as well as direct descendants of Spaniards who visit Spain; Mexicans and their relatives living in the United States; and people from other smaller foreign communities in Mexico.

Another factor that does not affect travel within and from Mexico is the change of seasons. In Mexico, "seasonal" air traffic means "holiday" air traffic. Winter is a relatively benign season. Hence, air passengers increase only during national holidays or other vacation periods such as school recesses and Christmas. If at all, in winter, many Mexicans seek the American snow and travel to ski resorts in the United States. Simultaneously, a large number of Americans travel to Mexico in winter seeking more temperate climates.

Finally, there should be mention of one new and increasingly important factor that is significantly affecting air passenger traffic from Mexico to other countries, especially the United States. This new traffic has two components: Mexican students in the United States and their families visiting them. There are essentially three types

of students: graduate students, who normally stay in the United States for at least two years; trainees, who stay in American factories and hospitals ("fellows") from six to twelve months; and a large and undetermined number of students in American summer camps and schools where they take English courses. Their stay is normally under three months.

There is no easy means of determining how many Mexican students are currently staying in the United States. The United States Immigration and Naturalization Service (Department of Justice), which is in charge of recording who leaves and who enters the country, is not, unfortunately, a good source of information. During the recent Iranian crisis, it could not accurately state for several months the number of Iranian students in the U.S. The American Embassy in Mexico, which issues the student visas, might be a better source. However, large numbers of students travel as "tourists", making the task of identifying them more difficult. In any case, there is evidence, from different sources, that the number runs into the tens of thousands. It should be remembered that many of those students travel with their wives and children. More often than not, they travel to Mexico at least twice a year and their families and in-laws pay constant visits to them. Also, and of not less importance, is the fact that the majority of this student population is located in a few and limited number of cities. In sum, these students and their visiting families constitute a significant portion of the air travel market between the United States and Mexico. However, it is a market that has been overlooked by the airlines.

Social behavior does not change overnight. Most of the travel patterns described above are here to stay for many years, and the air passenger analyst should be aware

of them. With the possible exception of the appearance of some new job markets in Mexico (requiring people to relocate) well into the 1980's and beyond, most of the present market trends will continue, including that of Mexican students and trainees traveling to the United States. In fact, with more people completing college in Mexico than ever before, the trend just described is very likely to increase. In other words, numbers might change, but not the basic patterns.

2.3 Legal and Political Background

The United States Airline Deregulation Act of 1978 and the new policies for the conduct of international air transport negotiations, approved during the same year, are major developments that have challenged the order of world aviation.

The new liberal international air transportation agreements pursued by the American government have been perceived by many foreign opponents as inconsistent and contradictory to the close protectionism being imposed on behalf of other sectors of the American economy. Nobody can question the legitimacy of the American position. However, the ability to understand the peoples of the world and their right to protect what is theirs, would be in the best interest of the United States.

In the course of this investigation, this author had some first-hand experience of the frictions that arise due to lack of understanding on the part of the negotiators about the limitations of each other's power. A basic knowledge of the legal and political structure of one's counterpart is essential to success in such negotiations, and is certainly pertinent in the case of Mexico and the United States.

In this section, the legal and political infrastructure of Mexico will be examined. The section will

concentrate on the main federal and political institutions and the way they affect other institutions in Mexico, including those related to civil aviation.

Mexico, like the United States, constitutes a representative, democratic and federal republic, made up of 31 sovereign states and a Federal District. The people have the right not only to choose their representatives, but also the form of government they desire. In the tradition of the French Constitution, the people are the holders and depositories of national sovereignty. On the other hand, federalism was an idea taken by Mexican jurists from the American model.

The Mexican Constitution, a lengthy document, comprised of 136 articles, is the dominant legitimizing force of national, political and institutional life. Written in 1917, it has been amended by Congress on several occasions, although never in substance. It differs from the American Constitution in that it addresses in much more detail matters of both policy and procedure. Therefore, it leaves fewer grounds for problems of interpretation as well as flexibility in the formulation of some of the laws that derive from it.

The Constitution was, in many respects, the culmination of almost seven years of a bloody civil war. Hence, its articles are a reflection of the social and political problems that had afflicted Mexico until then. It is a profoundly pro-peasant, pro-worker document. Foreign airlines serving Mexico are well aware of this. It is also intensely anticlerical, limiting the power of the Church to an astounding degree. The document adjudicates Mexico's subsoil rights to the State. This includes mines and oil fields and limits the amount of land that any Mexican can own. In addition, Article 27 states that

"The nation shall at all times have the right to impose on private property such limitations as the public interest may demand, as well as the right to regulate the utilization of natural resources ... in order to conserve them and to ensure a more equitable distribution of public wealth."

With respect to foreign ownership, it states that

"Only Mexicans by birth or naturalization have the right to acquire ownership of lands, waters... or to obtain concessions for the exploitation of mines or waters. The state may grant the same right to foreigners, provided that they agree before the Secretariat of Foreign Relations to consider themselves as nationals in respect to such property, and bind themselves not to invoke the protection of their governments."

In this vein, many articles of the Constitution are extremely cautious in the concession of rights to non-Mexicans, perhaps exaggeratedly so. A history of repeated foreign interventions left its mark in the Mexican Constitution. As a result of that and other articles, Congress has passed a number of laws that promote, but at the same time rigidly regulate, foreign investment in Mexico. Companies, like United Airlines' sister company, Westin (formerly Western International) have to abide by such laws.

As a general rule, foreign investment must not control more than 49% of the capital of business enterprises. Mexicans simulating ownership in order to allow a foreign person or company the actual ownership of a regulated enterprise are subject to very stiff jail penalties. However, in general, the State has proven to be very flexible and an increasing number of foreign companies have been operating

in Mexico since the early 1950's.

The following activities are reserved exclusively for the State:

Petroleum and other hydrocarbons; basic petrochemicals; radioactive minerals and the generation of nuclear energy; mining (not all cases); electricity; railroads; telegraph and telephone communications; others of less importance.

Notice that the only means of transportation controlled by the State are railroads. There is no mention of trucks or aviation. The only possible explanation of this is the importance that trains had at the time of the drawing up of the Constitution, an anachronism that has remained unchanged in successive laws. Notice also the immense discretionary power that the Mexican State has reserved for itself. Practically, every enterprise considered in the United States as a utility is State-owned in Mexico.

The following activities are reserved exclusively for Mexicans or for Mexican companies with an exclusion-of-foreigners clause:

Radio and television; urban and interurban automotive transportation and federal highways transport; domestic air and maritime transportation; exploitation of forestry resources; gas distribution; others.

Later on, in Section 2.3, it will be shown how the Mexican State controls many areas of the economy (sometimes as a monopoly and at other times competing with private interests) to a degree that many liberal-minded Americans would find unacceptable.

Another contribution of the Constitution of 1917 was the inclusion of one of the principal banners of the Revolution. This limits the President to only one term in office. There is no re-election, even in the case of non-successive terms of office. Actually, not even in the case of a President that happened to be in office only a few

months (as a President-substitute). The term lasts six years (it used to be four years until 1934). Given the authoritarian ways of Mexican politics, this is probably one of the most respected and most useful provisions of the Constitution. Since 1917, Mexico has not seen the overthrow of a government, and since the early 1930's (after some irregularities), Presidents have taken office with absolute regularity on December the 1st, every six years, providing relative political stability and a favorable investment atmosphere for Mexico.

The states are sovereign in local matters. They have their own Constitution and their own three separate powers, the Governor being the Chief Executive. They also have their own Supreme Court of Justice. Governors hold office for six years and cannot be re-elected. States are divided into municipalities which represent the smallest political subdivision in Mexico. The Federal District is the seat of federal power, and as such, it is under the authority of the President.

As in the United States, the federal state fulfills its function through executive, legislative and judiciary power.

Executive power is vested in a single person, the President of the United Mexican States. Currently, the President is José López Portillo, who is scheduled to leave office on December 1st, 1982. The President is elected by the direct vote of the citizenry. He discharges his functions through the Attorney General's Office (named by the President), the Department of the Federal District, sixteen secretariats ("departments" in the United States) and numerous federal agencies and commissions. The importance and power of the executive branch in Mexico is disproportionate, if not by design, at least by the force of reality. Civil aviation, including all of its components, depends totally

upon decisions taken by this branch of the government. For that reason, Section 2.3 deals exclusively with some of the details of the structure and management of the executive branch.

Legislative power is vested in the Congress, divided into two Chambers ("Houses" in the United States): the Chamber of Deputies ("House of Representatives" in the United States) and the Senate. Presently, the Chamber of Deputies has 400 seats. Of these, 300 are for deputies elected by simple majority throughout the 300 single-member electoral districts of the country: the other 100 seats are reserved for minority political parties, which can also enter the race for the single-member districts. The distribution of the 100 seats takes place in accordance with each party's numerical membership and its proportion in the grand total. The deputies are elected for a period of three years. Thus, the political system allows representation in Congress to groups that have a significant number of followers even though they did not obtain a majority in any district. It is the only way to allow smaller but still important (and often very active) political groups to express dissent and work constructively with the rest of Congress. Moreover, it is another way to ensure political stability and the survival of the present system. The parties have to be registered in order to enter the electoral race (at least, conditionally registered). Registration procedures are relatively simple, flexible and reasonable. The most active parties in Mexico are: the Institutional Revolutionary Party (PRI), which has been by far the dominant party for half a century; the National Action Party (PAN), a conservative Catholic party that is the most important opposition, albeit negligible, to the PRI; the Mexican Communist Party(PCM); the Socialist Worker's Party (PST); and the Mexican Democratic Party (PDM).

The Senate, as in the United States, is composed of two senators representing each state and two representing the Federal District. Senators are elected by direct vote for a six-year term. Neither deputies nor senators can be re-elected to two successive terms.

A description of the mechanisms through which Congress passes laws is beyond the scope of this study. Let us note only that the system is similar to that of the United States. Both Congress and the President, as well as the states, have authority to introduce bills. If the bill passes, it is then executed and officially published by the President in the form of a law or decree. The President does not have veto power.

The Constitution delineates exactly the areas in which Congress can legislate and when the President can act at his own discretion. In the area of air transportation, the Constitution, in Article 73-XVII, gives Congress the right to enact general transportation laws for the country. Thus, derived from that article, in 1931 Congress passed (and later reformed and amended several times) a general law of communications and transportation (Ley de Vías Generales de Comunicación"). It deals with electric communications, waterways, bridges, highways and similar projects when these are federal, meaning that they were built by the federation, join two or more states, or fall in similar situations. However, it declares air navigation as a federal matter. This law is the main air transport regulatory statute of Mexico. One of the most important features of that document is that it allows the President to determine, in almost every case, the rules and regulations that should be met in order to comply with the law. For example, the law gives some general guidelines on the way air traffic control should be handled. Then, it states that it will be the

Executive, through the Secretariat of Communications and Transportation, which will issue rules and controls pertaining to air traffic control. In this manner, a very large number of regulations have been passed by the President. However, most of them derive from the above mentioned law. In Chapter 4, a more detailed discussion of these legal aspects will be presented.

Independent of the law described above, the President has certain other constitutional responsibilities related to air transportation. First, the President has the right to negotiate agreements and treaties with foreign powers. These become law when ratified by the Senate. This includes air transport bilateral agreements. This is a very important point, because Mexico considers those agreements, once signed and ratified, as binding and carrying the same force as any other international treaty. This marks a departure from American law and leaves grounds for friction. Second, an international gateway in Mexico has to be decreed as such by the President, in part in order to establish facilities such as customs and immigration which depend upon the executive branch. This means that in an international bilateral negotiation, not every airport should automatically be considered as a gateway, and, therefore, negotiable. On the other hand, since building and management of airports is a federal matter, the non-Mexican counterpart does not have to negotiate with local airport authorities on any matter, including noise problems and airport tariffs. When the Port Authority of New York and New Jersey denied landing rights to the Concorde a few years ago, considerable international tension arose due in part to the French and British refusal to concede that Washington was not responsible for the attitude of the Port Authority. Needless to say, conflicting situations similar to the one just described could arise. Mexico restricts its gateways, the United States does not. The United States government

does not control local airport authorities and Mexico does. These and other legal and procedural matters should be kept well in mind by the negotiators.

To end this discussion on the federal powers in Mexico, let us add that the judicial branch dispenses justice in federal matters. Its highest organ is the Supreme Court of Justice, composed of lifetime members appointed by the President and subject to ratification by the Senate.

It is also important to note that any important decisions made by the Federal Government, laws, decrees, regulations, amendments, etc., domestic or international, have to be published in the government's official newspaper, known as Diario Oficial de la Federación. The government is obliged to do so before any statute takes effect.

The preceding pages have dealt with the legal structure of the Mexican State apparatus, concentrating on the relationship of that structure with air transportation. Yet, the discussion would not be complete without elaborating, at least briefly, on some of the realities of political life in Mexico, including aspects that affect air transportation.

To begin with, the importance of the Presidency and the PRI Party in Mexico should be emphasized. Both entities are part of a single configuration of power that, in the mind of the immense majority of the Mexicans, are inseparable. The PRI has been the dominant party for a generation, with every President, governor and senator affiliated with it. Most of the potential opponents have been co-opted by the party in some way or another. Yet, the PRI does care, and cares very much, to give the people of Mexico some sense of the legitimacy of their intentions and position in power.

Elections are always held and the PRI campaigns just as if it had a gigantic adversary contending with it. The PRI truly wins most of the elections (at every level) although many cases of fraud have been detected. Why does it win? First, for many voters it is the best option. The PRI portrays itself as the heir and carrier of the revolutionary banner of 1910. On the other hand, through co-optation of other forces, control of the workers and peasants (unionized), and a prodigious ability to change and compromise, it has remained as the best alternative that many citizens have. Second, the voting population has been shrinking more and more, since dissidents, believing that they do not have viable options, simply do not vote. (This could change sharply in the July 1982 presidential elections, when for the first time in many years a number of more viable and more active leftist parties will enter the race.) Thirdly, the PRI has managed to establish in Mexico a system in which political mobility and turnover is an undisputed and accepted fact of life. Every six years, the President and most of the senior officials leave office and retire from the political arena. Nobody hears of them again, at least during the next term. Luis Echeverría, for example, one of the most outspoken and controversial presidents that Mexico has recently had, left office in 1976, and since then, very little is heard about him. Furthermore, at a lower level (even four steps below cabinet rank officials) the turnover is almost total, i.e., much beyond the political appointee's level. The same or similar things happen in the states. This means tens of thousands of new positions and renewed hopes for many ambitious politicians who otherwise could become a source of trouble. On the other hand, to quote Hansen (1971)[1], "the ability and willingness of the political elite to co-opt talented and ambitious young men without previous political connections assures the

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[1]Page 179.

political system of a broadening base of support, drains opposition parties and movements of potential sources of leadership, and contributes directly to a meaningful circulation within the political hierarchy."

In sharp contrast with the silence surrounding ex-Presidents, during his term in office the President is far more powerful than what one might presume by merely reading the law. He is practically all-powerful. No major decision is taken without consulting him. He dominates Congress and his bills always pass. Candidates for state Governor are decided by the PRI always with his advice. The press rarely attacks him, and when it does, it tries to do it indirectly. Finally, he is the main decision-making force in determining the PRI's presidential candidate. Yet, a qualification must be added here: it would be incorrect to assume that there are no restraints upon presidential power in Mexico. Despite the President's power, his decisions are not taken randomly or capriciously. There is an informal but elaborate system of political consultation working behind the scenes, that has proven to be very effective and has strengthened the whole system.

To understand the political structure of Mexico, it is necessary to understand that many of its inhabitants have been and continue to be "marginal" to politics. In the view of González Casanova (1967)[1], these people do not have any political idea, they are the "objects" of political ideas. They are not political subjects either in the information they have, or in their conscience, organization or actions. "Marginalismo", in Spanish, according to the same author, is to be outside of the patterns of development of society, economically, socially and culturally. In his words,"To belong to the great sector of the ones that do not have anything is particularly characteristic of underdeveloped

[1]Page 89.

societies." Thus, the impressive overall economic progress of Mexico in the past 30 years, described in Chapter 3, has not been matched by equal sociopolitical progress, and Mexican society remains in some respects underdeveloped.

Hansen (1971)[1] talks about three social groups in Mexico in relation to political demand upon the system: the parochial, the subject and the participant. The parochial, presumably comprising 25% of the population (do not forget that 18 years have passed since that analysis), are individuals that do not make any demands upon the system. They have been described as apathetic, passive, fatalistic and resigned. The regime provides them with what it considers appropriate. The second group has the orientation of a subject political culture. This group, supposedly comprising 65% of the population, is conscious of and understands the government's actions. It sometimes agrees with them and sometimes disagrees with them. However, as a norm, it remains passive. The third group would comprise only 10% of the population and is the only one that creates effective demand upon the regime. It includes the upper middle class and the business sector. Some comments on how this group interacts with the government are included in Chapter 6.

To what extent does due process of law operate in air transport-related decisions? -- The answer is twofold.

First, the air transport analyst and the industry as a whole can expect rational decisions on the part of the Mexican authorities, particularly in the international scene. What underlies the rationale of those decisions is one of the things that this study intends to explain. However, in the light of the previous discussion, the analyst can expect (although not necessarily) very abrupt policy changes after the inauguration of each new administration. Still, due course of law will probably prevail. In air transport, the Mexican government has always followed a very legalistic

[1] Page 183.

path and there is no reason why that should change. Yet, the majority of the bills will certainly continue to originate within the confines of the executive branch, not Congress, and they will pass. This includes, of course, air transport bilateral agreements. In brief, while rational decision-making will probably hold, long-run consistency will not necessarily occur.

Second, the timing of bilateral discussions should be very carefully planned, especially if there is some flexibility as to when they may be held and if the advent of a new administration is near. Quoting Hansen (1971)[1]: "...it would be a mistake to assume that [the presidential candidate's] policies can be accurately predicted on the basis of his public record to date. Presidents dominate the Mexican political scene to such a degree that cabinet members [from whom the next President is usually chosen] do little more than implement presidential decisions. Indeed, wherever one is placed in the Mexican political hierarchy, his continued upward mobility is generally dependent upon the degree to which his behavior accords with the wishes of his immediate superiors. Only [when the new President] is at the top of "the greasy pole" are his personal values and policy predelictions free to emerge."

The current Mexico-United States air transport bilateral agreement will expire on December 31, 1982, 31 days into a new Mexican administration. This issue will be considered in Chapter 8.

2.4 The Executive Branch and Its Structure

Until the very recent past, the structure of Mexico's administrative apparatus was a relatively simple one. However, by the mid-1970's, the multiplication of government agencies, commissions and state enterprises started to cause important problems of coordination.

[1] Page 231.

In 1977, the administration proclaimed, along with a number of "political reform" programs, what was called an "administrative reform." This reform later led to the issuance of a "national program," covered here in Chapters 3 and 6.

The legal basis of the administrative reform is the "Ley Orgánica de la Administración Pública Federal," a 54-article document that defines the structure and functional characteristics of the executive branch. The whole issue is not an easy subject due to the increasing complexity and number of activities in which the Mexican government is engaged. The new guidelines are still being implemented and many government officials have still not completely adjusted to the new organization.

Literature on the subject, either for expert or layman, is very scarce, and unfortunately, reports and memorandums, as well as the law itself, are not always sufficient to grasp this matter.

A year ago, a book was published (Faya, 1979), adequately explaining the organization of the new public administration, albeit exclusively from a legal standpoint. It is an informative work and is worthwhile reading.

It is a matter of necessity, for anyone interested in understanding the *modus operandi* of air transportation in Mexico, to gain some insight into the new functional structure of the Mexican government. This section is intended to be a concise and clear summary of it.

As stated in the previous section, executive power is vested in a single person, the President of Mexico. It is important to emphasize the phrase, " a single person" because constitutionally his cabinet and other officials are not "part" of the executive branch; that is, they do not share power as officials do in the other two federal branches.

They are, as important as they might be, simple collaborators.

The nearly one thousand secretariats, commissions, public enterprises, agencies and other entities subordinate to the President are grouped into two divisions: centralized entities and government enterprises (roughly translated from the Spanish word, "paraestatal"). See Figure 2.4.

The centralized entities are the President's office (mainly, an advisory group), the secretariats, departments, the Attorney General's office and the Federal District Attorney General's office. The government enterprises are classified as follows:

a. Decentralized agencies
b. National credit institutions
c. Auxiliary national credit institutions
d. National insurance institutions and
e. National trust funds.

Let us first describe the centralized entities, so called because they form, in effect, the "central" body of government.

The President's office includes a relatively large number of advisors in charge of technical, political and economic support to the President as well as administrative advice and public relations. There are several bureaus within this office.

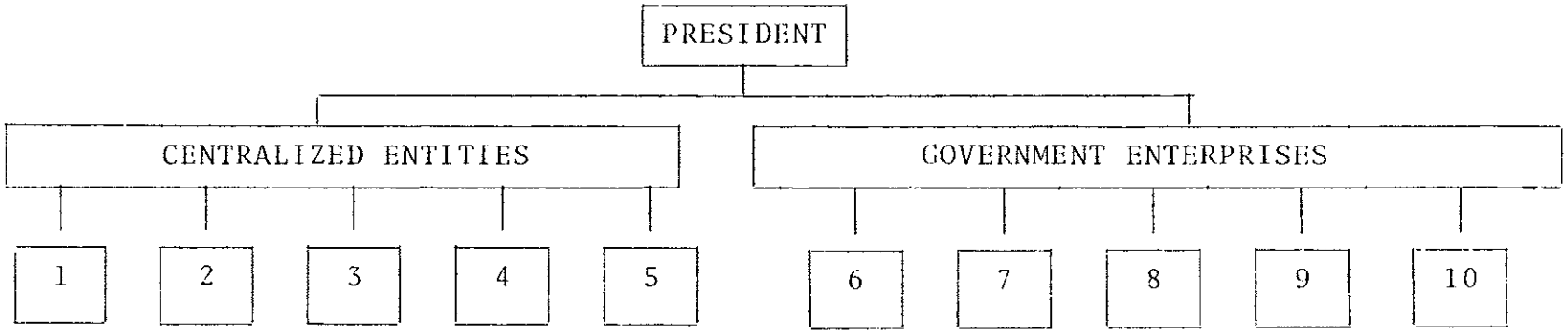
The secretariats are equivalent to the departments in the American government and both, administratively and politically, constitute the most important units of the executive branch.

There are currently 16 secretariats, as follows:

1. Secretariat of the Interior
2. Secretariat of Foreign Affairs
3. Secretariat of National Defense
4. Secretariat of the Navy
5. Secretariat of Finance and Public Credit

Figure 2.4

THE EXECUTIVE BRANCH



1. President's Office
2. Secretariats (16)
3. Departments (2)
4. Attorney General's Office
5. Federal District Attorney General's Office
6. Decentralized Agencies
7. National Credit Institutions
8. Auxiliary National Credit Institutions
9. National Insurance Institutions
10. National Trust Funds

NOTE: This is only a representation of the grouping of the President's collaborators. It is not a functional breakdown so interpretations of hierarchical order are not intended.

6. Secretariat of Planning and Budget
7. Secretariat of National Resources and Industrial Development
8. Secretariat of Commerce
9. Secretariat of Agriculture and Water Resources
10. Secretariat of Communications and Transportation
11. Secretariat of Human Settlements and Public Works
12. Secretariat of Public Education
13. Secretariat of Health and Welfare
14. Secretariat of Labor
15. Secretariat of Agrarian Affairs (or, in Spanish, "of the Agrarian Reform")
16. Secretariat of Tourism

It is important to clarify that the Secretariat of the Interior performs functions totally different from the similarly-named American department. Its functions are closer to some of those assigned to the United States Department of Justice. It mediates when conflicts arise between two states; coordinates the relationship between the three branches of government; it is in charge of immigration and naturalization (including the collection of statistics on air passengers entering and leaving the country); plus numerous other functions.

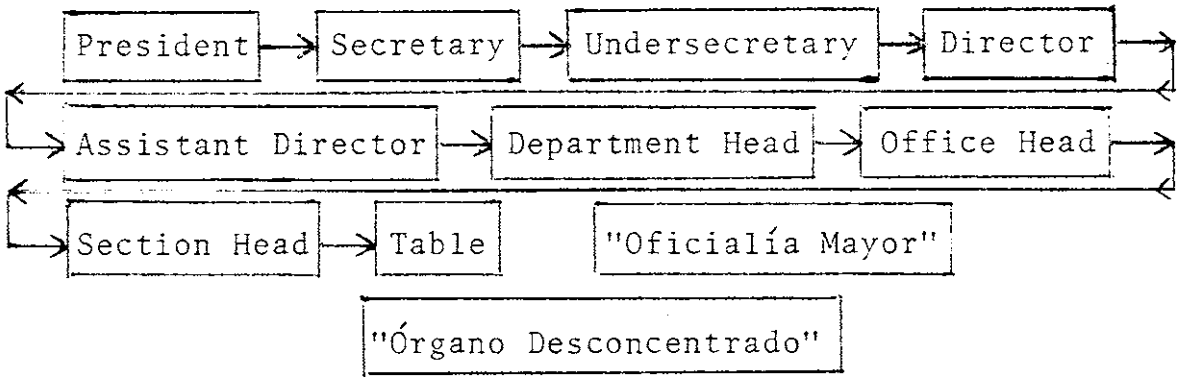
The Secretariat of Planning and Budget is an approximate equivalent of the U.S. Office of Management and Budget.

For the sake of brevity, the other secretariats are not described here. The reader should be cautioned that their names do not always truly reflect their responsibilities, so the appropriate literature should be consulted before interpreting their functions.

The secretariats of direct or indirect interest in this study are those of Communications and Transportation, Human Settlements and Public Works and the Secretariat of

Tourism.

The head of each secretariat is called, as in the United States, "secretary." Under him, there are one or more undersecretaries, each one heading an undersecretariat. The undersecretariats are divided into directorships, each one headed by a director. As will be shown later, the Mexican Civil Aeronautics Board is a directorship. Continuing the hierarchical order, the following categories are "subdirectorship", department, office, section and table. The hierarchy can be pictured as follows:



Each secretariat also has an official, called in Spanish, "oficial mayor," in charge of general administrative matters, coordination, and budget within the secretariat.

Another type of centralized entity is the "department" at the same hierarchical level as a secretariat (do not confuse it with the "department" just described above) and with a similar organizational structure. The department fulfills important governmental functions and their heads, called "head" ("jefe", in Spanish) have responsibilities similar to the secretaries. There are only two departments:

1. Department of Fishing
2. Department of the Federal District (essentially, Mexico City's City Hall).

Finally, as mentioned before, there are the two additional centralized entities of the Attorney General's office and the Federal District Attorney General's office. Description of these offices is beyond the scope of this study.

Each fiscal year (in Mexico, the same as the calendar year), the centralized entities are assigned a budget. Internally, they divide their budget the way they consider appropriate among their respective directorships.

In addition to the internal structure just described, the secretariats and departments have, on occasions, one or more agencies that are subordinated to them but are not an integral part of the secretariat itself. These agencies, legally called in Spanish "Órgano Desconcentrado" (literally, "not concentrated"), are created to handle specialized functions. Usually, they work semiautonomously, headed by a director general. They are assigned an independent budget, not linked to their secretariat's. Yet, they report to the secretary or some other official within their secretariat. As later will be shown, Mexico's air traffic control is handled by an agency of this nature.

Every secretariat and department has, if not politically at least legally, the same hierarchy within the executive branch. In the case of the secretariats, their heads have to countersign any new law signed by the President which has something to do with their ministry. This does not imply legal responsibility before Congress. Yet, it means political agreement with the President. This includes the signing of international air transport bilateral agreements.

Let us now turn our attention to the government enterprises, the "Sector Paraestatal." This is of special importance to the air transport analyst since, for example,

Mexico's flag airline, Aeroméxico, belongs to this sector.

Mexico, since the mid-1920's, has followed a "mixed economy" model where public and private enterprise sectors coexist. The general ideological justification of it is that the Mexican private sector would not be able to satisfy increasing public demands whose ultimate goal is social justice. In the words of Faya (1979)[1], "... only the State is capable of defining and fighting toward the goals of social justice to which the community aspires. This goal cannot be entrusted to blind and selfish market forces."

Whether truly justified or not, the mixed economy model is a fact of Mexican life and there are about 900 entities that fit into the "paraestatal" category. Not every entity is engaged in what could be called business activity. Within this group one finds commissions, statutory bodies, the Social Security Institute, etc. On the other hand, one finds the government engaged, often as a monopoly, in businesses such as oil refining and distribution, railroads, the national telephone company, hotels, sugar refining, the steel industry and many more. All of these fall into the "decentralized agency" category diagrammed in Figure 2.4. The other categories (also included in Figure 2.4) are self-explanatory. One of them, "national trust funds," includes Fonatur, a tourist development fund discussed in Chapter 7, whose activities are of extreme importance when analyzing air travel trends. Finally, it should be mentioned that the government is a majority or minority partner (stockholder) in a large number of enterprises. Every government-run enterprise, whether an organization, statutory body or business, does not report to the President but rather, to one of the eighteen secretaries or department heads. Yet, they have their own budget which provides them a measure of autonomy.

[1] Page 545.

For coordination purposes, and recognizing the linkage among secretariats in the definition of broader socioeconomic programs, the administrative reform has recently defined 12 sectors, as follows:

1. Agriculture and forestry sector
2. Fishery sector
3. Industrial sector
4. Commercial sector
5. Tourist sector
6. Economic sector
7. Administrative and defense sector
8. Communications and transportation sector
9. Human settlements sector
10. Educational sector
11. Labor sector
12. Health and social security sector

Each sector is coordinated by one secretary or department head designated by the President. Hence, when some problem area (e.g., tax collection) affects several secretariats, they work under one single head, namely, the sector coordinator. The sector of communications and transportation, for example, is coordinated by the Secretary of Communications and Transportation. More specifically, the subsector "transport" is coordinated by one of the undersecretaries. Obviously, one secretariat can belong to more than one sector. This will be considered in more detail in Chapter 4.

Conflicts of interest and a certain lack of coordination are still commonplace in some areas of the administration. In fact, as discussed later on, some degree of friction and the overlapping of functions was detected in the area of air transportation during this investigation. Despite these problems, the current administration has come a long way. This should certainly be taken into account.

Chapter III

MEXICO: ECONOMIC GROWTH, ITS CHANGING PATTERNS AND AIR TRANSPORTATION

3.1 Introduction

In the economy of a country, air transportation is both a means to an end and an end in itself. It is a means in the sense that economic development depends upon it; it is part of the basic infrastructure of a nation. It is also an end since it is an essential factor of a country's well-being.

This chapter is a description and analysis of those elements of the Mexican economy that are relevant to our subject matter.

This chapter should be useful for those unacquainted with the Mexican economic picture. The chapter is divided into three parts.

The first section is a description of the broad structure of the Mexican economy and the magnitude of its leading economic indicators. In addition, some aspects of the relationship with the United States are described.

The second section is subdivided into two parts. The first one delineates two bottlenecks of importance in the Mexican economy: unemployment and income distribution. To neglect them would be to impair understanding of Mexican realities as well as to bias estimates of Mexico's air travel potentials. The second one is an illustration of various analytical constraints and pitfalls that the analyst

might encounter, particularly in econometric modeling.

Finally, the third section introduces the reader to the new Mexican plan of development. It highlights its importance, and based on it, a general outline of the economic prospects of Mexico is made.

3.2 Leading Indicators

Let us start this chapter by providing some insight about the size and structure of the Mexican economy.

Mexico's economic growth and change during the past three decades has not always been fully understood; for example, contrary to popular opinion, Mexico is a rapidly industrializing nation whose oil revenues did not start to be of importance until very recently. Therefore, to treat Mexico as an "oil economy" is a mistake since by the time the oil revenues started to grow in 1977, the economy of Mexico had behind it 30 years of growth at a yearly average rate of 6%, in real terms (as measured by the gross domestic product - GDP).

According to United Nations statistics, Mexico's position among world producers is as follows (1979):

In agriculture: coffee production, 3rd in the world; steroidal hormones, 1st; corn, 7th.

In mining: silver, 1st; strontium, 1st; fluorite, 1st; graphite, 1st; sulphur, 3rd; lead, 3rd; mercury, 6th; zinc ore, 7th.

In industrial production, notwithstanding Europe's industrialization, Mexico has managed to become: in oil production and refining, 13th, although in reserves it is 5th; electric power, 16th; sulphuric acid, 11th; cement, 15th; passenger cars, 14th. Furthermore, the country is eighth in the world in passenger cars in use and seventh in commercial vehicles in use. Its air passenger traffic occupies number 15 on the world list and its railway cargo

is number 13. In radio set production, it is number 13 and in television sets, 11th. Finally, Mexico is fourteenth in the world in number of telephones.

Considering the state of the Mexican economy in the late 1940's, and even in the early 1950's, and taking into account the monumental problems that underdevelopment presents, the growth and industrialization of Mexico has been rapid and impressive. Table 3.1 shows the growth of the GDP since 1960.

The industrial sector represents about 38% of the gross domestic product. During 1978, industrial production showed an accelerated growth rate (10%). The growth rate for 1979 was 9.5%. This was accompanied by an amazing gross fixed investment growth of 18%. (All the above figures are given in real terms).

This growth has had some important ups and downs in the past. The GDP, which as explained later can be used as a proxy for GNP, increased over 8% in real terms in 1980 (a recessionary year over most of the western hemisphere). In the 1960's, it reached astonishing peaks of 11.7% in 1964 and 8.1% in 1968, and never fell below the 4.7% mark. On the other hand, economic growth slowed during the mid-1970's.

In December of 1970, Luis Echeverría occupied the nation's highest office, initiating a six-year term of rapid expansion and enormous federal spending that, although it

Table 3.1

MEXICAN REAL GROSS DOMESTIC PRODUCT (GDP)
(in 1960 pesos)

Year	GDP (millions of pesos)	Percent Change
1960	150,511	----
1961	157,931	4.9
1962	165,310	4.7
1963	178,516	8.0
1964	199,390	11.7
1965	212,320	6.5
1966	227,037	6.9
1967	241,272	6.3
1968	260,901	8.1
1969	277,400	6.3
1970	296,600	6.9
1971	306,800	3.4
1972	329,100	7.3
1973	354,100	7.6
1974	375,000	5.9
1975	390,300	4.1
1976	398,600	2.1
1977	411,600	3.3
1978	441,600	7.3
1979	476,900	8.0
1980[1]	515,052	8.0

[1]This is a rough estimate, based on informal figures released by the same source.

Source: Banco de México.

boosted the internal economy, also undermined the peso's strength and generated an increasingly inflationary process that culminated with a sharp devaluation on August 31, 1976. The peso-dollar exchange rate had remained stable at a rate of 12.50 pesos to a dollar since 1954. Since the devaluation, the peso has been floating. In October 1976, the rate had reached 25.40. Later on, in February of 1977, it dropped to 22.60, remaining more or less stable until the second half of 1980 when the Mexican economy began experiencing a 30% annual inflation rate. Since then, the peso has gradually weakened. By April of 1981, it was being traded at 24.00 pesos to the dollar.

The 1976 devaluation proved to be a major psychological and economic disaster. The sudden change after twenty two years of fixed exchange rates produced an important crisis of confidence in the government on the part of vast sectors of the population. The rate of increase of the GDP declined from 5.9% in 1974 to 4.1% in 1975, and to around 2.1% in 1976. This led to a dramatic decrease of the GDP per capita to about -2.0% in 1977.

It is not the place here to discuss the economic policies of Echeverría's administration. The fact is that the country slowly returned to normalcy and growth after López Portillo took office by the end of 1976. Public expenditure was decreased and basically channeled into productive investment in the priority sectors of agriculture and energy, while private investment was stimulated through specific agreements under the "Alliance for Production" program. Hence, by 1978, the GDP climbed at a 7% annual rate and inflation was brought under relative control[1] for two years, although it later began to rise again. Presently, inflation seems to be uncontrollable (about 30% in 1980) and the government appears to be resigned to it.

[1] "Relative control" by Mexican standards, as shown later.

Air passenger demand was clearly affected by the fluctuations of the economy, with a sharp increase in domestic demand in 1974-1975 (almost 25%) and a slow down to 10% in 1977. The econometrician should be aware of the parallel tracks that air traffic and economic growth followed during those years. See Lisker-Melman (1978).

Public expenditure continues and has lately risen again, mainly in economic infrastructural work, including sectors vital to the nation such as communications and transportation. In this sector, the highway system (which is often related to the need or lack of need for air transportation) can be considered adequate for connecting the major centers of the country. Thus, the air transport analyst should not expect, in the case of Mexico, as happens in many other developing nations, that further road construction will alter to a significant degree the air passenger demand scenario. Presently, the government is concentrating its efforts on the building of secondary roads to connect rural, isolated communities. Tables 3.2 and 3.3 are good illustrations of the huge expansion that the road system has experienced over the last decade (almost 300%). It is important, however, to clarify two things: first, in 1978, only about 70% of the roads were actually paved. The rest were unpaved roads and paths not passable year-round; second, the road statistics provided by the Secretariat of Communications and Transportation show some inconsistencies, probably due to changes in the definition of "passable" and "impassable" roads.

The construction of additional roads should not appreciably alter air passenger demand and does not mean that a substantial portion of the passengers presently traveling by land could not be attracted by faster modes of transportation. Bus transportation is still the primary mode of transportation in the country, followed by automobile, and

Table 3.2

ROADS OF MEXICO

Year	Length (km)
1970	71,520
1971	74,052
1972	124,391
1973	156,706
1974	175,389
1975	186,218
1976	193,290
1977	199,060
1978	207,661

Source: Secretariat of Communications and Transportation

Table 3.3

ROADS OF MEXICO, BY STATE
(1978)

State[1]	Length (km)
Aguascalientes	1,989
Northern Baja California	3,374
Southern Baja California	4,797
Campeche	2,639
Coahuila	9,575
Colima	1,504
Chiapas	9,583
Chihuahua	9,478
Distrito Federal	152
Durango	8,667
Guanajuato	6,070
Guerrero	8,920
Hidalgo	5,778
Jalisco	9,776
Mexico	7,451
Michoacan	9,989
Morelos	2,266
Nayarit	2,946
Nuevo Leon	5,852
Oaxaca	11,629
Puebla	6,989
Queretaro	3,418
Quintana Roo	3,353
San Luis Potosi	6,749
Sinaloa	10,068
Sonora	11,102
Tabasco	4,656
Tamaulipas	10,319
Tlaxcala	2,942
Veracruz	11,173
Yucatan	5,344
Zacatecas	9,113
Total	207,661

[1]In alphabetical order (Spanish form).

Source: Secretariat of Communications and Transportation.

finally, by the slow, inefficient railroad system. Economic growth should effect changes in the present share of passengers using each mode of transportation. However, there are no reliable statistics to confirm this at the present moment.

Table 3.4 provides a more detailed look at the breakdown of the economy and the proportion of each of its components.

Mexico's banking and financial sector plays a key role in the country's economic development. The financial and monetary authorities are the Secretariat of Finance and Public Credit, the Central Bank (Banco de México), the National Banking and Insurance Commission and the National Securities Commission.

The banking system is composed of public, private and mixed financial institutions. Currently, there are 101 credit institutions operating with 3484 branches throughout the country. In addition, foreign banks may establish representative offices in Mexico, although only for foreign operations, not to accept deposits. At present, there are 161 foreign bank branches representing 114 banks in Mexico.

Nacional Financiera (NAFINSA), the nation's development bank, is the main official institution that funnels international loans as well as government money into priority sectors, both private and public. This institution is the main credit guarantor of the Mexican airlines when loans are negotiated with the United States Export-Import Bank (Eximbank) and others for the purchase of aircraft.

Since the 1940's, not a single bankruptcy has been registered by the Mexican banking system. It should also be added that Mexico has no restrictions whatsoever on current account payments or capital movements (internal or international). Moreover, the government has proven to be fully committed to sustaining the free convertibility of the

Table 3.4

MEXICAN REAL GROSS DOMESTIC PRODUCT, BY SECTORS OF THE ECONOMY

Gross Domestic Product (Billions of Pesos)	1960	1970	1976	1977	1978[1]	1979[1]
At current prices	150.5	418.7	1,228.0	1,674.7	2,104.6	2,727.3
At constant prices (1960)	150.5	296.6	398.6	411.6	441.6	476.9
Breakdown of GDP by sectors (Billions of Pesos at Constant Prices)						
a) Agriculture, Livestock, Forestry and Fisheries	24.0	34.5	37.9	39.9	41.3	39.7
b) Mining	2.3	2.9	3.5	3.5	3.6	3.7
c) Petroleum and basic petrochemicals	5.1	12.7	20.1	23.3	26.6	30.5
d) Manufacturing	28.9	67.6	93.3	96.7	106.1	115.1
e) Construction	6.1	13.6	19.8	19.4	22.0	24.6
f) Electricity	1.5	5.4	8.7	9.4	10.3	11.2
g) Transportation and communications	5.0	9.4	15.8	16.8	18.5	-
h) Commerce	46.9	94.5	120.6	122.0	129.3	252.1
i) Services	32.2	59.6	83.8	85.5	89.2	-
j) Adjustment for banking services	-1.5	-3.6	-4.9	-4.9	-5.3	-
Per Capita Gross Domestic Product (From current pesos to U.S. Dlls.)	344	682	1,311	1,180	1,386	1,743.8
Industrial Production Index (Base 1970=100)		100.0	142.9	148.1	162.5	177.9
National Consumer Price Index Annual Change (Dec/Dec %)		4.8	27.2	20.7	16.2	20.0
Mexico City Wholesale Price Index Annual Change (Dec/Dec %)		2.3	45.9	20.0	15.8	19.9

[1]According to preliminary figures.

Source: Banco de México

Mexican peso, even during highly inflationary periods (see Table 3.5) as well as periods during which the peso was devalued.

In international trade, Mexico recorded a deficit of approximately 3 billion dollars in 1979, with a total of 9 billion in exports and 12 billion in imports. This represented a 15% increase with respect to 1978. Mexico's main exports are oil, coffee, shrimp, cotton, machinery and replacements, tomatoes and cattle. The main imports are heavy machinery, parts for automobile production, precision equipment, some plastic materials and resins.

The United States is both the main supplier of goods to the Mexican market and the main buyer; it represents 69% of Mexico's exports and 70.5% of its imports. Although the trade deficit with the United States has decreased, nevertheless in 1979 Mexico imported 1.5 billion dollars more than the U.S. imported from Mexico.

In spite of this trade deficit, Mexico has successfully halted its external dependence on primary consumer goods. Since the 1940's, the government has implemented ambitious programs of import-substituting industrialization. As a result, by the late 1960's, imports of primary products had declined to a negligible volume. Foreign firms were invited to invest and manufacture their products in Mexico and strong protectionist measures took effect to help the emerging manufacturing sector. In the early 1960's, under strong pressure, American, European and Japanese firms started to manufacture cars and trucks in Mexico. Nowadays, every car and truck that Mexicans buy is manufactured by Mexicans. Some parts are still imported, but this is declining. Car imports are practically prohibited.

The import-substituting process has been criticized by scholars in Mexico and abroad. Villarreal[1]

[1]See Reyna and Weinert (1977, p. 67-107).

Table 3.5

MEXICAN CONSUMER PRICE INDEX FOR SELECTED CITIES
(BASE 1978 = 100)

Year	National	Mexico City	Guadalajara	Monterrey	Mexicali	Merida	Morelia
1968	29.7	30.2	30.3	29.7	30.2	28.7	27.7
1969	30.7	31.3	31.4	30.9	31.0	29.8	28.4
1970	32.3	33.0	33.0	32.4	32.2	31.4	29.8
1971	34.0	34.9	34.7	34.7	33.9	32.7	31.2
1972	35.7	36.6	35.9	36.4	35.9	34.2	33.3
1973	40.0	40.8	40.3	40.6	39.3	38.3	38.8
1974	49.5	49.9	49.2	49.3	47.9	50.0	49.6
1975	57.0	58.3	55.7	56.7	53.8	57.3	56.9
1976	66.0	67.7	65.1	65.6	62.1	65.4	65.7
1977	85.1	85.5	84.2	86.7	85.3	85.3	84.3
1978	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979	118.2	117.8	116.3	117.9	114.7	119.1	119.0

Source: Banco de México

criticizes the protectionist structure as being "permanent, excessive and discriminatory." He considers that the government policies have cheapened the price of capital with respect to that of labor. More gravely, import-substitution by inviting foreign capital, has led to a process of "growth without development [and] continuous and permanent external disequilibrium which itself tends to reinforce dependence on foreign capital." However, Weinert[1] believes that the Mexican State is in firm control and although the importance of foreign-controlled capital-intensive industries is growing, "its political challenge is not overwhelming." He recognizes, however, some of the negative aspects suggested by Villarreal. It should be added that recently the government has relaxed tariffs and quotas and there are multiple indications of a probable change of direction in the policies it has pursued for over three decades. Yet, many of the controls will surely remain, especially in the light of the increasing balance of payment deficit of Mexico with the United States.

In the past, clearly until the mid 1960's and to some degree until the mid-1970's, the Mexican GDP tended to parallel the American business cycle. This was observed by Reynolds (1970), who compared the American gross national product (GNP) with Mexico's GDP, showing the extremely close relationship that occurred between 1900 and 1965 in the annual percent variations of those indices. In 39 of the 54 years for which comparisons could be made, the direction of change for both countries was of the same sign. Although the relationship has diminished in importance in the past few years, it has not disappeared completely.

Recently, in 1980, a sharp controversy between the governments of Mexico and the United States showed once

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[1]See Reyna and Weinert (1977, p. 109-128).

again Mexico's sensitivity and distrust of any agreement that could mean for the latter less ability to control its own export-import-related decisions.

The controversy centered around Mexico's refusal to join the General Agreement on Tariffs and Trade (GATT) and the political and economic pressure exerted by the United States to get Mexico to enter. The signing of this agreement would mean membership in an exclusive group of developed nations and enjoyment of a most favored nation status in trade with those nations. Immigrants from Mexico would be considered like those from any other member country and Mexico would enjoy a number of trade privileges that are now denied it. However, Mexico would have to lift all its tariffs, quotas and other protectionist barriers and would have to halt any present subsidies to exporting industries, including, very importantly, the oil industry. The agreement could ultimately require Mexico to accept the United States' increasing requests to raise oil production to higher levels.

On March 18, 1980, Mexico formally refused the invitation to enter the GATT. The advantages of Mexico's joining GATT for the United States were obvious, however the advantages for Mexico at best were cloudy. Mexico fears that the lifting of protectionist barriers might bring havoc to the still-fragile Mexican manufacturing industry. In addition, some Mexican scholars and economists believe that the inflation rates that the nation is experiencing are in good part due to the increased oil revenues of the past few years. To accept higher levels of production would mean revenues much greater than the Mexican economy can digest, causing inflation, corruption and the waste of an economically-limited resource.

Subsequently, some sectors of American opinion have suggested the effective closing of the Mexican-American

border to illegal Mexican workers, as a measure designed to force Mexico's entrance to the GATT and/or the increase of oil production levels. Such an action would be ultimately harmful for both countries. It is in the best interest of the United States to have a stable and economically healthy neighbor. Mexico may soon become the fourth largest oil-producing country in the world (it is already the fifth, as mentioned before). Mexico is not in the Middle East. The supply lines are closer and the country has a friendlier attitude to the United States than many of the nations of that region. Finally, Mexico has a 12 billion dollar debt with American banks.

The relationship will probably evolve, slowly but securely, to a more equitable one (from the Mexican perspective), and more understanding one (from the American point of view). The present disagreements are perhaps explained in the words of Bagley[1], who in a recent essay states that the American attitudes "derive from the historic asymmetry in Mexico-United States relations that has in the past permitted the United States to ignore or ride roughshod over Mexican interests. Mexico's new oil wealth and overall economic growth have rendered such an approach anachronistic and counterproductive. Yet there is a lag in perceptions that makes adjustment to the new realities in the United States difficult. Closely related to this problem is the resurgence of what former Secretary of State Cyrus Vance has labeled a "perverted hubris" that leads United States politicians to overestimate the capacity of the United States unilaterally to control world events."

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[1]See Kaufman Purcell (1981, pp. 24-25).

The preceding pages have attempted to summarize the present state of affairs of the Mexican economy at a "macro" level, including aspects of the bilateral relationship of Mexico with its powerful neighbor north of the Rio Grande. Accordingly, the principal constituents of the Mexican economy can be summarized as follows:

1. An industrialized or, at least, industrializing economy, not an "oil economy."
2. Sustained and accelerated economic growth.
3. High, chronic and increasing levels of inflation.
4. An important although somewhat controllable trade deficit. A large part of that deficit is with the United States.
5. A diversified economy.
6. A solid and sophisticated banking and financial system.
7. A somewhat unstable currency.
8. A relatively sound and expanding economic infrastructure, especially in aspects such as electricity generation and communications (telephone, roads, etc.)
9. Strong economic protectionism as a national policy.
10. Vast foreign capital investment, predominantly American.
11. An economy less correlated than in the past to the fluctuations of the American economy.
12. Profound susceptibility and sensitivity to United States political and economic pressure.

Some leading indicators of the Mexican economy have been omitted. However, the preceding discussion should suffice and provide the reader , particularly the non-Mexican air transport analyst or negotiator, with the necessary elements to understand the cause-effect and response mechanisms of their Mexican counterpart. These will be expanded upon in ensuing chapters.

3.3 Markets in Flux, Underdevelopment, and Air Passenger Demand

In the previous section, the condition of the Mexican economy was generally portrayed as favorable, dynamic and growing. With the notable exception of a high inflation rate, most of the leading macroeconomic indicators show a healthy, industrializing economy.

Yet, Mexico is an underdeveloped country,[1] whose "engines of growth" and "engines of distribution" (Hansen, 1971, p. 3) have not functioned at the same rate for a long time.

Hence, Subsection 3.3.1 is an examination of income distribution profiles of the Mexican population as well as an overview on the subject of employment, unemployment and underemployment. The analyst unaware of these matters may readily be misled by unqualified statistics.

Similarly, Subsection 3.3.2 warns about specific distortions and pitfalls to which careless use of statistical variables can lead. This includes a brief analysis of the limitations that rapidly changing policies have imposed on econometric modeling.

3.3.1 Unemployment and Income Distribution: General Patterns

Statistics of labor and employment in Mexico are frustratingly inconsistent. In a country where statistics in general are scarce and often hidden in bureaucratic desks, the abundance of this type of statistic is surprising. And precisely for that reason, their inconsistency is so frustrating.

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[1] Or as some say, more benignly, "a less developed" or "a developing" country.

Unfortunately, when studying non-directional markets, the aviation analyst cannot afford to overlook the occupational breakdown of the population and is forced to estimate the statistics. The statistics provided here are combinations and averages from surveys performed by three different secretariats in 1978. These are the Secretariats of Labor, Planning and Budget, and of the Interior.

The problem is worsened by questions of definition and interpretation. Each secretariat has its own definition on what is "unemployment" and what is "underemployment."

Regardless of this, there is wide consensus that unemployment and underemployment constitute one of the most serious problems of Mexico, and that part of this problem was triggered directly by some of the economic policies pursued by the Mexican administrations in the twenty-year period starting in 1950.

During those years, different administrations shared the view that poverty and unemployment would gradually disappear as long as a sustained, accelerated economic growth was attained for a sufficient number of years. A then popular concept was that the border between development and underdevelopment was located around the annual per-capita average income of 1,000 dollars. Thus, every effort was made to direct the GDP/capita toward that magic figure. At the time, the annual growth of the GDP was well over the 6% mark and scholars and other students of development and growth used to refer to it as the "Mexican miracle."

The "Mexican miracle", in effect, made the economy grow. However, it created a profoundly disturbing structure of continuous and resilient unemployment, underemployment, and poor income distribution. Moreover, it planted the seeds of potential social unrest as one of its after-effects.

Nobody can argue that these problems were the straightforward result of the government's economic policies. The policies were simply one of the most obvious causes.

Since the available statistics are not totally reliable, prediction of the future is difficult. The unpredictable level of Mexican worker migration to the United States is, perhaps, the single most important circumstance that makes forecasting very difficult. According to Cornelius[1], migration levels will be determined, among other factors, by the magnitude of the real wage differential between the United States and Mexico; the rate of inflation in Mexico; the rate of labor-force growth in Mexico; the rate of creation of jobs in the Mexican economy; and the number of workers already idled in Mexico. Almost all the work force entering the job market in the next twenty years has already been born, so variations in the birth rate will not affect the outcome.

Table 3.6 provides estimates of what the figures will be in coming years if the present trends continue.

There is disagreement within Mexican government circles about what is "underemployment". For the purposes of Table 3.6, an unemployed citizen is a person without a job who is actively looking for one[2], and underemployed are those wishing to work more, but unable to find an extra job (within a 48-hour work-week) or people doing unnecessary and non-productive jobs because more productive employment is unavailable to them.

Without doubt, the above definitions are subject to challenge: what is "productive activity"?; "productive" in relation to what or whom? And yet, when one looks at the figures, no matter how imprecise they may be, the

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[1] See Kaufman Purcell (1981, p. 70-71).

[2] In Mexico, there is no unemployment insurance or public welfare payments. However, it is much more difficult (legally) to fire or lay off an employee than in the United States.

Table 3.6

MEXICAN WORK FORCE[1], YEARLY AVERAGES

Year	Employed Population (000)	%	Underemployed Population (000)	%	Unemployed Population (000)	%	Total Work Force (000)	%
1970	6,670	51	5,800	45	485	4	12,955	100.0
1975	8,640	51	7,700	45	716	4	17,056	100.0
1976	8,626	49	8,100	46	883	5	17,609	100.0
1977	8,700	48	8,400	46	1,088	6	18,188	100.0
1978	8,694	46	8,800	47	1,301	7	18,795	100.0
1979	8,696	45	9,200	47	1,528	8	19,424	100.0
1980	8,708	43	9,600	48	1,775	9	20,083	100.0
1981	8,829	42	9,900	48	2,061	10	20,790	100.0
1982	8,860	41	10,300	48	2,306	11	21,466	100.0
1983	8,900	40	10,700	48	2,570	12	22,170	100.0
1984	8,851	39	11,200	49	2,849	12	22,900	100.0
1985	8,912	38	11,600	49	3,156	13	23,668	100.0
1990	9,082	33	13,900	50	4,728	17	27,710	100.0
1995	9,349	29	16,400	51	6,640	20	32,389	100.0
2000	9,650	26	19,200	51	8,704	23	37,554	100.0

[1]Figures rounded. The estimates for the period 1980-2000 are highly hypothetical.

Sources: Secretariat of Labor
Secretariat of Planning and Budget
Secretariat of the Interior

question becomes academic. Table 3.6 shows that in 1980, close to 50% of the work force was underemployed (almost 10 million people) and around 9% could not find a job. Hence, the demographic statistics (including those by age group) provided in Chapter 2 should be viewed in the context of the figures in Table 3.6.

Tables 3.7 and 3.8, the result of surveys, provide information on the activities of the employed population in the year 1978, shedding some light on the population sector more likely to travel by air. Note, in Table 3.7, that the first four groups, normally associated with higher income levels, comprise only 31.7% of the working population. Likewise, the "manager/small owner" and "independent" categories of Table 3.8, which is an alternative way of breaking down the same figures, add up to a 26.6% total. Further, according to the same information (although not a truly reliable estimate since it might easily be distorted), 24% of the working population is composed of women. If there is a distortion, the bias is likely to be downward,[1] meaning that not less than 24% of the feminine population works.

Another anomalous aspect of the Mexican economy is detected in the personal and family income distribution among the population. The problem, studied at length by a number of authors, starting with the works of Navarrete (1960) in the late-1950's, is a very difficult one, not only in its analysis but particularly in its measurement.

There are indications that between 1940 and 1957 an increasingly unequal distribution of income took effect. Afterwards, there was a relatively stable period until about 1963 and some improvement of the distribution by 1968.

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[1] With women tending to deny they work and other factors not discussed here.

