Tourism in Post-conflict Development: Making Use of New Opportunities in Sri Lanka

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Abstract Developing countries emerging from protracted civil wars and conflicts very often experience post-conflict tourism booms. Sri Lanka is no exception. The end of conflict has offered new opportunities, particularly in the tourism sector. In order to make use of these new opportunities, the previous government launched the “Tourism Development Strategy 2011–2016” by recognizing the key role of tourism that tourism can play in post-conflict development. It has been followed up by the current government of Sri Lanka by launching its own “Sri Lanka Tourism Strategic Plan 2017–2020”. The purpose of this chapter is to examine the nature of the post-conflict tourism boom and explore new opportunities that have emerged in terms of creating employment opportunities and reducing regional disparities. Furthermore, the chapter attempts to examine the impact of the tourism boom on the overall economy and to highlight how Sri Lanka has given priority to developing the tourism sector and positioning it as a key growth pillar in the economy. This chapter also demonstrates that tourism is not a “silver bullet” in addressing all economic ills in the Sri Lankan economy, despite the optimism about the development of the tourism sector to create further opportunities. The use of tourism as a tool to stimulate the economy should be synchronized with a raft of other policies such as improved transport infrastructure facilities, sound macroeconomic management, eliminating corruption and inefficiencies in government institutions, and reducing barriers to trade and FDI.

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1 Introduction

It is well documented that protracted conflicts and political violence have detrimental effects on economic growth, particularly within the tourism sector. For this reason, developing countries emerging from protracted wars very often experience post-conflict tourism booms. Sri Lanka is no exception; the end of the conflict offered new opportunities, particularly in the tourism sector. In order to make use of these new opportunities, the then government launched the Tourism Development Strategy 2011–2016 (TDS) to recognize the key role that the sector can play in post-conflict development (Ministry of Economic Development 2011). With the change of government in 2015, it has been followed by the launch of the Sri Lanka Tourism Strategic Plan 2017–2020 (TSP) in order to position tourism as a central pillar of the economy and to support efforts to achieve the United Nation’s Sustainable Development Goals (SDGs) on tourism according to the Ministry Of Tourism Development and Christian Religious Affairs (MTDCRA) as stated in 2017. Both governments have seen the potential tourism has to stimulate economic growth. Although the recent tourism boom has provided new opportunities in post-conflict development in Sri Lanka and the government is trying to spread the benefits of the boom to the broader community, particularly in former conflict areas, it has faced challenges and problems.

The purpose of this chapter is to examine whether Sri Lanka’s post-conflict experience has been a success in creating new employment opportunities, increasing export earnings, and providing opportunities to bring about ethnic harmony among communities through tourism-related activities. The chapter is structured into seven sections. Section 2 provides a brief overview of tourism in Sri Lanka by highlighting stylized facts. Section 3 focuses on the overall economic impacts of tourism. A descriptive micro-level analysis is undertaken in Sect. 4 to highlight the rise of informal tourism in Sri Lanka. Section 5 examines whether broader communities, particularly those in former conflict-affected areas have benefited from the tourism boom. Section 6 focuses on challenges the Sri Lankan tourism sector is facing at present, while the final section presents policy implications and concluding remarks.

2 Post-conflict Tourism in Sri Lanka: Stylized Facts

Sri Lanka is blessed with an abundance of tourism assets ranging from “sun, sea and sand” to nature and historical heritage. However, over a number of decades, since the early 1980s, tourism has suffered due to internal political conflicts and violence. Following the end of nearly three decades of conflict in May 2009, the country has witnessed a significant rise in international tourist arrivals similar to post-conflict tourism booms experienced by other countries in the region such as Vietnam, Cambodia, and Laos.

International tourists are very sensitive to conflict and violence in destination countries. When peace prevails as in post-conflict Sri Lanka, it is not surprising that the tourism sector experiences a boom. There is a large body of literature on recent trends in tourism in Sri Lanka (see, e.g., Fernando et al. 2013; Institute of Policy Studies of Sri Lanka (IPS) 2017), and we do not intend to repeat the available literature. As shown in Fig. 1, the number of international tourist arrivals increased sharply after 2009, breaking all previous historical annual and monthly figures. The total number of arrivals nearly doubled within two years after the end of conflict and grew by nearly four times within six years. The number of arrivals further increased, reaching 2,116,407 by the end of 2017. Although the annual growth rate in Sri Lanka's tourist arrival figures continuously exceeded the growth rate of global tourist arrivals until 2016 (over 20%), it fell to 3% in 2017 in contrast to a 6.8% global growth rate as well against higher regional growth rates in Asia and the Pacific (8%), Europe (7%), and Africa (6%) (see UNWTO 2018).

