

Master's Thesis

Analysis of Tourism Profile of Sri Lanka

Towards Sustainable Tourism Industry and Policy Making in Future

by

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CERTIFICATION

I, KARUNANAYAKA, Karunanayaka Mudiyanseleage Yasas Anushan (Student ID 51215002) hereby declare that the contents of this Master's Thesis are original and true, and have not been submitted at any other university or educational institution for the award of degree or diploma.

All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.



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LIST OF ABBRIVIATIONS

ARIMA - Autoregressive Integrated Moving Average
BCTM - Business Cycle of Tourism Market
CBSL – Central Bank of Sri Lanka
COO - Country of Origin
CTB - Ceylon Tourism Board
DINKs – Double Income No Kids
FDI - Foreign Direct Investments
FSA - Full Service Airlines
GDP – Gross Domestic Production
GoSL - The Government of Sri Lanka
GPS - Global Positioning Systems
GRTA - Growth Rate of Tourist Arrivals
GRTR - Growth Rate of Tourism Receipts
HGRs – High Growth Regimes
ICT - Information and Communication Technology
ITA- International Tourists Arrivals
ITR - International Tourist Receipts
JVP - Janatha Vimukthi Peramuna
LCC - Low Cost Carriers
LGRs - Low Growth Regimes
LKR – Sri Lankan Rupees
LTTE - Liberation Tigers for Tamil Eelam
MICE - Meetings, Incentives, Conferencing and Exhibitions
MoM - Month on Month
MRS - Markov Regime Switching
PANKs - Professional Aunts No Kids
SARS - Severe Acute Respiratory Syndrome
SD - Standard Deviation
SLTB – Sri Lanka Tourist Board
SLTDA - Sri Lanka Tourism Development Authority
USD – United States Dollars
VFR - Visiting friends and Relatives
WTTC – World Travel and Tourism Council
YoY - Year on Year

ABSTRACT

Ending the civil war in Sri Lanka in 2009 has become the major factor behind rejuvenating all the economic activities in the country including tourism. Excellent growth in tourists arrival to the country arise a new hope towards healthy industry in future. The policy and the strategy is the backbone of sustainable growth of the industry and the process of generating higher value the economy. Based upon the above statement, evaluating the key objectives of “Tourism Development Strategy 2011-2016”, (The 5 year national tourism policy statement of Sri Lanka) is the main appetite for this study. In order to simplify the evaluation process, the objectives are divided into two angles i.e. “Volume oriented” and “Value oriented”.

The findings of the study convince that the two main phenomena that can prevent the industry moving from stagnation to expansion in terms of volumes are irrelevant to the current condition of the tourism market. Among the two, country’s unfavorable security situation which had been created long term fluctuation in tourist arrivals and receipts is no longer existed. And the second one is the seasonality in tourist arrivals that could have been created short term fluctuations. But the results show that there is no significant seasonality effect in Sri Lanka. In fact that, the value oriented objectives are challenged by the outcome of this study, showing that 1) the real income generated from the tourism has not been grown significantly during past four and half decades and, 2) the per-capita income of a Sri Lanka citizen is not largely depend on the international tourism receipts yet.

All in all this study provides a hint on future tourism policy development. That is in order to have sustainable industry, both the volumes and values of tourism should be grown steadily and the future policy and the strategy should be focused into that.

CHAPTER 1

INTRODUCTION

1.1. Global Tourism Industry

Travel has become a normal activity in our lives. According to the UNWTO, it comprises personal travel and staying away from the usual environment for the purpose of leisure, business, religious, sports, and so on. The tourism industry itself is made up of parts of the transportation, accommodation, food and beverage, retail trade, entertainment, and other industries.

Tourism, as an industry, generated about US\$ 1,245 billion income to the world's economy, equal to 9% of global GDP in 2014. Moreover, one out of 11 direct and indirect jobs around the globe is also created through the Tourism and Hospitality sector (UNWTO Annual Report 2014). The number of tourists that traveled across international borders reached 1,184 million in 2015 by showing an annual growth of 4.4% (UNWTO Barometer - January 2016). Apart from two major incidences, i.e. Severe Acute Respiratory Syndrome (SARS) in 2003 and the global financial crisis in 2008, International Tourists Arrivals have shown a continuous growth during the last two decades. However, the security situation in different regions and countries, the recent high exchange rate fluctuations, and natural disasters, have negatively affected travel and tourism in particular areas.

On the positive side, Europe showed a 5% increase in tourist arrivals in 2015 compared to its 2.4% growth in 2014. But all the other regions including the Americas, Africa, Middle East, Asia and the Pacific reported a slower growth rate in 2015 than in the previous year. While China is now considered as the top market source for tourists around the world, with a growing number of in- and out-bound tourists every year, the USA and UK remain the second and third largest outbound sources respectively, and France the top inbound tourism country.

1.2. Sri Lanka - Dramatic Changes in Inbound Tourism

The pearl of the Indian Ocean, Sri Lanka, is situated in the middle of the ancient “Maritime Silk Road”. As a result, Sri Lanka has played a significant role in overseas trade and tourism, especially with the other South Asian nations, China, the Arabian Peninsula, and Europe since ancient times due to this locational importance. Sri Lanka was very famous among the Europeans for many reasons: white sand beaches, blue skies, a temperate climate in middle of the country, abundant nature, and its exotic & romantic orient culture amazed visitors; while its participation in the spice trade attracted investors and colonialists. The result was the country became a colony of three European nations from 1505 until gaining independence in 1948 from the British.

In fact, that there is much historical evidence regarding the travel of different groups and individuals to Sri Lanka for different purposes; official figures on inbound tourist arrivals to Sri Lanka can be first found in 1970. Since then, Sri Lanka has been facing unexpected fluctuations in the number of International Tourists Arrivals (ITA) due to different kinds of political and social issues (Illustration1).

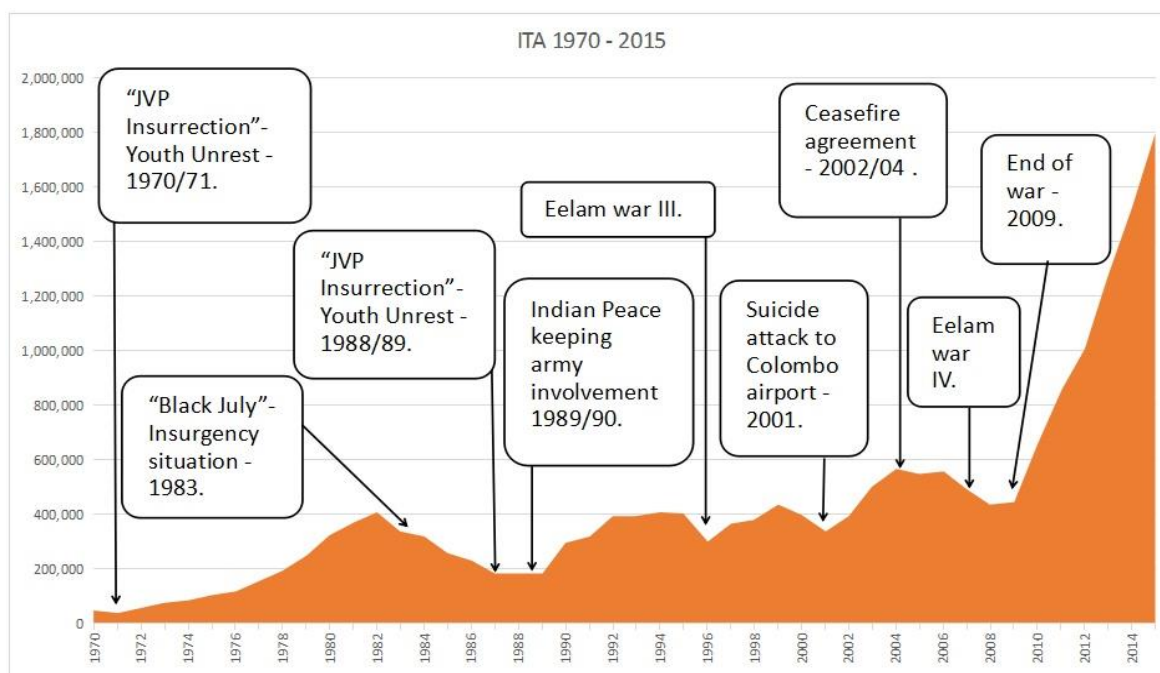


Illustration 1 – Fluctuations in International Tourist Arrivals to Sri Lanka and the proximate reasons for these

(Source: Compiled by Researcher, SLTDA data)

According to the Sri Lanka Tourism Development Authority (SLTDA), formerly known as The Ceylon Tourist Board (or the SLTB), 46,247 tourists travelled to Sri Lanka in 1970. After the insurrection of Janatha Vimukthi Peramuna (JVP - a political party of Sri Lanka) ended in 1970-1971, there was a 41.3% growth in ITA by 1972. From then until 1982 the average annual growth rate of tourist arrivals was 24%. That was a golden decade for the Sri Lankan Tourism Industry. In the middle of 1983, a dark era called “Black July” pulled back the country’s economy, and the development of every sector. Simply, the whole country became a battle field. That period is considered as the start of Sri Lanka’s civil war between the LTTE (Liberation Tigers for Tamil Eelam) and the Government of Sri Lanka (GoSL) that prevailed for almost three decades. Tourist arrivals declined at an average rate of 14.6% every year from 1983 to 1988. After an Indian peace keeping force became involved in the civil war, and the second uprising attempt of the JVP in 1988-1989 ended, tourist arrivals rose substantially by 61.2% in 1992.

However, this positive trend did not continue for long. In 1995 the cease-fire agreement signed between the two parties was broken by the LTTE. This was the start of the third Eelam war, and involved continuous fighting in the northern and eastern areas of the country. The result was a decline by 25% of inbound tourism by 1996. But this recovered in 1997 with a 21.1% growth rate. In 2001, the terrorist attack on Bandaranaike International Airport conveyed a negative picture about national security for prospective tourists around the world. In addition to that, the 9/11 New York attack in 2001, the Bali island bombing, and the SARS outbreak in 2003 pushed the world’s tourism industry into a recession (Andraz et al, 2016). As a result tourist arrivals to Sri Lanka were (here after “the country”) declined by 15.9% in 2001.

In summary, the country’s tourism industry faced an endless violence issue for almost two decades from 1983 to 2003, and struggled to increase the number of tourist arrivals. Sri Lanka’s tourism industry stagnated at a level where the country could attract only 400,000 tourists annually for 20 years, while regional competitors like Singapore, Thailand and Malaysia continued to grow their tourist numbers. This situation recovered to some extent

with the cease-fire agreement signed between the two parties to the civil war in 2003, and inbound tourism saw a 27.3% growth in 2003.

