

MANAGING THE TOURISM-LED DEVELOPMENT STRATEGY IN POST-WAR SRI LANKA

-Invited Paper-

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Abstract

The Sri Lankan tourism industry has been booming since the end of war in 2009. Considering the key role that tourism can play in post-war economic development, the Sri Lankan government launched a Tourism Development Strategy (TDS). This study has evaluated the feasibility of achieving the targets of the TDS by building a simple tourism demand model and by undertaking a qualitative comparative assessment with a selected tourism booms in a number of war-affected countries. The findings suggest that the TDS targets are achievable provided the country manages to expand supply of tourism related infrastructure (hard as well as soft) in a price competitive manner.

1. Introduction

There is a large body of literature on the relationship between international tourism and economic development. This literature has focused on the tourism-led growth hypothesis and it has established that the development of the tourism sector generates economic growth (see Balaguer & Cantavella-Jordá, 2002; Hazari & Sgro, 1995). Many single country case studies and cross-country studies provide empirical support to the tourism-led growth hypothesis. Brau, Di Liberto & Pigliaru (2011, p. 244) emphasised that: “more recently, different studies – both analytical and empirical – go a step further by pointing out the possibility that tourism can make an economy grow at a rate comparable with, or even faster than, the ones associated with other types of specialisation, in which the potential for sector-specific technological progress is higher”. Tourism has become an engine of growth in so-called tourism countries (TCs) such as Maldives, Pacific Island Nations and Island Nations in the

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West Indies. On the basis of the well-established empirical literature, tourism is “an increasingly popular component of development strategy in low-income countries” (Wattanukuljarus & Coxhead, 2008, p. 229). According to Wattanakuljarus & Coxhead (2008, pp. 829 - 230), the popularity of tourism as a component in development strategies is based on three beliefs. Firstly, tourism can play a substantial role in increasing foreign exchange earnings and in contributing to economic growth. Secondly, it can play an important role in improving income distribution through creating employment opportunities since tourism is a labour-intensive industry with relatively limited human capital skills required by employees. Finally, tourism is an environmentally friendly “clean” industry and its growth generally does not lead to adverse environmental impacts. On the basis of the above arguments policy makers can target tourism-led developments to accelerate economic growth and development in developing countries with potential for tourism development, particularly countries recovering from decades of war and conflict. Sri Lanka provides a fascinating example for a case study as it is recovering from three decades of political violence and a separatist war.

Following the end of nearly three decades of armed conflict between the *Liberation Tigers of Tamil Eelam* (LTTE) - commonly known as the Tamil Tigers - and government security forces in May 2009, Sri Lanka has witnessed an unprecedented post-war tourism boom. This tourism boom is similar to the experience of other former war affected Asian countries like Vietnam, Cambodia and Laos. The number of international tourist arrivals to Sri Lanka has sharply increased breaking all previous historical annual and monthly tourist arrivals records. The total number of arrivals has nearly tripled within four years (from 447,890 in 2009 to 1,274,593 in 2013). The experience of the short history of the post-war period shows that the tourism industry has now become a main driver of the Sri Lankan economy in terms of foreign exchange earnings, employment generation and attracting foreign direct investment (FDI). For example, in 2013 tourism generated 270,150 direct and indirect employment opportunities and US\$ 1,715 million foreign exchange earnings for the Sri Lankan economy (see Central Bank of Sri Lanka, 2014).

After recognising the key role that the tourism industry can play in post-war development the Sri Lankan government launched a Tourism Development Strategy (TDS) with a five year master plan for 2011-2016 setting a number of important targets centred on attracting a large number of international tourists. This demonstrates that the Sri Lankan government is very keen to accelerate economic development through tourism. It is also important for Sri Lanka to implement marketing and management strategies to rebuild its image as an attractive and safe tourist destination after decades of negative international publicity highlighting the ongoing political violence, the war and persistent acts of terrorism prior to 2009 as well as concerns around alleged human rights abuses in the final stages of the war. In addition to the TDS, Sri Lanka has launched a massive marketing campaign under the tourism branding slogan of “Sri Lanka - the wonder of Asia”. This strategy is important for Sri Lanka considering its effort to recreate its image and the competition it faces from other destinations in terms of attracting international tourists.

Against the above background, it is important to address some important issues related to the post-war tourism development, marketing and management strategies of Sri Lanka. Firstly, it is important to evaluate whether the TDS's targets are realistic or not as it appears that there has not been any systematic quantitative analysis conducted to guide the setting of its international tourism targets. In fact, with rare exceptions such as Selvanathan (2006), limited systematic quantitative studies exist in the Sri Lankan tourism literature aimed at setting targets based on empirical evidence. Secondly, it is important to identify the main constraints which need to be managed to accommodate a large influx of international tourists. Finally, the country has to maintain political stability and work towards reconciliation process with improved governance and maintaining rules of law in order for the development strategy to be fully realised.

This paper intends to make a number of contributions in terms of tourism strategy and management in Sri Lanka. The main contribution, however, is to evaluate whether the projections of tourist arrivals stipulated by the Sri Lankan government are achievable by using a simple econometric model and comparing the required growth rates with post-war tourism booms in some selected Asian countries. The rest of the paper is structured as follows. The next section provides a brief overview of Sri Lankan tourism in order to set the background for the study. A simple econometric model is developed in Section 3. Based on the empirical results of the model, the targets of the TDS are evaluated in Section 4. Some issues the Sri Lankan government needs to address are also discussed in this section. Section 5 makes a brief comparison of Sri Lankan tourism boom with post-war tourism booms in selected Asian countries. The final section is devoted to concluding remarks.