Sri Lanka has traditionally depended on sources such as the UK and Germany for tourists (Fig. 2). Until about year 2000, the proportion of arrivals from Western European countries was about two-thirds of total arrivals, while the proportion from Asia, particularly India and China, contributed around 20–30% (IPS 2017, p. 130). This trend has changed over the last 15 years with India becoming the main source, while tourists from China also increasing sharply (see Fig. 2). Rapid economic growth in both India and China, India's proximity close economic relations with Sri Lanka and growing Chinese involvement in Sri Lanka through infrastructure and other development projects have been the main reasons for these changes.

Although the arrival numbers from Europe, particularly from the UK and Germany, have not increased at a similar rate, these still continue to be important in terms of guest nights as shown in Fig. 3. The average duration of a tourist's stay in the country has been around 10 nights, and this has not changed much over the last

Fig. 1 Targets and Achievements in tourist arrivals of the TDS. *Source* Sri Lanka Tourism Development Authority

Fig. 2 Main sources of tourist arrivals. *Source* Sri Lanka Tourism Development Authority

Fig. 3 Tourist guest nights—different sources. *Source* Sri Lanka Tourism Development Authority

Fig. 4 Hotel occupancy rates 1967–2017. *Source* Sri Lanka Tourism Development Authority

two decades or so according to data published by the SLTDA. Thus, traditional tourism sources are still important to Sri Lanka.

With the post-conflict tourist boom after 2010, the hotel occupancy rate has increased sharply as shown in Fig. 4. During the period of conflict, the occupancy rate fluctuated between 30 and 60% depending on episodes of violence; during the last stages of the conflict, the occupancy rate was below 50%. During the period of post-conflict, the rate increased immediately to over 70% and reached a peak level of nearly 75% in 2016 (Fig. 4).

The number of total employees in the tourism sector, including direct and indirect employment, increased sharply after 2009 (Fig. 5). Foreign exchange earnings from tourism also increased significantly after the end of conflict (Fig. 6). Earnings increased from USD 0.6 billion in 2010 to USD 3.9 billion in 2017. Overall, tourism has become the third biggest foreign exchange earner for Sri Lanka, after migrant remittances and garment exports.

With the growth in the tourism sector after the end of conflict, foreign direct investment (FDI) into the hotel industry has also increased rapidly (Fig. 7). FDI in this sector was around USD 6 million in 2010, but it increased to USD 216 million by 2011. Although FDI declined after 2011, it picked up again in 2015 (USD 182 million).

The above-stylized facts demonstrate that the Sri Lankan economy is currently experiencing a tourism boom. This is evidenced by a record-breaking number of international tourist arrivals, foreign exchange earnings, employment generation, and investment in the tourism sector. However, as correctly identified in its TSP 2017–2020, growth in the sector “has taken place predominantly organically, without a definite vision and without coordinated planning” (MTDCRA 2017, p. 3). The TSP

Fig. 5 Tourism boom and employment generation. *Source* Sri Lanka Tourism Development Authority

Fig. 6 Foreign exchange earnings from international tourism. *Source* Sri Lanka Tourism Development Authority

further states that Sri Lanka's current tourism sector "lies along the continuum from exploration to development, depending on the destination" by using Butler's (1980) concept of tourism life cycle (Fig. 8). The government has identified that the tourism sector "has not fully captured its true potential and thus has not reaped the expected benefits" (MTDCRA 2017, p. 4). That is why the current government is labelling tourism in Sri Lanka as "A Story of Untapped Potential" in its TSP (MTDCRA 2017).

Fig. 7 Post-conflict FDI in Sri Lanka's hotel industry. *Source* Adapted from Sirisena (2016)

Fig. 8 Sri Lanka's tourism life cycle. *Source* Bulter (1980) and adapted from TSP (MTDCRA 2017)

3 Economy-Wide Impacts of the Tourism Boom on the Sri Lankan Economy

Stylized facts on the post-conflict tourism boom shown in the previous section demonstrate that it has contributed significantly to the economy as expected in any country recovering from a decades-long conflict. In this section, the impact of the tourism boom in detail is examined further, using an economy-wide framework.

In comparison with other industries in an economy, tourism is not a single industry but it is a composite commodity which is an aggregation of tourism-related products and services such as food, accommodation, air, rail and road transport, trade, and other services (Smith 1989). Therefore, it is difficult to analyse the impact of tourism on the rest of the economy by considering tourism as a single output produced in an economy, and examining the relationship between tourism and other sectors of an economy is complex (Fletcher 1989).