But, again in July 2006 the fourth Eelam war started, and continued till May 2009. In 2007 and 2008 tourist arrivals declined by 11.7% and 11.2% respectively. The United States financial crisis in 2007 also had a negative impact on world tourism. Finally, the Government of Sri Lanka could re-impose national security in May 2009, and the war ended. Sri Lanka became a safer destination to travel to, and travel bans for example were lifted by other countries. As a result, in 2010 and 2011, tourist arrivals increased 46.1% and 30.8% respectively. And these figures show that the end of war has increased the confidence of inbound tourists. Subsequently, in 2012, Sri Lanka tourism marked 1 million international tourist arrivals, and in 2014 surpassed 1.5 million arrivals per year.

1.3. Historical Land Marks of Tourism in Sri Lanka

Even before gaining independence from British rule in 1948, the administrators of the country were trying to develop inbound tourism, because many Europeans were attracted to the “Orient”. As a result, a Government Tourist Bureau was established in 1937, with the objective of providing the necessary services and facilities to passengers who travelled from West to East by sea. Since Colombo port is located closer to the main sea line through the Indian Ocean, Ceylon (during the colonial period Sri Lanka was known to the world by this name) attracted more and more large scale passenger and cargo ships. Tourists were taken around Colombo and the former capital city Kandy for sightseeing.

With the start of the Second World War in 1940, the Government Tourist Bureau stopped its operations. But soon after gaining independence, the Government of Sri Lanka attempted to revitalize tourism by re-establishing the Bureau under the Ministry of Commerce, and later the Ministry of Defence. The operations of this new institute were broadened from treating and facilitating the inbound tourist to overseas tourism promotional activities, and increasing

the number of accommodation facilities for these tourists within the country. As a result, many properties that had been built during the colonial era were converted into tourist accommodation all over the island. Galle Face Hotel - Colombo, the Grand Hotel and St. Andrews Hotel - Nuwara Eliya, the Queens Hotel and the Suisse Hotel - Kandy, the Mount Lavinia Hotel, and the New Oriental Hotel - Galle are some of the larger scale hotels redeveloped in this way. In addition, some other properties were transformed into Tourist Rest-Houses in Bandarawela, Anuradhapura, Polonnaruwa, Bentota, Horton Plains, Dambulla, Sigiriya, Kitulagala, Pussellawa, Belihuloya, Tissamaharamaya, and so on. This made a huge impact on the capacity of the Hospitality Industry. But no effort was made to build new hotel properties on the island. Furthermore, policy decisions by the government designed to encourage the private sector to build new hotels were also not to be found during this era.

Another important decision taken in the 1960's was the establishment of the first ever Hotel School in Sri Lanka, with the prime objective of developing the human resources in the hospitality sector. In 1964 this was set up at the Colombo club at Galle Face in Colombo. A 3-year diploma program on Hotel and Catering services was offered. The lecturer panel consisted of foreign lecturers, and the syllabus covered all the basic aspects of hospitality. Later, it was updated to a higher level, targeting management level skill development.

There was an emerging trend of increasing travel by air instead of travel by sea after the Second World War; however, the Government of Sri Lanka did not take much effort to grab that opportunity till 1965. The Katunayake air base that had been established for military operations during the war was re-developed as the first International airport of Sri Lanka in 1968, with Canadian aid. But Sri Lanka was not prepared to enter the international air travel market in timely manner, and many other competitive countries like Singapore were able to take the maximum advantage of this situation. Moreover, the Government Tourist Bureau had no promotional offices overseas to carry out an international level promotional mission on Sri Lanka's inbound tourism, and there was limited participation in international level travel and tourism fairs.

To enhance the tourism and hospitality industry of the country, the Ceylon Tourism Board (CTB) and the Ceylon Hotel Corporation were established under two Acts of Parliament in 1966. In these Acts these organization's responsibilities and tasks were broadened and clearly defined. Tasks like tourism promotion at the local and international level, protecting scenic places, classification of tourist hotels, travel agents and tourism related services were assigned to the CTB. Also, the statutory power on planning, controlling and assisting in policy making of the Ministry of Tourism Sri Lanka is vested with the CTB.

In 2003, the government of Prime Minister Ranil Wickramasinghe introduced "Regaining Sri Lanka", a policy statement aiming for 10% annual economic growth. In this, policies for broadening the clientèle base, amending the tourism law, establishing an International Tourism Advisory Council, increasing productivity in tourism sector, and improving the civil aviation industry, were suggested to improve the tourism industry. However, with the government change in 2004, that policy frame work was abandoned. The tourism policy of Sri Lanka was changing with the change of the political party that governed the country. None of the governments presented a national policy to develop tourism industry in the country. In 2005, the Ceylon Tourist board was re-established as the "Sri Lanka Tourism Development Authority" (SLTDA) under a new Parliamentary Act establishing the Ministry of Economic Development. Subsequently, in 2010, because the country's defence situation was more favorable for tourism, a new policy frame work named the "Tourism Development Strategy 2011 - 2016" was launched by SLTDA. The main objectives of this policy statement will be addressed in detail in Chapter 3.

1.4. General Overview of the Research

The main appetite for this study is evaluation of the current tourism policy of Sri Lanka in two different angles, "Volume oriented policy objectives" and "Value oriented policy objectives". This has been clarified in depth in the chapter number 3. Three research

questions, as further discussed under the chapter number 4, will support to build the rational for the evaluation and analyzing process. The blue print document issued by SLTDA in 2010, “Tourism Development Strategy 2011 – 2016” provides the necessary background about the current tourism policy for this study.

In fact there are few past studies have done on tourism policy of Sri Lanka, overall analyses on main objectives of a policy statement using quantitative methods are lack so far in the literature. Therefore the researcher has used several models such as Markov Regime Switching (MRS) to identify the major reason behind long term fluctuations in tourist arrivals, seasonality test using Gini coefficient to measure short term fluctuations in monthly tourist arrivals and analysis economic impact to see the growth in real income generated through tourism.

On the other hand, this is the first policy framework which was made after ending a long term war. Trends, context and resources which are directly affecting to policy and decision making process has been changed since 2009. Therefore this study provides a timely picture about current tourism policy and the behavior of the industry, which are demanded by the policy makers and the industry stakeholders in order to change policies appropriately and to make proactive decision in future.

1.5. Summary

Tourism is one of the fastest growing industries around the world. It contributes approximately 9% to the global GDP, and has created millions of employment opportunities. Sri Lanka too is striving to get the maximum benefit from this growing business. But it is obvious that there was no clear national policy to develop tourism industry in the country even after gaining the independence from the British in 1948. Even after ending the civil war, the tourism policy statement introduced by the GoSL in 2010 consists of different objectives related to increasing tourist arrivals and tourism receipts/income, rather than a coherent

policy framework.

The patterns of inbound tourism to Sri Lanka show a picture of acute fluctuations during the past four and half decades. These consist of both high growth and sharp declining regimes. While this is in fact common in every industry, it leads to an inconsistent image and extraordinary risk-taking among the stakeholders. In addition to this, it meant irregular income generation during the period. Therefore, it was hard to plan and forecast with any consistency. Therefore, this research is aimed at analyzing the variations in tourist arrivals in the short term and long term, and identifying the proximate causes behind the variance. Further, the researcher attempts to assess the real income generated from tourism to evaluate and validate the objectives of current tourism policy.

The literature review in Chapter 2 provides the theoretical framework to this study. Current tourism policy and future trends are then deeply discussed in Chapter 3. The research design, methodology, analyses and the outcome of the empirical tests based upon the three research questions will be presented in Chapter 4. The conclusions based on the findings are discussed in Chapter 5.

CHAPTER 2

LITERATURE REVIEW

2.1. Introduction

Tourism shows changing patterns over different time periods due its volatility. Some of the tourist destinations around the world are experiencing slower growth or declining while others are growing steadily or rapidly. For an instance number of tourist arrivals has grown faster in Thailand and Malaysia compare to Sri Lanka in between 1980 to 2010. When a tourist chooses a destination to travel, he or she can be influenced by many factors such as destination image, country brand, country of origin, and tourist's general behavior (Albu, 2013). Tourists expectations are changing day by day and they have many options. Albu (2013) further explains that Japanese travelers consider vacations or travel as right, not as a privilege. But many other nationals may believe it is a privilege. Thus, unpredictable human behavior creates huge competition within the industry, and means that tourism can be considered a risky business.

2.2. The Changing Face of Tourism

Sekulovic (2015) has identified modern day trends and initiatives in the tourism sector: 1) Experienced, independent and better informed tourists; 2) the decreasing role of paid advertisements, promotions and increasing the role of word of mouth and social networks; 3) life-style changes such as flexi-time, earned time jobs, and shorter but more frequent holidays; 4) search for unique experiences and events rather than simple "sun, sea & sand (SSS) holidays;" and 5) new market segments such as back packers, Health tourists, MICE (Meetings, Incentives, Conferencing and Exhibitions), DINKs (double income no kids) and PANKs (professional aunts no kids). Sekulovic (2015) further explains that that DINKs and PANKs have more disposable income, so that they are more likely to travel around the world.

To cater for this changing behavior of visitors, and to face the growing competition by attracting a consistent number of tourist arrivals, policy makers make innovative decisions. Kontogeorgopoulos (1998) explains how Thailand used the “4S” in tourism to become the 11th largest international tourism earner in 1996. “4S” includes sun, sea, sand and sex. Kontogeorgopoulos further pointed out that Thailand is facing a substantial competition in cultural, natural and recreational areas, including activities such as shopping and entertainment, from regional competitors. Therefore, the tourism policy and strategy of a country should be changed and updated accordingly and in a timely fashion, to have a sustainable tourism industry. For that purpose, continuous attention to market changes and tourist behaviors is necessary.

Moreover, information technology is playing a crucial role in the modern planning process for a tour. In earlier days, when someone wanted to travel, he/she needed to prepare several months beforehand with the help of many other intermediary services providers such as travel agents or/and ticketing agents, and so on. Basically, the travel agent planned the tour and the guest had less opportunity to influence and mediate in the process of decision making. But today the advancement of the internet has allowed the general public to plan their own tours to anywhere in the world. Further, this has directly and indirectly affected the travel and accommodation sector greatly and, as a result, guests can experience better and faster service than in the past due to the development of e-commerce. Tourists can obtain detailed information about the destination that he/she hope to travel to in advance via the internet. For an instance a guest can easily find out about the history of the place, the accommodation facilities, food and beverage prices, air ticket prices, and many more useful items. These are often updated very frequently. Therefore, the guest has a stronger bargaining power over the service provider than before and the time and money is saved.

When it comes to the airline industry for example, the whole process of ticket reservation is now online. The end user can directly select the airline, date, time, class, seating position, baggage size and weight according to his/her desires, and even checking in

online also saves time for passengers. This leads to a bypassing of the role of the ticketing agency, because it is more convenient today to do this online since the service is available 24/365 in different languages. Using the web, the guest can make a choice between Low Cost Carriers (LCC) and Full Service Airlines (FSA), and add a hotel at transit or at the destination, plus taxi services, and many other options. This has led to an increase in the competition among service providers relating to the provision of these options, but the customer can choose their best option without wasting much time by physically visiting a travel agent.

