

**A Comparative Analysis of Two Poles of Tourism Development:
Loreto and Los Cabos.**

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Introduction

Why compare tourism in Loreto and Los Cabos? Given their differences, it may seem that we cannot learn much about Loreto by looking at Los Cabos. The former is a small, quiet, traditional, town with more than 300 years of history, while the later is a sprawling, bustling, artificial creation of the late-20th century. Both are important destinations for foreign tourists, but Los Cabos has grown much more rapidly over the last twenty-five years and has a tourism industry that is more than ten times larger than Loreto's, when measured by the number of tourist visits (Table 1).

In spite of their obvious and significant differences, it is worth thinking about Loreto in terms of the recent history of Los Cabos. In 1976, Mexico's tourism development agency, FONATUR, designated Los Cabos as a site for large-scale tourism development. This is the same agency that planned Cancún, Huatulco, and Ixtapa, and that is currently planning a number of other large-scale tourism developments. In the mid-1980s, FONATUR added Loreto to its list of target developments, and although the initial conditions were not as favorable for the sustained growth of an international, grand-scale site, Loreto has remained on the agenda since then. With the recent entry of the Loreto Bay Company onto the scene, Loreto has entered a new and perhaps more rapid era of growth. The Canadian-based company plans to add 5,000 new homes to the area over the next 10 to 15 years and, depending on its degree of financial success, it will reduce some of the size differences between Los Cabos and Loreto. Consequently, Loreto's future may begin to look more like the recent history of Los Cabos than it does its own recent past.

Tourism development is an economic strategy for creating more rapid and potentially broader economic growth. It is equivalent to selling exports in that the host country sells goods and services to foreigners in exchange for dollars and other foreign currencies. All economic activities, however, have a broad set of environmental and social impacts, some of which are direct, and some of which are indirect. For example, Baja California Sur's natural capital, including its biodiversity and the unique beauty of its terrestrial and marine environments, draws tourists to the region. In turn, these tourists have an impact on the local environment that can be relatively benign or harmful, depending on environmental planning. The process does not stop at this point, however; new residents and tourists will create demand for restaurant meals, car repairs, housing construction and maintenance, and other needed services. This will generate significant in-migration of people from other parts of Mexico who will come for jobs and to supply the added demand for goods and services. The Mexican nationals who come will live outside the tourism industry and the wastewater from their new colonias, the electricity for their lights, the schools for their children, and all of the other goods and services they need, will be indirect but constitute additional impacts of tourism. These indirect impacts will be on the environment and on the demand for basic urban infrastructure and social services.

With Loreto in mind, Los Cabos is worth a closer look. Inevitably, if Loreto's tourism industry "takes off," the patterns of interaction between economic, social, and environmental forces will be largely the same in Loreto as they are in Los Cabos. The details may differ, but the basic constraints and opportunities that are set by the natural environment interacting with national policies and international trends are nearly the

same. In this respect, the differences in the forces acting on Los Cabos and Loreto are quite small.

In spite of these considerations, the future of Loreto is as yet unwritten. Based on comparisons with Los Cabos, this essay attempts to define some of the challenges that Loreto will encounter as its tourism sector expands. The next section discusses the characteristics of the tourism sector in both municipios, including its size and growth since the 1970s. That is followed by a discussion of employment characteristics related to firm ownership, firm size, and wages. One of the goals of this section is to throw light on the relationships between firm structure (family owned, sole proprietorship, corporate), wages, and inequality. A major threat to Loreto is that the growth of the tourism sector will generate hierarchical and unequal economic outcomes as large scale investment centralizes the control of the regions most valuable economic assets (hotels, housing developments, etc.) and simultaneously generates a demand for low wage, unskilled service sector workers. The later would be met through in-migration from the mainland, as has occurred in Los Cabos. This scenario is discussed in the next-to-last section, while the conclusion offers some thoughts on how that outcome might be avoided through the development of small scale local enterprises.