Table 3.7

MEXICAN WORKING POPULATION (EMPLOYED PLUS UNDEREMPLOYED) BY PRINCIPAL OCCUPATION[1] (1978)

Occupation	TOTAL		MEN		WOMEN	
	People	%	People	%	People	%
Professional & Technical	1,363,469	8.0	854,822	6.6	508,647	12.4
Officers, Supervisors and Management	579,474	3.4	479,218	3.7	100,256	2.5
Administrative	1,516,859	8.9	828,918	6.4	687,941	16.8
Commercial & Sales	1,942,943	11.4	1,152,714	8.9	790,229	19.3
Services and Drivers	2,948,501	17.3	1,709,644	13.2	1,238,857	30.2
Agricultural & Similar	4,243,797	24.9	4,118,687	31.8	125,110	3.1
Non-Agricultural Workers	4,431,274	26.0	3,794,891	29.3	636,383	15.6
Unspecified	17,043	0.1	12,951	0.1	4,092	0.1
TOTAL	17,043,360	100.0	12,951,845	100.0	4,091,515	100.0

[1]The totals do not correspond exactly with those of Table 3.6; these figures come from surveys conducted by the source below.
Source: Secretariat of Planning and Budget

Table 3.8

MEXICAN WORKING POPULATION (EMPLOYED PLUS UNDEREMPLOYED) BY POSITION[1] (1978)

Category	TOTAL		MEN		WOMEN	
	People	%	People	%	People	%
Worker/Employee	11,231,574	65.9	8,224,422	63.5	2,999,080	73.3
Manager/Small Owner	579,474	3.4	631,025	4.1	45,007	1.1
Independent	3,954,060	23.2	3,186,154	24.6	765,113	18.7
Family Help (No Remuneration)	1,278,252	7.5	1,010,244	7.8	282,315	6.9
TOTAL	17,043,360	100.0	12,951,845	100.0	4,091,515	100.0

[1]The totals do not correspond exactly with those of Table 3.6; these figures come from surveys conducted by the source below.

Source: Secretariat of Planning and Budget

Table 3.9 shows family income distribution in Mexico by deciles of the population. The lowest decile corresponds to the poorest sector. Each decile represents, in ascending order, a richer sector of the population. Thus, the tenth decile (subdivided into three parts) corresponds to the richest sector of the population in terms of income. The cumulative columns indicate the cumulative income. These statistics, derived from different types of surveys and other indirect methods, are often beset by problems of accuracy, both at the bottom and at the top of the scale. The richest do not report their real earnings and the poorest either do not report at all or their income comes from a large number of unorthodox sources. Therefore, the figures should be analyzed with some caution.

According to Table 3.9, the poorer 50% of Mexican families received 19.1% of the aggregate national income in 1950. By 1957, the proportion had fallen to 15.6%, remaining more or less stable at least until 1963. At the uppermost level, the richest decile earned during those same years 39.8%, 36.6% and 27%, respectively, meaning that some redistribution of the aggregate income was taking place.

New studies were done in 1968 and more recently, in 1975. Some of the figures obtained during the latter study were corrected and published only in 1979. See Table 3.10. There, it is clear the improvement experienced by the poorer 50% of the population between 1963 (15.6% of the income) and 1968 (18.3% of the income). However, by 1975, this improvement suffered a sharp reversal, down to 13% of the aggregate national income, the worst figure in at least 25 years.

As a comparison, Table 3.11 shows similar statistics for the United States, Argentina and Latin America as a whole. A comparison of this kind should be made, of course,

Table 3.9

FAMILY INCOME DISTRIBUTION IN MEXICO, BY DECILES (1950, 1957, 1963)

Deciles	Percent of Families 1950	1957	1963	1950 % of Total Income	1950 Cumulative Income	1957 % of Total Income	1957 Cumulative Income	1963 % of Total Income	1963 Cumulative Income
I	10.0	10.0	10.0	2.7	2.7	1.7	1.7	2.0	2.0
II	10.0	10.0	10.0	3.4	6.1	2.7	4.4	2.0	4.0
III	10.0	10.0	10.0	3.8	9.9	3.1	7.5	2.5	6.5
IV	10.0	10.0	10.0	4.4	14.3	3.8	11.3	4.5	11.0
V	10.0	10.0	10.0	4.8	19.1	4.3	15.6	4.5	15.5
VI	10.0	10.0	10.0	5.5	24.6	5.6	21.2	6.0	21.5
VII	10.0	10.0	10.0	7.0	31.6	7.4	28.6	8.0	29.5
VIII	10.0	10.0	10.0	8.6	40.2	10.0	38.6	11.5	41.0
IX	10.0	10.0	10.0	10.8	51.0	14.7	53.3	17.5	58.5
X	5.2	5.1	5.0	9.2	60.2	10.1	63.4	14.5	73.0
	2.4	2.6	2.5	7.5	67.7	12.6	76.0	11.0	84.0
	2.4	2.3	2.5	32.3	100.0	24.0	100.0	16.0	100.0
Totals	100.0	100.0	100.0	100.0		100.0		100.0	

Sources: Navarrete (1960)
Banco de México.

Table 3.10

INCOME DISTRIBUTION IN MEXICO (1968, 1975)[1]

1968				1975			
Inhabitants		Income Share		Inhabitants		Income Share	
Percent	Cumulative Percent	Percent	Cumulative Percent	Percent	Cumulative Percent	Percent	Cumulative Percent
20	20	4.2	4.2	20	20	1.9	1.9
30	50	14.1	18.3	30	50	11.1	13.0
30	80	26.6	44.9	30	80	26.6	39.6
15	95	27.5	72.4	10	90	16.8	56.4
5	100	27.6	100.0	10	100	43.6	100.0

[1]Data for 1968 refers to personal income, meanwhile data for 1975 refers to family income. Notice also that the two wealthiest groups are divided differently in 1968 and 1975.

Sources: Banco de México
Secretariat of Labor
Secretariat of Planning and Budget

Table 3.11

INCOME DISTRIBUTION IN SELECTED COUNTRIES (1968)[1]

Inhabitants		Income Share: United States		Argentina		Latin America	
Percent	Cumulative Percent	Percent	Cumulative Percent	Percent	Cumulative Percent	Percent	Cumulative Percent
20	20	4.6	4.6	5.2	5.2	3.1	3.1
30	50	18.8	23.4	15.3	20.5	10.3	13.4
30	80	31.1	54.4	25.4	45.9	24.1	37.5
15	95	25.5	80.0	22.9	68.8	29.2	66.7
5	100	20.0	100.0	31.2	100.0	33.3	100.0

[1]The source does not indicate whether the statistics refer to personal income or family income.

Source: United Nations

with due caution as to the accuracy of comparability. The table does not require comment, except possibly to note that Mexico appears generally to be in a better position than the rest of Latin America.

It would be unfair not to mention certain aspects, difficult to measure, that have tremendously improved the quality of life in Mexico since the mid-1930's: public services, social protection, free education (including college) and, very importantly, public health. However, "social" expenditures, when compared as a percent of the GDP, have still remained small.

It is not easy to force a redistribution process. Reynolds (1970) has said that if it were possible to redistribute just 10% of the income of the richest decile of the Mexican population, the income of the poorest decile would almost double. The difficulty, in a country like Mexico, is that the "richest" decile of the population is not truly wealthy. The wealthy are concentrated in the highest 1.5%. Hence, for the "richest" decile to give up that 10% would be to sink to what its members consider "poverty levels", influenced as they are by the standards of their northern neighbor, the United States. The researcher interested in this subject is referred to Wilkie (1967) who devised a "poverty index" for Mexico, which although it can be controversial, nevertheless measures the total and regional decrease of poverty in Mexico through the years in a very meaningful way.

In determining future trends in air transportation, it is important to observe the mobility of income groups, especially when, as in the case of Mexico, rapid changes in the urban social structure are under way.

It is essential in the case of aggregate as well as econometric analyses, to have some sort of index capable of measuring income distribution in a collective form. One such index is the Gini ratio.

This index or coefficient is an overall indicator of the degree of inequality evidenced by the income distribution tables. Its value goes from zero, when the distribution corresponds to total and perfect equality (i.e., the 45-degree line of Figure 3.1, known as the Lorenz curve in economics) to one, when the distribution is in the extreme of total inequality (i.e., the right angle of the axes in the Lorenz curve). The coefficient indicates the area that separates the Lorenz curve from the line of total equality.

The Lorenz curve of Figure 3.1 shows the level of income distribution of Mexico for the years 1950, 1958 and 1963. The increasing area bounded by the 45-degree line and the curve is clearly noticeable.[1] In a like manner, Figure 3.2 corresponds to the year 1975. The Gini coefficients[2] for the years 1950, 1958, 1963 and 1975 are 0.50, 0.53, 0.55 and 0.57, respectively.

3.3.2 Analytical Constraints

Some comments on statistical and analytical limitations are appropriate at this point, as they may be of help in the future development of international air passenger demand econometric models for Mexico. Some of these remarks are drawn from this author's own experience during the development of such models in 1978 and again later on in 1980[3].

First, some comments about variables.

Despite common belief, the composition of GNP not only differs from country to country, but also is not truly standardized even in the records of many international organ-organizations. This makes its use misleading, especially in making comparisons. In addition, Mexico has not published GNP statistics for many years on the grounds

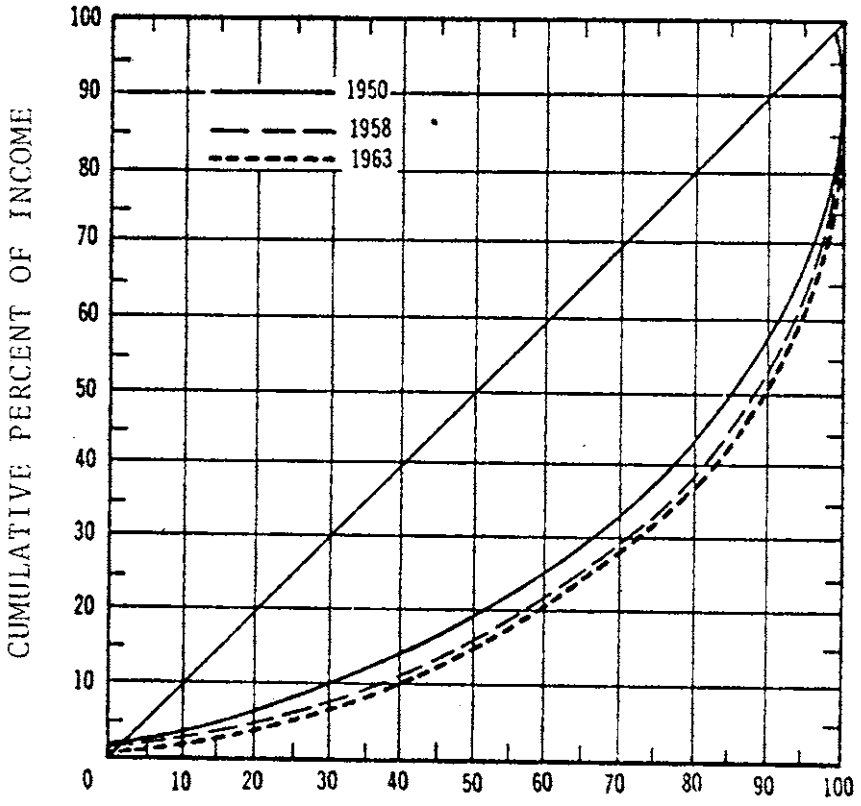
[1] Meaning higher Gini coefficients.

[2] See Instituto de Investigaciones Sociales (1970, p. 41) for the years 1950, 1958 and 1963 and Gollás (1978, p. 75) for the year 1975.

[3] See Lisker-Melman (1978); in addition, consult Neter and Wasserman (1974).

Figure 3.1

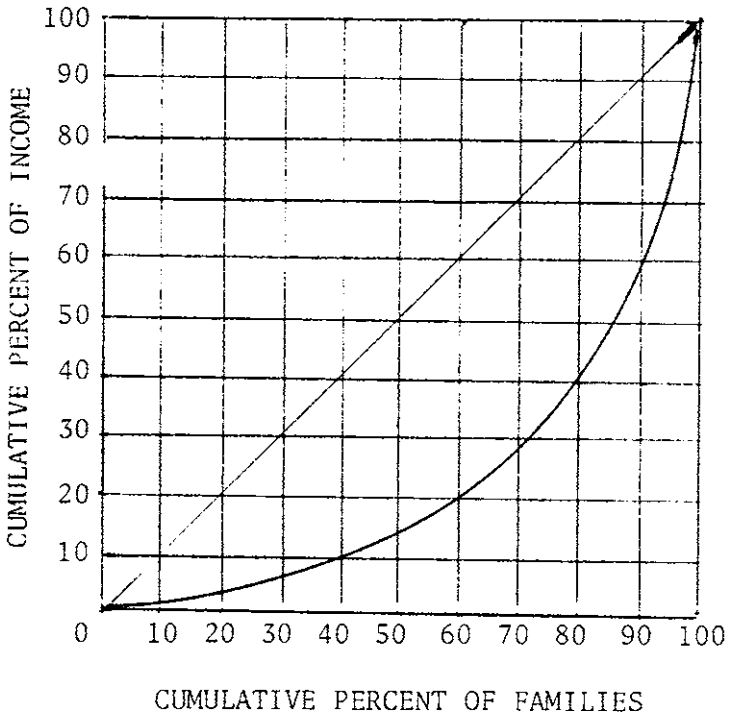
INCOME INEQUALITY IN MEXICO (1950, 1958, 1963)



Source: Instituto de Investigaciones Sociales (1970, p. 40).

Figure 3.2

INCOME INEQUALITY IN MEXICO (1975)



Source: Gollás (1978, p. 75).

that they do not accurately represent Mexico's economic growth and, secondly, because in Mexico, the only difference between GNP and GDP is that the latter does not include net factor income from abroad.

"Net income from abroad," is defined in Mexico as income from Mexican enterprises abroad, foreign film rentals and other trade of minor significance. These operations have not played an important role in the Mexican economy to date. Besides, their computation, according to some officials of the Central Bank, is not reliable.

It is important to remark, on the other hand, that the GDP takes into account all the goods and services produced within the nation. Thus, it is valid to use it as a proxy for GNP in measuring Mexico's overall economic "well-being," particularly in the process of understanding the increases and declines of the air transportation industry. Caution should be exercised in the choice of data sources. Some authors, including respected scholars, have confused and mixed GDP with GNP figures when using time series from before 1970.

Disposable income time series are now available in Mexico. However, econometric models making use of more than four or five variables require longer time series to satisfy degree of freedom requirements. In those cases, per-capita product can be used as a proxy for per capita income.

To take account of the inflationary process, there are four consumer price indices of relevance: the wholesale price index, the food cost and retail prices index (commonly called "consumer price index," see Table 3.5), the worker's cost of living index, and the GDP implicit price deflator.

Although all the indices move together, the most comprehensive one is the implicit price deflator because it takes into account all goods and services. It is published

by the Central Bank along with the GDP figures. One problem with this index is the high level of multicollinearity that it exhibits when used in conjunction with other per capita figures.

The wholesale price index, although less comprehensive, does not have the econometric problem just mentioned. It has successfully been used by this author to adjust air transportation prices and yields[1] to "constant" pesos. This index, published by the Central Bank since 1956, is based on the price of 300 articles which are classified into 210 generic categories. One difficulty with the index is that the articles are weighted according to 1939 consumer patterns. Yet, as it is not a retail index, changing consumer patterns are not considered of great importance.

The consumer price index has its own relevance since it is the only retail index computed in a comparable manner for different cities throughout the country. It is also published by the Central Bank and is based on the price of 1000 articles classified into 172 generic categories of goods and services. Its weighting structure is based on consumer patterns surveyed in 1963. Presently, the index is calculated for 16 cities (some since 1968 and others only since 1979) as well as a general national index. See Table 3.5.

The worker's cost of living index, of less importance for the purposes of air passenger demand studies, is one of the oldest indices, computed continuously and consistently since the 1930's.

On a different subject, when modeling Mexico-United States air travel, it is important to note the high multicollinearity exhibited by the Mexican GDP when used in conjunction with the American GNP, especially if the time series used begins before the year 1970. Section 3.2

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[1]Revenue per passenger-kilometer

comments on the parallelism of those variables.

Any analysis of international air passenger demand in Mexico should take account of the fact that the peso has not acquired a new fixed value since September 1976. Since then, it has been floating (and it is expected to continue to do so for a long time), subject to international market forces and the regulation of the International Monetary Fund (IMF). Since international air transport prices are quoted and charged in Mexico in dollars (since 1976), yield time series and related material should be converted into pesos according to the exchange rate of each period. Then, the series should be adjusted for inflation using one of the indices that measures inflation in Mexico. Devaluation rates in Mexico and the differential between inflation rates in Mexico and the United States are intimately connected because of the strong trade between the two countries.

The striking similarity of the annual percent change in international air transport pricing between the two countries (if inflation and exchange rates are taken into account) is interesting. The changing exchange rate between the peso and the dollar has helped to "equalize" the difference between the inflation rates in both countries[1].

One problem that has constantly arisen in econometric models dealing simultaneously with deflated Mexican GDP's as well as deflated yields, is that they are plagued by problems of multicollinearity and autocorrelation. The first problem has readily been solved by computing the regressors through ridge analysis (see Hoerl and Kennard, 1970)[2]. This, however, usually makes the Durbin-Watson coefficient decrease, meaning higher autocorrelation, something that can be corrected, with varying degrees of success, by applying the

[1] When inflation in both countries is measured either only in dollars or only in pesos.

[2] In addition, consult Chatterjee and Price (1977).

Cochrane-Orcutt procedure (see Cochrane and Orcutt, 1949). It should be added that heteroscedasticity normally does not cause trouble in these cases. However, it has been this author's experience, both in 1978 and again in 1980, with new sets of passenger demand models, that multicollinearity and autocorrelation are more resistant to solution in some instances. This applies especially to the case of aggregate demand models.

Econometrics is both a science and an art. It is an invaluable tool in the study of air transport disaggregate demand as well as in market cross-section analysis.

Yet, in the particular case of Mexican international air services, long-run forecasting (and often, also short-run), leads not only to useless results, but also to inaccurate predictions. As later chapters will show, the Mexican air transport bilateral agreements with many countries are currently being amended. Moreover, agreements already signed, such as the one with the United States, are far from having been exploited to their limits. Since 1979, an important number of new routes between the United States and Mexico have been added, with the rules of the game (including pricing) constantly changing to an extent that the current bilateral agreement has become outdated in certain aspects.

Under these circumstances, the econometric approach is not valid and it becomes necessary to set aside standardized behavioral characteristics used in air transportation demand modeling. It is then that conceptual analysis substitutes for quantitative techniques.

3.4 Future Prospects

Within the next twenty years, Mexico may become an industrial power. Trade with the United States could escalate to previously unthinkable levels. Mexico is already

the third largest trading partner of the United States, after Canada and Japan. Conversely, the United States is Mexico's largest trading partner. Between now and the year 2000, Mexico, with its oil resources and expanding industrial base, will have an opportunity to become a developed country; truly developed only if it solves its striking problems of income distribution. Modernization cannot be measured in pure economic terms. The general standard of living and attitude of the population are also important.

Just over a year ago, on April 15, 1980, the Mexican administration issued the "Global Development Plan" ("Plan Global de Desarrollo"). The plan was the result of a coordinated effort by all the secretariats and governmental departments for more than two years.

There have been many plans in recent history. However, this plan has been seen by many as a real breakthrough. It is a breakthrough of assessment, coordination and comprehensiveness. Furthermore, the plan outlines, for the first time, in an integrated way, the general principles and policies that the government seeks to pursue in every area of national development. The plan not only delineates general policies, but it also defines concrete goals, putting them into quantifiable terms whenever possible. Finally, although the major goals of the plan are meant to extend into the next decade, the plan is realistic in the sense that the specifics are not detailed beyond the year 1982 (when the present administration leaves office).

Some economic goals directly paraphrased from the plan are presented in the following pages.

According to the plan, the average annual estimated rate of growth of the GDP for the 1980-1982 period (three complete years) will be no less than 8%. At the time of this writing, 1980 is over, and the estimated GDP growth

was, in effect, 8%. It is envisaged that imports of goods and services will continue to be high, but with a downward trend, growing at an average rate of 20.8%.[1] Exports of goods and services will increase at an average rate of 14.4% annually, of which manufactured goods will capture an increasing share. Per-capita consumption should show an increase of approximately 4.5% annually during the period under consideration, a rate which, if sustained, means per-capita income consumption will double in the next 15 years.

The plan estimates that 2.2 million jobs will be created by 1982, which will result in a 4.2% annual growth in employment allowing the country to absorb the 3.4% increase in the supply of labor. At this rate, open unemployment should decline, as well as the relative weight of underemployment, thus starting to solve the labor problem.

In relation to anti-inflationary goals, the plan is not as clear as in other aspects. However, it states (although somewhat ambiguously) that by 1982 the "internal vs. external inflation differential" should be between 4 and 5 points. This means an inflation rate higher than the American one by 4 to 5 percent. This is an ambitious goal which may not be attainable. Currently, inflation is about 18% higher than in the United States if one compares pesos directly against dollars. If one takes into account the fact that the Mexican currency is being devalued at a 12% annual rate (currently[2]), then the differential is still about 6%!

In research and development, the government expects to spend an amount equivalent to 1% of the GDP by 1982.

In sum, if the rate of growth that Mexico is already experiencing is maintained, per-capita GDP (and in a sense, per-capita income) will triple by the year 2000. This means, for instance, that compared to Canada and Italy, whose present GDP's are three times Mexico's, the gap would be only

[1] The period of consideration is 1980-1982.

[2] May-June 1981.

one-third by the end of this century. It also means that if the expectations of the plan materialize, industry will continue to show a combined real annual growth of 10.8%, including 10% in manufacturing and 13.5% in durables and capital goods. Furthermore, a real average annual rate of expansion of about 4.1% is expected in agriculture, livestock,and forestry industries by 1982, making it possible to improve rural employment and the standard of living.

Finally, the administration believes that if these and other trends outlined in the plan continue for the next two decades, 20 million new jobs would be created, thus avoiding the catastrophic predictions depicted in Table 3.6.

The preceding economic scenario appears to be somewhat optimistic; yet, it should not be viewed as Utopian. Many of those figures were actually attained in 1980 and hence should serve as a guide at least until the end of 1982.

Chapter IV

MEXICAN AIR TRANSPORT: REGULATORY FRAMEWORK AND STRUCTURE

4.1 Introduction

This chapter examines the regulatory and functional structure of the Mexican air transportation industry.

The chapter is divided into three main sections. Section 4.2 presents an analysis of the regulatory framework under which the industry operates. A comprehensive review of the legislation is conducted. As a result of this, a summary of the most relevant aspects of the law was prepared and is included here. Special attention is paid to interpret three concepts that should be clearly differentiated: law, regulation and policy. The first two are covered in detail here. The third one is the subject of Chapter 6.

Section 4.3 describes and analyzes the functional structure of the institutional and non-institutional components of the industry: its regulatory agencies, airports, air traffic control services, and airlines. It also includes an overview of the main aggregate indicators of the industry (domestic and international): markets, volumes, shares, etc. Figures and tables were compiled and checked as scrupulously as possible, although air transport data consistency in Mexico is still less than desirable.

Section 4.4 discusses the problems of coordination and duplication that afflict the governmental agencies. Some solutions are proposed.

It is only by understanding the internal strengths and weaknesses of the industry's regulatory agencies that one can deeply understand them. In the words of Dr. Betsy Gidwitz:

> "The nature of air transport regulation in a specific country is determined by the general political system of the country, the power of its state agencies, and the ability of private nonstate groups to influence state policies.

These general attitudes are more important than the public or private status of airline ownership in a country..." (see Gidwitz, 1980, p. 130).

The power of those agencies is analyzed here. The attitudes are the subject of subsequent chapters.

4.2 Regulatory Framework

Ever since the first airplane flight in Mexico, the government has intervened to a greater or lesser extent in the development of Mexican aviation. It was in Mexico City on January 10, 1910, when Mr. Alberto Braniff, in the presence of 100 casual spectators, flew his "Voisin" for a few minutes, reaching an altitude of 25 meters. The flight, the first in Latin America, required the approval of Porfirio Díaz, then President of Mexico, as well as special help from the Secretary of Defense (then "Minister of War"), who sent an army battalion to level the ground.

What kind of permit Diaz gave Mr. Braniff is not known and much less what the legal basis for doing it was. What is well known is that within ten years from that memorable date, acrobatic and sport aviation was as popular in Mexico as anywhere else. By then, airplanes had been used to watch troop movements during the Mexican revolution, mail was being transported irregularly by airplane (since a Mexico City-Pachuca flight in 1917), ... and sets of regulations were rapidly accumulating.

Charles Lindbergh, who flew the New York-Mexico City route nonstop in 1927, just after his celebrated flight to Europe, inaugurated an era in Mexico in which prowess and courage were the most respected values in aviation. The names of Francisco Sarabia, Emilio Carranza and many others are still remembered in Mexico in connection with what

Mexican aviation was accomplishing during those years. Similarly, Mexico still remembers every year the departure of "Squadron 201" to Asia, a modest but meaningful contribution of Mexico to the American war effort during the Second World War.[1]

By 1934, several small airlines were in operation, including the two international Mexican airlines that remain in operation today, Mexicana de Aviación and Aeroméxico. By 1931, all the basic institutional and legal infrastructure that is in existence today had already been erected.

Essentially, the two pillars which constitute that infrastructure are, on the institutional side, the Mexican Civil Aeronautics "Board," and on the legal side, the "Law of General Ways of Communication."[2]

The "Board", whose precise functions and attributes are explained in Subsection 4.3.1, was first established very early, in 1928 (July 1st). It was then called the Civil Aeronautics Department. Many years later, on September 23, 1952, it became the present Civil Aeronautics Directorship that is part of the Secretariat of Communications and Transportation.

On the other hand, the Law of General Ways of Communication was passed by Congress on August 29, 1931. Exactly one year later, in 1932, and again in 1940 (February 19), the law was abrogated and a new one with the same name substituted for it. Since then, it has been amended several times and has remained the main aviation statute

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[1] Mexico contributed in many other ways. However, this was its only front-line contribution.

[2] Literal translation from Spanish.

of Mexico. This law, hereafter referred to as LVGC[1], derives its authority directly from that which Article 73-XVII of the Constitution gives the Congress to pass legislation relating to transportation. This law, in turn, gives the executive branch, i.e., the President, authority to issue regulations dealing with the specific ways to comply with the more general principles given by LVGC. Therefore, it is important to distinguish between what the law says and what the regulations[2] are since the latter are directions for the execution of a law and consequently can be revised without the intervention of Congress. Section 2.3 deals with some aspects related to the way Congress works as well as certain responsibilities that the Constitution gives to the President, independent of LVGC. That section must be consulted to gain a more complete understanding of the air transportation-related powers that the Mexican government has.

The above mentioned law, LVGC, is a lengthy document. It is composed of seven large sections or "books" and a total of 592 articles. The law does not deal only with aviation. It considers "communications" in a very broad sense: waterways, highways, railways and airways (that is why the law is called "of general ways of communication"); other "ways" are, according to the law, telephone, telegraph, radio, etc. as well as the postal service. The only parts of interest to the aviation industry are Books 1, 4 and 7. Book 1 defines a series of general dispositions related to all means of communication. Book 4 deals only with aviation law, and finally, Book 7 is concerned with penalties to lawbreakers.

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[1] From its name in Spanish, "Ley de Vías Generales de Comunicación."

[2] In this section, the words "law" and "regulation" are not used interchangeably.

Let us describe some articles that are fundamental in the context of this study, particularly in relation to the policy-making process treated in Chapter 6. The word "route" will be used here instead of the broader term "ways" used in the text of the law.

Book 1 begins by delineating in Article 1 what the jurisdiction of the law is, defining the "national space where aircraft cross" as a "route of communication." Furthermore, Article 2 indicates that all the buildings, facilities and other assets related to the exploitation of a route are under the jurisdiction of this law and the regulations that derive from it. Article 3 is of primary importance. This is the article that gives the President, through the Secretariat of Communications and Transportation, the responsibility of enforcing the law as well as issuing regulations pertaining to it. Among the most important points that the law explicitly indicates as a right of the President is the right to give or withdraw concessions (a route is a concession); to expropriate facilities (indemnifying the affected party); and to approve, disapprove or revise tariffs and schedules. This does not mean, of course, that the government intervenes every time a schedule is changed. However, changes have to be filed and although the government rarely decides against them (except in the case of tariffs), the law is there and can be applied at the discretion of the executive branch.

The law is not limited to such things as the assignment of responsibilities and jurisdictions. It also sets a number of general guidelines to be followed in the establishment of policies for the concession of routes. According to the law, preference should be given to "zones with economic potential" and lack of adequate means of transportation. Moreover, the law clearly suggests the avoidance of duplication (i.e., two or more airlines) in cases where the markets

are satisfied by the existing services. This anticompetitive principle, incorporated into law, marks an important difference with the American law, both before and after deregulation. The previous principles do not apply to international service, since this is regulated by other conventions and treaties. On the other hand, the law authorizes the government to own aviation companies (Aeroméxico) that have to abide by the same laws.

The principles just described are generally applied. The government does not authorize routes with double designation unless it feels these are truly needed. The problem of which routes (or concessions) have priority is more complex and the law is vague on this. Yet, it orders the Secretariat of Communications and Transportation to publish every January the policies that are to be followed on this subject. Unfortunately, this is rarely done. The policies are ill-defined and obscure (at a public level). However, they do exist. Chapter 6 explores this topic.

It is interesting and important to mention that the law recognizes the fact that there can be cases of double designation with insufficient traffic during some seasons.

Article 55-IV allows fare competition in routes with double designation. Yet, predatory fares are expressly prohibited. Let us not forget that this article is still in Book 1, thus meaning that it refers not only to aviation. It was probably devised keeping in mind other means of transportation. For the reality is that there is no fare competition in the Mexican domestic market.

The law is a true expression of extreme regulation. It governs procedural aspects such as policies on courtesy passes and tickets; pooling agreements between airlines (domestic and international); and passenger insurance regulations. Further, it rules on the obligation of the carriers in transporting mail. It establishes a 15% discount that

airlines have to give to federal government officials on business. On the other hand, it protects the consumer, among other things, by commanding the carriers to charge the passenger the lowest possible fare between two points regardless of the routing taken by the passenger (obviously when every stopover is only for a connection). This rule applies even when the competition flies nonstop between two points and the other airline does not. This is a regulation that used to be a source of trouble for Aeroméxico in its route Mexico City-Monterrey (with passenger stopovers in Guadalajara).

Like the United States Federal Aviation Act, LVGC sets up a uniform system of accounts according to which every carrier must conform. The law itself does not go into details; that is taken care of by regulations derived from the law.

The government also assigns itself certain duties. First, Article 125 ascribes to the government the obligation of creating technical schools for the training of aviation maintenance and air traffic control personnel. These schools are built and managed by federal government funds.[1] Second, the government assumes the duty of performing regular technical inspections at no cost to the carriers.[2]

Book 4 deals directly and exclusively with aviation law. It is divided into 17 chapters containing a total of 68 articles (Articles 306 to 373). After defining what an "aircraft" is and establishing the principle of Mexican sovereignty with respect to acts aboard Mexican aircraft as well as its limitations, the law classifies aircraft into

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[1]Nevertheless, the government allows the creation of private schools.

[2]Inspections for special reasons (i.e., due to an accident) pay duties.

two groups: aircraft of the State and civil aircraft. Aircraft of the State are those owned by the federal government as well as those belonging to states and municipalities. Any other plane, no matter what kind of service it renders, is considered a civil aircraft. It is surprising that the law does not pay attention to classifying airlines according to their routes or general functions. That classification does exist; however, it lacks any legal status. See Subsection 4.3.5.

Just as is done by other countries[1], Mexico allows foreign-owned aircraft to be registered in Mexico. However, aircraft rendering a public service must always be Mexican-owned. On the other hand, airworthiness certificates are also issued by the Mexican government. In the case of aircraft already certified by the United States Federal Aviation Administration, Mexico normally countersigns the certificate. Needless to say, any aircraft entering Mexican territory must carry registration and airworthiness certificates. Likewise, Mexico validates licenses of foreign crews when the requisites to obtain them meet the minimum Mexican requirements.

Chapter 8 of the same Book gives the Secretariat of Communications and Transportation the power of controlling every technical aspect of air navigation in Mexico (i.e., air traffic control, meteorology and radio communications with aircraft). However, and very importantly, the law allows the government to transfer this duty to private and semi-private entities as a concession for a limited amount

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[1]Mexico is a signatory of the Convention on International Civil Aviation (Chicago Convention) and consequently its laws conform to the Convention.

of time. That was true in the case of Radio Aeronáutica Mexicana, S.A. (RAMSA) which until quite recently (1978), was the Mexican air traffic control agency. See Subsection 4.3.4.

Similarly, Chapter 9 deals with the question of airfields. Airfields for public use are called airports.[1] International airports, as mentioned in Section 2.3, have to be decreed as such by the President. In the same manner as with air traffic control, airfields are subject to the government's "control, inspection and vigilance" (Article 327). The Secretariat, however, may transfer these duties to other agencies as happens presently. Thus, as can be seen, airport management is in Mexico a federal matter and the states and cities are relieved of this often burdensome problem.[2] Notice that the law does not say one word about *who* builds the airports, leaving, depending on how one sees it, grounds for more flexibility (but also more friction, as will be shown later).

Chapter 10 reasserts for the case of aviation, what Chapter 1 has already said in a more general way: fares, itineraries, frequencies and schedules have to be approved by the Secretariat of Communications and Transportation. It is a very tight regulatory environment. Still, in reality, the Secretariat usually uses its power only to control route entries and withdrawals as well as to approve or disapprove new fares.

What does the law say about charter operations? First, domestic charter flights should be approved only when the city-pair in consideration is not connected by regular

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[1] Non-public airfields are private and military ones.

[2] Although not common, a state or municipality may build an airport, but still, it would be subject to federal regulation.

flights. Second, an exception to the rule can be considered if the regular airline or airlines cannot handle the traffic, especially during peak periods. But third, and very importantly, the charter should not charge less than the lowest fare on a regular flight.

In the case of international charter flights, the law operates on the same principles. However, if a given route is flown regularly only by foreign airlines, then charter flights are freely allowed, although the supplemental carrier still has to file a request at the Secretariat of Communications and Transportation. As will be shown later, one of the major disputes during the negotiations of air transport bilateral agreements between Mexico and the United States has been the reluctance on the part of Mexico to accept a liberal policy on charters. Conversations held by this author with former members of the Mexican and American negotiating delegations indicated that the latter were not aware that the Mexican attitude is not just a matter of policy but a requirement of law; conversely, given that standpoint, the Mexican side perceives the American push as an imposition.

The law delineates many other aspects of civil aviation in Mexico. For example, aeronautics-related activities of almost any nature, such as aeronautics clubs and societies, have to abide by certain stipulations imposed by the law. A complete chapter is devoted to private aviation as well as baggage and other accident liabilities. Finally, the State adjudges to itself the right to manufacture aircraft and aircraft-related parts. Once again, the State may give up this right in the form of temporary concessions.

In fact, after long negotiations, the American firm United Technologies, as a partner of the Mexican government, established a factory less than two years ago which will produce parts and engines in the near future. This factory, whose name is "Turborreactores", is located in the industrial state capital of Queretaro, about 200 kms. north of Mexico City. It is, in the government breakdown, what has been called in Section 2.4, a "government enterprise".

Book 7 is the last book of this general law. In it, Articles 523 to 592 deal exclusively with the different penalties, including jail sentences and injunctions, that the State is supposed to give to infractors of the law. The law includes penalties as stringent as the confiscation (which is very different from expropriation) of aircraft and facilities.

As has previously been mentioned, hundreds of regulations have been derived from the law just described. This literally means thousands of pages of decrees, regulations and "circulars." During his quest for the foundations of the Mexican air transport policies, this author reviewed the majority of past and present regulations, finding many of them outdated, inconsistent with one another, and excessively punctilious (i.e., time of the day at which the Mexican flag should be raised in airports near international boundaries, etc.).

Admittedly, some regulations (although perhaps a minority) are necessary to comply with the law or with international conventions. Mexico is a signatory of most of the world major civil aviation multilateral agreements, including those dealing with terrorism and other illegal acts aboard aircraft.

Some regulations and decrees of varying interest are the following: the air carrier subsidy act (totally outdated); rules for the registration of aircraft in Mexico; rules for the certification of aeronautical personnel; rules and regulations pertaining to air traffic control and meteorological procedures; procedures for the conduct of the investigation of aircraft accidents; there is a decree that regulates and sets the precise courses to be taken in the aircraft maintenance and air traffic control schools (for both private and public schools); in relation to the issuance of tickets, there is a regulation on how much refund a passenger should receive if he or she does not show up, establishing different percentages of refund according to the timing of the cancellation[1]; and many more regulations not relevant to the study.

In accordance with the law, the number of international airports decreed by the President had, by 1980, reached 31. These airports were located in the following[2] cities and states:

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[1]These rules apply only domestically and are in the process of being withdrawn.

[2]Not every "international" airport has international traffic.

1) Acapulco, Guerrero
2) Cancun, Quintana Roo
3) Ciudad Acuña, Coahuila
4) Ciudad Juarez, Chihuahua
5) Chetumal, Quintana Roo
6) Chihuahua, Chihuahua
7) Cozumel, Quintana Roo
8) Ensenada, Northern Baja California
9) Guadalajara, Jalisco
10) Guaymas, Sonora
11) Hermosillo, Sonora
12) La Paz, Southern Baja California
13) Manzanillo, Colima
14) Matamoros, Tamaulipas
15) Mazatlan, Sinaloa
16) Merida, Yucatan
17) Mexicali, Northern Baja California
18) Mexico City, Federal District
19) Monterrey, Nuevo Leon
20) Nogales, Sonora
21) Nuevo Laredo, Tamaulipas
22) Piedras Negras, Coahuila
23) Puerto Vallarta, Jalisco
24) Reynosa, Tamaulipas
25) San Jose del Cabo, Southern Baja California
26) Tampico, Tamaulipas
27) Tapachula, Chiapas
28) Tijuana, Northern Baja California
29) Torreon, Coahuila
30) Veracruz, Veracruz
31) Zihuatanejo, Guerrero

The Loreto (Southern Baja California) airport, an airfield at Bahia Kino (Sonora) and the Oaxaca (Oaxaca) airport are in the process of being declared "international" to comply with the Mexico-United States air transport bilateral agreement.

Which came first, the policies or the law? Which came first, the principles, the ideas or the lawmakers? These are difficult questions to answer for several reasons. In the first place, the Mexican air transport environment cannot

be isolated from external influence. Therefore, it would be difficult to examine it and decide which principles originated within Mexico and out of a real "Mexican need", being later transformed into law. On the other hand, Mexican legislators converted many maritime and railroad laws into aviation legislation, just as many of their contemporaries were doing in the 1920's. Hence, some of the laws passed at that time became, with the passage of time, recognized norms of conduct, indisputably accepted.

Will there be domestic deregulation in Mexico? This author believes it to be nearly impossible at the present point. Let us put it this way: an initial deregulatory step in Mexico could be simply to "deregulate" to the stage of the American aviation industry before October, 1978. That would already represent "deregulation" in Mexico.

On the other hand, Mexico cannot afford a deregulatory process of the kind that American industry has followed in recent years. A large number of airports are in the red, and the two major airlines are not strong enough or prepared for direct confrontation. Aeroméxico would probably be a net loser and the country could ill-afford to lose an airline connecting so many markets that albeit not always productive, have national importance in other respects.

Regulation will certainly remain a fact of life and as a result of this, Mexican policy-makers will not change their regulatory conception of international aviation. For this reason, a clear understanding of what Mexican principles and policies are, *vis-à-vis* what the legislation says, will continue to be of paramount importance.

It is common belief that less developed nations have by analogy less developed legislation on air transport. The intuitive rationale underlying this idea is that there should be some relationship between traffic volume and the degree of complexity and sophistication of the law.

However, this is fallacious. Legislation, it must be understood, is not, at least in essence, a matter of volume. There might be here and there some nations, large or small, that because of a generalized underdeveloped political and institutional system have not had the time to develop a solid air transport legal structure; but again, this is not necessarily a function of air traffic volume.

Mexico does not fit into that group. Therefore, air transport negotiating delegations dealing with Mexico, whether representing governments or airlines, might be more successful in their endeavors by keeping in mind that there is comprehensive air transport legislation in Mexico.

People interested in the specifics of the law are referred to the bibliography at the end of this study. Unfortunately, a substantial part of the material used here is not published. Therefore, for more comprehensive information, interested parties should contact the Mexican Civil Aeronautics Directorship, which is the subject of Subsection 4.3.1.

4.3 The Structure

Let us examine the components, both institutional and non-institutional, of the Mexican air transport industry. Knowledge of Sections 2.3 and 2.4 is assumed at this stage.

The main components[1] of the Mexican air transport establishment are the Civil Aeronautics Directorship, the federal airport Authority, the airport construction Directorship,

[1] There are other components, such as air transport-related unions, air transport societies, and chambers of commerce.

the air traffic control agency, the two major airlines (Aeroméxico and Mexicana de Aviación) and other minor airlines.

Recalling that for purposes of coordination and linkage the Mexican government divides its main areas of attention into sectors and subsectors (see Section 2.4), these air transport entities constitute what is called the "air transport subsector". This subsector is coordinated at the top by the Secretary of Communications and Transportation. However, the coordinator in direct charge of the everyday affairs of the subsector is the Undersecretary of Communications and Transportation.[1] Mexicana de Aviación, hereafter called "Mexicana", and the minor airlines do not belong formally to the subsector because they are not government entities. However, for every practical purpose, Mexicana is part of the subsector and its representatives are invited to take part in its decisions.

In this manner, these agencies and entities, belonging to different secretariats, companies and government enterprises, are coordinated by a single head whenever decisions that affect more than one have to be made. This does not mean that friction and interagency disputes are unknown. However, these are precisely reasons that justify the existence of a general coordinator. This coordinator acts, in fact, as a representative of the President. Let us recall that legally, the President is the ultimate and only responsible authority of the executive branch.

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[1]This Secretariat has two Undersecretaries. One is the one mentioned above and the other is the Undersecretary of Ports (maritime).

4.3.1 Civil Aeronautics Directorship

The Civil Aeronautics Directorship is, without any doubt, the most influential air transport-related governmental agency. Although it does not rank in the government breakdown as high as, for example, the federal airport Authority, the decisions taken by this agency (the "Mexican C.A.B.") permeate the whole industry.

The Civil Aeronautics Directorship is one of the 27 directorships of the Secretariat of Communications and Transportation. Its budget depends on the overall budget assigned to the Secretariat. From this point of view, then, it is not financially as independent as some agencies which are assigned an independent budget.

The Civil Aeronautics Directorship (CAD) is headed by a Director, more commonly addressed as Director General. The Director General reports directly to the Undersecretary of Communications and Transportation, who in turn reports to the Secretary. He in turn reports to the President. The Director General is generally a semitechnical, semipolitical appointee, commonly picked from the ranks of the Directorship, although this varies. His term very rarely exceeds six years (one presidential term) and often lasts less than that. For example, during the present administration, currently in its fifth year, there have been two people at the top of the CAD. The first Director was transferred in 1980[1] to the federal airport Authority (to head it) and the present Director was second in rank until then, as a Subdirector.

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[1]He had taken office when President López Portillo was inaugurated, in December of 1976.

The CAD was first established on July 1, 1928. It was then a low-ranking agency. More than two decades later, on September 23, 1952, it was elevated to its present level.

The CAD is the central regulatory agency of air transport in Mexico. Under its jurisdiction one finds all the major responsibilities identified by the laws and regulations examined in the preceding section. These include route concessions (the control of route entry and withdrawal); air traffic control concessions; crew and aeronautics personnel certification; airworthiness certification; aircraft registration and matriculation; validation of foreign certificates; operation, administration and maintenance of airfields, excluding those entrusted by the government to the federal airport Authority (see Subsection 4.3.2); technical inspections; the supervision and enforcement of the LVGC; approval or disapproval of airline fares,[1] itineraries, schedules and frequencies; air transport statistics collection; and, very importantly, the CAD is the main voice in the negotiation of air transport bilateral agreements.

In 1979 (although completed last year), the CAD was reorganized in accordance with the program of administrative reforms that the present administration has been carrying out (see Section 2.4).

Figure 4.1 shows the new breakdown of the CAD. This breakdown illustrates the main divisions and subdivisions of the CAD, namely, two Subdirectorships-General; one of them subdivided into two Subdirectorships; and at a lower level, 13 departments. The breakdown does not end there. Most

[1]Fare decisions are made in consultation with the Directorship of Tariffs within the same Secretariat.

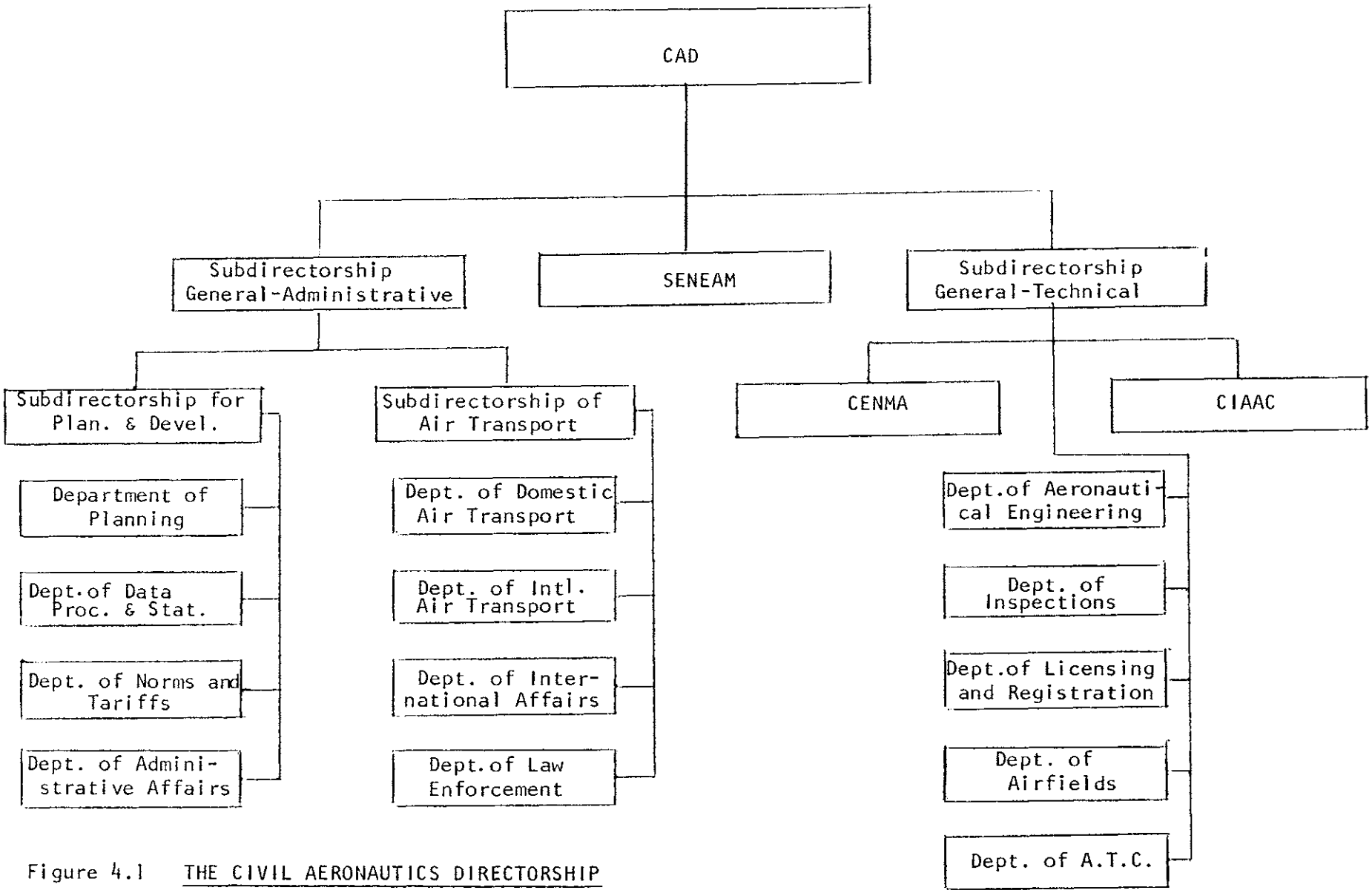


Figure 4.1 THE CIVIL AERONAUTICS DIRECTORSHIP

of the departments are further partitioned into two or more offices which are the lowest type of functional units within the CAD.

On the other hand, as can be seen, there is a block separated from the rest. This is the air traffic control agency, SENEAM, which is explained briefly in Subsection 4.3.4. The reason why SENEAM is organizationally here is that it is an "órgano desconcentrado" (consult Section 2.4). This governmental organ has a Director General and an independent budget. It functions semiautonomously. However, its Director reports to the CAD.

Two other blocks, not fully explained by the figure, are CENMA and CIAAC. The first one is the "Centro Nacional de Medicina de Aviación", a center devoted to the study of air transport-related medical matters and in charge of conducting medical examinations for aeronautics personnel. The other center is the "Centro Internacional de Adiestramiento de Aviación Civil", which is the government's school for air traffic controllers, maintenance personnel and other aeronautics technicians. Under the auspices of the International Civil Aviation Organization (ICAO), it also trains personnel from other Latin American countries.

It would not be useful to describe here in detail the functions of each unit of the CAD. Figure 4.1 is essentially self-explanatory. There are, however, two units of special interest in the context of this work.

The first one is the Department of International Air Transport. This department is in charge of performing studies and developing strategies for the conduct of air transport bilateral negotiations. In addition, the department is responsible for the issuance of permits for charter flights to Mexico by foreign airlines. There are three offices in this department: the Office of

International Public Air Transport (dealing with international airlines); the Office of Private Air Transport (controlling international general aviation to Mexico); and the Office of International Agreements.

The other department of interest is the Department of International Affairs which has two offices: the Liaison Office with ICAO and the Liaison Office with International Organizations. This department provides, then, the necessary links (of every kind) with international aviation organizations. Among other things, this unit is in charge of studying the implications resulting from the signing of multilateral agreements, and makes recommendations on this.

The Mexican CAD is a large agency as measured by Mexican standards. Taking into account the technical personnel based in airfields and the inspectors, the agency has more than 1400 people on its payroll. Some of its personnel are exceptionally well-qualified. However, there are complete areas where this simply is not the case.

For instance, the negotiation of the current Mexico-United States bilateral agreement was the work of just a few people under the direction of the Director General. It was excellent work but it was not done by the people who were supposed to do it. Several of the departments portrayed in Figure 4.1 are not yet staffed, because of low salaries and budget restrictions.

Perhaps no area better shows the poor distribution of the budget and the lack of personnel as that of data processing and statistics. First, until very recently, statistics were collected and compiled without any computerized aid. Second, the CAD does not have data-processing equipment, even today. The Secretariat's computer is shared with the CAD. Third, very often the figures are incomplete and many important statistics are either not collected at all or not added up. Fourth, many statistics from before 1970 are unreliable and inconsistent (after 1970, the few statistics available are, in general, reliable and consistent). Fifth, the CAD does not publish any disaggregate statistics, making the task of the researcher very difficult.

There were some indications of improvement by the end of 1980, but it is too early to judge. The fact of the matter is that, if the agency does not modernize itself soon (particularly those systems related to statistical collection, retrieval and analysis), long-run planning will suffer to a degree that international bilateral negotiations will eventually be hurt as Mexican delegations will have to continue working without readily available data.

4.3.2 Federal Airport Authority

Until the year 1965, the major commercial airports of Mexico were managed, in accordance with the law, by the

Secretariat of Communications and Transportation through the CAD. At that time, the Mexican government was engaged in a vast program of airport modernization and construction. This airport expansion, which would continue for a decade, led the government to consider the possibility of creating an agency that could administer the ever-increasing airport network with more flexibility and autonomy than the one provided by the CAD.

Thus, on June 10, 1965, a federal airport authority was created by Presidential decree. Its name is "Aeropuertos y Servicios Auxiliares" (ASA) -- "Airports and Auxiliary Services", in English -- and it is the government organ that administers, operates and maintains all Mexico's major airports.

In the government breakdown, recalling the administrative structure described in Section 2.4, ASA is a decentralized agency. It has its own budget, which includes the revenues it collects plus federal government subsidies. The agency is headed by a Director General, normally a political appointee, who makes most of the major decisions in an independent manner. However, he reports to the Secretariat of Communications and Transportation. In addition, ASA belongs to the "air transport subsector" and as such, its Director General sits on the Board of some air transport-related agencies. On the other hand, ASA works in some respects as a private corporation: the Director General is its Chief Executive Officer and, at the top, the agency has a Board composed of governmental officials.

The Secretary of Communications and Transportation

is Chairman of the Board, which is composed of other secretaries as well as the CAD Director and other officials representing several air transport-related entities. Some of them have only the right to speak but not to vote in this "Administrative Council", as it is called in Spanish. The Board is in charge of discussing and approving internal regulations, external loans, the draft of the annual budget, new airport tariffs, and the organization's balance sheet. Meetings are held once a month.

The main responsibilities of ASA are the following:

1. It administers, operates and maintains the national airports. This includes all facilities, airside and landside, within the airports. It should be noted, however, that airport construction is not part of ASA's assignments, although lately this has changed somewhat because of an unclearly-defined boundary line between "airport construction" and "airport remodeling" (see Section 4.4).

2. It administers the storage and supply of jet fuel. This activity had been handled by another agency ("Nacional de Combustibles", NACOA) until 1979. That agency is now fully incorporated into ASA. Oil extraction, refining and pricing is in the hands of the federal government which administers it through an oil monopoly ("Petróleos Mexicanos", PEMEX).[1]

3. It establishes airport fees and collects them.

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[1] Jet fuel supplied by PEMEX is on the average less expensive than elsewhere. Its price was approximately $0.97/gallon in February 1981.

Fees come from the following sources: aircraft landing and parking fees; passenger departure taxes, in effect since May 1974; renting of commercial space at the airports; renting of airline offices and counters (airlines do not have their own buildings or gates at the Mexican airports); parking lots; land leasing (as a concession) for airline maintenance and other similar functions; and, since recently, some lounges and bars operated as a business.

ASA controls a network comprised of 48 airports, up from 34 in 1965. The CAD handles smaller fields and isolated runways throughout the country. Most of the airports operated by ASA are relatively new and modern, capable of handling large jet equipment.

There have been complaints from several officials in Mexico, particularly within the CAD, that the number and size of the federal airports is larger than the country needs and this leads directly to the budget deficit which ASA has. In effect, over 40% of ASA's revenues come from the operation of the Mexico City airport and about 75% come from five major airports. However, this argument is immediately refuted by officials who think of an airport not as a business but as a necessary infrastructure to promote the development of the country.

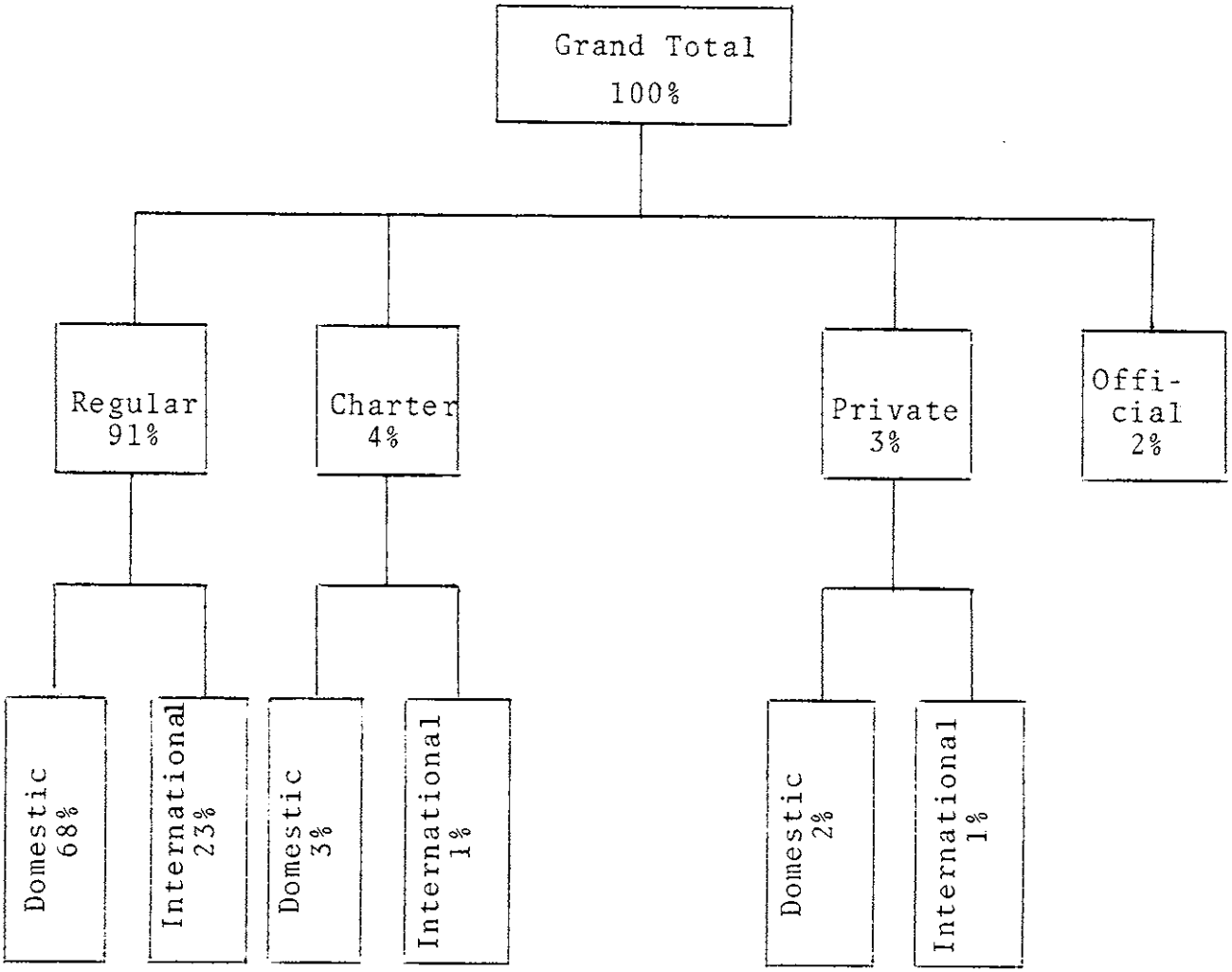
In one way or another, disagreements of that kind might soon become a moot point in the light of the enormous growth the airports have experienced during the past ten years, in terms of both passenger enplanements and aircraft operations.

