Managing the Post-War Tourism Development in Sri Lanka

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Abstract

Sri Lankan tourism has managed to recover quickly since the end of war in 2009. After recognising the role of post-war tourism, the Sri Lankan government has launched a Tourism Development Strategy (TDS) plan. Sri Lanka Tourism is confident that the new strategic direction will move the country forward as a most sought travel destination in Asia while all stakeholders of the industry reap its benefits. This study evaluated the post-war tourism boom and the targets of Sri Lankan government's TDS and empirically explored the targets set in the TDS by using a simple econometric model. The econometric analysis suggests that tourist arrivals to Sri Lanka would increase by 21.5 per cent per year if the peaceful environment continues in Sri Lanka. There are a number of impediments to be recognised in achieving the targets set out TDS. It is clear that within the next few years, tourism industry will become a sustainable sector in the Sri Lankan economy being the top GDP contributor within next few years.

Keywords: Tourism in Sri Lanka; Post war Tourism; Tourism Development Strategy; Tourism estimation.

1. Introduction

Historically Sri Lanka has always been a tourist destination for centuries. Similar to some other popular tourist destinations of Island economies, Sri Lanka is an exotic location because of rich natural resources for tourism. It has the ability to compete successfully with other destinations partly because of its pivotal geographical position. O'Hare & Barrett (1994, p. 43) pointed out that 'the Island 'controls' (as in colonial times) routes to the Far East as well as to other destinations in the Indian Ocean, the Middle East, Africa and Australasia'. Not only its location is an advantage, but also Sri Lanka offers a plethora of options for travellers including sunny beaches, favourable climate, rich cultural heritage, national parks and abundant wildlife(Lai, 2002). By using these advantages of location and nature as well as man-made attractions, the Sri Lankan government is currently promoting the country's tourism with the intention of attracting more international tourists.