The main contribution of tourism is invisible foreign exchange earnings generated by international tourism expenditure (Archer 1982). Similar to many forms of visible foreign exchange earnings through exports of commodities, invisible foreign exchange earnings generated by international tourists in a destination country lead to a creation of employment opportunities and an increase in household income, incomes of owners of tourism-related business activities, and government revenue through taxation on tourism-related activities (Stynes 1997). This process creates multiplier effects on an economy. As well established in the literature, the multiplier effects of international tourism expenditure can be identified under direct or initial effects, production-induced effects, and consumption-induced effects.

The initial effects on output, income, and employment as a result of purchasing goods and services directly related to tourism such as accommodation, travelling, and entertainments by international visitors in an economy can be considered as the direct effects of tourism expenditure. These initial increases in demand for goods and services through tourism expenditure create flow-on effects on other sectors of the economy through “linkages” since tourism-related goods and services sectors need to purchase goods and services from other sectors as inputs to increase their output levels. This process stimulates other sectors which provide inputs to tourism-related sectors. Output, income, and employment of these other sectors may increase as a result of the first round, the second-round, the third-round effects, etc. The sum of the effects of all these different rounds is known as production-induced multiplier effects. Households’ income increases as a result of both direct and production-induced effects of tourism expenditure through the expansion of the economy. Therefore, household demands for consumption of goods and services increase in an economy. An extra increase in household demand generates further increase in production of goods and services and creates new employment opportunities. These effects are known as consumption-induced effects.

The total effects of tourism expenditure on an economy in terms of direct, production-induced, and consumption-induced effects are summarized in Fig. 9

Fig. 9 Flow of international tourism receipts into the economy. *Source* Adapted from Fernando (2015)

following Fernando (2015). As illustrated in Fig. 9, all expenditures incurred by international visitors in terms of injection of invisible foreign exchange do not remain in a domestic economy because some tourism-related industries use imported inputs to produce goods and services as well as households, business owners, and government use additional income generated from tourism to purchase imported goods and service. Therefore, a portion of initial injection of foreign exchange through international tourism expenditure flows back to the rest of the world in terms of expenditure on imports. The magnitude of this portion of expenditure depends on the nature of the production structure and consumption patterns in an economy. Overall, the contribution of tourism directly and indirectly is significant even after considering leakages of foreign exchange in terms of imports resulting from a tourism-led stimulation to an economy.

The above-mentioned direct, production-induced, and consumption-induced effects of tourism expenditure can be captured in practice by using simple output and employment multipliers related to the hotel and restaurant sector. These effects have been calculated by using an input-output table for Sri Lanka (Bandara 2015). In this study, the above-mentioned three types of effects have been identified using an example of Rs. 1 million worth of expenditure on the hotel and restaurant sector in the economy. The results have been summarized in Table 1.

As summarized in Table 1, the total output multiplier in the hotel and restaurant sector is around 2.192, indicating that any increase in demand for the sector by Rs. 1 million creates Rs. 2.2 million worth of output in the whole economy. Similarly,

Table 1 Hotel and restaurant sector multipliers

	Initial effects	First-round effects	Industry support effects	Production-induced effects	Consumption-induced effects	Total multiplier
Output	1.000	0.423	0.166	0.589	0.603	2.192
Employment	4.550	0.854	0.297	1.151	0.918	6.620

Source Bandara (2015)

any increase in Rs. 1 million worth of demand for the sector creates 6.6 employment opportunities. Output and employment multipliers in tourism-related sectors are relatively high since their backward and forward linkages with the rest of the economy are very strong (Bandara 2015).

Following a similar framework, the World Travel and Tourism Council (WTTC) has developed an economy-wide approach to calculate the total contribution of tourism to GDP, foreign exchange earnings, and total employment in an economy (both directly and indirectly). According to WTTC (2017, 2018) and, as summarized in Table 2, while the direct contribution of the tourism and travel sector was about 5.3% of GDP in 2017 with this predicted to increase up to 5.7% by 2028, the total contribution (both direct and indirect) to GDP was about 11.6% of GDP in 2017. This is predicted to increase up to 12.3% by 2028. Similarly, the total direct employment in the sector was around 404,000 (5.1% of total employment), and total employment (direct and indirect) was around 875,000 (11.0% of total employment) in 2017. Total employment due to an expansion in tourism is predicted to increase up to 898,000 and 1,037,000 (12.8% of total employment) by 2028. Total foreign exchange earnings from tourism were around USD 4.7 billion (25.3% of total export earnings) with this predicted to increase up to USD 9.4 billion (30.2% of total export earnings) by 2028. It is important to note here that the WTTC estimations on employment and export earnings are much higher than figures given in the SLTDA and TSP. It is mainly because the WTTC is using a standardized method to make projections for many countries, which is different from that of the SLTDA.

