



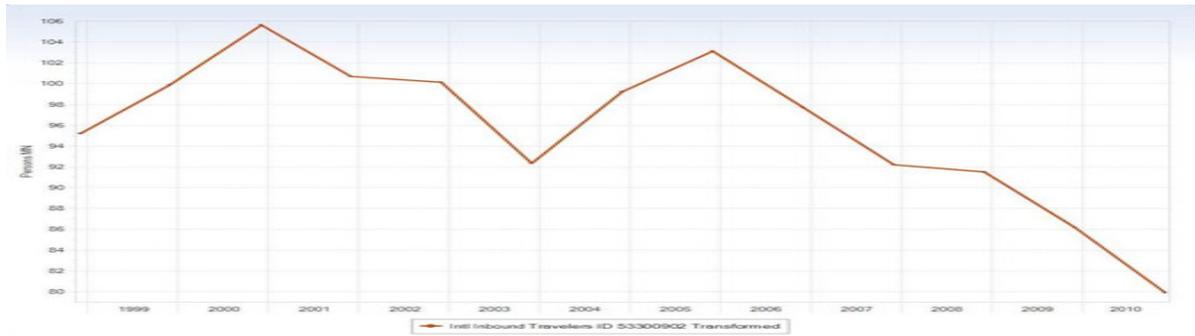
# UNITED STATES-MEXICO CHAMBER OF COMMERCE CÁMARA DE COMERCIO MÉXICO-ESTADOS UNIDOS

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## Issue Paper 3: Tourism Development, Medical Tourism, and Safe and Secure Tourism in Mexico

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Tourism represents close to 9% of the Mexico's GDP and it is the 3<sup>rd</sup> largest source of foreign currency earnings after petroleum and remittances. 2.5 million jobs depend on this sector, which brings in over 10 billion dollars a year. From 2005 to 2010, however, the number of foreign tourists who traveled to Mexico fell at a constant rate, as shown below on the graph. Revenue from foreign tourism also decreased, with the largest drop coming between 2008 and 2009, where revenue fell by 15% amid the global economic downturn and the swine flu epidemic.



2010 saw a slight increase of 5.3% making Mexico the 10<sup>th</sup> most visited country in the world with 22.4 million visitors in 2010. However, tourism to border areas was down by 10% from the previous year because of fears of safety. Similarly, this rebounded growth did not leave Mexico near its 2008 levels, with foreign currency earnings from international tourists still falling short by 8.5% or 1.8bn dollar in 2010.

Acknowledging that Mexico needs a better image, and with the need to revive the tourism sector in Mexico, President Felipe Calderon proclaimed 2011 as the Year of Tourism in Mexico. Additionally, he appointed a new Secretary of Tourism, Gloria Guevara, who along with the several Mexico Tourism Board offices located in the United States and around the world, have started a new campaign called, "Mexico, the place you thought you knew." Only time will tell if this new campaign succeeds in helping Mexico reach its goal of becoming one of the top 5 world destinations by 2018 with 50 million yearly international tourists. However, what is certain is that just pumping more money into the secretariat will not bring about the desired improvements. From 2003 to 2010 the budget for the tourism secretariat increased by an average of 15% a year, yet the sector contributions to the States' GDP in 2009 were a tenth of a percentage point less than in 2003.

## **Mexico Tourism 2011:**

According to a July 2011 study prepared for the Mexican Chamber of Deputies, international tourism revenues during the critical January-March high season dropped from \$3.66 billion in 2010 to \$3.32 billion in 2011. The study reported that spending from border tourists plunged by \$453.7 million during the January-May time frame, probably explaining why visitors entering Mexico hit a 20-year low during the first five months of 2011. A separate study by Banamex-Citigroup confirmed the downward dollar trend, reporting that between January and May of this year international tourism earned Mexico about \$5.3 billion in earnings, which was 5.9 percent less than the amount netted during the same time frame of 2010. Contributing to the fall in dollar earnings was the 1.1% drop in registered aerial arrivals in the first six months of 2011 compared to the same period in 2010. Additionally, the cancellation of cruise ship visits to Mazatlan, Puerto Vallarta and Acapulco by the Carnival and Royal Caribbean lines since last year has added to this decline.