The tourist industry in Sri Lanka began to develop on a commercial scale in 1966 with the introduction of a ten-year master plan for tourism development (see Fernando, Bandara, & Smith, 2013 for details of the evolution of tourism policies in Sri Lanka). There was a rapid increase in tourist arrivals during the period from 1966 to 1977, from 18,969 in 1966 to 153,665 in 1977 (see Figure 1). In other words, total international tourist arrivals to Sri Lanka grew at an average annual rate of 21 per cent over this period. With the introduction of open economic policies in Sri Lanka in 1977, the tourism industry further expanded until 1982 recording an average 23 per cent annual increase in tourist arrivals from 153,665 in 1977 to 407,230 in 1982. The period 1978-1982 can be considered as a relatively prosperous period in the early history of tourism in Sri Lanka. The first tourism boom (from 1966 to 1982) ended with the eruption of ethnic riots in July 1983 and the escalation of the separatist war in the North and East led by the LTTE. During the period 1983-2009, the Sri Lankan tourism industry was severely affected by this separatist war and the image of the country as a safe tourist destination was severely tarnished (Fernando, 2017; Fernando, Bandara, & Smith, 2017). It can clearly be identified from Figure 1 that tourist arrivals to Sri Lanka fluctuated after 1983 during the different war and peace episodes. The Sri Lankan tourism industry also suffered between 1987 and 1989 as an outbreak of political violence emerged in the South as well as the North and East(Semasinghe, 2016).
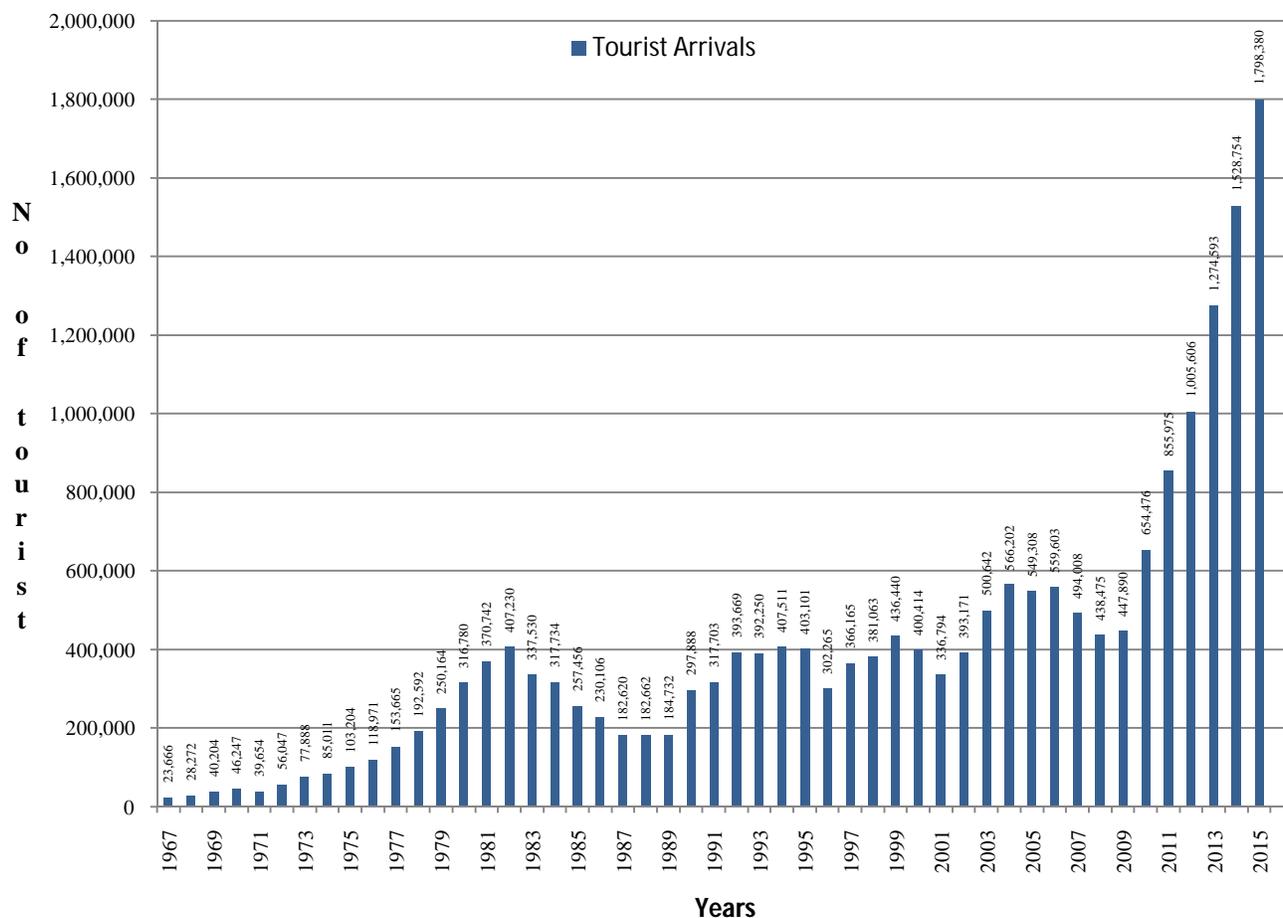
Figure 1: Tourist arrivals to Sri Lanka and year on year growth from 1966 to 2015

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

Following the end of nearly three decades of brutal separatist war between the separatist rubbles and government security forces in Sri Lanka in May 2009, Sri Lanka has witnessed an unprecedented post-war tourism boom beyond its expectation. The number of international tourist arrivals to Sri Lanka has sharply increased breaking all previous historical annual and monthly tourist arrivals records.

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

This strategy is important for Sri Lanka considering its effort to recreate its image and the competition it faces from other destinations in terms of attracting international tourists. As results of these influences, Sri Lanka Tourism has surged to a new high record of 1,798,380 arrivals in 2015, transcending all time high hits in the history. As a results, the experience of the short history of the post-war period shows that the tourism sector 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). In 2015, tourism generated 319,436 both direct and indirect employment opportunities and Rs.405,492 million (US$ 2,980.6 million) foreign exchange earnings in the Sri Lankan economy(SLTDA, 2015).