Size and characteristics of the tourism sector

Table 1 illustrates the size of the tourism sector in the municipalities of Loreto and Los Cabos, and shows the growth in hotels and visitors since Los Cabos was designated as a site for large-scale tourism development in 1976. Both Loreto and Los Cabos have grown as tourist destinations, although Los Cabos has grown much faster than Loreto. Los Cabos has increased its number of visitors by more than 15 times, while

Loreto's increase in visitors has been under five times from 1976 to 2000. In 2000, Loreto was not much bigger than Los Cabos in was 1976, and while it had 3 more hotels, it had many fewer rooms available. Another important characteristic of the changes in both locations is the shift from a near balance in foreign and domestic tourists to an overwhelming focus on the foreign tourist market. Consequently, the types of tourist experiences preferred by foreigners coming from the United States, Canada, and possibly Europe, will determine the style of tourism that is most successful.

[Table 1]

This last point is worth emphasizing. Tourism is a luxury good so that its share of household budgets increases with the growth of income. Consequently, it is well known that the demand for tourism experiences will grow faster than income. This does not mean a uniform expansion of tourism services, however, because it is possible that the mix of preferred experiences will change as well (Weiss, 2004). For example, as high-income countries gain greater sensitivity to the environment, preferences change. In the last 25 years, a take-off of ecotourism and adventure tourism has occurred, while cruise ships have added climbing walls, kayaking, and other opportunities for their passengers to feel closer to the natural environment. In Loreto itself, the Loreto Bay project is a partnership with the Trust for Sustainable Development, and although that does not necessarily imply a completely benign environmental impact, at a minimum it demonstrates a deft marketing touch and an awareness of social trends that favor greater environmental conservation.

An overview of employment, occupations, and wages

As shown in Figure 1, Los Cabos and Loreto have larger shares of their labor force in the hotel and restaurant sector, reflecting the relative importance of tourism to both municipalities. In the case of Los Cabos, nearly one-fourth of its jobs are located there. In addition, some share of the jobs in commerce depend on direct and indirect sales to tourists and, perhaps related to the growth of tourism, both municipalities are also relatively larger than the state average in their construction sectors.

[Figure 1]

Looking at the characteristics of the hotel and restaurant sector, Figure 2 shows that more of the employment in Loreto is of the family type. Employment in hotels and restaurants is divided into the three occupational categories of administrators, operatives or workers, and owners and their family members (*familiares y propietarios*). In Loreto, the category of family businesses and sole proprietorships employs nearly 20 percent of the workforce, which is more than twice the percentage in Los Cabos. Given this difference, it is not surprising that Loreto's higher proportion of family-owned and operated firms reflects a smaller scale of tourist enterprises, as shown in Figure 3.

[Figure 2]

Figure 3 shows the distribution of employment by firm size in the hotel and restaurant sectors. Given their relative sizes and the histories of tourism in the two municipalities, it is not surprising to see that firms in Los Cabos tend to be much larger. Over one-half of the employment in hotels and restaurants is in firms with 100 or more employees, while no hotels or restaurants in Loreto are that large. This pattern reflects the large amount of foreign and national investment into large-scale resorts. These are

precisely the investments that FONATUR has encouraged and that are responsible for the growth of tourism in the region. Without the construction of large hotels and resorts, it is impossible to imagine a fifteen-fold increase in the number of visitors in less than 25 years. Conversely, nearly one-half of Loreto's employment is in firms with 10 or fewer employees, again reflecting the small scale of tourist enterprises and the higher proportion of family owned and operated ventures.

[Figure 3]

Figure 4 plots the distribution of wages and salaries in all sectors in Loreto and Los Cabos. As is common practice in Mexico, wages are measured in terms of multiples of the minimum wage, which is 45.24 pesos per day in Baja California Sur (CNSM, 2004). As shown in Figure 4, nearly 90 percent of Loreto's wages and salaries are five minimum wages or less, and nearly 50 percent are two minimum wages or below. By comparison, wages and salaries in Los Cabos show a greater probability of being six wages or above, and a lower probability (25 percent) than in Loreto of earning two minimum wages or less.