2. Tourism in Sri Lanka: Historical Perspective

Sri Lanka is an Island which can be considered as one of the TC as defined by Brau et al (2011) as a tourism destination, Sri Lanka has the ability to compete successfully with other destinations partly because of its pivotal geographical position. O'Hare & Barrett (1994, p. 43) pointed out that 'the Island 'controls' (as in colonial times) routes to the Far East as well as to other destinations in the Indian Ocean, the Middle East, Africa and Australasia'. Not only is its location an advantage, but also Sri Lanka offers a plethora of options for travellers including sunny beaches, favourable climate, rich cultural heritage, national parks and abundant wildlife (Lai, 2002). By using these advantages of location and natural as well as build attractions, the Sri Lankan government is currently promoting the country's tourism aimed at generating a significant expansion in incoming international tourist arrivals.

According to Sri Lanka Tourism Development Authority, the tourist industry in Sri Lanka began to develop on a commercial scale in 1966 with an introduction of a ten-year master plan for tourism development (see Fernando, Bandara, & Smith, 2013 for details of the evolution of tourism policies in Sri Lanka). There was a rapid increase in tourist arrivals during the period from 1966 to 1977, from 18,969 in 1966 to 153,665 in 1977 (see Figure 01). In other words, total international tourist arrivals to Sri Lanka grew at an average annual rate of 21 per cent over this period. With the introduction of open economic policies in Sri Lanka in 1977, the tourism industry

further expanded until 1982 - recording an average 23 per cent annual increase in tourist arrivals from 153,665 in 1977 to 407,230 in 1982. The period 1978-1982 can be considered as a relatively prosperous period in the early history of tourism in Sri Lanka. The first tourism boom (from 1966 to 1982) ended with the eruption of ethnic riots in July 1983 and the escalation of the separatist war in the North and East led by the LTTE. During the period 1983-2009, the Sri Lankan tourism industry was severely affected by this separatist war and the image of the country as a safe tourist destination was severely tarnished. Figure 01 illustrates the fluctuations of tourism arrivals in respective periods of war and peace.

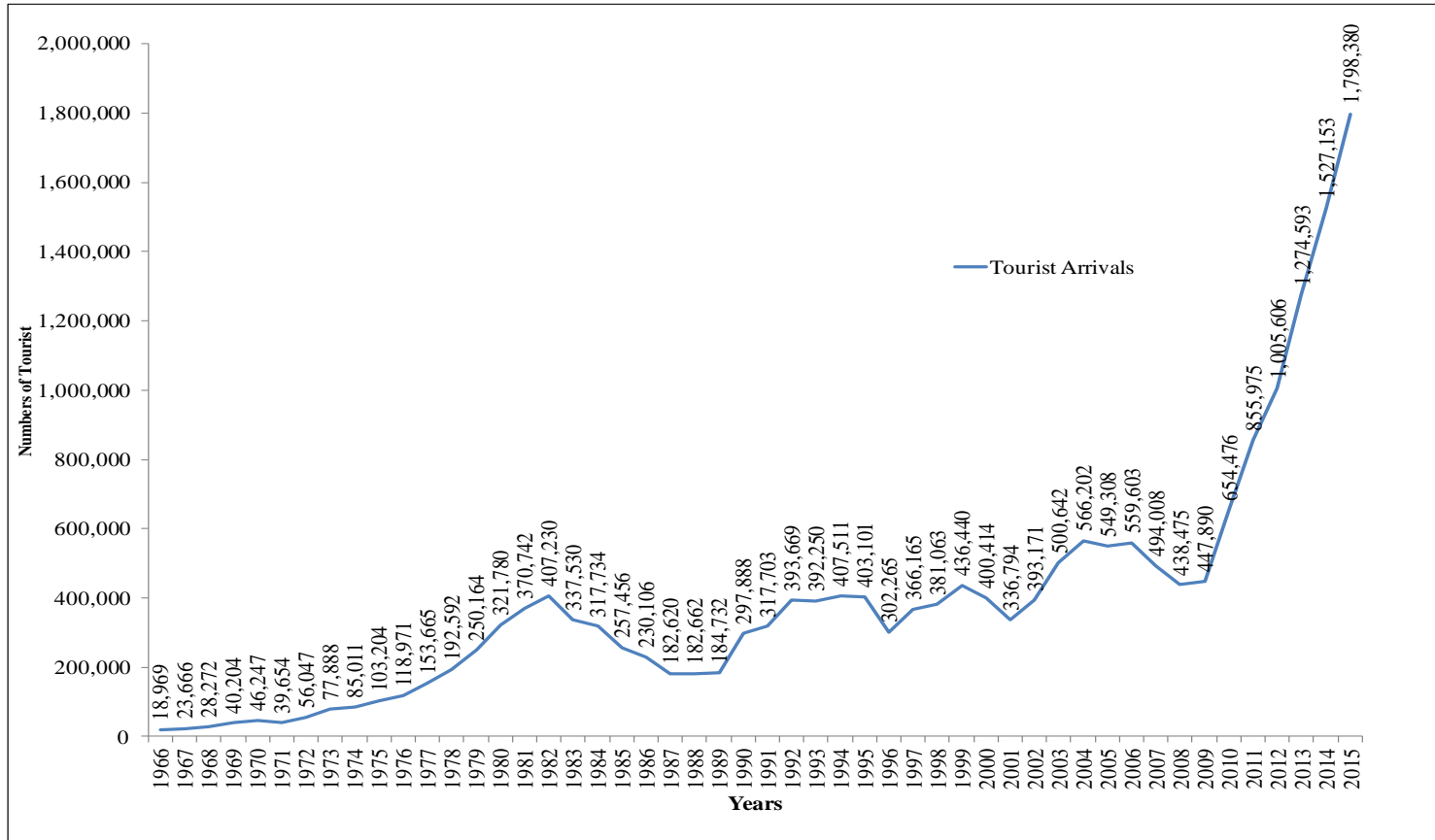
It can clearly be identified from Figure 01 that tourist arrivals to Sri Lanka fluctuated after 1983 during different war and peace episodes. The Sri Lankan tourism industry also suffered between 1987 and 1989 as an outbreak of political violence emerged in the South as well as the North and East (see Table 01 for a summary of these episodes Fernando, Bandara, & Smith, 2013 for a detailed discussion).