On the positive side, Mexico has seen a 40.9% increase in Brazilian tourists, a 58.1% increase from Russia and 32.8% increase from China, according to Mexico's tourism ministry. This increase is in large part thanks to new programs that were created by the Mexican government to incentivize tourism from these countries. They include allowing holders of U.S. visas to enter Mexico, opening up the possibility of tourists to the United States extending their trips south of the border, allowing visitors from certain countries to gain travel permission on the internet with no need for a visa, and finally allowing visa's to be obtained through a travel agent, erasing the need for trips to embassies.

## **Tourism Development and Opportunities for Growth:**

Tourism doesn't necessarily have to come from abroad. Domestic tourism plays a big role in Mexico, making up 80% of the total activity with 161 million domestic tourists visiting sites across the country in 2010. As per capita income in Mexico increases, this number will grow at an even greater rate than that of foreign tourists. This is especially true when taking into consideration that the safety perception barrier that keeps many foreigners out, is less prominent among domestic tourists. Similarly, with the introduction of several new low cost domestic airlines, Mexicans who had never before stepped on an airplane, are now able to travel to almost anywhere in the country and an affordable rate.

One of the sectors where Mexican tourism growth has the greatest potential is in the Medical tourism industry. Medical tourism is the term used to describe the growing practice of traveling outside of your place of residence to receive a specialized surgery or medical attention at a reduced rate. While the most common procedure include heart, orthopedic, dental, and cosmetic surgeries, medical tourism encompasses every type of health care, including psychiatry, alternative treatments, convalescent care and even burial services are available. Similarly, medical tourism is a great option for patients that will undergo long-term treatments for illnesses such as cancer, as they can get the attention and services they need at a fraction of the price.

## Medical Tourism:

There are many factors that have led to the increasing popularity of medical travel including, the high cost of health care, long wait times for certain procedures, the ease and affordability of international travel, and improvements in both technology and standards of care in many countries. However, cost seems to play the most important role in the occurrence of medical tourism, as many surgery procedures performed overseas cost a fraction of the price they do in Western Countries. Below is comparison of different procedures and their costs in each country.

Procedure	USA	Mexico	India	Thailand	Singapore	Costa Rica	Korea	South Africa
Heart Bypass	\$130,000	\$40,000	\$9,300	\$11,000	\$16,500	\$24,000	\$34,150	NA
Heart Valve Replacement	\$160,000	\$30,000	\$9,000	\$10,000	\$12,500	\$15,000	\$29,500	NA
Angioplasty	\$57,000	\$5,000	\$7,500	\$13,000	\$11,200	\$9,000	\$19,600	NA
Hip Replacement	\$43,000	\$15,000	\$7,100	\$12,000	\$9,200	\$12,000	\$11,400	NA
Hysterectomy	\$20,000	\$6,000	\$6,000	\$4,500	\$6,000	\$4,000	\$12,700	NA
Knee Replacement	\$40,000	\$35,000	\$8,500	\$10,000	\$11,100	\$11,000	\$24,100	NA
DENTAL PROCEDURES								
Implants	\$2,400	\$1,500	NA	\$1,600	NA	\$1,650	NA	\$2,000
Dentures	\$1,600	\$1,000	NA	\$900	NA	\$1,100	NA	\$1,700
Crowns	\$800	\$375	NA	\$270	NA	\$400	NA	\$800
Porcelain Veneers	\$800	\$120	NA	\$240	NA	\$160	NA	\$300
Inlays and Onlays	\$420	\$220	NA	\$300	NA	\$240	NA	\$320
Surgical extractions	\$260	\$120	NA	\$120	NA	\$120	NA	\$250
Root Canals	\$750	\$260	NA	\$110	NA	\$280	NA	\$400

With so much growth in this industry, maintaining health care standards has been one of the greatest challenges. International healthcare accreditations, such as the Joint Commission International (JCI), Trent International and Accreditation Canada, are playing a major role in reassuring patients that they are receiving quality care when they pick a hospital or medical center abroad.

Insurance companies are also realizing the cost saving possibilities that medical tourism can bring and are slowly jumping on board. Blue Cross took the lead in medical off shoring when its Companion Global Healthcare subsidiary formed a partnership, with Bumrungrad Hospital of Thailand in 2008. Since then, they signed similar pacts with the Parkway Group Healthcare, owner of three hospitals in Singapore, and with hospitals in Turkey, Ireland, and Costa Rica. Three members of India's Apollo Hospitals Group are also joining the network. As an incentive, insurance companies can offer to waive all deductibles and co-pays, offer to cover travel costs for the patient and family members, even throw in a cash incentive, and still save tens of thousands of dollars. Closer to home, Blue Shield, Health Net and Aetna all offer plans to California companies whose employees want to cross the border into Mexico for health care. Health Net and Aetna contract with the Mexican health insurance company SIMNSA for their HMO plan. Coverage however, is generally restricted to providers in Mexican border cities.