Table 2 Overall contribution of tourism and travel to GDP, employment, and export earnings

Variable	2010	2017	2018 (estimates)	2028 (projections)
GDP	2.8%	5.3%	5.3%	5.7%
Direct contribution	n.a.	11.6%	11.7%	12.3%
Total contribution				
Employment	180,000	404,000	419,500	522,000
Direct contribution	(2.4%)	(5.1%)	(5.3%)	1,037,000
Total contribution	n.a.	875,000	898,000	(12.8%)
		(11.0%)	(11.3%)	
Export earnings		4.7		9.4
(USD billion)				

Source WTTC (2017, 2018)

When considering the impact of a tourism boom on the economy, it is important to consider the possible “Dutch Disease” type effects. The post-conflict Sri Lankan economy has already been subjected to the Dutch Disease effects of a large inflow of migrant remittances and foreign capital related to a construction boom. As a result, there has been an appreciation of the real exchange rate, with the tradeable sector, particularly the manufacturing sector, being indirectly affected (Athukorala et al. 2017). A tourism boom can further aggravate this. For instance, Afandiyev (2013) has shown that countries that depend heavily on tourism such as Spain have suffered from Dutch Disease type effects.

The well-known Dutch Disease model demonstrates the effects of a booming sector on an economy in terms of the resource movement effect and the spending effect. A booming sector causes an increase in demand for labour; an increase in wages in the sector in turn attracts labour from non-booming sectors, particularly from tradeable sectors. This is the resource movement effect. In addition, the booming sector raises income and creates a spending effect. Overall, the real exchange rate appreciates as a result of the booming sector, while the tradeable sectors contract, sometime causing a process of de-industrialization.¹

Using a computable general equilibrium (CGE) model focusing on tourism in the Sri Lankan economy, Fernando (2015) has examined the possible Dutch Disease effects of the post-conflict tourism boom, under two policy scenarios.² In order to understand the impact of a tourism boom, the results from Fernando (2015) are summarized in this section. In his study, two policy simulations have been carried out with a CGE model using following two scenarios.

- BASE scenario—under this scenario a simulation has been carried out using normal growth of tourism without the tourism boom in order to capture the “business as usual” condition.
- BOOM scenario—in order to capture the impact of the tourism boom another simulation has been carried out using a high growth of tourism.

In order to evaluate the impact of the tourism boom on the Sri Lankan economy, the results of two simulations have been compared in this study.³

Fernando (2015) has used definitions and categorizations of industries employed in other recent studies to present and evaluate the results of his study (e.g. Dwyer et al. 2014; Pham et al. 2015; Wattanakuljarus and Coxhead 2008). As categorized by Wattanakuljarus and Coxhead (2008), Fernando (2015) has presented the results of his study using three main categories of industries, namely export-oriented industries (EOI), import-substituting industries (ISI), and domestic-oriented industries (DOI). Export earning of industries in the first category is greater than

¹See Corden and Neary (1982) and Corden (1984) for the details on the theoretical literature on the Dutch Disease and Bandara (1989) for the way in which CGE models can be used to analyse the Dutch Disease effects of a booming sector in an economy.

²See Fernando (2015) for details on the CGE model developed to capture Dutch Disease impacts of the tourism boom in post-conflict Sri Lanka.

³For detailed macro and sectoral results see Fernando (2015).

Table 3 Sectoral effects on trade aggregation: BASE scenario and tourism boom scenario simulations

Sectors	Total outputs		Employment	
	BASE	Boom	BASE	Boom
Export-oriented industries (EOI)	-0.0691	-0.1724	-0.1386	-0.347
Import-substitute industries (ISI)	-0.0046	-0.0117	-0.0515	-0.1309
Domestic-oriented industries (DOI)	0.0466	0.1193	0.2757	0.6626

Source Fernando (2015)

30% of their total sales' revenue. Industries in the second category have imports greater than 60% of total domestic demand. Industries in the last category are nondurables.