Table 01 presents average annual growth rates in international tourist arrivals during different episodes of peace which have generated the upward trends in Figure 01. These upward trends can be identified as a high level of tourist arrivals due to absence of war and the implementation of tourism promotional plans. According to Table 01, Sri Lanka witnessed an average growth rate of 21 per cent during five peaceful episodes since 1966.

This supports the empirical results of Selvanathan (2006, p. 37) who found that “the number of international tourist arrivals decreased by 21% during the war disturbances in Sri Lanka”. The annual growth rate of the post-war tourism boom (at 25 percent) further supports the positive correlation between periods of peace and an expansion of tourist arrivals, as well as the negative correlation between periods of political violence and war and such arrivals.

The above brief overview indicates that the image of Sri Lanka as a tourist destination was damaged during nearly three decades of war and political violence. The post-war tourism boom indicates that it has managed to recover in the short run, however sustaining this growth over the longer term will require sustained and well-resourced planning, marketing and support from public authorities.

FIGURE 01
Tourist Arrivals to Sri Lanka and Year on Year Growth from 1966 to 2015



Source: Based on Sri Lanka Tourist Board Annual Reports, various issues.

TABLE 01
Tourism Growth during the War Peace Episodes

Peace Episodes and Tourism Development Effort	Periods of Upward Trends	Periodical Annual Growth (%)
Peace, democracy and political stability with a Ten Year Tourism Master Plan	1966-1982	22
Peace Talk II (1989/90) and second wave of economic reforms	1989-1992	23
Discussing constitutional changes as a solution to the ethnic problem (with war)	1997-1999	13
Cease Fire Agreement and Peace Talks IV	2002-2004	19
Post war tourism boom	2009-2013	26
Average periodical growth rate of positive trends		21
Episodes of War and Violence	Periods of Downward Trends	Periodical Annual Growth (%)
Eelam War I-Well-known ethnic riots in 1983 and the escalation of civil war in the North and East	1983-1986	-15
Eelam War III - Peace talks and its collapse	1994-1996	-13
LTTE attacked economic nerve centres in Colombo	2000-2001	-12
Eelam War IV and the end of war Beginning of full scale of war and the end of war in May 2009	2005-2008	-06

Source: Based on Sri Lanka Tourist Board data for 1970 to 2013.

3. Empirical Model for Tourism in Sri Lanka

There is a large body of literature on tourism demand modelling and forecasting. A number of previous studies have focused on the link between volatility and tourist arrivals in various countries (Chheang, 2008; Neumayer, 2004; Pizam & Smith, 2000; Sevil, 1998) and this has been important in terms for policy analysis and future tourism planning in TCs. A large number of tourism demand and forecasting models have been developed for tourism planning and management

using a number of statistical and econometric techniques as reviewed by Song & Li (2008) and Witt & Witt (1995) tourism demand can be measured by either using the number of inbound tourist arrivals or using foreign exchange receipts from international tourism (Neumayer, 2004). Many studies have used number of tourists to measure tourism demand. These studies have mainly forecasted the changes in the number of tourists over time and usually include a random (or stochastic) term which incorporates all the unknown effects on tourism demand over time. In the Sri Lankan context, a number of attempts have been made to analyse the link between tourism and political violence (Bandara, 1997; Fernando, 2015; Fernando, Bandara, Liyanaarachch, Jayathilaka, & Smith, 2013; Fernando, Bandara, & Smith, 2013; Fernando, Bandara, Smith, & Pham, 2015; Fernando & Bandarlalage, 2016; Gamage, 1978; Gamage, Shaw, & Ihalanayake, 1997; O'Hare & Barrett, 1994; Selvanathan, 2006; Tisdell & Bandara, 2005; Wickremasinghe & Ihalanayake, 2006).