Against the above background, it is important to address some important issues related to the post-war tourism development, marketing and management strategies of Sri Lanka. Firstly, it is important to consider developing tourism demand model in Sri Lanka in order to recognise the   TDS's targets is meaningful. There has not been any explicit systematic quantitative studies, with rare exceptions such as Selvanathan (2006), exists in the Sri Lankan tourism literature aimed at setting targets based on empirical evidence. Secondly, it is important to identify the necessary development that need to be managed to accommodate a large influx of international tourists. Therefore, this paper intends to make a number of contributions in terms of tourism strategy and management in Sri Lanka. The main contribution is to evaluate the projections of tourist arrivals stipulated by the Sri Lankan government by using a simple econometric model and further discuss the constrains that need to be fulfil to accommodate TDS targets. The rest of the paper is structured as follows. The next section provides a brief overview of the relationship between international tourism and economic development and also tourism demand modelling and forecasting in literature. A simple econometric model is developed in section 3. Based on the empirical results of the model, the targets of the TDS are evaluated in section 4 and next section discusses some issues that need to address by the Sri Lankan government. The final section is devoted to concluding remarks.

Tourism and Economics Development

There is a large body of literature on the relationship between international tourism and economic development. This literature has focused on the tourism-led growth hypothesis and it has established that the development of the tourism sector stimulates economic growth (see Balaguer & Cantavella-Jordá, 2002; Hazari & Sgro, 1995). Many single country case studies and cross-country studies provide empirical support for the tourism-led growth hypothesis. Brau, Di Liberto & Pigliaru (2011, p. 244) emphasised that: "..More recently, different studies – both analytical and empirical – go a step further by pointing out the possibility that tourism can make an economy grow at a rate comparable with, or even faster than, the ones associated with other types of specialisation, in which the potential for sector-specific technological progress is higher". Tourism has become an engine of growth in so-called tourism countries (TCs) such as Maldives, Pacific Island Nations and Island Nations in the West Indies. On the basis of the well-established empirical literature, tourism is "an increasingly popular component of development strategy in low-income countries" (Wattanakuljarus & Coxhead, 2008, p. 229). According to Wattanakuljirus & Coxhead (2008, pp. 829 - 230), the popularity of tourism as a component in development strategies is based on three beliefs. Firstly, tourism can play a substantial role in increasing foreign exchange earnings and in contributing to economic growth. Secondly, it can play an important role in improving income distribution through creating employment opportunities since tourism is a labour-intensive industry with relatively limited human capital skills required by employees. Finally, tourism is an environmentally friendly "clean" industry and its growth generally does not lead to adverse environmental impacts.

On the basis of the above arguments policy makers can target tourism-led development to accelerate economic growth and development in developing countries with potential for tourism development, particularly countries recovering from decades of war and conflict. Sri Lanka provides a fascinating example of a case study as it is recovering from three decades of political violence and a separatist war.

In Addition, there is a large body of literature on tourism demand modelling and forecasting. A number of previous studies have focused on the link between volatility and tourist arrivals in various countries (Chheang, 2008; Fernando, Bandara, Liyanaarachch, Jayathilaka, & Smith, 2013; Neumayer, 2004; Pizam & Smith, 2000; Sevil, 1998) and outcomes of these studies provide valuable inputs for policy analysis and future tourism planning in TCs. A large number of tourism demand and forecasting models have been developed for tourism planning and management using adiverse range of statistical and econometric techniques as reviewed by Song & Li (2008)and Witt & Witt (1995). Tourism demand can be measured by either using the number of inbound tourist arrivals or using foreign exchange receipts from international tourism (Neumayer, 2004). Many studies have used a number of tourists to measure tourism demand. These studies have mainly forecasted the changes in the number of tourists over time and usually, include a random (or stochastic) term which incorporates all the unknown effects on tourism demand over time. In the Sri Lankan context, a number of attempts have been made to analyse the link between tourism and political violence(Bandara, 1997; Fernando, 2015; Fernando, Bandara, Smith & Pham, 2015; Fernando, Bandara, Liyanaarachch & Smith, 2013; Fernando, Bandara & Smith, 2013; Fernando, Bandara, & Smith, 2017; Gamage, 1978; Gamage, Shaw, & Ihalanayake, 1997; O'Hare & Barrett, 1994; Selvanathan, 2006; Tisdell & Bandara, 2005; Wickremasinghe & Ihalanayake, 2006).

Although the Sri Lankan separatist war has been acknowledged as one of Asia's longest-running wars there has not been any serious attempt to quantify the impact of war on tourism or the link between tourism and economic growth with the exception of Wickremasinghe & Ihalanayake (2006) and Selvanathan (2006). While this first study attempted to evaluate the relationship between GDP and tourism receipts in Sri Lanka, the second study examined the impact of separatist war which began in 1983 after the introduction of open economic policies in 1977.Selvanathan (2006) has established the relationship between tourist arrivals and the impact of changes in economic policies and other disturbances such as opening up of the economy in the late 1970s and the separatist war in the North and East in Sri Lanka.

