

# *Future Potentials of Tourism Industry in Sri Lanka*

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## **ABSTRACT**

*Tourism plays an important role in the economic performance through generation of income, foreign exchange and provision of employment opportunities. The political stability of a country has a major impact on its tourism industry. This paper aims to analyze the significance of tourism in the Sri Lankan economy from 1987 to 2014. The study found the contribution of traditional segments of tourism sector has changed gradually to sub segments of tourism. The paper recommends that the role of tourism could be highly emphasized in the sustainable economic development with infrastructure development, structural changes covering all sections and stable political environment.*

Key Words: Economic Performance, Political Stability, Tourism Industry

## **1. Background**

Sri Lanka entered the international tourism market in 1960s. Since then, this industry has been growing rapidly as one of a major sector for the economic development. International tourists' arrivals to Sri Lanka have increased from 46247 in 1970 to 1527153 in 2014. In particular, the contribution of travel and tourism to gross domestic product was 11.1 percent in 2014 in Sri Lankan economy. Tourism sector has become third largest foreign exchange earner in the country, succumbing only to workers remittances and income from garment exports. The travel and tourism to employment was 356911

jobs in 2014. The tourism sector demands inputs such as foods and services from other sectors of the economy such as tourism sector generates employment opportunities especially for lower skilled groups. It is inter-linkage with other sectors makes it an important contribution to rural development and it plays an important socio economic role in Sri Lankan Economy.

Though Sri Lanka shares 0.13 percent of total tourist arrivals and 0.2 percent of the total earnings of the world travel and tourism direct and total contribution to both GDP and employment of Sri Lanka is comparatively lower than regional competitors such as Maldives, Colombia, Thailand and Malaysia. Analyzing its economic contribution over 30 years and understanding the economic significance of tourism sector is therefore important policy purpose. So the paper focuses on the analyzing significance of tourism industry to the Sri Lankan economy and to identify the potentials for future of tourism industry in Sri Lanka.

## **2. Literature Review**

Tourism has been a major source of foreign exchange earnings. This has been vital for such countries given their prevailing economic conditions. McCatty and Serju (2006) it is known that the industry provides an important impetus to growth in other sectors such as agriculture, transportation, retailing and manufacturing and is therefore seen as a key component of economic development.

Wanhill (1983) investigated co-integration and causality between tourism and economic growth in Mauritius and found that tourism has contributed to economic growth. Moreover, he claimed that tourism has a significant positive impact on Mauritian economic development. Gokovali and Bahar (2006) empirically investigated whether the tourism led-growth hypothesis holds for the Mediterranean countries for the period of 1987-2002. The empirical findings reveal that traditional factors (capital and labor)

as well as a tourism related factor contribute to economic growth for the Mediterranean countries

Prathapan and Zakkariya (2015) analyzed from the literatures the contributions of tourism for the economic growth. Here, the economic growth is measured in terms of employment generation, impact on GDP, tourism receipt and capital investment. This paper also depicts the impact of Private Public Partnership (PPP), which has made a tremendous increase in the growth of tourism. The result of the research points out that the tourism development is an important factor for the economic development to address the needs of future generations. The study revealed that Kerala has built on its strengths; it has created partnerships to achieve a quantum growth in the tourism sector.

### **3. Objectives**

The main objective of this research paper is to identify the significance of tourism sector in the context of Sri Lankan economic performance. In addition to this, assess the performance of Sub segments of tourism industry to identify the direction of tourism at present for future potentials.

### **4. Methodology**

In order to accomplish the objectives set for this research two analytical approaches were used. The first part is descriptive statistics which focuses the contribution of tourism sector to Sri Lankan economy and structural composition of it. The second part is econometrics analysis using OLS method to derive regression equations for Tourism Income and factors affecting Tourism industry in Sri Lanka.

## Econometric Model

$$TINC = \beta_0 + \beta_1 WGDP + \beta_2 ER + \beta_3 D + U$$

TNIC = Tourism Income

WGDP= World GrOSs Domestic Product

ER = Exchange Rate

D = Dummy Variable for War Period

## 5. Data Analysis

The first part of the data analysis is descriptive analysis which will focus on the contribution of tourism sector to the Sri Lankan Economy. The following figure illustrates the tourist arrivals from 1970 to 2014.