From the start of planning for a tour, people now seek information just by “Googling,” or in other words surfing the internet. Today the traveler can reserve a seat on an airline, a room in a hotel, a taxi service, and so on using the same website. In addition, the online visa system now becoming more common and provides more convenience for travelers. During the tour, most people are not willing to use a guide service. Instead, they use Global Positioning Systems (GPS) to find the destination and the route. Therefore, travel agents and tour operators are challenged by Information and Communication Technology (ICT). This effect is called the “Leapfrog effect” (Amadeus Asia Pacific, 2013). For instance, the Managing Director of Google Travel Spain, and member of the Global Travel Ads Advisory Committee, Mr. Javier González-Soria Y Moreno de la Santa, presents an ICT based “Travel cycle” (UNWTO, Technology in Tourism, 2011). In all five phases of the travel cycle, i.e: 1) dreaming about a place to visit; 2) researching about that place; 3) booking/reservations; 4) experiencing it; and 5) Sharing the experience with others, the internet is involved. Therefore, the new “ICT Travel cycle” has made tourism circulation even faster and easier, and at a lower cost. This caters for the needs of both visitors and service providers.

2.3. Measuring Tourism

Tourism is an industry that is difficult to measure and analyze. The two main questions

are “what to measure” and “how to measure”. Baggie (2007) explains that major reasons behind this complexity. They are no consistently measurable outputs, and no common structure among the tourist organizations within a country or across countries. Simply identifying a common “unit” to measure the output of tourism is complex and challenging.

Generally, the size of the international tourism market in any country is measured by the number of inbound tourists. Apart from that to measure the economic value generation from tourism activities tourism receipts are generally used. In addition to these measures, the number of tourist guest nights, per day per tourist expenditure, and length of stay are some of the tourism sector economic indicators used worldwide. The number of hotel rooms, daily room rates, and room occupancy rates are the hospitality sector performance indicators commonly used in the literature. All the above barometers are quantitative, and are calculated within a stipulated time frame such as a month, a quarter or a year. Most of these indicators can also be used to analyze the much bigger domestic tourism market in most countries, but are typically less easy to find in published sources, as attention is usually only given to international flows.

There are qualitative analyses based on social statistics such as purpose of visit, repeated guests, age category, country of origin, and so on. Other than those, longitudinal studies on trends, patterns and market behaviors are also important in forecasting future trends, and for sustainable policy making. The range of possible indicators, from an analysis based on an econometric model, to the results from in-depth personal interviews are valid when seeking to analyze the tourism industry.

2.4. Tourism Economics of Sri Lanka

The tourism sector has become the main source of income for many countries; contributing strongly to their economies, and generating markets for wide variety of goods and services both directly and indirectly related to tourism (Bernin et al, 2015). It creates new

employment opportunities, and a flow of foreign exchange into the country. Sinclair (1998) has highlighted how tourism contributes towards economic growth by creating job opportunities and through the process of revenue generation to the government. Further Sinclair (1998) describes that resources that are been devoted towards the developing air, land and sea transport infrastructure, hotels and related facilities have been fueled the economic growth. In addition to that, it creates many employment opportunities within the economy.

Tourism Led Growth Hypothesis (TLGH) postulates that tourist spending, as an alternative form of exports, contributes to the balance of payment of the country while increasing the amount of labor and the capital within the economy (Seetanah, 2011). Seetanah (2011) further states that foreign exchange earnings from tourism can consequently be used to import capital goods which are used to produce goods and service to the economy, which in turn leads to a growth in the economy.

In terms of the number of tourist arrivals, France attracted 83.7 million tourists in 2014 as the worlds' largest tourist destination, while the United States earned US\$ 177.2 billion in the same year (UNWTO Tourism Highlights, 2015). In the latter report it has been further stated that South Asia was the fastest growing region within the period of 2005-2015, with an annual average growth rate of 8.6%. Compared to the world growth rate of 3.8% during that period, this is quite high. But the advanced economies still receive the largest share of the total income (65.5%) of world tourism.

Sri Lanka as a South Asian nation, it has recorded an annual average growth rate of 12.4% in tourist arrivals between 2005 and 2015 (Author's calculation). This is a tremendous growth compared to other regional countries, given the tsunami that hit almost all the coastal areas of the country on 26th December 2004. This had a huge negative impact on tourism, but the number of tourist arrivals recovered quickly.

Another important role of tourism is generating foreign exchange for any country. Taxes

and duties imposed on tourism related goods & services, and the tax paid by the tourism & hospitality sector employees and businesses are some of the direct income sources in an economy. In 2013, the tourism industry was the third largest foreign exchange earner in the Sri Lankan economy (Welgamage, 2015). Moreover, in 2014, International Tourist Receipts (ITR) increased to 2,431.1 million US dollars; a 41.7% growth compared to 2013 (UNWTO Tourism Highlights, 2015). Nevertheless, ITR against the Gross Domestic Production (GDP) of Sri Lanka is about 3%. According to the WTTC (2015), the contribution through tourism earnings to Thailand and Malaysia's GDP was higher, at 8.6% and 5.7% respectively in 2014. At the global level, tourism's contribution to GDP is about 9%. Thus, when Sri Lanka is benchmarked against regional competitors such as Thailand and Malaysia, the impact on the country's GDP from inbound tourism industry is very low.

Mustafa et al (2014), found that ITR and the GDP of a developing country are highly correlated, with tourist receipts positively and significantly determining GDP in the long run. In addition to this, they describe the multiplier effect of money spent by visitors. When a tourist spends some money on accommodation, food, transportation, recreation, cultural and sports activities, that flow of money will re-spent and recycled many fold by these and other industries. Income generated from these economic activities in relation to tourism is considered as indirect income. Finally, the expenses of tourism and hospitality sector employees are considered as induced income in the industry (UNWTO, 2015).

The other important economic role is in generating employment opportunities. The Central Bank of Sri Lanka (CBSL, 2015 Annual Report) says that the number of direct jobs that have so far been generated in the tourism and hospitality sector is 135,930. Estimated indirect employment opportunities are put at 183,506.

In this way, some countries are depending from 25% to 50% of GDP on tourism. Most of their government income is being generated through tourism. For instance, the direct contribution to the Maldivian GDP from the country's tourism sector is about 41.5%, and the total contribution is about 78.1%, while in the Seychelles the direct economic impact is

21.3%, and the total contribution was estimated as 56.7% in 2014 (WTTC, Economic Impact, 2015).

2.5. Summary

Volatility in the tourism market is created by irregular trends, patterns, changing behaviors and needs of tourists, but this is making the Sri Lankan industry more competitive than in the past. Further, the risk faced by tourism sector investors is also higher due to other factors, such as national security, political stability, the economic situation, many other social and cultural concerns, and even climate change. Even if there are many severe issues, every nation is trying to increase the number of tourist arrivals day by day. Other than that, the contribution of tourism towards the economy of a country is also much desired in the present world. Many tourism nations are hoping to attract foreign currency and investment by promoting inbound tourism.

To face these challenges, it is important to have a clear and up-to-date policy and strategy framework from the national level to the bottom. A policy statement should consist of clear objectives, a plan of action to achieve them, and strong promotional strategies to capture and expand the market, while generating a higher income for individuals and companies who are engaged in tourism related businesses, and the government too. Therefore, analyzing the current profile of the tourism industry from different angles will provide a better input for future policy making processes.

CHAPTER 3

TOURISM POLICY AND RECENT TRENDS

3.1. Introduction

Tourism can be considered as a stimulus for economic development, and it is the responsibility of a Government to formulate the national policy framework for any type of economic activity in the country including tourism (Kamble and Bouchan, 2014). In addition to that, the government holds the power of allocating resources such as land, water, electricity, roads, as necessary. During the civil war, the government was struggling to make a clear-cut policy for tourism development. But ending the war allowed the Sri Lankan Tourism Development Authority (SLTDA) to make a five-year development plan focusing on the sustainable growth of tourist arrivals and the income that can be generated from it.

Now the political and security situation has changed, and new trends and patterns are emerging in the industry. Analyzing these changes in relation to targeted policy objectives will give a sound picture about the achievements or/and failures of the current strategy, and can be used as a guide for the future policy making process as well.

3.2. Tourism Policy of Sri Lanka

The government strongly believes that tourism can rejuvenate the post-war development of the country. With that intention, “Tourism Development Strategy 2011 - 2016” was formulated and launched by the Ministry of Economic Development in 2010, and targeting sustainable tourism development in the next five years. The main objectives of this statement were:

- I. Increase tourist arrivals from 650,000 in 2010 to 2.5 Million by 2016.
- II. Attract USD 3,000 Million as Foreign Direct Investments (FDI) to the country within 5 years.

- III. Increase tourism related employment from 125,000 in 2010 to 500,000 by 2016 and expand tourism based industry and services across the Island.
- IV. Distribute the economic benefits of tourism to a larger cross section of the society and integrate tourism with the real economy.
- V. Increase foreign exchange earnings from USD 500 Million in 2010 to USD 2.75 Billion by 2016.
- VI. Contribute towards improving the global trade and economic linkages of Sri Lanka.
- VII. Position Sri Lanka as the world’s most treasured island for tourism.

On reviewing these seven objectives, this study summed them into two sets (Karim, 2014). The first three objectives, from “I to III” can be considered as “Increase in Volume,” and the next four, from “IV to VII,” are “Value Creation” (Illustration 2). Therefore, this policy shows an aggressive path targeting “High Volume” and “High Value”. These two sets of objectives will be evaluated based on three research questions under the Chapter number 4.

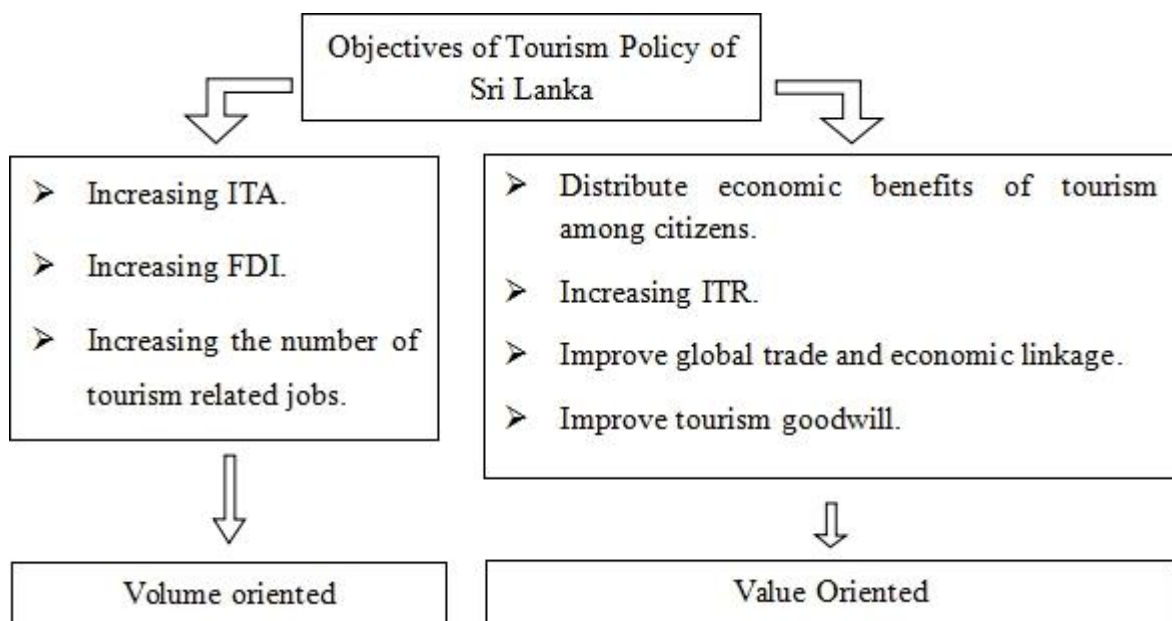


Illustration 2 - Simplification of policy objectives into two sets.
 (Source: *Tourism Development Strategy 2011-2016, Compiled by Researcher*)

