



Economic Blast

By the Pathfinder Foundation

Gaming: A Case for Hard Headed Realism Vs Moral Hypocrisy

The recent decision to authorize the development of Integrated Tourism Resorts, including gaming, has stirred up much controversy. It is an issue that needs to be examined in a hard headed and rational manner, devoid of emotion, hypocrisy and opportunism. Gambling stirs up passionate, moral indignation which does not resonate with the reality of life in Sri Lanka.

The Economic Rationale

Growth has stalled and the country's fortunes have become overly dependent on foreign remittances to support domestic consumption and finance imports. Sri Lanka has achieved middle-income-country status and this has also been reflected in the aspirations of the people. They are no longer willing to be satisfied with 4%-5% growth rates and the slow pace in the rise of their living standards associated with this. The shift in consumption patterns triggered by over Rs. 750 billion going straight into households through inward remittances has been a game-changer in this regard. The people of Sri Lanka now demand faster development. This makes it even more important to identify and foster sectors with potential for rapid growth. At present, tourism is clearly one such sector. The product is uniquely diverse in such a compact geographical space. Effective promotion, astute pricing and upgraded human resources can deliver quick and significant results.

While the potential of the tourism sector is clearly apparent, the post-conflict turnaround has been disappointing. Earnings reached \$1.3 billion in 2012. This compares with Thailand: \$30.1 billion (2012), Malaysia: \$19.7 billion (2012) and Singapore: \$19.3 billion (2012) (Sri Lanka's total exports amount to \$10 billion).

The average stay of visitors for Sri Lanka in 2012 was 10 days. However, of the 10 million tourist nights only 4 million stayed in graded hotels. This implies that not only are the overall arrivals disappointing but a large proportion of the tourists have low purchasing power. Hence, the challenge is not only to attract numbers but to attract higher-end tourists. Integrated tourism resorts, including gaming have a track record of making a significant contribution towards achieving both these objectives.

Malaysia has established integrated tourism resorts, despite gambling causing concerns among a section of the population adhering to traditional socio-cultural values. In Singapore, the decision to reverse the total ban on gambling and authorize two integrated tourism resorts saved the industry which was under severe threat due to increasing prices and a loss of competitiveness vis-a-vis regional neighbours. The Philippines has been another country where such projects have recently yielded impressive returns. Wealthy Chinese and Indians constitute the largest markets for these high-end resorts in Asia. Given the prolonged economic downturn in Europe, traditionally Sri Lanka's largest tourism market, it is the Chinese and Indian markets that will have to play a major role in order to fulfill the considerable potential of this country's tourism sector. India's proximity and close bilateral relations with China offer a good foundation to develop these markets. In addition the Middle East market is also likely to offer good prospects. Attracting high income patrons to these resorts will also have significant multiplier effects, given their formidable purchasing power.

It should also be recognized that FDI flows have been disappointing so far. High profile, large scale investment in integrated tourism resorts can contribute to a positive demonstration effect to reverse this trend. Attracting wealthy clients to these resorts can also serve to showcase Sri Lanka to potential investors who otherwise may not have had exposure to the country.

Integrated tourism resorts have had significant growth, employment and income effects in other countries in the region. There is no reason why this cannot be replicated in Sri Lanka, provided their development is well regulated with the participation of world class operators who are able to attract the right clientele. Good regulation can also address problems such as money laundering, illegal money, organized crime and other vices.

Addressing the Moral Critique.

It has been argued that the licensing of gaming resorts would serve to corrupt the morals of the Sri Lankan people. This is difficult to sustain given the multitude of gambling centres, legal and illicit, that already exists in every nook and corner of urban and rural Sri Lanka. Many Sri Lankans from all socio-economic backgrounds are not averse to gambling. It is very difficult, therefore, to argue that the moral outrage being expressed is not hypocritical and opportunistic. Clearly, well regulated gaming run by internationally reputed operators cannot have an adverse impact on the ground reality that already persists in the country.

Conclusion

Growth has slowed down and Sri Lanka is having difficulty in acquiring the non-debt creating foreign exchange necessary to finance the level of imports commensurate with the aspirations of the people in relation to both their demands for consumer goods as well as their expectations regarding the pace of growth and development in the country. At present, there is an over-reliance on exporting human beings, particularly housemaids to the Middle East. The negative social consequences of this are well known. High priority should, therefore, be attached to

developing other sources of both foreign exchange and employment opportunities. In this connection, tourism is clearly a sector that can make a significant contribution to achieving these multiple objectives.

Well regulated integrated tourism resorts have a track record of boosting high-end tourism. Furthermore, government revenue has fallen to historically low levels exerting considerable pressure on the government's much needed fiscal consolidation program. At present, taxes on tobacco have been the largest contributor to the government coffers. Development of the gaming sector would establish another lucrative source of revenue which would assist in funding essential public programs such as health, education and the social welfare safety net.

There are those who have strong moral reservations about gaming which is very often an integral component of such resorts. Such persons, of course, have every right not to have any contact with such resorts. However, the widespread presence of gaming centres in the country and the high propensity for gambling among Sri Lankans seems to indicate that the moral outrage expressed in public by some regarding the development of such resorts is both hypocritical and politically opportunistic.

This is the First in the series of Weekend Economic Blast published by the Pathfinder Foundation.

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