### 5.1 Tourist Arrivals

According to the following graph, there are three phases. First is from 1970 to 1983. In this phase tourist arrivals has increased gradually at slower rate. During the Second phase from 1984 to 2009 it has fluctuations of arrivals due to political instability. Though During the ceasefire agreement there is a significant improvement in arrivals, Tsunami disaster adversely affects this industry which shows a drastic slowdown in later 2004. After 2009 the arrival rate is high. Tourist arrivals gradually start to recover after 2009. In comparison to other phases third phase of the graph highlighted that political stability and development of tourism industry.

### Tourist Arrivals 1970 - 2014

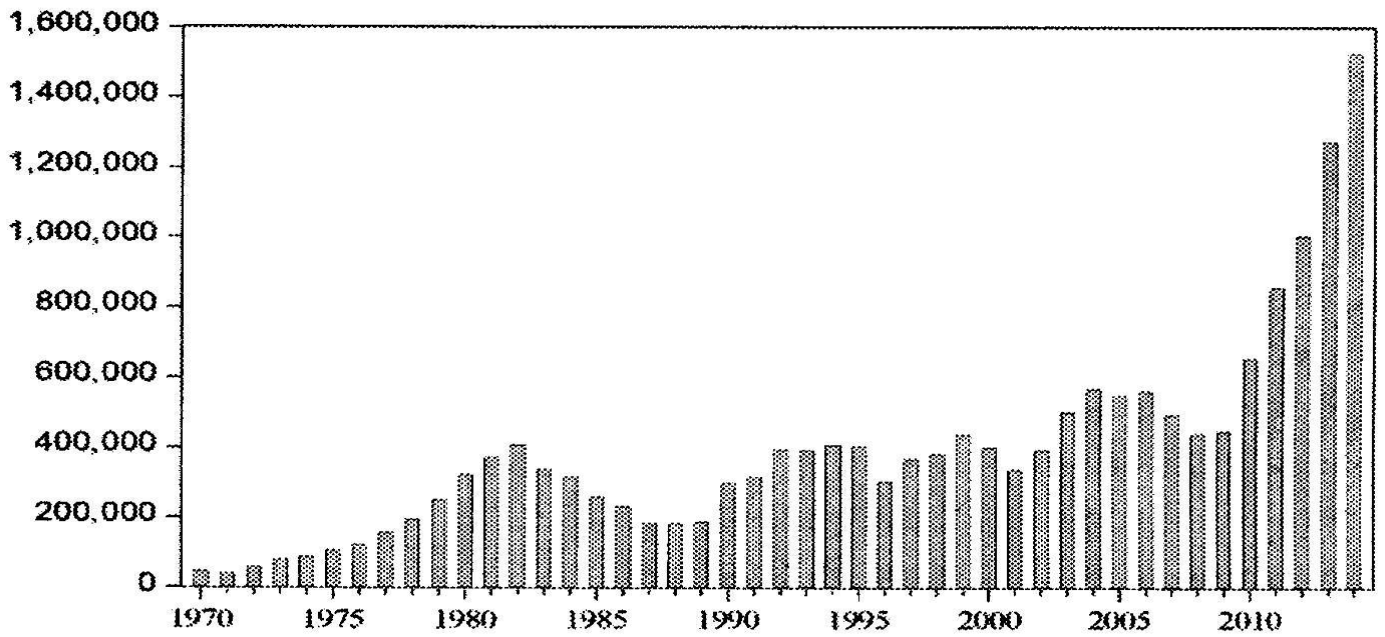


Figure: 1 Total Tourist Arrivals

### 5.2 Top – Ten Tourist Markets

#### Top - Ten Source Tourist Markets

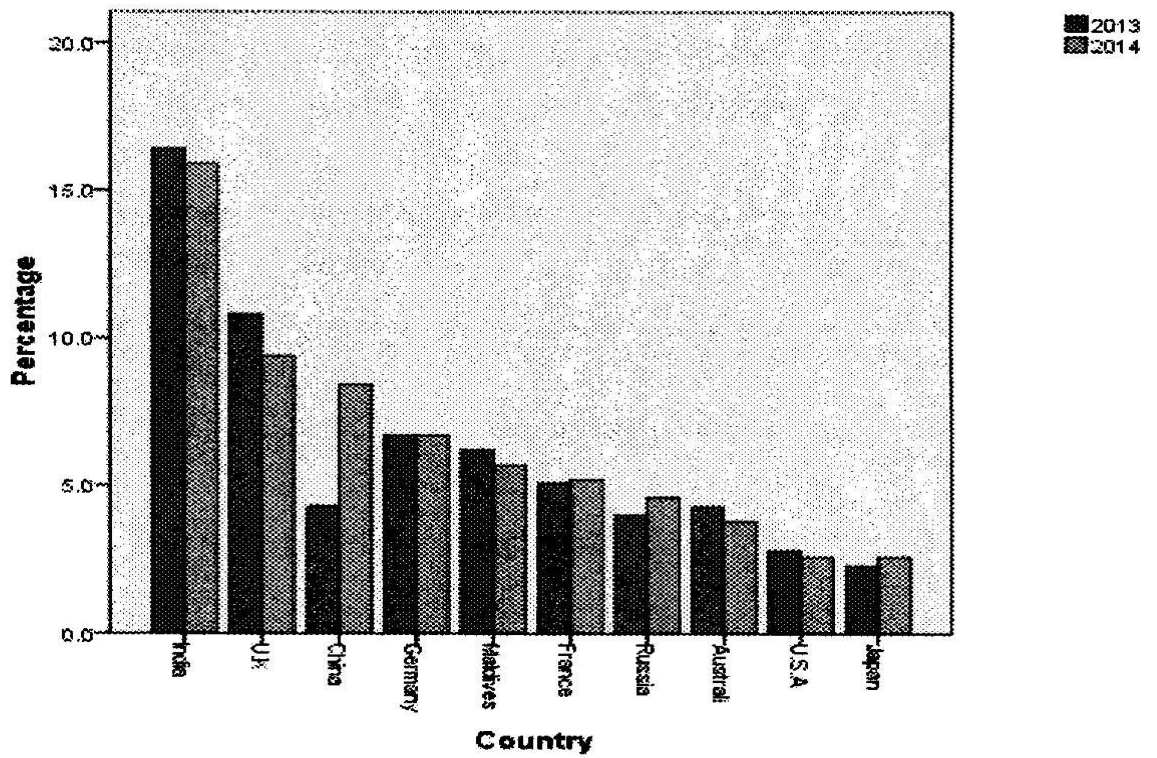


Figure : 02 Top Ten Tourist Market For Sri Lanka

Above graph shows the top ten source market ranks for tourism to Sri Lanka within the years 2013 and 2014. The figure of source markets reflects that the dominance of India exists as the leading tourist producer to country. UK survived its position as the second major tourist producer to the country with a share of 9.4 per cent. The highest tourist producers namely India and UK claimed almost one fourth of the total tourist traffic to the country. Further China has become third major source of tourism to the country and top ten markets accounted almost 65 per cent of the total tourist traffic to the country