Figure 4 seems to imply that the large-scale tourist industry provides better employment opportunities at least in terms of wages. Ultimately, it is an empirical question whether employees have better career ladders, more opportunity to learn skills, and a better chance for higher wages. It is easy to imagine that working for a large international chain such as Hilton or Marriott might provide a better set of opportunities, along with better wages, and that it might increase the relative size of the managerial workforce.

[Figure 4]

However, the data in Figure 4 are not conclusive since Loreto is significantly more rural than Los Cabos and many of the low salaries reflect conditions in agriculture and rural areas where small scale, semi-self sufficient ranchos eke out a living in an only partly marketized economy. Further, the wage data are driven by a number of factors and not solely conditions in the hotel, restaurant, and tourism industries. Given the differences in the size of the agricultural sectors in the two municipalities, it is worth omitting rural areas and isolating the distribution of wages in urban areas. Figure 5 shows the results. When rural areas are omitted, the proportion of the labor force with two minimum wages or less is greater in Los Cabos than in Loreto. Los Cabos still has a higher proportion of its workers earning 10 minimum wages or more, but Loreto has a larger share of its workforce in the middle ranges, above two and below 10 minimum wages.

[Figure 5]

Given that Los Cabos has both more workers at the lower tail and at the upper tail, it is certain that income from wage labor is less equally distributed. There is insufficient data to determine a Gini or Theil coefficient, or to know what the situation is for non-labor income. There are a variety of possible explanations, but clearly overall labor market conditions are part of the story. For example, one of the key differences between Los Cabos and Loreto is the pull of their labor markets on mainland Mexico. Loreto's relatively small tourist sector, and the growth in employment and jobs in Los Cabos has made the latter a much better place for migrants seeking employment. This point is brought out in Table 2.

[Table 2]

Table 2 shows that Loreto is a weaker magnet for attracting migrants from other parts of Mexico. According to the XII Census of Population and Housing (2000), nearly 80 percent of *Loretanos* were born in Baja California Sur, while about 50 percent of the residents of Los Cabos are from outside the state. The demand pull-effects of migration to Los Cabos is at least partly a result of the growth of the tourism industry and the opportunity to find work. In addition to the availability of jobs, supply-push factors are at work as well, particularly in the state of Guerrero, where the tourist center of Acapulco is shifting from an international destination to a national one, and large numbers of tourism-sector workers have lost their jobs.

All else equal, a greater supply of workers will cause average wages to be lower. It is an empirical question, however, whether the demand for workers increases faster than the supply, and the consequent result on the direction of wage changes. Further, it is not certain what is behind the less-equal distribution of wages shown in Figure 5, but one hypothesis must be that it is related to large-scale investment by international tourism firms which employ more people at both the upper and the lower tails of the wage distribution. The relationship between greater inequality on the one hand, and investment and economic growth on the other, is complex and not well understood, and it is likely that there is no single simple explanation. However, economic growth in Los Cabos shares many of the characteristics of other regions in Latin America where relatively dynamic economies have not reduced poverty or improved the conditions of inequality. In part, this is thought to result from the lack of access to assets by poor people, and ultimately, from the exercise of economic policy planning without social policy considerations (Birdsall and Lodoño, 1997; 2003).

Successes, weaknesses, opportunities, and threats: Loreto's future

Loreto has grown slowly and successfully for over 300 years. Its downtown core emphasizes its place in the history of the Californias, its small but vibrant marina is thriving, and it has developed an interest in the conservation of its bay and the islands just off shore. *Loretanos* have a sense of place and take pride in their community.