Tourism Demand Model in Sri Lanka

In this study attempt to extend the Selvanathan study to accommodate the post-war scenario and evaluate the TDS's targets. According to Sevanathan's (2006) results, while inbound tourist arrivals were badly affected by the separatist war, open economic policies introduced in 1977 have created a positive impact on tourism. Other variables such as the exchange rate, the consumer price index (CPI) of Sri Lanka and per capita world income for the period 1972 -2002 were included in her model. Although the model developed in this paper is somewhat similar to Selvanathan (2006), it differs in a number of ways. Firstly, this model focuses on the role of tourism in post-war development in Sri Lanka. Secondly, this data series is different from Selvanthan (2006) and this study uses a more comprehensive data set which includes coverage across more than four decades. In particular, this study uses a data series for the period between 1966 and 2015, in contrast to the data series covered for a shorter period between 1972 and 2002 in Selvanathan (2006).Thirdly; this study uses directly a tourism price index rather than using a consumer price index as a proxy for changes in the cost of tourism. Finally, this study uses a dummy variable for the periods which showed upward trends or positive periodical growth in tourist arrivals (Table 1) as a result of the absence of the war instead of effect of war. This is the significant different with previous study as this study is going to predict the tourism arrivals in absence of the war.

Recent econometric studies of tourism demand have used similar variables found in the standard economic theory of demand. Therefore, the demand for tourism has been modelled as a function of tourists' income, tourism prices in a destination relative to those in the origin country, tourism prices in the competing destinations, and exchange rates. In modelling the tourism sector, this study use the dependent variable as the annual aggregate international tourist arrivals, collected from the Sri Lanka Tourist Board for the sample period between 1966 and 2015 (Ceylon Tourist Board, 1975; SLTDA, 2015). These data were plotted in Figure 1. Following figures have been used for selecting dummy variable to represent the tourism arrivals in absence of the war.

Peace Episodes and Tourism Development Effort	**Periods of upward trends**	**Periodical growth (%)**	**Annual**
Peace, democracy and political stability with a Ten Year Tourism Master Plan	1966-1982	22	
Peace Talk II (1989/90) and second wave of economic reforms	1989-1992	23	
Discussing constitutional changes as a solution to the ethnic problem (with war)	1997-1999	13	
Cease Fire Agreement and Peace Talks IV	2002-2004	19	
Post-war tourism boom.	2009-2015	26	
Episodes of War and violence	**Periods of Downward trends**	**Periodical growth (%)**	**Annual**
Eelam war 1-Well-known ethnic riots in 1983 and the escalation of civil war in the North and East	1983-1986	-15	
Eelam War III - Peace talks and its collapse	1994-1996	-13	
LTTE attacked economic nerve centres in Colombo	2000-2001	-12	
Eelam war IV and the end of war Beginning of full scale of war and the end of war in May 2009.	2005-2008	-06	

Table 1: Tourism Growth during the War Peace Episodes

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

Table 1 presents average annual growth rates in international tourist arrivals during different episodes of peace which have generated the upward trends in Figure 1. These upward trends can be identified as a high level of tourist arrivals due to the absence of war and the implementation of tourism promotional campaigns. The lower part of Table 1 indicates that periodical growth rates in international tourist arrivals during the political violence and war which have generated the downward trends in Figure 1.

Most tourist flows have been for holiday and pleasure purposes, and therefore the determinants of demand for holiday trips are assumed to be the same for total tourist flows. Therefore, in order to examine the magnitude of the effects that these variables are likely to have on overall demand, the independent variables have been used as suitable variables inconsistency with previous studies, specially Selvanathan (2006). First, we use a dummy variable to capture the effect of peace and tourism growth during the past 46 years. The dummy variable for peace variable ($PEACE_t$) is defined as 1 in the years when there was a peace in Sri Lanka and 0 otherwise. In addition, other independent variables, the exchange rate ($LEXR_t$), the tourism price index ($TPRICE_t$) for Sri Lanka, and per capita world income ($PERCAP_t$) for the period 1966-2015are the other variables in this model. While the average annual exchange rate published by the Central Bank (The Central Bank of Sri Lanka, 2013) is used in this study, the tourism price index published by the Tourism Development Authority (SLTDA, 2015) is used for the price index. The word per capita income is used as a proxy for disposable income.