### 5.3 Economic Contribution of Tourism

Following table illustrates selected key public sector revenue sources in Sri Lanka. The highest proportion of revenue from Cultural Triangle followed by embarkation tax on foreign tourists and tourism development levy. Revenue from Museums including Colombo National Museum, National History Museum, Kandy National Museum, Rathnapura National Museum, Galle National Museums, Anuradhapura Folk Museum, Dutch Museum, Galle Maritime Museum and Independence Memorial Museum records less proportion to total revenue for the government.

Table: 1 Public Sector Revenue from Tourism (In rs.Million) 2011 - 2014

Source of revenue	2011	2012	2013	2014
<b>Tourism Development Levy</b>	649.7	809.4	1014.2	1005.6
<b>Tourism Development Authority Income</b>	110.1	130.3	136.4	149.3
<b>Embarkation Tax on foreign tourists</b>	1041.7	1161.7	1604.8	1779.8
<b>Cultural Triangle</b>	998.2	1330.7	1727.1	2178.5
<b>Botanical Gardens</b>	253.9	279.0	314.9	369.8

<b>Zoological Gardens</b>	470.2	480.7	550.9	745.8
<b>Wild Life Parks</b>	301.0	424.8	578.4	831.6
<b>Museums</b>	14.2	16.8	14.9	15.8
<b>BMICH</b>	178.3	239.2	233.7	400.2

Source: Sri Lanka Tourism Development Authority Statistical Report 2014.

