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Tourism in Sri Lanka

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Introduction

Although Sri Lanka has a long history as a tourist destination, there have been ups and downs in the tourism industry in Sri Lanka in recent decades, particularly between 2003 and 2009 due to political violence and the separatist war interspersed with a number of peace episodes. Since the end of separatist war in May 2009 tourism in Sri Lanka has been booming and it has been ranked as one of the top tourist destinations in the world for the past few years. The purpose of this chapter is to present an overview on tourism in Sri Lanka in this handbook. The chapter mainly focuses on Sri Lanka's attractiveness to tourists, historical evolution of its policies towards modern day tourism, the changing patterns of tourist arrivals during different episodes of war and peace, and the recent tourism boom and the associated national tourism development strategy (TDS).

Location and Tourism Attractions

Sri Lanka is a beautiful tropical island in the Indian Ocean, situated at the southern tip of India between 6° and 10° North and 80° to 82° East. It is separated from India by the Palk Strait, which is 32 km wide at its narrowest (UNDP and WTO, 1993 p. 2). The land area of the island is 65,610 square km with a maximum length of 432 km and a maximum width of 224 km. (Sri Lanka Info, 2011). The southern half of the island is dominated by rugged hill country, while the northern half is a large plain. It also has palm-fringed beautifully beaches on the south western, southern and south eastern coastlines (Lai, 2002).

As a tourism destination, Sri Lanka can compete successfully with other destinations partly because of its pivotal geographical position (Fernando, 2017b). Its strategic location in the Indian Ocean on the major air and sea routes between Europe and the Far East is an advantage to the country's positioning as a global logistics hub (Sri Lanka Info, 2011). O'Hare (1994 p. 43) pointed out "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". This geographical location of Sri Lanka was a reason for colonisation by three western powers, the Portuguese (1505-1656), the Dutch (1656-1796) and the British (1796-1948).

In addition to its location, Sri Lanka offers a plethora of options for tourists among them beach destinations, favourable climate, rich cultural heritage, national parks and wildlife (Lai, 2002). It has 1,585 km of coastline, with Hikkaduwa and Unawatuna are well known for excellent scuba diving. Mirissa has become famous for viewing of whales and dolphins, while Tangalle is being promoted as a diving destination. Meanwhile, Trincomalee is known for its natural harbour and has two relatively unexplored beaches.

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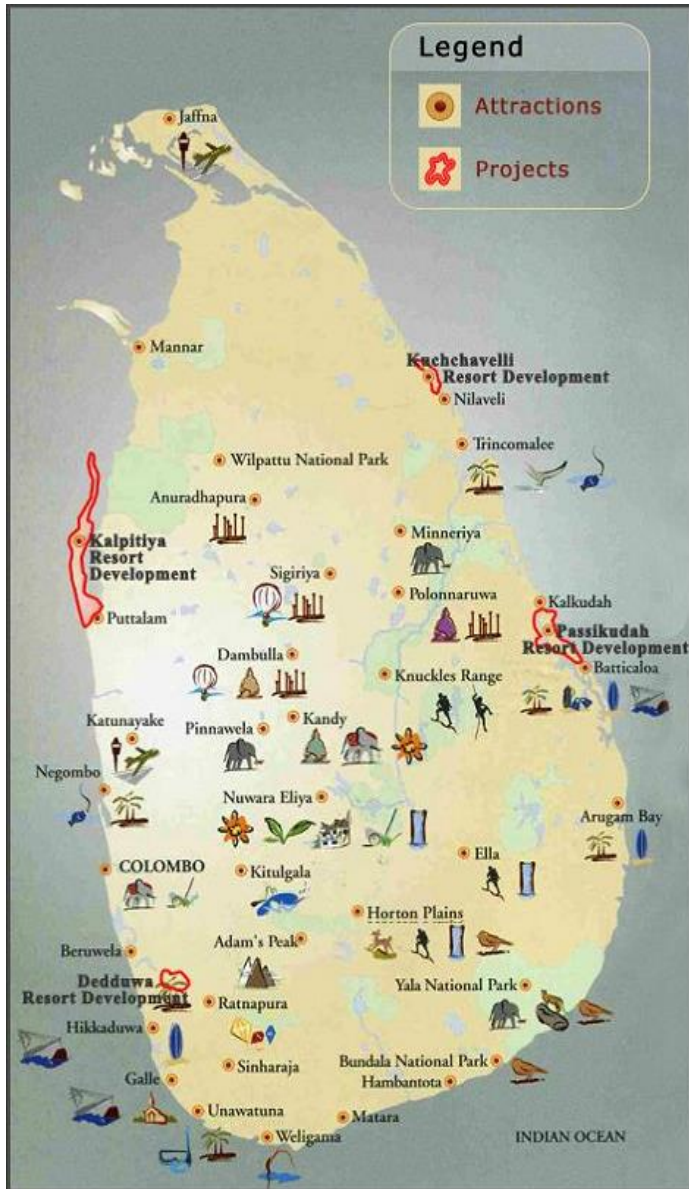


Figure 1: Tourist Attractions in Sri Lanka.