Regardless of its past, the municipio is about to be challenged in new ways that it does not expect. On the southern edge of the urban core, Canadian development dollars are building the community of Loreto Bay as a retirement and vacation community for people from Canada, the United States, and anywhere else that people with wealth might come from. The goal is to construct 5,000 new homes, a figure that is slightly less than double the number of housing units (*vivienda particulares*) enumerated in Loreto by the 2000 census (INEGI, 2001b).¹

Many of these units will be vacant for part of the year, and it is anticipated that few, if any of the residents will work in Mexico. Given the number of new housing units, a very conservative estimate would be that the population of Loreto will double. For example, suppose that the 5,000 homes have 10,000 year-round residents. This assumes two per unit, which may be below the actual average, but takes into account that some of the units are empty for part of the year.² This conservative estimate of 10,000 is a near doubling of Loreto's current (2000) population of 11,812. The occupants of these units will be relatively high-income individuals by Mexican standards since the units are

¹ The census lists 2,873 housing units in the municipio in 1999 (INEGI, 2001b, p. 254).

² In the 2,873 housing units enumerated by the 2000 census, there were 11,812 individuals, or 4.1 people per housing unit.

relatively expensive³ and the marketing strategy is directed at high-income countries, especially Canada and the United States. The new residents will constitute a significant source of new demand for goods and services that will, in turn, be an increase in the regional derived demand for labor. In a nutshell, the doubling of Loreto's population through a direct increase in population will generate indirect effects leading to far more than a doubling of population. Many of the new residents who come to supply the new demands for goods and services will be migrants from the Mexican mainland and communities where job opportunities are limited.

For every occupant there is an increase in the demand for food, transportation services, housing maintenance, entertainment, personal services (haircuts, medical, etc.), and other goods and services purchased locally. Local multipliers are "leaky" since much of the local demand for goods and services will be supplied by firms from outside Loreto and Baja California Sur. However, many services and some goods must be produced at the point of consumption and cannot be transported from afar. Restaurant meals, personal services, construction, transportation services, live entertainment, recreation, and more will have to be supplied by local labor.

Given the spending power of the average person living in the new development, it is not hard to imagine a very significant increase in the demand for local goods and services, or, to put it another way, a significant amount of economic growth. This is potentially positive, but as the experience of Los Cabos indicates, rapid economic growth without simultaneous consideration of social and environmental policies can exacerbate inequality and environmental deterioration.

³ According to Marty Hope (2004) reporting in the *Calgary Herald*, the prices range from US\$150,000 to US\$2 million.

Again, Los Cabos is instructive since it shows some of the fundamental tendencies. For more than two decades, it has experienced growth in the demand for tourism services and in the supply of jobs. Growth and jobs have pulled workers from the mainland of Mexico, but social and environmental policies have not been designed to overcome the indirect effects of a large wave of migrants to the region. Basic urban infrastructure lags behind the immigration of workers, families find that schools are too few and too far apart, health care is scarce and difficult to access, and child care is mostly nonexistent because the extended family has not moved—grandmother and aunt remain in the place of origin. This does not mean that the migrants are worse off than they would have been if they had stayed in place, rather it means that in the context of an existing urban center like Loreto, which has its own long history and identity, the social and environmental challenges of trying to incorporate large numbers of migrants who will come to service the new developments, will fundamentally alter the urban landscape.

The recent research on inequality and the disappointing outcomes of the extensive economic reforms undertaken by Mexico and other Latin American nations is highly relevant. This research shows that when economic policy is considered separately from social policy, the growth effects are attenuated by unintended social consequences (Birdsall and Lodoño, 2003). The failure to include social policy in the economic growth planning analysis means that the effects of migration and labor conditions on the demand for social services are not taken into consideration, and in many situations, the highly unequal opportunities that one finds around Latin America, reproduce themselves. In order to be “sustainable,” developments such as the Loreto Bay Company project need to consider not only their own environmental footprint and the direct impact of the residents

they add to the region, but also the footprint and impacts of the Mexican population that comes to the region in order to service the new development. In the absence of such planning, Loreto will approach the development trajectory of Los Cabos at a much more rapid pace.