Passenger arrivals, departures and transfers are expected to approach a 32-million figure in 1981, with the Mexico City airport handling approximately 15 million

passengers, about 47% of the total.

A nearly 15% average annual passenger growth has occurred during the last decade, with international passengers growing at a 10.4% average annual growth (again, in terms of arrivals, departures and transfers).

It is also interesting to note the breakdown of passengers by "type" of arrival or departure. The breakdown provided by ASA gives the totals for four types of operations: regular, charter, private and "official" (governmental). The breakdown has not always been computed in a consistent way, so the following distribution is only an approximation, based on 1978 figures taken from different sources.



These figures have probably not changed significantly in the past two years with the exception of international charters, showing some increase in their relative importance.

In June 1979, the cities with the ten busiest airports in the country were listed as follows: Mexico City, Acapulco, Guadalajara, Monterrey, Merida, Tijuana, Puerto Vallarta, Mazatlan, Cancun and La Paz. It is estimated by this author that by 1981, Acapulco's and Guadalajara's airports will handle not fewer than 3 million passengers and that the ten busiest airports will process at least 80% of all passengers. This means an increasing decentralization and healthier balance sheets for ASA: in 1950, eight airports handled 90% of the traffic; in 1960, ten airports processed 85% of all passengers; and by 1976, the same percent was already being handled by thirteen airports.

ASA is generally considered to be a well-managed, efficient agency. Recently, it has created an office of planning which is involved, among other things, in the development of a modern, better-organized data-collection system and the analysis of the present trends until the year 2000.

4.3.3 Airport Construction Directorship

It has already been mentioned here that airport construction in Mexico is not handled either by the CAD or by ASA, in spite of their important involvement with airport-related issues. The agency in charge of this is one of the directorships of the Secretariat of Human Settlements and Public Works. This is the "Directorship of Airports" (DA).

The fact that the agency in charge of airport construction belongs to a secretariat different from the one of Communications and Transportation has caused in the past few years some lack of coordination, duplication of functions and criticism, although the DA is part of the air transport subsector coordinated by a single head (see Section 4.4).

This situation was produced by a simple circumstance. Prior to 1958, the functions of both secretariats were carried out by a single secretariat. In 1958, when the separation occurred, by error or design, the only air transport-related office transferred to the newly-created Secretariat of Public Works[1] was the Directorship of Airports.

This Secretariat is divided into three undersecretariats. The DA belongs to the Undersecretariat of Public Works. Its Director is normally a political appointee with some technical background in his area. Its budget is part of the Secretariat's budget. Therefore, airport construction is dependent upon the allocation of funds between competing public interest projects. This has caused some trouble lately, particularly when, as described later, two different governmental agencies presented different plans for a new airport in Mexico City.

[1]Renamed Secretariat of Human Settlements and Public Works after López Portillo's inauguration in 1976.

4.3.4 Air Traffic Control

Air traffic control in Mexico is the responsibility of an "órgano desconcentrado" (see Section 2.4). As previously explained, these are not government enterprises: they do not operate as a business in the sense of evaluating performance on the basis of profit or loss. Yet, these agencies operate in a rather autonomous manner, headed by a Director General who reports to a secretariat.

The agency in charge of air traffic control is "Servicios a la Navegación en el Espacio Aéreo Mexicano" (SENEAM), which in English means "Services for Navigation in the Mexican Air Space". Its Director General reports to the Secretariat of Communications and Transportation, and more specifically, to the CAD Director. Its budget, however, as the agency is not a directorship but a semi-independent organ, comes directly from the general annual federal budget, not the Secretariat's. On the other hand, all the revenues collected by this agency are sent to the federal government.

The origin of SENEAM can be traced to its predecessor (a semi-private enterprise), "Radio Aeronáutica Mexicana, S.A." (RAMSA) -- in English, Mexican Radio Aeronautics, Inc. -- created as a federal government concession on April 8, 1952. Years later, on November 15, 1966, the federal government decided to take over part of the concession, becoming a majority stockholder. Thus RAMSA became a government enterprise (a "decentralized agency" in the government's breakdown). This meant that the enterprise was expected to be profitable.

By 1978, however, RAMSA was afflicted by heavy losses which led to political trouble. Its employees were said to be overpaid and the Civil Aeronautics Directorship (itself in charge of a few meteorological and air traffic

control services) actively engaged in an all-out struggle to gain control over RAMSA and absorb it. This struggle culminated in a strike of air traffic controllers, from October 5 to November 1 of 1978, almost paralyzing domestic and international air travel in Mexico. The end result was the creation of SENEAM, now not a government enterprise but neither an integral part of the CAD. This occurred on October 3, 1978.

This government organization is in charge of most air navigation and meteorological services in Mexico. It operates through four main air traffic control centers (in Mexico City, Merida, Mazatlan and Monterrey) and 68 stations throughout the country. Its operating budget (not including new acquisitions or equipment) exceeds $50 million, with over 70% of it going into payroll (about 1200 employees by January of 1980).

The agency charges for its services in line with published tariffs. There are three basic services for which fees are charged, namely: air traffic control (radar vectoring), weather forecasts, and radio communications. Aircraft are classified into "categories" by their operating weight, and are charged accordingly, with less onerous fees for the lighter and higher charges for the heavier.

It is too soon to assess or predict the future performance of SENEAM. However, its incorporation into the federal government is a positive step since it has strengthened its budget, its internal organization, and its cohesiveness and coordination with other air transport-related agencies.

4.3.5 Airlines and Markets

Through the years, the Mexican Civil Aeronautics Directorship has set forth different breakdowns of the country's airlines according to the routes they serve. The classifications are somewhat informal and do not correspond to any legal requirement or regulation.

The most recent classification (February 1981) is as follows:

1. Two major international airlines (Aeroméxico and Mexicana).

2. Eleven feeder airlines, most of them operating with a few turboprop aircraft within relatively small areas.

3. "Air taxis" for non-regular service, of which there are two types: "national" ones (allowed to operate anywhere in Mexico) and "regional" (allowed to operate only within a restricted region of the country). There are 140 national air taxis and 121 regional, making a total of 261 air taxis.

4. Six airlines providing "special" services, mostly small cargo.

This means a total of 280 airlines providing public service.

In the past the CAD has defined certain criteria to classify routes, although as with airlines, never in accordance with any regulation. Rather, they have served internal purposes. Jorge Cendejas Quesada, an aeronautical engineer who served as CAD Director from 1976 to 1980, divided the routes as follows:[1]

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[1]See Cendejas Quesada (1975).

1. Trunk routes are those which link major cities; these routes operate with jet planes and with a minimum of 1200 one-way passengers a month on each segment of the route.

Most of these routes link Mexico City with state capitals and major tourist centers. Among the most important domestic routes are the following: Mexico-Acapulco; Mexico-Guadalajara; Mexico-Monterrey; Mexico-Merida; Mexico-Cancun; and Mexico-Zihatanejo. These are all markets serving over a quarter of a million passengers a year. The Mexico-Acapulco market has already passed the one-million mark and the Mexico-Guadalajara route will probably reach that figure in 1981.

The most important domestic routes not connecting to Mexico City are Guadalajara-Puerto Vallarta; Guadalajara-Tijuana; and Monterrey-Guadalajara. The first two routes currently have over 200,000 passengers annually.

There are presently about 20 nonstop markets that are expected to exceed 100,000 revenue passengers a year by the end of 1981. In addition, there are around ten more routes that are considered as "trunks". Despite their relatively low passenger traffic, these routes are considered of prime importance for purposes of communication and national development. It should also be said that most of these routes have proven to be profitable for the two major airlines of the country.

Practically all the trunk routes of the nation are operated nonstop by either Aeroméxico or Mexicana. However, both airlines compete in the case of major routes. The CAD constantly monitors these routes to determine whether or not the degree of competition between the airlines exceeds what the government deems as necessary and sufficient.

Outside of Mexico City, the airlines rarely compete , and in the case of Mexico City, they currently compete in only 11 nonstop routes (out of 35).

2. Secondary routes are those which average fewer than 1200 passengers a month and more than 700. These routes are normally served by lighter, propeller-driven aircraft (HS-748 or similar) linking Mexico City with smaller cities. There are also some secondary routes linking other towns in the countryside.

As an example of airlines serving these routes, two newly-created carriers can be cited: Aerolíneas León and Interestatal de Aviación. These are the only feeders operating to and from Mexico City. Both started operations in 1980 and have been economically successful. Presently, each of them operates with three propeller-driven aircraft (45 seats) and link Mexico City to points such as Zacatecas, San Luis Potosi, Aguascalientes, Ciudad Victoria and Morelia (all of them state capitals not served by the major airlines) and some smaller towns.

3. Feeder routes are not necessarily "feeder" in the true sense of the word; these are routes traveled by fewer than 700 but more than 300 passengers a month. Twin Otter or similar aircraft serve these routes linking smaller, partially-isolated villages with small urban centers.

Internationally, Mexico is on the route map of 33

foreign carriers, most of them flying only to Mexico City (although this is not the case of the U.S. airlines anymore). The steady growth of international aviation in Mexico is illustrated by the following figures:

	Number of Carriers			
Region	Late 1950's	Late 1960's	Mid-1970's	1981
Europe	1	6	7	7
Latin America	1	9	13	13
Asia	0	0	2	1
United States	5	5	7	11
Canada	1	1	1	1
Total	8	21	30	33

Thus, 33 airlines representing 23 countries fly to Mexico, providing efficient connections to all over the world. Mexico City is, in addition, an important connecting point to Central and South America, with almost every major Latin American capital connected nonstop to Mexico City. Even Cuba and the USSR are linked to Mexico.

The international carriers currently operating in Mexico (February 1981) are the following:

From Europe:

1. Aeroflot (USSR)
2. Air France (France)
3. British Airways (United Kingdom)
4. Iberia (Spain)
5. KLM (Netherlands)
6. Lufthansa (West Germany)
7. Sabena (Belgium)

Air France flies the Concorde to Mexico. Sabena (in Mexico) has been on strike for over six months. There are rumors that it might permanently suspend its Mexican operations.

From Latin America

1. Aerolíneas Argentinas (Argentina)
2. Aeroperú (Peru)
3. Air Panama (Panama)
4. Avianca (Colombia)
5. Aviateca (Guatemala)
6. Cubana (Cuba)
7. Ecuatoriana (Ecuador)
8. Lacsa (Costa Rica)
9. Lanica (Nicaragua)
10. Taca (El Salvador)
11. Tan (Honduras)
12. Varig (Brazil)
13. Viasa (Venezuela)

From Asia:

1. Japan Airlines (Japan)

El Al (Israel) operated for a brief period during the late 1970's.

From the United States:

1. American
2. Braniff
3. Continental
4. Eastern
5. Frontier
6. Pacific Southwest
7. Pan Am
8. Republic
9. Texas International
10. United
11. Western

Thus, eleven American carriers fly to Mexico: eight major[1] (of a total of 12 in the United States) and three national[1] airlines. This will be further analyzed in succeeding chapters.

From Canada:

1. Canadian Pacific Airlines

Some information about the two major Mexican airlines is pertinent at this point.

Aeroméxico[2] is the flag airline of the country. It was founded as a private enterprise in September 1934, inaugurating the Mexico City-Acapulco route, which later was to become the busiest route of the nation.

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[1]According to the new C.A.B. carrier classification.

[2]Its legal name is Aeronaves de México, S.A.

In 1941, Pan Am acquired 40% of Aeroméxico's stock; in 1957, all the stock returned to Mexican hands; and finally, in 1959, the Mexican government acquired the company. Thus Aeroméxico became a state-owned carrier.

The Chief Executive Officer of the carrier is its Director General, normally a political appointee named by the President of Mexico. The company is (in the government breakdown) a government enterprise (more specifically, a decentralized agency). Therefore, just as ASA, it manages its own revenues and is entitled to receive a federal subsidy. At the top, the airline is controlled by a Board or "Administrative Council" presided over by the Secretary of Communications and Transportation (as President of the Board), the Secretary of Tourism, the Director of the CAD, the Director of ASA, and other officials. Needless to say, the carrier forms part of the air transport subsector, coordinated by the Secretary of Communications and Transportation.

As the flag airline of Mexico and as a State agency, the carrier does not operate purely for profit. A number of public interest principles, discussed in more detail in Chapter 6, guide the decision-makers of the company. These principles apply in many areas, including those related to the domestic and international configurations of the routes operated by the company.

The airline currently serves a total of 41 cities (31 of them within Mexico) in seven countries: Mexico; the United States (Houston, Los Angeles, Miami, New York and Tucson); Colombia (Bogota); Venezuela (Caracas); Panama (Panama); Spain (Madrid); and France (Paris). This makes Aeroméxico the only transatlantic Mexican airline, a title it will lose very soon with Mexicana starting service to London.

The company's route map shows two basic poles or traffic centers; Mexico City and Guadalajara. However, and this contributes to some heavy losses, the airline connects a substantial number of provincial cities with nonstop service. This arises in many instances from public interest considerations.

Yet, the company has been accused through the years of losing too much money through inefficiency. A 1979 study conducted for the airline by an independent party showed across-the-board inefficiency, waste and mismanagement in the company.

After this study, through a program of draconian measures (including a hiring freeze) and recapitalization by the Mexican government, the carrier showed profits for the first time in many years, both in 1979 and in the recession year of 1980.

In spite of this, the company still has a long way to go before it will be able to confront its major competitor, Mexicana, an efficiently-run company which year by year has been increasingly absorbing a greater share of the aggregate Mexican traffic.

At the present point (March of 1981), Aeroméxico has a fleet of 35 aircraft, all jets, all Douglas aircraft. These are: two DC 10-30's; six DC8-51's; 17 DC9-30's; and 10 DC9-15's. By January of 1982 the fleet will have increased by at least eight more aircraft (making a total of 43) with the addition of two DC9-30's, two DC10-15's and four DC9-Super 80's. The carrier presently employs over 7000 people, many of them unionized.

There are three unions dealing with the company.

First, the "Asociación Sindical de Pilotos Aviadores de México" (ASPA), created in 1958, is the pilot association. Second, the "Asociación Sindical de Sobrecargos de Aviación de México"(ASSA) is the flight attendants' union. The third one is the powerful "Sindicato Nacional de Técnicos y Trabajadores de Aeronaves de México"(SNTTAM), which represents an important part of the ground employees, both administrative and technical.

Finally, an important force in the national air transport environment is the presence of the "Cámara Nacional del Aerotransporte", a chamber of commerce representing business and consumer interests.

Aeroméxico's passenger demand has been growing rapidly during the past few years. In 1971, the airline transported 1.5 million passengers (about 400,000 on its international routes) resulting in almost 2 billion passenger-kilometers.[1] By 1980 these figures had increased to over 5.1 million passengers (around 1,200,000 were international travelers) and more than 6.5 billion passenger-kilometers. This means that passenger growth as well as passenger-kilometer growth was over 325% in one decade. Even in 1980, a relatively slow year, revenue passenger growth surpassed 12%, while revenue passenger-kilometer growth was estimated at 15.7%.

The other major airline of the country is Mexicana.[2]

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[1]Taking Mexico City as the main air traffic center, any point within the country can be reached within 3 hours. The distance between Mexico City and Tijuana (on the California border) is 2300 kilometers.

[2]Its legal name is Compañía Mexicana de Aviación, S.A. (CMA).

It was founded in 1924 as the result of the enthusiasm of an American, Mr. George H. Rhil, in solving the problem of swift and safe dispatch of oil-company payrolls from Veracruz to Tampico. Mexicana claims to be the sixth oldest airline in the world (preceded only by KLM, Avianca, Qantas, Sabena and CZA). On the other hand, Mexicana is the busiest airline in Latin America in terms of revenue passengers, followed by Aeroméxico and Varig.

The airline was acquired by Pan Am in 1929, which in the 1940's reduced its stock in it to only 41%. By 1967[1], Pan Am's holdings had dropped to 35%. At that point a Mexican private group, led by Mr. Crescencio Ballesteros, acquired Pan Am's remaining stock. Thus Mexicana became entirely a Mexican-controlled enterprise. The company is considered to be an efficient, well-managed carrier. Mr. Ballesteros is now Chairman of the Board. Since 1967 the carrier has been led by the conservative administration of Mr. Manuel Sosa de la Vega, its Director General. The airline has been profitable for over ten years.[2]

At this time (March 1981) the airline serves 39 cities in Mexico and abroad. These are the following: 25 destinations in Mexico; 10 in the United States (Chicago, Dallas, Denver, Harlingen, Los Angeles, Miami, Philadelphia, San Antonio, San Francisco and Seattle); 2 points in the Caribbean (Havana and San Juan); and 2 more in Central America (Guatemala and San Jose). This makes a total of

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[1] At that time the carrier was on the brink of bankruptcy.

[2] In 1978 Mexicana had a net profit of $12 million on revenues of $236 million.

six countries in which Mexicana operates.

Part of the reason for Mexicana's profitability is, without a doubt, its simple, one-hub route map. The majority of the routes originate in Mexico City; most of them are nonstops; and a few provincial towns are linked together by Mexicana. The airline does not have to follow the public interest guidelines of its major competitor. The company is better organized, its management is conservative and stable and, very importantly, the employee turnover is very low. The payroll includes over 9,000 employees.

At the present time (March 1981), Mexicana operates a 42 all-Boeing jet-plane fleet (eleven B-727-100's and 31 B-727's, series 200)[1,2]. However, these figures will soon change. By 1982 the airline will have received three more B727-200's and its first three jumbos (DC10-15's), making a total of 48 aircraft. In addition to this, another thirteen B-727's and two DC10-15's are already on order. The carrier is in the process of expanding its services in the United States, and inaugurating service to Europe and probably South America.

This process of expansion has been impressive. In 1971, Mexicana carried 1.5 million passengers, which meant about 1.5 billion passenger-kilometers. In 1980, the airline transported 7.5 million passengers (including 1.8 million international passengers) and that represented approximately 7.5 billion passenger-kilometers, a 500% growth in ten years. Last year alone (1980), passenger demand grew by almost 22% and similar growth is expected in 1981. If that happens, the airline will carry more than 9 million passengers in 1981.

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[1] Largest all-jet B-727 fleet outside the United States.

[2] Information provided by informal sources (not verified by the author).

At the aggregate level, the Mexican air transport industry has shown continued dynamism and accelerated growth during the past few years. On the whole, Mexican airlines transported 15.8 million passengers in 1980.[1] This signified a 21% increase over 1979 and an 83% increase over the figures of 1976. There is no doubt that the Mexican markets are still far from stagnation. Mexicans and foreigners continue to travel in increasing numbers to and from Mexico. The Mexican airlines carried almost 3 million international travelers in 1980, an impressive 29% increase over 1979 and a doubling of the figures of 1976. This is particularly impressive when one recalls the recession that has afflicted the West since the second quarter of 1980.

The non-Mexican airlines, on the other hand, transported approximately 3.9 million international passengers to and from Mexico in 1980, a relatively modest (by Mexican standards) 7% growth over the 1979 figures.

Table 4.1 shows the air passenger growth experienced by Mexico during the past two decades. The table includes the passengers carried by every Mexican airline, including the domestic non-scheduled traffic as well as the scheduled international traffic. As can be seen, the preliminary figures for 1980 show nearly 13 million revenue passengers (domestically) and almost 7 million international passengers. This brings the grand total close to 20 million revenue passengers. This means that 35% of all air travelers in Mexico are international passengers. This figure was 50% in 1960 and since then, almost constantly has decreased, until

[1] Including majors, feeders and air taxis (preliminary estimates by the CAD).

Table 4.1

MEXICAN PASSENGER TRAFFIC: REVENUE PASSENGERS[1]

Year	Domestic (000)	International (000)	Total (000)
1960	888	892	1,780
1961	1,061	676	1,737
1962	987	817	1,804
1963	1,095	937	2,032
1964	1,387	1,002	2,389
1965	2,358	1,129	3,487
1966	1,666	1,353	3,019
1967	1,863	1,517	3,380
1968	2,138	1,721	3,859
1969	2,195	1,955	4,150
1970	2,278	2,220	4,498
1971	2,648	2,433	5,081
1972	3,187	3,121	6,308
1973	3,924	3,297	7,221
1974	4,879	3,561	8,440
1975	6,040	3,595	9,635
1976	7,180	3,570	10,750
1977	8,020	3,698	11,718
1978	9,172	4,885	14,057
1979	10,738	5,994	16,732
1980[2]	12,800	6,900	19,700

[1]The domestic figures (after 1969) are in accordance with a recent revision by the Civil Aviation Directorship. All airlines included: Mexican and foreign; non-scheduled international traffic and non-commercial traffic are not included.

[2]Preliminary figures.

Source: Civil Aviation Directorship.

reaching its present value. The domestic air passenger share has remained more or less constant during the past five years.[1]

The 10 million passenger growth experienced by the industry in only five years represents an average 20% annual rate of expansion. This boom caught the industry off guard, causing important problems of financing and planning.

The bulk of air service growth has essentially been due to increases in the tourist sector. From 1965 onward, vast investment has been directed in the development of a multitude of new "poles of attraction" departing from the traditional Mexico City-Acapulco axis. This will be discussed in detail in Chapter 7. In addition, as discussed in Chapter 3, the growth of the tourist industry has been accompanied by a high rate of growth in the national economy.

An examination of the annual percent change of revenue air passengers makes it easier to interpret the ups and downs of traffic. Hence, let us refer now to Table 4.2 where the columns represent the percent change of revenue air passengers from 1961 through 1980. The first column is domestic; the second, international; and the third the total (or aggregate) air passenger traffic.

The table indicates how well-known internal and external political crises have affected the industry's performance.

In domestic service, the years 1961-1965 show, except in one case, sustained growth that deaccelerates

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[1]The corresponding increase in relative importance of domestic travel within Mexico (as compared to international travel) is probably one of the direct consequences of intensified airport construction in the 1960's.

Table 4.2

MEXICAN PASSENGER TRAFFIC: ANNUAL PERCENT CHANGE

Year	Domestic	International	Total
1961	19.48	-24.22	-2.41
1962	-6.97	20.86	3.86
1963	10.94	14.69	12.64
1964	26.67	6.94	17.57
1965	70.00	12.67	45.96
1966	-29.35	19.84	-13.42
1967	11.82	12.12	11.96
1968	14.76	13.45	14.17
1969	2.67	13.60	7.54
1970	3.60	13.55	8.29
1971	16.24	9.59	12.96
1972	20.35	28.28	24.15
1973	23.12	5.64	14.47
1974	24.34	8.01	16.88
1975	23.79	0.95	14.16
1976	18.87	-0.69	11.57
1977	11.70	3.58	9.00
1978	14.36	32.01	19.96
1979	17.07	22.70	19.03
1980[1]	19.20	15.11	17.74

[1]Preliminary figures.

Source: Computation based on Table 4.1 data.

during the period 1966-1970. All these years correspond to the economically-stable years of the López Mateos and Díaz Ordaz regimes, when the GDP growth reached astonishing peaks of 11.7% in 1964 and 8.1% in 1968, and never fell below 4.7%. In December of 1970, Luis Echeverría occupied the nation's highest office, initiating a six-year term of quick expansion and enormous federal spending that, as mentioned before, boosted the internal economy, although undermining the peso's strength and generating an increasingly inflationary spiral that culminated in a devaluation on August 31, 1976. Thus, the impressive domestic air passenger growth of 1971-1975 and the acute decline of 1976-1977 are more than coincidental.

In international service, the story is different. It is interesting that the years that saw the highest domestic growth rate were precisely the same years when the international sector was experiencing its smallest growth in the entire 21-year period. The international figures of Table 4.2 reveal continual growth through 1972. Then, in 1973, the international service registered its lowest increase (5.6%) in 12 years. This is interpreted to be a result of the international oil crisis that strongly affected the United States economy, and, as a consequence, American tourism in Mexico. From 1974 to 1975, the same situation prevailed; the American crisis was heightened by the Watergate scandal and an overall lack of confidence in the authorities and the economy. Finally, Mexican international air service saw its worst year (since 1961) when the Echeverría government, in its last year (1975-1976), confronted the United States in a rather meaningless manner and voted against a very critical United Nations resolution. This provoked an American tourist boycott, causing a virtual

halt in Mexican tourist expansion. A slight recovery in both the Mexican and American economy, as well as the inauguration of a new, moderately pro-American regime in Mexico, accounted for the renewed, although modest, expansion of 1977.

The period 1978-1980 saw the discovery of giant oil fields in the southeast. An almost unprecedented economic growth was experienced and the country fully recuperated from the crisis of the mid-1970's. The growth of the domestic markets is a direct reflection of the economic boom experienced by Mexico during those years.

The growth of international air passenger figures has been caused by additional factors. First, during 1978, the devaluation of the Mexican peso made it easier for the American tourist to travel to Mexico, especially when one considers the devaluation of the dollar in relation to the European currencies. Second, during 1979-1980, the high rates of inflation in Mexico offset the beneficial aspects of the devaluation. Incoming international tourism deaccelerated. However, Mexicans found themselves, for the same reason, with more pesos to exchange for dollars and therefore had a greater potential to travel abroad. This is further examined in succeeding chapters.

Table 4.3 gives some insight into the international air passenger volume handled by the Mexican airlines, as well as their foreign competitors.

As can be seen, the Mexican airlines handled 41.7% of the international travelers in 1978. The figure for 1979 was 39.1% and preliminary estimates indicate a 43% share of the market in 1980. It is also interesting to observe that fully 75.6% of the international passengers were carried by the two major Mexican airlines and four

Table 4.3

INTERNATIONAL SCHEDULED TRAFFIC IN MEXICO: AIRLINE SHARE[1]

	1978			1979			
Carrier	Number	Revenue Passengers	Share (%)	Number	Revenue Passengers	Share (%)	1978/1979 Growth (%)
Mexicana	1	1,261,963	26.1	1	1,527,791	25.5	21.1
Aeroméxico	2	753,065	15.6	2	814,567	13.6	8.2
American	3	530,091	11.0	4	586,858	9.8	10.7
Western	4	488,826	10.1	3	628,175	10.5	28.5
Braniff	5	369,080	7.6	6	414,515	6.9	12.3
Eastern	6	342,810	7.1	5	554,387	9.3	61.7
Republic	7	141,829	2.9	9	122,418	2.0	-13.7
Pan Am	8	134,459	2.8	8	239,725	4.0	78.3
Texas	9	115,416	2.4	7	271,176	4.5	134.9
Iberia	10	96,212	2.0	10	102,981	1.7	7.0
Air France	11	82,679	1.7	11	89,644	1.5	8.4
Aviateca	12	73,475	1.5	12	76,284	1.3	3.8
Lufthansa	13	40,380	0.8	16	40,944	0.7	1.4
Japan	14	38,762	0.8	14	59,706	1.0	54.0
KLM	15	37,844	0.8	15	43,334	0.7	14.5
Viasa	16	29,605	0.6	19	27,834	0.5	-6.0
Lacsa	17	29,414	0.6	17	37,695	0.6	28.2
Canad. Pacif.	18	26,708	0.6	24	21,173	0.4	-20.7

(continued)

Table 4.3 (continued)

Carrier	1978 Number	1978 Revenue Passengers	1978 Share (%)	1979 Number	1979 Revenue Passengers	1979 Share (%)	1978/1979 Growth (%)
Sabena	19	26,285	0.5	30	13,802	0.3	-47.5
Avianca	20	24,893	0.5	28	16,041	0.3	-35.6
Air Panama	21	23,630	0.5	22	23,302	0.4	-1.4
Argentinas	22	22,400	0.5	18	34,613	0.6	54.5
Aeroperu	23	20,443	0.4	21	23,545	0.4	15.2
Lanica	24	19,918	0.4	33	9,978	0.2	-49.9
British	25	18,851	0.4	25	20,422	0.3	8.3
Varig	26	18,591	0.4	20	26,942	0.4	45.0
Ecuatoriana	27	17,692	0.4	23	21,702	0.3	22.7
Taca	28	16,620	0.3	27	17,028	0.3	2.5
Tan	29	16,239	0.3	26	17,715	0.3	9.1
Cubana	30	7,436	0.2	29	15,501	0.2	108.5
El Al	31	6,080	0.1	34	1,123	0.1	-81.5
Aeroflot	32	5,352	0.1	32	10,296	0.2	92.4
Frontier	33			13	62,256	1.0	100.0
Continental	34			31	13,246	0.2	100.0
TOTAL		4,837,048	100.0		5,986,719	100.0	23.8

[1]El Al ceased operations in 1979. United Airlines started operations in 1980. The totals do not match exactly with those of Table 4.1 due to some inconsistencies in the reports of a few foreign carriers.
Sources: Civil Aeronautics Directorship

American carriers (1979). On the other hand, the last column of the table shows the sharp rates of growth of the majority of American airlines flying to Mexico. This should not come as a total surprise: as Table 4.4 shows, the United States and Canada accounted for 83.4% of the total international travel to and from Mexico in 1979. Europe follows, then Central America and other regions of the world make up the rest.

4.4 Overlapping Functions and the Need for a Central Authority

The preceding pages show certain aspects of the Mexican air transport structure that are detrimental and should be discussed further.

The following are among the most relevant points to consider.

1. The manner in which the agencies of the "air transport subsector" are coordinated is defective. It actually produces lack of coordination and waste of resources.

2. The very existence of some of those agencies is not justified, particularly because of the duplication of tasks.

3. The state of statistics collection and analysis is deficient.

4. The turnover rate of Aeroméxico's top management is excessive. The government is not serving the public interest goals that the carrier claims to serve by changing every top officer in the company every time that external political circumstances dictate.

Table 4.4

INTERNATIONAL SCHEDULED TRAFFIC IN MEXICO: REGIONAL SHARE (1979)[1]

Region	Revenue Passengers	Share (%)
North America	4,992,845	83.4
Europe	389,005	6.5
South America	222,710	3.7
Central America and the Caribbean	339,063	5.7
Asia	43,096	0.7
Total	5,986,719	100.0

[1]The totals do not match exactly with those of Table 4.1 due to some inconsistencies in the reports of a few foreign carriers.

Sources: Civil Aviation Directorship

Let us elaborate on this and propose some solutions.

As has been explained, the various entities related to air transport in Mexico are coordinated by the Secretary of Communications and Transportation. He coordinates what is called the "air transport subsector".

This author questions the existence of such a subsector. As explained in Chapter 2, "sectors" and "subsectors" are a creation of the present administration. A sector of development is a particular area or conglomerate of issues that require the joint services of several administrative units of the Mexican government. These specific areas could not be assigned to a single, isolated task force since their nature is truly "interdepartmental".

However, air transportation is not an area that requires this type of organization. Air transportation does not need the "joint services" of different governmental secretariats. Rather, it can be separated and managed as a single unit.

Unfortunately, as stated, air transportation is administered in Mexico through different units that are loosely coordinated by the head of the air transport subsector.

The problem is worsened since those units belong to different secretariats and governmental entities which do not always have the same rank within the government. This has produced duplication of efforts and, very often, political competition and disruptive conflicts.

The reason for this functional disaggregation is, simply, the gradual development of air transport in Mexico. Agency after agency was added to the system through the years without any apparent logic. As a consequence of this, five independent agencies coexist today, often competing to

implement different and opposing policies. Notice the dissimilarity of their governmental rank: two directorships, belonging to different secretariats (the CAD and the DA); two decentralized agencies (Aeroméxico and ASA); and SENEAM, a vaguely-defined "órgano desconcentrado".

Older transportation industries, controlled by the State, are managed by the government as single entities. One good example of this is the case of the commercial maritime industry, administered by one of the undersecretaries at the Secretariat of Communications and Transportation.

The government possesses the legal, institutional and political instruments necessary to unify the air transport agencies. One such solution would be the creation of an Undersecretariat of Civil Aviation.

The Undersecretariat would belong to the Secretariat of Communications and Transportation and would be in charge of defining ahd implementing air transport policies, now ill-defined and dispersed. The functions of the CAD, ASA, SENEAM and the DA would be merged and reorganized. Aeroméxico would stay as an independent, decentralized agency. Friction would diminish and the waste of human and financial resources would be reduced.

During the past few years this course of action, which constitutes a centralization of power and of policy-making, has already been happening. Two indications of it are the decision of the government to directly take over the responsibility of air traffic control (SENEAM) and the incorporation of NACOA (the agency in charge of storage and distribution of jet fuel) into ASA.

This author does not necessarily believe that the

solution portrayed is the "best" or the only one. However, he deems it as realistic and possible. To propose models without a chance of their being accepted would be impractical. The suggested solution fits not only the legal framework of the Mexican governmental system but also its self-proclaimed objectives of efficient use of resources and policy coordination.

Despite the trend toward centralization, the present system is increasingly afflicted by problems of duplication.

To begin with, the borderline between "airport construction" and "airport remodeling" is not clearly drawn. Recently, two air transport agencies confronted each other in a conflict about the future of Mexico City's airport. Essentially, the Directorship of Airports (in charge of airport construction) proposed the construction of an entirely new airport, a very expensive project that would have taken years to complete. On the other hand, ASA (in charge of airport management and maintenance) proposed a remodeling of the present airport, including the construction of a large new terminal and additional runways. This project is less ambitious and expensive and a major part of it would be completed by the end of López Portillo's term. From the outset, a sharp conflict erupted, with the DA claiming its airport construction "rights" and ASA contesting these by asserting that once an airport is turned over to them, only ASA has the right to make "changes" in it. The conflict had obvious political overtones.

In the end, the two agencies developed independent plans. These plans, particularly the ones the DA prepared, utilized the help of foreign consulting firms and entire months of manpower. This meant an undisclosed but certainly enormous amount of money. The DA was coached by the

Secretary of Human Settlements and Public Works, while ASA was supported by the Secretary of Communications and Transportation (recall that ASA reports to him). Near the end of 1980, both secretaries presented their respective projects to the President and his advisors. ASA "won" the project. Financial considerations and possibly the fact that the President would like to have the project completed before the end of his term, were among the primary reasons to choose this project. These cases of duplication are not unique and they have cost Mexico millions of dollars. The fact that the Secretary of Communication and Transportation is the head and coordinator of the air transport sector did not stop these overlapping endeavors.

The Directorship of Airports has been attacked in the past, especially by the CAD, for "overconstruction" of airports. This means the construction of too many, often unnecessary, airports. This assertion is not easy to prove given the different and varying interpretations of what "public interest" is. Some officials believe that the DA should be incorporated into the CAD or ASA. However, this would be a political blow to a secretariat that has traditionally been very influential.

Another area of overlap is data collection and analysis. Each and every air transport agency has its own statistics office. In the case of the CAD, at least theoretically (in the CAD's breakdown), this is a large office. Thus, although each agency collects data of interest to it, they also collect data that others have already collected. The statistics often are not consistent with each other.

This duplication of effort would be less worrisome if Mexico had a complete and updated air transport data

bank. Unfortunately, this is not the case. Air transport statistics are scarce and five federal agencies do not do together what a single agency should be able to do.

The few statistics that are available are, in general, relatively reliable. However, elemental statistics such as city-pair traffic, load factors and yields are not computed systematically (i.e., the basic data are collected but many of the statistics that are derived from them are not calculated).

If data collection were only to serve the particular interests of independent investigations, the subject would lack importance. But when an entire industry is dependent on its availability, the problem acquires importance. The matter is further complicated by the fact that the information which is collected is not readily available to the general public and few statistics are actually published.

Most of the problems described above are not the responsibility of Aeroméxico. However, the national airline has problems of its own that are by no means less important. This is not the place to analyze in detail the performance of the airline. However, it would be appropriate to mention one problem that immensely affects the overall efficiency of the carrier. The problem is mentioned here because it is rooted in an institutional impediment: that Aeroméxico is considered politically by the government as just another federal agency.

This has meant, since the early 1970's, that political appointees have filled the top positions at Aeroméxico. This would not be a problem in itself if it were not for the frequency of those appointments and the resulting changes in the second- and even third-level positions at the company. With almost absolute certainty, every time a new

Director General takes office, a new team occupies all top administrative positions and even third-level posts. During the past four years alone, this has occurred twice. The carrier lacks a body of long-time employees at the top. Upward mobility within the company is limited to a few high-ranking positions and job security at third- and even fourth-level posts does not exist.

Some of Aeroméxico's Directors General, as well as people they have brought to the company, have proven to be assets to the airline. This includes political appointees who have managerial talent. Yet, they can hardly reach their goals with average stays of two to three years at the carrier.

One possible solution to this problem, regarded by this author as possible, although politically difficult, would be to appoint Aeroméxico's Director General for definite periods of time. The appointment would be for six years (the length of a presidential term). However, to diminish the political significance of the appointment, this could be effected at the end of the third year of the President's term. Thus, the Director General of Aeroméxico would for the last three years of his term serve a President who did not appoint him. The Chairman of the Board, however, would still be the Secretary of Communications and Transportation, who would be an appointee of the current President. Therefore, the President would retain enough power through the Chairman of the Board and, at the same time, the removal of the Chief Executive Officer (the Director General) would be less frequent and less traumatic. Finally, some provisions should be made to "depoliticize" the second-level positions at the company.

This author firmly believes that the current top-management turnover rate is one of the most acute problems that the Mexican flag airline has.

With this, the chapter comes to an end. The problems described in the preceding pages are only selected examples of the most urgent. They all affect the industry as a whole. Solutions such as the ones proposed here, or others, should be actively pursued.

Chapter V
MEXICO-UNITED STATES AIR PASSENGER TRAFFIC: DIMENSIONS AND PATTERNS

5.1 Introduction

In only a few years, the United States-Mexico air passenger market has reached not only unprecedented rates of traffic growth and passenger volume, but also has acquired significant importance in the context of the United States overall international traffic.

This chapter analyzes that traffic from different points of view. The problem is examined from both the American and the Mexican perspective.

Section 5.2 explores a large amount of information pertaining to the market. Routes, traffic volume, airlines, and patterns of growth are reviewed. An important collection of figures was compiled. Many of these are presented here for the first time in a coherent form.

Section 5.3 answers a number of previously-unanswered questions. Specifically, the queries of *who* travels and *why* as well as from where and to where in the United States-Mexico market are examined. Part of the conclusions that derive from this are not of a transient nature. Rather, this author believes that many of them will remain valid well into the 1980's.

Despite the importance of the markets discussed here, there is an appalling scarcity of numerical and non-numerical information regarding them. For that reason, a great deal of the information and calculations presented here have not been gathered from traditional, published sources.

Let it be noted that, as Chapter 8 deals, among other things, with route structure, it is a necessary companion to the understanding of the present chapter.

It is hoped by the author that this chapter will contribute to a better understanding of the size and patterns of the United States-Mexico air passenger markets.

5.2 Traffic Volume and Routes: An Analysis

The United States Department of Transportation reported in March of 1981 that U.S. international air travel[1] rose almost 6% in the calendar year 1980 as compared to 1979. Overall, scheduled passenger traffic advanced 9% while charter passengers declined almost 28%. The U.S. flag carriers' passengers (scheduled and charter) increased 2% and passengers for other flag carriers rose over 10%. The increases in international traffic helped the American carriers to offset part of drastic financial losses triggered by a negative growth in the domestic markets in 1980.

During that year (1980), the Mexico-United States market advanced 12.1% and ranked second highest in

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[1]Throughout this chapter, Canada-United States air traffic will not be taken into account. U.S. international statistics are based on data provided by the Immigration and Naturalization Service, which considers the Canadian air traffic as local.

passenger volume after the United Kingdom. The difference between the two markets was only about 40,000 passengers. Preliminary estimates based on the general trends followed by those markets during 1979 and 1980,as well as the first months of 1981, lead this author to conclude that by 1982 the Mexican market will have climbed to the top of the U.S. international list.[1]

The prominence (and rank) of the Mexican-American market is not, as some people in the industry believe, the obvious result of the closeness of the two nations. A multitude of examples can be cited of countries (including developed ones) that have not developed a strong air transportation market between themselves, notwithstanding their proximity.

The importance of the United States-Mexico market is relatively recent. The most important factors that contributed to the growth of the market, particularly during the past five years, are centered around three elements: the Mexican government air transport policies; the increased development of the Mexican tourist industry; and the air transport bilateral agreement signed by the two nations in January of 1978. Chapters 6, 7 and 8 of this study deal in detail with each one of these elements.

Secondarily, although by no means less important, there are the dollar-peso exchange rate, the devaluation of the dollar in Europe in recent years, and the strengthening of the Mexican economy. Some of these factors were the subject of Chapters 2 and 3. Others will still be further analyzed.

This author believes that the elements (mentioned above) which are presently changing the United States-

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[1]However, some problems that could reverse present trends are presented in Subsection 7.3.2.

Mexico air transport picture should clearly be understood, not only because of their present importance, but also because *they will continue to be the major causes of change in United States-Mexico air transport during this decade.*

No mathematical model can predict future demand (at the aggregate level) in a market where bilateral agreements, tourism infrastructure and policies are in a process of change. On the other hand, conceptual analysis of market size, route structure and trends is a prerequisite to the assessment of policies and bilateral agreements. Hence, this section gives the analyst and the negotiator a perspective of where the United States-Mexico market stood at the close of 1980.

An examination of Table 5.1, which illustrates the size of the United States international markets, reveals that almost 40 million air passengers were admitted to or departed from the United States in the year 1980. The figures refer only to commercial traffic (i.e., no general aviation, government or military air traffic is included). Of the grand total, 37.1 million, or roughly 94% of the traffic, was carried on scheduled flights. Of these, a little over 17.6 million (47.6%) flew on United States carriers. These are impressively large figures. The second column of the table shows the relevance of the United States-Mexico market as a percent of the United States international totals. As can be seen, 14.6% of all international air travelers to and from the United States

Table 5.1

UNITED STATES INTERNATIONAL AIR PASSENGER TRAVEL[1,2]

(1980)

Type of Traffic	Air Passengers (U.S. International Totals)	Mexico-U.S. Air Passengers as a Percent of U.S. International Totals[3]
I. Scheduled Traffic	37,107,767	15.1
1. U.S. Airlines	17,673,584	17.0
Aliens	7,959,097	
U.S. Citizens	9,714,487	
2. Non-U.S. Airlines	19,434,183	13.3
Aliens	11,427,980	
U.S. Citizens	8,006,203	
II. Charter Traffic	2,409,726	7.5
1. U.S. Airlines	1,726,321	10.2
Aliens	663,203	
U.S. Citizens	1,063,118	
2. Non-U.S. Airlines	683,405	0.6
Aliens	486,447	
U.S. Citizens	196,958	
III. GRAND TOTAL	39,517,493	14.6

[1]Only commercial, nonstop city-pair traffic.

[2]International passengers to and from the United States.

[3]First column, Table 5.2, divided by first column, Table 5.1.

Sources: United States Department of Transportation
Records of the author

made up the Mexican market. The importance of the market is heightened by the observation that fully 17% of the total international scheduled passengers carried by the American carriers traveled between the United States and Mexico; that is, about one-sixth of their international total.

To Mexico, the United States market is even more important: preliminary estimates indicate that 80% of international air travelers to and from Mexico comprised the United States market in 1980 [1]. Table 5.2 provides a breakdown of that market.

As shown by the table, 5.77 million air passengers flew between the two nations in commercial flights during 1980. Charter traffic constituted only 3.1% of the grand total. Thus, almost 5.6 million people were carried on scheduled flights. Of these about 53.7% were carried by the ten American airlines operating in Mexico. On the other hand, the two Mexican international carriers captured about 43.5% of the market and 2.8% went to other international carriers.

Although not explicitly indicated by the table, the reader can easily calculate that in 1980 almost 3.2 million (57%) of the scheduled air passengers between the two countries were American citizens. On the other hand, charter traffic was almost totally conducted by United States carriers and, as expected, the immense majority of the passengers were American citizens.

It is important to note that the above-mentioned percentages (both airline and nationality shares) have remained relatively constant during the past few years. Contrariwise, the absolute figures have climbed rapidly during the same period. The total United States-Mexico

[1] Taking into account commercial and non-commercial traffic.

Table 5.2

MEXICO-UNITED STATES AIR PASSENGER TRAVEL[1]

(1980)

Type of Traffic	Air Passengers	Percent	Percent
I. Scheduled Traffic	5,591,471	100.0	96.9
1. U.S. Airlines	3,002,979	53.7	
Aliens	1,291,283		
U.S. Citizens	1,711,696		
2. Non-U.S. Airlines	2,588,492	46.3[2]	
Aliens	1,110,508		
U.S. Citizens	1,477,984		
II. Charter Traffic	180,427	100.0	3.1
1. U.S. Airlines	176,155	97.6	
Aliens	9,235		
U.S. Citizens	166,920		
2. Non-U.S. Airlines	4,272	2.4	
Aliens	1,917		
U.S. Citizens	2,355		
III. GRAND TOTAL	5,771,898		100.0

[1]Only commercial, nonstop city-pair traffic; total arrivals and departures between Mexico and the United States.

[2]Preliminary estimates indicate that a 43 to 44% share went to the Mexican airlines.

Sources: United States Department of Transportation
Records of the author

market amounted to almost 4.2 million commercial air passengers in 1978. The figure increased to a little over 5.1 million air passengers in 1979 (a 23.1% increase) and, as mentioned before, it reached 5.77 million passengers in 1980, a 12.1% increase in a recession year. This is of particular significance when it is recalled that the overall international air traffic to and from the United States increased only 6% during the same year.

There are 17 airlines presently (May 1981) operating between the United States and Mexico: eleven American, two Mexican, and four of other countries. All 17 have third- and fourth-freedom traffic rights between the two nations. A list of the 17 airlines follows:

From the United States:

1. American (AA)
2. Braniff (BN)
3. Continental (CO)
4. Eastern (EA)
5. Frontier (FL)
6. Pacific Southwest
7. Pan American (PA)
8. Republic (RC)
9. Texas International (TI)
10. United (UA)
11. Western (WA)

From Mexico:

1. Aeroméxico (AM)
2. Mexicana (MX)

From Costa Rica:

1. Lacsa (LR)

From France:

1. Air France (AF)

From Germany:

1. Lufthansa (LH)

From Guatemala:

1. Aviateca (GU)

There are 34 gateways joining the two countries, 20 in the United States[1] and 14 in Mexico. They are the following:

In Mexico:

1. Acapulco (ACA)
2. Cancun (CUN)
3. Cozumel (CZM)
4. Guadalajara (GDL)
5. Hermosillo (HMO)
6. La Paz (LAP)
7. Manzanillo (ZLO)
8. Mazatlan (MZT)
9. Merida (MID)
10. Mexico City (MEX)
11. Monterrey (MTY)
12. Puerto Vallarta (PVR)
13. San Jose del Cabo (SJD)
14. Zihuatanejo/Ixtapa (ZIH)

In the United States:

1. Atlanta (ATL)
2. Chicago (ORD)
3. Dallas (DFW)
4. Denver (DEN)
5. El Paso (ELP)
6. Harlingen, Texas (HRL)
7. Houston (IAH)
8. Los Angeles (LAX)
9. McAllen, Texas (MFE)
10. Miami (MIA)
11. New Orleans (MSY)
12. New York[2] (JFK)
13. Philadelphia (PHL)
14. Phoenix (PHX)
15. San Antonio (SAT)
16. San Diego (SAN)
17. San Francisco (SFO)
18. Seattle (SEA)
19. Tampa (TPA)
20. Tucson (TUS)

Figure 5.1 shows the location of these gateways. The United States-Mexico air transport bilateral agreement, discussed in Chapter 8, includes additional ports of entry in both countries which are not being utilized at the present time (see Figure 8.1).

Geographically, the Mexican gateways are generally

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[1]This does not include San Juan (Puerto Rico).

[2]John F. Kennedy International Airport.

Figure 5.1

GATEWAYS SERVING THE MEXICO-UNITED STATES MARKET

(MAY 1981)



divided into three groups. First, the western resorts on the Pacific coast which are La Paz and San Jose del Cabo on the Baja California Peninsula and Mazatlan, Puerto Vallarta, Manzanillo, Zihuatanejo and Acapulco on the west coast. Second, the "mainland" cities of Hermosillo, Monterrey, Guadalajara and Mexico City. Hermosillo is essentially a connecting point; Monterrey is an industrial gateway, mainly a traffic originating city; finally, Guadalajara and Mexico City are the two most important cities of the country. They are important connecting cities as well as cultural, recreational and business centers. Third, the eastern cities on the Yucatan Peninsula of Merida (an important gateway to the archaeological zones of the Mayan culture), and Cancun and Cozumel, two resort islands on the Mexican Caribbean Sea. Only six Mexican gateways are state capitals. Chapter 7, devoted to the development of the Mexican tourist industry, gives further insight into the present and future growth of these and other cities and regions of Mexico.

As one might expect, the majority of the American gateways to Mexico are spread out across the southern states of the United States. These cities are, from west to east, the following: Los Angeles, San Diego, Phoenix, Tucson, El Paso, San Antonio, McAllen, Harlingen, Dallas, Houston, New Orleans, Atlanta, Tampa and Miami. That is, 14 out of the 20 American gateways are concentrated near or relatively near the Mexican-American border. With the exception of El Paso, Dallas and Atlanta, which are connecting points, the other cities have importance of their own. Most of them have a large Hispanic population and some are important tourist centers.

Section 5.3 elaborates more upon the reasons for which Americans and Mexicans travel to each others' countries as well as the regions from which they come.

Through the years, the airlines operating between Mexico and the United States used to specialize in clearly-differentiated markets. Braniff used to be known in Mexico as "the carrier of Texas". Eastern was identified with the northeastern United States and Western with California. On the other hand, until the 1970's, there were not many destinations in Mexico which could be reached nonstop from the United States. Many tourist spots were only reachable via Mexico City or Guadalajara.

That picture has sharply changed since 1978. On the one hand, the new air transport bilateral agreement provided greater routing flexibility and more gateway cities. On the other hand, air transport deregulation in the United States allowed the airlines of that country to diversify their domestic route maps in a way that let them connect their gateway cities to distant and varied points throughout the United States. Now, airlines such as Texas International are able to fly passengers from cities as distant as Baltimore to Mexico City with only one connection in Houston. Continental is able to link the western Mexican resorts to its route map using El Paso as a gateway. A third, although minor, reason for change was the beginning of operations of some Latin American and European carriers between the two nations.

Therefore, despite the importance that nonstop flights have, it is of interest to observe the complete routing of the airlines operating the United States-Mexico market.

Table 5.3 shows the complete routing of flights

operating between the two countries according to the published itineraries of May 1, 1981. A total of 17 airlines are listed in the table. The United States airlines transported almost 3.2 million passengers between the two countries in 1980 (in both scheduled and charter operations) and the Mexican airlines' figure was about 2.5 million. The figures for the other airlines are as follows[1](only scheduled operations are permitted): Air France, 23,783 passengers; Aviateca (Guatemala), 17,395; and Lacsa (Costa Rica), 6,277. Lufthansa did not begin operations until 1981.

As shown by the table, American Airlines uses Dallas as its primary gateway city to and from Mexico. In addition, it links Chicago-Mexico City nonstop. The carrier operates the busy route from Dallas to Acapulco and it also services Dallas-Mexico City, Dallas-Guadalajara and Dallas-Puerto Vallarta. Cities such as Minneapolis/St. Paul (MSP), St. Louis (STL), Philadelphia (PHL) and Detroit (DTW) are connected to points in Mexico by direct flights with only one stopover, either in Dallas or Chicago. This allows the carrier to compete in routes where other airlines are "alone" only in appearance. An example of this is Mexicana's newly-inaugurated[2] nonstop service from Philadelphia to Mexico City. There are indications that Mexicana has had some trouble in obtaining a fair share of this market where, as has been said, American operates with one stopover (in addition, Eastern operates it with two stopovers).

Unfortunately, no accurate analyses of international

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[1] Civil Aeronautics Directorship data.

[2] Service began in July of 1980.