The results shown in Table 3 illustrate that non-tradable sectors, mainly trade and services sectors, in the third category are projected to expand as a result of the tourism boom. This category of industries is directly benefited from an increase in tourist arrivals mainly because non-tradeable sectors such as hotels and restaurants, trade, and transport are directly related to tourism. As a result of the expansion of these sectors, employment in these sectors is projected to increase.

While non-tradeable sectors in the economy are projected to expand as a result of the tourism boom, industries in the first and second categories (EOIs and ISIs) are projected to contract as shown in Table 3. This is mainly due to the appreciation of the real exchange rate (the ratio of domestic prices to international prices), and labour is free to mover between sectors according to the model specification. As a result of the expected contraction of the output of EOIs, manufacturing exports are projected to fall. The output levels of ISI industries are also projected to fall because of the appreciation of the real exchange rate. These results may lead to the Dutch Disease effects. Therefore, it is important to focus on the overall macroeconomic impacts of a tourism boom in terms of the Dutch Disease effects, while focusing on positioning tourism as a main pillar of economic growth.

4 New Opportunities and the Rise in the Informal Sector

Sri Lanka's post-conflict tourism boom generated rapid demand for accommodation and other tourism-related activities, leading to a rise in the number of established accommodation units and room availability (Table 4). The number of graded hotels increased from 242 in 2009 with 14,461 rooms to 382 in 2016 with 22,336 rooms; the number of supplementary units registered with the SLTDA increased from 629 with 5,946 rooms in 2009 to 1,558 units with 11,535 rooms in 2016. The total number of rooms in both sectors increased from 20,407 in 2009 to 33,871 in 2016. The total number of available rooms in the formal sector had further increased to 36,133 by end March 2018.

Table 4 Accommodation capacity and guest nights 2009–2016

Accommodation capacity and guest nights		2009	2010	2011	2012	2013	2014	2015	2016
Tourist hotels	Units	242	253	252	269	304	334	354	382
	Rooms	14,461	14,714	14,653	15,510	16,655	18,078	19,376	22,336
	Beds	28,344	28,978	28,844	30,399	34,840	36,883	38,370	46,414
Supplementary establishments	Units	629	530	654	930	1,021	1,265	1,409	1,558
	Rooms	5,946	5,895	6,141	8,207	8,513	9,916	10,702	11,535
	Beds	11,654	11,210	11,601	13,347	16,105	18,340	20,211	23,970
Tourist nights (Foreign)	Tourist Hotels	2,818,487	4,126,544	5,011,480	5,038,066	6,969,239	7,982,110	8,945,380	10,595,118
	Supplementary	779,317	1,249,146	2,241,407	2,372,266	2,728,607	3,596,548	4,349,313	5,404,602
	Others	477,995	1,169,070	1,306,863	2,645,718	1,211,204	3,540,157	4,868,945	4,918,766
Tourist nights (Local)	Tourist Hotels	1,163,220	1,464,098	1,607,393	1,457,063	1,439,483	2,072,886	1,588,223	1,727,292
	Supplementary	471,730	425,350	574,958	682,374	639,275	512,017	636,644	812,188

Source SLTDA

Table 5 Listed Sri Lankan properties on “<https://www.booking.com>”

Type	Mid-2016	Mid-2018
Hotels	1,269	2,574
Guest houses	1,240	3,077
Bed and breakfast (BB)	530	980
Homestays	494	1,467
Villas	433	1,095
Resorts	418	715
Apartments	354	925
Vacation homes	319	570
Inns	104	–
Lodges	98	243
Hostels	91	314
Chalets	50	78
Country houses	41	97
Camp grounds	41	132
Resort villages	17	–
Luxury tents	12	–
Motels	5	12
Farm stays	5	18
Boats	2	–
Capsule hotels	1	
Economy hotels	–	28
Total	5,524	12,325

Source <https://www.booking.com> and Porras (2016)

However, Table 5 does not include supplementary accommodation units not registered with SLTDA or other accommodation facilities in the informal sector. The role of the informal sector in Sri Lankan tourism has become significant with the emergence of “Airbnb” tourism and online travel operators (OLOs) such as Booking.com, Trip Advisor, and Agoda. These developments in online booking and technology provided new opportunities in the informal sector in Sri Lanka’s post-conflict tourism boom.