Although the Sri Lankan separatist war has been acknowledged as one of Asia's longest running wars there has not been any serious attempt to quantify the impact of war on tourism or the link between tourism and economic growth with the exception of Wickremasinghe & Ihalanayake (2006) and Selvanathan (2006). While this first study attempted to evaluate the relationship between GDP and tourism receipts in Sri Lanka, the second study examined the impact of separatist war which began in 1983 and the introduction of open economic policies in 1977. In this study we attempt to extend the Selvanathan study to accommodate the post-war scenario and evaluate the TDS's targets. Selvanathan (2006) has established the relationship between tourist arrivals and the impact of changes in economic policies and other disturbances such as opening up of the economy in the late 1970s and the separatist war in the North and East in Sri Lanka. According to Selvanathan's (2006) results, while inbound tourist arrivals were badly affected by the separatist war, open economic policies introduced in 1977 have created a positive impact on tourism. Other variables such as the exchange rate, the consumer price index (CPI) of Sri Lanka and per capita world income for the period 1972 - 2002 were included in this model. Although the model developed in this paper is somewhat similar to Selvanathan (2006), it differs in a number of ways. Firstly, our model focusses on the role of tourism in post-war development in Sri Lanka. Secondly, our data series is different from Selvanathan (2006) and we use a more comprehensive data set which includes coverage across more than four decades. In particular we use a data series for the period between 1966 and 2013, in contrast to the data series covered for a shorter period between 1972 and 2002 in Selvanathan (2006). Thirdly, we use directly a tourism price index rather than using a consumer price index as a proxy for changes in the cost of tourism. Finally, we use a dummy variable for the periods which showed upward trends in tourist arrivals as a result of the absence of the war.

In modelling the tourism sector, we use the annual international tourist arrivals data collected from the Sri Lanka Tourist Board for the sample period

between 1966 and 2013 (Ceylon Tourist Board, 1975; SLTDA, 2014). These data were plotted in Figure 01.

We use a dummy variable to investigate the impact of the peace and tourism growth during the past 47 years. The dummy variable for peace variable ($PEACE_t$) defined as 1 in the years when there was a peace in Sri Lanka (as described in Table 01) and 0 otherwise. Other independent variables are the exchange rate ($LEXR_t$) and the tourism price index ($TPRICE_t$) for Sri Lanka. While the average annual exchange rate published by the Central Bank of Sri Lanka (The Central Bank of Sri Lanka, 2013) is used in this study, the tourism price index published by the Tourism Development Authority (SLTDA, 2014) is used for the price index.

In order to examine the relationship between the number of tourist arrivals and the above variables, and to evaluate the targets specified in the Sri Lankan TDS, the following simple regression model is used in this study:

$$LTOUR_t = \beta_0 + \beta_1 LEXR_t + \beta_2 TPRICE_t + \gamma_1 PEACE + \alpha_1 \varepsilon_{t-1} + \epsilon$$

where,

$LTOUR_t$ is the numbers of tourist arrivals;

$LEXR_t$ is the exchange rate;

$TPRICE_t$ is the tourism price index;

$PEACE_t$ is the dummy variable for peace variable.

The estimated model is given below and the detailed results, including those associated with various diagnostic tests, are shown in Table 02.

$$LTOUR_t = 9.7849 + 0.91356LEXR_t - 0.1033TPRICE_t + 0.2595PEACE + 1.003\varepsilon_{t-1} + \epsilon$$

TABLE 02
OLS Regression Estimation Results

Variable	Coefficient	t-statistic	P- value
LEXR	0.913562	94.02110	0.00
PEACE(-1)	0.259535	75.33827	0.00
TPRICE	-0.103328	-15.14792	0.00
RESID1(-1)	1.003335	260.0461	0.00
C	9.784935	753.0031	0.00
R-squared	0.999890		
Adjusted R-squared	0.999878		
Sum squared residual	0.003109		
Durbin-Watson statistic	1.335254		
F-statistic	86006***		

Source: Authors' Calculations.

Note: *** are significant at the 0.01 level.

As can be seen from Table 02, all three independent variables are statistically significant at the one per cent level. The exchange rate and tourist arrivals are positively related demonstrating, as expected, that depreciation of the exchange rate is good for tourism. This indicates that a depreciating currency serves as an important variable to improve the competitiveness in Sri Lanka as an important tourist destination in the Asian region. This is important in the context of the depreciation of Sri Lankan rupee in early 2012 after the Central Bank of Sri Lanka gave up the maintenance of an overvalued exchange rate. Our results strongly suggest that this recent depreciation will have a positive impact on the Sri Lankan tourist industry. The empirical results also suggest that there is a negative relationship between increases in the tourism price index and the demand for tourism by international visitors. This demonstrates that the importance of managing the Sri Lankan tourism boom properly in order to avoid an escalation of cost in the tourism industry as it absorbs the projected expansion in tourism demand. Finally, the results strongly demonstrate that (with the lag of the dummy variable constructed to capture the impact of peace and war on tourism) tourist arrivals to Sri Lanka would increase by 26 per cent per year if a peaceful environment can be maintained. These results are consistent with Selvanathan (2006), and clearly indicate that it is a necessary condition for Sri Lanka to maintain the political stability and accelerate reconciliation process in order to use tourism as a driving force of post-war economic development.

The highly significant F-statistics as well as the high adjusted R² shown in Table 02 demonstrate that the estimated model has excellent explanatory power. In

addition the first order lag term for the dummy variable eliminates the autocorrelation which would otherwise exist in our time series model.