Source: SLTDA

It has enormous amount of culture and heritage-based resources. Sri Lanka is home to eight UNESCO World Heritage Sites, including several Buddhist and Hindu temples. According to the World Tourism Organization, Sri Lanka has the advantage of having 49 sites classified as unique attractions, 91 as rare attractions, and 7 world heritage sites, and 6 of the 300 ancient monuments in the world (de Silva, 2000). These include the central highlands area comprising the Horton Plains National Park and Knuckles Conservation Forest, the Sinharaja Forest Reserve, the Dutch Fort in Galle, the Golden Temple of Dambulla, the Temple of Tooth in Kandy, and the Nallur Kandaswamy Temple in Jaffna. It has more than 2,500 years of history as a civilisation, including nine ancient kingdoms and ruins with temples of Buddhist heritage. It has designated a Cultural Triangle for heritage tourism which includes five out of seven world heritage sites (including ancient cities of Anuradhapura, Polonnaruwa, Kandy and Sigiya, a spectacular fortress build by King Kasyapa in the 5th century AD).

As a result of this unique mixture of golden beaches, rich cultural heritage, diverse landscapes, and a significant number of wildlife, Sri Lanka is classified as one of the most popular tourist destinations in the region (Lai, 2002). As well as noted by Kiriella (2011 p. 2) Sri Lanka is a well-known tourist destination because of its endowment of three “S”s (Sun, Sea and Sand).

A Historical Narrative on Tourism in Sri Lanka

Sri Lanka has been a tourist destination for centuries because of its strategic location and uniqueness. In the end of the 13th Century A.D. Marco Polo visited Sri Lanka, then known as Ceylon and noted “the traveller reaches Ceylon, which is the untouchably finest island of its size all the World” (UNDP;WTO, 1993). Therefore, it was known as “The Pearl of the Indian Ocean”, Serendib, Ceylon and “Taprobane” among the explorers and merchants for many years (SLTDA, 2011). It was under the western influence since 1505 with the arrival of Portuguese and it became a British colony after the capture of Kandian Kingdom by the British in 1815. Sri Lanka regained independence from the British in 1948. Although there have been ups and downs of tourist arrivals to Sri Lanka during the post-independence period, Sri Lanka can be considered as one of the ‘tourism countries’ (TC) (Brau, Di Liberto, & Pigliaru, 2011).

The earliest tourist arrivals recorded in the history of tourism in Sri Lanka were mainly related religious tourism such as worshipping shrines in ancient capital of Anuradhapura and Polonnaruwa or pilgrimage to Adam's peak (Fernando, 2017c). However, during the colonial period, Sri Lanka was attractive to travellers who sailed between the West and the East through the port of Colombo on many cruise ships, freighters and other vessels because of its primary location on the world sea lanes. Therefore, the passengers used to enter the port of Colombo and enjoyed sightseeing in Colombo, Kandy and their surroundings. The Sri Lankan Government set up its first Tourist Bureau in 1937 mainly to service these passengers and sailors travelling between the West and the East when they came ashore (Fernando, 2017b). Although accurate records are unavailable, "it is estimated that approximately one hundred thousand to two hundred thousand passengers visited the country per annum" (SLTDA, 2011 p. 1) during this period. However, the Tourist Bureau ceased its operations in 1940 due to the commencement of World War II. Due to the War there was little tourist activity in the 1940s.

After gaining independence in 1948, the new government decided to reorganize tourist activities by setting up the Government Tourist Bureau under the Ministry of Commerce. This Bureau was entrusted with the function of undertaking tourist promotional works in overseas. According to SLTDA information (SLTDA, 2011 p.1), a range of accommodation facilities were constructed throughout the country during the British colonial rule. These facilities were not originally designed for the promotion of inbound tourism but for the use of planters, the business community and government officials. Some of these relatively luxurious accommodation facilities, which at that time were residences of colonial governors, were later converted into high class hotels in Sri Lanka in order to facilitate the growing tourism industry. These included the Galle Face Hotel, the Grand Oriental Hotel, and the Mount Lavinia Hotel in Colombo, the Queens Hotel in Kandy, the Grand Hotel and St. Andrews Hotel in Nuwara Eliya, and the New Oriental Hotel in Galle. These hotels were renovated and were used as prime accommodation facilities for foreign visitors. In addition to these hotels, some other accommodation facilities were built as Tourist Rest-houses. These accommodation establishments were developed in places of scenic beauty such as Ella, Belihul Oya, Horton Plains, Pussellawa, Polonnaruwa, Sigiriya, Dambulla, Tissa Wewa, Nuwara Wewa, Kitulgala, Bentota, and Tissamaharama. As a result of this growing supply of facilities and the companion government promotion and foreign relations operation, the tourism industry gained enormous respect and confidence during the period of 1948 to 1953 and tourism receipts doubled from \$ 1.04 million to \$ 2.23 million (Fernando, 2015).