In examining the role of the informal sector, it is important to identify the difference between formal and informal sectors in Sri Lanka. The formal tourism sector includes graded establishments (conventional star class hotels and boutique hotels) and supplementary establishments (small guest houses and homestay units) registered with the SLTDA. The informal sector includes supplementary accommodations not registered with SLTDA such as unregistered guest houses, holiday bungalows, rest houses, rental apartments, and homestays (popularly known as “Mom and Pop” BB). These establishments are operated completely outside the formal sector regulated by SLTDA (Porras 2016; Miththapala and Tam 2017). As stated in Sri Lanka: State of the Economy 2017 “although it is difficult to determine the size of this sector, it is safe to state that this proportion is escalating” (Institute of Policy Studies of Sri Lanka 2018,

p. 143). As reported in Miththapala and Tam (2017), over 50% of all international arrivals to Sri Lanka are staying in the informal sector.

Other evidence suggests that entities such as Airbnb which started its operation in Sri Lanka in 2011 with 10,080 booking have seen a rapid increase in numbers to 126,000 in 2016.⁴ The growth is argued to be “because tourists increasingly want new, adventurous, and local experiences when they travel”. While these developments have provided new income-generating opportunities in the informal sector, it is not clear that the benefits of tourism have trickled into broader communities. In particular, whether communities in the former conflict areas are benefiting from the tourism boom in a significant manner or not is yet to be proved.

Another way of looking at the significance of the informal tourism sector in Sri Lanka is to assess listed properties using a popular online travel operator (OTO) such as Booking.com. These listings include both formal (the SLTDA approved accommodation facilities) and informal (not registered with the SLTDA) sectors. The growth in listed properties since mid-2016 and mid-2018 clearly demonstrates that all informal sector accommodation units have seen very high growth rates (Table 5). Many of these units are available in traditional tourism clusters and corridors in the south of Sri Lanka, in the cultural triangle and hill country.

Miththapala and Tam (2017) have carried out a study on accommodation providers in Sigiriya, Habarana, and Dambulla (cultural triangle) using the listings on “Agoda”. According to their findings, the number of the SLTDA approved providers (listed on Agoda) ranges from 11.5 to 17% of total providers in the three locations; only 68 out of 463 providers (14.7%) listed on Agoda in the three areas are approved by the SLTDA. In other words, around 85% of providers in the three locations are operating in the informal sector. It shows how significant the informal sector is even in a traditional tourism area. Although there is a rapid rise in the informal sector, some have raised concerns over government policies that may confer an advantage to big tourism operators and developers in the formal sector, at the expense of small providers in the informal sector (Buultjens et al. 2016).

5 Has the Broader Community in Conflict Areas Benefited from the Post-conflict Tourism Boom?

One of the main objectives of the government’s TDS and TSP was to pass on the benefits of the tourism boom to the broader communities and promote inclusive economic growth through tourism. This leads to the question of whether Sri Lanka been successful in achieving this objective?

As has been correctly identified in the TSP, at present, tourist visitors and major investments are concentrated in clusters and corridors around Colombo as a

⁴see <http://www.sundaytimes.lk/170507/business-times/airbnb-bookings-saw-126000-stay-in-homestay-segment-in-sri-lanka-239085.html>).

Table 6 Regional distribution of hotel rooms and tourist guest nights

Regions	Hotel rooms			Tourist guest nights		
	2010	2016	Change %	2010	2016	Change %
Colombo city	3,141	4,319	38	1,089,205	2,212,592	103
Greater colombo	2,640	3,184	21	938,555	1,559,869	66
South coast	5,099	8,437	65	1,231,932	4,024,155	227
East coast	258	1,121	334	54,786	427,136	680
High country	847	1,178	39	153,710	524,817	241
Ancient cities	2,749	3,990	45	676,356	1,821,096	169
North region	0	107		0	25,253	

Source Sri Lanka Tourism Development Authority

commercial hub, the beaches of the south coast, the Yala National Park, the tea estates and forests of the hill country, and the historical and religious heritage of the cultural triangle (MTDCRA 2017, p. 5). While the corridor of the Eastern beach has become increasingly popular among tourists, the “potential economic benefits are only trickling to other areas of the country, which have untapped tourism assets” (MTDCRA 2017, p. 5).

Although a rapid increase in hotel rooms and tourist nights can be seen in the Northern region and in the Eastern coast, the percentages of rooms and tourist nights are relatively low compared with other regions (Table 6). As noted in the previous section, the rise of the informal sector has provided new opportunities for the broader community in terms of employment and income generation. Considering the district-wise distributions of the SLTDA approved and “Booking.com” listed properties, it is clear that even though there has been rapid rise in the informal sector in traditional tourism districts in Sri Lanka, the number of tourist accommodation units in the former conflict areas has remained relatively small (Fig. 10). The number of providers in districts such as Killinochchi, Mannar, Mullaitivu, and Vavuniya is negligible. It indicates that a large part of conflict areas is yet to benefit from new opportunities provided by the recent tourism boom, except along the Eastern coast.