Electronic Travel Authorization (ETA) card introduced by Department of Immigration & Emigration in 2013 has a wide range of new categories to declare information for the purpose of visit. According to the ETA card the highest proportion of visitors in the pleasure/holiday category. Majority of tourists are for the purpose of pleasure holidays. It accounts for 68 percent of total visitors. While 28 percent to see friends and relatives. The proportion for business purpose is below one percent. In the category of pleasure and holidays, the proportion of visitors in the pleasure/holiday category from India followed by China and United Kingdom. This causes to reduce the income for heritage tourism such as visiting Museums.

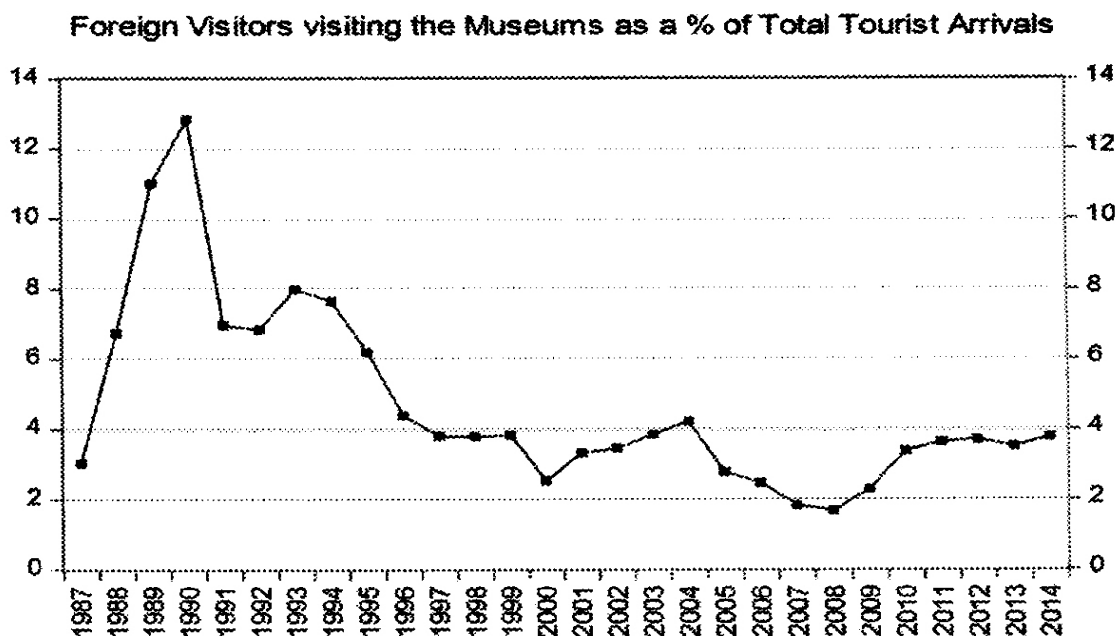


Figure 03: Foreign Visitors visiting the Museums

Foreign Visitors Visiting The Cultural Trangle as a % of Total Tourist Arrivals 1987 - 2014