There was a rapid growth of international tourism around the world during the 1950s (Nordström, 2005) largely due to the introduction of jet aircrafts for civilian transport after World War II (May & Hill, 2004). Therefore, Sri Lanka had a golden opportunity to establish a tourism hub in between the East and the West using its strategic unique central location and relatively sufficient accommodation facilities. It was necessary to invest in infrastructure in developing countries for them to attract a share of this growth in international tourism. For example, new airports with wider and long runways and parking bays, with large spaces, terminal buildings with modern facilities were required to facilitate inbound tourism. However, during the period 1954 – 1960 tourism arrivals in Sri Lanka declined rapidly, while leading hotels experienced low occupancy rates (ranging from 14 per cent to 32 per cent) as a result of the government's lack of support for tourism activities (Due, 1980). Like other South Asian countries Sri Lanka implemented a protectionist import-substitution regime after independence, except a brief episode of 1948-1956 (Athukorala, 1998). Under this closed trade policy regime the government's main focus was to develop import-substitution industries to accelerate growth and tourism was not considered as a key ingredient in the national economic development strategy. In general, growth in tourism during this period was positively related to open economic policies (United Nation, 1993). Therefore, the earlier tourism oriented development failed to take root and Sri Lanka missed a golden opportunity to establish itself as a major a tourism and transport hub in between the East

and the West. By contrast a significant competitor in this space, namely Singapore was moving fast strategically by improving its infrastructure needed to develop and support international tourism during the 1960s and it became the major hub in between the East and the West. Sri Lankan policy makers missed this first opportunity to develop its tourism sector by not investing in tourism related infrastructure and not considering tourism as an important sector in its national economic development policy (Fernando, 2017a). Table 1 provides a detailed chronology of National Economic Policies and Tourism Development Strategy in Sri Lanka

Table 1: A Chronology of National Economic Policies and Tourism Development Strategy in Sri Lanka

Period	National Economic Policy Regime	Tourism Development Strategies	Main features of strategies
Before 1948	The pre-independence – open economic policy	1937 - First Tourism Bureau was established. 1940 - Tourist Bureau ceased its operations due to the War	Provided services to the passengers who sailed between the West and the East through the port of Colombo.
1948 - 1956	Continuation of pre-independence open economic policy	1948 - Revival of Government Tourist Bureau	Began to undertake tourism marketing and promotional strategies immediately after independence from the colonial rulers.
1956 - 1965	Closing up the economy with the import-substitution strategy	Under the closed economy tourism did not play an important role in the national development strategy	Under the directionless and loosely organized Tourist Bureau there were no tourism promotional and marketing activities.
1965 - 1970	Partial departure from the closed economy	1966 - The government legislative body was established for the tourism sector 1966 - Introduction of the first Ten Year Master Plan for tourism	Revival of tourism promotion and marketing strategies. Tourist Board Act No. 10 of 1966, Ceylon Hotel Corporation Act No 14 of 1966, Tourist Development Act No. 14 of 1968. The plan became the blueprint for tourism development and witnessed first tourism boom in Sri Lanka. The country witnessed a first-wave of new hotel construction with five resort development zone
1970 - 1977	Closing up the economy again	No new government initiative to develop tourism	Rate of investment growth in tourism fell down due to the re-establishment of import control measures. However, tourism grew rapidly as a result of previous promotional activities and peaceful environment.
1977 - 1996	Opening up the economy	1977 - Introduction of trade liberalisation, exchange rate reforms and incentives for FDI.	Sri Lanka managed to attract a large number of tourists especially from Europe under the open economic policies. Tourism was promoted. The progress continued until 1983. Tourism became a victim of war after 1983.
	The second wave of economic reforms in 1989	1992 - Introduction of the second Ten Year Tourism Master Plan	Temporary rebound in tourism sector and recovery of tourism arrivals with the second wave of trade reforms
1996 to date	Continuation of opening economic policies with some limitations	2002 - Signing a cease fire agreement and created peaceful environment for the tourism sector.	The relatively peaceful short term environment gave rise to an increase in tourist arrivals to Sri Lanka
		2005 - New tourism Act. 2008 - Introduction of the Third Tourism Master Plan	Closer relationship between government and private sector through joined experiences board has built integrated approach to tourism.
		End of war in 2009 – Launching new tourism promotion strategy 2011-Implementation of the Tourism Development Strategy	Tourism sector has made a remarkable recovery and it is becoming one of the fastest growing and dynamic industries in the country due to peaceful environment.

Source: Adapted from (Fernando, Bandara, & Smith, 2013)

Although the country is extremely rich in natural, cultural and heritage-based resources as described above, it took about 18 years after independence for Sri Lanka for policy makers to recognise a significant role for tourism in enhancing economic development (Fernando, Bandara, & Smith, 2012). After identifying tourism as a key sector for the first time, the Sri Lankan government commissioned a study to prepare a Ten Year Master Plan for tourism in 1966. This plan was developed with funding from USAID (United Nations, 1993). Following this study the Sri Lankan government passed two acts (the Tourist Board Act No. 10 of 1966 and Tourist Development Act No. 14 of 1968) to establish institutional arrangements such as the Ceylon Tourist Board, the Ceylon Hotel School and the Ceylon Hotels Corporation in order to actively engage in tourism promotion and development for Sri Lanka (Fernando, 2017c).