Table 5.3

MEXICO-UNITED STATES AIR TRAFFIC: SCHEDULED ROUTES[1]

(PUBLISHED ITINERARIES, MAY 1, 1981)

Flight No.	Carrier and Route[2,3]	Comments
	American (AA)	
42	MEX-DFW-PHL	
52	MEX-ORD	
57	DTW-ORD-MEX	
86	MEX-DFW-MSP	
93	MSP-DFW-MEX	Effective June 11-Oct. 24
280	MEX-DFW-PHL	
292	ACA-DFW-ORD	
295	LGA-DFW-MEX	Disc. after June 10
429	ORD-DFW-ACA	
485	STL-DFW-GDL-PVR-DFW	
485	STL-DFW-PVR-GDL-DFW	
551	MSP-ORD-DFW-MEX	Effective June 11-Sept. 8
635	PHL-DFW-MEX	
	Air France (AF)	
002	MEX-JFK-CDG	Fifth-freedom rights Concorde; not yet approved
011	CDG-JFK-MEX	Same as above
066	MEX-IAH-CDG	Capacity restrictions (B-747)
067	CDG-IAH-MEX	Same as above
	Aeroméxico (AM)	
100	MEX-GDL-CUL-CEN-HMO-TUS	
101	TUS-HMO-CEN-CUL-GDL-MEX	
400	ACA-MEX-JFK	
401	JFK-MEX-ACA	
402	ACA-GDL-JFK	
403	JFK-GDL-ACA	
404	ACA-MEX-JFK	
405	JFK-MEX-ACA	
410	ACA-MEX-MIA	
411	MIA-MEX	
412	MEX-MID-MIA	
413	MIA-MID-MEX-ACA	
440	ACA-MEX-IAH	
441	IAH-MEX-ACA	

Table 5.3 (continued)

Flight No.	Carrier and Route[2,3]	Comments
	Aeroméxico (AM)(continued)	
442	PVR-GDL-IAH	
443	IAH-GDL-PVR	
444	ZIH-IAH	
445	IAH-ZIH	
446	MZT-MTY-IAH	
447	IAH-MTY-MZT	
448	MEX-MTY-IAH	
449	IAH-MTY-MEX	
450	MEX-MIA-MAD-ORY	Fifth-freedom rights
451	ORY-MAD-MIA-MEX	" " "
460	CUN-MID-MTY-LAX	
461	LAX-MTY-MID-CUN	
462	MEX-ZLO-LAX	
463	LAX-ZLO-MEX	
464	LAP-LAX	
465	LAX-LAP	
466	MEX-GDL-LAX	
467	LAX-GDL-MEX	
468	MEX-LAX	
469	LAX-MEX	
472	MEX-MID-CZM-IAH	
473	IAH-CZM-MID-MEX	
474	MEX-CUN-IAH	
475	IAH-CUN-MEX	
492	SJD-LAX	
493	LAX-SJD	
494	MID-CUN-MTY-LAX	
495	LAX-MTY-CUN-MID	
	Braniff (BN)	
33	IAH-SAT-MEX-ACA	
42	MEX-SAT-IAH-MCI-MSP	
45	IAH-SAT-MEX	
45	MSP-MCI-IAH-SAT-MEX	
50	ACA-MEX-DFW-MSP	
51	MSP-DFW-MEX-ACA	
51	MSP-DFW-MEX	
53	DEN-DFW-MEX-ACA	
56	MEX-SAT-IAH	
56	ACA-MEX-SAT-IAH	
81	MSP-MCI-IAH-ACA	
82	ACA-IAH-MCI-MSP	
132	ACA-MEX-DFW-MSP	

Table 5.3 (continued)

Flight No.	Carrier and Route[2,3]	Comments
	Braniff (BN) (continued)	
314	ACA-DFW	
315	DFW-ACA	
	Continental (CO)	
49	CUN-IAH-LAX	
52	LAX-IAH-CUN	
58	LAX-IAH-CUN	
59	CUN-IAH-LAX	
240	PVR-ZLO-ELP-ABQ-DEN	
240	SJD-LAP-ELP-ABQ-DEN	
241	DEN-ABQ-ELP-SJD-LAP	
241	DEN-ABQ-ELP-PVR-ZLO	
439	CZM-MID-IAH-DEN	
440	DEN-IAH-CZM-MID	
	Eastern (EA)	
900	ACA-MEX-JFK	
901	JFK-MEX-ACA	
904	MEX-ATL-DCA-SDF-EVV	
905	DCA-ATL-MEX	
906	MEX-MSY-BWI-PHL	
907	PHL-BWI-MSY-MEX	
908	MEX-ATL	
909	ATL-MEX	
910	MID-CUN-MSY-LGA	
911	LGA-MSY-MID-CUN	
911	LGA-MSY-CUN	
956	CUN-MID-MIA	
956	CUN-CZM-MIA	
959	MIA-MID-CUN	
959	MIA-CZM-CUN	
987	MIA-CUN	
988	CUN-MIA	
	Frontier (FL)	
71	DEN-ABQ-ELP-ZIH	
72	ZIH-ELP-ABQ-DEN	
73	BIS-RAP-DEN-ABQ-ELP-MZT-GDL	
73	BIS-RAP-DEN-ABQ-ELP-GDL-ZIH	
74	GDL-MZT-ELP-ABQ-DEN	
74	ZIH-GDL-ELP-ABQ-DEN	

Table 5.3 (continued)

Flight No.	Carrier and Route[2,3]	Comments
	Aviateca (GU)	
920	GUA-MID-MSY	Fifth-freedom rights
921	MSY-MID-GUA	" " "
	Lufthansa (LH)	
480	FRA-DFW-MEX	Fifth-freedom rights
481	MEX-DFW-FRA	" " "
	Lacsa (LR)	
646	SJO-SAL-MEX-LAX	Fifth-freedom rights
647	LAX-MEX-SAL-SJO	" " "
670	SJO-GUA-CUN-MSY	" " "
671	MSY-CUN-GUA-SJO	" " "
	Mexicana (MX)	
110	MEX-LAX	
111	LAX-MEX	
122	GDL-LAX	
123	LAX-GDL	
144	MEX-GDL-SFO	
145	SFO-GDL-MEX	
300	MIA-CZM-MID-MEX	
301	MEX-MID-CZM-MIA	
308	MIA-CUN-MEX	
309	MEX-CUN-MIA	
720	MEX-MTY-SAT	
721	SAT-MTY-MEX	
724	MEX-GDL-SAT	
725	SAT-GDL-MEX	
730	MEX-GDL-MZT-MTY-DFW	
731	DFW-MTY-MZT-GDL-MEX	
732	MEX-GDL-DFW	
733	DFW-GDL-MEX	
734	PVR-DFW	
735	DFW-PVR	
750	MEX-HRL	
751	HRL-MEX	
754	MEX-MTY-HRL	
755	HRL-MTY-MEX	
800	ACA-MEX-ORD	
801	ORD-MEX-ACA	
802	ACA-MEX-ORD	

Table 5.3 (continued)

Flight No.	Carrier and Route[2,3]	Comments
	Mexicana (MX) (continued)	
803	ORD-MEX-ACA	
820	ACA-MEX-PHL	
821	PHL-MEX-ACA	
900	MEX-LAX	
901	LAX-MEX-MID	
904	MEX-LAX	
905	LAX-MEX	
906	MEX-PVR-MEX	
907	LAX-PVR-MEX	
910	MEX-MZT-LAX	
911	LAX-MZT-MEX	
912	MEX-GDL-LAX	
913	LAX-GDL-MEX	
914	ACA-GDL-LAX	
915	LAX-GDL-ACA	
916	MEX-MZT-DEN	
917	DEN-MZT-MEX	
938	MEX-GDL-SJD-MZT-LAX	
939	LAX-MZT-SJD-GDL-MEX	
940	MEX-PVR-MZT-LAX	
941	LAX-MZT-PVR-MEX	
970	MEX-SFO	
971	SFO-MEX	
976	MEX-PVR-MZT-SFO	
977	SFO-MZT-PVR-MEX	
980	MEX-MZT-SEA	
981	SEA-MZT-MEX	
982	MEX-PVR-SEA	
983	SEA-PVR-MEX	
	Pan American (PA) (sixth-freedom rights apply in overseas flights)	
1	JFK-IAH-MEX	Round-the-world, eastward from LAX; disc. June 24
51	JFK-MEX	Same as above
52	MEX-IAH-JFK	Round-the-world, westward from MEX; disc. June 24
53	JFK-MEX	Europe-JFK
73	JFK-IAH-MEX	" "
90	GUA-MEX-IAH-LGW	Fifth-freedom rights
91	LGW-IAH-MEX-GUA	" " "
99	MIA-MEX	Europe-Miami
256	MEX-MIA-JFK	
273	EWR-MIA-MEX	

Table 5.3 (continued)

Flight No.	Carrier and Route[2,3]	Comments
	Pan American (PA)(continued)	
276	MEX-MIA-EWR	
401	IAH-MEX	
402	MEX-IAH	
461	DCA-TPA-MEX	
462	MEX-TPA-DCA	
465	MCO-TPA-MEX	
466	MEX-TPA-MCO	
467	MIA-MEX	
498	MEX-MIA	Miami-Europe
499	MIA-MEX	
	Pacific Southwest (PS)	
43	PVR-LAX-SFO	
44	SFO-LAX-PVR	
	Republic (RC)	
5	OAK-PHX-MZT-PVR	
8	MZT-PVR-PHX-OAK-SEA	
20	MZT-PVR-GDL-ORD-DTW	Effective July 1
21	DTW-ORD-GDL-PVR-MZT	" " "
	Texas International (TI)	
410	CZM-DFW-MCI	
475	MEX-MFE-IAH	
480	ZIH-IAH-DFW-OMA	Effective May 21
700	MCI-DFW-CZM-MID	
701	CUN-DFW-MSP	
702	MSP-DFW-CUN	
704	CZM-MID-DFW	
709	STL-DFW-CUN	
710	CUN-DFW-STL	
756	BDL-BWI-IAH-PVR-ZLO	Effective May 21
756	BDL-BWI-IAH-ZIH	" " "
756	IAH-PVR-ZLO	" " "
771	ZIH-IAH-BWI	" " "
771	PVR-ZLO-IAH-BWI	" " "
776	DFW-IAH-MTY	

Table 5.3 (continued)

Flight No.	Carrier and Route[2,3]	Comments
	Texas International (TI) (continued)	
777	IAH-MTY	
846	MTY-IAH-DFW	
930	IAH-MFE-MEX	
942	GDL-MFE-IAH-DFW-OMA	Discontinued May 20
942	GDL-IAH-DFW-OMA	
958	MTY-IAH-DFW-MKE	
976	MKE-DFW-IAH-MFE-GDL	
976	MKE-DFW-IAH-GDL	
983	MSP-IAH-MEX	
990	MEX-IAH-MSY-LFT	
992	IAH-MEX	
994	MEX-IAH	
998	MEX-IAH-DFW-MSP	
999	MSY-IAH-MEX	
	United (UA)	
37	ORD-MID-CUN-ORD	
39	ORD-CUN-CZM-JFK	
41	ORD-CUN	
42	CUN-ORD	
45	ORD-CZM-CUN-ORD	
56	JFK-CZM-CUN-ORD	
63	JFK-CUN-CZM-ORD	
64	JFK-MID-CUN-JFK	
65	ORD-CZM-CUN-JFK	

(continued)

Table 5.3 (continued)

Flight No.	Carrier and Route[2,3]	Comments
	Western (WA)	
741	MEX-LAX	
742	LAX-MEX	
743	MEX-LAX	
744	SEA-LAX-MEX	
745	MEX-LAX	
746	LAX-MEX	
748	SFO-SAN-MEX	
749	MEX-SAN-SFO	
750	SFO-LAX-ACA	
751	ACA-LAX-SFO	
760	SFO-LAX-GDL	
761	GDL-LAX	
764	SFO-LAX-GDL	
765	GDL-LAX-SFO	

[1]Airlines listed in alphabetical order, by airline code.

[2]City/airport codes explained in the text. For codes not cited in the text, consult the North American edition of the Official Airline Guide.

[3]Flight numbers are repeated when routes are different on different days of the week.

Source: Official Airline Guide, May 1, 1981.

routes with one or more stopovers can be made. The United States Civil Aeronautics Board keeps and publishes all domestic city-pair statistics of the United States. However, it keeps but does not publish the domestic city-pair statistics of passengers en route to gateways from which they proceed to foreign countries. Thus, for example, it is not possible for the researcher to know how many passengers are actually flying Philadelphia-Mexico City, or even more difficult, Baltimore-Mexico City (since there are no carriers flying this route at all).

As Table 5.3 indicates, Air France flies the route Mexico-Houston with fifth-freedom traffic rights to Mexico and to Paris. The Mexican government has imposed capacity restrictions (in terms of passengers per flight) upon Air France on this route. A contributing factor to this decision is the fact that three other airlines are already operating in the market (Aeroméxico, Pan Am and Texas International).

Air France's Mexico City-New York route is still not in service. The carrier originally planned to begin service during the first week of May 1981.[1] However, as of June 1, 1981, service had still not begun. The French airline plans to use the Concorde along this route. There are suggestions that the Mexican government is reluctant to approve the route. The French-Mexican air transport bilateral agreement has some ambiguity in relation to fifth-freedom rights. Until recently, the French carrier flew the route Mexico City-Washington-Paris (using the Concorde). Yet, the airline did not have traffic rights between the

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[1]With two round-trip flights a week.

first two cities. Service was stopped for reasons that are unclear.

Aeroméxico operates 42 routes between Mexico and the United States. It links five American cities (Houston, Los Angeles, Miami, New York and Tucson) to practically every point in Mexico, although often with stopovers. The airline has not added any new destinations to its system lately. Plans for a Mexico City-New Orleans route have been postponed. The Loreto-Los Angeles route might be inaugurated soon.

Braniff, as evidenced by Table 5.3, continues to use San Antonio, Houston and Dallas as gateways to Mexico City and Acapulco, markets which Braniff has operated for many years.

Continental is one of the four United States airlines that do not serve Mexico City and that have ventured to different destinations in Mexico (the other airlines being Frontier, Republic and United). The carrier operates both in western and in eastern Mexico. In the west, the airline has destinations in the resort cities of Puerto Vallarta, Manzanillo, San Jose del Cabo, and La Paz. All these points are linked to the rest of the system through the border city of El Paso, Texas. In the east, the carrier is aggressively competing in all three gateways of the Yucatan Peninsula, namely Cancun, Cozumel and Merida. Service to these points began in January of 1981. The airline uses Houston as the American gateway and connects distant Los Angeles to booming Cancun with only one stopover.

Eastern is a well-established airline in Mexico that for many years has served the markets of New Orleans-Mexico City, Atlanta-Mexico City and New York-Mexico City.

In addition, it links New York and Acapulco with a stopover in Mexico City. However, cabotage[1] is not permitted by the Mexican authorities. As a result of the 1978 bilateral agreement the carrier began, quite successfully, service to Cancun and Merida from New Orleans, and to Cancun, Merida and Cozumel from Miami.

Frontier, one of the three United States "national"[2] carriers that operate in Mexico, serves Guadalajara, Mazatlan and Zihuatanejo/Ixtapa from its gateway in El Paso. The airline has been very successful in its routes to Mexico, particularly to Ixtapa, a newly-developed resort on the Pacific coast.

Aviateca[3], the flag airline of Guatemala, makes a stopover in Merida on its route from Guatemala to New Orleans. It has fifth-freedom rights, thus competing with Eastern.

Lufthansa inaugurated its Dallas-Mexico City service very recently, on April 26, 1981. The operation includes three flights a week using B-747 equipment. This led to sharp protests by American and Braniff, which operate that route. Yet, the Mexican government, as will be seen later in this study, does not always feel compelled to disavow multiple designation when only non-Mexican airlines operate a market.

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[1]Also known as eighth-freedom rights.

[2]According to the new C.A.B. carrier classification. The other national airlines that operate in Mexico are Pacific Southwest and Texas International.

[3]Aviateca is discussed at this point since this discussion is following the alphabetical order of airline codes.

Lacsa, the flag airline of Costa Rica, makes a stopover in Cancun on its route from Guatemala to New Orleans, just as its Central American competitor (Aviateca) does in Merida. In addition, it flies to Mexico City from Los Angeles in its flight to San Salvador.

Mexicana carries more passengers and has more routes between the United States and Mexico than any other carrier. At the present moment it operates 56 routes and it carried 1.5 million passengers between the two countries in 1979. This constituted an almost 30% share of the market. The airline links ten American cities (Chicago, Dallas, Denver, Harlingen, Los Angeles, Miami, Philadelphia, San Antonio, San Francisco and Seattle) to points all over Mexico. The airline has managed to establish in recent years a reputation for punctuality and fine service. Mexicana provides nonstop service on many major routes without any competition. These include, among others, Dallas-Monterrey, Denver-Mazatlan, Los Angeles-Mazatlan, and San Francisco-Mexico City. The carrier also flies to San Juan, Puerto Rico[1].

Pan Am has only one destination in Mexico, Mexico City. It operates routes from New York, Houston, Miami and Tampa. It reentered the Tampa-Mexico City market in April of 1981 after authorization by the United States Civil Aeronautics Board. The route award had long been disputed with Eastern. In addition, this route allows Pan Am to connect Orlando and Mexico City with only one

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[1]For the purposes of this study, Puerto Rico is not considered to be part of the United States.

stopover. The carrier also operates the route Mexico City-Guatemala (with fifth-freedom rights) and takes advantage of sixth-freedom rights[1] conceded by Mexico to the United States.

Pacific Southwest, now serving Los Angeles-Puerto Vallarta, stopped the Los Angeles-Mazatlan service after a strike in the last quarter of 1980. This route might be opened again before the end of 1981.

Republic now serves two Mexican cities, Mazatlan and Puerto Vallarta. It uses Phoenix as a gateway in a route that originates in Oakland, California. Very recently (May 7, 1981), the United States Civil Aeronautics Board awarded Republic a route from Chicago to western Mexico (Loreto[2], La Paz, San Jose del Cabo, Guadalajara, Mazatlan and Puerto Vallarta). The decision is still subject to change. However, the carrier has already announced plans to begin service from Chicago to Guadalajara (nonstop), Puerto Vallarta and Mazatlan on July 1. Northwest Airlines was given back-up authority should Republic fail to inaugurate service to those three resorts.

Texas International has moved rapidly and aggressively into Mexican markets during the past three years, often on short notice. The airline carried 271,176 passengers (according to the Mexican Civil Aeronautics Directorship) to and from Mexico in 1979, a 135% increase in one year. No other airline has experienced such an accelerated growth in the Mexican-American market in recent years. By May 1981, this relatively small carrier was also operating more routes and serving more destinations in Mexico than any other American airline. The airline operates from three American gateways, Houston, Dallas, and McAllen, and reaches nine Mexican cities,

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[1] Sixth-freedom rights are rarely conceded by Mexico.

[2] Loreto, in the middle of the Baja California Peninsula, is connected to the United States only by commuter carriers. Aeroméxico might start service to Los Angeles soon.

namely, Cancun, Cozumel, and Merida in the Yucatan Peninsula (from Dallas); Manzanillo, Puerto Vallarta and Zihuatanejo on the Mexican Pacific coast (from Houston); and all three major cities of Mexico, Mexico City, Guadalajara and Monterrey.

The carrier does not have competition in seven of its nine nonstop routes. The expansion of Texas' Mexican markets, especially when the size of that airline is considered, can only be termed as impressive. During the first quarter of 1981 the carrier inaugurated the routes Dallas-Merida and McAllen-Guadalajara; later, on May 21, it inaugurated service to three new points in Mexico simultaneously (to Manzanillo, Puerto Vallarta and Zihuatanejo, from Houston).

United Airlines has been flying since late 1980 to Cancun, Cozumel and Merida, both from Chicago and New York[1]. In order to operate to and from all three cities with fewer flights, the airline uses the same flight number for round trips (see Table 5.3). This allows the airline to make several stopovers within Mexico to pick up passengers at each one of those gateways (no local traffic is allowed). Thus for example, flight 39 originates in Chicago and terminates in New York. The carrier is allowed to leave passengers in Cancun and Cozumel as well as pick up passengers whose ultimate destination is New York. American often follows the same practice[2]. It is too early to assess United's performance in Mexico. It should be recalled that besides these three Mexican cities, United has service to only two other international points, Toronto and Vancouver.

Western has always been, with Mexicana, the

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[1]United had never previously operated in Mexico.

[2]"Turnaround" flights. See Subsection 6.3.2.

traditional airline linking California to Mexico. It connects Los Angeles to three Mexican cities nonstop (Mexico City, Guadalajara and Acapulco) and it operates the route San Diego-Mexico City.

The increasing expansion of the United States-Mexico air network, and particularly the rate at which that expansion is taking place, is remarkable. One should remember that this is an international route expansion. It requires a number of hearings and complex bureaucratic procedures that by no means can be compared to the relaxed entry-withdrawal regulations of the domestic American market. Hence when this expansion is examined in the light of the previous statement, it acquires even more importance. A careful analysis of this expansion is one of the major subjects with which Chapter 8 deals. Route maps and network configuration are explored in that chapter.

The route expansion just portrayed is continuing. Eastern will inaugurate, during the first days of June 1981, nonstop service to Mazatlan, Puerto Vallarta and Guadalajara from Atlanta. In addition, it plans to fly, nonstop, New Orleans-Puerto Vallarta, New Orleans-Guadalajara and, with one stopover, New Orleans-Mazatlan. It is the first time that these resorts have been linked by nonstop service to American cities so far to the east.

In the meantime, Western is considering inaugurating routes to Manzanillo and Zihuatanejo from Los Angeles sometime during the last quarter of 1981. This has been postponed other times. TWA is requesting authority to serve St. Louis-Mexico City (which would make eleven American airlines operating in Mexico). Finally, in an order issued on April 29, 1981, the United States Civil

Aeronautics Board proposed to remove Republic's authority between San Diego/Los Angeles and La Paz, Loreto and San Jose del Cabo, seeking applications from carriers interested in providing the service. Republic was granted the authority about two years ago, but has not begun service. The Board announced that in limited-designation markets (i.e., in which only one American carrier can operate), it will continue to pursue its policy of replacing dormant carriers with airlines wishing to provide service: "...should we find that a carrier is not fully utilizing rights bargained for by the United States, we will not hesitate to use [our authority] to make those rights available to another carrier." Air California has applied for authority to operate to the three resorts in Baja California. One of them, Loreto[1], along with nearby Mulege and Guaymas (on the mainland), is presently linked to Yuma (Arizona) as well as Burbank, Calexico and Ontario (all three in California), by two commuter airlines with temporary permits, Air Cortez and Pacific National Airways.

If the proposed route awards are accepted and service is inaugurated, Mexico will be served by more United States airlines than any other nation, including Canada.

Tables 5.4 and 5.5 provide important information about the nonstop Mexico-United States markets in 1980. There were 71 nonstop markets, either in operation or about to begin operations in May of 1981[2]. The tables do not list temporary routes or routes not officially published in the Official Airline Guide of May 1, 1981. Thus, routes that operated in 1980 but were not in service on May 1, 1981 are not included. On the other hand, routes not yet

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[1] Aeroméxico intends to serve Los Angeles-Loreto very soon.

[2] It includes two Republic routes that begin on July 1; it does not include a few Eastern routes that should begin in June but were not yet published in the May 1, 1981 Official Airline Guide.

in service by that date but already published, were included in the tables. All in all, only a few markets of negligible importance may not be included in these tables. These 71 markets represent all major and minor nonstop markets between the two countries.

Table 5.4 is organized in such a way as to illustrate nonstop routes from the Mexican perspective. Therefore, the first column of the table lists in alphabetical order the 14 Mexican gateways. Each American city to which those gateways are linked is listed in the second column. In this manner, it is easier to analyze how many nonstop markets each Mexican gateway has to the United States. In addition, it makes the task of analyzing regional air transport communication easier. Table 5.5, on the other hand, is organized by first listing the 20 American gateways, thus presenting the nonstop markets from the American perspective. In addition, both tables include the round-trip air passenger figures of each market for the year 1980 (scheduled and charter enplanements) as well as the grand total arrivals and departures for each gateway[1]. Finally, the airlines competing in each market as of May 1, 1981, are shown.

Using statistics from the U.S. Dept. of Transportation as

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[1]Obviously the totals for each gateway represent only passengers departing or arriving between points in Mexico and the United States.

Table 5.4

MEXICO-UNITED STATES AIR PASSENGER TRAVEL:
NONSTOP MARKETS[1] TO AND FROM MEXICAN GATEWAYS
(ACCORDING TO PUBLISHED ITINERARIES, MAY 1, 1981)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
Mexican Gateway	American Gateway			
Acapulco	Dallas	193,752	AA,BN	
	Houston	53,865	BN	
	Los Angeles	114,893	WA	
	TOTAL	362,510		
Cancun	Houston	131,774	AM,CO	
	New Orleans	66,482	EA,LR	
	Miami	63,092	EA,MX	
	Dallas	6,708	TI	
	Chicago	11,603	UA	
	New York	7,441	UA	
	TOTAL	287,100		
Cozumel	Houston	59,351	AM,CO	CO[2]
	Miami	30,448	EA,MX	
	Dallas	532	TI	
	Chicago	6,505	UA	
	New York	1,776	UA	
	TOTAL	98,612		

Table 5.4 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
Mexican Gateway	American Gateway			
Guadalajara	Dallas	66,435	AA,MX	
	New York	12,180	AM	
	Houston	59,081	AM,TI	
	Los Angeles	392,432	AM,MX,WA	
	El Paso	16,032	FL	
	San Antonio	37,330	MX	
	San Francisco	85,585	MX	
	Chicago	--	RC	Effective July 1
	McAllen	--	TI	
	TOTAL	669,075		
Hermosillo	Tucson	22,399	AM	
	TOTAL	22,399		
La Paz	Los Angeles	40,467	AM	
	El Paso	6,642	CO	
	TOTAL	47,109		
Manzanillo	Los Angeles	20,723	AM	
	El Paso	7,252	CO	
	Houston	8,218	TI	TI[2]
	TOTAL	36,193		

Table 5.4 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
Mexican Gateway	American Gateway			
Mazatlan	El Paso	27,222	FL	
	Los Angeles	76,213	MX	
	Denver	41,301	MX	
	San Francisco	36,613	MX	
	Seattle	18,940	MX	
	Phoenix	54,698	RC	RC[2]
	TOTAL	254,987		
Merida	Miami	82,351	AM,EA	
	Houston	36,285	CO	CO[2]
	New Orleans	30,982	EA,GU	EA[2]
	Dallas	--	TI	TI[2]
	Chicago	184	UA	UA[2]
	New York	214	UA	UA[2]
	TOTAL	150,016		
Mexico City	Dallas	273,948	AA,BN,LH	
	Chicago	242,513	AA,MX	
	New York	231,598	AF,AM,EA,PA	PA[2]; AF not yet approved
	Houston	425,937	AF,AM,PA,TI	
	Miami	198,112	AM,PA	
	Los Angeles	745,326	AM,LR,MX,WA	

Table 5.4 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
Mexican Gateway	American Gateway			
Mexico City (continued)	San Antonio	169,793	BN	
	Atlanta	115,241	EA	
	New Orleans	60,630	EA	
	Harlingen	26,355	MX	
	Philadelphia	25,719	MX	
	San Francisco	93,674	MX	
	Tampa	66,852	PA	
	McAllen	54,630	TI	
	San Diego	63,442	WA	
	TOTAL	2,793,770		
Monterrey	Houston	108,805	AM,TI	
	Los Angeles	20,623	AM	
	San Antonio	35,121	MX	
	Dallas	37,993	MX	
	Harlingen	6,040	MX	
	TOTAL	208,582		
Puerto Vallarta	Dallas	52,058	AA,MX	
	Los Angeles	102,829	MX,PS	
	Seattle	6,469	MX	
	Phoenix	36,988	RC	RC[2]

Table 5.4 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
Mexican Gateway	American Gateway			
Puerto Vallarta (continued)	El Paso	16,989	CO	CO[2]
	Houston	19,348	TI	TI[2]
	TOTAL	234,681		
San Jose del Cabo	Los Angeles	38,548	AM	
	El Paso	6,557	CO	CO[2]
	TOTAL	45,105		
Zihuatanejo	Houston	7,594	AM,TI	
	El Paso	5,092	FL	
	TOTAL	12,686		

[1]Only commercial nonstop traffic (scheduled and charter). All figures are round-trip. Routes that stopped operating after 1980 and some temporary routes not included. Consult comments in Table 5.3.

[2]Nonstop only in one direction.

Sources: United States Department of Transportation
Records of the author.

Table 5.5

MEXICO-UNITED STATES AIR PASSENGER TRAVEL:
NONSTOP MARKETS[1] TO AND FROM AMERICAN GATEWAYS
(ACCORDING TO PUBLISHED ITINERARIES, MAY 1, 1981)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
American Gateway	Mexican Gateway			
Atlanta	Mexico City	115,241	EA	
	TOTAL	115,241		
Chicago	Cancun	11,603	UA	
	Cozumel	6,505	UA	
	Guadalajara	--	RC	Effective July 1
	Merida	184	UA	UA[2]
	Mexico City	242,513	AA,MX	
	TOTAL	260,805		
Dallas	Acapulco	193,752	AA,BN	
	Cancun	6,708	TI	
	Cozumel	532	TI	
	Guadalajara	66,435	AA,MX	
	Merida	--	TI	TI[2]
	Mexico City	273,948	AA,BN,LH	
	Monterrey	37,993	MX	
	Puerto Vallarta	52,058	AA,MX	
	TOTAL	631,426		

Table 5.5 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
American Gateway	Mexican Gateway			
Denver	Mazatlan	41,301	MX	
	TOTAL	41,301		
El Paso	Guadalajara	16,032	FL	
	La Paz	6,642	CO	
	Manzanillo	7,252	CO	
	Mazatlan	27,222	FL	
	Puerto Vallarta	16,989	CO	CO^2
	San Jose del Cabo	6,557	CO	CO^2
	Zihuatanejo	5,092	FL	
	TOTAL	85,786		
Harlingen	Mexico City	26,355	MX	
	Monterrey	6,040	MX	
	TOTAL	32,395		
Houston	Acapulco	53,865	BN	
	Cancun	131,774	AM,CO	
	Cozumel	59,351	AM,CO	CO^2
	Guadalajara	59,081	AM,TI	
	Manzanillo	8,218	TI	TI^2
	Merida	36,285	CO	CO^2
	Mexico City	425,937	AF,AM,PA,TI	

Table 5.5 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
American Gateway	Mexican Gateway			
Houston (continued)	Monterrey	108,805	AM,TI	
	Puerto Vallarta	19,348	TI	TI[2]
	Zihuatanejo	7,594	AM,TI	
	TOTAL	910,258		
Los Angeles	Acapulco	114,893	WA	
	Guadalajara	392,432	AM,MX,WA	
	La Paz	40,467	AM	
	Manzanillo	20,723	AM	
	Mazatlan	76,213	MX	
	Mexico City	745,326	AM,LR,MX,WA	
	Monterrey	20,623	AM	
	Puerto Vallarta	102,829	MX,PS	
	San Jose del Cabo	38,548	AM	
	TOTAL	1,552,054		
McAllen	Guadalajara	--	TI	
	Mexico City	54,630	TI	
	TOTAL	54,630		
Miami	Cancun	63,092	EA,MX	
	Cozumel	30,448	EA,MX	

Table 5.5 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
American Gateway	Mexican Gateway			
Miami (continued)	Merida	82,351	AM,EA	
	Mexico City	198,112	AM,PA	
	TOTAL	374,003		
New Orleans	Cancun	66,482	EA,LR	
	Merida	30,982	EA,GU	EA[2]
	Mexico City	60,630	EA	
	TOTAL	158,094		
New York	Cancun	7,441	UA	
	Cozumel	1,776	UA	
	Guadalajara	12,180	AM	
	Merida	214	UA	UA[2]
	Mexico City	231,598	AF,AM,EA,PA	PA[2]; AF not yet approved
	TOTAL	253,209		
Philadelphia	Mexico City	25,719	MX	
	TOTAL	25,719		

Table 5.5 (continued)

Market		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
American Gateway	Mexican Gateway			
Phoenix	Mazatlan	54,698	RC	RC[2]
	Puerto Vallarta	36,988	RC	RC[2]
	TOTAL	91,686		
San Antonio	Guadalajara	37,330	MX	
	Mexico City	169,793	BN	
	Monterrey	35,121	MX	
	TOTAL	242,244		
San Diego	Mexico City	63,442	WA	
	TOTAL	63,442		
San Francisco	Guadalajara	85,585	MX	
	Mazatlan	36,613	MX	
	Mexico City	93,674	MX	
	TOTAL	215,872		
Seattle	Mazatlan	18,940	MX	
	Puerto Vallarta	6,469	MX	
	TOTAL	25,409		

Table 5.5 (continued)

Markets		Air Passengers in 1980	Competing Airlines as of May 1981	Comments
American Gateway	Mexican Gateway			
Tampa	Mexico City	66,852	PA	
	TOTAL	66,852		
Tucson	Hermosillo	22,399	AM	
	TOTAL	22,399		

[1]Only commercial nonstop traffic (scheduled and charter). All figures are round-trip. Routes that stopped operating after 1980 and some temporary routes not included. Consult comments in Table 5.3.

[2]Nonstop only in one direction.

Sources: United States Department of Transportation
Records of the author.

well as airline figures and other sources, the author carefully verified the validity of the figures. It should also be clarified that the use of the term "air passengers" is not coincidental. Since most of these city-pair statistics derive from data provided by the immigration authorities of both countries, the term "revenue passengers" does not apply here[1]. The immigration authorities do not discriminate between revenue and non-revenue passengers. The latter represent a minor portion of the grand totals. It is also important to say that the figures presented do not derive from surveys. They are actual totals. Therefore, Tables 5.4 and 5.5 give an idea of market size and gateway importance.

The number of nonstop markets between the two countries, given the number of gateways presently in operation (the bilateral agreement includes even more gateways), can be considered as high. There are presently 20 and 14 gateways in operation in the United States and Mexico, respectively. That gives a total of 280 possible nonstops[2]. The 71 markets in operation represent 25% of that total.

As Table 5.4 shows, Mexico City is the Mexican gateway with more nonstop links to the United States (15, or 75% of the maximum number of possible nonstop links). It is followed by Guadalajara, with 9 nonstop routes, and Cancun, Mazatlan, Merida and Puerto Vallarta, all of these with 6 nonstop routes to the United States.

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[1] Although the term is widely but incorrectly used in some international air passenger statistics.

[2] Recall that all combinations are not necessarily possible under a bilateral agreement.

Table 5.5 shows Houston as the American gateway with the most nonstop links to Mexico (10, or 71.4% of the maximum number of possible nonstop links). It is followed by Los Angeles, with 9 nonstop routes, Dallas with 8, and El Paso with 7.

Yet, "more linkage" does not necessarily mean "efficient linkage", even in the case of nonstops. When the route map of Mexico and the United States is examined at the regional level, important instances are found of cities and regions that despite a relatively large number of nonstop routes, are not linked to broad regions of the other country. One such case is the one of the Yucatan Peninsula. Its three gateways have a total of 17 nonstop routes to the United States. However, none of them links Yucatan to the United States' west coast.

A problem of that nature, when it only involves regions and cities within a single country, can be analyzed by evaluating factors such as demand, market forces and airline costs. However, when international routes are the subject of study, these analyses often involve the air transport bilateral agreement between the two nations that are being linked. For that reason, the reader is cautioned about drawing conclusions at this point on the reasons behind the present route structure. Route map configuration is examined in Chapter 8.

Tables 5.4 and 5.5 are of help in the establishment of standards of comparison to measure the relative size of the United States-Mexico markets. A possible breakdown of relative market size may be given as follows:

Very small market	--	1- 20,000 passengers
Small market	--	20,001-100,000 passengers
Medium-sized market	--	100,001-200,000 passengers
Large market	--	200,001-350,000 passengers
Very large market	--	350,001 or more passengers

As expected, "very small" markets are mostly those that either were inaugurated very recently or did not complete one calendar year in the statistics given in the tables. On the other hand, only three markets fall into the "very large" category.

Although airline competition is beyond the scope of this work, it might be interesting to the reader to look at the fourth column of Tables 5.4 and 5.5. As can be seen, the United States-Mexico markets are still largely open to competition. Of 71 markets, 50 (70.4%) are operated by a single airline, only. At the other extreme, there are two markets (Houston-Mexico City and Los Angeles-Mexico City) operated nonstop by four airlines. Moreover, there are presently six markets where double designation is allowed[1].

The ten busiest gateways of the United States and Mexico in 1980 (in terms of the traffic between the two countries) are ranked in Table 5.6. The table is self-explanatory and reveals the enormous concentration of United States-Mexico traffic to and from a few gateways.

In the case of the United States, its most important gateway to Mexico, Los Angeles, had more air passenger traffic going to London than to Mexico City in 1980. That

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[1]This was discussed briefly in Chapter 4 and will be further examined in succeeding chapters.

Table 5.6

MEXICO-UNITED STATES AIR PASSENGER TRAVEL: BUSIEST GATEWAYS[1]

(1980)

MEXICO			UNITED STATES		
Number	Gateway	Air Passengers[2]	Number	Gateway	Air Passengers[2]
1	Mexico City	2,793,770	1	Los Angeles	1,552,054
2	Guadalajara	669,075	2	Houston	910,258
3	Acapulco	362,510	3	Dallas	631,426
4	Cancun	287,100	4	Miami	374,003
5	Mazatlan	254,987	5	Chicago	260,805
6	Puerto Vallarta	234,681	6	New York	253,209
7	Monterrey	208,582	7	San Antonio	242,244
8	Merida	150,016	8	San Francisco	215,872
9	Cozumel	98,612	9	New Orleans	158,094
10	La Paz	47,109	10	Atlanta	115,241

[1]Only commercial (scheduled and charter), nonstop city-pair traffic of those routes in effect in May 1981.

[2]Arrivals and departures between Mexico and the United States only.

Source: Tables 5.4 and 5.5

was not the case, however, of the second and third busiest gateways, Houston and Dallas, with more traffic to Mexico City than to anywhere else in the world.

Table 5.7 lists the 14 busiest United States-Mexico markets (i.e., the "medium", "large" and "very large" markets). As can be seen, Mexico City is included in 8 of the 14 city-pairs that constitute the major air passenger markets. However, the busiest American gateway, Los Angeles, is found in only 4 of the 14 city-pairs. This is, once again, a clear indication of enormous traffic concentration in a few Mexican gateways as opposed to more decentralization on the American side. Yet, a more careful look at the table reveals that almost the same number of *different* cities in both nations are represented in the 14 top city-pairs (7 and 8 Mexican and American gateways, respectively). The reason for this is a significant nonstop passenger demand to and from a wide variety of gateways throughout Mexico. Therefore, traffic concentration to and from Mexico City might well be the result of a lack of additional nonstops to and from other Mexican cities, forcing passengers to travel through Mexico City. This is, however, an assertion that cannot be proven without appropriate "true origin-true destination" statistics. Section 5.3 elaborates on this matter.

Table 5.7 also shows the demand figures for all the major United States-Mexico markets in the years 1978[1], 1979 and 1980. The figures, considered to be reliable, illustrate the staggering growth of most of

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[1]Year of the signing of the present U.S.-Mexico air transport bilateral agreement (January).

Table 5.7

MEXICO-UNITED STATES AIR PASSENGER TRAVEL: GROWTH OF BUSIEST MARKETS[1]

No.	Market[2]	Passengers 1978	1979	Percent Growth 79/78	1980	Percent Growth 80/79
1	Mexico City - Los Angeles	602,062	653,320	8.5	745,326	14.1
2	Mexico City - Houston	190,647	292,843	53.6	425,937	45.4
3	Guadalajara - Los Angeles	258,384	349,599	35.3	392,432	12.2
4	Mexico City - Dallas	244,936	262,200	7.0	273,948	4.5
5	Mexico City - Chicago	235,143	229,353	-2.5	242,513	5.7
6	Mexico City - New York	204,560	219,715	7.4	231,598	5.4
7	Mexico City - Miami	132,966	139,979	5.3	198,112	41.5
8	Acapulco - Dallas	213,145	218,216	2.4	193,752	-11.2
9	Mexico City - San Antonio	166,711	189,486	13.7	169,793	-10.4
10	Cancun - Houston	49,904	91,253	82.9	131,774	44.4
11	Mexico City - Atlanta	103,945	128,189	23.3	115,241	-10.1
12	Acapulco - Los Angeles	101,074	114,733	13.5	114,893	0.1
13	Monterrey - Houston	75,017	93,698	24.9	108,805	16.1
14	Puerto Vallarta - Los Angeles	69,614	75,321	8.2	102,829	36.5

[1]Only commercial (scheduled and charter) nonstop city-pair traffic. This table is based on the 14 top markets of 1980. Thus, some of these markets might have not been among the top 14 markets of 1978 or 1979.

[2]Markets are ranked according to 1980 figures. All figures are round-trip.

Sources: United States Department of Transportation
Records of the author.

these major markets in the past few years. The year 1979 registered only one decline, while the year 1980 registered three. Most of the markets showed important advances in both years. The Houston-Mexico City and Houston-Cancun markets were outstanding cases of the booming demand. In addition to being a city with a large Hispanic population, Houston also is a major shopping center for Mexican travelers. Cancun, on the other hand (see Chapter 7), is a fast-growing Mexican resort where massive hotel construction has taken place since the mid-1970's. As expected, well-established, older city-pairs did not experience such high rates of growth. Overall, it should be noted that wherever Houston is part of a city-pair, air passenger demand grew at a high rate in both 1979 and 1980.

Table 5.8 emphasizes some of the market characteristics already depicted by Table 5.7. A "cumulative percent" column shows that the four top markets in 1980 accounted for almost one-third of the total traffic. These were all markets, as can be seen, where three or more carriers are presently in operation. The table also shows that the 14 top markets in 1980 accounted for almost 60% of the air passenger grand totals. In other words, about one-fifth of the markets accounted for three-fifths of the passenger traffic. It should also be mentioned that in only 3 of these 14 markets is there no competition. This means that competition is relatively slim, essentially in the "minor" markets (which number 57).

Table 5.8

MEXICO-UNITED STATES AIR PASSENGER TRAVEL: BUSIEST MARKETS AND COMPETING AIRLINES

(1980)

No.	Market	Passengers 1980[1]	Cumulative Percent[2]	Competing Airlines as of May 1981[3]
1	Mexico City - Los Angeles	745,326	12.9	AM,LR,MX,WA
2	Mexico City - Houston	425,937	20.3	AF,AM,PA,TI
3	Guadalajara - Los Angeles	392,432	27.1	AM,MX,WA
4	Mexico City - Dallas	273,948	31.8	AA,BN,LH
5	Mexico City - Chicago	242,513	36.0	AA,MX
6	Mexico City - New York	231,598	40.0	AF,AM,EA,PA
7	Mexico City - Miami	198,112	43.5	AM,PA
8	Acapulco - Dallas	193,752	46.8	AA,BN
9	Mexico City - San Antonio	169,793	49.8	BN
10	Cancun - Houston	131,774	52.1	AM,CO
11	Mexico City - Atlanta	115,241	54.1	EA
12	Acapulco - Los Angeles	114,893	56.0	WA
13	Monterrey - Houston	108,805	57.9	AM,TI
14	Puerto Vallarta - Los Angeles	102,829	59.7	MX,PS

[1]Only commercial (scheduled and charter) nonstop city-pair traffic. All figures are round-trip.

[2]Individual percents were calculated based on the grand total figure of Table 5.2 (5,771,898), which includes all commercial nonstop city-pairs between Mexico and the United States.

[3]Some airline routes are still subject to government approval or other restrictions. Consult Table 5.3. Air France has twice postponed inauguration of the Mexico City-New York route.

Sources: United States Department of Transportation
Records of the author.

For those interested in the overall United States-Mexico airline share and growth, Table 5.9 provides useful statistics. It is clear that Mexicana had a firm first place (a 29.7% share of the market) by the end of 1979 while Aeroméxico, Western and American were closely competing for second place.

Some information about charter flights is appropriate at this point[1]. Disaggregate charter statistics collected by the authorities of the United States and Mexico are so inconsistent that this author has elected not to include them in this study. However, one aspect of the statistics that seems to be reliable are the totals for one-way flights.

In 1978, 2,488 charter flights arrived in Mexico. Of these, 1,423 (57.2%) came from the United States. In 1979, the grand total declined to 2,255 charter flights, with 1,220 (54.1%) coming from the United States. According to the Mexican Civil Aeronautics Directorship, United States charters arrived in the following Mexican cities during 1979:

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[1]Some of the legal aspects of charters were already discussed in Chapter 3. In addition, Chapters 6 and 8 deal with this issue in the context of previous and future bilateral negotiations.

Table 5.9

MEXICO-UNITED STATES SCHEDULED TRAFFIC: AIRLINE SHARE[1,2]

	1978			1979			
Carrier	Number	Revenue Passengers	Share (%)	Number	Revenue Passengers	Share (%)	1978/1979 Growth (%)
Mexicana	1	1,185,844	31.0	1	1,457,643	29.7	22.9
Aeroméxico	2	571,276	15.0	2	654,154	13.4	14.5
American	3	530,091	13.9	4	586,858	12.0	10.7
Western	4	488,826	12.8	3	628,175	12.8	28.5
Braniff	5	364,548	9.5	6	398,812	8.1	9.4
Eastern	6	342,810	9.0	5	554,387	11.3	61.7
Republic	7	141,829	3.7	9	122,418	2.5	-13.7
Texas	8	115,416	3.0	7	271,176	5.5	135.0
Pan Am	9	80,693	2.1	8	151,533	3.1	87.8
Frontier	10	--	--	10	62,256	1.3	100.0
Continental	11	--	--	11	13,246	0.3	100.0
TOTAL		3,821,333	100.0		4,900,658	100.0	

(continued)

Table 5.9 (continued)

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[1]United Airlines started operations in 1980. This table does not include the figures of the Latin American and European carriers operating between the United States and Mexico (consult text in this chapter). Aeroméxico, Mexicana, Braniff and Pan Am connected Mexico in 1978 and 1979 to countries other than the United States. The figures for those operations are included in Table 4.3.

[2]The author cannot completely assure the reliability of these figures.

Source: Civil Aeronautics Directorship.

Destination	Number of Charter Flights
Cancun	290
Acapulco	202
Mazatlan	143
Cozumel	140
Puerto Vallarta	126
Zihuatanejo	107
Manzanillo	90
Mexico City	38
Guaymas	28
Merida	24
Others	32
TOTAL	1,220

No information is provided about the precise city of origin of these charters. As can be seen, of the ten cities listed, eight are exclusively resort areas (Mexico City and Merida are not considered resorts). The monthly breakdown of charters during 1979 is shown on the following page.

As one might expect, 743 charters (about 61% of the total) flew to Mexico during the colder months of the year (January, February, March, November and December). This percentage seems to be quite constant. The percentage for 1978 was about the same (65%).

As far as concerns charters from Mexico to the United States, as Table 5.2 shows, the number is negligible and no additional information is provided (and probably collected) by the authorities.

Month (1979)	Number of Charter Flights
January	132
February	69
March	130
April	43
May	50
June	74
July	37
August	85
September	65
October	123
November	242
December	170
TOTAL	1,220

The Mexican carriers have long recognized the value of the United States markets. However, the United States airlines have only recently begun to take advantage of Mexican markets which they had previously overlooked. The period of expansion inaugurated during the past two years has only begun.

5.3 Travel Patterns: An Analysis

The carriers operating on United States-Mexico routes have conducted a wide variety of market research studies in

the past on the profile of the people traveling between the two countries, both by land and by air. This author has had the opportunity of examining a few of these studies. Some of them are certainly very revealing. However, they are usually concerned with relatively narrow market issues or avoid examining the market at large.

This section presents the findings of a number of new surveys on the overall travel patterns and profiles of United States residents and Mexican citizens who have journeyed to each others' countries in recent years.

The results of these studies are summarized in a number of tables throughout the following pages. The statistical information was gathered by different Mexican agencies, mainly the Banco de México and the Secretariat of Tourism. This author examined in detail the sources of the original information and questionnaires. This insured both data reliability and a better understanding of the precise meaning of some of the statistics.

The majority of the most relevant figures (often derived from different data banks) were compiled and organized into tables that are presented here in the context of an air transportation study for the first time.

The main highlights of the tables will be discussed in the following subsections.

5.3.1 Mexican Travelers: A Profile

It is estimated that not fewer than 3.4 million Mexicans traveled abroad in 1980. Of these, approximately

76.5%, or 2.6 million[1], traveled to the United States. These figures do not coincide with those of the previous section since these only reflect one-way travel[2]. The 2.6 million Mexicans who traveled to the United States in 1980 comprised about 11% of all foreign nationals entering the United States. Although this is an early estimate, it is believed that nearly one million[3] of these travelers used scheduled, charter and general aviation services to reach the United States, where they spent around 2.5 billion dollars.

It is important for the carriers operating in the market to be able to take into consideration the average length of stay of travelers using their services. Length of stay is extensively used in the process of defining ticket restrictions and day-of-the-week demand. The most recent and reliable information available to the author indicates that the average Mexican *air* traveler to the United States had, in 1977, an average length of stay of 8.1 days.

Table 5.10 shows the area of residence of Mexicans traveling to foreign countries. Two observations are pertinent. First, as expected, the largest number of Mexicans traveling by air to the United States originate from the central states of Mexico. It is, however, somewhat of a surprise that the northeast, so close to the

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[1]The figure refers to travelers whose length of stay in the United States exceeded three days. Therefore, it does not include brief trips (mostly by land) across the border.

[2]In addition, "2.6 million Mexicans" does not mean, of course, 2.6 million different individuals.

[3]Based on surveys whose accuracy is not totally reliable.

Table 5.10

MEXICANS TRAVELING (BY AIR) TO FOREIGN COUNTRIES: AREA OF RESIDENCE (SURVEY)

Area[1] of Residence in Mexico	1975 (%)	1976 (%)	1977 (%)	1978 (%)
Northwest	2.5	2.0	2.0	1.5
Northcentral	0.2	0.3	0.4	0.5
Northeast	8.8	8.5	9.7	8.0
Central	66.8	69.3	71.5	70.3
Westcentral	10.9	10.8	7.8	11.2
Southwest	1.1	1.1	1.0	0.5
Southeast	9.7	8.0	7.6	8.0
TOTAL	100.0	100.0	100.0	100.0

[1]Areas of residence are as follows (see Figure 2.1):

Northwest:

Northern Baja California
Southern Baja California
Sonora
Sinaloa

Northcentral:

Chihuahua
Durango

Northeast:

Coahuila
Nuevo Leon
San Luis Potosi
Tamaulipas
Zacatecas

Central:

Aguascalientes
Federal District
Guanajuato
Hidalgo
Mexico
Morelos
Puebla
Queretaro
Tlaxcala

Westcentral

Colima
Jalisco
Michoacan
Nayarit

Southwest:

Chiapas
Guerrero
Oaxaca

Southeast:

Campeche
Quintana Roo
Tabasco
Veracruz
Yucatan

Sources: Records of the author
Banco de México.

border, is the second largest source of air passengers to the United States (8%). The northwest, which is also near the border, commands only 1.5% of the departing air passengers. Second, it should be noted that throughout the period in consideration (1975-1978), no significant change in the relative figures occurred. The period included important economic convulsions in Mexico. This suggests that the regional share of Mexicans departing the country is little influenced by economic change.

Table 5.11 depicts the income level distribution of Mexicans traveling abroad by air. As the last two rows of the table show, there was a substantially different rate of inflation in the two countries between 1975 and 1978. Since the dollar-peso exchange rate remained stable during the first part of the period (see footnote in the table), Mexicans had an increased propensity to travel abroad. Inflation had raised their income, and a stable exchange rate had increased the amount of foreign currency they were able to buy. The continual inflationary process of 1976, 1977 and 1978 was accompanied by a sharp devaluation of the peso which completely changed the previous patterns. As can be seen, the two lowest-income groups, which accounted for over 25% of all air passengers in 1975, represented only 6.8% of the grand total in 1978. The cost of the dollar had almost doubled overnight. As shown in the table, the two highest income groups increased their air passenger share from 36.2% in 1975 to 58.6% in 1978. There are indications that the relative currency stability of the past three years and the renewed inflationary process that oil exports are inducing in Mexico, are causing the figures of Table 5.11 to revert to the 1975 situation.

Table 5.11

MEXICANS TRAVELING (BY AIR) TO FOREIGN COUNTRIES: INCOME LEVEL (SURVEY)

Monthly Income Level (Dollars)	1975 (%)	1976 (%)	1977 (%)	1978 (%)
Under $260	5.6	3.8	2.3	1.3
$261-435	20.0	12.5	9.4	5.5
$436-609	26.4	26.3	21.6	19.2
$610-783	15.8	17.7	18.2	15.4
$784+	20.4	22.7	31.6	33.6
Undetermined	11.8	17.0	16.9	25.0
TOTAL	100.0	100.0	100.0	100.0
Inflation in Mexico (in pesos)[1]	14.9%	27.2%	20.7%	16.2%
Inflation in the U.S. (in dollars)	7.0%	4.8%	6.8%	9.1%

[1]From 1954 to 1976 (August 31) the dollar-peso exchange rate remained stable at 12.49 pesos = 1 dollar. Since that date, the peso has been "floating". The 1976 average exchange rate was 15.44 pesos per dollar; in 1977 it was 22.58; in 1978, 22.77; and in 1979, 22.81. In May 1981, the exchange rate had reached 24.00 pesos per dollar and continued to increase.

Sources: Records of the author
Banco de México.

Table 5.12 provides a breakdown of the reasons that prompt Mexicans to travel, and their relative importance. Leisure and business, as expected, dominate the distribution. The survey was specifically directed to air travelers, and as can be seen, the percentages have essentially not changed throughout the years.

A little-known, little-studied travel phenomenon of Mexican travelers is that of visits to the United States for medical purposes. If the 1978 3% figure has held (and this is probably the case), then approximately 30,000 Mexicans flew to the United States for medical reasons in 1980. Rochester, Minnesota, and Houston were important recipients of this type of traffic.

The percentage attributed in the table to "shopping" is surely an underestimation of reality. It is a direct defect of the design of one of the questionnaires (noted by the author).

Several American gateways, predominantly San Antonio and Houston, are important shopping centers for status-oriented Mexican upper classes. Thus shopping is a significant reason for travel of large sectors of the Mexican population using air transport.

Mexico imposes severe restrictions on the import of foreign consumer goods if similar products are manufactured in Mexico (particularly electronic equipment). Therefore, the average Mexican can only obtain foreign imports of better quality by traveling to the United States and carrying them back by legal or illegal means. One difficulty in assessing the amount of this type of travel

Table 5.12

MEXICANS TRAVELING (BY AIR) TO FOREIGN COUNTRIES: REASON FOR TRIP (SURVEY)

Principal Trip Purpose	1975 (%)	1976 (%)	1977 (%)	1978 (%)
Leisure	50.9	47.6	45.3	46.7
Business	30.3	33.9	38.9	34.9
Academic	3.3	1.6	2.1	1.9
Family Visit	5.9	5.4	5.9	7.3
Friend Visit	0.7	1.3	1.2	1.3
Medical Visit	5.3	5.4	3.2	3.0
Shopping	--	--	--	0.2
Other	3.6	4.8	3.4	4.7
TOTAL	100.0	100.0	100.0	100.0

Sources: Records of the author

Banco de México.

is people's reluctance to cooperate frankly during the surveys. Besides, it is sometimes difficult to separate "leisure" from "shopping" travel.

It is important to have some measurement of "travel experience", or the number of previous trips that a traveler has made abroad. Promotion and market penetration are frequently analyzed keeping this indicator in mind. Table 5.13 shows that in 1977 most Mexican travelers (82%) to the United States had made three or more previous trips abroad. The figure seems high but it is probably correct. Note that this survey is for travel abroad using all modes of transportation. This includes border crossings (by car) from all Mexican border cities. Thus, the "travel experience" figures (especially in the higher-experience categories) are biased.

The size of traveling groups is another question of utmost importance to the planning department of any airline. Table 5.13 points out that almost one-third of all Mexicans who traveled to the United States in 1977 went in groups of two. Relatively very few (12%) traveled alone.

It is important for the airline planner to correlate trip purpose with size of traveling group. Table 5.14 shows two sets of results provided by a 1977 survey. Table 5.14(a), "group size by trip purpose", is designed in such a way that each one of the categories of "group size" is partitioned into eight "trip purpose" divisions. Therefore, it is possible to determine the percentage of Mexicans (in terms of group size) traveling abroad and identify the trip purpose. For instance, the table shows that 48% of the people traveling alone do so for business reasons. To calculate the actual number

Table 5.13

MEXICANS TRAVELING[1] TO THE UNITED STATES: TRAVEL EXPERIENCE AND GROUP SIZE (SURVEY) (1977)

		Percent
Travel Experience (Outside Mexico)	First Trip Ever	7.3
	Second Trip Ever	6.0
	Third Trip Ever	4.7
	Fourth or More	82.0
	TOTAL	100.0
Size of Traveling Group	One	12.0
	Two	28.3
	Three	21.4
	Four	22.5
	More than Four	15.8
	TOTAL	100.0

[1]By all modes of transportation.

Sources: Records of the author
Banco de México.

Table 5.14

MEXICANS TRAVELING[1] TO FOREIGN COUNTRIES:
TRIP PURPOSE VS. GROUP SIZE (SURVEY, 1977)

a) Group Size by Trip Purpose

Size of Traveling Group	Principal Trip Purpose (%)								
	Leisure	Business	Academic	Family Visit	Friend Visit	Medical Visit	Shopping	Other	TOTAL
One	26.8	48.0	2.6	8.6	2.3	5.5	1.8	4.4	100.0
Two	36.9	9.3	1.7	22.1	5.0	9.6	13.4	2.0	100.0
Three	47.8	1.7	2.2	22.9	3.7	8.9	12.0	0.8	100.0
Four	50.4	4.6	--	19.1	5.8	5.7	13.4	1.0	100.0
More than Four	65.4	1.3	--	23.0	1.8	--	8.5	--	100.0

b) Trip Purpose by Group Size

Size of Traveling Group	Principal Trip Purpose (%)							
	Leisure	Business	Academic	Family Visit	Friend Visit	Medical Visit	Shopping	Other
One	9.3	64.2	30.5	6.7	8.7	12.9	2.8	42.6
Two	23.3	22.6	35.8	31.6	35.2	41.0	35.8	34.6
Three	21.6	3.0	33.7	23.5	18.7	27.5	22.8	9.6
Four	23.8	8.4	--	20.6	30.7	18.6	26.6	13.2
More than Four	22.0	1.8	--	17.6	6.7	--	12.0	--
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] By all modes of transportation. Approximately 95% of these traveled to the United States.
Sources: Records of the author; Banco de México.

of people that each cell of this table represents, the reader has first to refer to Table 5.13. There, one can calculate (provided that the air travel grand total is known) the number of people traveling alone or traveling in groups of two, three, etc. Following this, Table 5.14 can be used[1] to calculate the actual travelers in the cell of interest in the table. The patterns shown here (i.e., the percentages) have remained stable for several years and are not expected to change significantly in the near future. It is clear that Mexicans traveling abroad do so much more frequently for leisure purposes than for any other reason, regardless of the size of the traveling group (except in the case of lone travelers).