The challenge ahead: Differentiating Loreto from Los Cabos

It is perhaps unreasonable to expect a private development company to consider the entire range of direct and indirect social impacts that its investment will generate. Yet there are good long-run reasons why it might want to do so, and a number of small and relatively inexpensive initiatives it might take in order to reduce the pressures on Loreto to become another Los Cabos.

One of the key distinguishing characteristics of Loreto is the importance of small, family owned and operated tourism enterprises. This may change if economic growth overwhelms the community, but in the medium to long run, expansion of the family owned, or small-scale enterprise model may have significant beneficial effects. They put assets into the hands of less well-off individuals and that reduces poverty and inequality (Birdsall and Lodoño, 1997; Deininger and Olinto, 2000). Additionally, family-owned, small-scale enterprises are more easily linked to other local providers such as the surrounding ranchos and that makes them less likely to function as an enclave economy, and they also give Loretanos greater control over their own future.

A recent Secretariat of Tourism (2001) study of ecotourism and adventure tourism in Mexico pointed to the lack of managerial knowledge among those that have the skills to create such experiences. It also reported a lack of bio-geographical knowledge among small and medium sized enterprises, or among those with the skills and expertise to

develop the ecotourism or adventure tourism business. The cultural, historical, and natural capital of Loreto are of tremendous value, and a program for developing small-scale, cultural tourism, ecotourism, or adventure tourism enterprises, including the necessary support services, would provide a broader social base for supporting economic growth. In this context, the recently opened campus of the Universidad Autónoma de Baja California Sur, with its degree program in tourism, is a major contribution..

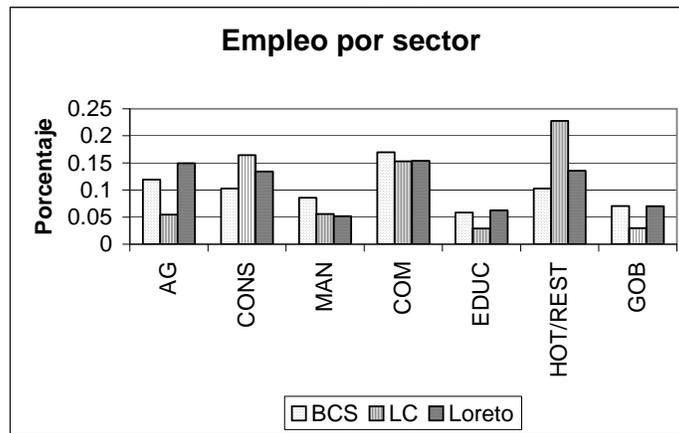
Workshops, seed capital, and legal and financial planning assistance would go a long way toward overcoming the legal, administrative, and financial obstacles faced by small and medium-sized enterprises in Mexico. These activities, along with further analysis, are particularly critical in areas where there are linkages between existing economic sectors and future tourism development. For example, agriculture, fishing, construction, and building materials fabrication, overlap with tourism and are but a few of the local activities that could potentially develop in unison with tourism. A detailed discussion of these issues is beyond the scope of this short essay, but whether these proposed initiatives are developed as partnerships involving municipal, state, federal, and private interests, or as initiatives of single entities, training and assistance for the development of local enterprises is an obvious policy for mitigating some of the unintended social consequences of rapid development, and for creating a “sustainable” social environment.

Table 1
Growth of Tourism in Two Municipalities

	1976		2000	
	Loreto	Los Cabos	Loreto	Los Cabos
<i>Hotels</i>	5	10	13	44
<i>Rooms</i>	138	544	471	4,842
<i>Tourists</i>	12,300	34,400	58,500	546,200
<i>National</i>	48.8%	43.0%	27.4%	15.0%
<i>Foreign</i>	51.2%	57.0%	72.6%	85.0%