It was very difficult to attract private sector investors into this area of the economy without incentives since the number of tourist arrivals was by then small relative to other destinations. Therefore, the Sri Lankan government offered an incentive package to the private sector including fiscal and financial concessions, and land on concessional rates and provision of infrastructure. This created the first tourist boom in Sri Lanka and a first-wave of new hotel construction mainly occurred along the Southern Coast. As shown in Figure 2, the period of 1966-1977 witnessed a rapid growth in tourist arrivals in Sri Lanka. The pro-western United National Party (UNP) Government introduced a far reaching economic reform package in 1977 and commenced the process of opening the economy. This was a turning point in economic policy for Sri Lanka and this policy change not only stimulated export-led industries but also assisted in attracting international tourists. During this first post-war tourism boom Sri Lanka also managed to increase foreign exchange earnings and generate enhanced employment opportunities in tourism related activities.

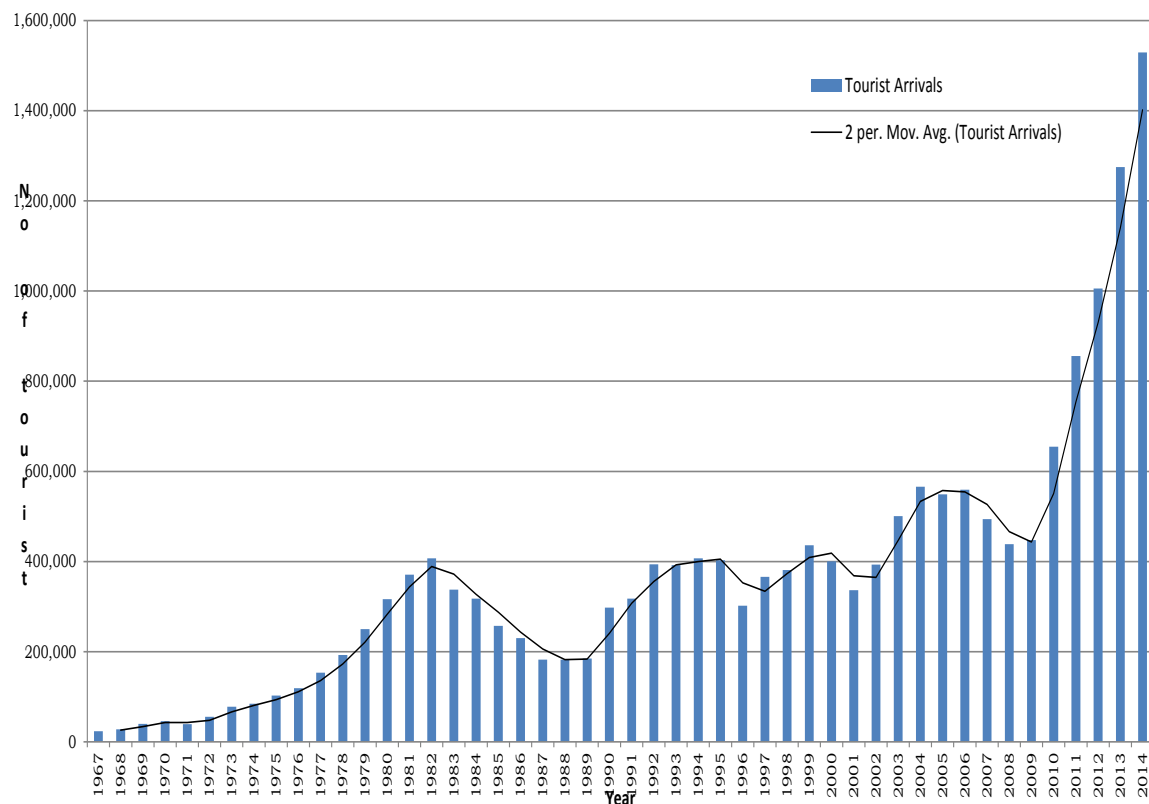


Figure 1: Tourist Arrivals to Sri Lanka and Year on Year Growth from 1966 to 2014.