To achieve these goals, different strategies have also been recommended and implemented. Simplification of the tax, licensing, and investment approval systems (one stop shop - all services in one place), supply of electricity commensurate to the increasing demand, environmental friendly and clean city development, and attracting world renowned chain hotel companies to set up hotels in different areas in the country to increase the number of rooms and the employment opportunities, are some of these strategies. Other strategies are: increasing the product portfolio by adding more tourists attractions to give vivid experience to the visitors, improving the quality of hospitality sector employees through training, improving transportation by modifying the road system, railways, and adding highways, developing a seaplane service for domestic air travel, improving airport and port facilities, establishing a tourist police system to improve the security and particularly to avoid harassment being experienced by tourists, making one agency responsible for tourism promotion, improving websites for easy access by the visitors including online visa obtaining facilities and strong international level promotional campaigns, and organizing meetings, and exhibition and trade fairs targeting business visitors and right type of tourists to the country (Tourism Development Strategy 2011-2016).

From this policy document, it is clear that the government is expecting growth in both volume and value from inbound tourism. Increasing volume makes a positive trend in global market, and it serves the purpose of advancing in the world rankings among other competing nations while it effectively works to grab the attention of international tourists, media and many other companies and organizations that are engaged in tourism related activities. To enhance the rural economy, it is important to penetrate this growth in real value to every corner of the country. In fact, the higher number of tourist arrivals has some disadvantages in terms of social and cultural perspectives, however it is too early to measure the drawbacks of increasing the number of tourist arrivals since Sri Lankan tourism is still in “a redevelopment phase” after the war.

3.3. SWOT Analysis of the Tourism Industry of Sri Lanka

Identifying the stimulus to travel in a particular region is important to develop future policies and strategies in the tourism industry. This in turn depends on the country's strengths, and how they have been utilized to attract more tourists into the country. It can be varied from one destination to other. Some places are attractive for leisure and recreational activities such as beaches and theme parks, while culturally, historically and environmentally attracted places cater to different motives of travel.

A country's overall economic, political, cultural and environmental circumstances can be positively or negatively affected to the particular country's travel and tourism sector. Business Monitor International has issued a comprehensive report on Sri Lankan tourism (Business Monitor International, 2015) and some of the data in that Report have been used for the following SWOT analysis:

Strengths

- Sri Lanka is situated facing the main sea-route across the Indian Ocean.
- It has a 1,340km long coastline including white sand beaches, tropical weather, wild life and forests, mild weather in the hill country, and 2000 years old cultural and historical monuments, etc.
- There is government involvement in developing infrastructure & tourism promotion, plentiful real estate opportunities for developing hotels & resorts, and investor friendly practices such as tax exemptions and tax holidays.
- Ending the civil war and political stability.
- An increasing trend in the number of tourist arrivals every year recently.
- A tourist favorable exchange rate – depreciating domestic currency against foreign currency leads to a higher purchasing power.
- The country's brand image - "Low cost Luxury destination".

Weaknesses

- Poor public transportation facilities, time taken to travel within the country is high, and the connection between urban and rural areas is limited due to the lack of transportation modes.
- Lack of middle class accommodation facilities.
- Harassment faced by tourists.
- Lack of trained human resources.

Opportunities

- Strong source markets - UK, Europe, India, Japan, and recently China is also showing increasing number of tourist arrivals.
- Increasing inflow of FDI's (Foreign Direct Investment), specially for the hotel sector.
- Sri Lanka is ranked at the top of several tourist destination rankings around the world, such as National Geographic Channel and Conde Nast Traveler magazine.
- Higher economic growth increases in per capital income, and lower inflation and poverty rates in recent years.
- "Ceylon Tea" can also be used in branding Sri Lanka among prospective tourists.

Threats

- Strong competition with other regional countries.
- Global economic recession, terrorist activities, diseases like SARS, natural disasters, global warming, and so on.

The greatest advantage for further improvement in the number of tourist arrivals is the peaceful and secure environment in the country after finishing the war in 2009. Deteriorations in the security situation due to ethnic and religious conflicts can deter tourists (Welgamage, 2015). Therefore, Welgamage recommends that the government of Sri Lanka should maintain a harmonious socio-political situation, and increase infrastructure development related to the

tourism sector as crucial inputs for continuous growth. During this research, the author is trying to find out how peace and national security have affected tourist arrivals to the country.

3.4. The Economic Contribution of Tourism

With the constitutional reforms of 1977, the economy of the country was liberalized. The result was that main and traditional foreign exchange earning sources such as tea, rubber and coconuts were replaced by tourism, processed agricultural goods, and textiles and garments (Tisdell and Bandara, 2004). But even before this opening-up of the economy, inbound tourism and earnings were growing at high rates in the 1970's (Table 1).

International Tourist Arrivals and International Tourism Receipts										
	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015
ITA	46,247	103,204	321,780	257,456	297,888	403,101	400,414	549,308	654,476	1,798,380
ITR (LKR Mn)	21.5	157.1	1,830.3	2,233.3	5,303.3	11,551.6	19,162.2	36,377.3	65,018.0	405,063.0

Mean Annual Growth rate of Tourist arrivals and tourism receipts					
	1970-1979	1980-1989	1990-1999	2000-2009	2010-2015
GRTA	21.8	-1.8	10.9	1.1	26.5
GRTR	61.8	10.2	22.1	8.9	50.4

Table 1 - Tourist arrivals and Tourism Income changes 1970 - 2015.

(Source: Compiled by Researcher, SLTDA data)

But unfortunately, the real effect of an open market economy could not be gained due to the unfavorable security situation. As previously discussed in chapter one, youth upheaval occurred in 1977, and the beginning of the 30-year civil war targeting a separate country by the LTTE in 1983 reduced the benefits from fresh economic reforms. The resources that were to be used in developing tourism such as: one third of the land and two thirds of the coastal area and the sea were dispossessed, and did not generate optimum economic value for the country. This pushed down all the economic activities of the country, including the number of tourist arrivals, tourism receipts, and investment and employment growth in the tourism and hospitality sector. At the end of 2015, total employees in tourism sector jobs had reached 319,436, but achieving targeted number of jobs in 2016 (i.e.500,000 jobs) at an annual

average growth rate of 18% seems impossible (Table 2).

Mean Annual Growth rate of Direct and Indirect employment in Tourism sector

Employment	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015
Direct	5,138	10,148	19,878	22,723	24,964	35,068	37,943	52,085	55,023	135,930
Indirect	6,940	13,700	28,022	31,810	34,950	49,095	53,120	72,919	77,032	183,506
Total	12,078	23,848	47,900	54,533	59,914	84,163	91,063	125,004	132,055	319,436

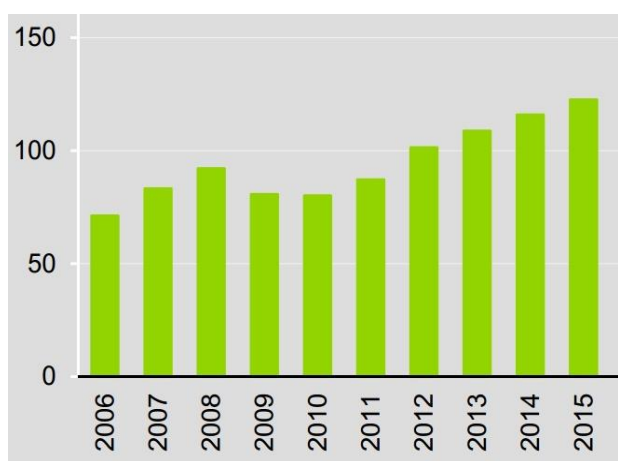
Mean Annual Growth rate of Tourism sector employment

	1970-1979	1980-1989	1990-1999	2000-2009	2010-2015
Direct	15.5	2.3	5.4	4.2	19.0
Indirect	15.4	2.7	5.4	4.2	18.3
Total	15.4	2.5	5.4	4.2	18.6

Table 2 - Direct and Indirect Employment in Tourism sector 1970 - 2015.

(Source: Compiled by Researcher, SLTDA data)

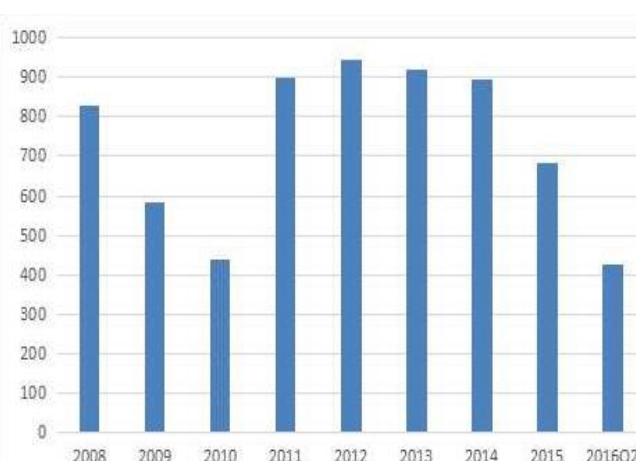
Internationalization is a common characteristic of linking FDI and tourism (Tang and et al, 2007). Further they found that FDI is playing an important role in expanding the tourism in China while FDI has a positive and significant effect in determining tourist arrivals to the country through their empirical research. Therefore it is compelling to study the behavior of FDIs that have flow into Sri Lanka during past decade.



Graph 1 - Capital Investments in Travel and Tourism sector 2006 - 2015.

In LKR Billions.

(Source: WTTC Economic impact - Sri Lanka, 2016)



Graph 2 – Foreign Direct Investments (2008 - 2016 Q2).

In US\$ Millions.

(Source: CBSL Data, Compiled by Researcher)

After 2009 all sectors of the economy started to grow with a new hope of renaissance. Specially the confidence among the entrepreneurs and the foreign investors brought more and more foreign capital to the country (Graph 1). The total of the FDIs excluding the foreign loans between 2011 to 2016Q2 (2nd Quarter) is US\$ 4,754 million and including the loans FDIs for last four years (from 2011 to 2015) is about US\$ 7,048 million (CBSL Annual reports - 2009 to 2015) (Graph 2). It has already exceeded the targeted value of US\$ 3 billion for the period from 2011 to 2016 in the objectives of the national tourism policy statement.