Table 5.14(b) is, perhaps because of its organization, even more useful. In it, each one of the "trip purpose" divisions is partitioned into the four "group size" categories. Thus it is possible to determine the percentage of each "group size" category within each of the eight "trip purpose" divisions[2].

One surprising finding that can be observed in the table is that when Mexicans travel abroad for leisure, they do so more frequently in groups of four or more people (in 45.8% of all cases) than in smaller groups. Another point worth mentioning is that "academic" traveling takes place, in almost equal amounts, whether the traveling group is composed of one, two or three persons. The reason for

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[1] Although some bias will occur since Table 5.14 includes all modes of transportation as well as trips to anywhere outside of Mexico.

[2] Hence Table 5.14(a) must be read horizontally while Table 5.14(b) must be read vertically.

this is the wide variety of trip purposes included within the "academic" division: it encompasses researchers and lecturers (often traveling with their families), graduate and undergraduate students, and, as discussed in Chapter 2, a substantial amount of people (including children in groups of two and three) that take English courses in the United States. Years ago, carriers offered package deals which included airfare, tuition, room and board for summer English courses.

5.3.2 American Travelers: A Profile

It is estimated that approximately 4.1 million people traveled to Mexico in 1979. About 83% of those travelers were United States residents[1]. The average length of stay in Mexico of these travelers was identical to the 1977 figure of Mexicans traveling in the opposite direction: 8.1 days (the figure refers to air travelers).

Preliminary estimates indicate that a total of 3.6 million United States residents traveled to Mexico in 1980[2]. Of these, about 2 million used (in the international portion of their trip) scheduled or charter air services (general aviation not included). Overall, those 3.6 million U.S. residents spent approximately 2.5 billion dollars in Mexico, the same amount that 2.6 million Mexicans spent in the United States during the same year.

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[1] It is important to emphasize that many of these "residents" were not American citizens (including many Mexicans among them).

[2] These represented about 85.7% of the 4.2 million foreign visitors in 1980 (preliminary figures).

Tables 5.15 through 5.18 summarize some of the most important results of the surveys about U.S. travelers conducted during the past two years. The importance of some of the indicators presented here has already been highlighted in the previous subsection.

Table 5.15 shows that almost one-third (31.1%) of all U.S. travelers to Mexico in 1979 were residents of Texas. However, only 21% of all *air* travelers originated from that state. California, on the other hand, with 22.1% of all U.S. travelers to Mexico, originated 23.7% of all *air* passengers.

As might have been expected, the percentage of people traveling by air was almost always lower than the percentage of people traveling by land when the state of residence was close to the border. Michigan, New Jersey, New Mexico and Ohio, with almost a 6% share of the U.S. residents traveling by air to Mexico, lack nonstop flights to Mexico. Numerically, 6% is not a significant share. However, states such as Pennsylvania (with only a 2.2% share in 1979[1]) had nonstop flights to Mexico by 1980. It remains to be seen how much demand is induced by the inauguration of flights to and from regions which had previously lacked them.

Table 5.16 is the result of surveys conducted by the Secretariat of Tourism. It provides directional disaggregation (i.e., origin-destination in contrast to

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[1]In 1979, Pennsylvania did not have any nonstop flights to Mexico.

Table 5.15

UNITED STATES RESIDENTS TRAVELING TO MEXICO:
MODE OF TRANSPORTATION AND STATE OF RESIDENCE (SURVEY)
(1979)

U.S. State of Residence	Mode of Transportation[1] By Air (%)	By Land (%)	TOTAL (%)
Arizona	2.9	15.4	8.4
California	23.7	20.0	22.1
Florida	7.1	0.6	4.3
Illinois	5.8	3.0	4.6
Louisiana	2.2	0.4	1.4
Michigan	2.7	1.1	2.0
New Jersey	1.2	0.1	0.7
New Mexico	0.5	4.2	2.1
New York	5.9	0.3	3.4
Ohio	1.3	0.5	1.0
Pennsylvania	2.2	0.2	1.3
Texas	21.0	44.1	31.1
Other	23.5	10.1	17.6
TOTAL	100.0	100.0	100.0

[1]Totals: By Air: 1,935,335 travelers
By Land: 1,494,833 travelers
Grand Total: 3,430,168 travelers

Source: Banco de México.

Table 5.16
UNITED STATES RESIDENTS TRAVELING[1,2] TO MEXICO:
STATE OF RESIDENCE AND DESTINATION (SURVEY, MAY 1980)

U.S. State of Residence	Mexican Cities Visited (%)				
	Acapulco	Cancun	Cozumel	Guadalajara	Mazatlan
Arizona	4.7	--	2.4	--	7.0
California	23.2	18.0	8.7	40.0	30.0
Colorado	--	--	2.4	--	15.0
Connecticut	--	--	--	--	--
Florida	--	25.0	6.8	--	--
Georgia	--	--	--	--	--
Illinois	17.6	7.0	13.3	10.0	--
Indiana	--	--	--	--	--
Iowa	0.9	--	--	--	--
Louisiana	--	--	--	--	--
Kansas	0.9	--	--	--	--
Maryland	--	--	5.6	--	--
Massachusetts	--	--	--	--	--
Michigan	12.1	--	15.8	--	--
Minnesota	0.9	--	3.7	10.0	--
Missouri	--	4.0	--	--	--
Nevada	--	--	5.2	--	--
New Jersey	2.8	4.0	--	--	--
New Mexico	2.8	--	--	--	3.0
New York	0.9	--	8.2	10.0	--
North Carolina	--	--	--	--	--
North Dakota	0.9	--	--	--	--
Ohio	6.5	--	--	--	3.0
Oklahoma	0.9	--	--	--	--
Oregon	0.9	--	--	--	--
Pennsylvania	0.9	4.0	--	--	--
Texas	19.5	14.0	20.3	20.0	10.0
Virginia	--	3.0	--	--	--
Washington	--	7.0	7.6	10.0	15.0
Wisconsin	--	--	--	--	--
Undetermined	3.6	14.0	--	--	17.0
TOTAL	100.0	100.0	100.0	100.0	100.0

(continued)

Table 5.16 (continued)

U.S. State of Residence	Mexican Cities Visited (%)			
	Mexico City	Monterrey	Puerto Vallarta	Zihuatanejo/ Ixtapa
Arizona	0.8	--	11.0	--
California	31.4	--	46.0	21.0
Colorado	3.3	6.7	8.0	36.8
Connecticut	2.0	--	--	--
Florida	2.9	--	--	--
Georgia	0.8	--	--	--
Illinois	1.6	20.0	--	5.3
Indiana	0.8	--	--	--
Iowa	1.2	--	--	--
Louisiana	1.2	--	--	--
Kansas	--	6.6	--	--
Maryland	--	--	--	--
Massachusetts	0.8	--	--	--
Michigan	2.9	6.7	--	--
Minnesota	0.5	--	--	--
Missouri	0.8	--	4.0	21.0
Nevada	--	--	--	--
New Jersey	4.1	--	4.0	--
New Mexico	--	--	--	5.3
New York	8.2	6.6	8.0	--
North Carolina	2.4	--	--	--
North Dakota	--	--	--	--
Ohio	--	--	--	--
Oklahoma	2.0	6.7	4.0	--
Oregon	--	--	8.0	--
Pennsylvania	1.6	--	--	--
Texas	16.3	40.0	--	10.6
Virginia	0.8	--	--	--
Washington	3.7	--	--	--
Wisconsin	0.5	6.7	--	--
Undetermined	9.4	--	7.0	--
TOTAL	100.0	100.0	100.0	100.0

[1]By all modes of transportation.

[2]Two dashes mean "undetermined", not necessarily zero.

Source: Secretariat of Tourism.

origin-only information) of U.S. travel to nine Mexican gateways (out of a total of 14). The data contained in this table is worth examining. However, caution should be exercised since the survey reflects patterns occurring during May, which is not necessarily a "typical" month[1].

Table 5.17 depicts additional aspects of the U.S. traveler profile in 1979. First, it shows that as far as income is concerned, U.S. residents earning over U.S. $10,000 a year travel to Mexico in almost equal numbers when income is broken into six categories (as shown in the table). Secondly, as can be seen, 70.5% of all U.S. residents who traveled to Mexico in 1979 went for pleasure and most of them (46.5%) in groups of two people. Family visits comprised a meaningful share of the travelers (17.3%). Thirdly, 37.6% of all U.S. travelers in the year under study traveled to Mexico for the first time. Such a high percent of first-time travelers suggests, at a time of increased demand, a continued potential for attracting even more travelers to Mexico.

Finally, Table 5.18 shows a cross-sectional survey of foreign nationals[2] traveling to Mexico in terms of group size *versus* trip purpose. It is important to read Table 5.18(a) horizontally and 5.18(b) vertically. Notice that "trip purpose" categories are not the same as in the Mexican traveler survey. A careful analysis of Table 5.18 can provide the airline planner a great deal of information.

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[1]Generally, U.S. travel to Mexico during May falls below the yearly average.

[2]Approximately 83% of these were U.S. residents in 1979 (and 85.7% in 1980).

Table 5.17

UNITED STATES RESIDENTS TRAVELING[1] TO MEXICO: INCOME LEVEL, REASON FOR TRIP, GROUP SIZE AND TRAVEL EXPERIENCE (SURVEY)

(1979)

		Percent
Annual Income Level (Dollars)	Under $5,000	1.4
	$5,001-10,000	7.0
	$10,001 - 15,000	18.3
	$15,001-20,000	16.3
	$20,001-25,000	14.0
	$25,001 +	22.9
	Undetermined	20.1
	TOTAL	100.0
Principal Trip Purpose	Leisure	70.5
	Business	7.5
	Academic	0.5
	In Transit	0.6
	Family Visit	17.3
	Friend Visit	2.8
	Other	0.8
	TOTAL	100.0
Size of Traveling Group	One	13.4
	Two	46.5
	Three	13.8
	Four	13.2
	More than Four	13.1
	TOTAL	100.0
Travel Experience (to Mexico)	First Trip Ever	37.6
	Second Trip Ever	20.6
	Third Trip Ever	9.8
	Fourth or More	32.0
	TOTAL	100.0

[1]By all modes of transportation.

Source: Banco de México.

Table 5.18

FOREIGN NATIONALS[1] TRAVELING TO MEXICO:

TRIP PURPOSE VS. GROUP SIZE (SURVEY, 1979)

a) Group Size by Trip Purpose

Size of Traveling Group	Principal Trip Purpose (%)							
	Leisure	Business	Academic	In Transit	Family Visit	Friend Visit	Other	TOTAL
One	36.0	41.1	1.3	2.6	11.5	5.0	2.5	100.0
Two	83.1	4.6	0.4	0.7	7.9	2.6	0.7	100.0
Three	72.5	1.8	0.2	1.3	20.9	2.5	0.8	100.0
Four	69.7	1.2	0.2	1.1	24.8	2.3	0.7	100.0
More than Four	62.3	1.6	0.3	0.9	32.4	1.8	0.7	100.0

b) Trip Purpose by Group Size

Size of Traveling Group	Principal Trip Purpose (%)						
	Leisure	Business	Academic	In Transit	Family Visit	Friend Visit	Other
One	8.7	72.2	44.5	37.0	12.6	29.6	40.4
Two	54.1	21.7	35.7	27.3	23.3	41.1	32.9
Three	13.7	2.5	6.0	15.1	17.9	11.4	10.3
Four	12.5	1.5	5.7	11.8	20.2	10.2	8.5
More than Four	11.0	2.1	8.1	8.8	26.0	7.7	7.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1]Approximately 83% were U.S. residents. All modes of transportation included.

Source: Banco de México.

Length of stay by trip purpose is another statistic of primary interest to air transport researchers. With the help of Banco de México, the author compiled the following information regarding foreign nationals traveling by air to Mexico (1979):

Trip Purpose	Average Length of Stay
Leisure	8.6 days
Business	8.9 "
Academic	32.8 "
In transit	2.6 "
Family visit	15.3 "
Friend visit	13.4 "
Other	12.6 "

There are indications that the preceding figures are a reliable representation of the U.S. resident average length of stay in Mexico. Furthermore, the figures have remained stable over the past few years and it is believed that they will continue to do so.

The succeeding chapters examine questions of air transport policy and attitude within the context of Mexican interests *vis-à-vis* the United States. The analysis in this chapter should provide an adequate framework for the discussions that follow. On the other hand, this author expects that the information collected and organized in this chapter will be of use to policy-makers in a market which has previously lacked coherent statistics.

CHAPTER VI
MEXICO: STATE INTEREST AND AIR TRANSPORT POLICY

6.1 Introduction

The present chapter introduces the policy-making process of Mexico's government and, as a derivative of it, the international air transport policies of that nation. The strong economic protectionism and the socially-oriented philosophy of the Mexican regimes, depicted in Chapters 2 and 3, are further elaborated here in the context of the air transport policies of Mexico.

Section 6.2 examines the *modus operandi* of the Mexican government in respect to its working relationship with the business sector. Aspects of the bargaining process and the marked contrasts that differentiate the Mexican and the American model are emphasized. It is essential for air transport policy-makers, interested in comprehending the forces underlying aviation policy in Mexico, to be acquainted with the general decision-making course followed by the Mexican government.

Section 6.3 presents the international air transport policy framework upon which Mexico bases its actions. The material introduced here is the result of comprehensive interpretation and analysis of hundreds of documents covering a span of over ten years, augmented by a number of interviews with key personnel. A significant number of patterns were recognized and translated into policy guidelines which could fulfill a previously-unmet need for a clear air transport policy for Mexico.

6.2 Mexico: Policy-Making and State Interest

This section examines the relationship between the public and private sectors in Mexico and presents a conceptual model of the interaction, political power, and main interests that lead these two groups to compromise and make policy decisions.

An awareness of the decision-making patterns in Mexican society provides the means of understanding Mexico's air transport policies and the possibility of their being changed.

The subject is broad; to treat it here in detail is unnecessary as that would be beyond the scope of this work. Thus, the model presented gives a careful, albeit general, picture of the problem.

This section relies on the works of several political scientists, including José Luis Reyna, Peter Smith and Clark Reynolds. In addition, the author draws on his own research and follows the line of thought of John Purcell and Susan Kaufman Purcell in their excellent essay[1] on the subject.

The Mexican economy, in the words of the Purcells,

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[1]See "Mexican Business and Public Policy", Department of Political Science, University of California, Los Angeles (unpublished essay, 1974).

has been labeled "state capitalist", "semi-capitalist", and "unclassifiable". Common to these terms is the recognition that the large role of the national government in the economy makes the economic system far from competitive, while the importance of the private sector makes "socialistic" a misleading designation.

No designation is needed. The factors that lead to confusion are based upon the conscious or unconscious error of trying to fit the authoritarian[1] Mexican model into the democratic-pluralist political patterns of American society.

The political process by which decisions are reached in Mexico is different than the American. Yet, is is well-structured and usually results in coherent and consistent decisions.

Most authors agree that the origins of the present government-business *modus operandi* can be traced back to the 1930's, when the Mexican State was consolidated. During those years, President Lázaro Cardenas coopted and helped organize the large worker and peasant unions of the country and established a working relationship with the business sector. It was also during those years that the executive branch acquired the all-powerful, untouchable character that it retains today. At the same time, it is clear that the President, notwithstanding his power while in office, cannot be reelected and after leaving office stays out of the mainstream of politics.

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[1]The word "authoritarian" is used, throughout this section, with the meaning that it customarily has in Political Science. Do not confuse it with "totalitarian".

By the early 1950's, the Mexican State had created a favorable private investment atmosphere, supported by a political infrastructure capable of absorbing and neutralizing political demands upon the system. The corporative structure of the dominant party (PRI) and the ability of the government to control and even regulate labor conflicts was well-established by that time. The turbulent decades that had followed the Mexican Revolution had come to an end.

For a better understanding of the government-business relationship in Mexico, it is essential first to understand that Mexico is a nation subject to authoritarian political control. The basic elements of this are the following:

1. Strong centralization of power.

This means that the President retains overwhelming authority. The cabinet is extraordinarily powerful and Congress and the Courts are secondary centers of power. The federal government politically controls the local state and municipal governments.

2. Limited pluralism.

There are not too many interest groups. Of these, few are truly autonomous. The business groups, however, are an exception, since they have independent economic resources. Practically every business enterprise in the nation is affiliated with one of two gigantic chambers of commerce: the Confederation of Chambers of Industry and the Confederation of Chambers of Commerce (abbreviated in Spanish CONCAMIN and CONCANACO,

respectively). These two entities constitute the main contact between government and business groups. There are, in addition, several worker and peasant organizations. They are very influential but the government is usually able to control them. At the consumer level, there is slim opposition and very little organization.

The government discourages the formation of alternative business groupings. On the other hand, the government's control over the labor movement is also a tool for control of business. The encouragement of strikes has been used as a means of government pressure on recalcitrant businessmen.

In general, though not without exception, government-business relations are characterized by government initiative and business reaction (rarely the opposite), which are channeled through CONCAMIN and CONCANACO. Business groups seldom draft or propose legislation, although they may be asked to react to government drafts.

The lack of well-organized interest groups in Mexico (business interests aside) leads to the paradoxical conclusion that while business in Mexico is weaker than in the United States *vis-à-vis* the government, it is stronger than in the United States *vis-à-vis* other non-government interests.

3. Low mobilization.

The absence of political consciousness and activism (see Chapter 2) permits the government leadership great freedom of action.

4. Personal and hierarchical leadership.

This includes a marked utilization of a "petitionary style" on the part of business, which contrasts with the bargaining style characteristic of American politics. In addition, this kind of leadership gives place to the discretionary application of rules and regulations, which in turn leads to the increased use of a "divide and conquer" technique as a prime weapon in the government arsenal.

Thus, the real relatively independent centers of power in Mexico are government and business. There is usually strong consensus within each of these two dominant elites.

In addition to the authoritarian political control described above, the government owns or controls some of the most important industries in the country, such as the railroad, telegraph, telephone, electric power, steel, petroleum, and petrochemical industries. Furthermore, through its control of agencies such as CONASUPO (a government enterprise that distributes low-cost food to the poor), the government can engage in direct price competition with the private sector. The government is also involved in a large number of companies which control the areas of credit and finance.

It would be, however, an error to infer that the Mexican State is an authoritarian government without basic principles and goals. The Mexican State has developed, throughout the years, a very defined ideology that constitutes, in effect, a set of State interests.

It is important not to confuse this with what is called in the United States "public interest".

In the United States, the State is a mere agent in charge of reflecting, legalizing and implementing public interest decisions. Those interests do not always coincide with interests held by business groups. In Mexico, on the other hand, there is a genuine State interest which several political generations have preserved and reinforced.

That which is in the interest of the State may or may not be congruent with public or private interests. Moreover, even if there is coincidence of interests, it does not mean that certain particular policies cannot primarily serve the interests of the State.

The existence of a State interest has been characterized by some students of the subject as "elite consensus", and its continuance has been justified (or rationalized, as some would say) on the grounds that the permanence of the present system of government ultimately serves and will continue to serve the "supreme" interest of the people.

According to Purcell, the Mexican State interest can be summed up into three major categories which are ranked as follows (in order of priority):

1) Political control.

This essentially signifies the maintenance of the authoritarian coalition.

2) Nationalistic economic development.

This, it is assumed, strengthens the nation and therefore the regime. The State provides most of the economic infrastructure, encourages private investment and shares the risks of new ventures. At the same time, foreign capital is not to control or even partially own any basic industries, and wherever possible, domestic

production should substitute for imports or foreign-owned production, even at the short-run expense of the consuming public (see Chapter 3). On the other hand, nature's resources are part of the national patrimony and cannot be arbitrarily exploited by private interests.

All this purportedly leads to economic growth. Yet, let us recall that economic growth is not synonymous with economic development. Economic development has been defined elsewhere as economic growth accompanied by employment, fair income distribution, and relative external economic independence.

3) Social justice.

This is also, ultimately, another way to strengthen the regime's survival.

It should be mentioned that the Mexican State considers the preceding principles as the very pillars which support it, and as such, it does not let other sectors or groups interfere in the definition of the policies that are to guide the above-mentioned principles. In other words, for instance, nobody except the government has the "right" to define what "social justice" is or what the national economic guidelines should be. Note that this fits with the paternalistic patterns described earlier and considered to be one of the main characteristics of the authoritarian way of government.

Once the authoritarian structure of the Mexican government has been examined and its basic principles have been laid down, it is possible to comprehend the relationship of the government with the other elite, namely, the Mexican entrepreneurs, sometimes referred to as the "business class".

To begin with, it is important to emphasize that a large number of Mexico's laws and regulations are written in a vague and imprecise manner. This happens, of course, not only in Mexico but in many other nations too. However, the Mexican regimes have taken advantage of this to enforce laws and regulations in a highly discretionary fashion. A relevant case in which this occurs noticeably and across the board is in the award of import licenses.

Since 1954 Mexico has followed a very strict policy of import-substitution. Mexican and foreign firms are encouraged through different means to produce in Mexico what they would in any event sell in Mexico. Whenever a new firm begins production, the government erects an impressive array of protectionist barriers to guard the new product from foreign competition. "Nationalistic economic development" is the State interest at stake and this is one of the cases in which State and business interests normally converge.

Yet, for one reason or another, a significant number of manufacturers and citizenry have the need to import (with varying frequency) products for which they require import licenses. The award of these licenses is decided in accordance with regulations that can be interpreted in many ways. Thus the Mexican government awards licenses to punish local manufacturers whose products are too expensive or lack quality. However, on other occasions, licenses are awarded as a consequence of bribery or other illegal means.

There are many examples of imprecise regulations often used at the government's discretion. Hence, when a group of entrepreneurs becomes rebellious, the regime has many "legitimate" weapons at its disposal: suspension of rights to obtain foreign credits

(since these enter Mexico mainly through a governmental development bank); increased government competition through agencies such as CONASUPO (using the "social justice" reason); or dusting off old and forgotten regulations.

As indicated before, communication between government and business normally takes place through CONCAMIN and CONCANACO. The precise process by which this happens is subtle and varying.

When the government is preparing a new policy or bill that might affect business, it contacts CONCAMIN or CONCANACO through the appropriate channels (depending on whether it primarily affects industry or commerce). This is the way by which the government is able to surreptitiously detect an initial reaction to a proposal and to receive "petitions". Note that these are petitions, not demands. After a brief process of consultation, the first formal action comes from the government and bargaining begins. When the final decision is made, business has to accept it.

An already-classic case of strong conflict between government and business interests occurred in the 1960's, when the government decided to enforce redistribution of wealth (for the sake of "social justice") by means of a profit-sharing law. Business found it difficult to bargain since the principle behind this new law was embodied in the 1917 Constitution. A vigorous clash of interests took place. In the end, the government enacted the proposed law, although in a more moderate form. The government had to reconcile and combine "social justice" and "economic development" interests. It could not afford to scare off Mexican and foreign private capital. This law remains in effect until the present day.

It would be incorrect to assume that the business sector does not dominate any area or that it is always overpowered by the government's decisions.

First, more frequently than before, businessmen are being called upon to serve on the board of government enterprises. There, they exert increased influence on governmental policies. Second, regardless of any decisions made by the government, bribery, nepotism and corruption are often the final determinants of action. Mexico, unfortunately, has not been able to eradicate widespread corruption. Third, the Mexican regime has never been able to control consumer prices effectively, not even when competing through subsidized government enterprises.

In sum, the business sector also has great discretionary power and leverage. It invests, reinvests, capitalizes and makes profit at will. It is only in critical situations that the State utilizes its power. But then, it always wins.

The delicate equilibrium between the two dominant Mexican elites will probably be maintained through the 1980's. The Mexican State seems to be strong and consolidated. It is true, however, that in recent years it has seen itself subjected to pressures from the top as well as from the bottom. It has responded to these with rhetoric and lukewarm reforms, and has more difficulty than before in simultaneously satisfying antagonistic demands.

Yet, the economic growth that the country is

experiencing (see Chapter 3) and an optimistic national attitude will likely preserve a political system that has given Mexico stability and progress during the past 64 years.

6.3 Mexican Air Transport: Policy Framework

6.3.1 Background of the Policy

More than a year ago, in April of 1980, the López Portillo administration enacted a national plan, the "Global Development Plan" (PGD), which constituted a real breakthrough of assessment, coordination and planning for Mexico (see Section 3.4). In its introduction, the Plan reads: "From its beginning, the present administration committed itself to carry out a systematic effort for coherence between its action, its political philosophy and the model of country to which we aspire...".

Derived from this, a number of *ad hoc* plans were developed and published, including a Plan of Communications and Transportation (PCT).

Despite the comprehensiveness of both PGD and PCT, no more than a few lines were devoted to air transportation in the former and a very limited section, mainly concerning airports, was all that the latter contained.

To the present day, Mexico has never published a statement of policy on the principles that guide its

air transport program. The lack of such a document is of special concern for non-Mexican air transport policy-makers and bilateral negotiators who have often felt confused and disoriented by an apparent lack of coherence and logic on the part of the Mexican civil aeronautics authorities.

International air transport negotiations are based on a vast array of policy principles and negotiation guidelines. The United States has published three documents in the past five years which have laid down its international aviation policy. These documents are the "International Air Transportation Policy of the United States" of September 8, 1976; the "United States Policy for the Conduct of International Air Transport Negotiations" of August, 1978; and the "International Air Transportation Competition Act of 1979", signed in 1980.

It is of great importance that nations publish a clear and honest account of what their international air transport philosophy is and what their negotiating principles are. These principles should be set forth, no matter how controversial they might be. Such action would be instrumental in clearing the uneasy air transport negotiating atmosphere that presently prevails all over the world and would facilitate discussion of the issues at stake.

In this section, this author has taken the task of setting forth the air transport policy framework upon which Mexico bases its actions. Only the most important issues are treated here. Principles of an obvious nature common to this type of work (such as the encouragement of fuel efficiency and the like) are not included.

It is important to leave no doubt about the non-official character of this policy framework. However, its validity is backed by extensive research conducted during the last months of 1979 and the first half of 1980.

The main sources of information and analysis available for this research were the following:

1) A significant number of interviews and discussions were held with past and present Mexican government senior officials with responsibilities for aviation affairs. This was supplemented by talks with Mexican airlines' representatives acting as liaison officers with the Mexican government for the purpose of international bilateral negotiations. No government agency or planning department was neglected. As a result, several dozens of hours of tape recordings and notes were later examined and organized.

2) A large number of documents, internal circulars and even transcripts of conferences were obtained and studied in detail. The documents cover a span of over ten years, starting in 1969.

3) Most useful of the research tools was a careful

examination of a number of executive orders, decrees, and bilateral agreements. This ensured the development of guidelines that fit reality rather than the expectancies of some policy-makers.

Thus, the conclusions summarized here constitute, in effect, an air transport policy framework for Mexico. The guidelines are principally focused upon international aviation, and more particularly, upon matters relating to United States-Mexico bilateral issues. However, note that although the policies outlined here reflect the position of Mexico, this position does not necessarily match the outcome of every bilateral agreement that Mexico has signed. For instance, in issues relating to air transport capacity, the United States-Mexico bilateral agreement does not coincide with the provisions delineated here. (The reader interested in this is referred to Chapter 8.) At the same time, law and policy should be clearly differentiated. Hence the reader is referred to Section 4.2 to gain more insight into the legal aspects underlying this statement of policy, as well as domestic issues that are not treated here[1].

As explained in Chapter 4, all major air transport policy decisions in Mexico are made by the "air transport subsector", a formally-constituted task force comprised of several agencies. However, note that the ultimate decisions are the concern of the Civil Aeronautics Directorship and, at the top, the Secretary of Communications and Transportation.

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[1]Only domestic issues that relate to international aviation are considered here.

A final point worth mentioning is that the Mexican government has conducted several international regional studies in the past few years to determine priorities and bargaining positions for each and every region. Yet, the basic policies behind the negotiating positions, this author noted, are the same. The regional breakdown used by the Mexican authorities is the following[1]: United States, Canada, Central America, Caribbean, South America, Europe and Asia.

The guidelines set forth in the following pages are harmonious with Mexican law and scrupulously consistent with the philosophy of the Global Development Plan enacted by the López Portillo administration. Therefore, this author expects them to be of use as a first, tentative draft of a comprehensive air transport policy for Mexico.

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[1]The studies available to this author were the ones pertaining to Central America, South America and Europe (1978). It seems that no other studies have been conducted.

6.3.2 Policy Framework[1]

1. In the pursuit of satisfying ultimate public interest goals sought by the people of Mexico, the Mexican government will continue to foster the development of a reliable, well-coordinated and modern air transport organization (operators, airports, airways, and air traffic control).

   The main objectives of air transport in Mexico are, in order of priority, the following:

   a). The transportation of people, mail and goods wherever and whenever a need arises within reasonable limits established by the State.
   b). The encouragement and development of domestic and international commerce.
   c). The promotion of domestic and international tourism.
   d). To provide transportation to areas of the country still isolated by natural barriers.
   e). To help stabilize Mexico's balance of payments.
   f). To provide job opportunities.

2. Aeroméxico is the State airline, and as such, is considered by the government as the national flag airline of Mexico. It represents Mexico and is not only a symbol of our[2] sovereignty but

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[1] The reader is cautioned about the non-official character of these guidelines. See Subsection 6.3.1.

[2] First person (plural) is used to refer to Mexico or the Mexicans.

also a secure means of domestic and international transportation for Mexico. Its routes do not necessarily reflect market forces or economic viability, but rather, broader interests of the people and the government of Mexico.

Aeroméxico is expected, on the other hand, to operate efficiently and profitably whenever circumstances allow.

3. Mexico will continue to carry out its international air transport policies through the system of bilateral agreements. As a state member of the International Civil Aviation Organization, Mexico will also continue to abide by all of its multilateral commitments.

4. In the negotiation of air transport bilateral agreements, Mexico will give first priority to aspects related to the overall economic and political national interest. The interest or interests of our carriers and airports will come second.

5. Tourism is one of Mexico's largest sources of external income. In that light, tourism will be the top national interest to consider when

negotiating air transport bilateral agreements. This, it should be emphasized, will take precedence over our carriers' interests[1].

6. Mexico will use all appropriate means to encourage incoming international tourism. The Secretariat of Tourism and its agencies, as well as Mexico's development banks, will cooperate in this endeavor[2]. These institutions will coordinate their efforts with the Secretariat of Communications and Transportation and the national carriers.

7. Mexico should not at this juncture encourage international travel by Mexican nationals. However, tourism within the country (by Mexicans and all others) will be promoted.

8. Mexico should not leave its principal international air routes under the total control of foreign carriers. At least one Mexican carrier should operate each one of these routes. The Mexican government will ensure that the national carriers will be able to meet this basic national interest. Thus, Mexico should remain relatively unaffected during emergencies such as foreign airline strikes,

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[1]This is noticeable in the United States-Mexico air transport bilateral agreement.

[2]Chapter 7 analyzes the tourist industry.

boycotts and the like.

Tourism, trade and political[1] considerations will help determine which routes are to be considered as principal. Economic viability, albeit a secondary consideration, should also be taken into account.

9. Past experience has shown that it is an error to negotiate international nonstop routes whose operation is to remain, during the life of the agreement, under the *exclusive* control of foreign carriers. This applies particularly in the case of routes linking Mexican tourist resorts. Our negotiators should be aware that Mexico cannot allow the development of our tourist industry to be dependent upon the decisions of foreign carriers whose interests are not necessarily our own.

Therefore, whenever Mexico concedes exclusive rights to another nation for the operation of international routes to our resorts, our negotiators will seek the placement of deadlines upon which if the route in question is still not in operation, the traffic rights at issue will revert to Mexico.

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[1] Political considerations, for example, led the U.S. to pressure Pan Am to fly the New York-Moscow route several years ago.

10. As long as a bilateral agreement is fair and equitable, Mexico will seek the inclusion of as many gateways as possible (from both parties) resulting in as many nonstop routes as are possible. This applies primarily to United States and Canada markets.

11. We will endeavor, using all available means, to see that the carriers designated by Mexico to operate international routes negotiated in the bilateral agreements receive prompt authorization to begin operations by the foreign nation involved[1]. Likewise, the Mexican government will expedite foreign airline authorizations.

12. Mexico will avoid making too many concessions while negotiating bilateral agreements on the basis that we do not have the capability to utilize these concesssions anyway. This is a mistake we have made in the past, conceding rights which were difficult to renegotiate once we had relinquished them.

Mexico should not sign any more agreements that award routes which our carriers do not intend to utilize, *unless* they contain clear indications of the transitory nature of routes which we plan to operate in the long run.

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[1]This has constantly been a matter of concern to Mexico in its dealings with the United States, which has been slow in issuing carrier authorizations to Mexican carriers.

13. Bilateral agreements not being utilized and without any future potential should be denounced by Mexico[1].

14. Mexico will oppose the negotiation of non-aviation *quid pro quos* in its air transport bilateral agreements[2].

15. Mexico will vigorously support the negotiation of competitive opportunities *and* restrictions[3].

16. Mexico will be guided by the principle that routes, capacity and pricing are separate issues that *may* be negotiated independently. In other words, capacity and/or pricing considerations in one route should not *necessarily* affect the negotiations of another[4].

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[1]Several bilaterals are presently in this situation.

[2]This has not always been the case on the part of the United States, as demonstrated by its agreement with Iceland.

[3]As opposed to the U.S. policy (August 1978) of trading competitive opportunities rather than restrictions.

[4]The U.S. position (August 1978) is that routes, prices, capacity, schedules and even charter rules are interrelated matters which cannot be resolved independently.

17. As a general rule, the Mexican policy on international non-scheduled air transportation (charters) will be restrictive. The bilateral agreements signed by Mexico will not include, save in exceptional cases, clauses that could be viewed as a formalization or legitimization of air charters to Mexico. Memorandums of Understanding (MOU's), however, might in some cases be signed, and attached to the agreement[1].

18. Charters must be strictly viewed as supplementary air services. Although Mexico recognizes the marginal tourist value of non-scheduled traffic, it believes that unregulated charter traffic *to resort areas* ends up competing with and eventually adversely affecting scheduled operations. It should be recalled that resort-oriented people are relatively insensitive to air schedules and highly price-sensitive. Thus, our resort areas are potential destinations for charter operations.

However, we cannot and we must not depend *excessively* on this type of air service. Our tourist industry cannot grow dependent on them. First, only scheduled carriers effectively and constantly promote the markets they operate. Charters do not do this as effectively and create

[1] MOU's, and especially Confidential Memorandums of Understanding (CMU's), are usually not filed with the International Civil Aviation Organization. They are not, strictly speaking, part of the agreement.

a highly seasonal traffic which our industry does not want. Second, charter traffic attracts, on the average, a lower-income passenger traffic for which our tourist industry is not yet prepared. Third, we continue to regard charter operations as a highly unreliable type of service in the long run. Fourth, at the present point our carriers are not prepared to handle substantial charter traffic. Therefore, if we allowed foreign charters to go too far we would probably lose a significant share of the international air passengers to Mexico.

19. No charters will be authorized when they originate in Mexico.

20. International charters to Mexico should be authorized according to the following order of preference:

a). Charters flying routes not included in our bilateral agreements.
b). Charters flying routes operated only by foreign carriers.
c). Charters flying routes operated by Mexican carriers. These *might* be authorized only when the demand justifies it.

Additional restrictions *might* be applied.

21. Significant increases in charter demand should be followed by capacity increases in scheduled services

if the latter are near saturation and/or appropriate market research studies indicate the convenience of doing so. The Mexican government will actively endorse this policy.

22. Mexico welcomes incoming international general aviation. The Mexican government will continue to encourage this type of traffic through the construction of the necessary facilities.

23. Mexico will negotiate traffic rights guided by the principle of *real* and *effective* reciprocity. Third- and fourth-freedom rights are to be negotiated separately from other traffic rights.

24. Mexico rejects and deems as non-negotiable so-called "open skies" traffic rights, as well as similar versions of these, such as free "air corridors"[1].

25. Mexico will discourage foreign carriers from making multiple stopovers in Mexico on their way to a final destination within our country (even if they only drop off passengers at each stopover). Mexico holds that when carriers concentrate on promoting single destinations on each route, market identification by the public is enhanced[2], this being in our best interest.

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[1]This is further discussed in Chapter 8.

[2]Stopovers are usually downplayed in lucrative, international long hauls.

So-called "turnaround" flights are acceptable even when they involve multiple stopovers within Mexico.

26. Mexico does not allow, as a general principle, double designation. Exceptions to this rule are made *only* when demand clearly justifies it. However, first the carrier or carriers operating the market in question should be encouraged to increase capacity before a double designation decision is made.

27. A basic tenet of Mexican policy is the principle of predetermination of capacity[1] (both in terms of frequency and seat capacity). Bermuda I-type agreements (*ex post facto* capacity revisions) are to be avoided.

28. Negotiation of fifth-freedom rights[2] is acceptable to Mexico. Both the "visual reciprocity" and "mirror image" approaches may be utilized. Our negotiators, however, will give priority to the exchange of third- and fourth-freedom rights.

When negotiating fifth-freedom rights, the Mexican delegation should strive to exchange fifth-freedom rights for fifth-freedom rights, and only if this is not possible, to exchange them for third- and fourth-freedom rights (the latter being conceded by either of the two negotiating parties).

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[1]The U.S.-Mexico air transport bilateral agreement does not incorporate this principle.

[2]This should not be confused with "beyond" rights, a term used to indicate rights (usually of the fifth-freedom type) to undefined destinations. Example: Mexico-New York-Paris-and beyond.

29. Mexican negotiators seeking fifth-freedom rights for our carriers should not exchange them for third- and fourth-freedom rights to and from Mexico unless we are prepared to exercise the rights we obtain *immediately*.

30. Mexico will restrict the award of fifth-freedom rights from Mexico to Latin America to non-Latin American nations. Such concessions weaken our own third- and fourth-freedom rights to that region and negatively affect Latin American carriers serving Mexico[1].

31. Mexico will negotiate sixth-freedom rights only as an exception. Our negotiators will make sure that the sometimes-subtle difference between sixth-freedom rights and the combination of *two* sets of third- and fourth-freedom rights remain clear in our bilateral agreements.

32. Mexico advocates the continuance of an internationally-regulated system of air transport tariffs and fares. We support the International Air Transport Association (IATA) efforts to that effect. International carriers flying to and from Mexico must continue to report and seek our approval to effect any fare change.

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[1]Mexico is a member of the Comisión Latinoamericana de Aviación Civil (CLAC).

Fares should be cost-related. No carrier will be allowed to charge predatory fares, in accordance with what our air transportation laws expressly dictate. The Mexican government will not over-subsidize any route operated by our carriers.

33. Without prejudice to the aforesaid statement, Mexico should encourage a more flexible international fare structure to and from Mexico than the one presently operating. We lack fare variety which has proven to be very effective elsewhere: excursion, "super-saver", standby, and seasonal rates.

34. Mexico will work to achieve the elimination of discriminatory practices in bilateral issues such as landing and airport user fees, international jet fuel pricing, etc.

35. Under special circumstances[1], Mexico considers as legitimate certain advertising restrictions imposed upon carriers and formalized in bilateral agreements.

36. Under appropriate governmental supervision, Mexico recognizes the right of carriers to sign pooling agreements.

37. Mexico opposes schedule restriction practices as a means to curb carrier competition.

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[1]These "circumstances" usually involve fifth- and sixth-freedom rights negotiations.

38. Mexican government personnel traveling on official business must use, unless circumstances dictate otherwise, the services of Mexican carriers.

39. Mexico will not negotiate seventh- and eighth-freedom traffic rights. The negotiation of these rights is contrary to our interests.

40. Whenever Mexico deems unnecessary or detrimental the signing of a bilateral agreement with a given nation, our government *may* award temporary "unilateral permits" to the carrier or carriers of the nation in question.

. . . . . .

Any reader acquainted with the present United States international air transport policies and negotiating guidelines will realize the striking dissimilarities between the American policies and the principles set forth in the preceding pages. These can be seen as a prelude to the very difficult bilateral negotiations that will arise between the United States and Mexico in the near future if both countries continue to hold their opposing views on how international air transport is to be handled. The bilateral agreement signed by both nations in 1978 (examined in Chapter 8) does not conform to every principle held by the two countries. Thus, it shows a certain degree of flexibility that might be expected to continue.

Yet, 1978 was, in many ways, a transitional year for the United States. It remains to be seen if the flexibility of the past has not been hampered by the increasingly liberal policies of the present.

The body of policies set forth in the previous pages are meant as a contribution to clear a negotiating atmosphere beset by suspicion and misunderstanding. It is intended to help Mexicans to organize themselves better and to analyze their own policies from different angles; and it should help the American side to better understand the Mexican position as well as to see how American views are perceived from a different perspective.

CHAPTER VII
MEXICO: TOURISM AND DEVELOPMENT

7.1 Introduction

This chapter is the result of several months of research in a number of tourism-related Mexican agencies, particularly the Secretariat of Tourism, during 1979-1980.

The rationale underlying the basic tourism development plans of the Mexican government is introduced here. In addition to explaining the essential approach that the government follows in the pursuit of its objectives, concrete plans of regional development (which should serve the aviation policy-maker) are presented in this chapter.

The Mexican government aims appear to be rational and consistent, as a number of findings should demonstrate throughout this chapter. Yet, foreign observers, especially aviation negotiators, claim to receive mixed signals from the Mexican authorities. The main reason for this, the author believes, is lack of information on the part of some negotiators about how different the ways to assess tourism advantages and disadvantages can be, particularly in the case of developing nations.

Section 7.2 discusses the basic attitude of the Mexican authorities in relation to the development of a stronger tourist industry. Section 7.3 analyzes past and present patterns of tourist supply and demand. Finally, Section 7.4 presents aspects of commercialization and finance of the Mexican tourist industry.

7.2 Tourism: Structure and Policy Framework

In the autumn of 1977, while writing a master's thesis on Mexican international air passenger traffic, this author noted "the absence of both a national tourist plan and an inventory of [tourist[1] resources]" in Mexico. By the time the thesis was concluded (June 1978), the López Portillo administration had launched a vast program of assessment and planning aimed at producing a national plan of tourism for Mexico. The pace of these events was surprisingly rapid and, within months, that 1977 statement did not correspond to reality.

The program bore its first fruits in late 1979 when the first draft of a "Plan Nacional de Turismo" was concluded. This "plan" constitutes the first serious planning effort ever carried out by the Mexican government in the area of tourism[2]. The plan is presently being implemented. Large amounts of money are being funneled into the development of new tourist areas as well as being used for the upkeep of many others.

This section examines a number of questions that are fundamental for anyone trying to envisage the overall trends of tourism in Mexico. After a brief description of the Mexican government's operating structure in the area of tourism, the section focuses on matters of policy and goals. The Mexican government's philosophy on the

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[1] Throughout this chapter the term "tourism" is used in a broad sense: leisure travel, short business trips, family visits, etc. For a disaggregate analysis, see Section 5.3.

[2] The plan follows a number of guidelines dictated by the Global Development Plan (see Section 3.4).

subject as a whole is presented here. The obvious is not always the answer and priorities in more developed countries are not always relevant in other nations.

Matters of currency exchange and balance of payments, for example, are frequently believed to be the prime motivation of developing nations to strengthen their tourist industry. Although it has to be conceded that this is a matter of extreme concern to Mexico, it is not, by any means, a question of top priority. Tourism as a whole is a very important matter, but not necessarily because of its effects on the national balance of payments.

Needless to say, the subject is prone to problems of interpretation. Tourism objectives cannot be traced, as air transport policies were in the preceding chapter, using the evidence of bilateral agreements and documents. That helps, but it is not enough. A more detailed knowledge of the general philosophy of development of the Mexican government is needed. This, however, is necessarily subjective.

Yet, the air transport policy-maker must have grounds on which to start. For that reason, the tourism objectives of the Mexican government are introduced here, as seen by this author in the context of the latest plans of development of the country.

Political science and development are often subtle and controversial subjects. Hence, the discussion that follows will have accomplished its purpose if it stimulates discussion and debate.

Table 7.1 shows the size and growth rates of incoming foreign tourism to Mexico throughout the past two decades. As can be seen, a generally high and steady rate of growth of foreign tourism was experienced until the year 1973. The years 1968 (when the Olympic Games took place in Mexico City) and 1972 (just before the beginning of an ever-growing world oil crisis) showed impressive peaks, rarely attained later. Times of political crisis are reflected in the 1975-1977 declines (the reason for these was explained in Subsection 4.3.5). The devaluation of the peso is one of the main factors that contributed to the 1978-1979 recuperation and high rates of inflation in Mexico were partially responsible for the modest growth of 1980. Section 7.3 elaborates on this.

Mexican outgoing tourism has grown even more rapidly than incoming tourism. The 1970 figure was about 1.1 million people. By 1979 the total had reached 2.7 million Mexicans and preliminary estimates indicate that Mexicans visited foreign countries approximately 3.4 million times in 1980 (an almost 26% hike in one year!).

In 1980, 3.6 million Americans contributed to the total of foreign visitors to Mexico (85.7%) and, on the other hand, 2.6 million Mexicans (76.5% of all Mexicans traveling abroad) visited the United States[1].

Domestic travel should also be mentioned. Although

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[1] Do not confuse these figures with air passengers or with round-trip travelers. Besides, unless otherwise indicated, figures in this chapter do not include brief border crossings.

Table 7.1

FOREIGN TOURISM TO MEXICO[1]

Year	Tourists (000)	Percent Change
1960	761	--
1961	803	5.52
1962	941	17.19
1963	1,058	12.43
1964	1,210	14.37
1965	1,350	11.57
1966	1,499	11.04
1967	1,629	8.67
1968	1,879	15.35
1969	2,065	9.90
1970	2,250	8.96
1971	2,510	11.56
1972	2,912	16.02
1973	3,226	10.78
1974	3,362	4.22
1975	3,218	-4.28
1976	3,106	-3.48
1977	3,247	3.99
1978	3,754	15.61
1979	4,135	10.15
1980[2]	4,200	1.57

[1] Does not include brief border crossings.

[2] Preliminary (Banco Nacional de México).

Sources: Lisker-Melman (1978)
Fondo Nacional de Fomento al Turismo

estimates vary and are difficult to compute, it is calculated that about 40 million Mexicans traveled within Mexico (intercity) in the year 1980.

Although the above figures might appear low at first sight, their relative value is of significance when measured on a worldwide scale. It is estimated that Mexico currently receives about 1.6% of all international travelers[1] and 2.6% of their total travel expenditures.

On the other hand, taking into account the fact that Mexico shares borders with the United States, the number of Americans traveling to Mexico each year can be considered low. This reveals an enormous underexploited potential.

The Mexican governmental structure for tourism reflects the importance that the country gives to tourism.

First of all, in accordance with the administrative reform carried out by the current government of Mexico, one of the twelve sectors into which the government has divided its major tasks is the "tourist sector" (see Section 2.4). Furthermore, one of Mexico's sixteen secretariats is the Secretariat of Tourism, established in December of 1974. As a comparison, air transportation by itself, although comprised of many agencies, lacks a single entity at the rank of a secretariat. Besides, air transportation, as a whole, is a "subsector" (as part of the communications and transportation sector), not a "sector" as tourism is.

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[1] France receives about 7.81% of all international tourists, West Germany 7.78%; Czechoslovakia 6.9%; and the United States 6.43% (1976 figures).

The head of the tourist sector is the Secretary of Tourism. Under his/her supervision is the coordination of a large number of government enterprises related to tourism (including decentralized agencies and trust funds).

The Secretariat of Tourism itself, as head of the sector, is the agency in charge of coordinating, regulating[1] and supervising all government-related tourism activities. All major policies are developed in this secretariat; the collection of statistics is also one of its duties. It should be mentioned that tourism statistics, although more complete than those of air transportation, are somewhat less reliable. Their publication was started only very recently. As with air transport, this author often had to resort to non-institutional help in order to obtain the necessary statistics. The Secretariat, however, has substantially modernized its procedures in the recent past.

The most important tourism-related agencies are the "Fondo Nacional de Fomento al Turismo" (FONATUR), which in English means "National Fund for the Promotion of Tourism"; the "Consejo Nacional de Turismo (CONATUR), which can be translated as "National Council of Tourism"; and "Nacional Hotelera", which is "National Hotels" (not a literal translation).

FONATUR is an important trust fund responsible for

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[1]On January 15, 1980, the Mexican Congress passed the Federal Law of Tourism, which as its name implies, applies nationwide.

financing government and private tourism projects. CONATUR is in charge of promoting international tourism to Mexico. Nacional Hotelera is a government enterprise that owns and operates a number of hotels throughout the country.

The first two agencies are the object of Section 7.4 and the third one is mentioned in Section 7.3.

In addition to the government entities, there are a relatively limited number of interest groups and associations. Most of them are affiliated with CONCANACO, a chamber of commerce of vital importance to government-business interaction in Mexico (see Section 6.2).

Tourism is a complex and multidimensional subject. It can be analyzed from varied points of view. In fact, since the Second World War, when tourism started to acquire ever-increasing importance, different schools of thought have evolved and tourism has become a very controversial matter in some academic and government circles.

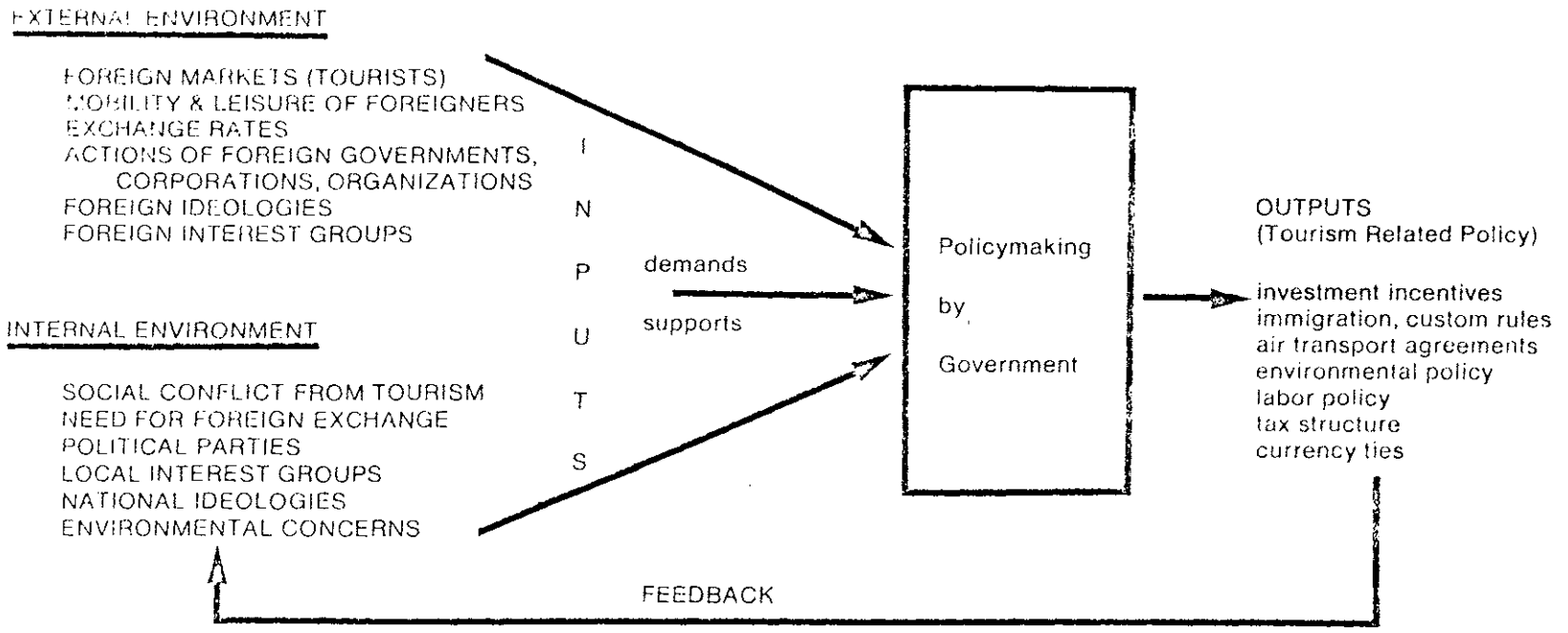
Figure 7.1, devised by Matthews (1978)[1], illustrates a political scientist's point of view. The figure conceptualizes what takes place in a given political system. The various inputs (demands or supports) related to tourism are considered by policy-makers and are converted into outputs (tourism policies). The figure

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[1]Matthews adapted it based on David Easton's A Framework for Political Analysis (Englewood Cliffs: Prentice Hall, 1965).

Figure 7.1

SYSTEMS MODEL OF TOURISM POLITICS



Source: Matthews (1978, p. 92).

offers examples of inputs into tourism policy from both the internal and external environments of the society which the system rules. Various policy output areas related to tourism are also listed, such as labor policy, air transport agreements, investment incentives, and so forth.

It is important to identify which are true inputs and which are true outputs. For example, exchange rates and local interest groups (discussed in preceding chapters) are considered by Matthews as inputs. Nevertheless, these are affected by the feedback provided by the outputs. Note that from the standpoint of tourism politics, air transport bilateral agreements are seen as a result, not a cause, of government tourism policies.

Tourism, in the words of Matthews and other students of the subject, as an industry and as a human activity can be studied productively by all social and behavioral scientists. Knowledge about the sociological and psychological effects of mass tourism upon a host culture, for example, can become a significant input into political and governmental action.

Many of the Mexican government's tourism policies should be addressed and understood in the context of that line of thought. The inability of many hotel employees in Third World countries to accept luxury and affluence while living in poverty is an example. What does large-scale tourism do to motivation or achievement of workers and residents in poverty-stricken destinations?

Thus, air transport policy-makers wishing to trace the rationale of Mexico's tourism policies can arrive at erroneous conclusions by trying to model that rationale on the basis of balance of payments or market forces. A look at Figure 7.1 should enhance their perspective.

Governmental policies, when applied to international tourism, are what most directly affects, one way or the other, the final results. This particularly applies when Third World locations are the subject of study. Readers interested in understanding the Latin American region are referred to one of the very few investigations on the interaction between tourism, development and policies in Latin America: International Tourism and Latin American Development, by Krause and Jud (see bibliography).

In general, no matter what their policies or objectives are, democracies do not discourage, at least openly, their citizens from traveling abroad. At the same time, few governments promote the foreign travel of their own citizens. If economic problems are a cause of concern, international tourism to the country in question is promoted or internal travel ("mobility") is encouraged.

As an approach to the measurement of domestic tourist travel, Owen (1964) developed an index of "passenger mobility". The index is an average of the following: passenger-miles per capita, passenger-cars per capita, rail lines per 100 square miles, rail lines per 10,000 population, surfaced highways per 100 square miles, and surfaced highways per 10,000 population. The index is based on 100, France being the normative country. For the majority of developing countries, the index ranges below 25 (Mexico being one of the highest among that group of countries). The following is a list of selected countries for which Owen calculated a "passenger mobility" index (using 1961 data):

Developing Countries

2-5	6-10	11-15	16-20	Over 20
Ethiopia	Philippines	Peru	Algeria	Mexico (22)
Nigeria	Syria	Paraguay	Brazil	Chile (36)
Iran	Thailand	India	Bolivia	
	Ecuador			
	Colombia			

Developed Countries

40-60	61-80	81-100	Over 100
Japan	Netherlands	France (100)	United States (147)
Italy	Norway	United Kingdom	Canada (149)
	Finland	West Germany	
	Austria		

The index is of use as an indication of social mobility within a country and gives an idea of the degree to which passenger transportation and tourism has been developed.

Another effect often measured by tourism planners is the multiplier effect that tourism investment and spending produces in the national income[1].

It is estimated that the multiplier effect of foreign tourism in Mexico is close to four; this means

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[1]For a good explanation of the multiplier effect, see Samuelson (1976, p. 228).

that each peso that a foreign traveler spends in Mexico increases the gross domestic product (GDP) by almost four pesos. Furthermore, taking into account the wide dispersion of tourist centers throughout Mexico (see Figure 7.2), it can be assumed that this marginal growth is evenly distributed.

In relation to this, it is worth mentioning that about 5% of Mexico's GDP is composed of tourism-related production of goods and services. If the overall GDP continues its present growth (at an estimated 8-10% annual rate), and the so-called "tourism product" increases at the 14% annual rate that some Mexican planners predict, then by 1985 the tourism product share of the overall GDP might reach values over 7%. Such a share would be impressive by Mexican standards. It would mean, for example, that the tourist sector would have more relevance (in terms of its share in the GDP) than areas such as livestock, fishing, mining, electricity and many industrial and service areas.