Source: Based on various Annual Statistical Reports of Sri Lanka Tourism Sri Lanka

Table 2: Historical Trends in Tourism within the Context of Political Phenomenon and its Contributions to the Economy

Different Episodes of Peace, war and violence	Year	Tourist Arrivals	Y o Y Growth	Periodical Average Growth	Tourism receipts	Employment		Annual Room
					US\$	Direct	Indirect	Occupancy Rate (Graded)
First period of missing opportunities	1948-1965	Data not available						
Closed Economy (with partial liberation)	1966	18,969	-		1.3	n/a	n/a	n/a
Boom in tourism under Peace, democracy and political stability and also starting promotion of tourism (First Ten Year Tourism Master Plan 1967 – 1976)	1967	23,666	25	25	1.2	n/a	n/a	35.0
	1968	28,272	19		1.8	n/a	n/a	40.7
	1969	40,204	42		2.9	n/a	n/a	44.3
	1970	46,247	15		3.6	5,138	6,940	42.8
First youth uprising in South	1971	39,654	-14	-14	3.4	6,397	8,640	31.1
	1972	56,047	41		7.3	7,040	9,500	38.8
Closed economy	1973	77,888	39		12.8	7,134	10,780	42.4
Tourism was booming under democracy and political stability and promotion tourism	1974	85,011	9	25	16.4	8,551	11,550	39.7
	1975	103,204	21		22.4	10,148	13,700	36.8
	1976	118,971	15		28.2	11,752	15,900	37.7
	1977	153,665	29		40.0	13,716	18,520	42.0
Opening up of the economy	1978	192,592	25		55.8	15,404	20,795	47.7
Tourism is booming with accumulating the largest numbers of tourist (253,565)	1979	250,164	30	23	77.8	18,472	24,937	52.8
	1980	321,780	29		110.7	19,878	28,022	57.8
	1981	370,742	15		132.4	23,023	32,232	54.5
	1982	407,230	10		146.6	26,776	37,486	47.8
Eelam war 1	1983	337,530	-17		125.8	22,374	31,234	35.9
Well-known ethnic riots in 1983 and the escalation of civil war in the North and East.	1984	317,734	-6	-15	104.9	24,541	34,357	35.6
	1985	257,456	-19		82.2	22,723	31,810	32.7
	1986	230,106	-11		82.1	22,285	31,199	32.9
Period of ‘Twin War’	1987	182,620	-21		82.0	20,388	28,473	31.5
one in the North and another in the South	1988	182,662	0	-10	76.6	19,960	27,944	32.2
Peace Talk II (1989/90)	1989	184,732	1		76.0	21,958	30,741	31.0
peace talks between SL government and the LTTE	1990	297,888	61	31	132.0	24,964	34,950	47.2
Eelam War II	1991	317,703	7		156.8	26,878	37,629	48.2
Implementation of the Second Ten-Year Tourism Master Plan (1992–2001) while starting Eelam War II	1992	393,669	24	10	201.4	28,790	40,306	55.3
	1993	392,250	0		208.0	30,710	42,994	57.0
Peace Talks III and Eelam War III	1994	407,511	4		230.5	33,956	47,538	56.6
Another round of peace talks and its collapse	1995	403,101	-1	-13	225.4	35,068	49,095	52.2
	1996	302,265	-25		173.0	31,963	44,748	40.3
Searching political solution	1997	366,165	21		216.7	34,006	47,608	49.1
Discussing constitutional changes as a result of ethnic problem while ongoing civil war	1998	381,063	4	13	230.5	34,780	48,692	52.8
	1999	436,440	15		274.9	36,560	51,184	57.6
LTTE attacked economic nerve centres in Colombo.	2000	400,414	-8	-12	252.8	37,943	53,120	52.3
	2001	336,794	-16		211.1	37,710	47,194	42.1
Cease Fire Agreement (CFA) and Peace Talks IV	2002	393,171	17	19	253.0	38,821	54,349	43.1
	2003	500,642	27		340.0	46,761	65,465	53.2
Norway led peace talks and CFA	2004	566,202	13		416.8	53,766	75,272	59.3
Eelam war IV and the end of war	2005	549,308	-3		362.3	52,085	72,919	45.4
Beginning of full scale of war and the end of war in May 2009. Implementation of the Third Tourism Master Plan (2008-2012) in 2008.	2006	559,603	2	-4	410.3	55,649	77,909	47.8
	2007	494,008	-12		384.4	60,516	84,722	46.2
	2008	438,475	-11		319.5	51,306	71,828	43.9
	2009	447,890	2		349.0	52,071	72,899	48.4
The post-war tourism boom	2010	654,476	46		575.0	55,023	77,032	70.1
The end of the war in May 2009 begins a new chapter in Sri Lanka in general and tourism in particular. The Sri Lankan economy bounced back strongly immediately after the war.	2011	855,975	31		838.9	57,786	80,899	77.1
	2012	1,005,606	17	24	1,038.3	67,862	95,007	71.2
	2013	1,274,593	25		1,715.5	112,550	157,600	71.2
	2014	1,527,153	20		n/a	n/a	n/a	n/a

Source: Based on Sri Lanka Tourist Board Annual Reports

Figure 2 and Table 2 document graphically and numerically historical trends in tourist arrivals in Sri Lanka for a period over four decades (between 1966 and 2014). They illustrate a number of features and episodes of Sri Lankan tourism and indicators such as tourist arrivals, foreign exchange earnings from tourism, employment generation and the room occupancy rate. It is clear from Figure 1 and Table 2 that during the period from 1966 to 1970 the country witnessed an increase of 23 per cent in tourist arrivals on average per annum (from 18,969 in 1966 to a peak of 407,230 in 1982). Although there was a negative annual growth of 14 per cent in 1971 as a result of the first Youth uprising in the South, there was a further rapid rise in tourist arrivals between 1972 and 1982 at a rate around 24 per cent per annum. The numbers of inbound tourists in Sri Lanka reached 100,000 in 1975 for the first time. With the introduction of open economic policies in Sri Lanka in 1977, the tourism industry enjoyed remarkable success until 1982, recording an increase in tourist arrivals from 153,665 in 1977 to 407,230 in 1982. The period 1978-1982 can thus be considered as a relatively prosperous period in the early history of Sri Lanka.