4. Appraisal of Targets of TDS

TDS's Targets

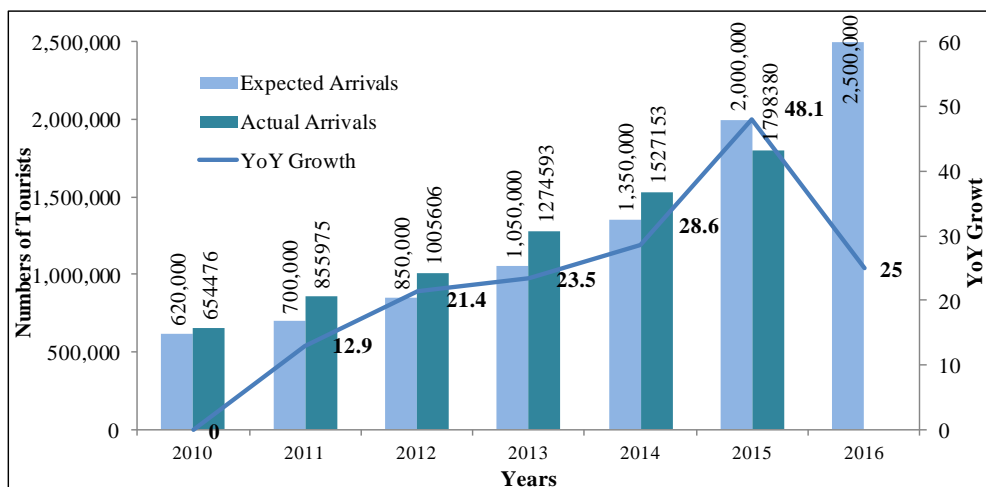
As noted in the introduction, the Sri Lankan government has launched the TDS for the period 2011-2016, after recognising tourism as a major component in its post-war development strategy. It has a number of ambitious targets. These include “an increase in tourist arrivals from 650,000 in 2010 to 2.5 million by 2016, attract US \$3 billion of FDI within the planned period, an increase in direct and indirect tourism related employment opportunities from 125,000 in 2010 to 500,000 by 2016, distribution of the economic benefits of tourism to a larger cross-section of the society, increase in foreign exchange earnings from US\$ 500 million to US\$ 2.75 billion by 2016, contribute towards improving the global trade and economic linkages of Sri Lanka and position Sri Lanka as the world’s most treasured island for tourism” (Ministry of Economic Development, 2011, p. 4). These targets are almost four times of the values of 2010 in terms of numerical values. All other targets are related in the sense that they depend on realisation of the target of attracting a large and expanding number of international tourists.

Appraisal of TDS's Targets Using Empirical Results

Using the estimated results of the econometric model in the previous section we can evaluate the feasibility of achieving the tourist arrival target of the TDS. According to TDS, it is very clear that government’s growth strategy is consolidate first and then target exponential growth which means that for the first four years the Government expects 12.9 per cent to 28.6 per cent per year growth rates. From then on the growth rate is anticipated as accelerating up to 48.1 per cent in 2015 and finally to stabilise at around 25 per cent growth per annum in 2016 (see Figure 02 for more details).

According to Figure 02, actual tourist arrivals have been more than expected against the target set for each of the past five years and this has already been reached for 2014 with more than 1,500,000 tourist arrivals. The average annual growth rate from 2009 to 2014 was 25 per cent and this is closely in line with our econometric estimations. It is also possible to compare our estimation with the government targets incorporated in the TDS for the 5 year period 2012-2016. Table 03 illustrates TDS targets and our estimation according to respective year on year (YoY) growth rates.

FIGURE 02
Expected Tourist Arrivals and Growth 2010 to 2016



Source: Based on Tourism Development Plan 2011 – 2016 (Ministry of Economic Development, 2011) and Sri Lanka Tourism Annual Report (SLTDA, 2012).

TABLE 03
Projected Tourism Arrivals to Sri Lanka according to the TDS and the Model

Year	2010	2011	2012	2013	2014	2015	2016
TDS target	620,000	700,000	885,000	1,050,000	1,350,000	2,000,000	2,500,000
Y o Y Growth according to TDS	N/A	12.9%	21.4%	23.5%	28.6%	48.1%	25.0%
Y o Y Growth of the estimation	N/A	26%	26%	26%	26%	26%	26%
Our Model's Estimation	N/A	824,640	1,039,046	1,309,198	1,649,590	2,078,483	2,618,888
Actual arrivals	654,474	855,975	1,005,606	1,274,593	1,527,153	1,798,380	N/A

Source: Based on tourism development plan 2011 – 2016 (Ministry of Economic Development, 2011) and authors' calculation.

If other factors remain favourable (such as peace and political stability, exchange rates, price competitiveness, and the international environment) our empirical results suggest that TDS's target of achieving 2.5 million tourism arrivals by 2016 is realistic. Although the targets are statistically feasible, it is important to evaluate the feasibility of achieving TDS's targets further by comparing the performance of tourism in terms of tourist arrivals of selected Asian countries which experienced similar post-war tourism booms.

A Comparative Analysis

The prospects of post-war tourism in Sri Lanka can be evaluated by examining the experience of post-war tourism booms in selected three Asian countries, namely Vietnam, Laos and Cambodia (see more details of the comparisons among these countries Fernando, Bandara, & Smith, 2013) This evaluation is important in terms of managing the post-war tourism boom in Sri Lanka. First consider the case of Vietnam. The long war in Vietnam ended in the middle of 1970s and the Vietnamese economy was opened to the outside world in the 1980s with a reform programme. As shown in Table 03, the number of tourist arrivals has increased more than seven times in the decade of 1990s and that number has further increased two times from 2000 to 2010 (from 2.1 million to 5.0 million). In fact, Sri Lanka attracted more international tourists than Vietnam in 1990. However, Sri Lankan tourism was affected by the war in the 1990s and the first decade of the 21st century while Vietnamese tourism flourished with the end of its war and the opening its economy during the same period.