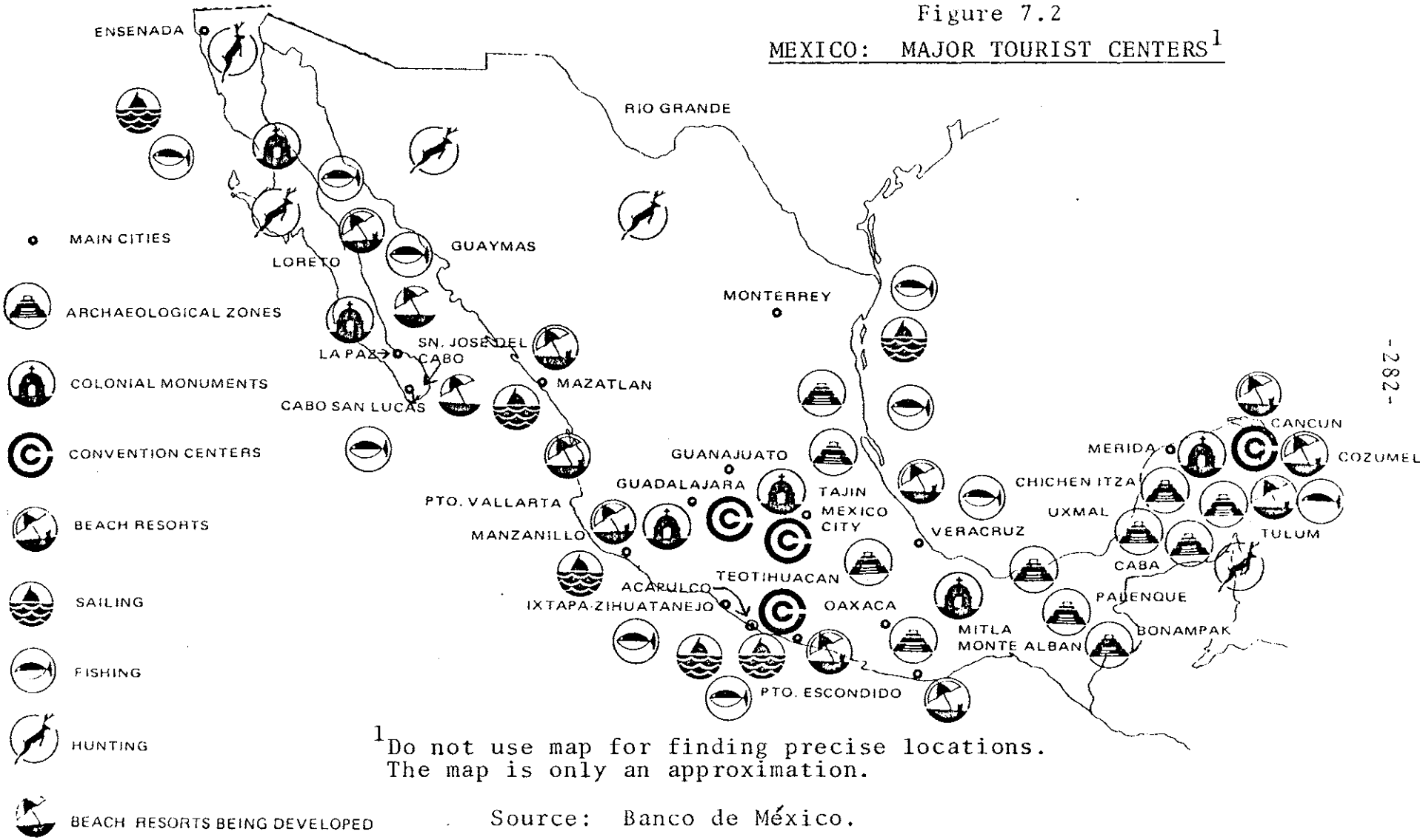
It is also important to note that foreign tourism financed about one-fifth of all Mexico's imports (goods and services) in 1978. It is meaningless to calculate, however, what has been called the "tourism balance of payments", that is, Mexico's net gain (or loss) resulting from incoming and outgoing tourist spending. Incoming and outgoing tourism are two distinct, unrelated phenomena. In fact, very frequently, what triggers incoming tourism halts outgoing travelers (i.e., exchange rates). Therefore, each should be analyzed separately[1].

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[1]This is as meaningless as to try to use a figure of net gain (or loss) resulting from the export and import of fruit.

Figure 7.2

MEXICO: MAJOR TOURIST CENTERS[1]



[1]Do not use map for finding precise locations. The map is only an approximation.

Source: Banco de México.

Notwithstanding tourism's undeniable importance to Mexico, the contrary view still prevails in some academic and governmental circles.

Matthews, in 1978, put it this way[1]:

> "John Bryden concluded in 1973 that tourism is not necessarily good for development. Although there are some economic benefits (employment, foreign exchange), the social costs can be high. There are changes in local consumer demands brought on by tourism's influences. Tourism, unless properly controlled through policy, will be *import prone* and will not necessarily promote local....sufficiency. [In 1974, Peter Gray, an economist, pointed out] that in developing countries, the development rate of tourism will suffer unless policy-makers restrict the number of tourists. The incidence of *unfriendliness* to tourists is highest in countries where the ratio of tourist arrivals to resident population is highest."

Many other related issues are subject to debate. One of them is foreign ownership of hotels, a very difficult

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[1]Matthews (1978, p. 46).

question to resolve since most major international hotel chains are owned by a small number of corporations based in developed countries. Third World areas, on the other hand, while they do not welcome foreign profit-taking with enthusiasm, do not have the resources of their own to develop and promote international tourism to their countries.

Mexico has been successful in finding a partial solution to these problems. On the one hand, CONATUR (see Section 7.4) promotes Mexico rather effectively internationally. On the other hand, only 4.2% of all hotel rooms[1] in Mexico are controlled by foreign corporations which in accordance with procedures explained in Chapters 2 and 3, are considered as "Mexican-owned" companies.

As Table 7.2 shows, 36% of the three top room categories in Mexico City are controlled by chains. However, only 10% are operated by international chains. In Taxco, 70% of these room categories are chain-operated but only 20% are part of international franchises.

The preceding pages should suffice in providing the reader with a general outline on a number of opposing approaches that socially-oriented policy-makers have taken in the recent past in assessing the advantages and

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[1] Or 9.3% of all hotel rooms in the top three categories (1978 data).

Table 7.2

MEXICO: HOTEL ROOM SUPPLY BY DOMESTIC AND INTERNATIONAL HOTEL CHAINS (1978)

Main Tourist Centers	Number of Rooms			Number of Rooms as a Percent of Total Rooms in Categories "AA", "A" and "B"		
	Domestic Chains	Int'l Chains	Total	Domestic Chains	Int'l Chains	Total
Federal District	5,034	1,981	7,015	26	10	36
Acapulco	2,827	3,507	6,334	18	23	41
Cancun	1,065	300	1,365	42	12	54
Puerto Vallarta	800	355	1,155	36	16	52
Ixtapa-Zihuatanejo	859	251	1,110	50	15	65
Guadalajara	400	526	926	8	10	18
Taxco	400	160	560	50	20	70
Manzanillo	500	--	500	54	--	54
Merida	490	--	490	31	--	31
Cozumel	472	--	472	40	--	40
Hermosillo	397	--	397	46	--	46
Queretaro	212	171	383	15	12	27

Source: Secretariat of Tourism.

disadvantages that tourism brings to developing nations.

Keeping this in mind, let us set forth the position of Mexico's government as reflected in a large number of documents issued during the past two years. Two points need to be emphasized before proceeding. First, what follows is an interpretative analysis provided by this author, not the official position of the government. Just as in Chapter 6 (when setting forth the air transport policy of Mexico) the information provided has been carefully verified to assure reliability and accuracy. The review of documents was supplemented by investigating a number of ongoing tourism projects as well as by several working interviews with senior officials. Second, this is not a "statement of policy". The nature of the subject and some inconsistency on the part of the authorities make the writing of such a document difficult. Therefore, the position of the Mexican government is presented here in three ways: first, the main economic advantages that the government sees in the development of tourism are introduced; second, the main objectives that the authorities pursue (why and how tourism should be developed) are described (this is a general conceptualization, not a list of detailed objectives); third, a time framework is added to this conceptualization.

A somewhat more detailed account of the regional objectives pursued by the government is provided in Section 7.3.

The following are the main economic advantages that tourism[1] may provide to Mexico in the view of the Mexican government:

1. The tourism resources of Mexico should be looked upon as just that: as *resources*. These resources (beaches, archaeological sites, monuments, towns, etc.) have two distinctive features that should be taken into account: they are permanent resources which cannot be depleted (although imprudent policies can ruin them); and these resources, unlike oil for example, cannot be stored to be sold later at, perhaps, higher prices. The unused potential of today cannot be used in the future.

2. Tourism has grown in general (during the past three decades) at a faster rate than the gross domestic product. Increased international tourism throughout the world and Mexico's favorable geographical position have played a major role in this.

3. Tourism has proven to be (during the past three decades) one of Mexico's more *reliable and constant* sources of foreign currency. Considering foreign traveler expenses in Mexico as an export, tourism exports were equivalent to

[1]Note that not all points necessarily relate to foreign tourism.

250% of all agricultural exports in 1979 or 129% of all manufactured exports in the same year.

4. Development of tourism in Mexico has required a very low level of imports in the past few years. Once foreign commissions are excluded, only about 4% of all tourism investment is spent upon imports[1]. Therefore, as an export, tourism has an advantageous position over other exports that require a larger input of imports in order to be produced.

5. Tourism is labor-intensive and requires fewer specialized personnel than many other activities. It is labor-intensive both during its development stage (building of the infrastructure) as well as in its operative stage. In addition, the investment necessary to generate employment in tourism-related activities has proven to be smaller (in Mexico) than in most other economic sectors.

6. Tourism has helped to decentralize Mexico's economic activity. While other economic activities are strongly centralized around a few industrial areas (see Chapters 2 and 3), tourism is often localized in previously-undeveloped sites.

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[1]This is not true for many developing nations that have to import many of the goods needed by the tourist industry.

7. Tourism helps to distribute the national income. It does not favor income concentration (in relative terms). It is estimated that about 29% of all tourist expenditures go to the purchase of food. This permeates directly and indirectly into the agricultural, livestock and fishing sectors on which most Mexican poor depend. About 13.6% of the expenditures go toward purchasing Mexican handicraft, produced mostly by Indian and peasant groups. Finally, an estimated 25.2% is spent on accommodations; about 35% of this is for salaries and tips.

8. Tourism requires a comparatively low influx of high, sophisticated technology. Besides, in the case of Mexico, government and Mexican private investment has adequately fulfilled the country's needs. Therefore, it can be said that as far as concerns technology and financing, the Mexican tourist industry is relatively independent.

Let us now examine the main tourism objectives (from a conceptual point of view) that the Mexican government seeks to accomplish in the next two decades.

Although these objectives cover a very broad range of activities and sectors, they can essentially

be classified into two main groups: national objectives and tourism objectives. The former are the goals that the government intends to accomplish through the development of tourism, while the latter are tourism objectives by themselves. The list that follows does not necessarily rank the objectives according to their priority. Part of the list was first mentioned in the first draft of the National Plan of Tourism. In addition, the "Global Development Plan" (PGD) sets a number of guidelines that are followed in the writing of these objectives. Finally, this author has verified the validity of the list of objectives that follows by examining how it comports with the most recent tourism statutes of Mexico and by discussing this with senior government officials.

The main national objectives which tourism is expected to accomplish may be listed as follows:

1. To strengthen a Mexican national identity.

2. To strengthen the links between the Mexicans and other peoples throughout the world.

3. To strengthen an infrastructure capable of letting the Mexican people enjoy their constitutional rights to rest and enjoy vacations[1].

4. To strengthen the national economy in the following particular areas:

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[1]The Mexican Constitution specifically refers to these rights.

a. Contributing to the goal of keeping the GDP growing at an 8-10% annual rate through the 1980's.
b. Generating new investment opportunities for the public and private sectors. The money surplus resulting from oil extraction should not generate added inflation. It should recirculate through the economy in the form of new, productive investment.
c. Contributing to reduce balance-of-payment deficits by promoting added foreign tourism to Mexico as well as making it more attractive for Mexicans to visit Mexico before traveling abroad.
d. Creating new jobs.
e. Helping to distribute the national income more evenly.
f. Helping to decentralize the national economy.

The main tourism objectives may be characterized as follows:

1. To gradually modify the present structure of tourist demand until internal tourism by Mexicans reaches preeminence over incoming foreign tourism.

2. To gradually modify the structure of internal tourism by Mexicans, giving increased attention to so-called "social tourism".

   By constitutional mandate, since the 1950's the Mexican government has built a network of hotels and resorts to be used by government employees at very low cost. This network is insufficient to satisfy the demand. Therefore, the government is committed to improving the present supply. In addition, the government has recently begun an ambitious program whose goal is to provide this type of low-cost accommodations to factory workers, too. In the long run, these programs will not only include room and board but also transportation and other collateral benefits.

3. To gradually modify the present structure of incoming foreign tourism by:

   a. Improving the supply of motel and tourism services along the national highways in order to attract a larger number of American car travelers. The importance of border visits should diminish in comparison to visits to the interior of the country, and in general, increased numbers of foreign tourists traveling by land should decrease the present

relative importance of incoming tourism by air[1]. The foreign tourist average length of stay should increase to 11.5 days.

b. Financing an increased number of promotional campaigns in countries other than the United States in order to diversify market demand.

4. To continue the expansion and development of new vacation resorts all over the country (see Section 7.4).

5. To give priority to the development of resorts whose character is distinctively Mexican (such as Mayan archaeological zones) to increase Mexico's competitiveness *vis-à-vis* more standardized zones.

6. To accelerate and finance the expansion of hotels and hotel room supply. This also includes the promotion of condominium construction[2].

7. To keep in force the present foreign-ownership regulations (described in Chapters 2 and 3).

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[1]Mexico is considering, for the first time ever, allowing foreign charter buses into Mexico. This would be an important departure from previous policy.

[2]"Condo-sharing" has expanded rapidly during the past ten years.

8. To keep and strengthen government agencies in charge of Mexican tourism promotion abroad. No long-run tourist programs should rely solely on foreign-based promotional campaigns.

The Mexican government has set down a time framework for accomplishing the previously-listed objectives.

Generally, a three-stage program is envisaged. The first stage runs through December of 1982 when the present administration leaves office. The second covers 1983-1985 and the third one goes from 1986 to the year 2000.

With the exception of a few specific issues, this author did not identify any significant variations or modifications of policy planned to take effect during each of the above-mentioned periods. Rather, all three stages are characterized by gradual change and accomplishment throughout the period under consideration. Thus, the periods correspond to goals to be met in each stage, not policy changes to be implemented.

The general national objectives set forth in the preceding pages, as well as the philosophical approach that the Mexican government follows in the establishment of its tourism programs, should be viewed by the external analyst as well-rooted and likely to occur. Changes of form or content might occur along the way but, this author believes, no radical departures from the original approach are to be expected.

Finally, it is important to caution the reader that the objectives stated above are not *policies* but what some policy-makers call *instruments of policy*. The difference between the two concepts is subtle but important.

7.3 Tourism: Supply and Demand

The objective of this section is to provide the reader with an idea of the size and growth (past and future) of the Mexican tourist industry.

The first subsection (7.3.1) explores the supply side of the industry. Number of hotels, rooms, and the labor supply are analyzed. In addition, the general objectives described in the past section are translated here into concrete development goals for 22 regions of Mexico.

The second subsection (7.3.2) examines prospective future demand and introduces the reader to the increasingly grave difficulties that inflation and semi-fixed exchange rates are causing in the United States-Mexico market.

Most of the material presented in this section has only appeared in government publications, such as the National Plan of Tourism. A substantial part of the information is derived from direct research and analysis conducted by this author.

Most of the tables and graphs provided do not need elaborate explanations; they speak for themselves. Their value in the context of air transport policy-making is self-evident.

7.3.1 Supply

The bottom line of tourism supply is frequently considered to be the quality, size and structure of accommodations. Tables 7.3 and 7.4 provide information

about the hotel and hotel room supply in Mexico. Table 7.3 shows the rapid growth of the supply between 1978 and 1979 (almost 8%). Preliminary data indicates that by December of 1981, the number of hotel rooms throughout the nation will be 258,000.

The underdeveloped state of the supply in a number of states (i.e., Tlaxcala) is evident from the table. Also evident is the outstanding growth that states such as Quintana Roo have experienced. This should not come as a surprise. As Section 7.4 demonstrates, government intervention has been the prime reason behind the booming figures in certain areas. Table 7.4, in addition, is of interest to this study since hotel rooms classified as "AA", "A" and "B" are the main type of accommodation sought by international air travelers. It should be mentioned that these room categories showed the highest rate of growth of all room categories during the past decade. Once again, government credit as well as foreign investment are the primary causes of this. It might be interesting to the reader to compare the figures of Table 7.4 with the data provided by Table 7.2, where hotel ownership information is given.

Figure 7.3 reveals the past development of the Mexican hotel room supply and gives a perspective on the expected growth between now and 1990. The government projections exceed the growth (or minimum goals) that should be attained in order to keep healthy occupancy factors (see figure). Although this author detected some disagreement among government officials in relation to the feasibility of such growth, actual experience to date has matched the initial projections.

Table 7.3

MEXICO: NUMBER OF HOTELS[1] AND HOTEL ROOMS, BY STATE

State[2]	1978		1979	
	No. of Hotels	No. of Rooms	No. of Hotels	No. of Rooms
Aguascalientes	41	1,548	43	1,378
Northern Baja California	434	11,731	444	12,286
Southern Baja California	109	2,513	112	2,575
Campeche	54	1,072	48	1,323
Coahuila	342	4,461	346	4,705
Colima	134	2,944	144	3,498
Chiapas	185	3,874	191	4,082
Chihuahua	303	8,314	312	8,695
Distrito Federal	644	32,630	653	33,587
Durango	93	2,189	99	2,547
Guanajuato	322	7,616	342	8,435
Guerrero	602	23,180	628	24,330
Hidalgo	69	1,706	90	2,219
Jalisco	635	19,912	679	24,050
Mexico	85	2,374	87	2,441
Michoacan	425	9,382	432	9,756
Morelos	204	4,502	211	4,869
Nayarit	142	2,817	151	3,126
Nuevo Leon	126	4,792	127	4,936
Oaxaca	126	4,394	198	4,476
Puebla	142	4,580	149	4,897
Queretaro	88	2,695	92	2,936
Quintana Roo	123	5,155	142	7,131
San Luis Potosi	99	2,935	99	2,955
Sinaloa	206	7,099	212	7,537
Sonora	165	5,119	172	5,409
Tabasco	80	2,273	84	2,366
Tamaulipas	359	8,665	364	9,001
Tlaxcala	34	488	34	488
Veracruz	638	17,038	674	18,296
Yucatan	115	3,789	128	4,239
Zacatecas	126	2,422	127	2,452
TOTAL	7,250	214,209	7,614	231,021

[1]This includes all kinds of hotels as well as motels, pensions, etc.

[2]In alphabetical order (Spanish form).

Source: Secretariat of Tourism.

Table 7. 4

MEXICO: NUMBER OF HOTEL ROOMS, BY STATE AND CATEGORY (1978)

State[1]	Number of Hotel Rooms[2]			
	"AA"	"A"	"B"	TOTAL
Aguascalientes	--	45	223	268
Northern Baja California	883	1,308	3,575	5,766
Southern Baja California	801	602	418	1,821
Campeche	120	7	130	257
Coahuila	165	451	1,380	1,996
Colima	442	116	488	1,046
Chiapas	55	55	500	610
Chihuahua	--	633	2,365	2,998
Federal District	6,339	7,133	6,123	19,595
Durango	--	179	247	426
Guanajuato	134	354	1,752	2,240
Guerrero	8,691	5,993	3,315	17,999
Hidalgo	--	--	258	258
Jalisco	1,847	3,160	3,976	8,983
Mexico	289	126	483	898
Michoacan	243	448	1,296	1,987
Morelos	558	514	849	1,921
Nayarit	45	10	404	459
Nuevo Leon	204	1,065	1,247	2,516
Oaxaca	--	97	673	770
Puebla	42	461	757	1,260
Queretaro	359	366	712	1,437
Quintana Roo	2,186	1,219	876	4,281
Sinaloa	974	1,583	2,262	4,819
San Luis Potosi	--	34	847	881
Sonora	217	903	1,766	2,886
Tabasco	116	372	396	884
Tamaulipas	293	624	1,672	2,589
Tlaxcala	--	7	35	42
Veracruz	--	523	2,649	3,172
Yucatan	254	1,072	750	2,076
Zacatecas	--	116	181	297
TOTAL	25,257	29,576	42,605	97,438

[1] In alphabetical order (Spanish form)

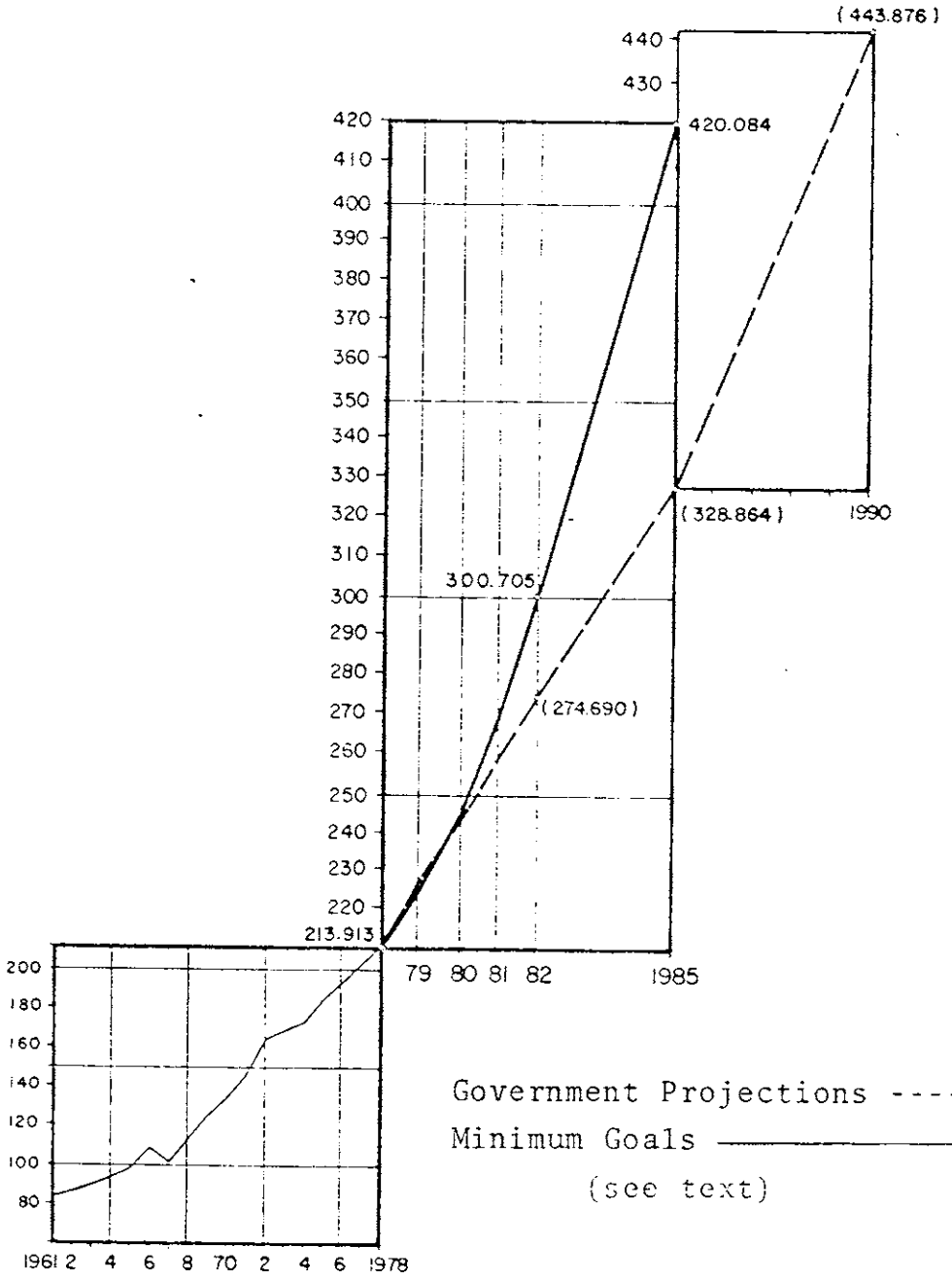
[2] Categories not included are "C", "D" and "E".

Source: Secretariat of Tourism.

Figure 7.3

MEXICO: HOTEL ROOM SUPPLY, PAST AND FUTURE[1]

(THOUSANDS OF ROOMS)



[1] As estimated in 1979.

Source: Secretariat of Tourism.

Tourism generates, essentially, two kinds of direct forms of employment: employment related to the actual provision of tourism services (directly and indirectly) and employment related to the construction of the tourist infrastructure, which includes not only hotels but also highways, airports, etc.

Figures 7.4 and 7.5 have been devised in accordance with projects to which the Mexican government is committed through 1985. The labor force statistics provided by these two figures give an idea, both in terms of size and growth, of the ambitious tourism expansion that is taking place in Mexico.

One final point to be made in relation to the hotel room supply is that Nacional Hotelera, a government enterprise mentioned before, operates a chain comprised of 19 hotels[1] (most of them under the name "El Presidente"). All 3,200 rooms[1] in this chain fit the two highest-rank room categories. Thus, as the reader has repeatedly observed in previous chapters, the Mexican government policy of not leaving any area of the economy completely in control of private interests, is repeated here once again. There have been plans, several times, of merging this enterprise with Aeroméxico. However, nothing has materialized as of yet. In the meantime, Nacional Hotelera continues a process of rapid expansion.

Let us now turn our attention to more concrete plans of development, at the regional level. In the next

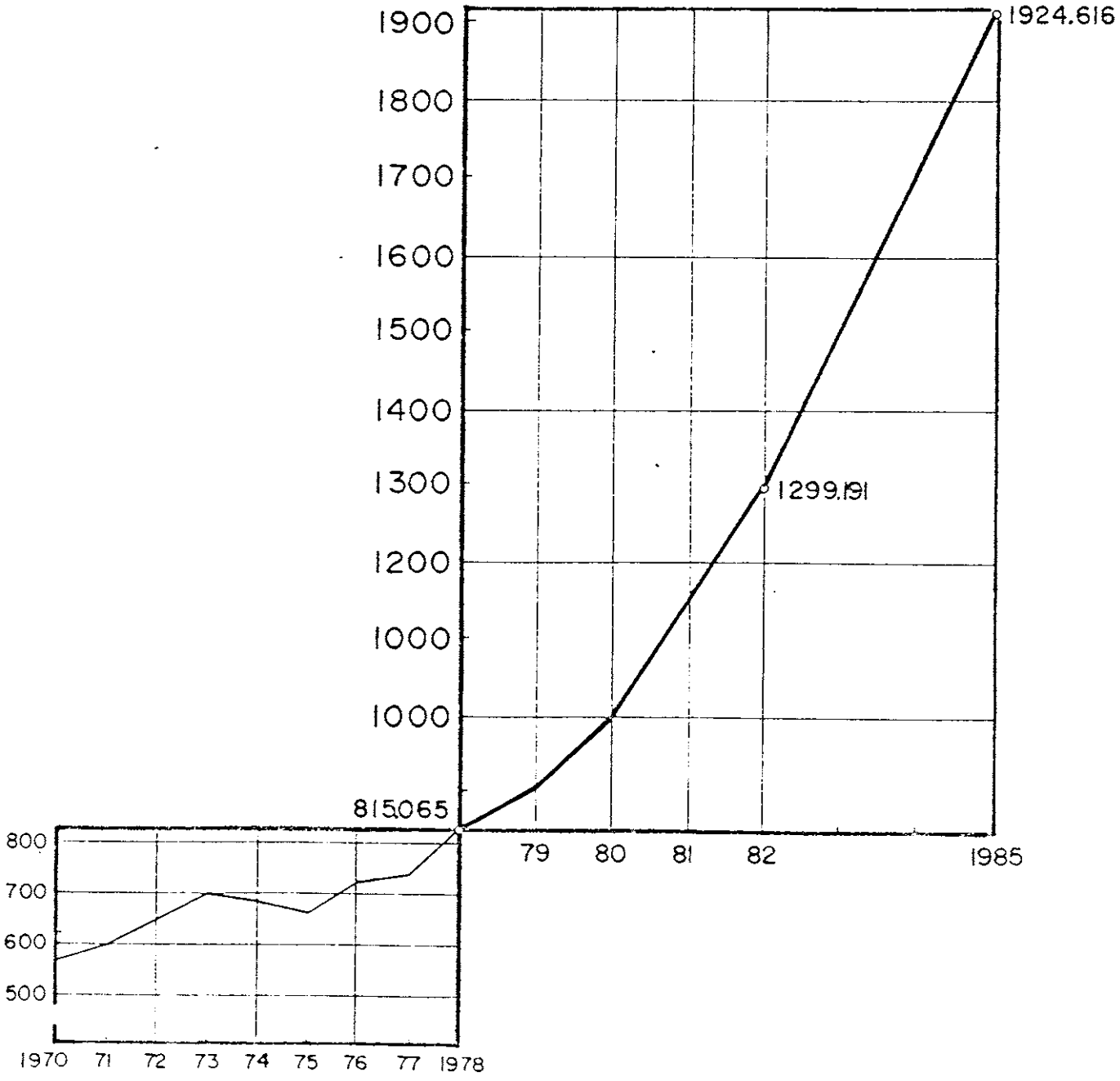
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[1] In 1980.

Figure 7.4

MEXICO: LABOR DEMAND (TOURIST SERVICES), PAST AND FUTURE[1]

(THOUSANDS OF EMPLOYEES)

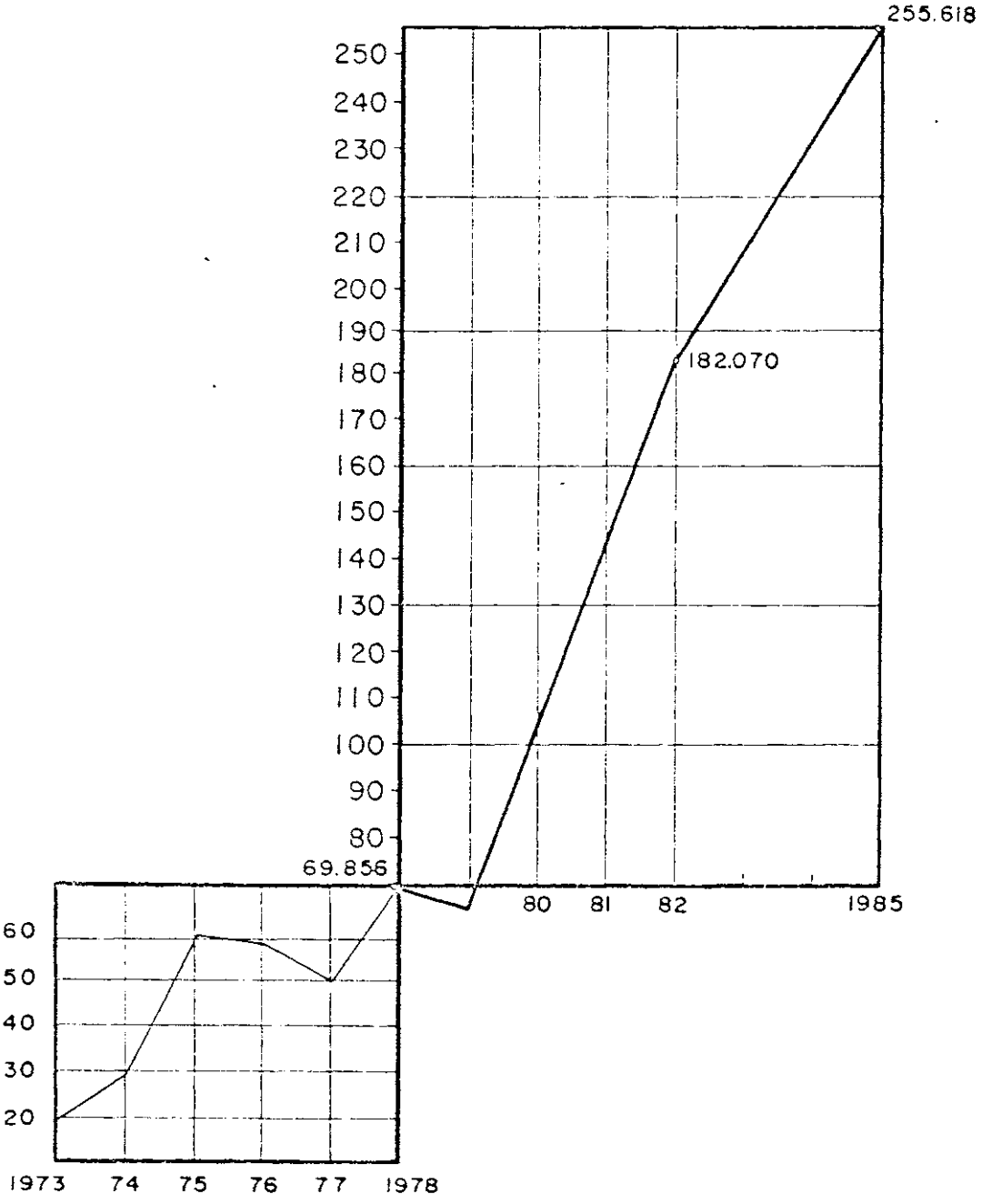


[1]As estimated in 1979.

Source: Secretariat of Tourism.

Figure 7.5

MEXICO: LABOR DEMAND (CONSTRUCTION FOR TOURISM), PAST AND FUTURE[1] (THOUSANDS OF EMPLOYEES)



[1] As estimated in 1979.

Source: Secretariat of Tourism.

few pages, through a number of maps and tables, the reader is provided with a general account of what the overall regional tourist projects should be during the next 20 years. Although many new government plans are still in the process of being assessed and approved, this author believes that the brief account set forth here should succeed in outlining a complex web of plans, projects and objectives.

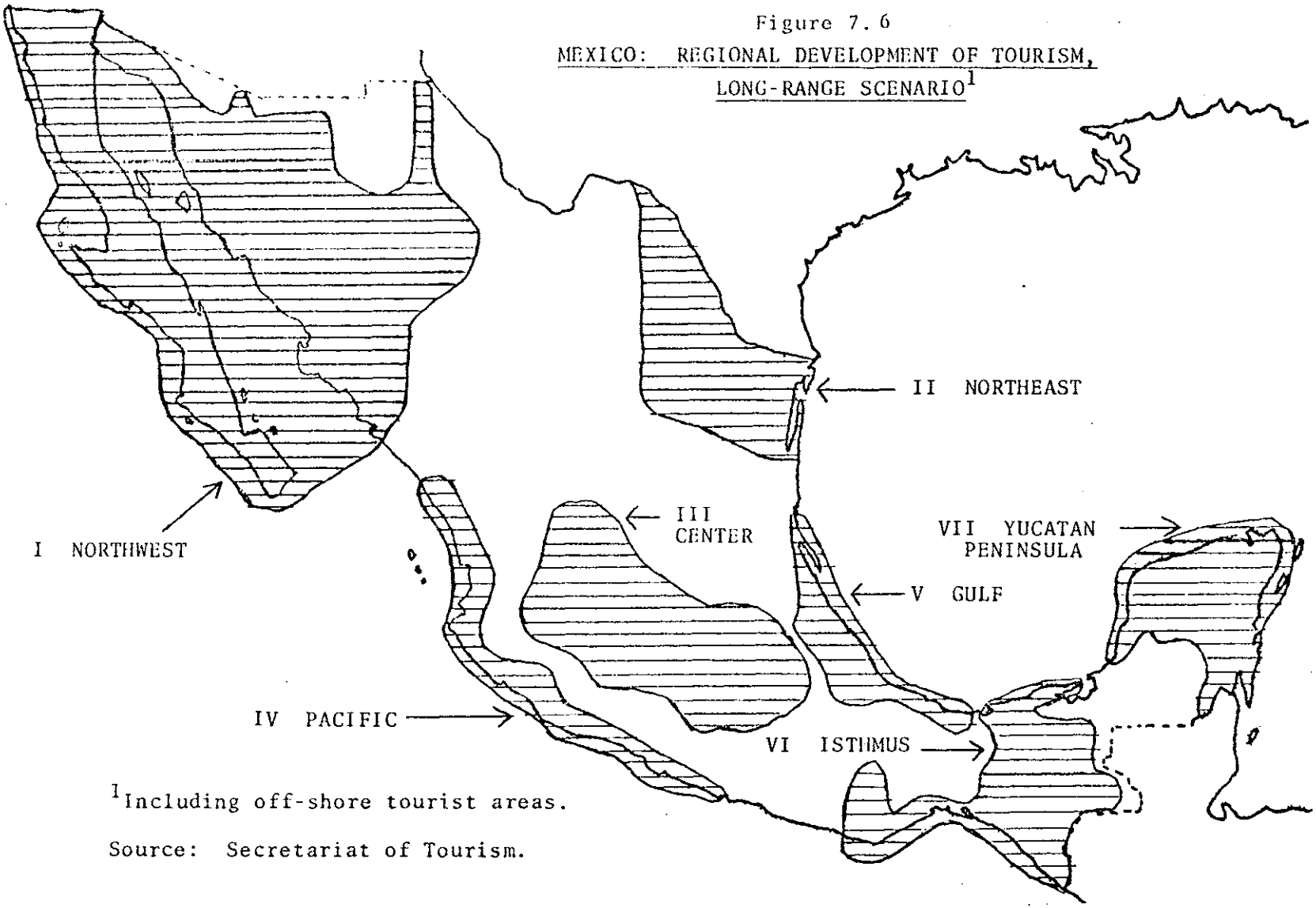
In Figure 7.6, seven "macrozones" of tourist development are presented. Before proceeding with a more detailed breakdown, it is important to first define what these large areas of development are. First, each of the zones is, from the point of view of tourism, an integrated area. This means that an integrated network of attractions may provide the visitor with a varied vacation and a more prolonged stay in the area under consideration. Take the Yucatan Peninsula, for example. There, a convenient combination of archaeological and recreational resorts provide an integrated tourist area. Second, from the point of view of both surface and air transportation, the establishment of macrozones such as the ones indicated by the map, help the planner to devise rational programs of expansion.

Not all seven macrozones are presently operating as such. Particularly, macrozones I, II, and VI are yet to be developed. Although not fully integrated yet, an important number of projects have been concluded in the past ten years in all these areas.

Figure 7.7 gives a much more detailed breakdown of the areas of tourism development identified by this

Figure 7.6

MEXICO: REGIONAL DEVELOPMENT OF TOURISM, LONG-RANGE SCENARIO[1]



[1]Including off-shore tourist areas.

Source: Secretariat of Tourism.

author in the government's plan of tourism. These more localized areas of development can be divided into two groups: 17 "zones" and 5 "corridors". There is no conceptual difference between one and the other. It is only geographical shape and size that define corridors (smaller size and often of "linear" shape) and zones. Approximately 80% of Mexico's tourist spots (according to a newly-completed "national tourist inventory") are included in these 22 areas.

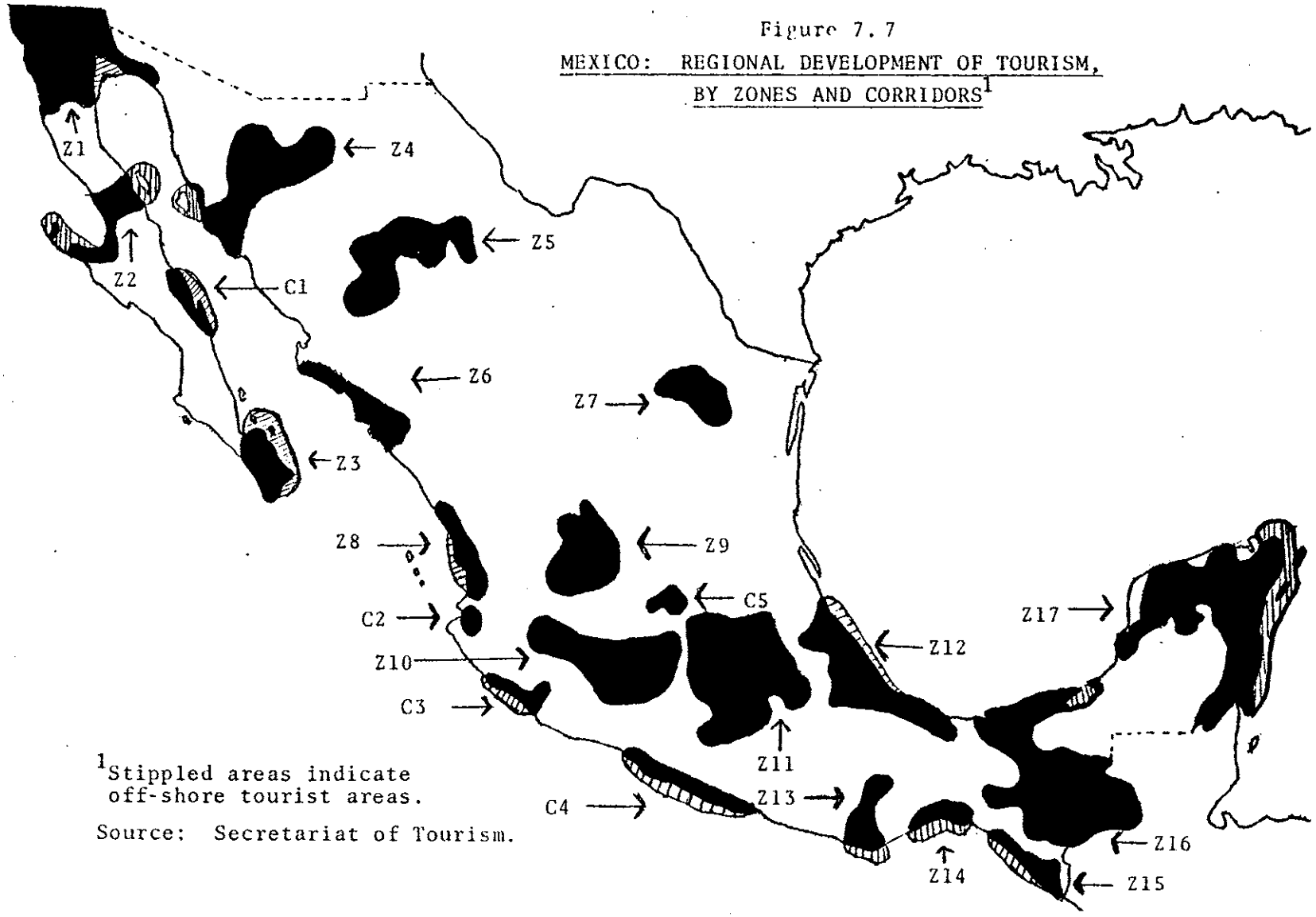
Practically all 22 areas are presently in different stages of development. Some of them (e.g., zones 11 and 17 and corridor 4) are already well-established tourist areas.

Tables 7.5 and 7.6 are introduced to give the reader a clear idea, in numerical terms, of the rate of growth and approximate present stage of development of the 22 areas of tourist development. Air transport negotiators have in these maps and tables material for substantial analysis and development of a diversity of bargaining options.

Table 7.7 offers yet another look at the question being discussed. Here the development priorities of the Mexican government are presented. Three levels of priority (I, II and III) provide a convenient framework on which the planner can rely if conflicting alternatives develop. In any case, the time horizon for the complete development of all 22 areas is approximately 20 years.

Figure 7.7

MEXICO: REGIONAL DEVELOPMENT OF TOURISM, BY ZONES AND CORRIDORS[1]



[1]Stippled areas indicate off-shore tourist areas.

Source: Secretariat of Tourism.

Table 7.5

MEXICO: TOURIST SHARE BY REGION (PERCENT)

Region		1978	1982
ZONES			
1	Tijuana-Gulf of California	4.24	3.28
2	Guerrero Negro-Bahia de Los Angeles	0.05	0.03
3	Los Cabos-La Paz	1.00	0.98
4	Center of Sonora	1.65	1.17
5	Chihuahua Mountain Ranges	1.80	1.48
6	Northern Sinaloa	1.44	1.40
7	Monterrey-Saltillo	2.96	2.74
8	Mazatlan-Tepic	4.61	5.36
9	Zacatecas-Aguascalientes	1.40	1.30
10	Jalisco-Michoacan	12.67	13.41
11	Central Plains	27.23	26.65
12	Veracruz-Northern Puebla	8.58	8.24
13	Oaxaca	1.72	1.72
14	Gulf of Tehuantepec	0.26	0.19
15	Tapachula	0.53	0.53
16	Chiapas-Tabasco	3.14	3.21
17	Caribbean-Maya	6.25	8.22
CORRIDORS			
1	Loreto-Nopolo	0.21	0.23
2	Puerto Vallarta-Guayabitos	1.79	2.06
3	Manzanillo-Chamela	1.67	2.11
4	Acapulco-Playa Azul	15.49	14.36
5	San Miguel de Allende-Guanajuato	1.31	1.33
	TOTAL	100.00	100.00

Source: Secretariat of Tourism

Table 7.6

MEXICO: HOTEL ROOM SUPPLY BY REGION

Region	1978	1982	Average Annual Growth 1978-1982 (%)
ZONES			
1 Tijuana-Gulf of California	11,898	12,802	1.8
2 Guerrero Negro-Bahia de Los Angeles	74	87	4.1
3 La Paz-Los Cabos	1,926	2,538	7.1
4 Center of Sonora	2,441	3,025	5.5
5 Chihuahua Mountain Ranges	3,109	3,833	5.4
6 Northern Sinaloa	2,304	3,630	12.0
7 Monterrey-Saltillo	6,166	7,142	3.7
8 Mazatlan-Tepic	6,858	12,431	16.0
9 Zacatecas-Aguascalientes	3,232	3,728	3.6
10 Jalisco-Michoacan	21,490	32,931	11.3
11 Central Plains	48,535	63,646	7.0
12 Veracruz-Northern Puebla	15,772	21,350	7.9
13 Oaxaca	2,947	4,533	11.4
14 Gulf of Tehuantepec	678	678	--
15 Tapachula	1,031	1,424	8.4
16 Chiapas-Tabasco	4,916	8,368	14.2
17 Caribbean-Maya	9,450	19,452	19.8
CORRIDORS			
1 Loreto-Nopolo	292	593	19.4
2 Puerto Vallarta-Guayabitos	3,040	4,612	11.0
3 Manzanillo-Chamela	3,764	5,643	10.7
4 Acapulco-Playa Azul	21,509	32,583	10.9
5 San Miguel de Allende-Guanajuato	1,924	2,976	11.5

Source: Secretariat of Tourism

Table 7.7

MEXICO: TOURISM DEVELOPMENT PRIORITIES[1]

Region		Infra-structure	Accommo-dations	Promo-tion
ZONES				
1	Tijuana-Gulf of California	I	II	II
2	Guerrero Negro-Bahia de Los Angeles	III	III	III
3	Los Cabos-La Paz	II	III	II
4	Center of Sonora	III	III	III
5	Chihuahua Mountain Ranges	I	III	III
6	Northern Sinaloa	III	II	III
7	Monterrey-Saltillo	II	II	II
8	Mazatlan-Tepic	II	I	I
9	Zacatecas-Aguascalientes	II	III	II
10	Jalisco-Michoacan	I	I	I
11	Central Plains	I	I	I
12	Veracruz-Northern Puebla	II	I	II
13	Oaxaca	II	II	II
14	Gulf of Tehuantepec	III	III	III
15	Tapachula	III	III	III
16	Chiapas-Tabasco	I	I	II
17	Caribbean-Maya	I	I	I
CORRIDORS				
1	Loreto-Nopolo	II	II	II
2	Puerto Vallarta-Guayabitos	I	I	I
3	Manzanillo-Chamela	I	I	I
4	Acapulco-Playa Azul	I	I	I
5	San Miguel de Allende-Guanajuato	II	II	II

[1]The Roman numerals indicate order of priority (from 1 to 3).

Source: Secretariat of Tourism.

Areas such as zones 10 and 11 are considered to be first priority in relation to all three types of activity (infrastructure, accommodations, and promotion) while, as seen in the table , zones 14 and 15, among others, have third priority in all activities.

7.3.2 Demand

Although the scenario of development introduced in the preceding pages is likely to take place, tourist demand[1], particularly the American, does not necessarily have to follow suit. The fluctuations of the past decade have shown how futile the experience of trying to predict long-run demand in the United States-Mexico market can be.

Therefore, instead of providing information that might be outdated tomorrow, let us examine a number of patterns of interest as well as concern.

Table 7.8 shows hotel rates prevailing in the spring of 1978 in selected cities of Mexico, the United States and Europe. It includes a few examples of large metropolitan areas as well as vacation resorts. The price differential between Mexico and its American and European counterparts is evident. At a time when one-fifth of all hotel rooms in Mexico City were priced below U.S. $15.00, Paris, Rome, Honolulu and New York had practically no rooms in that price range. On the other hand, while the Mexican cities of Guadalajara and Mazatlan had no rooms costing over U.S. $41.00, 60.5% of all hotel rooms in Paris and 70.9% of all hotel rooms in New York had rates above that amount.

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[1] Section 7.2 contains the essential figures of tourist demand up to 1980.

Table 7.8

DISTRIBUTION OF HOTEL ROOMS BY RATE:
SELECTED CITIES IN MEXICO, THE UNITED STATES AND EUROPE
(DOUBLE ROOM RATES, SPRING 1978)

Rate (Dollars)	Percent of Total Hotel Rooms in the City								
	Mexico					United States and Europe			
	Mexico City	Acapulco	Cozumel	Guadalajara	Mazatlan	Paris	Rome	Honolulu	New York
$4-15	18.8	2.9	--	27.1	18.1	--	4.5	1.2	--
$16-25	36.6	18.7	10.6	44.5	45.1	8.0	19.2	8.1	7.9
$26-40	25.3	41.1	52.2	28.4	36.8	31.5	28.5	55.1	21.2
$41 or more	19.3	37.3	37.2	--	--	60.5	47.8	35.6	70.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Lisker-Melman (1979).

Besides, as Table 7.9 indicates, the *real* yield of air transportation between New York and Mexico City[1] had been almost continuously decreasing since 1967. Likewise, the average *real* trip expense of foreign travelers in Mexico had also been descending for many years.

The price differential just described and the decreasing real total cost of traveling to Mexico expanded the demand and incoming American tourism to Mexico boomed for several years. Figure 7.8 illustrates an almost-constant trend toward lower prices in the United States-Mexico market between 1970 and 1977. With the exception of 1973 and 1974, the direction of the curve portrayed in Figure 7.8 pointed toward the left-lower angle of the figure (i.e., decreasing air fares as well as land prices). At the same time, as shown by Figure 7.9, the total trip cost for an American traveling to Europe was rapidly increasing. U.S. resident travel to Europe was being discouraged by a weak dollar and high inflation in Europe.

As a result of this, large numbers of Americans turned their attention towards the south and a significant amount of travelers diverted from Europe to Mexico. At the time, two additional circumstances in Mexico contributed to attract larger amounts of U.S. travelers. First, until 1975, while the peso was overvalued, inflation in Mexico was somewhat controlled (see Chapters 3 and 5). After 1975 inflation accelerated; however, the peso was devalued (in relation to the dollar) to such an extent

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[1]Which is a good representation of a "typical" United States-Mexico market. See Lisker-Melman (1978).

Table 7.9

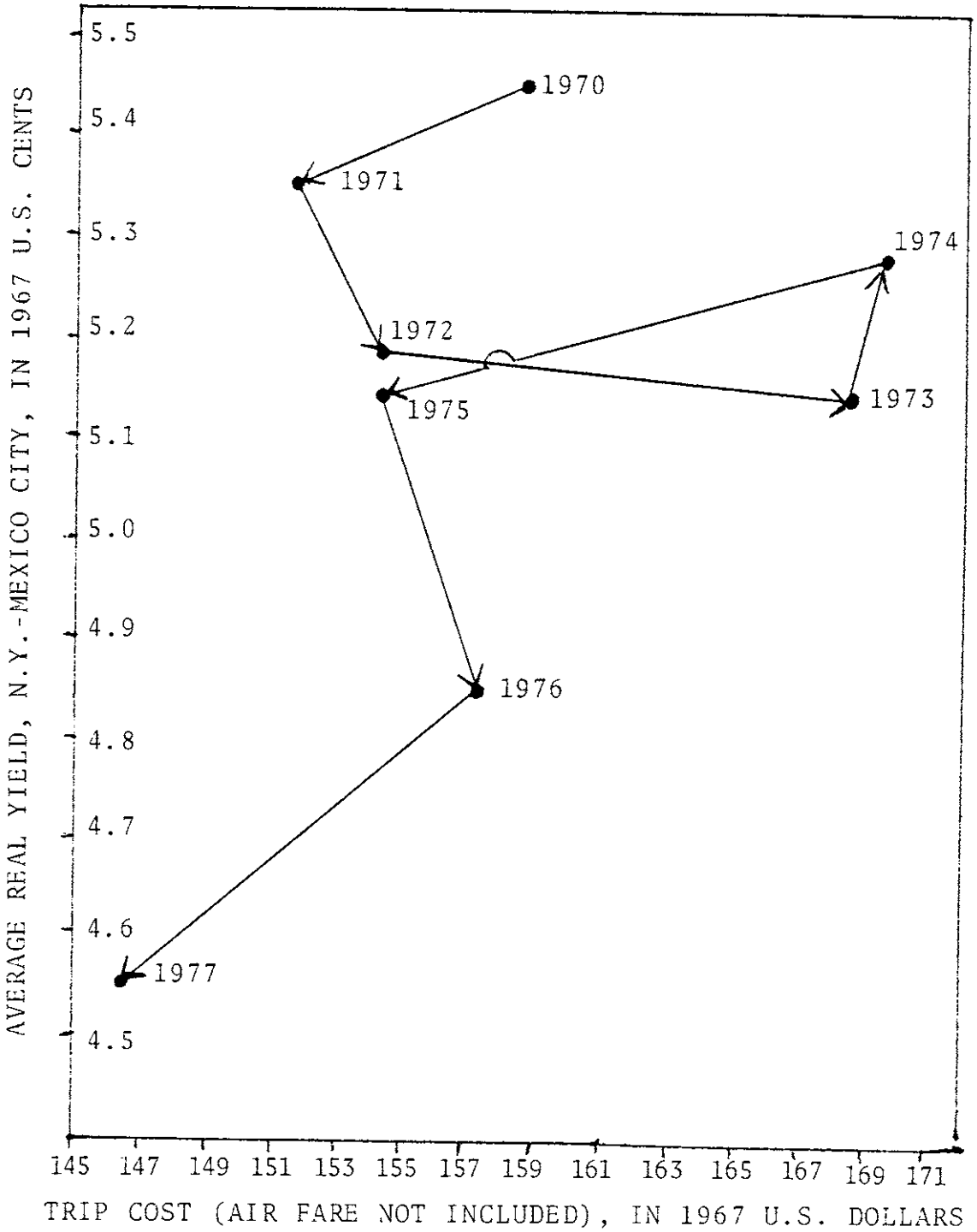
TOTAL EXPENSE FOR AVERAGE AMERICAN TRAVELER IN MEXICO

Year	Mexico City-New York Real Yield in U.S. Cents (1967 Dollars)	Total Expense of Average Foreign Traveler in Mexico (1967 Dollars)
1970	5.46	158.60
1971	5.36	151.45
1972	5.19	154.06
1973	5.16	168.64
1974	5.29	169.55
1975	5.14	154.24
1976	4.86	157.21
1977	4.57	146.75

Source: Lisker-Melman (1979).