Unfortunately, the first tourism boom ended with the eruption of well-known ethnic riots in July 1983 and the escalation of the separatist war in the North and East. During the next twenty seven year period Sri Lanka missed many opportunities to attract tourists and foreign direct investment (FDI) to the sector because of the so called 'twin wars' (namely the separatist war in North & East coupled with youth violence in the South). It is clear from Figure 2 that the year 1983 was a turning point in terms of such missed opportunities. All expectations of reaping the benefits of economic liberalisation in 1977 and Sri Lanka's dream of becoming another Singapore faded away.

As O'Hare and Barrette (1994) have pointed out, the tourism sector has been sensitive to civil disturbances and the number of tourist arrivals has fluctuated as reactions to civil disturbance and violence as well as to different episodes of peace talks (Fernando, Bandara, Liyanaarachch, Jayathilaka, & Smith, 2013) (see Table 2 and Figure 2). During the first episode of war (1983-1987), the number of tourist arrivals declined at an average annual rate of 15 per cent. Although the peace process started between the Sri Lanka Government and the Eelam separatists in 1987 following intervention of the Indian government, the tourist arrivals to Sri Lanka were stagnating and low (see Table 2) as a result of the above-mentioned 'twin war'. However, the elimination of the second youth uprising in the South in 1989 and the beginning of another round of peace talks between the Sri Lankan government and the Eelam separatists resulted a temporary rebound in tourism industry in 1990. This rebound was also supported by the second wave of economic reforms including a further liberalisation of the trade regime (Kelagama.S & Danham.D, 1995).

These economic reforms with Second Ten Year Tourism Master Plan witnessed a recovery of tourism arrivals from 184,732 in 1989 to 393,669 in 1992. However the Eelam separatists started the Second 'Eelam War' in 1990 and the president of Sri Lanka was assassinated by the Eelam separatists in 1993. As a result, Sri Lankan tourism again showed negative. After seventeen years in power, the right-of-centre UNP government lost power in the 1994 general elections and the left-of-centre People Alliance (PA) government led-by the former president (Mrs Bandaranayake Kumaranatunga) came to power with new directions and expectations. The new government began a fresh round of peace talks with the Eelam separatists in 1994 and there was a small growth in tourist arrivals during this brief period. However, once again, peace talks collapsed and the war started again in earnest in 1996. The Sri Lankan security forces captured Jaffna (the heart of the Northern province) and the Eelam separatists started to mount attacks on economic targets like tourist hotels, Central Bank and the business district in Colombo. The Eelam separatist attacked the Colombo International Airport in 2001 and the tourism sector faced a severe crisis and the economy recorded a negative economic growth for the first time in three decades. As a result of the ensuing economic crisis as well as an increase in the intensity of war in the North and East and

attacks mounted by the Eelam separatists in Colombo and the Southern part of the country, the PA government became unpopular. In 2002 the right-of-centre-pro western government led by the UNP came in to power and began a fresh peace process in 2002 after signing a cease fire agreement (CFA) with the Eelam separatists following international mediation led by Norway. Between 2002 and 2006, there was a relatively peaceful environment in the country and the government had six rounds of peace talks with the Eelam separatists. The relative optimism in relation to the possibility of achievement of long term peace and the relatively peaceful short term environment gave rise to an increase in tourist arrivals to Sri Lanka during this period (see Table 2). This was a mini-tourism boom. However, the war between the Eelam separatists and the Sri Lankan government security forces started again in 2006 and the tourism industry was badly affected once again between 2006 and 2009. During this period the growth in tourist arrivals was negative as expected. Finally the war ended in May 2009 as the result of the government forces defeating the Eelam separatists and gaining full control over the entire island.

The Post-war Tourism Boom in Sri Lanka

Although the tourism sector suffered immensely during nearly three decades of war, violence and disasters, it has shown strong resilience to all man-made and natural disasters and conflicts (see, O'Hare & Barrett, 1994; Tisdell & Bandara, 2005, p. 21). The sector survived and tourist hotels managed to operate even though the occupancy ratio was low for a long period. The end of war in May 2009 begins a new chapter in Sri Lanka in general and tourism in particular. The Sri Lankan economy bounced back strongly immediately after the war. It also managed to achieve an impressive economic growth around 8 to 6 per cent for 2010 to 2013.