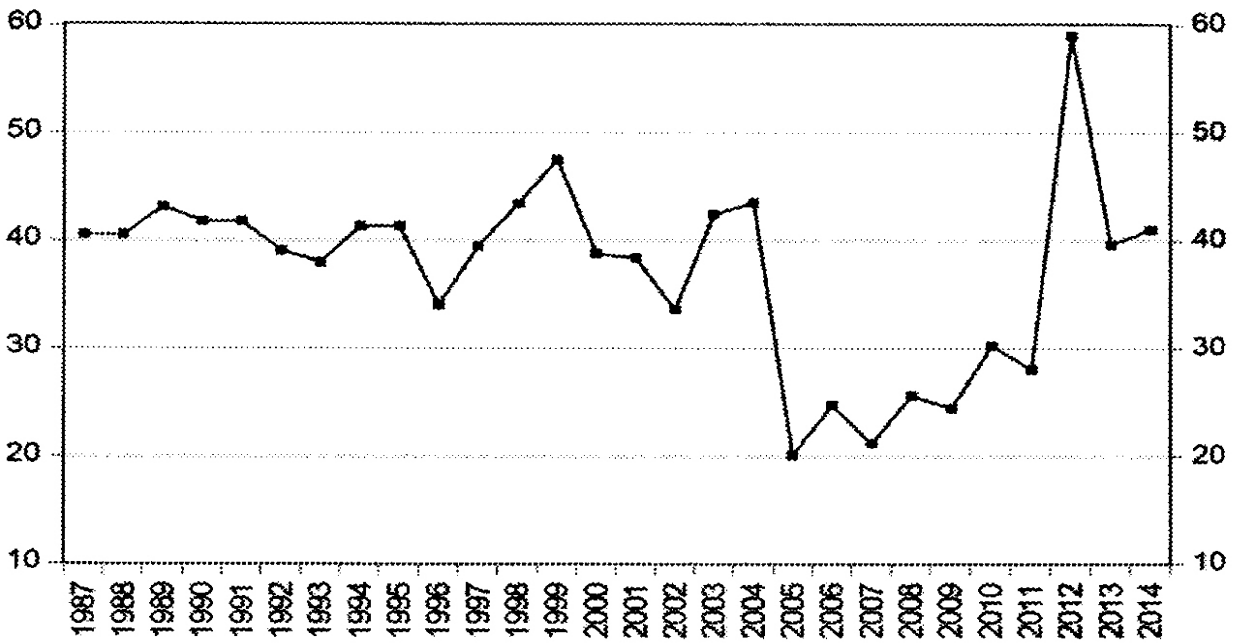


Figure 04: Foreign Visitors visiting the Cultural Trangle

According to Figure 4, despite decreasing visitors to Museums there is an increasing trend visiting the Cultural Trangleform2005.

Visiting Wild Life as a % of Total Tourist Arrivals 1987 - 2014

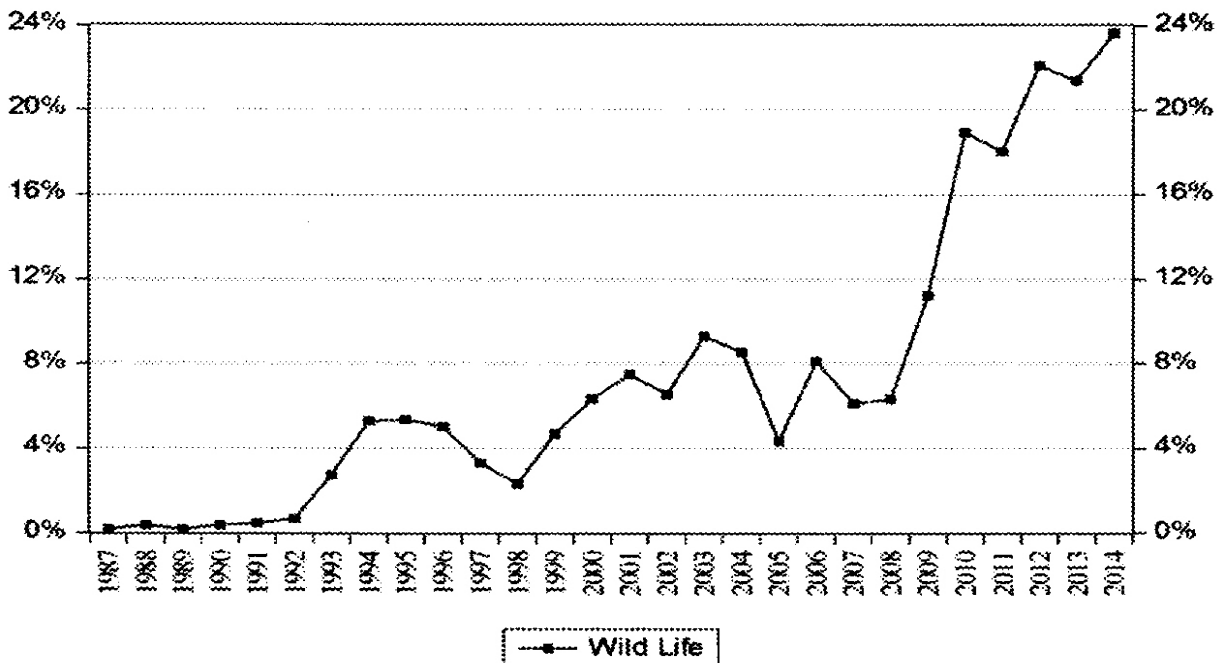


Figure 5 : Visiting Wild Life



## **Econometric Analysis**

The OLS regression model was used to find the factors which affect tourism income in the country. Especially to check whether there is a war influence in Sri Lankan tourism industry