First, the variables for the tourism demand model were selected based on the theory of demand. Second, the variables were tested for multicollinearity using the collinearity test. As shown in Table 2 LARRI is strongly correlated with the$PERCAP_t$,$LEXR_t$, $LCCPI_t$, and $TPRICE_t$. The model dropped the $LCCPI_t$ due to the high collinearity with the $TPRICE_t$ and included latter only as is more appropriate proxy for the changes in inflation affecting tourists. The correlation between $LEXR_t$ and $TPRICE_t$ is not significant, therefore, shows no high multicollinearity problem. Insignificant collinearity among the all the independent variables included as regressors in the tourism demand model, passed the multicollinearity test.

Correlation Matrix					
	$LTOUR_t$	$PERCAP_t$	$LEXR_t$	$LCCPI_t$	$TPRICE_t$
$LTOUR_t$	1.00				
	0.86				
$PERCAP_t$	(0.00)	1.00			
	0.89	0.98			
$LEXR_t$	(0.00)	(0.00)	1.00		
	0.79	0.86	0.90		
$LCCPI_t$	(0.00)	(0.00)	(0.00)	1.00	
	0.88	0.99	0.56	0.92	
$TPRICE_t$	(0.00)	(0.00)	(0.07)	(0.00)	1.00

Table 2: Correlation Matrix

Source: Authors' Calculations

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

$$LTOUR_t = \beta_0 + \beta_1 LEXR_t + \beta_2 TPRICE_t + \beta_3 PERCAP_t + \gamma_1 PEACE + \alpha_1 \varepsilon_{t-1} + \epsilon$$

Where

$LTOUR_t$ is the numbers of tourist arrivals;
$LEXR_t$ is the exchange rate;
$TPRICE_t$ is the tourism price index;
WPERCAP is the world per capita;
$PEACE_t$is the dummy variable for peace variable.

The estimated model is given below and the detailed results, including those associated with various diagnostic tests, are shown in Table 2.

$$LTOUR_t = 8.7449 + 0.9243LEXR_t - 0.0934TPRICE_t + 0.2152PEACE + 0.0700WPCAP_t + 1.003\varepsilon_{t-1} + \epsilon$$

Variable	Coefficient	t-Statistic	P- Value
LEXR	0.9243	91.1362	0.000
PEACE(-1)	0.2152	71.4625	0.000
TPRICE	-0.0934	-15.1479	0.000
WPCAP	0.0700	2.0310	0.003
RESID1(-1)	1.0423	171.3210	0.000
C	8.7449	61.3200	0.000
R-squared	0.9820		
Adjusted R-squared	0.9802		
Sum squared residual	0.0231		
Durbin-Watson statistic	1.8564		
F-statistic	7623***		

Table 3: OLS Regression Estimation Results
Source: Authors' Calculations
Notes: *** are significant at the 0.01 level

As can be seen from Table 3 all three independent variables are statistically significant at the one per cent level. The exchange rate and tourist arrivals are positively related demonstrating, as expected, that depreciation of the exchange rate is good for tourism. This indicates that a depreciating currency serves as an important variable to improve the competitiveness of Sri Lanka as a major tourist destination in the Asian region. This is important in the context of the depreciation of the Sri Lankan rupee in early 2012 after the Central Bank of Sri Lanka gave up the maintenance of an overvalued exchange rate. Our results strongly suggest that this recent depreciation will have a positive impact on the Sri Lankan tourist industry.

The empirical results also suggest that there is a negative relationship between increases in the tourism price index and the demand for tourism by international visitors. This demonstrates that the importance of managing the Sri Lankan tourism boom properly in order to avoid an escalation of cost in the tourism industry as it absorbs the projected expansion in tourism demand. Finally, the results strongly demonstrate that (with the lagof the dummy variable constructed to capture the impact of peace and war on tourism) tourist arrivals to Sri Lanka would increase by 21.5 per cent per year if a peaceful environment can be maintained. It is a necessary condition that Sri Lanka is to maintain the political stability and to accelerate the reconciliation process in order to makea peaceful environment as a tourism driving force of post-war economic development. The world per capita income shows a positive relationship with the demand for tourism in Sri Lanka.