The post-war tourism boom in Cambodia and Lao PDR is even more spectacular. The war ended in Cambodia in the 1980s and it managed to establish peace and stability by 1990. During the same period Lao also managed to establish peace and open its economy. While tourist arrivals to Cambodia increased by 27 times from 1990 to 2000, Lao's arrival numbers increased by 51 times during the same period. The number of tourist arrivals to both countries further increased by five times and two and half times from 2000 to 2010, respectively. The experiences of all the above three countries suggest that the TDS's targets can be achievable in Sri Lanka if the country handles the tourism boom properly and manages to maintain internal peace and political stability.

TABLE 04
Benchmark Comparison of Tourism Arrivals with Neighbour Countries

Years	Sri Lanka	Cambodia	Lao PDR	Vietnam
1966	18,969	24,781	N/A	24,381
1990	297,888	17,000	14,400	250,000
1995	403,101	219,680	346,000	1,351,000
2000	400,414	466,365	737,000	2,150,000
2005	549,308	1,421,615	1,095,000	3,468,000
2009	447,890	2,161,577	2,008,363	3,772,000
2010	654,774	2,399,000	N/A	5,050,000

Source: Based on various Tourism Annual Reports of respective countries and the World Tourism Organisation.

Tourism is one of the most competitive industries among destinations. How competitive is the post-war tourism sector in Sri Lanka in comparison with other war-affected countries? This can be answered by using the Travel and Tourism Competitiveness Index (Leung & Baloglu, 2013). The reputation and competitiveness of each destination is measured both overall and via various sub-indices. The destinations are given ranked positions on each of the sub-indices as well as overall. According to Travel & Tourism Competitiveness Indexes in 2011 (Leung & Baloglu, 2013), on the overall index Sri Lanka is ranked at 81 out of 139 countries. Sri Lanka is ahead of countries like Cambodia and similar to countries like Vietnam (see Table 05).

Table 05 also presents data related to three sub-indices. Once again, Sri Lanka is ahead of countries like Cambodia and Vietnam in terms of the sub-index of tourism and travel regulatory framework. This sub-index captures elements of government policy related to tourism. The second sub-index captures elements of the business environment and the “hard” infrastructure of each economy. Sri Lanka is once again ranked ahead of Vietnam and Cambodia in terms of this sub-index. The third sub-index captures the “softer” human, cultural, and natural elements of each country’s resource endowments. Sri Lanka does not perform as well on this index as Vietnam but outranks Cambodia.

The above data indicate that the Sri Lankan tourism industry is in a favourable position to achieve the target of 2.5 million tourism arrivals by 2016 if the country can maintain peace and stability, and provided satisfying the anticipated increase in tourist arrivals does not lead to price pressures relating to various forms of supply side constraints.

TABLE 05
Travel and Tourism Competitiveness Index 2011 & 2013

	2011			2013		
	Cambodia	Sri Lanka	Vietnam	Cambodia	Sri Lanka	Vietnam
Overall Index	109	81	80	106	74	0
Sub-indices						
Tourism & Travel Regulatory Framework	110	79	89	105	61	8
Tourism & Travel Business Environment and Infrastructure	118	83	89	112	86	4
Tourism & Travel Human, Cultural and Natural Resources	81	68	46	81	66	3

Source: Travel and Tourism Competitiveness Report 2011 -2013.

Managing TDS Targets

The TDS has itself identified a number of requirements necessary for the nation to achieve its targets (Ministry of Economic Development, 2011, pp. 8-13). Should these requirements not be met during the period of implementation of TDS, they would become constraints on the achievement of the various targets that lie at the heart of the strategy.

Constraint 1: Existing Supply of Accommodation Needs Supplementation

Firstly, the Sri Lankan tourism industry needs around 45,000 hotel rooms to accommodate the estimated 2.5 million tourists by 2016 (according to TDS). In other words, it has to double the number of hotel rooms (there were 22,735 rooms in 2010). This represents a massive challenge. The Sri Lankan hotel industry comprises tourist hotels that are graded establishments, along with other establishments such as guest houses and inns registered with the Sri Lanka Tourism Development Authority (SLTDA, 2012). The hotels and other establishments are classified by the SLTDA by a star category which is based on the classification set out by the World Tourism Organisation. Major hotel players operating in Sri Lanka include domestic operators (such as John Keells Hotels and Aitken Spence) and foreign players (such as Taj Hotels & Resorts, Hilton and Holiday Inn). According to the Sri Lanka Tourism Annual Report, the lodging establishments registered with

the SLTDA amounted to 783 which provided 20,609 rooms as at 2012 and the annual hotel room occupancy rate was of 70.1% (see Table 06 for more details).