$$TINC = 47282.02^{**} + 0.003823^{***}WGDP - 963.4809^{*}ER + 62029.04^{***}D$$

*TNIC* = *Tourism Income*

*WGDP* = *World GrOSs Domestic Product*

*ER* = *Exchange Rate*

*D* = *Dummy Variable for War Period*

\* 10% Significance Level

\*\* 5% Significance Level

\*\*\* 1% Significance Level

$R^2 = 0.7497$

Prob> F = 0.000001

Tourism income (TINC) depends on many factors. World GDP (WGDP) and exchange rate (ER) have been taken as determinant of tourism income in this model. According to the model (Appendix 1) which has been used to evaluate above relationship is statistically significant at 10% level of significant. According to  $R^2$  value explanatory variables jointly explained approximately 75 % of total variation of receipts from tourism. To measure the impact of political instability in tourism sector, dummy variable has been included. According to the results changes in exchange rate causes to change the receipts from tourism by 963.4809 million while world GDP causes to change 0.003823 billion. World GDP is a better proxy to represent world living condition and it is pOSitively related with the Sri Lankan tourism industry. Coefficient of exchange rate significant at 10% level of significant. There is a significant war influence on Sri Lankan tourism industry. In fact tourist arrivals have been limited during war period.

## **6. Conclusions**

The paper has in the main, address the significance of tourism industry for economic performance and identify the future potentials. The success of tourism is greatly depend on the security and safety of a country. According to descriptive statistics, tourist arrivals have been limited during the period of war. With the end of war, the expected boom in the industry has come at present. Sri Lanka is among the few tourist destinations left in the world without any threats of terrorism. It is highly recommended to ensure the stable political situation in order to achieve the benefit from industry.

Traditionally, the national beauty, comfortable climate, historical and cultural heritage and religious diversity are considered as areas of growth potentials in the tourism industry in Sri Lanka. But, according to the descriptive statistics arrival for traditional areas is less. Especially foreign visitors for visiting museums gradually decreasing. Hence there is a need for innovative approach for getting publicity for ancient heritage and cultural values in Sri Lanka through a multiple tourist information center at key tourist attractions and major hubs, which provide not only information, but a diverse range of tourist related services.

At present there is a high potential exists in niche sub segments of tourism such as adventure tourism, health tourism, agro tourism, marine tourism, recreational tourism, village and urban tourism in Sri Lanka. In order to achieve this potential of niche market in tourism sector, infrastructure development projects and structural changes covering all sections of the economy are needed while protecting the national identity, cultural heritage and natural environment. Therefore, policy initiative involving different strategies is needed to diversify the availability tourist attraction in Sri Lanka.

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**Appendix 1 : E-Views Regression Output for Empirical Model**

Dependent Variable: TINC

Method: Least Squares

Date: 07/13/16 Time: 21:55

Sample (adjusted): 1988 2013

Included observations: 26 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-47282.02	23391.80	-2.021307	0.0556
WGDP	0.003823	0.001043	3.664311	0.0014
ER	-963.8409	611.0796	-1.577276	0.1090
WAR	62029.04	22500.84	2.756743	0.0115
R-squared	0.749700	Mean dependent var	48784.65	
Adjusted R-squared	0.715568	S.D. dependent var	72508.37	
S.E. of regression	38670.27	Akaike info criterion	24.10417	
Sum squared resid	3.29E+10	Schwarz criterion	24.29772	
Log likelihood	-309.3542	Hannan-Quinn criter.	24.15990	
F-statistic	21.96485	Durbin-Watson stat	0.902920	
Prob(F-statistic)	0.000001			