



Pathfinder Economic Flash

Striking a cautious note on tourism

Facing the Challenges

Tourism has emerged as an extremely important sector in the economy from a number of perspectives in post-conflict Sri Lanka. It is important as a potential source of growth, employment and foreign exchange. The sector has seen impressive recovery since the end of the conflict. Arrivals have increased from 447,890 in 2009 to 855,975 in 2011. In addition, earnings from tourism have risen from \$350 Mn to \$850 Mn during this period.

The potential of the tourism sector has generated a very substantial pipeline of investment, ranging from international chains like Shangri-La and ITC and leading local brands to a number of individual entrepreneurs.

Despite the positive sentiment surrounding the tourism sector, current trends have become a source of concern. Historically, hotels have made their money during the peak seasons in European winters and summers. They have sought to break-even in the intervening relatively fallow periods. However, in recent months, occupancy rates have been disturbingly low and the forward bookings are also nothing like as encouraging as they should be to meet the government target of \$1.2 billion for earnings from tourism in 2012. The current trajectory also raises serious doubts about the attainment of the medium-term target of 2.5 million arrivals by 2016.

This poses some important questions. What is likely to be the impact on the tourism sector of the prolonged recession in Europe? The downturn in Sri Lanka's main tourism market will be a major drag on long-haul tourism for many years. What more can be done to promote Sri Lanka as a tourism destination in new markets, in Asia, Australia and East/Central Europe? The belief in some quarters that post-war Sri Lanka is so attractive a destination that it does not have to be promoted has proved to be ill-judged at a time when even well-established competitors have been aggressive in their marketing. Have room rates been increased too much and too quickly before Sri Lanka has established a sufficiently robust track record? There are serious concerns regarding Sri Lanka's competitiveness in the current adverse market conditions. The imposition of minimum room rates have served to exacerbate the situation. Is enough being done to provide visitors with value-for-money at a time of austerity in key markets and increased competition for

the tourist dollar? More needs to be done in terms of events, recreation and entertainment to enhance the attractiveness of the main tourism centres in the country.

Tourism is a key determinant of Sri Lanka's development prospects in the medium and long-term. While it is essentially a private sector-driven sector, there is a need for a close public/private partnership in addressing the challenges facing tourism in Sri Lanka today. The current trends are a source of major concern and require immediate remedial action.

Your views and comments on this subject are welcome at www.pathfinderfoundation.org