Table 06
Accommodation Capacity

Class of Accommodation	Accommodation Capacity			Room Occupancy Rate
	No. of Units	No. of Rooms	No. of Beds	
Hotels	269	15,510	30,399	71.2
5 Star	14	3,230	6,420	71.5
4 Star	15	1,784	3,329	69.7
3 Star	16	1,201	2,378	65.3
2 Star	36	2,022	3,981	71.9
1 Star	34	1,171	2,322	70.3
Unclassified	155	6,102	11,969	78.6
Supplementary Establishments	620	6,577	13,113	76.2

Source: Annual Statistical Report of Sri Lanka Tourism – 2012.

Clearly the existing accommodation capacity in the Sri Lankan tourism sector is inadequate to cater to anticipated tourism demand or target. Since it is a difficult task to build a large number of hotel rooms in a very short period of time, the government has initiated some other community based alternative accommodation development programs such as the ‘home stay’ program. However, higher-quality accommodations are necessary for Sri Lanka to attract quality high spending tourists. According to the SLTDA, only about 6,000 of the currently available rooms are of medium to high quality. Refurbishment of existing hotel rooms is one option to meet the expected number of high quality tourists.

Another longer term option is to build new high quality hotels. The government has approved a number of new projects recently especially focusing on the Northern and Eastern beaches which were relatively unexplored by the tourists due to nearly three decades of separatist war. As Kiriella (2011, p. 3) indicate “the opening up of the North and the East of the country, a hither to undiscovered part of the island which is teeming with untouched beaches, idyllic villages and cultural treasures galore would be a great attraction for travellers”. These untapped beaches are becoming very popular among local investors now. A number of hotels have been built or being constructed in these areas to attract overseas visitors. For

examples, Kuchchavelli Resort development project is being developed with area of approximately 500 acres near by popular Nilaveli Beach in Trincomalee. According to the SLTDA, this development is proposed to include more than 3,000 hotel and resort rooms, along with theme parks and water park facilities. Batticaloa has another popular beach in the East which has Pasikuda Resort development project with area approximately 150 acres of land close to the beach. Meanwhile, Kalpitiya Resort development project and Dedduwa Resort development project are developing in the west coast. The Kalpitiya Tourism Development Program is going to be conducted in 14 islands; it will include 17 hotels with a total capacity of 5,000 rooms and 10,000 beds upon completion, along with an amusement park, golf course, race course, and a domestic airport at Uchchamunai. Those four Resort development projects can be considered as new massive tourism potentials in Sri Lanka (Clearer Skies, 2011).

Constraint 2: Need for Improved Economic Infrastructure

The tourism industry needs improved transport infrastructure facilities in order to be able to meet the needs of the anticipated increase in tourism numbers. Despite the recent implementation of massive infrastructure development projects, Sri Lanka has a long way to go to catch up with other favoured Asian tourist destinations like Singapore and Thailand. The country is still lagging behind in terms of road and rail transport. Moving tourists from one location to another location within the country is still time consuming due to poor infrastructure. Although Sri Lanka is an island, it is yet to have the facilities needed to promote and accommodate significant overseas tourism arrivals by sea. However, tapping in to sea travellers (such as the cruise ship market) is at embryonic state. The port infrastructure in the North and the East was severely damaged by the war and rebuilding is necessary in order for tourism potential to be fully realised.

Sri Lanka's first ever access controlled expressway from Kottawa to Galle was opened in November 2011 connecting the Western province to the Southern province which covers most popular tourism zone especially in terms of beaches. The section from Galle to Matara (of length 35km) was also completed in 2013. Meanwhile, the Colombo – Kandy and Colombo – Jaffna Expressways are planned to be constructed and the Colombo – Katunayake Airport expressway was opened in 2013. In addition, the Sri Lankan government has planned to construct three elevated highways connecting the three expressways which are under construction now (Central Bank of Sri Lanka, 2011). These road system developments are one of the most significant improvements for the competitiveness of tourism in Sri Lanka. In addition to the road transport system, improvements to the rail transport network also have a great potential to facilitate the tourism boom.

Constraint 3: Lack of Trained Human Resources

The TDS has identified two types of human resource gaps: the gap in the accommodation industry itself, and the gap in related services. The industry is

facing a shortage of trained workers because of decades of neglect in training tourism workforce due to civil disturbances. As highlighted in an industry report, the tourism sector needs five times of the current work force to cater for 2.5 million tourists by 2016 (Clearer Skies, 2011). The hospitality related education and training facilities are not sufficient to train such high numbers of workers or to train workers at the level needed to compete effectively in the high end of the tourism sector.

Educated and trained labour force is required to develop the tourism sector in Sri Lanka. Sri Lanka has a good record of maintaining a high literacy rate (over 90 per cent) for both males and females compared with many other Asian countries. To train specialist labour force for the tourism industry, the Sri Lanka Government established the Sri Lanka Institute of Tourism & Hotel Management (SLITHM) in 1964. In addition, a few national universities and several private sector institutions are engaged in training the labour force for top and middle management positions in the industry. There are other supplementary short courses conducted by various government departments. Due to lack of information, the number of graduates from private institutions cannot be estimated; but the SLITHM and national universities only produce some 3,000 graduates each year. At present, the tourism sector has employed about 163,000 people (both directly and indirectly). However, there is currently a severe shortage of employees in the hotel sector. According to the TDS, Sri Lanka expects to generate a need for an additional 500,000 employees in this sector for next five year to cater for an expected 2.5 million tourists in 2016. As such, the number of such personnel must augment 5-fold within the next 5 years - a demanding task given the current state of tourism education in the country.