The highly significant F-statistics as well as the high adjusted R^2 shown in Table 3 demonstrate that the estimated model has excellent explanatory power. In addition, the first order lag term for the dummy variable eliminates the autocorrelation which would otherwise exist in our time series model.

Using the estimated results of the econometric model in the previous section we can evaluate the feasibility of achieving the tourist arrival target of the TDS. According to TDS, it is clear that government's growth strategy is to consolidate first and then, to target exponential growth which means that for the first four years the Government expects 12.9 per cent to 28.6 per cent per year growth rates. Thereafter the growth rate is anticipated as accelerating up to 48.1 per centin 2015 and finally to be stabilised at around 25 per cent growth per annum in 2016 (see Figure 2 for more details).
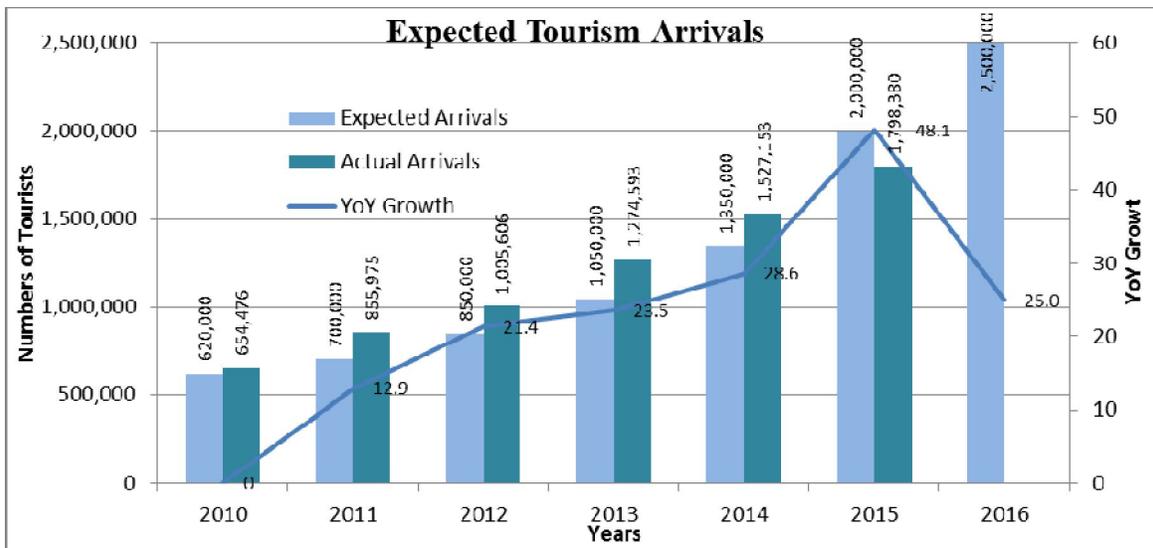
Figure 2: Expected tourist arrivals and growth 2010 to 2016.

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

According to Figure 2, actual tourist arrivals have been more than the expected against the target set for each of the past five years until 2014 and could not achieve the target in 2015. The average annual growth rate from 2009 to 2015was 22 per cent and this is in line with our econometric estimations. It is also possible to compare our estimation with the government targets incorporated in the TDS for the 5 year period 2012-2016. Table 4 illustrates TDS targets and our estimation according to respective year on year (YoY) growth rates.

Year	2010	2011	2012	2013	2014	2015	2016
TDS target	620,000	700,000	850,000	1,050,000	1,350,000	2,000,000	2,500,000
Y o Y Growth according to TDS	N/A	12.9%	21.4%	23.5%	28.6%	48.1%	25.0%
Y o Y Growth of the estimation	N/A	21.5%	21.5%	21.5%	21.5%	21.5%	21.5%
Model's Estimation	N/A	795,385	966,631	1,174,747	1,427,670	1,735,047	2,108,602
Actual arrivals	654,474	855,975	1,005,606	1,274,593	1,527,153	1,798,380	N/A

Table 4: Projected tourism arrivals to Sri Lanka according to the TDS and the model