3.5. Trends and Patterns of Inbound Tourism and Travel Market

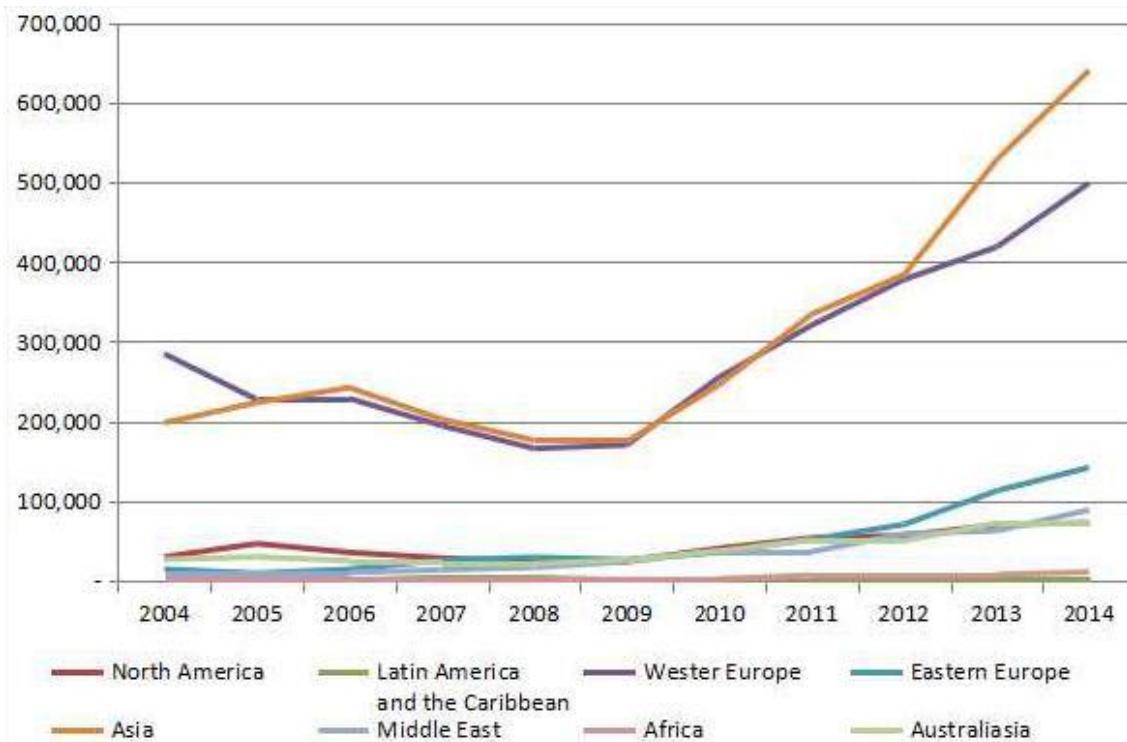
Sri Lanka became a colony of three western European nations time to time. In 1505, Portuguese first arrived to the country and then the Dutch and finally the British were ruled the country till the independence gained in 1948. It's not a secret that the Europeans were attracted to the East or to the Orient. Though there were many reasons behind that, historical records about Sri Lanka revealed that the culture, cuisine & spices, mild weather & nature, natural resources such as gems, diamonds, elephant tusks and also hospitable people were the main attractions to the Westerners.

3.5.1. Tourists Analysis by the Country of Origin (COO)

Decade ago, the majority of the tourists visit to the country are from Western Europe. But today visitors from Asian region are increasing rapidly specially after the end of war in 2009 (Table 3). Compare to the Europeans and Asians, nationalities from other countries are too growing, but slowly (Graph 3). According to the SLTDA annual statistical report 2014, the top ten tourist markets to Sri Lanka are India, United Kingdom, China, Germany, Maldives, France, Russia, Australia, Unites States of America and Japan respectively.

Region/ Year	North America	Latin America and the Caribbean	Western Europe	Eastern Europe	Asia	Middle East	Africa	Australiasia
2004	29,760	740	284,450	14,336	198,068	10,463	1,855	26,540
2005	46,450	705	227,191	9,290	223,351	10,236	2,340	29,750
2006	35,320	775	228,445	14,221	242,150	10,345	3,250	25,127
2007	28,360	3,950	194,448	25,573	202,480	13,554	2,712	22,924
2008	23,203	3,721	165,822	29,352	175,944	16,701	2,354	21,378
2009	25,044	666	170,186	26,177	174,382	23,821	1,591	26,023
2010	40,552	594	255,172	35,630	245,753	37,501	2,249	37,025
2011	53,658	1,167	320,431	51,922	334,274	36,376	6,736	51,411
2012	56,694	1,001	377,873	70,437	383,748	58,901	6,912	50,039
2013	70,003	3,109	418,395	112,737	527,656	62,680	7,717	72,296
2014	72,653	3,202	498,758	141,984	640,045	88,654	10,674	71,183

Table 3 - Tourist arrivals by the region 2004 - 2014.
(Source: Compiled by Researcher, SLTDA data)

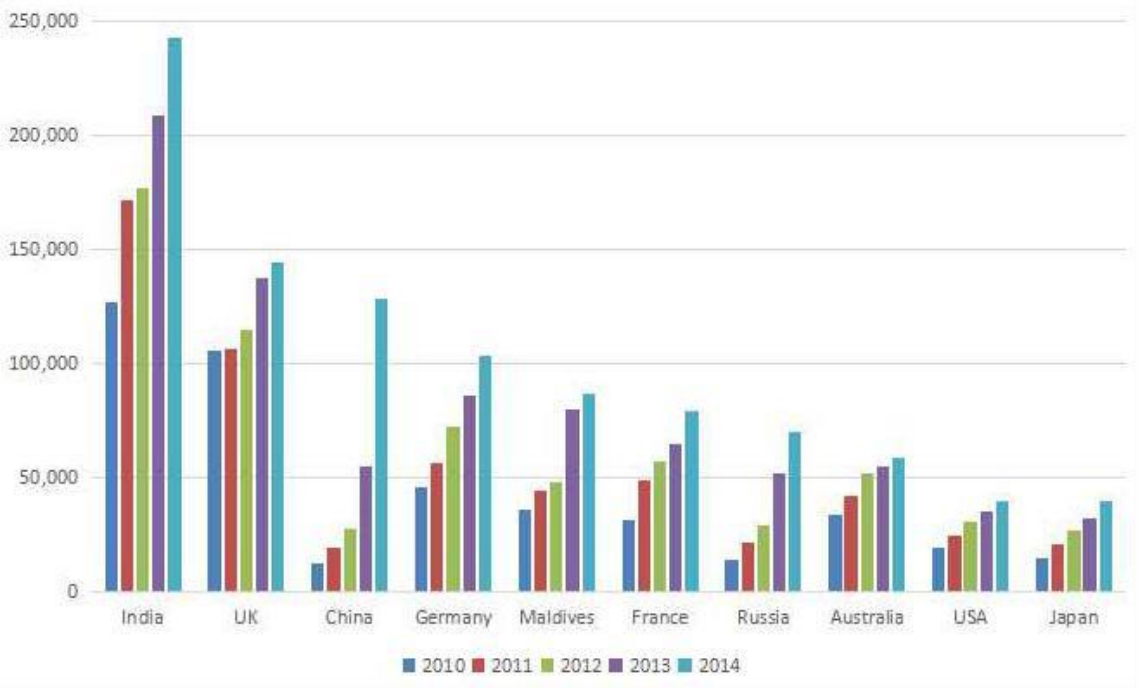


Graph 3 - Tourist arrivals by the region 2004 - 2014.
(Source: Compiled by Researcher, SLTDA data)

Vistor by Region	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean growth
Growth of Wester Europeans (%)	-	-20.1	0.6	-14.9	-14.7	2.6	49.9	25.6	17.9	10.7	19.2	7.7
Market Share of Wester Europeans (%)	50.1	41.2	40.7	39.2	37.6	37.8	38.9	37.3	37.5	32.8	32.6	-
Growth of Asians (%)	-	12.8	8.4	-16.4	-13.1	-0.9	40.9	36.0	14.8	37.5	21.3	14.1
Market Share of Asians (%)	34.9	40.5	43.1	40.8	39.9	38.8	37.4	39.0	38.1	41.3	41.9	-

Table 4 - Comparison between Western Europe and Asian Tourist arrivals.
 (Source: Compiled by Researcher, SLTDA data)

In 2004, more than 50% out of total international tourist arrivals to Sri Lanka are Western Europeans (Table 4). United Kingdom, Germany and France are among the leading nationalities that visited to the country in large. But the growth rate of Western Europeans is lesser than the growth of Asian tourists. Therefore now the Asian visitors are becoming the market leaders with an annual average growth rate of 14.1% during the period of 2004 - 2014. By 2014 the leading three source markets to the country are India, UK and China. Numbers of tourist arrivals from each country are 242,734, 144,168 and 128,166 respectively (Graph 4).

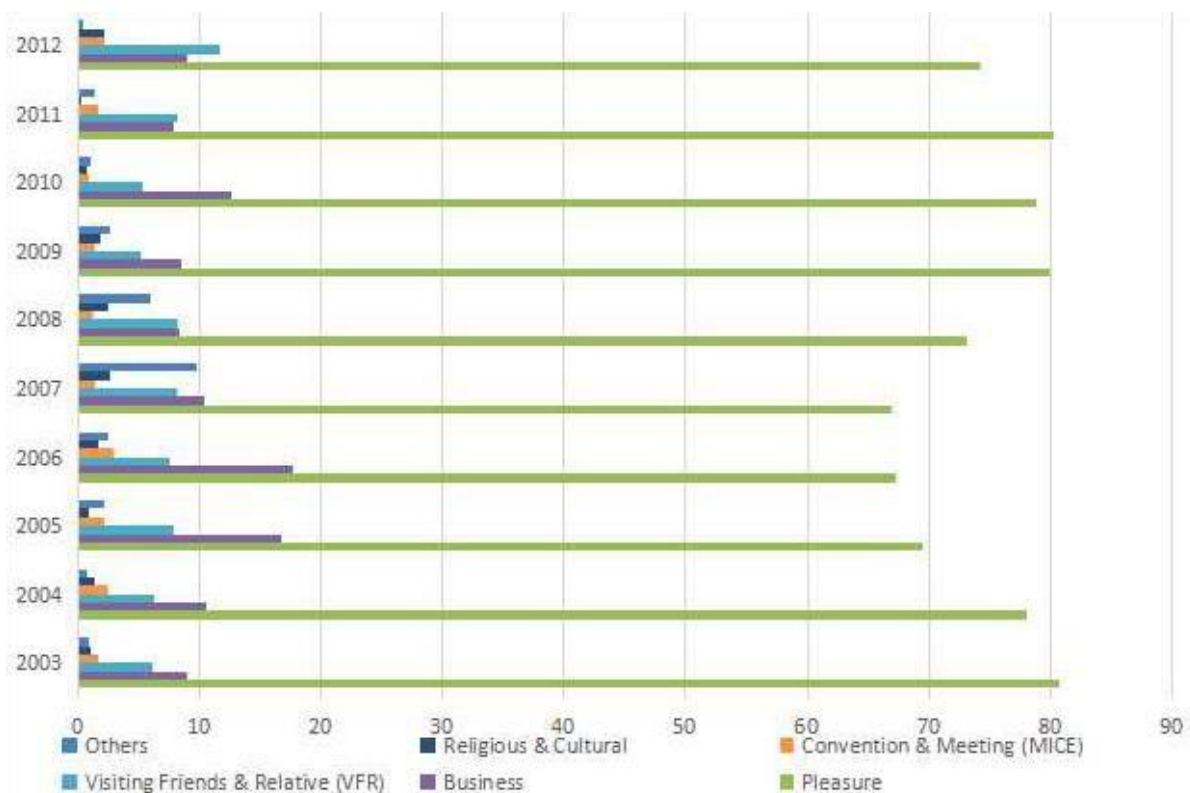


Graph 4 - Tourist arrivals by Country of Origin (COO) 2010 - 2014.
 (Source: Compiled by Researcher, SLTDA data)

After 2009, Sri Lanka is becoming a popular travel destination for many countries. Among them China is the fastest growing tourist source market for the country during the period of 2013 & 2014. Meanwhile German, French, US and Japanese markets are growing gradually and steadily.