Figure 7.8

MEXICO-UNITED STATES MARKET: FARE AND TRIP COST[1]

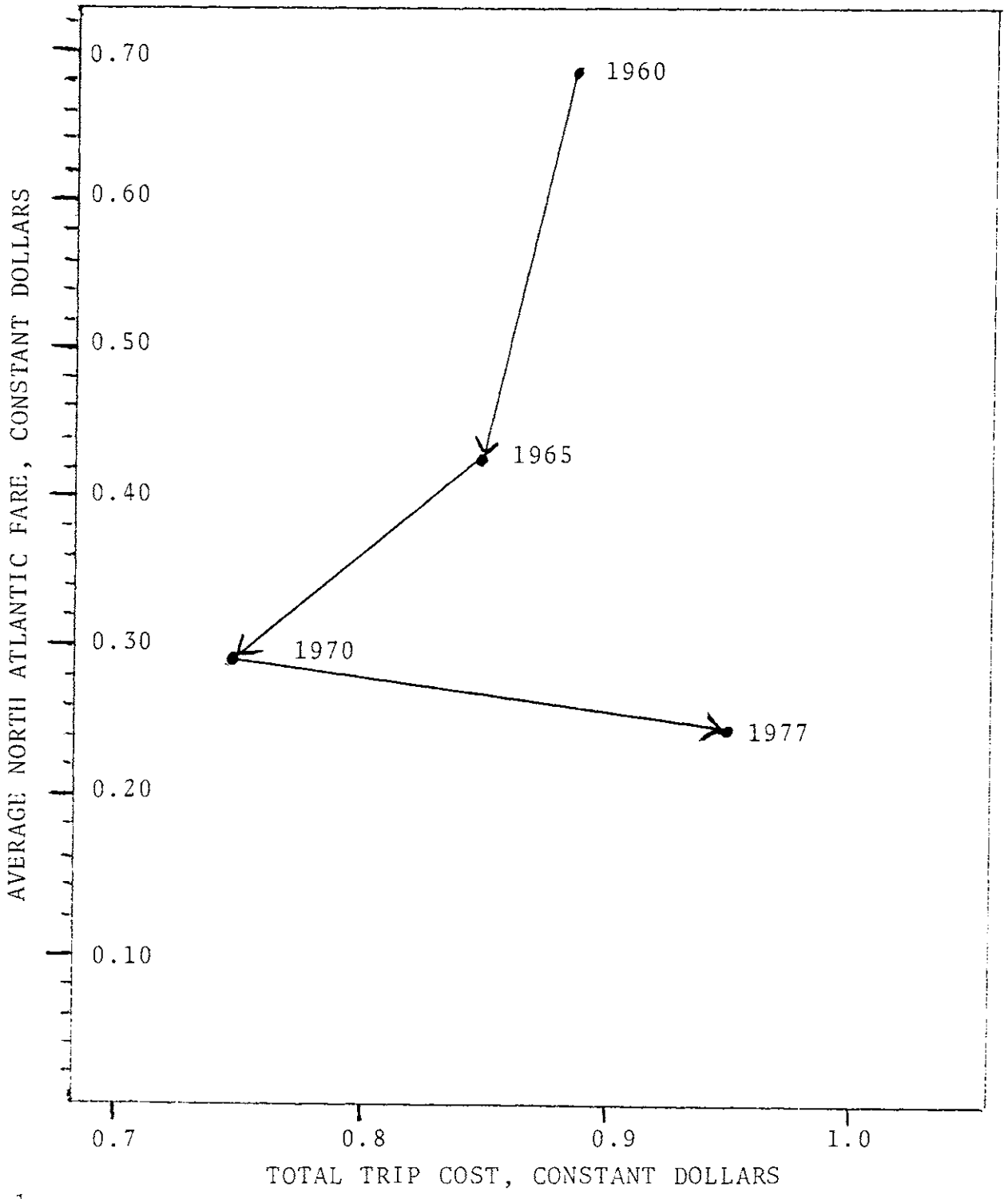


[1]Consult Table 7.9.

Source: Lisker-Melman (1979).

Figure 7.9

UNITED STATES-EUROPE MARKET: FARE AND TRIP COST[1]



[1]In both axes, year 1951 = 1.0

Source: Lisker-Melman (1979).

that a number of economists deemed the peso undervalued.

One way or the other, this state of affairs favored incoming American tourism to Mexico.

The above described situation has rapidly reversed since the last months of 1979 and there are pervasive signals that this is starting to affect the market very strongly.

Since the end of 1979 two economic phenomena have characterized the Mexican economic scene (in relation to this discussion): 1) inflation has reached levels practically never seen before (a nearly 30% annual rate) and the dollar-peso exchange rate has remained almost unchanged[1]; 2) oil revenues have triggered increased federal spending (i.e., promoting inflation) and at the same time, have kept the peso strong.

The net result has been an increasingly more-expensive Mexico in relation to the United States. Lately, the Mexican government has let the value of the peso drop. However, its present decline (a 12% annual drop vis-à-vis the dollar) cannot compensate for an inflation differential between the two countries of around 18 percentage points. The Mexican government has to allow, in the opinion of this author, an annual decline of 22% to 25% in the value of the peso. Otherwise, Mexico will lose competitiveness (sharply) within two years (by 1983).

The political risks involved in doing so, however,

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[1]Meanwhile, the dollar is becoming stronger again in Europe.

might prove too high for the López Portillo administration, which leaves office in December of 1982. When the previous administration devalued the peso in 1976 (only three months before leaving office) there was an unprecedented flight of capital from Mexico.

Tables 7.10, 7.11 and 7.12 show the U.S.-Mexico price differential as of February 1981.

How has the market been affected?

Conceding that the recession in the United States could be an important factor in contracting the market, nevertheless, high prices in Mexico are certainly adversely affecting American travel to Mexico. On the other hand, Mexicans are traveling more often than ever when their economy is not completely healthy because inflation has increased their disposable income while semi-fixed exchange rates have provided them with more dollars.

The decreased amount of American tourism to Mexico in 1980 has lowered the average room occupancy factor in all major resorts in Mexico, and conventions[1] have decreased.

While there is debate in Mexico on *how much* U.S. travel has decreased, this author has calculated, using U.S. sources, a few very revealing figures on the latest

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[1] "Convention tourism" is an important factor in attracting American travel to Mexico. In December of 1980 the U.S. Congress passed a law to allow Americans traveling to conventions in Mexico to deduct expenses just as they do when traveling within the United States.

Table 7.10

BASKET OF UNITED STATES TOURIST SERVICES: FOOD AND DRINK PRICES IN U.S. DOLLARS

(FEBRUARY 1981)

Place	Breakfast		Helping of			Sand-wich	Slice of cake	Soft drink	Glass of beer	Cup of coffee	Glass of wine
	Cont'l	Ameri-can	beef	chicken	pork						
Arizona (Phoenix)	2.25	4.50	12.00	9.00	9.00	3.50	1.75	0.60	1.35	0.80	1.20
California	4.16	6.00	13.58	11.13	9.30	3.57	1.63	0.69	1.45	0.70	1.52
Colorado	3.10	5.25	18.00	13.83	12.75	3.33	1.68	1.03	1.22	0.77	1.58
Florida	2.75	4.25	14.00	10.50	10.50	3.15	2.15	0.53	1.55	0.68	1.38
Hawaii	3.96	6.29	14.40	12.62	11.45	5.08	2.12	1.22	2.35	1.03	2.33
Illinois	2.50	4.50	14.00	12.50	10.75	3.75	2.25	0.70	1.40	0.80	1.20
Nevada	2.50	4.50	18.00	12.00	12.00	3.50	1.65	0.60	1.30	0.60	1.45
New York	4.85	6.55	14.57	18.98	12.58	6.07	3.13	1.30	2.63	1.13	3.00
Pennsylvania	3.00	5.75	16.00	13.50	11.75	3.25	1.55	0.70	1.25	0.75	1.20
Texas	3.31	5.31	15.63	10.13	10.38	2.58	2.92	0.83	1.75	0.72	1.50
Washington,DC	3.50	5.00	13.00	8.00	7.00	2.90	1.15	0.35	1.25	0.40	1.50
General average	3.50	5.50	14.85	12.25	10.75	3.60	2.05	0.80	1.60	0.75	1.50

Source: Banco Nacional de México.

Table 7.11

BASKET OF MEXICAN TOURIST SERVICES: FOOD AND DRINK PRICES IN U.S. DOLLARS

(FEBRUARY 1981)

Place	Breakfast		Helping of			Sandwich	Slice of cake	Soft drink	Glass of beer	Cup of coffee	Glass of wine
	Cont'l	American	beef	chicken	pork						
Acapulco	4.18	6.74	9.44	7.21	8.07	4.89	1.92	1.06	1.45	0.88	2.09
Cancun	3.71	5.90	13.25	8.28	8.15	4.13	2.11	1.08	1.67	0.98	2.06
Mexico City	3.68	5.66	11.07	8.00	8.25	3.44	1.90	0.88	1.30	0.81	1.79
Guadalajara	3.33	5.09	12.59	8.79	8.35	3.04	1.69	0.83	1.20	0.68	1.40
Ixtapa	3.88	6.79	10.00	12.00	12.00	3.50	1.95	0.90	1.20	0.80	1.30
Mazatlan	3.55	6.60	11.60	9.50	9.15	3.20	1.95	0.90	1.35	0.85	1.65
Merida	2.40	4.45	8.01	6.74	6.40	2.31	3.11	0.65	1.16	0.60	1.79
Monterrey	3.50	5.80	10.40	10.00	10.00	3.00	1.80	0.85	0.95	0.75	1.25
Puerta Vallarta	3.65	5.92	11.02	7.56	8.88	4.11	1.89	0.95	1.96	0.94	2.20
General Average	3.60	5.90	11.15	8.25	8.50	3.65	2.00	0.90	1.35	0.85	1.85

Source: Banco Nacional de México.

Table 7.12

BASKET OF TOURIST SERVICES:
MEXICO-UNITED STATES PERCENT DIFFERENTIAL
(AVERAGE PRICES IN U.S. DOLLARS, FEBRUARY 1981)

	Mexico	U.S.A.	Relative Percent Differential U.S.A./Mexico
Deluxe hotel[1] per night	117.00	97.00	-17.1
First-class hotel[1] per night	59.00	48.00	-18.6
Food[2]	43.05	52.50	+22.0
Bottled soft drink	0.90	0.80	-11.1
Cup of coffee	0.85	0.75	-11.8
Alcoholic beverages[3]	16.55	13.85	-16.13
Compact car rental per day	26.35	26.70	+1.3
Additional mile	0.24	0.20	-16.7

[1]Double occupancy

[2]Includes continental and American breakfast; helping of beef chicken, and pork; sandwich; and slice of cake.

[3]Includes glass of beer; glass of wine; shot of whisky; shot of brandy; shot of gin; and shot of vodka.

Source: Banco Nacional de México.

trends. These indicate that in 1978, 47.8% of all air passengers traveling (round trip) the route Los Angeles-Mexico City were U.S. residents. The 1979 figure was 44.2% and in 1980 only 37.6%. Overall, fewer Americans traveled that route in 1980 than in 1978! The Los Angeles-Guadalajara market[1] showed similar results: 61.8% U.S. residents traveling the route in 1978, 59.4% in 1979 and 55.6% in 1978.

Let us recall that these are the first and third most important United States-Mexico air passenger markets. Thus, it is clear that the acute air passenger increases calculated in Chapter 5 (see Table 5.7) are essentially due to increased outgoing Mexican travel.

The United States-Mexico tourist market is an old, strong, viable market. This author believes that the present turbulence will prove to be transitory. Yet, it is necessary to understand that Mexico is in a time of economic transition. The period 1981-1982 might, in the end, set the patterns to be seen throughout the 1980's.

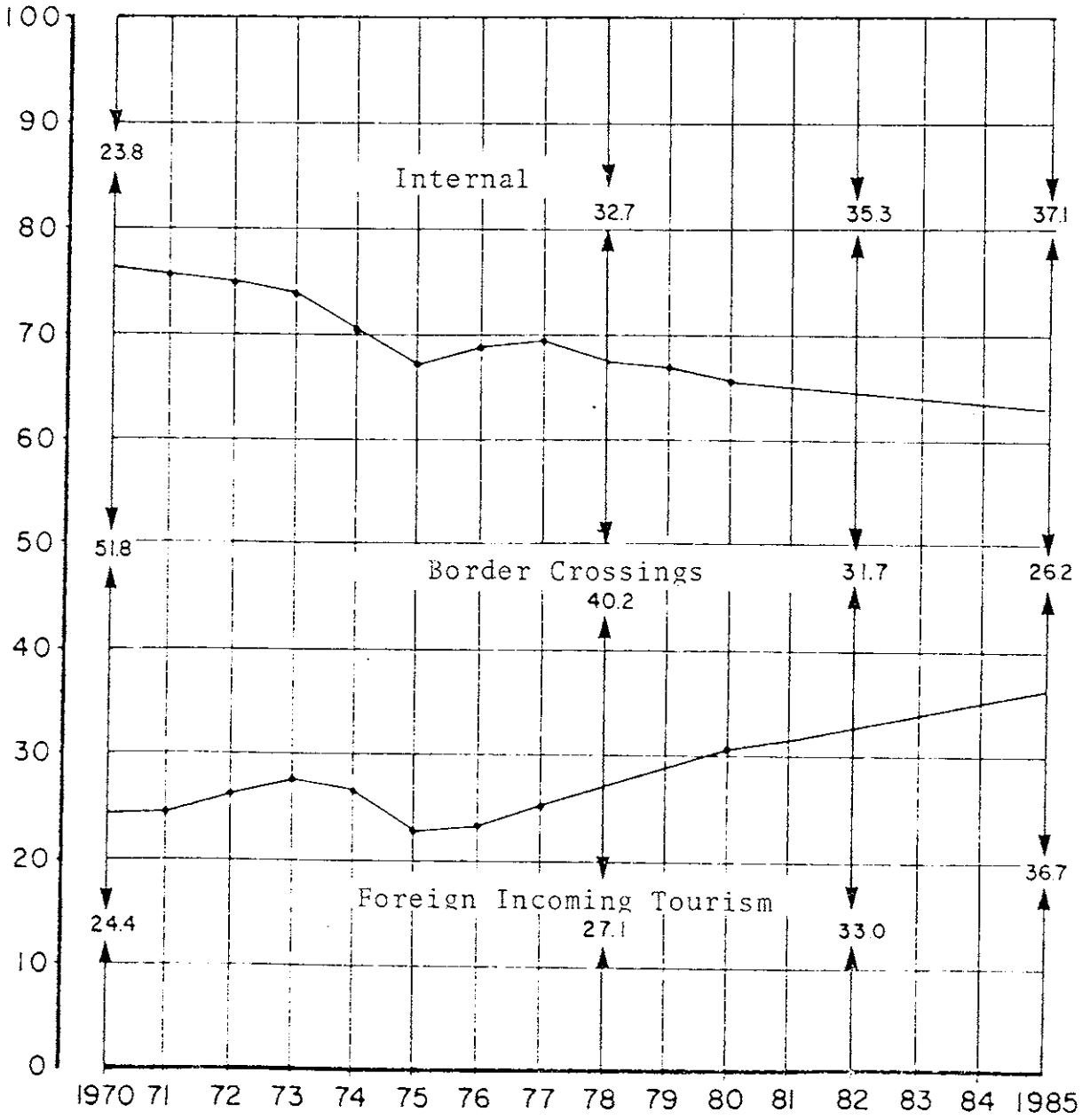
Figures 7.10 and 7.11, although not conforming with precision to the Mexican government's objectives

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[1] It would be meaningless to evaluate routes where the traveler mix always favors the American traveler (e.g., Miami-Cancun).

Figure 7.10

TOURISM IN MEXICO: INTERNAL, BORDER CROSSINGS AND INTERNATIONAL, PAST AND FUTURE[1] (PERCENT)

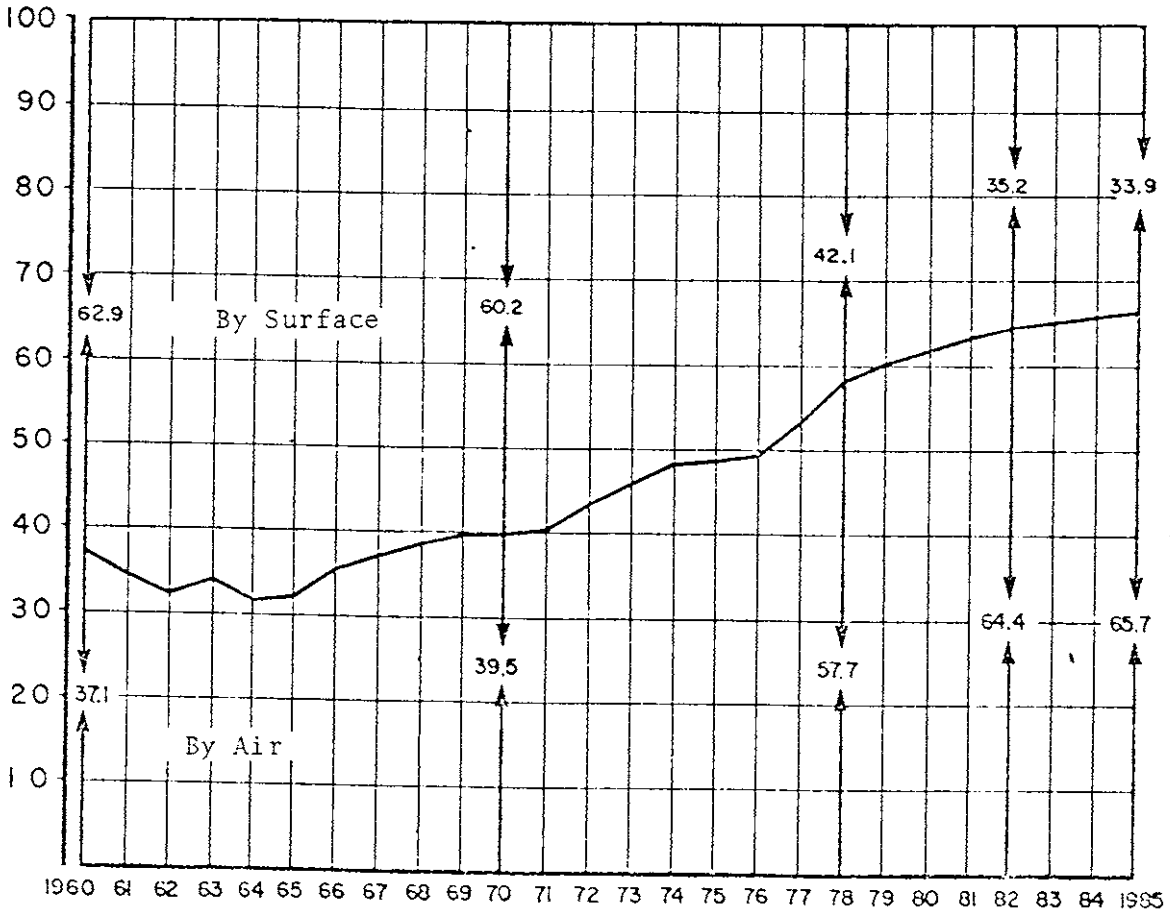


[1] As estimated in 1979.

Source: Secretariat of Tourism.

Figure 7.11

FOREIGN TOURISM TO MEXICO BY MEANS OF TRANSPORTATION, PAST AND FUTURE[1] (PERCENT)



[1] As estimated in 1979.

Source: Secretariat of Tourism.

described in Section 7.2, show, percentwise, what some of those patterns will probably be if present trends continue.

7.4 Tourism: Commercialization and Financial Framework

On December 8, 1961, the Mexican government created the National Council of Tourism (CONATUR), an agency in charge of promoting international tourism to Mexico. This entity operates within the government breakdown as a "decentralized agency" (see Section 2.4) which means, among other things, that the agency is assigned a separate budget of its own. In addition, CONATUR is integrated into the "tourist sector" (see Sections 2.4 and 7.2) and as such, it is coordinated at the top by the Secretary of Tourism. Internally, the highest official in this agency is its president. This official has the status of Ambassador whenever he is on international business. This confers upon him important powers that he would otherwise lack.

The agency is in charge of organizing all sorts of promotional and advertising campaigns all over the world, as well as promoting Mexican cultural and sport events. It functions through 30 offices throughout the world: 15 in the United States, 3 in Canada, 2 in Latin America, 8 in Europe, one in Australia and one in Japan. In addition, 10 more tourist information centers function in Asia, Europe and the Americas.

It is beyond the scope of this study to analyze the operation and accomplishments of CONATUR. However,

it should be mentioned that the agency has been and continues to be instrumental in the tourist development plans of the Mexican government. It is yet another form through which Mexico seeks to act independently from external forces.

The main financial arm of the Mexican government in its tourist development effort is the National Fund for the Promotion of Tourism (FONATUR), a trust fund considered to be part of the "tourist sector".

The agency was created in January of 1974 as the result of a merger of two tourism trust funds that had operated for many years. The highest official is a Director General who reports, as in the case of CONATUR, to the Secretary of Tourism.

The agency has great discretionary power in the decisions it makes and it is not easy to define with complete precision some of its internal decision-making mechanisms. However, some of its main objectives can be described as follows:

1. To buy, develop, commercialize and administer tourist projects, including the development of new resorts.

2. To serve as credit guarantor of private citizens and corporations soliciting loans from commercial banks in order to build or remodel tourist projects (essentially hotels).

3. To participate in private tourism ventures with up to 33% of the initial investment.

4. To award low-interest credit to financial institutions which use it (in conjunction with additional credit) in tourism-loan programs.

FONATUR and its predecessors have been the main financial force behind the tourist infrastructure growth of Mexico during the past ten years and its operations are presently being expanded (along with its budget), acquiring even more importance than in the past.

Table 7.13 shows the increasing financial support that the government is giving to the tourist industry (the figures only indicate direct credit).

Table 7.14 shows a breakdown, by state, of the credit awarded to the industry in 1979. In that year, 188 projects were approved in 97 cities throughout 29 states. Note that while FONATUR awarded 3.3 billion pesos to the hotel industry in 1979, private enterprises almost doubled that figure (6.1 billion pesos) through other loans or private investment. It is important to recall that these figures relate exclusively to hotel construction credits.

Preliminary figures obtained in January of 1980 (at FONATUR) indicate a sharp hike from the 1979 allocations. According to these, in 1980, credit reached almost 6.7 billion pesos while "additional investment" (to use the same headings as Table 7.14) was estimated at

Table 7.13

MEXICAN GOVERNMENT CREDIT TO HOTEL INDUSTRY

(1957-1979)

Year	Credit (Millions of Pesos)	Credit as a Percent of 23-Year Total	Cumulative Credit (Millions of Pesos)
1957	1.2	0.01	1.2
1958	11.5	0.01	12.7
1959	6.3	0.05	19.0
1960	6.4	0.05	25.4
1961	34.6	0.29	60.0
1962	91.6	0.77	151.6
1963	26.2	0.22	177.8
1964	83.7	0.70	261.5
1965	22.9	0.19	284.4
1966	23.1	0.19	307.5
1967	45.9	0.38	353.4
1968	73.1	0.61	426.5
1969	41.5	0.35	468.0
1970	28.4	0.24	496.4
1971	41.6	0.35	538.0
1972	31.3	0.26	569.3
1973	378.7	3.17	948.0
1974	1,119.9	9.40	2,067.9
1975	967.8	8.11	3,035.7
1976	1,119.1	9.37	4,154.8
1977	1,309.4	11.00	5,464.2
1978	3,085.1	25.85	8,549.3
1979	3,382.2	28.34	11,931.5
TOTAL	11,931.5	100.0	

Source: Fondo Nacional de Fomento al Turismo.

Table 7.14

MEXICAN GOVERNMENT CREDIT TO HOTEL INDUSTRY BY STATE (1979)

State	Credit (Thousands of Pesos)	Percent of Total	Additional Investment (Thousands of Pesos)	Percent of Total	Number of Rooms Financed	
Jalisco	912,270.0	27.0	1,615,820.0	26.1	2,069+	69[1]
Guerrero	433,700.0	12.8	828,229.8	13.4	1,077+	447[1]
Quintana Roo	428,450.0	12.7	744,054.1	12.0	854	
Federal District	313,000.0	9.3	516,611.1	8.3	655	
Veracruz	212,326.0	6.3	402,965.8	6.5	794	
Colima	150,700.0	4.5	303,890.0	4.9	532	
Yucatan	111,500.0	3.3	199,384.3	3.2	232+	263[1]
Chiapas	103,640.0	3.1	204,473.0	3.3	425+	57[1]
Tamaulipas	82,468.3	2.4	129,984.1	2.1	299+	165[1]
Morelos	58,600.0	1.7	131,409.3	2.1	253+	27[1]
Sinaloa	58,410.8	1.7	90,374.9	1.5	205+	53[1]
Michoacan	57,680.0	1.7	157,648.4	2.5	318	
Durango	52,000.0	1.5	89,238.0	1.4	154+	86[1]
Tabasco	47,250.0	1.4	88,044.2	1.4	255	
Mexico	42,475.0	1.3	74,483.9	1.2	121+	68[1]
Guanajuato	73,000.0	2.2	121,972.3	2.0	303+	24[1]
Northern Baja California	37,150.0	1.1	55,515.2	0.8	114+	15[1]
Sonora	36,000.0	1.1	51,766.5	0.8	168	
Queretaro	33,000.0	1.0	78,991.5	1.3	210	
Zacatecas	30,550.0	0.9	67,506.0	1.1	151+	14[1]
Oaxaca	27,500.0	0.8	66,675.1	1.1	123	
San Luis Potosi	18,000.0	0.5	21,841.3	0.4	40	
Coahuila	17,730.0	0.5	52,826.1	0.9	142	
Chihuahua	17,117.0	0.5	35,513.7	0.6	131	
Nuevo Leon	11,650.0	0.3	28,704.1	0.5	89+	29[1]
Aguas-calientes	5,000.0	0.1	12,637.4	0.2	--	
Southern Baja California	4,000.0	0.1	12,883.2	0.2	14	
Campeche	4,000.0	0.1	5,118.4	0.1	8+	19[1]
Puebla	3,000.0	0.1	4,139.7	0.1	17	
TOTAL	3,382,167.1	100.0	6,192,701.4	100.0	9,753+	1,336[1]

[1]Rooms remodeled.

Source: Fondo Nacional de Fomento al Turismo.

13.1 billion pesos. These credits financed the construction of 13,500 new hotel rooms (more than 5% of the nation's total hotel room supply) and the remodeling of 1,500.

There is no doubt that the most outstanding accomplishment of FONATUR has been its program of development of new tourist centers in Mexico. Almost since its creation, FONATUR concentrated its efforts on a very comprehensive feasibility study to determine possible locations for new tourist spots in Mexico. As a result of that study, several locations were selected and a vast program of infrastructure development was initiated in several places in Mexico. It is important to clarify that this was a coordinated effort in which several secretariats participated and the huge investment that was required did not come exclusively from FONATUR.

Most of these projects are genuine cases of developments built from the ground up in previously-deserted locations. Their success, in general, has been impressive. This in turn has encouraged private investors (Mexican and foreign) to cooperate with the government on new projects.

The most significant achievements are the developments of Cancun, Ixtapa[1], and San Jose del Cabo (see map, Figure 5.1).

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[1]Also known as Ixtapa-Zihuatanejo because the second city is the nearest town to the newly-developed area of Ixtapa.

Cancun, an island[1] in the Mexican Caribbean Sea, was totally desolate before work began. Within a few years (before the Mexican oil boom) an international airport was built, a highway was constructed linking Cancun to nearby Maya ruins, and the basic infrastructure was set up (including roads, electricity, telephone and even a small town, separated from the tourist area, where the hotel employees live; schools, supermarkets, and all basic services were provided). The project was meticulously planned: not only were errors of the past taken into account, but an entire social approach was considered in relation to the needs of the prospective workers and employees.

The statistics speak for themselves. In January of 1975, Cancun had 303 hotel rooms; in December of 1980, the resort already had nearly 4,000 rooms (and continued growing). In 1975, total visitors numbered about 99,500 while in 1980 they totaled almost 500,000 (of which half were foreign tourists, mostly Americans). In addition to this, FONATUR has urbanized an entire area and is selling land for the construction of condominiums and private vacation homes. Cancun is, in sum, an outstanding case of careful and successful planning where *business* and *social* approaches have been conveniently combined.

Ixtapa, on the Pacific coast, and San Jose del Cabo, on the southern tip of Baja California, have been developed on the same model and their success is also

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[1] Joined to the mainland by a land bridge.

evident. Ixtapa, for example, recorded 265 hotel rooms in January of 1975 and 2,250 visitors during the entire year. In 1980, the resort had almost 1,800 hotel rooms and over 200,000 visitors.

The developments are planned to expand for not less than 25 years. Every road, house, restaurant, and in general any new facility that is to be built in these areas, has to fit within master plans of development.

Presently, new projects are under way in the following locations: Loreto, on the Baja California Peninsula; Puerto Escondido (Oaxaca), on the Pacific coast (about 261 km. from the capital city of Oaxaca and 402 km. from Acapulco); and (still in the planning stage) Puerto Escondido, on the Baja California peninsula.

These projects satisfy most of the government's objectives, described in Section 7.2. Among them, perhaps the most important ones are a massive creation of new jobs, decentralization of the economy, diversification of tourism and a better distribution of the national income.

The Mexican government has been since 1979 actively engaged in a program to promote private investment in all 22 areas[1] of tourist development described in the preceding section. This is being accomplished, primarily, through tax incentives, some of which are very generous. It is still too early to assess the results of this program.

. . . . . .

[1]And a number of other locations.

Chapter 6 deals with the negotiating strategy and underlying principles of Mexico's air transport bilateral agreements. On the other hand, this chapter (7) is the result of a search to understand the basic philosophy that the Mexican government has followed in the process of developing a stronger tourist industry.

For the first time in Mexico, air transport negotiators and tourism authorities are working in coordination. Thus, it is important to understand the relationship between the two before engaging in study of the United States-Mexico air transport bilateral agreement dealt with in Chapter 8.

The Mexican tourist development program has often appeared confused and inconsistent to the outsider, particularly in relation to its objectives and its specific aims (i.e., particular plans of regional development). It is hoped that this chapter has clarified the subject matter.

CHAPTER VIII
MEXICO-UNITED STATES AIR TRANSPORT BILATERAL AGREEMENTS: PAST, PRESENT AND FUTURE

"Services to Canada, Mexico and the United States should be extensions of the domestic route system"

Gerald Ford, International Air Transport Policy of the United States (1976)

8.1 Introduction

An analysis of the Mexico-United States air transport bilateral agreement is introduced in this chapter. Earlier bilateral agreements and the overall negotiating process that led to the current agreement are examined. Lost opportunities and past controversies are analyzed in the light of present trends, so valid conclusions can be drawn and the present can be seen using knowledge gained from the past.

Never before have air transport delegations had to be as skillful as today. A tense negotiating atmosphere, promoted by the liberalizing air policies of the United States and the rigid conservatism of other countries, requires skill on the part of negotiators.

Air transport bilateral negotiation is an art. Perhaps it is precisely for that reason that there is practically no literature on this interesting subject. For the same reason, a good understanding of past policies and attitudes is more important here than in other areas.

This chapter is the result of months of research at government offices in Mexico and the United States. An extensive collection of minutes of negotiations that have taken place in the past 15 years as well as other documents were obtained. These served as valuable guidelines in understanding the negotiating process.

The reader is referred to Chapters 4, 6 and 7, where Mexico's air transport law, policies and tourism infrastructure are analyzed, respectively. The reading of this chapter should be preceded by that of the above-mentioned chapters.

Section 8.2 gives an overview of the air transport bilateral relationship of Mexico with other countries and analyzes the earlier agreements and negotiations with the United States (1960-1977). Section 8.3 examines the negotiation of the current Mexico-United States bilateral agreement. Finally, Section 8.4 discusses the impact of the current bilateral agreement and sets up a general conceptual framework upon which future negotiations might possibly be based.

By providing an impartial analysis of the issues facing both sides, it is hoped that this chapter will promote a better understanding between both parties.

8.2 Mexican Bilateral Agreements: General Pattern and Early U.S. Relationship

Mexico has always firmly believed that air transport bilateral agreements are a logical way to assure an equitable and fair exchange of air traffic rights among nations all over the world. It negotiated and signed its first bilateral agreement with Portugal in 1948 and since then many more have been made.

Presently, 22 nations have air transport bilateral agreements with Mexico. These countries are the following:

Argentina	Germany	Philippines[2]
Belgium	Israel[2]	Portugal[2]
Brazil	Italy[2]	Spain
Canada	Jamaica[3]	Switzerland[2]
Colombia	Japan	U.S.A.
Costa Rica	Netherlands	U.S.S.R.
Cuba	Panama	Venezuela
France[1]		

As shown in the footnotes, five of these agreements are not being utilized at the present time. One agreement (Jamaica) is being utilized by a third country.

In addition, Mexico has awarded seven unilateral permits to the following carriers:

Aeroperú (Peru)	Lanica (Nicaragua)
Aviateca (Guatemala)	Taca (El Salvador)
British Airways (United Kingdom)	Tan (Honduras)
Ecuatoriana (Ecuador)	

Every permit is being utilized at the present time.

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[1]Air France uses certain concessions not contained in the agreement.

[2]Agreements not being utilized at the present time.

[3]Agreement in effect and operated by British Airways.

With the exception of the Mexico-United States air transport bilateral agreement, practically every agreement signed by Mexico follows a conservative school of thought: predetermination of capacity, tariff agreements, exclusion of charters, exclusion of double designation and avoidance (whenever possible) of fifth- and sixth-freedom rights.

In addition to this, most Mexican bilaterals are relatively simple. Each one includes no more than a few routes and a "visual reciprocity" approach has been followed in most cases.

The Mexico-United States air transport bilateral agreement is by far the most important bilateral of Mexico and undoubtedly also one of the most important agreements that the United States has signed. The volume and importance of air passenger traffic between the two nations, both in absolute and in relative terms, has been highlighted sufficiently in Chapter 5.

In addition to its importance, this agreement is, especially in its "route schedule"[1], one of the most complex ever signed, not only by the United States but, in general, by any nation. Section 8.3 examines the agreement in its present form.

The first bilateral agreement negotiated by Mexico and the United States was signed on August 15, 1960[2]. This

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[1]"Route schedule", a term commonly used by negotiators, means "route map".

[2]Previously, carriers in the Mexico-U.S. market had unilateral permits to operate.

agreement, like most agreements signed by Mexico, was given an expiration date upon which it could be renegotiated or extended. This date was August 14, 1963. The agreement has been renegotiated or extended fourteen times. Many of the extensions have only lasted from a few days to a few months to give time to the negotiators to finish new drafts. The route schedule has been renegotiated four times, namely[1], in August of 1965, in September of 1967, in July of 1970 and, the last one, in January of 1978.

In the year 1960 the overall relationship of Mexico and the United States was not as complex as it is today. Most issues at that time were linked and diplomatic channels were the standard means of negotiation and communication between the two nations. There simply were not many issues to negotiate then as is still the case today in the relationship between the United States and a large number of smaller developing countries.

A new Mexico-U.S. relationship developed in the mid-1970's. Thereafter, most issues were and continue to be negotiated by the parties directly affected (although usually in the presence of some diplomatic observer) and dozens of intersecretarial commissions and committees began to conduct negotiations between the two nations. One of the most direct effects of this type of interaction is an increased independence in the negotiation of issues and a decreased influence of political *quid pro quos* in the negotiation of air transport bilateral agreements.

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[1]Dates of formal signing.

The 1960 Mexico-U.S. bilateral agreement was a relatively simple document. As all bilaterals signed by Mexico, it included a preamble and a route schedule.

The preamble was the hardest part to negotiate, contrary to what was to happen in later years, when more complex route schedules were introduced. In addition, it should be said that most points established in the 1960 preamble have not been modified. Therefore, the general principles that have set patterns of air transport bilateral behavior during the past twenty years were established in a preamble negotiated in 1960.

The main[1] points of interest set forth in the agreement's preamble are the following:

1. The agreement follows an *ex post facto* capacity determination (i.e., Bermuda I type). It indicates that it is up to each carrier to decide frequency and aircraft type in each market. The governments have the right to review any change of capacity after a 90-day period of observation, during which the governments examine how the respective capacity change has affected the market or other airlines serving the same market. The review can take up to 90 days more. After the review, either of the two governments may reject the proposed change of capacity.

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[1] It is not necessary to discuss here points such as "reason of the bilateral", "cooperation and friendship" and other principles of that kind, set forth in the preamble.

In reality, this provision has very rarely been applied and capacity limitation has not been an issue of concern in bilateral negotiations between Mexico and the United States. However, the provision has stayed in the agreement. As stated in Chapter 6, capacity predetermination is one of the basic air transport tenets of Mexico. Thus, this provision is not in accordance with Mexico's wishes; it is only a compromise position and any attempt on the part of the United States to eliminate it may well be futile.

2. Fares are to be approved by both governments through a mechanism of consultation between the two parties. Carriers have to give 30-day notice to both governments of their intention to change fares (regardless of whether it is an increase or a decrease). The proposal will be accepted or rejected within 15 days. Both governments have to agree for a fare to be changed.

   Additionally, in accordance with the air transport policies of Mexico examined in detail in Chapter 6, articles 10 and 11 of the preamble discuss at length the avoidance of predatory fares as well as unreasonably high fares.

3. The preamble leaves no doubt about the special nature of fifth- and sixth-freedom rights, not to be treated in the same fashion as third- and fourth-freedom rights.

Fifth-freedom and sixth-freedom rights are a very sensitive issue in Mexican air transport negotiations.

4. Both governments should give each other 60-day notice to initiate discussions on the interpretation or modification of bilateral issues.

5. Denunciation of the agreement has to be made six months before the intended date of suspension of rights.

The route schedule of the 1960 agreement was very simple, judged by today's standards. It included ten routes for the United States carriers and only eight for the Mexican.

The state of development of the Mexican tourist industry is clearly revealed when one observes that practically no Mexican resort was included in this bilateral agreement. On the American side, only eleven cities were included, most of them in the southern part of the United States[1]. On the Mexican side, seven cities were included (in addition to Cozumel, which only had cargo and mail rights). However, of the total of 18 routes included in the agreement, only 4 included Mexican cities other than Mexico City and Merida (in the Yucatan Peninsula). Resorts such as Acapulco and Puerto Vallarta

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[1] New York, Washington and Chicago were among the eleven cities.

had yet to acquire the importance that they have today and Cancun was a desolate island in the Caribbean. The lack of interest on the part of the American carriers to serve Mexican resorts that were to become contested items of negotiation years later is revealed by the fact that the route schedule for the American carriers included only Mexico City and Merida.

The basic route pattern established in the 1960 agreement focuses on traffic between the eastern and southern United States and Mexico City. In addition, Merida is linked to Miami and New Orleans across the Gulf of Mexico. The inclusion of this Mexican city had the simple purpose on the part of the American carriers, of carrying fifth-freedom traffic from Yucatan to Guatemala and beyond.

An analysis of the agreement shows an incipient development of fifth-freedom traffic patterns. Essentially, Mexico awarded the United States fifth-freedom rights from Merida to Guatemala and beyond as well as from Mexico City to Guatemala and beyond (for flights originating in Houston). It is clear that Guatemala was included as a compulsory stopover for flights bound to other cities in Central and South America in order to protect third- and fourth-freedom rights of Mexican carriers serving markets to the south.

In exchange for these concessions, the United States awarded Mexico "beyond" rights to Europe from Washington, New York and Miami.

All intermediate stops shown by the route schedule were optional with the exception of the route Miami, Tampa-Merida, Mexico City,where the U.S. carriers had the

obligation to make a stopover in Merida, thus protecting Mexican carriers flying the Miami-Mexico City route nonstop. In addition to this exception, the bilateral did not include any other restrictions on its route schedule. Charter traffic was never mentioned in the agreement. In contrast, the current bilateral is highly restrictive in many respects.

Lack of vision on the part of the American delegation caused the United States to have to engage in some very hard bargaining in subsequent years. The total exclusion of the Pacific coast resorts in the U.S. route schedule gave rise to interminable discussions and hardship a few years after the signing of the 1960 agreement. On the other hand, the Mexican delegation bargained in 1960 for routes out of Torreon (Coahuila), a position that this author is unable to explain and La Paz (Southern Baja California), a resort that showed great promise in 1960 but that did not start its real development until two decades later.

The errors of the past should not be repeated. New bilateral negotiations would fare better if account could be taken not only of current traffic trends, but also of future plans of development on both sides of the border. The 1960 agreement was a good accomplishment in terms of air traffic trends at that time. However, it failed to recognize the rapidly changing economic and social conditions in Mexico that were already noticeable at that time. In this vein, the analysis of the past, when it comes to air transport bilateral agreements, is not a mere academic exercise. It is one of the best means of studying lost opportunities and of learning how not to overlook new opportunities in the future.

The years 1960-1969 saw the inclusion of some new routes into the original bilateral agreement. Acapulco was included in a number of old and new routes and a few other resorts were incorporated into the route schedules of the agreement. On the other hand, a few new American gateways, mostly in the south, were included for the first time.

It was, however, not until July 1970 that comprehensive modifications to the original bilateral were introduced. Both the preamble and the route schedule were modified and the governments of Mexico and the United States interchanged Memorandums of Understanding (M.O.U.'s) to settle certain issues.

The basic new points "of principle" were the following (in both preamble and M.O.U's):

1. The *ex post facto* capacity determination deadlines (described before) were changed to 180 days for the observation period and 60 days for the governments to reach a decision.

   This change shows a clear liberalizing trend in the agreement as well as increased confidence by both parties in their carriers' decisions. It is also a sign of forceful negotiation on the part of the United States.

2. The fare approval deadlines were also changed: 45 days to give notice of a fare change and 30 days for the governments to reach a decision.

3. Double designation was introduced in a few markets. However, the governments' right to suspend these concessions was clearly established.

4. Both governments committed themselves to speed up the award of "foreign carrier permits", a necessary requirement when airlines want to start service in a new international market. This continues to be a source of friction between the two countries despite official agreement on this point.

5. It was clarified that so-called "national" taxes charged by airports refer to federal taxes in both nations. This point would cause tensions in years to come, as will be mentioned later.

6. It was decided that when disputes arise between the two nations, they *may* resort to international arbitration (according to a mechanism established in the preamble). However, if arbitration is used, it would be compulsory for both countries not only to pay the expenses of it (in equal parts) but also to abide by its decisions.

Tables 8.1 and 8.2 show the route schedules of the 1970 agreement. Table 8.1 depicts the American carriers' rights and Table 8.2 the Mexican carriers' rights. In all routes, except when a footnote states otherwise, stopovers could be omitted and the airlines were able to devise their own routes according to the general pattern set by the route schedule. However, different routes (i.e., routes A, B, C, etc.), could not be combined.

Table 8.1

MEXICO-UNITED STATES AIR TRANSPORT BILATERAL AGREEMENT (1970): UNITED STATES ROUTE SCHEDULE

An airline or airlines designated by the Government of the United States of America shall be entitled to operate air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

A. New York-Mexico City, Acapulco.

B. Washington, Atlanta, New Orleans-Mexico City, Acapulco.

C. Chicago, Dallas, Fort Worth, San Antonio-Mexico City, Acapulco.

D. New Orleans-Cozumel, Cancun.

E. Los Angeles, San Diego-Mexico City, Acapulco.[1]

F. New Orleans-Merida and beyond to Central America and Panama and beyond.

G. Miami, intermediate stop-Merida and beyond to Central America and Panama and beyond.

H. Houston-Mexico City and beyond to points in Central America and beyond.[2]

I. Miami, Tampa/St. Petersburg-Merida, Cozumel, Cancun and beyond.[3]

J. Miami, Tampa-Merida, Mexico City.[4]

K. Houston, Mission/McAllen/Edinburg- Monterrey, Mexico City.

(continued)

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[1]The designated airline shall make an intermediate stop, in both directions, between San Diego and Acapulco.

[2]The designated airline shall make an intermediate stop, in both directions, between Mexico City and Panama.

[3]Only cargo and mail traffic rights.

[4]The designated airline shall make an intermediate stop in Merida.

Table 8.1 (continued)

L. Harlingen/San Benito-Tampico, Veracruz.

M. Phoenix, Tucson-Guaymas, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara.[5]

N. Tampa-Mexico City.[6]

O. New York, Washington-Monterrey, Puerto Vallarta, Guadalajara and beyond to Central and South America.[7,8]

P. Atlanta, New Orleans-Guadalajara, Puerto Vallarta, Mazatlan, La Paz, San Jose del Cabo.

Q. Houston-Acapulco.

R. Houston-Merida, Cozumel, Cancun.

S. Dallas-Mazatlan, La Paz, San Jose del Cabo, Puerto Vallarta, Guadalajara.

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[5]The designated airline shall make an intermediate stop, in both directions, between Phoenix and Guadalajara and shall make intermediate stopovers in Guaymas, La Paz, Mazatlan, in both directions, in flights serving both Tucson and Puerto Vallarta.

[6]The designated airline shall not advertise or sell service Mexico City-Europe via route N.

[7]The designated airline shall make an intermediate stop in Central America, in both directions, between Puerto Vallarta or Guadalajara and Panama.

[8]No beyond traffic rights from Monterrey.

Source: Civil Aviation Directorship.

Table 8.2

MEXICO-UNITED STATES AIR TRANSPORT BILATERAL AGREEMENT (1970): MEXICAN ROUTE SCHEDULE

An airline or airlines designated by the Government of the United Mexican States shall be entitled to operate air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

A. Acapulco, Mexico City - Philadelphia, New York, Boston and beyond to Europe.

B. Acapulco, Mexico City - St. Louis, Chicago.

C. Mexico City, Guadalajara, Monterrey-San Antonio, Dallas, Fort Worth.

D. Mexico City, Guadalajara, Puerto Vallarta, Mazatlan-Los Angeles.

E. Acapulco, San Jose del Cabo, La Paz, Tijuana-Los Angeles.

F. Mexico City-Miami and beyond.

G. Mexico City-Detroit, Cleveland and beyond to Canada.

H. Guadalajara-Houston.

I. Monterrey-Laredo, Corpus Christi.

J. Hermosillo-Tucson, Phoenix.

K. Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Guaymas-Tucson, Phoenix.[1]

L. Monterrey, Ciudad Juarez-Los Angeles.

M. Acapulco, Mexico City, Monterrey-Kansas City.

N. Cozumel, Cancun - Miami.

(continued)

[1]The designated airline shall make an intermediate stop, in both directions, in Tucson.

Table 8.2 (continued)

O. Merida, Cozumel, Cancun - San Juan.
P. Cozumel, Cancun, Merida-Houston.
Q. Ensenada, Tijuana-Santa Ana.
R. Durango, Culiacan-Los Angeles.
S. Mexico City, Mazatlan, Ciudad Juarez-Denver.
T. Monterrey-Houston, New York.

Source: Civil Aviation Directorship.

The 1970 agreement was much more sophisticated and ambitious than its predecessors. The U.S. carriers had rights on 19 routes (up from 10 in 1960) and the Mexicans on 20 routes (up from 8 in 1960). In addition, a large number of cities, both in the United States and Mexico, were included, as the reader can verify by studying the tables.

This time, the American delegation, aware of plans on the part of the Mexican government to develop Cancun, asked and obtained New Orleans-Cancun and Houston-Cancun. Besides, it obtained profitable routes from different points in the American south to the Pacific coast resorts of Mazatlan and Puerto Vallarta. San Jose del Cabo was also included, somewhat prematurely, in the U.S. route schedule.

The most important concessions obtained by Mexico are represented by the routes linking Guadalajara (the second-largest city of Mexico) and the Pacific coast to Los Angeles; these were exclusive rights for Mexico.

Yet, the United States remained concerned by a large number of restrictions imposed by the Mexicans on several routes. These restrictions are indicated by footnotes included in the tables. Notice that while the U.S. route schedule contains eight restrictive footnotes, the Mexican has only one. Restrictions of major concern for the American party were those represented by footnotes 2 and 7, meant to protect third- and fourth-freedom rights to Latin America by the Mexicans. Footnote 6 was devised to avoid the possibility of a U.S. carrier taking advantage of sixth-freedom rights from Mexico to Europe. Finally, footnote 4 was inherited from the original 1960 agreement.

The Mexican side did not achieve all of its goals, either. The most important of these were the Houston-Mexico City and Atlanta-Mexico City routes, which the United States retained exclusively.

Overall, the 1970 agreement was an important success for both parties. It is true that this bilateral introduced a large number of restrictions not found in previous route schedules and set a pattern of increasingly complex negotiations that in the following years would lead to continued failures to change the *status quo*. However, the 1970 agreement is also one of the major reasons behind the impressive air passenger growth of the United States-Mexico market throughout the 1970's.

The 1970 bilateral agreement expired in December of 1973. It was temporarily extended many times while negotiators of both countries tried to devise a new agreement. However, at least ten rounds of negotiations were unable to bear fruit. These negotiations involved not fewer than 50 days of direct talks, dozens of proposals and an endless number of documents exchanged by the negotiators.

The conversations during the years 1974-1976 were difficult and tough. The author has been able to study most of these negotiations thanks to having obtained many of the minutes of the conversations as well as transcripts of the original proposals.

The talks were difficult because of the intense subjectivity of the matter. The "values" (routes and rights in the negotiator's language) negotiated were

difficult to compare. The mood of the negotiators was, in addition, tough and inflexible, as compared to conversations held in previous years. Although the delegations repeated over and over again that their position had been modified, showing compromise, this author could not identify any significant sign of compromise by either party during three years of negotiations. The failure of the 1974-1976 talks can be directly attributed to at least one (although maybe both) of the following reasons:

1. Lack of flexibility (or negotiating ability) in the belief that the other party would finally change its position with the passage of time (in this case entire years).

2. A belief, by each party, that it must only gain rights in these negotiations and that any concession would negate these gains.

   For example, in one of the most difficult moments of these discussions, in March of 1976, the Mexican negotiators agreed to discuss *only* one of the four points that the U.S. wanted to negotiate, giving the Americans the right to choose which of the four points they wanted to discuss[1]. The American negotiators did not accept this.

The main points of disagreement were centered around the following issues:

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[1]Some negotiators in the Mexican delegation believed that more than one concession on the part of Mexico would offset any gains.

1. The Mexicans accused the United States of requesting exclusive rights to resorts in Mexico that they were not sure of utilizing later. In 1976, although the U.S. had rights to 19 routes, the American carriers were serving only 10 of these routes. The Mexicans felt that the U.S. should not have any more exclusive concessions to resorts that depend heavily on international air travelers. The Secretariat of Tourism had made this clear to the Mexican delegation[1].

2. Requests were made by the American delegation to obtain:

   a. Fifth-freedom rights to a San Francisco-Mexico City-Central America and beyond route.

   b. Fifth-freedom rights to a Dallas, San Antonio-Mexico City and beyond route.

   c. Traffic rights from Los Angeles to La Paz, Puerto Vallarta, Mazatlan and Guadalajara.

   d. Elimination of the compulsory stopover in Merida for the U.S. carrier flying from Miami to Mexico City.

   The first two requests were clearly being sought for Pan American and Braniff. This, however, affected Mexico's negotiations with some Latin

[1] As one official put it: "Remember that with this agreement the U.S. gains rights not obligations."

American nations. The third request was unacceptable to Mexico. It simply meant to award Western Airlines some of the best traffic values of Aeroméxico and Mexicana. The fourth request meant added competition for Aeroméxico.

3. The U.S. insisted upon giving Mexico new fifth-freedom rights from Chicago to Europe (in exchange for American fifth-freedom requests). However, Mexico discarded such concessions as unuseable. On the other hand, Mexico agreed to give the U.S. requested fifth-freedom rights either from Acapulco or from Mexico City but with certain restrictions (such as no traffic rights to Bogota, which is what the Mexicans suspected the Americans wanted). This was rejected.

4. The Mexicans requested in exchange for point "2-C" (see previous page), Atlanta-Mexico City, and exclusive rights to San Francisco from all points in Mexico. This was found unacceptable by the American side. The Mexicans, on their part, deemed this rejection as unfair since Los Angeles ("2-C") was a proven profitable market, while San Francisco was an unknown "value".

By the spring of 1976 negotiations had reached an *impasse*.

In June of the same year, the United Kingdom denounced its air transport agreement with the United States. The negotiation of a new agreement started soon thereafter. Many nations expected to see in this agreement a return to predetermination of capacity and other

conservative measures. Its outcome, it was reasoned, would lead the way to new developments in the U.S. negotiating stance.

The Mexican delegation saw the current deadlock as a good excuse to wait and see.

8.3 Mexico-U.S. Bilateral Agreement: 1977-1978 Negotiations and Result

On July 23, 1977 the United States and the United Kingdom signed a new air transport bilateral agreement (Bermuda II), that in the opinion of many independent observers did not leave either party satisfied. The capacity and fare determination mechanisms set by the agreement were too complex and, in the view of observers in Mexico, did not provide the kind of changes that might lead the United States to review its agreements with other countries.

However, winds of change were already being felt in the American domestic scene. Deregulation was believed to be only a question of time (it was passed a little over a year after the signing of Bermuda II) and the advocates of more liberal international air transport agreements were starting to mount pressure.

Mexican policy makers realized all this (as proven by a number of documents kindly shown to this author by Mexican officials) and plans to restart the deadlocked negotiations began to take place.

It is important to take notice of two additional political factors. First, in December of 1976 a new administration was inaugurated in Mexico. The new President seemed to be less antagonistic to the United States than his predecessor. Besides, the Civil Aeronautics Directorship (CAD) was now headed by a new Director General, Mr. Jorge Cendejas Quesada, an aeronautical engineer with many years of experience in the CAD who later proved to be a skillful bilateral negotiator as Chairman of the Mexican delegation.

Second, only a few months before, a new U.S. administration was also inaugurated. Thus, the Mexican authorities would surely face new officials and it was felt that new approaches might be tried. Air transport developments as well as political events seemed to be favorable for restarting and concluding negotiations as soon as possible.

In this manner, the two delegations met once again in September of 1977 in order to detect new changes and possibilities for compromise.

It very soon became clear that not only the position of both parties (as described in the preceding section) remained unchanged, but that new proposals and requests were present in the new agenda. On the other hand, both delegations carried instructions to conclude, if not at any price at least sparing no effort, a new expanded bilateral agreement.

In addition to positions and points of view already explained in the previous section, the delegations followed new strategies and presented new requests:

Mexican delegation:

1. To negotiate fifth-freedom rights only in exchange for fifth-freedom rights, as a first option. If this were impossible, then to negotiate fifth-freedom rights in exchange for valuable third- and fourth-freedom rights that the Mexican carriers could use within a very short time.

2. No more negotiation of new double designations.

3. A general preference for adding new routes to the route schedules rather than adding new cities to existing routes. In addition, to study the possible partition of some of the existing routes (see Tables 8.1 and 8.2).

   The reason for this is very important. When governments designate a carrier to operate a given route, the entire route in question is awarded to the selected airline (even if it includes a large number of cities). The route cannot be shared by two airlines. Thus, a skillful negotiator can play with this concept, using it for his own benefit: a route with too many cities might prove to be too much of an award for a single airline; on the other hand, a smaller number of cities in a larger number of routes normally leads the U.S. government to award them to different carriers in order to be equitable[1].

[1] The Mexican government generally prefers to see more carriers operating in its international markets than only a few, monopolizing all markets.

4. A general strategy of combining in the same route very attractive destinations (in Mexico) along with new, developing resorts, making compulsory, whenever possible, a stopover in the developing resort. The more attractive destination would act as a lure and would help in bringing traffic to the developing resort.

5. To eliminate unused routes in the U.S. route schedule, including an all-cargo route established in the previous agreement (route I).

6. To request fifth-freedom rights from New York and Chicago to Canada.

7. To request fifth-freedom rights from Miami to Europe in a route Mexico City, Merida, Cozumel, Cancun - Miami (with the possibility of omitting any of the Mexican cities).

8. To request third- and fourth-freedom rights (in addition to the ones already mentioned in Section 8.2) on the following routes:

   a. San Juan (Puerto Rico)-Mexico City.

   b. Detroit-Mexico City.

   c. Philadelphia-Mexico City.

The preceding negotiating strategy and requests were modified during the talks. However, this indicates the original position of Mexico in September of 1977.

American delegation:

1. The strategy of the U.S. delegation was less imaginative, simply because the U.S. policies were designed with the basic tenet of negotiating practically everything in exchange for everything.

2. New concrete requests, however, were presented:

   a. A New York-Mexico City and beyond route.

   b. To negotiate all-cargo routes.

   c. To include a charter clause in the agreement, providing for a more liberal policy on this type of traffic.

   d. The inclusion in the agreement of a clause calling for the lowest possible fares and a more flexible fare structure.

   e. To discuss a mechanism to control, to some extent, sharp price hikes on the part of the Mexican airport and air traffic control authorities.

   f. To be allowed to import to Mexico tax-free printed material for advertising and promotion.

   g. To allow passengers from the U.S. to disembark in a Mexican city and, after a stopover of one or more days, to continue on the "same" flight to other destinations in Mexico or beyond.