Source: Based on Tourism Development Plan 2011 – 2016
(Ministry of Economic Development, 2011)and authors' calculation

The above data indicate that the Sri Lankan tourism industry was in a favourable position to achieve the targets until 2014. However, after 2015 it had over estimation which was expecting 48% increase than the previous year. but the lack of political stability and international pressures to delays in reconciliation process have been affected to missing the targets in 2015 and it is a challenge to achieve of 2.5 million tourism arrivals by 2016. According to the model's estimation, if other factors remain favourable (such as peace and political stability, exchange rates, price competitiveness, and the international environment) TDS's target of achieving 2.5 million tourism arrivals by 2016 is problematic.

Issues of the Sri Lankan Tourism Industry

Our econometric analysis suggests that tourist arrivals to Sri Lanka would increase by 21.5per cent per year if peaceful environment exists in Sri Lanka that would be 2.1 million tourist arrivals in 2016. This is below with the targets set out in the TDS without systematic modelling work. Although the target would not be achieved properly, anticipated tourist arrivals would be real challenge in tourism sector in Sri Lanka. A growing sector in an economy is always facing challenges and therefore, tourism sector as a growing sector in Sri Lanka is no exception. There are a number of impediments to achieving such targets and need to be addressing them by both tourism industry and government. Analysing tourism sector is more complicate as tourism differs from many other economic activities in that it makes use of a diverse range of facilities across a large number of industrial sectors (Pham & Dwyer, 2013).

Comprehensive and reliable statistics are essential for policy-makers to make evaluate the efficiency and effectiveness of management decisions to support tourism development. It needs to be a solid database such as Tourism Satellite Account which is used developed countries for measure tourism contribution to the economy.

Firstly, accommodation is more important for tourism and it should be fulfilled international tourism standards. The Sri Lankan hotel industry comprises tourist hotels that are graded establishments, along with other establishments such as guest houses and inns registered with the Sri Lanka Tourism Development Authority (SLTDA, 2012). According to the Sri Lanka Tourism Annual Report, the lodging establishments registered with the SLTDA amounted to 783 which provided 20,609 rooms as at 2012 and the annual hotel room occupancy rate was 70.1per cent (see Table 5 for more details).

Class of Accommodation	Accommodation Capacity			Room Occupancy Rate
	No of Units	No of Rooms	No of Beds	
Hotels	**354**	**19,376**	**30,399**	**74.5**
5 Star	13	2,744	6,420	74.9
4 Star	18	2,084	3,329	75.1
3 Star	15	1,469	2,378	74.3
2 Star	33	2,022	3,981	71.9
1 Star	34	1,725	2,322	73.6
Unclassified	217	9,592	18,992	73.2
Supplementary Establishments	**1,409**	**10,702**	**20,211**	**78.0**

Table 5: Accommodation Capacity
Source: Sri Lanka Tourism Annual Report – 2015

The Sri Lankan tourism industry needs around 45,000 hotel rooms to accommodate the estimated 2.5 million tourists by 2016 (according to TDS). This represents a massive challenge. The existing accommodation capacity in the Sri Lankan tourism sector is seems to be inadequate to cater anticipated tourism demand or target, since it is a difficult task to build a large number of hotel rooms in a very short period of time. However numbers of arrivals are confusing for example, current tourism arrival figures are calculated according to the definition of tourist who spend 24 hours or more, these include many Sri Lankans with foreign passports, foreigners working with local organisations and spend time with business partners all of whom come from limited period less than one year that categorised tourist, however, they may not occupied in hotels room as a tourist guest. If all these are factored in, according to SLTD annual report 2015, only around two third of tourist arrivals are needed hotel rooms for their accommodation and others especially Sri Lankans those who have foreign passports, around 25 per cent of total tourism, most probably accommodate with their relations. In addition, the government has initiated some other community-based alternative accommodation development programs such as the 'home stay' program. However, higher-quality accommodations are necessary for Sri Lanka to attract quality high spending tourists. According to the SLTDA, only about 6,000 of the currently available rooms are of medium to high quality. Refurbishment of existing hotel rooms is one option to meet the requirements of the expected number of high-quality tourists.