3.5.2. Purpose of Visiting

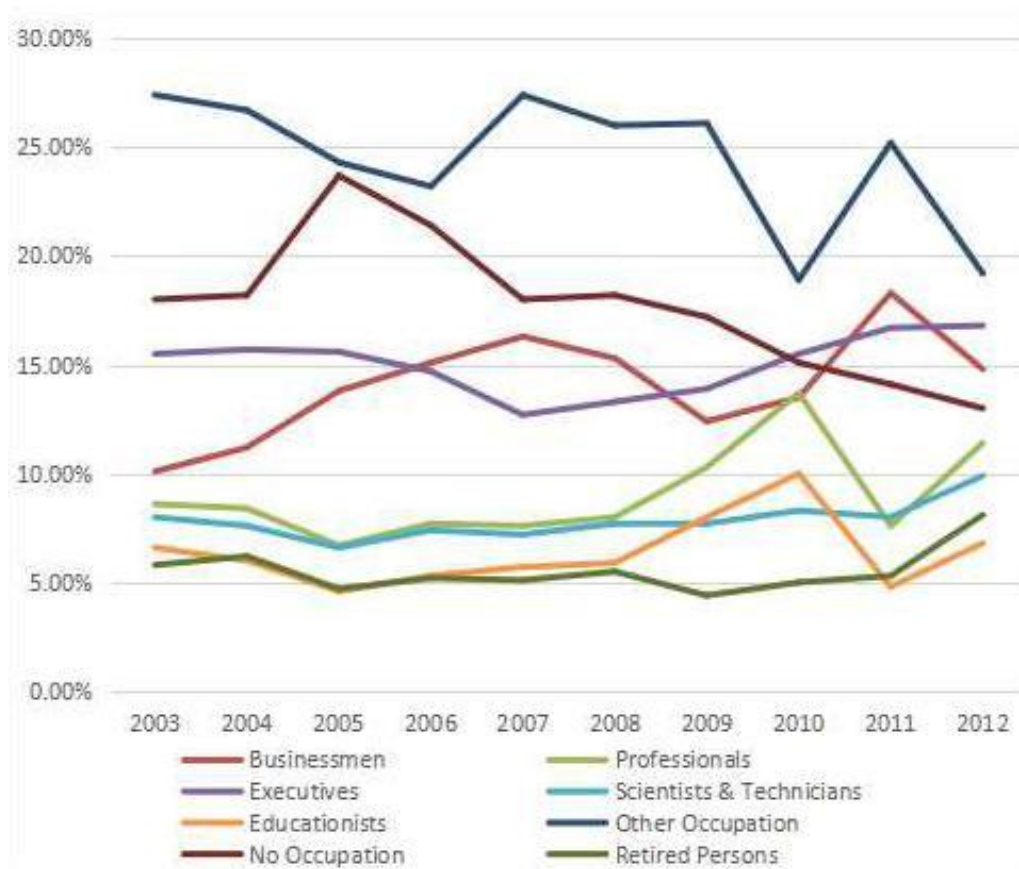
The reason behind why tourists visit Sri Lanka has different concerns. Majority is leisure and recreational oriented. White sand beaches, wildlife, waterfalls, traditional cuisines, greenery and scenic backdrops have encouraged the foreigners to visit to the country. Other than that, 3000 years old historical monuments lead to attract religious and cultural tourists while cheap labor and newly added infrastructure facilities would cater the need of business tourists as well.



Graph 5 - Purpose of visiting to Sri Lanka 2003 - 2012.
(Source: Compiled by Researcher, SLTDA data)

By reviewing ten years data on above Graph 5, it has been shown a slight drop in percentage of leisure and recreational visitors during 2005, 2006 and 2007. The reason is not an actual decline in the number of leisure visitors but there was a trend of increasing proportionate business visitors tremendously. That may be due to the political changes occurred in 2004 and 2005 in Sri Lanka made a space and may have been elevated the confidence of foreign investors to visit to the country. But then again with the start of Eelam war IV in 2006 this trend was reversed.

Importantly due to the fact that the ending of war in 2009, it would have been resulted to increase in the visiting friends and relatives (VFR) category since 2010. Specially many Tamil nationalities who were migrated to different countries due to many reasons such as insecure environment within the country; specially in the Northern and Eastern provinces, as asylum seekers were returned to the country.

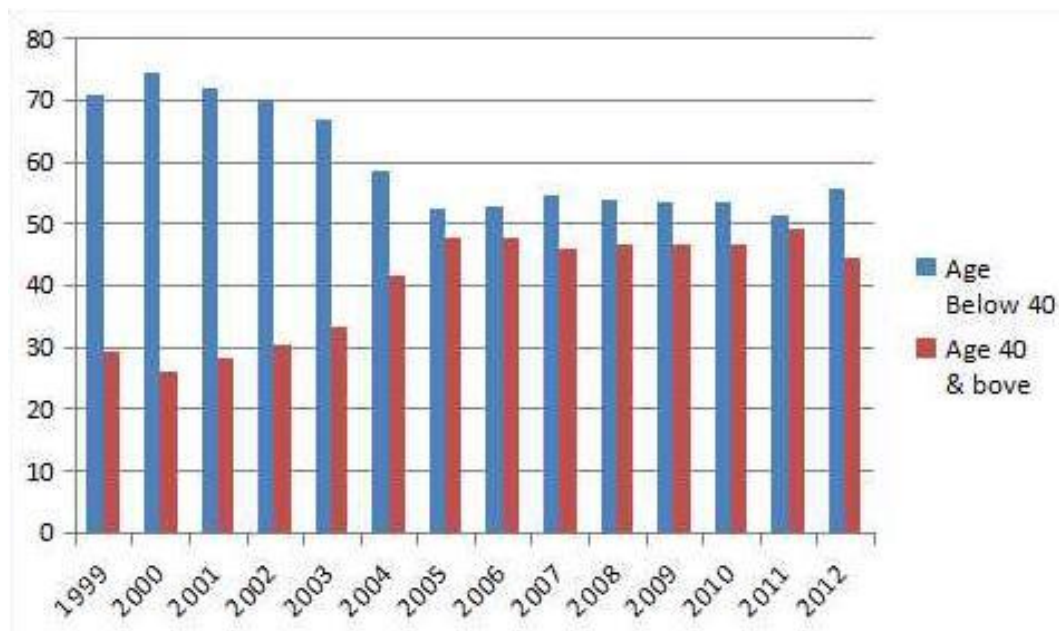


Graph 6 - Visitors by occupation 2003 - 2012.
 (Source: Compiled by Researcher, SLTDA data)

In relation to the purpose of visit, classification based on the occupations of the visitors would also useful to get a good picture about the quality of them and to understand about their purchasing power. In terms of tourism economics purchasing power could be mostly depended on the occupation of the visitor, income level and the living standards of the particular country where he/she comes from.

By referring the graph 6 there is a growth in business visitors during the period from 2003 to 2012. It can be considered as a positive impact on the economy of the country since it would lead to an inflow of foreign capital towards the economy. The social impact is creating more and more job opportunities and developing infrastructure facilities in aligned to that. Further, the professionals and the retired personnel too have shown a slighter increase while there is a drop in no-occupational category.

3.5.3. Analysis of Visitor Age



Graph 7 - Visitors by Age - Over 40 years or less.
(Source: Compiled by Researcher, SLTDA data)

Analyzing the visitor age would give a picture about which age category of tourists prefer Sri Lanka as a tourist destination. The researcher has used data related to the age of the

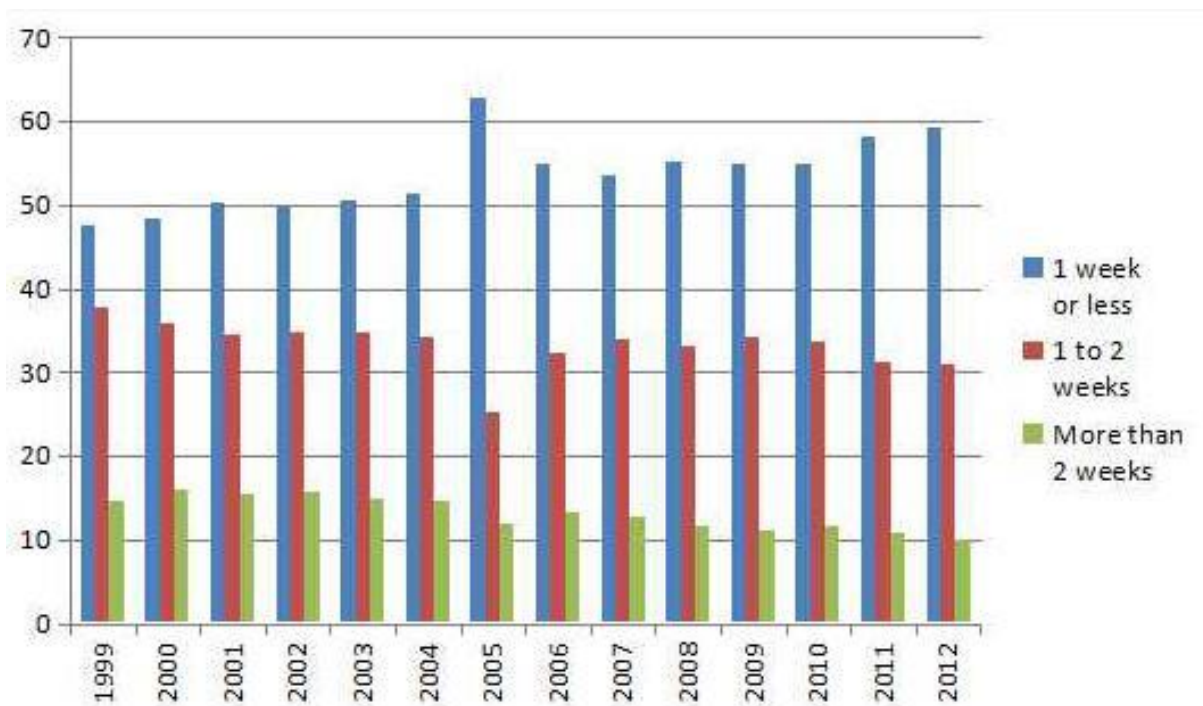
visitors to the country from 1999 to 2012. The generally accepted norm is; middle and above aged citizens are more financially stronger than the young ones. According to the annual household income statistics in 2011, issued United States Bureau of Labor, it has shown that the citizens above 44 years of age are more financially stronger than the young citizens (NPR Planet Money, 2012). In addition to that, generally accepted opinion is that a older or middle aged person is financially stable than a younger one. Based on that assumption the researcher has classified the visitors into two categories, where visitors aged below 40 and above 40 years. The aim is to identify which category prefers most to visit to the country and it gives some kind of a picture about the financial stability of the tourists who are visiting to Sri Lanka.