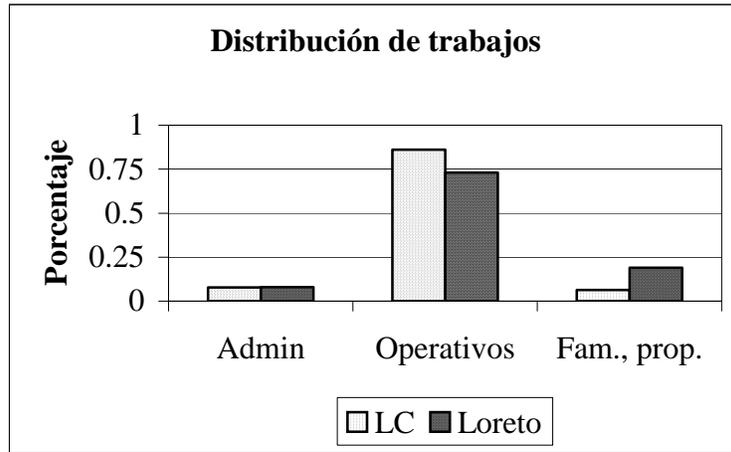
Source: FONATUR (2004).

Figure 1
Sectoral Employment



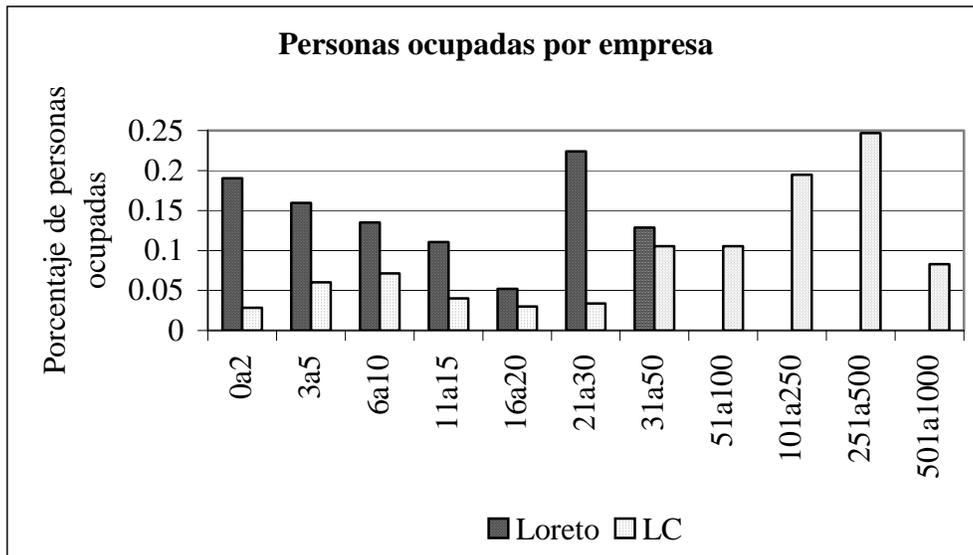
Source: INEGI. (2001a).

Figure 2
Occupations in the Hotel and Restaurant Sector



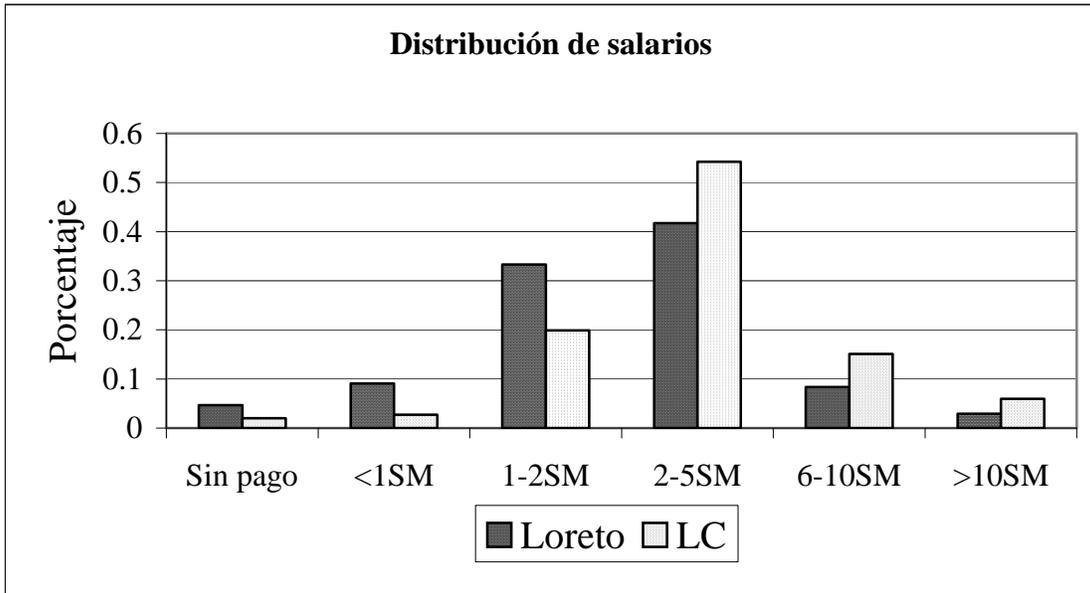
Source: See Figure 1.