6 Challenges in Using New Opportunities Provided by the Post-conflict Tourism Boom

While attempting to make best use of the untapped tourism potential in Sri Lanka, the TSP also identifies four systemic failures, namely coordination failures, institutional failures, resource failures, and market failures. Coordination failures include poor coordination and communication between government ministries, tourism-related institutions, and stakeholders in relation to planning, management, and monitoring. Institutional failures include deficient and politicized leadership and management at all levels of government, lack of awareness and participation in

Number of Places in Booking vs SLTDA Registered per District

Fig. 10 Number of places in booking versus SLTDA registered per district. *Source* Adapted from Porras (2016)

tourism by local communities, and inadequate attention to cultural heritage and natural habitat preservation. Resource failures include limited emphasis on human capital development in both public and private sectors, lack of comprehensive data collection and research, and lack of access to investment and finance, particularly related to SMEs and women. Market failures include limited attention paid to product differentiation and destination development, and lack of effective mechanism to manage, standardize and enforce best practices and market distortions (MTDCRA 2017).

By formulating strategies to address the above failures, the government has set some ambitious targets to be achieved by 2020 such as increasing international annual tourist arrivals to 4 million, generating 600,000 direct and indirect employment opportunities with women accounting for 10% of the workforce, increasing foreign exchange earnings, and increasing daily spending per visitor to USD 210 from USD 164 in 2015. Within the context of the above-mentioned systemic failures and ambitious targets, we briefly highlight the challenges faced by the Sri Lankan tourism sector.

6.1 Problems with Governance, Coordination, and Regulation

As identified by the TSP, the main problem with the institutional framework responsible for tourism is its fragmented nature. There are four separate institutions responsible for different aspects of tourism under the MTDCRA: the Sri Lankan Tourism Development Authority (SLTDA), Sri Lanka Tourism Promotion Bureau

(SLTPB), Sri Lanka Convention Bureau (SLCB), and Sri Lanka Institute of Tourism and Hotel Management (SLTHM).

The multiplicity of government agencies and lack of coordination, consultation, and corporation have made decision-making and implementation of policies-related tourism difficult. In addition, there has been further fragmentation between different levels of governments ranging from national and provincial levels to the local level. The core strategies formulated in the TSP to address these problems include revitalizing key institutions, improving relationships, communication, and coordination between different institutions, reforming core legislation and regulations, and enabling business and investment. Implementation of these strategies will continue to be a major challenge.

6.2 *Insufficient Information and Research on Tourism*

In order to understand the determinants of tourism demand from different source countries, identifying the characteristics of tourists from different sources, supply-side constraints, formulating evidence-based tourism policies and plans, formulating effective marketing strategies, and developing niche markets, as well as maintaining a good database for tourism forecasting and economy-wide modelling is important. Although the SLTDA maintains good database on different areas such as arrivals, foreign exchange earnings, accommodation, and employment, it is necessary to have a reliable and detailed database for forecasting and tourism modelling for policy formulation and conducting economic impact studies.

The TSP has clearly identified the need to collect reliable data from international and domestic tourists to estimate and forecast tourism revenues and jobs and the need for a compilation of a Tourism Satellite Account (TSA) which can be used to estimate more accurately the contribution of the tourism sector to the Sri Lankan economy in terms of GDP, earnings from international and domestic tourists and employment generation (MTDCRA 2017). Many other developed and developing countries which are heavily tourism dependent have TSAs and tourism focused CGE models. But compiling a TSA for Sri Lanka has been a major challenge for the SLTDA and the Department of Census and Statistics (DCS) despite ongoing efforts.

6.3 *Lack of Systematic Planning and Tourism Modelling*

Weaknesses in proper planning and analytical tools can give rise to misleading projections. For example, targets for tourist arrivals in the TDS have fallen short (Fig. 11). Actual tourist arrivals exceeded the expected targets for the first four years of the strategy (2011–2014); however, Sri Lanka failed to achieve the 2.5 million visitor target set for end 2016. This was mainly because the targets for 2015 and 2016 were based on the assumption that hotel accommodation capacity would increase in 2015

Fig. 11 Targets and achievements in tourist arrivals of the TDS. *Source* Fernando (2016, 2017) and Ministry of Economic Development (2011)

and 2016 without looking at the demand side of tourist arrivals and not using proper forecasting techniques in setting targets by planners (Smith et al. 2014).