Filling this anticipated shortage in labour supply without stimulating higher wages in tourism related sectors, and hence reduced international price competitiveness, remains a challenge.

Constraint 4: Movement towards attracting Higher End Tourism Demand

According to the Tourism Development Strategy 2011 – 2016, the industry is expected to move towards premium prices with greater value addition attracting higher spending tourists. It is important that the country moves away from low cost tourism and focuses on high end tourism (Ministry of Economic Development, 2011). Although the country expects to move away from the low cost tourism and focuses on high end tourism, attracting quality tourists has been a main issue. There have been growing number of South Asian tourists and members of Sri Lankan diaspora compared with tourists from rich western countries. According to some recent estimates, 20 per cent of recent tourist arrivals are members of huge Sri Lankan diaspora who are visiting friends and relatives (see Miththapala, 2012). According to the same source, only 82 percent of international arrivals in 2010 were “real tourists” who stayed in hotels.

Constraint 5: Maintaining Price Competitiveness Compared with Like Destinations

Rapidly increasing accommodation costs represent another constraint on meeting tourism targets. According to some recent reports, (Clearer Skies, 2011), the pricing of hotel accommodation is not competitive and Sri Lankan hotel accommodation is over-priced for its quality compared with its rivals. While Sri Lanka is more expensive than many other countries for four-star and five-star accommodation, it is more competitive in terms of the price of three-star rated beach resort hotels – yet these are generally not of a standard that is attractive to international tourists. The room-rates in Sri Lanka have gone up because of the post-war tourism boom such that comparable room rates in other tourist destinations like Thailand, Indonesia, Vietnam and Kenya are cheaper than Sri Lanka. Over the last few years, hotel charges have gone up by about 50 per cent (Clearer Skies 2011). Some believe that the government regulation of these charges represents an unhealthy intrusion in to the sector and that it is important to allow rates to be determined by the market (The Nation, 2011). The tourist price index estimated by the Sri Lanka Tourism Development Authority (2010) shows that the index has increased by 5.3 per cent in 2010.

Sri Lanka competes with other countries in South Asia and the Asia Pacific region. According to our OLS regression results shows that there is a 10 per cent negative impact of the tourist price index on the demand for tourism in Sri Lanka. However, the overall tourist price index showed an increase of 5.3 per cent, when compared with the previous year. In absolute terms, it increased by 1,510 points from 4,940 in the 2009/2010 season, to 6,450 in the 2012/2013 season (SLTDA, 2012). Prices of the accommodation sector increased by 3.9 per cent while the food & beverage sector increased by 6.1 per cent and the transport sector increased by 7.7 per cent (SLTDA, 2012). According to the Global Hotel Price Index, Sri Lanka's 5-star room rates had increased by 21.38 per cent in December 2010 compared to the previous year; and this represented the fifth-largest spike in room rates globally over the same time period. A further increase was seen in April 2011, in accordance with the government's requirement to raise minimum room rates. This price increase is likely to influence given the investors to the government to broaden their profit margins. Table 07 highlights the recent rate changes in Colombo based hotels.

When compared with the regionally competitive destinations, these 5 star hotel rates are lower than Singapore (US\$ 144) and Mumbai (US\$ 141) but higher than Manila (US\$ 67), Kuala Lumpur (US\$ 78), Jakarta (US\$ 80), Bangkok (US\$ 67) and Ho Chi Minh City (US\$ 68) hotels prices in March 2011.

TABLE 07
Minimum Government Rates in Colombo Hotels

Date of Rate Revision	Minimum Hotel Room Rate (USD/night)				
	5 Star	4 Star	3 Star	2 Star	1 Star
January 2009	75	60	45	30	20
January 2011	100	85	70	55	40
April 2011	125	95	95	80	65

Source: Based on SLTDA Data.

5. Conclusion

Sri Lankan tourism has managed to recover quickly since the end of war in 2009. After recognising the role of post-war tourism the Sri Lankan government has launched the TDS for the period 2011-2016. In this study, we evaluated the post-war tourism boom and the targets of Sri Lankan government's TDS. We empirically explored whether the targets set in the TDS by the Sri Lankan government are achievable or realistic by using a simple econometric model and with a comparison of the experience of post-war tourism booms in selected Asian countries.

Our econometric analysis suggests that tourist arrivals to Sri Lanka would increase by 26 per cent per year if peaceful environment exists in Sri Lanka. This is consistent with the targets set out in the TDS without systematic modelling work. The comparison of countries with similar experience in the region also demonstrated that Sri Lankan tourism targets can be achieved. However, there are number of impediments such as limited number of hotel rooms, weak infrastructure and rising accommodation costs to be recognised in achieving such targets.

Accordingly, a number of policy inferences can be drawn from this study. Firstly, many developing countries recovering from decades of wars like Sri Lanka, Vietnam or Cambodia experience post-war tourism booms. Therefore, tourism becomes a main component of their post-war development strategy. Secondly, tourism-led development strategies in these countries have been influential in post-war economic growth. Thirdly, Sri Lanka needs to be proactive in developing policies to overcome the impediments to growth identified above. There is little use promoting the country as a price competitive and safe tourism destination unless these impediments are adequately addressed at the same time. Given the limited resources available to the Sri Lankan government and the competing claims on these resources, development of strategies for and active promotion of public-private partnerships aimed at creating new tourism related infrastructure (hotel resorts, cruise line facilities, road transport upgrades, etc.) are recommended.

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