The post-war figures also demonstrate that the Sri Lankan tourism industry has made a remarkable recovery and it is becoming one of the fastest growing and dynamic industries in the country. 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. The TDS set a number of important targets centred on attracting a large number of international tourists. The targets 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 2009 in terms of numerical values. This demonstrates that the Sri Lankan government is very keen to accelerate economic development in the country 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 on-going political violence, the war and persistent acts of terrorism prior to 2009.

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. 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 of foreign exchange earnings for the Sri Lankan economy (see Central Bank of Sri Lanka, 2014).

Composition of the Tourism Market in Sri Lanka

Table 3 and 4 provides the composition of international tourist arrivals and the changing patterns of arrivals from different countries and regions during the period of 1975 to 2014. It demonstrates that Sri Lanka's heavily dependence on traditional western tourist markets has declined. On the other hand, emerging Asian economies such as India and China are becoming important tourist markets for Sri Lanka.

Table 3. Composition of the International Tourist Arrivals in Sri Lanka from 1975. (as % of Total Arrivals in each Year)

Country	1970	1975	1980	1985	1990	1995	2000	2005	2010	2014
North America	12.60	7.58	4.79	4.02	2.71	3.61	4.33	8.46	6.14	4.71
Canada	1.45	1.16	1.00	0.84	0.82	1.36	1.87	3.86	3.23	2.23
U.S.A.	11.15	6.42	3.79	3.19	1.90	2.25	2.45	4.60	2.92	2.47
Western Europe	49.57	58.78	67.02	59.43	56.83	62.06	65.14	41.36	39.25	31.51
France	9.69	10.75	10.62	10.35	11.12	7.69	6.49	4.85	4.78	5.40
Germany	12.48	15.02	23.43	19.78	19.85	19.81	17.63	8.44	6.99	6.76
Netherlands	0.00	1.83	2.43	1.85	2.92	3.55	5.65	2.76	1.75	1.66
U.K	11.86	8.48	9.64	8.46	7.32	16.00	21.15	16.86	16.12	9.56
Eastern Europe	1.05	4.85	1.50	1.20	2.54	1.14	1.71	1.69	5.43	9.63
Russia	0.33	4.22	1.21	0.92	1.74	0.61	0.89	0.67	2.03	4.33
Asia	32.18	23.04	22.38	30.71	33.57	29.35	22.86	40.57	37.30	42.64
China	-	-	-	0.49	0.32	0.36	0.55	1.76	1.59	8.70
Japan	2.26	8.02	3.58	9.07	7.50	4.52	2.56	3.12	2.19	3.06
India	23.07	7.57	11.26	12.02	4.38	11.82	7.96	20.63	19.39	16.02
Maldives	0.66	2.51	0.92	1.25	2.46	1.63	1.98	4.47	5.47	5.20
Pakistan	0.93	1.58	0.79	1.85	2.55	2.81	2.50	2.01	1.40	1.70
Australasia	0.00	3.53	2.71	3.14	2.99	2.54	4.55	5.41	5.70	3.92
Australia	2.58	3.06	2.29	2.79	2.73	2.25	4.11	4.73	5.11	3.47

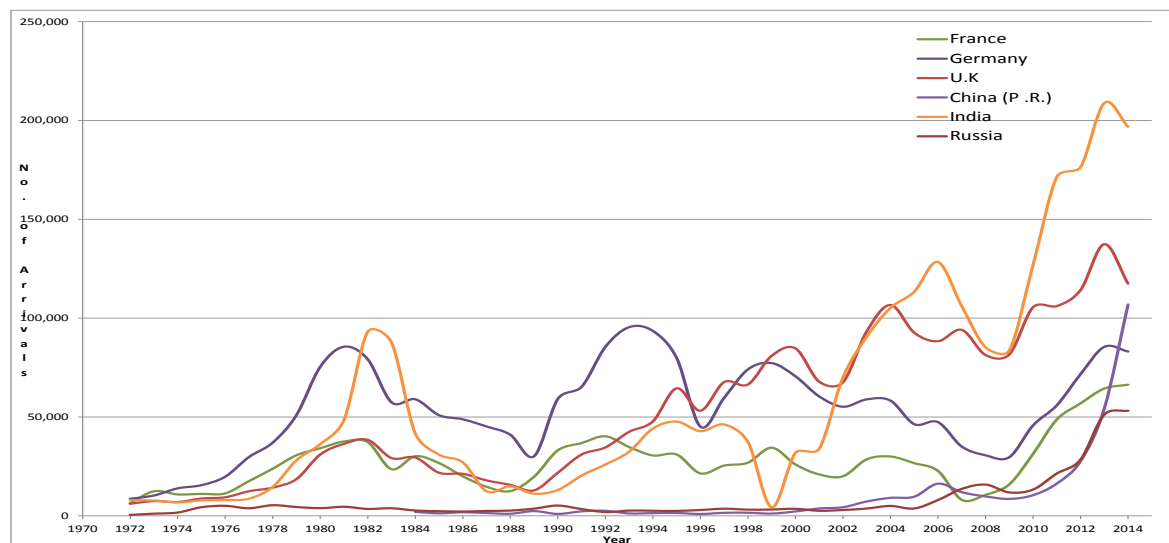
Source: Based on various Annual Reports of Tourist Board

Table 4. Composition of the International Tourist Arrivals in Sri Lanka from 1975.