Mexico, with its substantially lower procedure costs as noted in the chart above, and its proximity to the United States, is a great option for both patients and insurance companies. There are currently only 8 JCI accredited hospitals in all of Mexico the majority of which are based in the northern states. These hospitals and other similar, but non-accredited institutions and clinics, service over a million U.S. residents each year, who cross over to Mexico for procedures

ranging from dental to heart surgery. While in the past, the majority of these people have been recent immigrants to the U.S. and Mexican-Americans, with the economic crisis taking its toll, more and more people are crossing the border for these services. Just in Tijuana, Baja California alone, where there currently is no JCI accredited hospital, about 250,000 people a month cross the border for health products and medical services. Unfortunately, the northern states are also where the bulk of the drug violence is occurring, thus keeping this industry from growing to its full potential.

Another form of medical tourism is retirement and assisted living communities. While the goal is to house retirees at least for half of the year, if not full time, the fact that the money paying for their living is coming from abroad still makes this a form of tourism and one that should be heavily developed.

### **Retirement and Assisted Living Communities:**

The 2010 U.S. Census projects that the number of U.S. retirees will soar from 40 million to nearly 90 million by 2050. Already, 5 million American retirees live abroad, of whom 2.2 million are in the Western Hemisphere -- mostly in Mexico, the Dominican Republic and Brazil. Another 1.5 million live in Europe and 850,000 in Asia. Just in the Western Countries alone there are 220 million baby boomers that will need major medical and/or retirement attention by 2015. By choosing to retire in Mexico, retirees can receive the same attention and have the same amenities they would in their home countries, at a fraction of the price. As a result, these services would become more accessible to a larger portion of the population.

A poll conducted among potential buyers or tenants of retirement communities abroad found that the top two priorities for deciding on a retirement community were security and proximity to a top-notch hospital or medical facility. Mexico has a very strong record when it comes to securing tourist facilities, especially for foreigners. The violence that is so widely portrayed in the news is regional, affecting mostly the northern Border States and not the sunny seaside cities and towns where retirement communities would ideally be located. This is not to underestimate the negative effect that the perception of Mexico as a dangerous country have had and will continue to have on people's decision making process, but this is a problem that can be ameliorated through a strong public relations campaign. More on this subject discussed below.

The lack of certified medical facilities geared towards this industry, poses the greatest challenge for the development of this market. Five of the eight accredited hospitals are located in the northern states and the other three are in Mexico City and Guadalajara, nowhere near resort towns. Therefore in order to attract more retirees and propel this industry, public and/or private investments in medical infrastructure in resort towns will have to be made.

### **Tourism Investments:**

Private sector investments, including 17.15% from foreign investors, helped develop 869 projects in 2010, compared to 500 projects the previous year. The United States, Spain, and Canada were the top three investor countries in tourism-related projects. Beach destinations received \$1.6 billion USD in investments, the Central Region received \$950.31 million, the Northern Region received \$570.29 million, and the Mayan Region received \$397.68 million.

Private investment in tourism projects rose 127% to \$903 million in the first three months of 2011 versus the same period in 2010. Mexico City was the top destination for tourism-related funds, receiving \$196 million, followed by the Pacific coast state of Nayarit, with \$164 million and the central state of San Luis Potosi, with \$101 million.

One of the leading drivers in tourism investment is FONATUR, which in Spanish stands for the National Fund for Tourism Development Projects. Since its creation 35 years ago, FONATUR has contributed significantly to strengthening the nation's tourism industry through its development and operation of several "Fully Planned Resorts", including those located in Cancun, Los Cabos, Ixtapa, Huatulco and Loreto, as well as a new location, Teacapan in the State of Nayarit. Today, these resorts are home to 40% of the country's five-star hotels, host 46% of the foreign tourists that stay overnight in Mexico, and represent 54% of the foreign revenue generated in Mexico from tourism. Total, FONATUR has invested over 2.6 billion dollars in these projects. These investments, however, are minimal when compared to the amount of private investments that have they have generated. In Cancun for instance, for every dollar that FONATUR put in, there has been 19 dollars invested by the private sector.