Recently, there have been some attempts to use simple modelling techniques to forecast tourist arrivals and employment generations based on forecasted arrivals. For example, Embuldeniya (2016, 2017) carried out two modelling exercises to forecast tourist arrivals and employment generation for the period 2016–2020. In the 2016 study, it was predicted that the number of arrivals to Sri Lanka would be 4 million by the year 2020. However, it is unlikely that Sri Lanka can achieve that number by 2020 considering the actual number of arrivals in 2017 (2.1 million) is below the predicted figure for 2017 (2.8 million). Revised forecasts by Embuldeniya (2017)—by using actual arrival figures between 2008 and 2016—predicted the number of arrivals to be 3.9 million by 2020, but this too is unlikely to be achieved.

6.4 Shortage of a Skilled Labour Force

The TDS has identified two types of human resource gaps, gaps in the accommodation industry and gaps in related services. Many trained skilled workers in both types of activities have migrated permanently or temporarily during the conflict and after. The current number of trainees is not sufficient to fill vacancies created by the tourism boom.

Sri Lanka's hospitality-related education and training facilities are not sufficient to train a large numbers of workers or to train workers at the level needed to

compete effectively in the high-end tourism sector. The Tourism Skills Committee (TSC) which is an informal association of private sector leaders has prepared a roadmap to address the shortages with the support of related agencies. According to the roadmap, an estimated 25,000–30,000 additional employees will be required each year to provide services to the projected tourist arrivals, the increase in additional rooms (up to 20,720 by 2020) and replace those who are leaving or retiring (the Private Sector Tourism Skills Committee, 2018—based on the SLTDA). Currently, private and government institutions are able to offer only about 10,000 training places annually. Therefore, the TSC has emphasized that the current system does not train sufficient number of people to meet the demand for skilled labour in the tourism sector, and it requests all stakeholders engage in an urgent and concerted effort to solve a possible crisis.

6.5 Attracting High End of Tourists

Although Sri Lanka plans to move away from low-cost tourism and focus on high-end tourism, attracting quality tourists has been a main issue. There have been growing numbers of South Asian tourists and members of Sri Lankan diaspora compared with tourists from Western countries. According to the SLTDA annual statistical reports, the proportion of arrivals under the category of visiting friends and relatives (VFRs) of the total international arrivals was only 5% in 2008. However, it had increased up to 26.3% in 2015. The VFRs category is still high, and many of these visitors are not staying in hotels. Some argue that they are not “real tourists”, and they are just visiting family members and staying with them (Miththapala and Tam 2017).

As noted before, India and China have become the two main sources of tourist arrivals to Sri Lanka over the last decade. Some observers believe that this is not a good trend in terms of the per capita tourist expenditure and number of tourist nights. In particular, Indian and Chinese tourists tend to stay a lesser number of days in Sri Lanka relative to western tourists. For example, the average duration of stay of Indian tourists was the lowest (5.8 days) in comparison with the average duration of stay of western tourists (14.3 days) in 2015. Even the average number of days stayed by Chinese tourists was relatively low (9.8 days in 2015).

As identified in TSP, little attention has been paid to product diversification and destination development. As such, there is an opportunity to develop a niche market focusing on a number of areas such as health and well-being, pilgrimages, bird watching, whale and dolphin watching, surfing and kite surfing, scuba and wreck diving, and weddings. Although Sri Lanka is an island, it is yet to promote and accommodate significant overseas tourist arrivals by sea. Tapping into sea travellers (such as the cruise ship market) is at embryonic state. As emphasized by the IPS (2017, p. 139), “authorities are often misled by tourism marketing strategies which usually focus on developing a tourist theme, slogan or logo rather than a strategy for the entire country”. Therefore, attracting high-end tourists has been a challenge.

7 Concluding Remarks

In this chapter, the nature of the post-conflict tourism boom and new opportunities that have emerged were explored. The analysis also examined the impact of the tourism boom on the overall economy. As highlighted in the chapter, Sri Lanka has given priority to developing the tourism sector and positioning it as a key growth pillar in the economy. The government itself has identified four types of failures in the current tourism strategy, and it has prepared a vision and strategic plan to rectify those failures and identified future challenges which the sector is facing.

Despite the optimism about the development of the tourism sector to create further opportunities, tourism is not a “silver bullet” in addressing all economic ills in the Sri Lankan economy. The use of tourism as a tool to stimulate the economy should be synchronized with a raft of other policies such as improved transport infrastructure facilities, sound macroeconomic management, eliminating corruption and inefficiencies in government institutions, and reducing barriers to trade and FDI.

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