By reviewing the Graph 7, there is an interesting pattern could be identified. It can be seen that above 40 years visitor category has been gradually increased during the period of 1999 to 2005. In other words there was a proportionate decline of younger visitors during the period. At the beginning of the sample data period (1999), annual average ratio between younger (below 40 years) and matured (above 40 years) visitors was 70% to 30%. But after 2005 it has been changed considerably as 55% to 45%. That means the share of the matured visitors has been comparatively risen by 15% while the younger tourists lowered by the same proportion. This can be considered as a positive sign because matured guests are used to travel with their family and the children most of the times and they may tend to spend more money than the young groups or individual backpackers. The major factor behind this assumption is their strong purchasing power than the younger visitors.

On the other hand this has a link with the purpose of visit and the occupation of the guests too. In earlier, we could see a growth in arrival of business visitors and professionals to the country since 2005. Most of them are assumed to be belonged to matured and above 40 year category. In addition to that 70% to 80% of tourists who are coming to Sri Lanka with the purpose of leisure and to spend their vacation. It can be assumed that if the matured visitors come along with their family members, because according to SLTDA airport survey

highlights (2011) 70% of the respondents said that they traveled with the family and children. So that they would spend a lot on leisure activities rather than the individual young visitors and it can be considered as a positive change in terms of value creation towards the economy. In addition to that, one can argue that increase in young tourists can produce much higher negative effect on social and cultural aspects of host community than the matured visitors. But it requires an in-depth and factual social research before claiming above.

3.5.4. Period of Stay



Graph 8 - Period of stay 1999 - 2012.
 (Source: Compiled by Researcher, SLTDA data)

Graph 8 shows average time spent by a tourist in Sri Lanka. The researcher has divided them into three categories; tourists stay less than a week (Short term visitors), between one week to two weeks (Medium term visitors) and more than two weeks (Long term visitors). The percentage against the total number of visitors for each group has calculated using the secondary data of SLTDA. By analyzing the trends of each category, it is found that the long

term visitors have been reduced from 15% to 10% from 1999 to 2012. In contrast, short term visitors have been increased from 47% to 60 % during the period.

In 2014, the average period of stay of all visitors was 9.9 days. Further a Western European visitor stays 14.1 days (the longest) while Asian visitor stays only 6.5 days (the shortest) in average (SLTDA, 2014). As a result of this, increasing trend in the market share of the Asian visitors may lead to decline in the total period of stay in future.

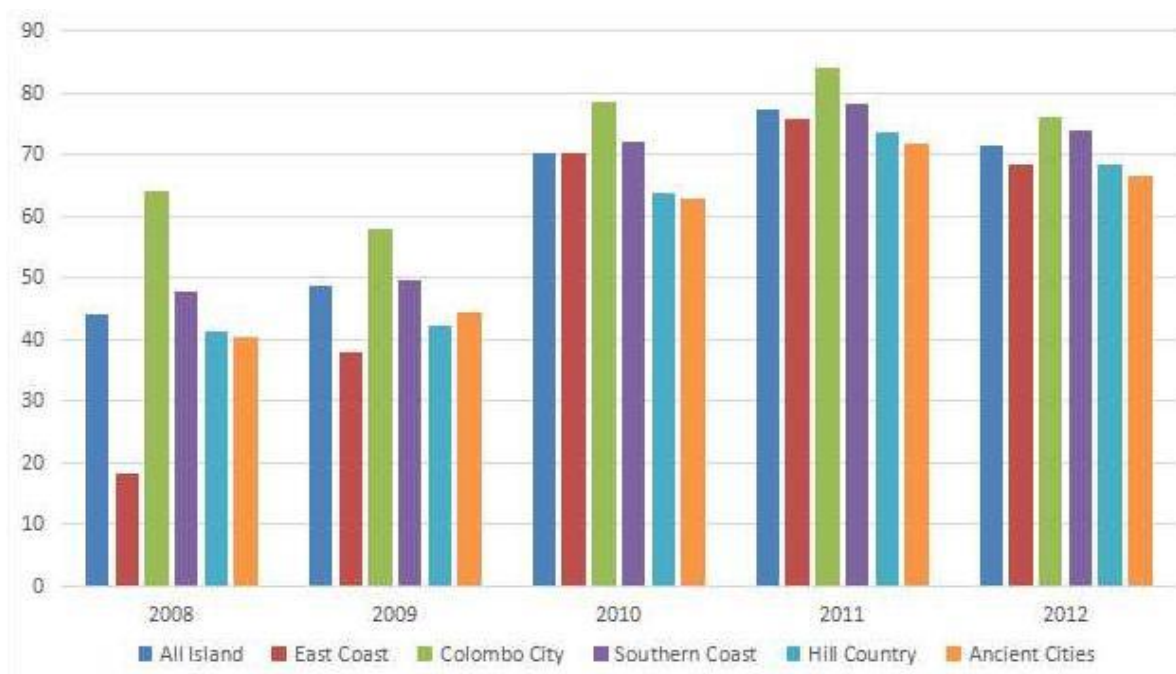
In addition to that one can argue that the economic contribution of a long term visitors is larger than a short term visitors. On the other hand some other can argue as a short term visitor may spend more money per day compared to a long term visitor. But without doing in depth analysis and research on it, it is difficult to interpret such situation. Therefore this provides a new question for future researches.

3.5.5. Hospitality Sector Analysis

Period of stay has a direct impact towards hospitality sector. For an instance we can assume that the declining trend of long term visitors may create a negative consequence on room occupation rate. Anyhow it is important to look up on the behavior of hotel occupancy rate of Sri Lanka during past few years. That will give some picture about how the above issue has been affected on the hospitality sector.

The most struggling period for hotel sector investors and employees was 1983to 2009. War has been destroyed tourism market and many hotel companies were making losses or less profits due to the lack of tourists and irregular as well as unexpected fluctuations in ITA during Eelam war. It is reflected by all island room occupancy rate where it was too low as 43.9% in 2008 and 48.4% in 2009 where the war is at its' peak. Specially due to the heavy fights in Northern and eastern provinces of the country, most of the hotels were closed or very near to close. In 2008 room occupancy rate in the hotels situated on East coast was too low as 18%. But after ending the war in 2009, there was a tremendous recovery in both tourism and hospitality sectors could be seen. For an instance room occupancy rate of East

coast hotels were doubled in 2009 (37.8%) compared to 2008 (18%) and in 2010 it has gone up to 70% (Graph 9).

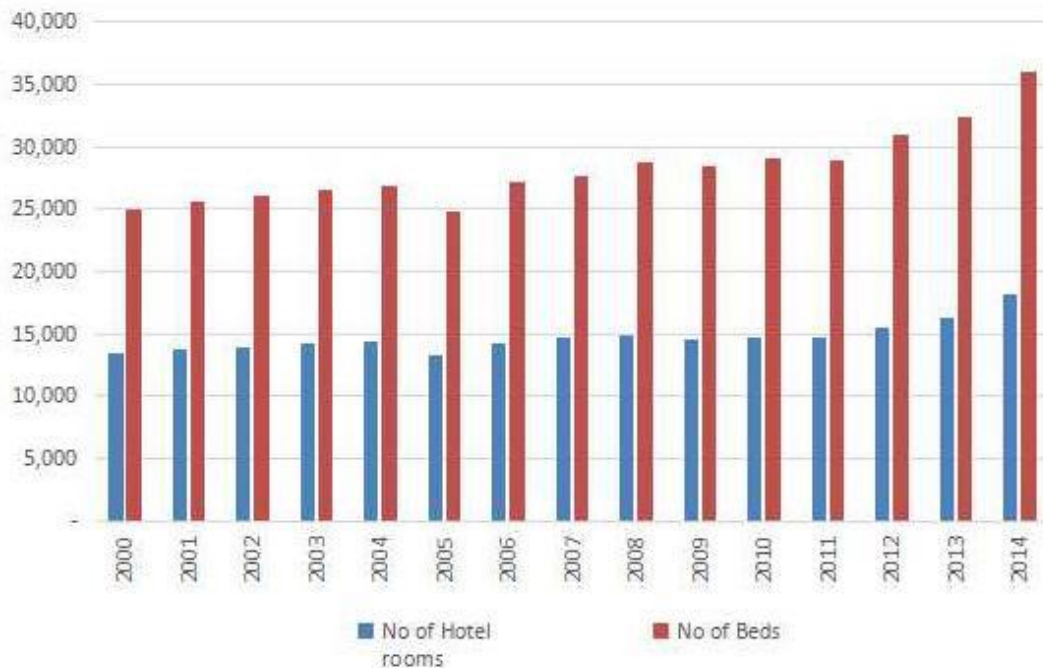


Graph 9 - Room occupancy rate 2008 - 2012.
 (Source: Compiled by Researcher, SLTDA data)

In fact that, the hotels in and around the capital city Colombo were performing slightly well than the hotels in other areas of the country even during the period of war. In 2008 room occupancy rate of the Colombo city area was 63.9% and in 2011 it has risen up to 84%. The other area which is having a greater tourist attraction in the country is Southern coastline. It also has shown a huge recovery after the war. In 2008 room occupancy was 47.6% and then recovered to 73.9 in 2012. The Hill country including famous tourists' hotspots such as Nuwara Eliya, Knuckles mountain range, Adam speak, Horton plains, etc and the Ancient cities such as Anuradhapura, Polonnaruwa and Kandy are too showing growth in room occupancy, but it is not up to the level where the others areas have grown.

Graph 10 shows the growth in hotel room stock and the number of beds available for visitors. There is not big or sudden change in both numbers year by year. That may be due to

the fact that capital investments on hospitality sector advancements cannot be done in short term. It is a long term process. But after 2012, there can be seen a slighter big advancements in expanding the room stock and the number of beds to the accommodation portfolio. Many hotels were renovated and did many expansions and also there are new hotel properties were added specially after ending the war.