### **Safe and Secure Tourism:**

In April of this year, the State Department issues an updated travel advisory on Mexico. This new warning is a step in the right direction, speaking of the violence as region specific and not targeting tourists or touristic areas. However, the overall picture it paints of Mexico is still one that makes foreign tourists think twice before planning their trip to the country. Similarly, isolated incidents such as assaults and robberies in touristic locations, which happen in every part of the world, have been grouped with the regional violence. Tour operators and especially cruise ships are reducing their trips and port calls to Mexico because of what they call the security threat in Mexico. Sadly, these decisions are being made based more on skewed news and media reports, than on actual facts. In 2008 the number of assassinations per 100,000 inhabitants in 4 of Mexico's top beach destinations were .0010 in Cancun, .0030 in Huatulco, .0010 in Ixtapa, and .0000 in Los Cabos. In Miami, a popular beach tourism destination, this number was .08.

Mexico must follow in the steps of countries like Brazil, which has a higher murder rate per capita than Mexico, yet perceptions of violence there are much lower. The media and its reporting of Mexico, will play a key role in transforming Mexico's image. Regardless of media coverage, however, the violence is still very much a reality in certain parts of the country and it will keep driving people away until it is eradicated. As mentioned above, the North of the country, which shares a 2 thousand mile long border with the richest country in the world, has the most touristic growth potential. Apart from the day visits by residents of the Border States, there is great opportunity for an increase in retirement and assisted living communities near the border, especially in Baja California. Unfortunately, the border region is also where the greatest violence is occurring; therefore, it is unlikely to see this sector grow too much in that region until the security situation improves.

## **Recommendation:**

The Mexican federal government has committed itself to the promotion of tourism by investing the necessary funds into the Secretary of Tourism and creating a new campaign to lure foreign visitors to the country. Only time will tell if this effort will succeed in getting Mexico to the levels that it hopes to achieve. However, there is a second part to the equation and that is the investment in the tourism industry. In order for Mexico to attract foreign visitors it also needs to attract foreign investors. FONATUR has done a great job creating new projects in a way that investors only have to put in the money and not worry about the administrative part. What FONATUR, other similar government agencies, and many of the States themselves are lacking is a more efficient and effective way of promoting and disseminating the opportunities available for investment. Therefore, just like the Secretary of Tourism has set up tourism promotion offices in the United States and around the world, FONATUR and the other government and private agencies involved with the investment side of the equation should do the same.

The United States cannot and will not be able to sustain its medical care system with the amount of baby boomers that will be requiring medical attention in the coming years. Additionally, and rising cost of care and the over 52 million Americans without insurance, will leave the country struggling to find a way to keep its population healthy at an achievable cost. The healthcare reform bill passed last year was a good first step in cutting long term healthcare related costs and ensuring the coverage of more Americans, but the reality is that healthcare in the United States is just too expensive to be able to cover everyone's needs. Therefore, the USMCOC believes that the United States government and private insurance companies should promote and even make legislation that encourages Americans to seek treatment outside of the country, where costs can be up to 90% lower for certain procedures.

Mexico should recognize this huge potential market and make the necessary investments in hospital and medical facilities to accommodate these patients. More hospitals will need to be certified, as well as increase their number of bilingual staff. However, before any private or public investments can or will be made, Mexico has to make alliances with North American doctors, hospitals, and insurance companies to allow patients to have the option of getting treated in Mexico.

The USMCOC also believes that the market for retirement and assisted living communities in Mexico has great potential and we recommend that the Mexican government and private investors work together to develop this industry. Developments for these communities will have to be large and well coordinated as Certified hospitals and clinics will need to be built as part of the communities in order to attract the desired clients. Additionally, as noted above, these Mexican hospitals will need to have agreements with insurance companies and the U.S. government to have them cover the services performed on their patients.

As for the tourism safety and the perceptions related to it, Mexico must attack and challenge this issue head on. Tourism campaigns should not deny the violent realities that parts of the country are going through, but they should stress that the violence is localized. They should point to the fact that tourists and tourism locations are as safe or even safer in Mexico than in many places around the world where Americans regularly visit, like as Brazil or Jamaica.