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

Thirdly, The TDS has identified two types of human resource gaps: the gap in the accommodation industry itself, and the gap in related services. The industry is facing a shortage of trained workers because of decades of neglect in training tourism workforce due to civil disturbances. As highlighted in an industry report, the tourism sector needs five times of the current workforce to cater for 2.5 million tourists by 2016 (Clearer Skies, 2011).

The hospitality related education and training facilities are not sufficient to train such high numbers of workers or to train workers at the level needed to compete effectively in the high end of the tourism sector.

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

Finally, rapidly increasing accommodation costs represent another constraint on meeting tourism targets. According to some recent reports, (Clearer Skies, 2011), the pricing of hotel accommodation is not competitive and Sri Lankan hotel accommodation is over-priced for its quality compared with its rivals. While Sri Lanka is more expensive than many other countries for four-star and five-star accommodation, it is more competitive in terms of the price of three-star rated beach resort hotels. These are generally not of a standard that is attractive to international tourists. The room-rates in Sri Lanka have gone up because of the post-war tourism boom such that comparable room rates in other tourist destinations like Thailand, Indonesia, Vietnam and Kenya are cheaper than Sri Lanka. Over the last few years, hotel charges have gone up by about 50 percent (Clearer Skies2011). Some believe that the government regulation of these charges represents an unhealthy intrusion into the sector and that it is important to allow rates to be determined by the market (The Nation, 2011). The tourist price index estimated by the Sri Lanka Tourism Development Authority (2010) shows that the index has increased by 5.3 per cent in 2010.Sri Lanka competes with other countries in South Asia and the Asia-Pacific region. According to our OLS regression results shows that there is a 10 per cent negative impact of the tourist price index on the demand for tourism in Sri Lanka. However, the overall tourist price index showed an increase of 5.3 per cent, when compared with the previous year. In absolute terms, it increased by 1,510 points from 4,940 in the 2009/2010 season, to 6,450 in the 2012/2013 season (SLTDA, 2012). Prices of the accommodation sector increased by 3.9 per cent while the food &beverage sector increased by 6.1 per cent and the transport sector increased by 7.7 per cent(SLTDA, 2012).

In order to maintain competitiveness with other countries in South Asia and the Asia-Pacific region, Sri Lankan government has introduced a comprehensive policy framework for tourism development. Several key initiatives have been proposed such as setting up an Aquaculture park in Batticaloa, promote sale of gem and jewellery, encourage MICE tourism by establishing necessary infrastructure, encourage spending by tourists, transform and upgrade tourist attraction sites and local tourism zones, encourage theme parks and removal of tax for water sport equipment yachts etc. & introduce hovercrafts and other water based sports for tourists, tax holidays for investors With the view of improving operational efficiency and to facilitate investment a new organisation will be formed under the name "Agency for development". Tourism branding plan, training and development for tourism youth, registration of tourist hotels based on quality standards etc.

As such Sri Lanka Tourism is confident that the new strategic direction will move the country forward making it the most sought after travel destination in Asia while all stakeholders of the industry reap its benefits. It is very clear that within the next few years to come, tourism industry will become a sustainable sector in the Sri Lankan economy being the top GDP contributor within next few years. Sri Lanka will adopt a concerted and coordinated approach linking private and public sector and all stakeholders, to assess policies that govern future industry development and provide knowledge to guide successful and sustainable Travel & Tourism strategy for the country.

Conclusion and Recommendations

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

The econometric analysis suggests that tourist arrivals to Sri Lanka would increase by 23 per cent per year if the peaceful environment continues in Sri Lanka. There are a number of impediments to be recognised in achieving the targets set out TDS.

Sri Lanka Tourism is confident that the new strategic direction will move the country forward as a most sought travel destination in Asia while all stakeholders of the industry reap its benefits. It is very clear that within the next few years, tourism industry will become a sustainable sector in the Sri Lankan economy being the top GDP contributor within next few years. A number of policy inferences can be drawn from this study. Given the limited resources available to the Sri Lankan government and the competing claims on these resources, development of strategies for and active promotion of public-private partnerships aimed at creating new tourism related infrastructure (hotel resorts, cruise line facilities, road transport upgrades, etc.) are recommended. There is should be a consideration for promoting the country as a price competitive and safe tourism destination. Finally, the country has to maintain political stability and work towards reconciliation process with improved governance and maintaining rules of law in order for the development strategy to be fully realised.

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