Figure 3
Firm Size in the Restaurant and Hotel Sectors



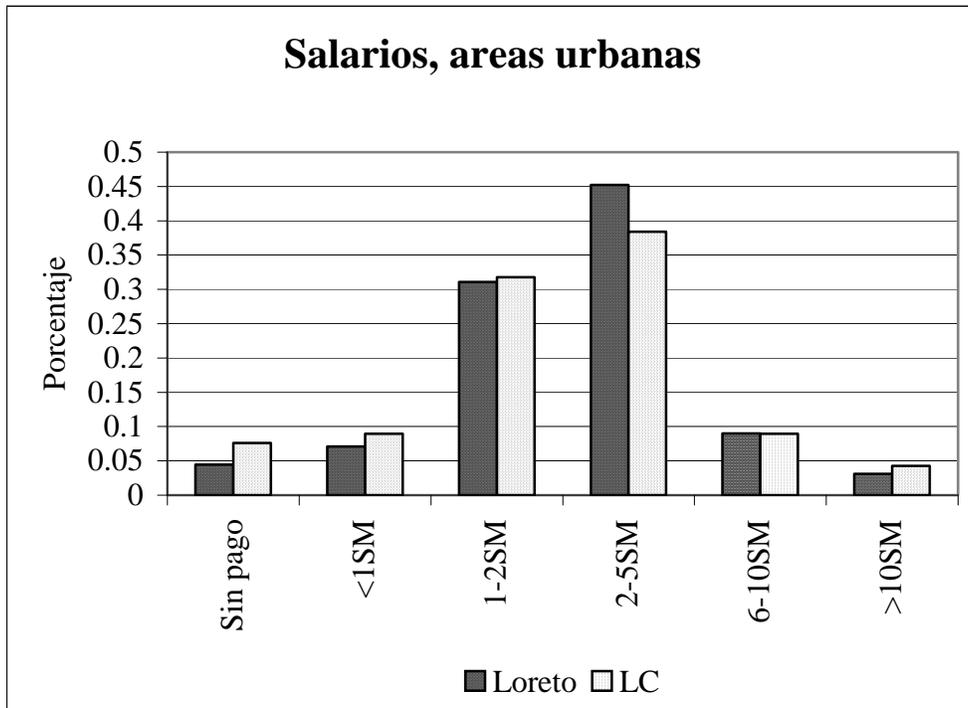
Source: See Figure 1.

Figure 4
Distribution of Wages and Salaries



Source: See Figure 1.

Figure 5
Distribution of Wages and Salaries, Urban Areas



Source: See Figure 1.

Table 2
Share of Population Born Outside BCS

	<i>Share of population born outside BCS, 2000</i>
<i>BCS</i>	0.325
<i>Loreto</i>	0.218
<i>Los Cabos</i>	0.495
<i>Born in Guerrero</i>	0.114

Source: INEGI (2001b).

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