Country	1970	1975	1980	1985	1990	1995	2000	2005	2010	2014
North America	5,826	7,823	15,408	10,358	8,084	14,564	17,319	46,457	40,216	57,828
Canada	671	1,194	3,214	2,158	2,432	5,496	7,503	21,185	21,123	27,425
U.S.A.	5,155	6,629	12,194	8,200	5,652	9,084	9,816	25,272	19,093	30,403
Western Europe	22,924	60,660	215,650	153,004	169,294	250,152	260,824	227,191	256,861	387,215
France	4,480	11,093	34,170	26,656	33,114	31,008	25,992	26,653	31,285	66,301
Germany	5,771	15,497	75,380	50,922	59,138	79,869	70,584	46,350	45,727	83,099
Netherlands		1,886	7,818	4,758	8,712	14,307	22,618	15,156	11,423	20,370
U.K	5,484	8,756	31,014	21,788	21,812	64,491	84,693	92,629	105,496	117,442
Eastern Europe	486	5,002	4,838	3,080	7,562	4,578	6,840	9,290	35,517	118,305
Russia	151	4,354	3,884	2,356	5,188	2,472	3,552	3,704	13,278	53,157
Asia	14,882	23,779	72,022	79,056	100,004	118,323	91,521	222,844	244,124	523,945
China				1,260	948	1,440	2,208	9,668	10,430	106,888
Japan	1,043	8,281	11,526	23,356	22,344	18,207	10,266	17,148	14,352	37,577
India	10,668	7,808	36,234	30,938	13,056	47,654	31,860	113,323	126,882	196,819
Maldives	304	2,588	2,964	3,222	7,330	6,561	7,935	24,576	35,791	63,938
Pakistan	430	1,628	2,540	4,770	7,600	11,343	10,005	11,029	9,148	20,830
Australasia		3,638	8,720	8,090	8,914	10,254	18,228	29,738	37,290	48,205
Australia	1,193	3,156	7,368	7,182	8,128	9,069	16,443	25,986	33,456	42,679

Source: Based on various Annual Reports of Tourist Board

Figure 3 illustrates a more detailed picture of the source of foreign visitors to Sri Lanka from 1970 to 2014 by giving information on the top 6 tourist market. India is the main source followed by the United Kingdom. However, China and Russia can be considered as key emerging markets due to their rapid increase in recent years.

**Figure 2 Major Tourist Generating Foreign Countries for Sri Lanka 1970 - 2014 in Terms of Number of Arrivals in Sri Lanka**

Source: Based on various Annual Reports of Tourist Board

Constraints and Challenges

As described above, tourism in Sri Lanka is booming and the government is implementing TDS as a main driver of economic growth. However, the country is facing a number of challenges in terms of developing the tourism industry (Fernando, 2016). 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 currently available (as shown in Table 5). This represents a massive challenge. Clearly the existing accommodation capacity in the Sri Lankan tourism sector is inadequate to cater anticipated tourism demand. The longer term option is to build new high quality hotels. The government has approved a number of new hotel development projects recently to meet this challenge.

Secondly, 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.

Table 5: Accommodation Capacity

Class of Accommodation		Accommodation Capacity			Room Occupancy Rate
		No of Units	No of Rooms	No of Beds	
Hotels		279	16,223	33,950	71.7
	5 Star		14	3,152	6,265
	4 Star		18	2,070	3,683
	3 Star		14	1,061	2,142
	2 Star		33	1,717	3,381
	1 Star		33	1,325	2,627
	Unclassified		167	6,898	15,672
Supplementary Establishments		688	7,373	14,750	77.1

Source: Annual statistical report of Sri Lanka tourism – 2013

Thirdly, 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 the current work force to cater for 2.5 million tourists by 2016 (Clearer Skies, 2011). The current 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. To train 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 position in the industry. There are other supplementary short courses conducted by various government departments. At present, the tourism sector employs about 163,000 people (both directly and indirectly). However, there is currently a severe shortage of employees in the hotel sector. According to the tourism plan, Sri Lanka needs to expand employment in this sector by around 500,000 people over the next five years to cater for the expected 2.5 million tourists in 2016. –This is a demanding task given the current state of tourism education in the country.

Fourthly, it is important that the country moves away from low cost tourism and focuses on higher end of the tourism market (Ministry of Economic Development, 2011). However attracting quality tourists has been a major challenge given the state of existing tourism related infrastructure and support.

Finally, rapidly increasing accommodation costs represents another constraint on meeting tourism targets. According to some recent reports, 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 has traditionally been competitive in terms of price for three-star rated beach resort hotels – yet these are generally not of a standard that is attractive to high-end international tourists. The room-rates for even three-star accommodation in Sri Lanka have increased dramatically because of the expansion in demand associated with 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 percent. 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.

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