Three of the preceding requests were rejected by the Mexican delegation as unnegotiable.

The first one was request "b". Mexico does not have any all-cargo airliners and it considers that it is not yet in the interest of the country to develop a large-scale, all-cargo capability. To permit an all-cargo U.S. airline to fly to Mexico would be contrary to the interests of the Mexican airlines.

The second non-negotiable request was request "e". The reason of the sharp price increases in airport and air traffic control fees was the inflation that followed the devaluation of the peso (in relation to the dollar) in 1976. However, the price hike was in pesos. Thus the increase in dollars was practically nil. Therefore, this point was discarded.

Request "g" was rejected as totally unacceptable. Passengers carried between points in Mexico constitute pure and simple cabotage, a practice prohibited to foreign airlines in practically all countries of the world. On the other hand, if those passengers are being taken by the foreign airline in question to a third country, the traffic is of fifth-freedom type. In both cases, the true origin of the passenger (in the case of request "g", the origin is the United States) does not affect the previous interpretation.

The first round of talks ended near the end of September 1977 and each party began to prepare for a final negotiating effort in order to conclude the negotiations

in the following meetings, scheduled to take place in December of the same year.

During those months the Mexican delegation was put under very strong pressure by the Mexican tourism authorities to conclude an agreement. On the other hand, the delegation was flooded by documents and requests by Aeroméxico, Mexicana and even the pilots' associations. It was the responsibility of the CAD to coordinate and put together the increasing number of requests. Soon thereafter, negotiations started again and after a total of 22 days of talks a new bilateral was concluded. The agreement was formally signed on January 20, 1978. According to Joel Biller, State Department Deputy Assistant Secretary for Transportation at the time, and Chairman of the U.S. delegation, *"the agreement is the most extensive expansion of air routes schedules that the United States has ever negotiated"* (Aviation Daily, December 21, 1977).

Tables 8.3 and 8.4 show the route schedules of the United States and Mexico, respectively. Both are divided, roughly, into western, central, eastern and Yucatan Peninsula regions. This classification is somewhat arbitrary but it reveals a general "north-south" pattern exhibited by the bilateral agreement; that is, not many routes from the extreme west to the extreme east. The Yucatan region is an example of this. Neither route schedule connects it to California.

The route schedules include a very large number of gateways: 32 in the United States[1] and 22 in Mexico.

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[1]This includes San Juan (Puerto Rico), which is not among the 20 operating gateways considered in Chapter 5. It is, however, in operation.

Table 8.3

MEXICO-UNITED STATES AIR TRANSPORT BILATERAL AGREEMENT (1978): UNITED STATES ROUTE SCHEDULE

An airline or airlines designated by the Government of the United States of America shall be entitled to operate air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

A. WESTERN REGION

A.1. San Francisco, Los Angeles, San Diego-Guadalajara, Mexico City, Acapulco.[1]

A.2. Oakland, San Jose, Phoenix, Tucson-Guaymas, Loreto, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara, Manzanillo, Mexico City, Zihuatanejo, Acapulco.[2]

(continued)

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[1]The designated airline shall not serve San Francisco-Mexico City nonstop until October 1, 1981 or until a second Mexican carrier serves San Francisco-Mexico City nonstop, whichever occurs first. The designated airline will not have traffic rights for nonstop flights between San Francisco and Guadalajara or between San Diego and Guadalajara.

[2]The designated airline must make an intermediate stop at Phoenix or Tucson on flights between Oakland/San Jose and Guadalajara, Mexico City, Acapulco, Mazatlan or Puerto Vallarta. As of October 1, 1981 it may make nonstop flights between Oakland/San Jose and Puerto Vallarta and as of October 1, 1982 between Oakland/San Jose and Mazatlan.

Table 8.3 (continued)

A.3. Los Angeles-Mazatlan, Puerto Vallarta, Manzanillo, Zihuatanejo.[3,4]

A.4. Los Angeles, San Diego-Loreto, La Paz, San Jose del Cabo.[4]

A.5. Albuquerque, El Paso-Hermosillo, Bahia Kino, Guaymas, Loreto, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara, Manzanillo, Zihuatanejo, Acapulco.[5]

B. CENTRAL REGION

B.1. San Antonio-Loreto, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara.[6]

B.2. Dallas/Fort Worth, San Antonio-Mexico City, Acapulco and beyond to Panama and beyond.[7]

(continued)

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[3]This route may be divided into two routes, provided that any such division not duplicate the Mexican points and that it take place before October 1, 1979.

[4]These routes may be combined among themselves or with Route A.1., if the same airline is designated. In the case of any combination of these routes the designated airline will not have traffic rights for nonstop flights between San Francisco and Loreto, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara, Manzanillo and Zihuatanejo, or between San Diego and Mazatlan, Puerto Vallarta and Guadalajara.

[5]This route may be divided into two routes, both of which would include Albuquerque and El Paso but which would not duplicate the Mexican points, provided that any such division take place before October 1, 1979.

[6]The designated airline may initiate nonstop service between San Antonio and Guadalajara after October 1, 1980.

[7]The designated airline shall not have local traffic rights or stopover rights on nonstop services between Mexico City and Panama until October 1, 1980. After October 1, 1980 the designated airline shall not advertise or sell nonstop service on a United States airline for the carriage of revenue passengers whose journeys originate in Mexico City with a final destination in Panama or originate in Panama with a final destination in Mexico City. The designated airline will not have traffic rights between Mexico City and Venezuela.

Table 8.3 (continued)

B.3. Dallas/Fort Worth-La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara.

B.4. Houston-Acapulco.

B.5. Houston-Loreto, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Manzanillo, Zihuatanejo, Acapulco.[8]

B.6. Houston, Mission/McAllen/Edinburg-Monterrey, Mexico City, Guadalajara.

B.7. Chicago, Dallas/Fort Worth, San Antonio-Mexico City, Manzanillo, Zihuatanejo, Acapulco.

B.8. Chicago-Loreto, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara.

C. EASTERN REGION

C.1. Atlanta, New Orleans-Loreto, La Paz, San Jose del Cabo, Mazatlan, Puerto Vallarta, Guadalajara.

C.2. Miami, Tampa-Mexico City.[9]

C.3. New York, Washington/Baltimore, Atlanta, New Orleans-Mexico City, Manzanillo, Zihuatanejo, Acapulco.

C.4. New York, Washington/Baltimore, Los Angeles, Houston-Mexico City and beyond to points in Central America and beyond.[10]

(continued)

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[8]The designated airline shall make an intermediate stop between Houston and Acapulco.

[9]The designated airline must make an intermediate stop between Miami and Mexico City until October 1, 1980. Any flight originating in Mexico City and continuing outside of United States territory or vice versa must make an intermediate stop in Tampa between Mexico City and Miami.

[10]The designated airline shall make an intermediate stop between Mexico City and New York and between Mexico City and Panama. It may omit the intermediate stop between Mexico City and Panama without local traffic rights but with the right to carry passengers between Mexico City and Panama who are scheduled to make connections within a period of 12 hours. All nonstop flights between Los Angeles and Mexico City must also serve a point beyond Mexico. The designated airline shall not initiate nonstop service between Los Angeles and Mexico City before April 15, 1982.

Table 8.3 (continued)

D. YUCATAN PENINSULA REGION

D.1. Houston-Merida, Cancun, Cozumel.
D.2. Dallas/Fort Worth-Merida, Cancun, Cozumel.
D.3. Chicago-Merida, Cancun, Cozumel.[11]
D.4. Detroit-Merida, Cancun, Cozumel.[11]
D.5. Cleveland-Merida, Cancun, Cozumel.[11]
D.6. New York-Merida, Cancun, Cozumel.[11]
D.7. Washington/Baltimore-Merida, Cancun, Cozumel.[11]
D.8. Atlanta-Merida, Cancun, Cozumel.
D.9. Miami-Merida, Cancun, Cozumel.[12]
D.10. Tampa-Merida, Cancun, Cozumel.
D.11. New Orleans-Merida, Cancun, Cozumel.

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[11]The designated airline may initiate nonstop service after October 1, 1980.

[12]The designated airline may initiate nonstop service to Cancun and Cozumel after October 1, 1980.

Source: Civil Aviation Directorship.

Table 8.4

MEXICO-UNITED STATES AIR TRANSPORT BILATERAL AGREEMENT (1978): MEXICAN ROUTE SCHEDULE

An airline or airlines designated by the Government of the United Mexican States shall be entitled to operate air services on each of the air routes specified, in both directions, and to make scheduled stops in Mexico at the points specified in this paragraph:

A. WESTERN REGION

A.1. Mexico, Acapulco, Guadalajara, Puerto Vallarta, Mazatlan, Mexicali, Hermosillo-Los Angeles, San Francisco, Oakland, Seattle.

A.2. Mexico, Monterrey, Guaymas, Zihuatanejo, Manzanillo, San Jose del Cabo, La Paz, Loreto, Tijuana-Los Angeles, San Francisco, San Jose.

A.3. Mexico, Acapulco, Guadalajara-San Diego.[1]

A.4. Mexico, Guadalajara, Ciudad Juarez, Acapulco, Zihuatanejo, Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto-Denver.

A.5. Mexico, Acapulco, Guadalajara, Zihuatanejo, Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto, Hermosillo, Guaymas-Tucson, Phoenix.

A.6. Acapulco, Zihuatanejo, Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto, Guadalajara, Hermosillo, Guaymas, Bahia Kino-El Paso, Albuquerque.

B. CENTRAL REGION

B.1. Mexico, Acapulco, Guadalajara, Zihuatanejo, Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto, Oaxaca, Monterrey, Tampico-Harlingen, San Antonio, Dallas/Fort Worth, Memphis.

(continued)

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[1] This route may be combined with routes A-1 or A-2 if the same airline is designated. If it is combined with route A-2, the designated airline may not operate non-stop flights between San Francisco and Guadalajara or between San Jose and Guadalajara and San Jose and Acapulco.

Table 8.4 (continued)

B.2. Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto-Houston.

B.3. Acapulco, Zihuatanejo, Oaxaca, Monterrey-Houston.

B.4. Guadalajara, Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto-Chicago.

B.5. Mexico, Acapulco, Oaxaca, Zihuatanejo, Monterrey-Kansas City, St. Louis, Chicago, Minneapolis/St. Paul and beyond to Canada.

C. EASTERN REGION

C.1. Acapulco, Zihuatanejo, Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto-New Orleans.

C.2. Mexico, Acapulco, Guadalajara, Zihuatanejo, Manzanillo, Puerto Vallarta, Mazatlan, San Jose del Cabo, La Paz, Loreto-Atlanta.

C.3. Mexico, Acapulco, Guadalajara, Monterrey-Detroit, Cleveland, Washington/Baltimore, Philadelphia and beyond to Canada.

C.4. Mexico, Acapulco, Guadalajara, Zihuatanejo, Manzanillo, Monterrey-New York, Boston and beyond to Europe.

D. YUCATAN PENINSULA REGION

D.1. Mexico, Merida, Cozumel, Cancun-San Juan.

D.2. Cozumel, Cancun-Miami.

D.3. Mexico, Guadalajara, Merida-Miami and beyond.

D.4. Mexico, Guadalajara, Merida, Cozumel, Cancun-Houston, New Orleans and beyond to Canada and Europe.

D.5. Mexico, Merida, Cozumel, Cancun-Tampa.

D.6. Merida, Cozumel, Cancun-Dallas/Fort Worth.

D.7. Merida, Cozumel, Cancun-Atlanta.

D.8. Merida, Cozumel, Cancun-Chicago, Minneapolis/St. Paul.

D.9. Merida, Cozumel, Cancun-Detroit, Cleveland, Philadelphia.

D.10. Merida, Cozumel, Cancun-New York, Washington/Baltimore.

Source: Civil Aviation Directorship.

Groups of cities with one airport are considered as one gateway. According to information given by the CAD, the agreement provides (once all restrictions -- footnotes -- are taken into account) a total of 505 possible city-pair combinations (up from 156 in the previous agreement) distributed into 203 for the U.S. carriers and 302 for the Mexicans.

Any close look at the route schedules should involve examination of their footnotes. Through stopover restrictions as well as delayed route entry by certain airlines, the negotiators were finally able to reach a compromise.

Mexico, as Table 8.3 shows, gave up its exclusive rights from the Pacific coast resorts to Los Angeles. The United States awarded Mexico, in return, route C2 (which includes Atlanta) and exclusive rights from San Francisco to Puerto Vallarta, Mazatlan, Zihuatanejo and Manzanillo; to all tourist points in Baja California; and to other cities, including Monterrey (see routes A1 and A2 in Table 8.4). In addition, the U.S. gave up exclusive nonstop rights from San Francisco to Guadalajara and agreed to delay flying San Francisco-Mexico City and/or San Francisco-Acapulco until October 1, 1981 (see footnote 1, Table 8.3).

The long-bargained-for rights sought by the United States from Mexico City to South America were awarded but with important restrictions, as can be seen (routes B2 and C4, Table 8.3). To fly to South America, U.S. airlines have to make stopovers in Central America and, in the case of route B2, Venezuela cannot be considered as traffic beyond (footnotes 7 and 10, same table).

Mexico, on the other hand, obtained new fifth-freedom rights to Canada from Kansas City, St. Louis, Chicago, Minneapolis/St. Paul (route B5, Table 8.4) as well as Detroit, Cleveland, Washington/Baltimore and Philadelphia (route C3, same table), causing some concern to the Canadians, who had awarded Mexico traffic rights from Detroit and/or Cleveland to Windsor, Toronto and Montreal. many years ago (see, in addition, route D4, Table 8.4).

The stopover that U.S. carriers had to make (in Merida) on the route Miami-Mexico City was eliminated, ending a dispute that had lasted about two decades.

The all-cargo route of Table 8.1 was eliminated at the request of Mexico.

The agreement, as can be seen, is big and complex. It represents, in terms of route schedules, one of the most (perhaps the most) comprehensive efforts ever achieved in air transport bilateral negotiations.

It is important to realize that the agreement is interesting not only for what *it says*, but also for what *it does not say*. Route C2 (Table 8.3), Miami, Tampa-Mexico City (awarded to the United States), includes a footnote that forces flights enroute to Europe to make two stopovers in Florida. This is to discourage travelers who might otherwise take Aeroméxico, which flies Mexico City-Europe with only one stopover in Florida. However, note that this constitutes sixth-freedom traffic for the United States, a principle that both the United States and Mexico had strongly rejected. The 1970 agreement (see U.S. route schedule, Table 8.1, route N, footnote 6) softened the impact of sixth-freedom traffic by prohibiting the

U.S. airlines from advertising or selling travel to Europe from Mexico City. Yet, this time that footnote was not repeated.

The only interpretation that this author can give to this (since no official document explains it) is a strong interest on the part of Mexico to fly passengers from the United States to Latin America through points in Mexico. Since this would constitute sixth-freedom rights for Mexico, probably both parties decided simply not to mention this circumstance.

It is important to mention that the American delegation insisted upon discussing a more liberal charter and fare policy. In practice, Mexico very rarely has opposed the operation of charters bringing tourism to Mexico. Likewise, opposition to fare changes has been a rare occurrence.

However, Mexico cannot include liberal provisions on charters and fares (in writing) in a bilateral agreement. It is a question of interest *and* law (see Chapter 4), something the American side seems to ignore. Yet, a compromise was reached by interchanging a Memorandum of Understanding (M.O.U.) on January 20, 1978. Like most M.O.U.'s, it was not filed at the International Civil Aviation Organization (ICAO).

Essentially, the M.O.U. recognizes "the importance with which charter flights contribute to air transport and tourism..." and establishes a somewhat flexible mechanism to allow charters into Mexico. To this day (since 1978) Mexico has not rejected a single U.S. charter that has filed an application according to the simple rules set up by

the CAD. However, as Chapter 5 shows, this kind of operation has not grown to any significant degree.

On the subject of fares, the M.O.U. asserts the interest of both governments in encouraging air services "at the lowest possible fares and rates...so long as the fares and rates do not result in predatory and/or ruinous competition...".

The M.O.U. is subject to denunciation. This would take effect six months after notice of termination was given.

Finally, the preamble of the bilateral agreement was modified in order to include the approval of the United States request to import tax-free advertising material (printed in the United States) to Mexico. Mexico, of course, can do likewise.

Through this agreement, both nations accomplished national goals by sometimes compromising on questions of interest, although never in questions of principle. The United States opened up to its carriers large, new international markets to Mexico and Latin America that had been on the negotiating table for over seven years. The Mexicans, it is now clear, gave preeminence to their tourist interests without hurting their airlines. However, they had to accept the reality of an increasingly competitive market and the elimination of exclusive rights on many city-pairs.

This author prefers to stay away from the very

common notion of "who won" or "who lost". Besides the fact that this is a very subjective matter, the real winners or losers can only be determined many years later, in terms of *who* used and *who* did not use the rights set forth by the agreement. On the other hand, even then, an apparent loser could be the net winner: the overall national interest of a country, when it includes airlines, tourism, balance of payments and the like, will determine this.

8.4 Mexico-U.S. Bilateral Agreement (1978): Impact and Future

Figure 8.1 shows the gateways included in the 1978 Mexico-United States air transport bilateral agreement. As mentioned before, taking into account San Juan (Puerto Rico), a total of 54 cities are represented here: 32 in the United States and 22 in Mexico. However, as shown in the figure, 19 gateways were not in use as of May 1, 1981. Yet, as discussed in Chapter 5, since the last months of 1980 the rate of increase of new gateways and routes has been climbing very rapidly. As the reader may verify, part of the reason for this expansion is explained by the fact that the restrictions (in terms of delayed entries) imposed by the bilateral agreement are coming to an end[1].

If the number of city-pairs in operation is compared

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[1]See footnotes, Table 8.3.

Figure 8.1

MEXICO-UNITED STATES AIR TRANSPORT BILATERAL AGREEMENT (1978): GATEWAYS[1]



[1] Cities served and not served nonstop (May 1981).

to the maximum number of possible combinations that the agreement permits (203 for the United States and 302 for Mexico, according to the CAD), then the United States was taking advantage of 25.6% of all its possibilities (52 city-pairs) in May of 1981 while Mexico was taking advantage of 11.9% (36 city-pairs). Taking into consideration that a large number of combinations are only theoretical and not necessarily profitable, then the previous percentages, particularly the American, can be considered as high. Additionally, these figures might at least be doubled in coming years, especially once the 19 gateways not in use at the present time are utilized.

As far as concerns exclusive nonstop city-pairs, the United States carriers have managed, since the signing of the bilateral, to monopolize more markets than their Mexican counterparts. Of a total of 50 city-pairs served by only one carrier, 62% (31) are served by United States airlines and 38% (19) by Mexican airlines[1]. Many of these city-pairs are included in the route schedules of both nations. However, the Mexican carriers have been unable to meet equipment requirements necessary to utilize all the rights the bilateral agreement gives them. This applies especially to Aeroméxico.

The Mexican government is concerned about this situation and has been providing generous financial help to the carriers, whose fleets, as a result, have grown at an accelerated pace. On the other hand, not all fifth-freedom rights obtained by Mexico can be exercised: the Mexico-Canada bilateral agreement is being renegotiated, and it is difficult to predict the final outcome at this point.

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[1] As of May 1, 1981 (Aeroméxico in 6 markets and Mexicana in 14).

Despite this, the author believes that Mexico will not be able to take advantage of all its fifth-freedom rights from the United States to Canada within the next ten years. An examination of the bilateral's route schedules shows an overnegotiation on the part of Mexico or overconcession on the part of the United States of fifth-freedom rights to Mexico. The traffic does not justify it.

The impact of the 1978 bilateral agreement has been clear-cut. Even considering that other factors affecting traffic had grown to present levels (tourism infrastructure, aircraft supply, etc.), the previous agreement would have impeded the demand growth experienced today by the Mexico-United States market. It is estimated that the agreement is responsible for not less than 35% of the demand growth between 1978 and 1980, a figure based on traffic on new routes and city-pairs[1].

Almost since the bilateral agreement was signed, a number of controversies have required the intervention of both governments and new bilateral talks. Most of these disputes have been, in the opinion of the author, a direct result of carelessness in the writing of the bialteral agreement. Yet, negotiators from both sides apparently do not believe so and attribute these disagreements to lack of flexibility and/or "bad faith" of the opposite party.

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[1]Although, admittedly, it is impossible to compute with precision what proportion of the passengers would have flown in any event using older, indirect routings.

Some of these disagreements have been relatively minor: a dispute between Mexicana and the City of San Francisco because it delayed the assignment of a counter to the airline at the airport[1]; and a controversy over the precise definition of "federal tax" as opposed to "state tax" when applied to foreign airlines.

There have been, however, much more serious disagreements than the preceding ones. Three of these disagreements will undoubtedly be on the agenda of new bilateral negotiations, perhaps very soon. Therefore, it is a matter of importance to take note of them.

First, there is sharp disagreement on what the bilateral agreement meant in relation to air cargo[2]. The United States position is that all-cargo scheduled carriers can be designated to operate on routes established by the bilateral agreement. In fact, the agreement does mention "air services", a term that can be interpreted very broadly. Mexico, on the other hand, insists that the route schedules were meant to be serviced only by *combined* air services (passengers, cargo and mail).

Although the current agreement does not clarify this point, Mexico can use a very important precedent of the 1970 agreement in its defense. There, one of the routes is specifically designated to be used *only* for mail and cargo. Therefore, Mexico may assert that the other routes of the 1970 agreement were meant to serve only passenger traffic, and it is possible to infer from there that all-cargo operates only if the agreement explicitly specifies it. Although this seems to be a convincing precedent, this author believes that it does not necessarily settle the dispute: the U.S. may answer that the 1970

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[1]This prompted the intervention of the Mexican government. San Francisco had been one of the most bargained-for points in the bilateral negotiations.

[2]Mexico allows all-cargo charters from the United States.

document was meant to be an agreement allowing combined *or* all-cargo operations on all routes, and that the footnote that specifies *only* cargo on one route intended, simply, to exclude passenger traffic on *that* route.

To this day, Mexico has rejected all requests on the part of the United States to initiate all-cargo operations between the two countries. Airlift International, for example, has been denied permission to serve routes C2 and C4 (see Table 8.3) in the recent past.

Second, Mexico has repeatedly expressed concern about unethical advertising practices on the part of American carriers, particularly Pan Am, which has advertised (indirectly) its Mexico City-New York service as nonstop. In reality, the airline serves route C4, which mandates an intermediate stop on that route. On the other hand, Mexican officials feel that the carrier abuses the advertising (in Mexico) of its Mexico-United States-Europe routes, which constitute the exercise of sixth-freedom rights not expressly recognized by either country.

Future negotiations will likely include the previous problems on their agenda.

Third, there is a seemingly endless dispute over route B2 on the United States route schedule. The route is written as "Dallas/Fort Worth, San Antonio-Mexico City, Acapulco and beyond to Panama and beyond". Braniff and other U.S. carriers interested in serving South America through Mexico, consider that the Panama stopover is not mandatory and that service can be conducted from Mexico straight to South America. As proof, they use

paragraph number 3 of the route schedules (not shown in Tables 8.3 and 8.4) which states that airlines are permitted "to omit points on any or all flights....provided that at least one point in the homeland of the airline is served on each flight...".

Mexico insists that the previous statement does not apply to points beyond Mexico. In addition, it insists that it was clear during the negotiations that Mexico was including Panama as a mandatory stopover on that route in order to protect Mexican carriers flying nonstop to South America.

Mexico considers this a basic question of interest and principle and future negotiations might be very difficult if this point were to be negotiated. The minutes examined during the preparation of this work leave no doubt about the original intention of the Mexicans in including Panama on route B2 as a mandatory stopover. On the other hand, strictly speaking and in accordance with what is written in the bilateral, the American side is correct. The spirit and the word will have to be reconciled.

The current bilateral agreement expires on December 31, 1982. Negotiations might begin as early as the second quarter of 1982. If negotiations fail, the current agreement could be extended. Denunciation is unlikely.

There is presently a wide gap in the philosophical approach to negotiations that each party follows. Chapters 4 and 6 have given ample indication of this.

While market forces, profit and competition will continue to be at the forefront of the United States negotiating position, the Mexican government will continue to be willing to underwrite the costs of certain routes.

Both parties are likely to request the opening of a few new gateways. However, they might differ sharply on which ones. For example, the American delegation might seek to link Las Vegas, Atlantic City and Orlando with Mexico(a proposition already mentioned in the past). However, the Mexican side, concerned with the increasing number of Mexicans traveling abroad, might reject the inclusion of those cities in the bilateral agreement. Besides, both delegations will have to keep in mind an increasing tendency, on the part of Mexicans, to travel to major American gateways and then to "disperse", while American travelers concentrate on a lesser number of final Mexican destinations.

Free determination of capacity and liberalization of charter operations might be, as well, intense topics of negotiation. This author does not see how the Mexican side could change its position on these issues in the near future. The practicality of discussing them is doubtful. Given that Mexico does not oppose free determination of capacity and charter operations in reality, the whole issue becomes moot. On the other hand, if the subject of capacity were addressed, Mexico might want to talk about traffic and revenue pooling, a notion

totally rejected by the U.S. international air policies of 1976 and subsequent years.

In general, extreme tact and perseverance will probably be needed in forthcoming negotiations to bring both parties to a new agreement.

Misunderstandings easily occur. In January-February of 1981, while an American delegation was preparing to fly to Mexico City to discuss issues of mutual interest, the Mexican press ran extensive reports about intentions on the part of the United States "to force Mexico" to agree to a policy of open skies and/or free corridors. Questions of sovereignty and international policy were raised in these reports and the issue threatened to become a major scandal. It is not clear whether these reports were triggered by irresponsible journalism, by the Mexican Secretary of Communications and Transportation (who gave a speech on the subject) or by the American government trying to put pressure on the Mexican government behind the scenes.

When conversations took place a month or so later, nothing of importance happened. A senior official at the U.S. Department of State told this author that the United States had in mind an "experimental" air corridor between the two countries (probably Florida-Mexico City) with no capacity or fare rules. He stated that in the end the idea was never formally discussed and that the Mexicans had exaggerated the whole issue.

The fact of the matter is that United States international air transport policies are viewed not only in Mexico, but in many other countries, with

considerable suspicion and sensitivities are likely to be injured if negotiators do not proceed tactfully.

The Mexico-United States air transport bilateral agreement has produced a clear pattern of north-south routes that link the eastern United States essentially with eastern Mexico, the central United States with central Mexico and the west of one country with the west of the other[1]. While this pattern has some important exceptions, it is the general rule. Figures 8.2, 8.3 and 8.4 depict all nonstop routes to Mexico originating in the eastern, central and western United States, respectively. Figure 8.2 clearly shows the lack of nonstop service between the eastern American cities and the western Mexican resorts. The American central cities (Figure 8.3) are well connected to all regions of Mexico, while the western United States (Figure 8.4) is totally bereft of nonstop service to the rapidly-growing resorts on the Yucatan peninsula. Yet, surveys show that 18% of all American travelers to Cancun in May of 1980 were residents of California (see Chapter 5, Table 5.16). Subsection 5.3.2 elaborates on this.

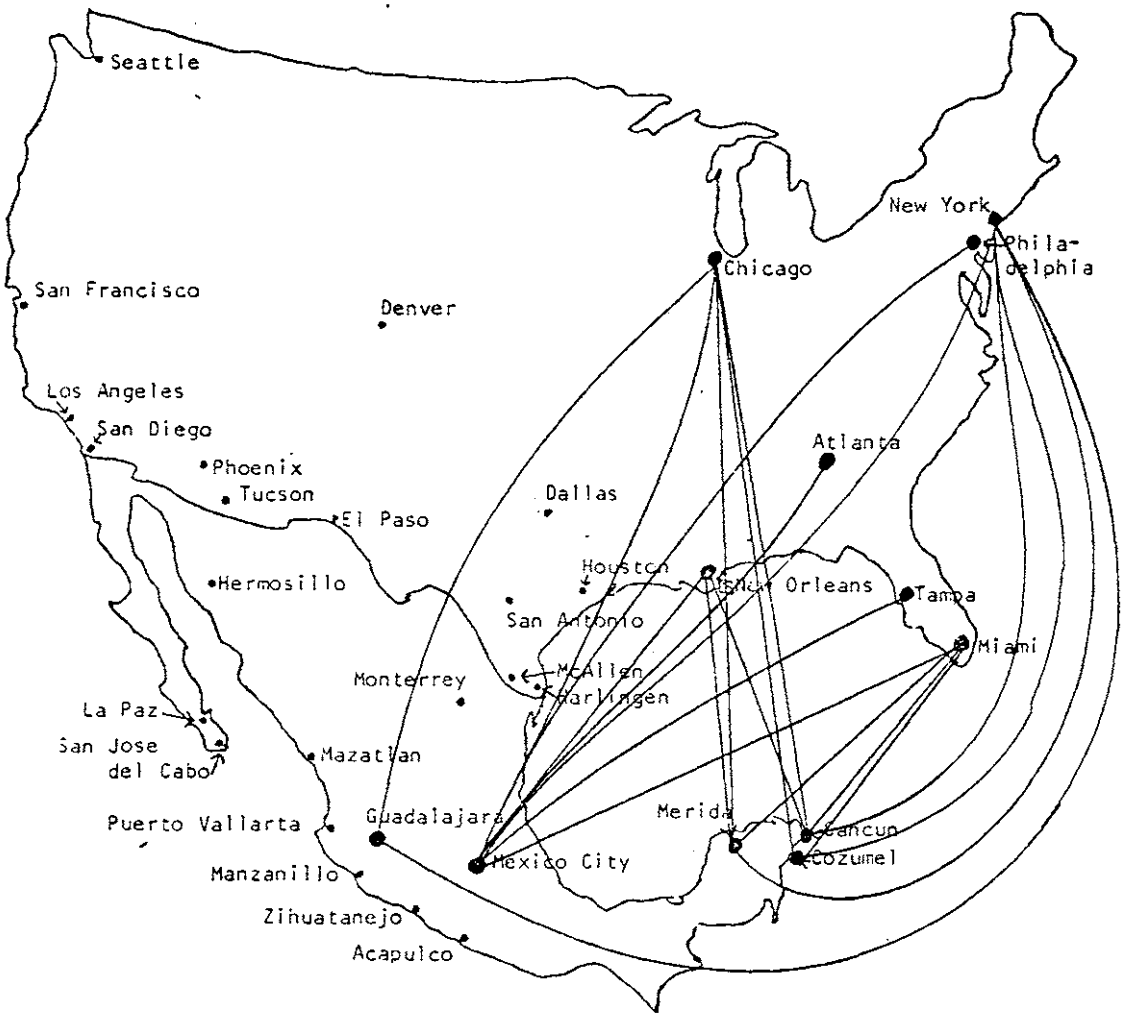
The same analysis can be made using Mexico as a departure point. Figures 8.5, 8.6 and 8.7 show all nonstop routes to the United States originating in eastern, central and western Mexico, respectively. Once again, while the central part of Mexico can be considered to be reasonably well-linked to all three regions of the United States, the same cannot be said of western Mexico and the Yucatan Peninsula.

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[1] "Eastern", "central" and "western" in relation to Mexico.

Figure 8.2

ROUTES IN OPERATION AS OF MAY 1, 1981[1]:
FROM THE EASTERN UNITED STATES TO MEXICO

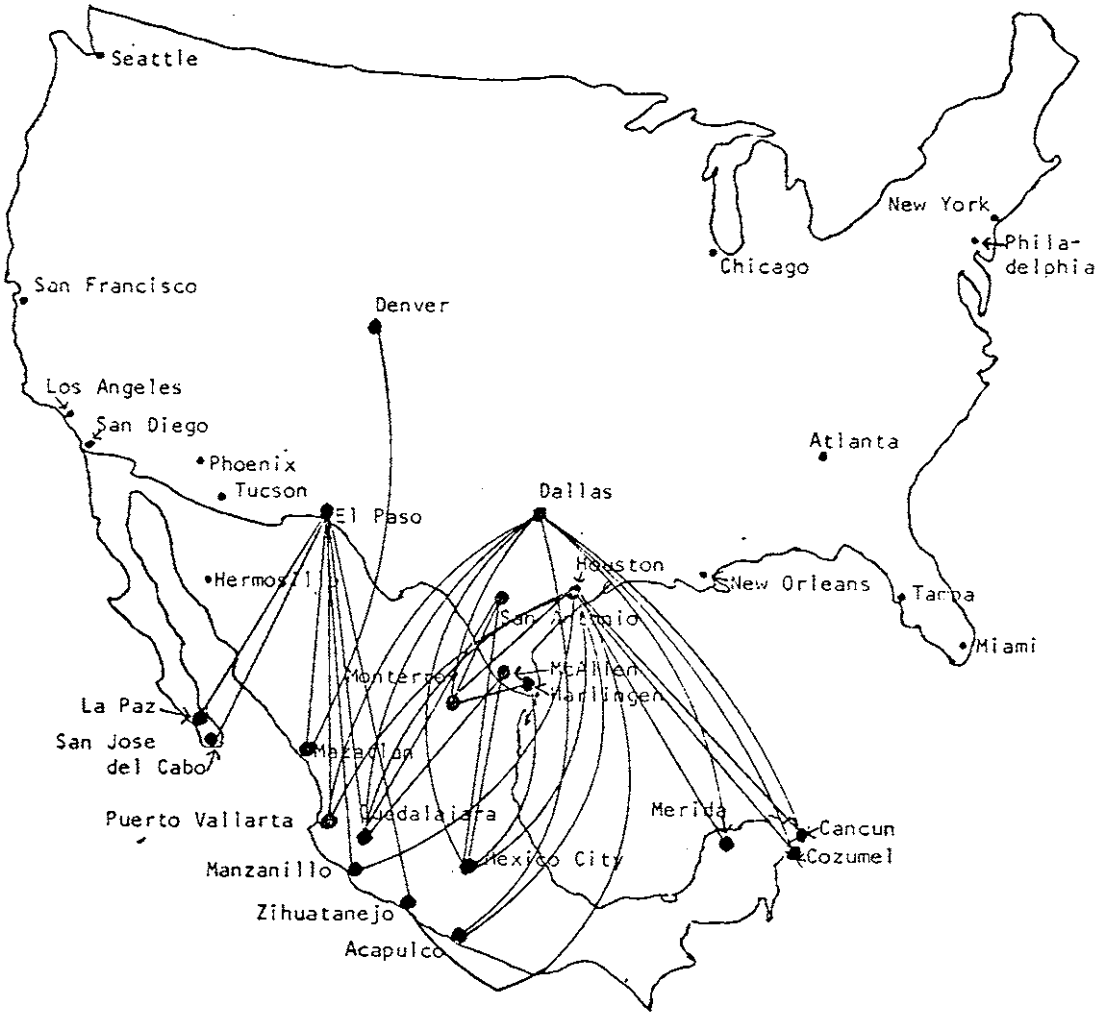


[1]The Chicago-Guadalajara route was scheduled to be in operation by July 1, 1981.

Source: Chapter 5.

Figure 8.3

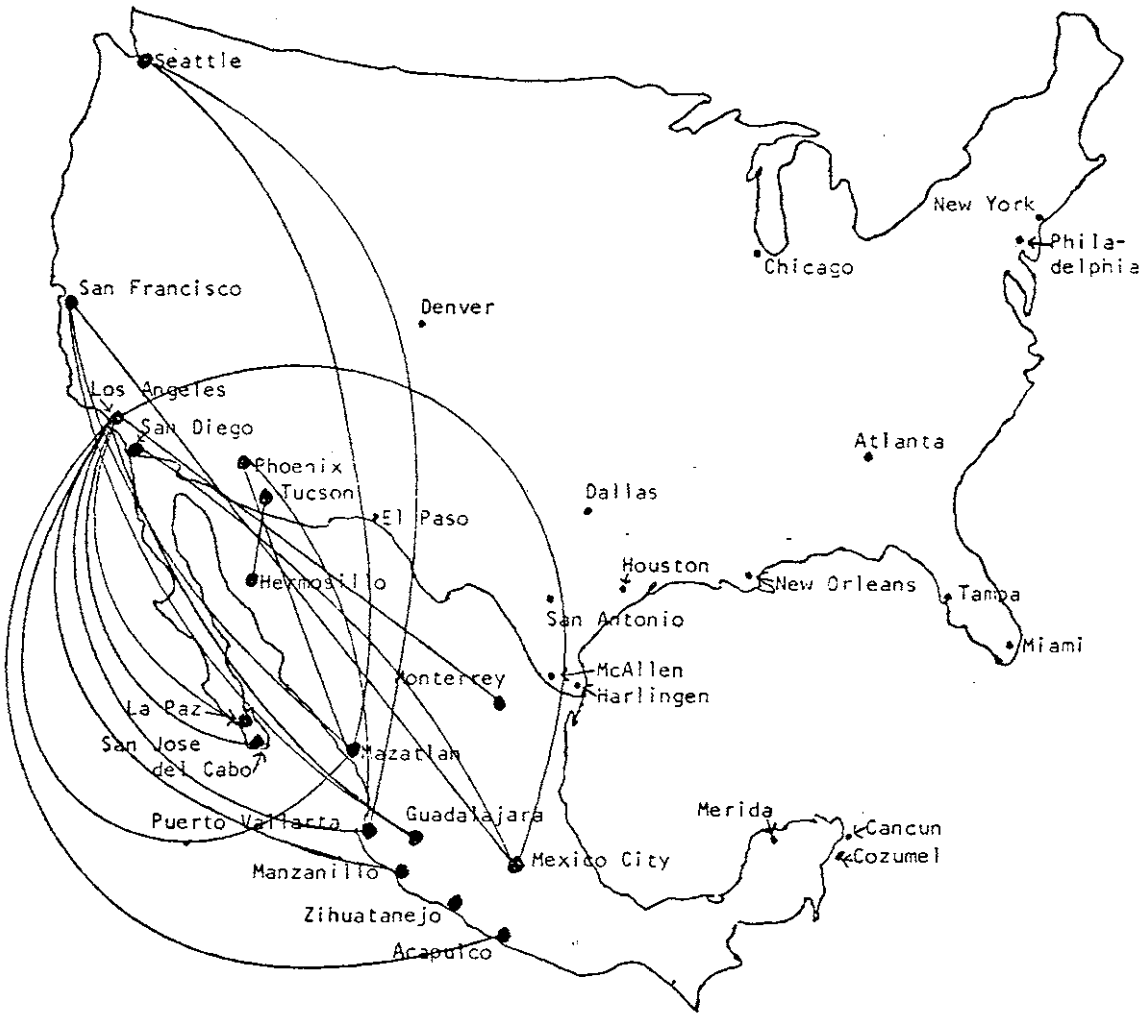
ROUTES IN OPERATION AS OF MAY 1, 1981:
FROM THE CENTRAL UNITED STATES TO MEXICO



Source: Chapter 5.

Figure 8.4

ROUTES IN OPERATION AS OF MAY 1, 1981:
FROM THE WESTERN UNITED STATES TO MEXICO



Source: Chapter 5.

Figure 8.5

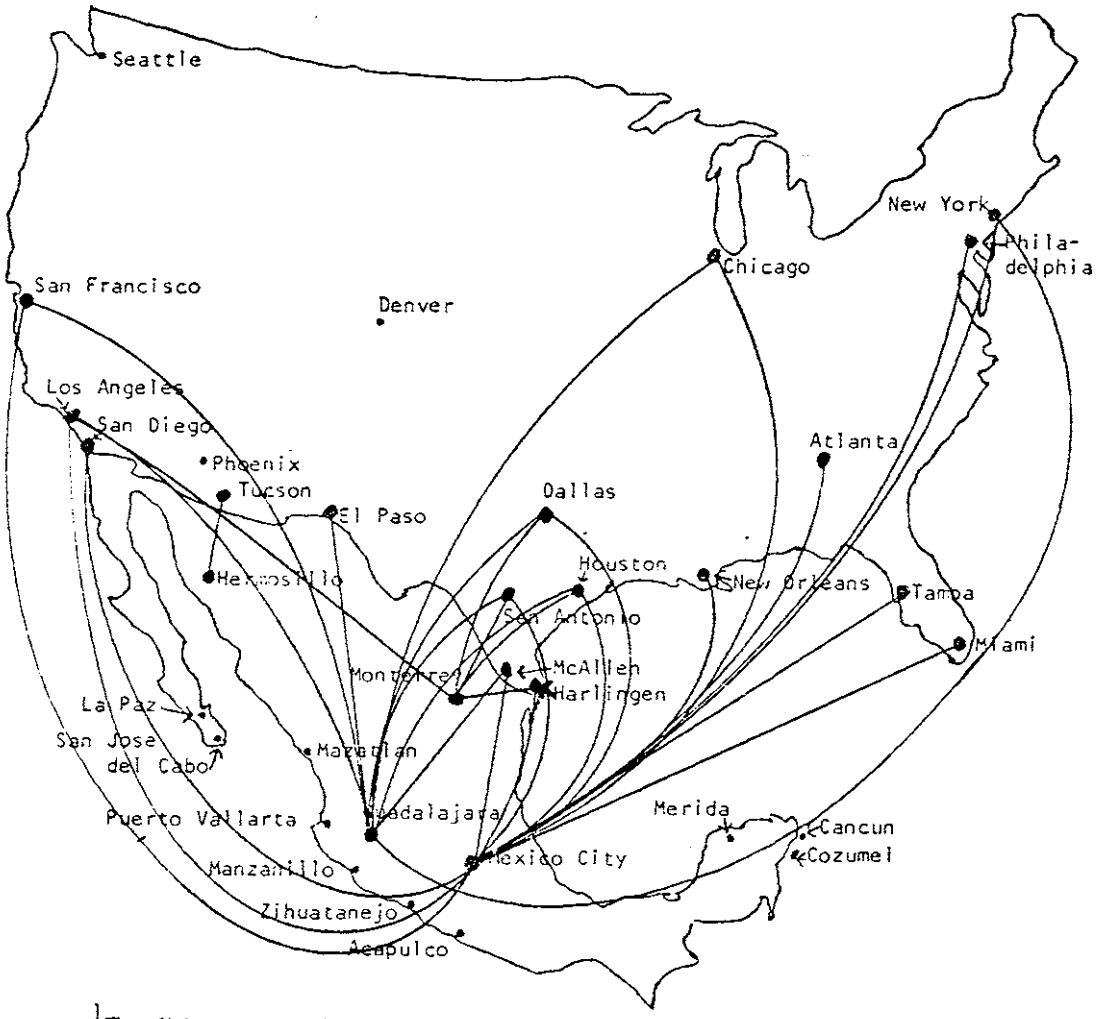
ROUTES IN OPERATION AS OF MAY 1, 1981:
FROM EASTERN MEXICO (YUCATAN) TO THE UNITED STATES



Source: Chapter 5.

Figure 8.6

ROUTES IN OPERATION AS OF MAY 1, 1981[1]:
FROM CENTRAL MEXICO TO THE UNITED STATES

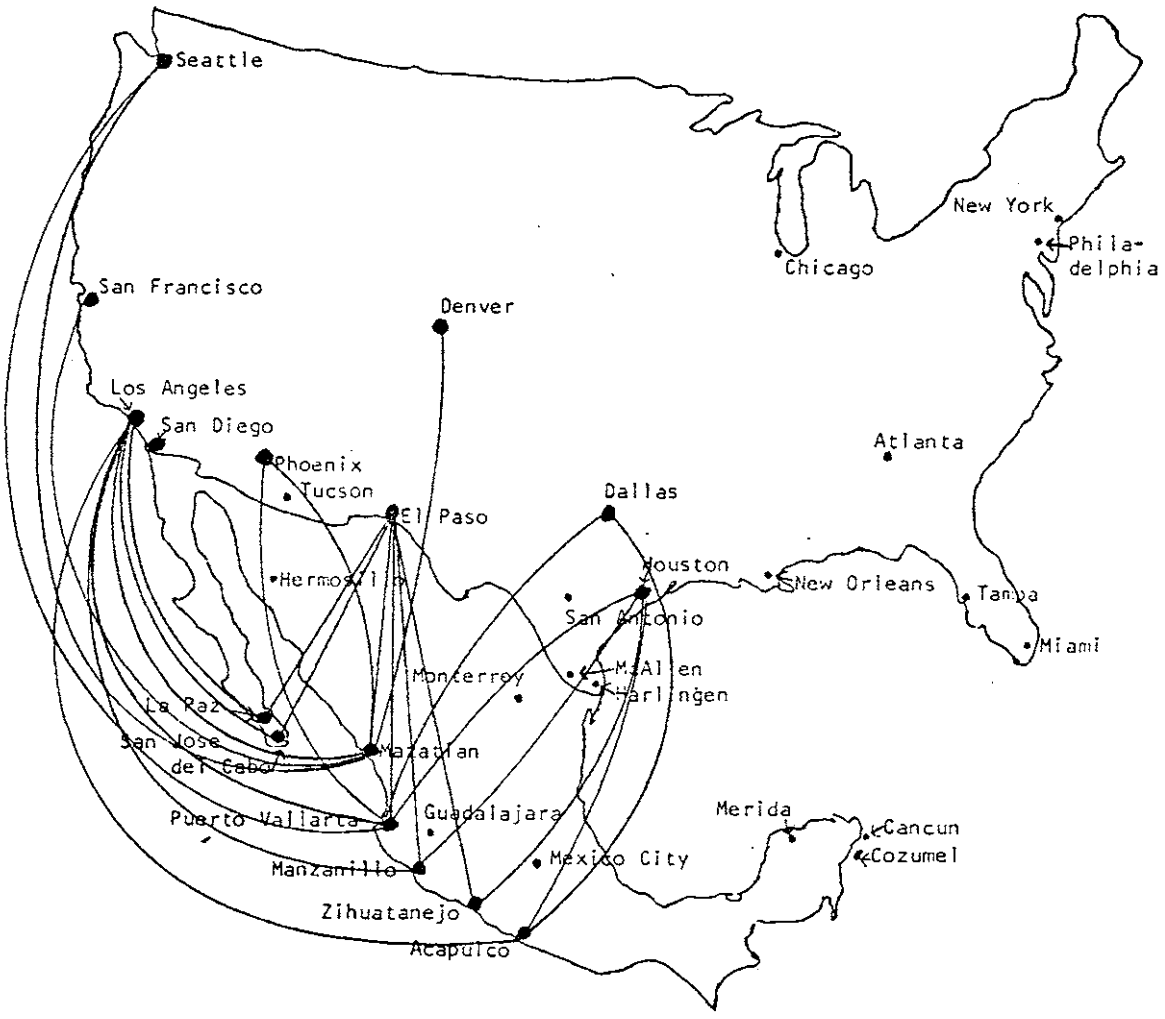


[1] The Chicago-Guadalajara route was scheduled to be in operation by July 1, 1981.

Source: Chapter 5.

Figure 8.7

ROUTES IN OPERATION AS OF MAY 1, 1981:
FROM WESTERN MEXICO (PACIFIC REGION) TO THE UNITED STATES



Source: Chapter 5.

It is evident that there are grounds for productive negotiations between the United States and Mexico upon expiration of the current agreement. Traffic routes from the United States (Figures 8.2 through 8.4) and from Mexico (Figures 8.5 through 8.7) are dependent upon the bilateral agreement. An east-west pattern of routes is yet to be negotiated.

Chapter 7 provides a comprehensive analysis of current tourism development trends in Mexico. Figures 7.6 and 7.7 as well as Tables 7.5, 7.6 and 7.7 provide the reader with a detailed outlook of the tourism priorities and *ongoing* development projects in Mexico. Bilateral agreement negotiators in the United States and policy-makers in general might find in the above-mentioned analysis a valuable guideline for the establishment of an initial negotiating agenda with Mexico.

The timing of a new bilateral agreement should be studied very carefully. A new President will be inaugurated in Mexico on December 1, 1982, only one month before the expiration of the current agreement. Chapters 2 and 4 provide analyses that can be of use in understanding the significance of this change. In fact, before the end of 1981, the dominant Mexican party will choose its candidate.
Negotiators on both sides should take this into account.

Yet, the main policy guidelines of both nations are not likely to change. The new Mexican administration will in all probability abide by the policies and lessons of the past.

In spirit, the current air transport bilateral

agreement between Mexico and the United States is moderately liberal. It is an excellent compromise between the extreme positions held by these two nations. While the negotiation of new routes and gateways might be beneficial, the delicate balance achieved after years of negotiation and compromise should not be tampered with lightly.

CHAPTER IX
CONCLUSIONS AND FUTURE RESEARCH

The preceding study covers a very wide spectrum of subjects, which together provide a comprehensive analysis of the factors underlying the rapid expansion that the United States-Mexico air passenger market has experienced during the past few years. Most of these factors are related to a complex array of policy decisions made in recent years by the civil aviation authorities of both nations and the resulting bilateral agreements signed and implemented by the two countries. This investigation provides, therefore, a conceptual model that cannot be summarized, as a whole, in a few pages. Issues relating to the interaction of technology and society often require sophisticated and lengthy analyses whose results cannot be summarized successfully. In fact, this author believes that attempts to encapsulate such studies often bring negative results, which unfortunately, are not rare occurrences.

Bearing this in mind, this chapter has been written with the purpose of presenting general comments about some of the basic findings of this study. However, it should in no way be considered as a summarized substitute of the preceding chapters.

This work has demonstrated that Mexico *has* a coherent international air transport policy which is not only rational, but has been consistently utilized throughout the years. The assertion, on the part of some observers, that Mexican air transport policy

does not comport adequately with other Mexican self-proclaimed national objectives is incorrect.

Clearly the misunderstanding derives, among other things, from a failure to analyze in a true interdisciplinary fashion the factors, which unified, have shaped the international air transport policy of Mexico. Concomitantly, only by immersing oneself in the political and economic ideology of a nation, is it possible to reach an understanding of its motivations and interests. Countries have distinct philosophical orientations that lead them to differ in their interpretations of facts, formulation of problems and criteria of evaluation. This work has highlighted and explained, as free of rhetoric as possible, issues of concern upon which the United States and Mexico are not in agreement, which affect their air transport bilateral relationship. Recommendations are made to bring these two nations closer to agreement on a number of conflicting issues. Some national characteristics were especially helpful in explaining the variations in evaluation and planning. Mexico's concept of public interest, its protectionist policies toward commerce, and its views on tourism were extensively used in conceptualizing the problem.

Law, regulation and policy were examined and differentiated. The Mexican air transportation scene was characterized as being excessively regulated. It is precisely for that reason that sometimes statutes and policy seem to be indistinguishable and the borderline between them is not immediately obvious. By tracing the origins of both, this work has separated one from the other.

The study was constantly beset by problems of definition, measurement, and interpretation. The fact that Mexico, sometimes referred to as "many Mexicos", is a geographically and socially diverse nation, was taken into account. Demographic analysis was applied to understand present and future trends of air passenger demand. Aspects of income distribution and employment were linked to this. Age profiles as well as causes for air travel were included in the analysis. A general conclusion was that the potential "air passenger population" will continue to grow for at least fifteen years and then it will start to stabilize.

A coherent account of Mexico's tourism instruments of policy was introduced. Supply and demand were quantified and air transportation was always considered in the analysis. A basic contribution of this research was the presentation, drawing from Mexico's National Plan of Tourism, of a number of tables and maps that delineate ongoing projects of tourist development throughout Mexico. Air transport negotiators may find in these tables and maps material for substantial analysis and development of a diversity of options in upcoming United States-Mexico bilateral negotiations. At the same time, this material may well be of valuable help to airline route strategists.

The project of presenting a unified, comprehensive body of United States-Mexico air passenger statistics was accomplished. All main indicators of volume and growth were introduced. In addition, an analysis of the figures followed, presenting a significant number of numerical findings. It is clear that the growth of the older city-pair markets is slowing down. The

U.S. carriers are rapidly penetrating to new, unexplored markets. Their growth, in general, can only be termed as impressive. However, Subsection 7.3.2 abandons this optimistic view and presents a discussion that examines patterns of growth since 1970 and their relationship to the United States-Mexico price differential. Important aspects of currency exchange rates and inflation are linked here to the continued growth (at least at present levels) of the market. While the general conclusion is not pessimistic, it moderates the optimism that the growth of previous years could generate.

Included in this work of statistical compilation and analysis are a number of surveys that provide insight into *who* travels and *why* in the United States-Mexico market. There is a long list of findings, some of them unexpected. For example, it was found that northeastern Mexico (bordering the United States) is the second largest source of Mexican air passengers to the United States (8%) while the northwest, which also borders the United States, supplies only 1.5% of the departing passengers. The surveys cover a span of several years and partially explain the effects of inflation on the air passenger population as well as other trends. Travel experience, size of traveling groups and trip purpose are also analyzed.

When analyzing the functional structure of the Mexican air transport industry, a number of problems that are affecting the industry are cited. Of these problems, the most urgent are the deficient state of aviation statistics in Mexico and the duplication of tasks and waste of resources in air transport-related government agencies. Several solutions, deemed as realistic, are proposed.

An examination of past and present United States-Mexico bilateral agreements was undertaken. The negotiating strategy followed by both parties over a period of several

years was analyzed. A number of cases of lost opportunity as well as overnegotiation were detected. As a result, a number of lessons were drawn and the author discussed the potential Mexican response to future negotiations. All-cargo negotiations and tariff liberalization, for example, were discarded as non-negotiable. On the other hand, it was shown that regardless of past Mexican flexibility on charters, this type of operation has remained relatively depressed. Therefore, it would be a waste of effort to continue to try to persuade the Mexicans to *formally* accept a liberal policy on charters. Many other points of importance were treated in this analysis. The current air transport bilateral agreement is regarded as an excellent compromise between the extreme positions held by the two nations.

The present study has introduced an analysis of the process of growth and structural change of the air transportation demand between the United States and Mexico. The singularity of this research rests directly upon the unique Mexican environment, which has been studied at length in the theoretical works of American scholars such as Vernon, Brandenburg, Reynolds and Wilkie and a great number of Mexicans. Changes in the anatomy of the society and economy over the past twenty years were used to introduce a number of theses dealing with the relationship between the growth of air transport demand and the plans of development of the Mexican government. It is in this context that this study can be used not only to understand the international air

transport markets to and from Mexico, but to gain preliminary insight into the cause-effect mechanisms of other developing nations, especially in Latin America.

Much work remains to be done. The United States-Mexico air passenger market, as important as it is, remains a virgin field for research. Disaggregate econometric modeling, for example, is an area largely unexplored. However, if an area has to be suggested as a follow-up to this study, it would be the direct analysis of the interaction between the air transport policies traced in this work and the resulting traffic between Mexico and the United States. Both nations could benefit from such work and the present study would then constitute only an initial step.

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BIOGRAPHICAL NOTE

Bernardo Lisker-Melman was born on June 15, 1952 in Mexico City, to Moisés Lisker, M.D. and Professor Sara Melman. His grandparents emigrated from eastern Europe in the 1920's and settled in Mexico where he was raised. He attended Mexico's National University and Anáhuac University (a five-year program), graduating with honors in 1976 as an Electrical Engineer. His thesis, for which he received an Honorable Mention, was a study on the relationship between the special theory of relativity and electromagnetism. He graduated first in his class; obtained the highest grade-point average earned in the Anáhuac University's School of Engineering since its inception; and was awarded the first Declaration of Excellence issued by the same school.

In 1976, Mr. Lisker-Melman entered the Massachusetts Institute of Technology's Department of Aeronautics and Astronautics to study biomedical engineering. After his first semester at MIT, he was nominated for associate membership by Sigma Xi "in recognition of his academic record". He remains a member of Sigma Xi. It was also at that time that Mr. Lisker-Melman shifted interests and entered the Flight Transportation Laboratory, where he was introduced to the field of air transportation, receiving a Master of Science degree in 1978. His Master's thesis was in the field of econometric modeling, developing a number of models and testing a number of techniques for the forecasting of air passenger demand. During the period of work for his doctorate, Mr. Lisker-Melman's interests in air transportation broadened. He engaged in an interdisciplinary program combining statistics, political science, and other subjects for the purpose of understanding air transportation policy-making issues.

Mr. Lisker-Melman first started working at age 16 as a programmer-analyst and continued this activity until he left Mexico for MIT. He has also held a number of teaching positions. At present he advises, as an independent consultant, firms in Mexico and the United States. His main extracurricular interest is history. He enjoys spending time in newspaper libraries, examining old newspapers and documents. He married Heidi Kominsky, a native of Philadelphia, in 1980. She is a Doctor of Medicine, presently completing her medical internship.

Those interested in academic correspondence with Dr. Lisker-Melman may write to the permanent addresses given below (preferably the U.S. address) or ask for his current personal address at the MIT Flight Transportation Laboratory.

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