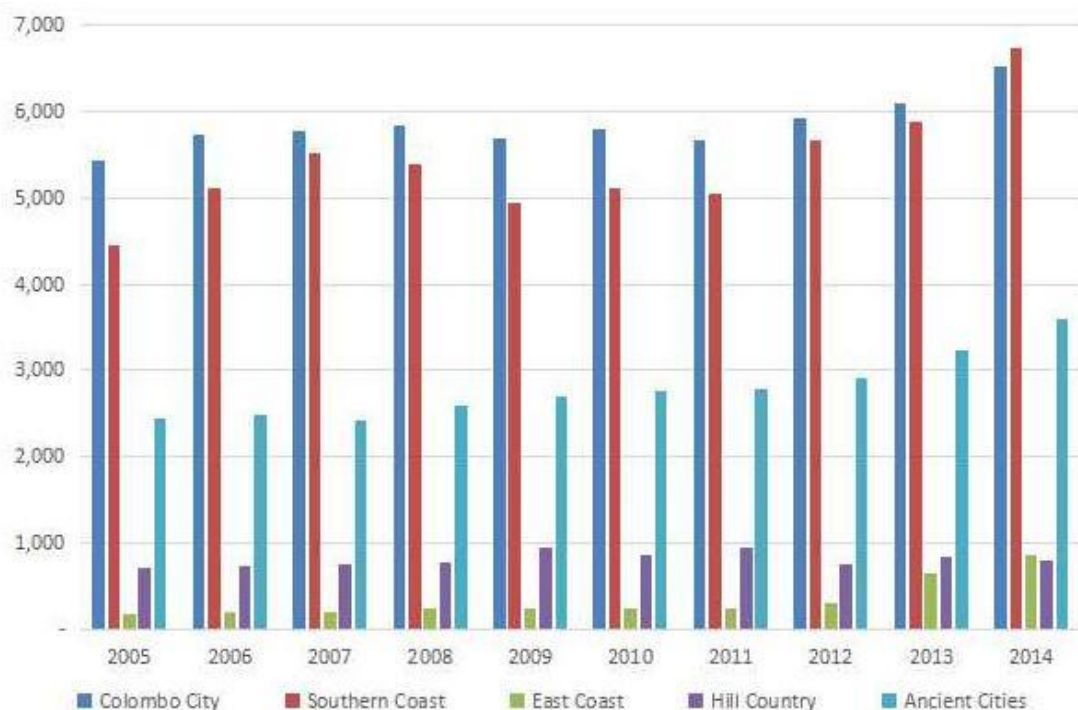


Graph 10 - Number of Hotel Room stock and Beds.
 (Source: Compiled by Researcher, SLTDA data)

In 2000, the total number of hotel rooms available for visitors were only 13,311 and the number of bed capacity was 24,953. With ending of war, Government of Sri Lanka made a five year tourism development plan for 2011 -2016 period. The main objective was to attract 2.5 million tourists by 2016. In order to reach this target, the total room stock in formal (i.e. Tourist Hotels) and informal (i.e. Supplementary Establishments) sectors were not adequate enough. According to SLTDA classification, other than the properties registered as the tourist hotels, all the other facilities where providing accommodation for tourists such as Boutique hotels, Bungalows, Villas, Home Stays, Guest Houses, Hostels, Rented Apartments, Rented Homes and Annexes are fall in to the Supplementary Establishments category.

In addition to that, 2011 and onwards we can observe both the number of rooms and the bed capacity are increasing gradually. In 2000 total number of rooms available for guests was about 13,311 and the beds were 24,953 approximately. But in 2014, rooms and beds have been increased up to 18,078 and 35,976 respectively.

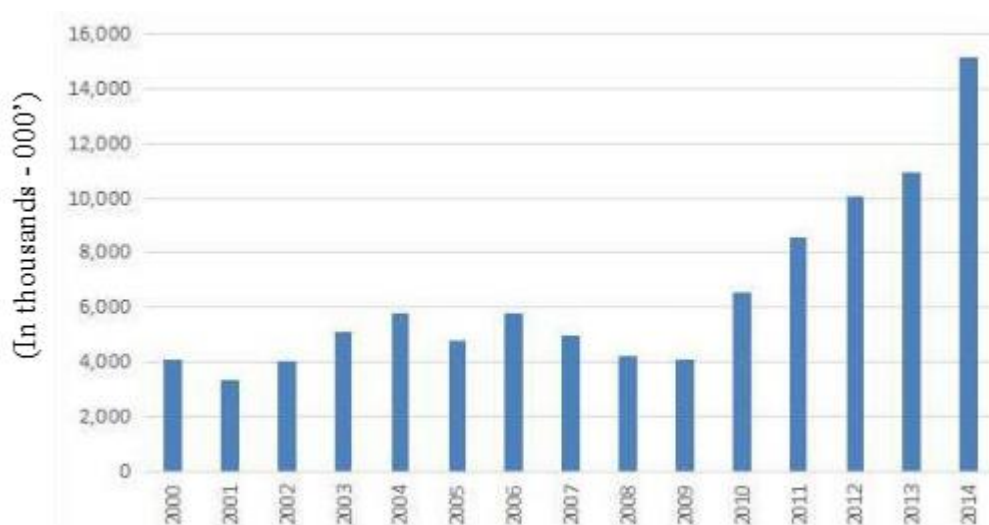
The major reason behind this growth was the confidence of the hospitality sector investors on the security situation of the country. Not only the local individual investors, but also renowned hospitality sector local companies such as Jetwing, Aitken Spence, John Keells, Browns, etc are heavily investing to renovate and to expand their property portfolio by acquisition and/or constructing brand new properties island wide. Meanwhile, as the foreign direct investments, there are many famous chain hotel companies around the world are invited to the island. Some of them have accepted the offer and have started the construction of several star class hotel properties. Hong Kong based “Shangri-La Hotels and Resorts”, Indian based “Krrish Real-estate Company” and American based “Hyatt Hotel Operators” are among the Million Dollar hotel investments attracted to the country recently.



Graph 11 - Room capacity by region.
 (Source: Compiled by Researcher; SLTDA data)

Graph 11 illustrates that the room stock of all the regions other than the Hill country has been shown a sizeable increment specially after 2011. During this period the largest growth in accommodation sector reported in East coast. There were only 178 hotel rooms in east coast in 2005 and by 2014 it has risen to 842 rooms. It is about a 373% growth in a decade. Specially in 2013, the room stock has been doubled compared to the previous year. Other than that, the Southern coast and ancient cities too have grown by 51.6% and 48.1% respectively during the period of 2005 to 2014.

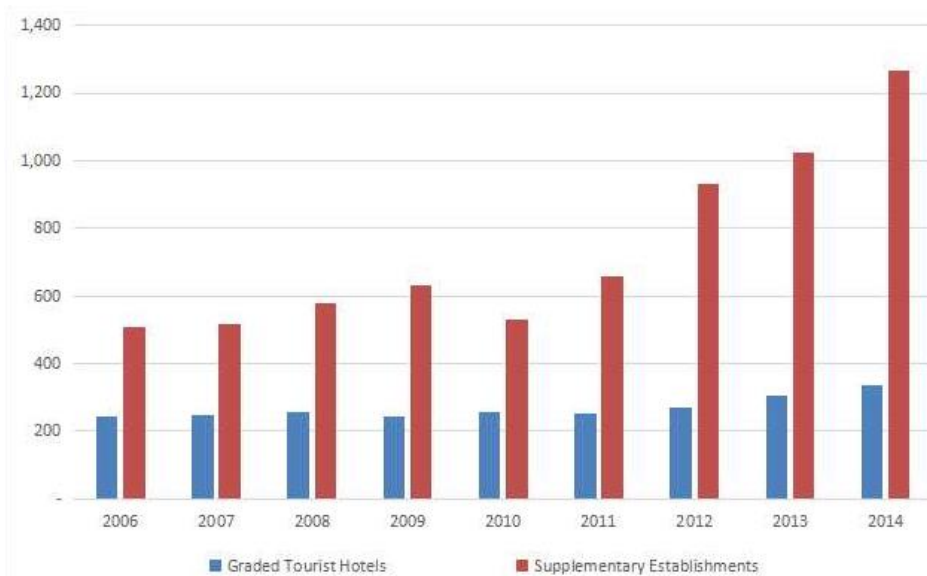
Most of the foreign investors have selected capital city Colombo as the location to establish their hotel properties. Other than that, there are very few small and medium level foreign investors who are interested in investing outside from the Colombo suburbs. The reasons behind this issue can be assumed as lack of infrastructure facilities and lack of trained labor. Therefore still other areas are less attractive for huge hotel investments. The bigger star class hotel projects include 350 to 500 rooms in each. But basically outside from Colombo city, hotels and resorts have lesser number of rooms than that. The structure and the concept are also different from the city hotel concept. As previously mentioned Villas, Bungalows, Chalets, Camp sites, Eco lodges are for the tourists who would like to reside outside from the city areas and more closer to the nature and culture.



Graph 12 - The number of Tourist guest nights 2000 - 2014.
(Source: Compiled by Researcher, SLTDA data)

Further, the number of guest nights is also used to evaluate the hotel sector performances. A guest night is equivalent to one guest spending one night in a tourist establishment. According to the SLTDA Annual statistical report 2014, the total number of tourist guest nights in 2014 is about 15.1 million. Approximately 76% from the total guest nights are foreign and the rest are local tourists (Graph 12).

Importantly, the ungraded and supplementary establishments are playing a greater role in accommodation sector similar to the star class tourist hotels. Because the contribution from this sector to the total tourist guest nights is nearly 47%. That is equivalent to 7.1 million guest nights (SLTDA, 2014).



Graph 13 - Number of Tourist Hotels Vs Supplementary Establishments.
(Source: Compiled by Researcher, SLTDA data)

Besides that, in order to meet the demand on hospitality sector, it is difficult to increase the number of star class tourist hotels suddenly in an economy. And the other issues are to find a feasible location where having all the infrastructures, human resources, tourist attractions and ideal space to establish a large scale tourist hotel. Because most of the large scale hotels are targeting mass market and some other opportunities such as Business conferences, trade fairs, social gatherings and ceremonies, etc. But the required resources and

the environment pursued by the supplementary accommodation category is different. And also this sector is focused on and catered to niche, segmented markets.

By showing its ability to grow stably in the market, Supplementary accommodation sector has boomed according to the graph 13. During the period from 2011 to 2014, the number of Supplementary accommodation units has been doubled. Parallel to that that the number of graded hotel properties too have grown by 32.5% during the same period. Comparatively supplementary accommodation sector requires lesser space, infrastructure, human capital and financial capital. In fact that, sometimes the price of a room in such accommodation facility could be exceeded the price of a star class graded tourist hotel room.

Therefore, one can argue that supplementary accommodation sector contributes a lot to the economy rather than graded tourist hotels. But both sectors has its own pros and cons. Large scale tourist hotels consumes larger amount of economic resources but it pays back through taxes, wages and salaries, etc. On the other end, supplementary accommodation facilities consumes lesser resources while paying low amount of taxes, wages and salaries since they create lesser number of employment opportunities in the economy. Anyhow this argument opens the doors for future researches.

3.6. Summary

In fact that the tourism policy and the strategy of the country for last five decades was lack and not strong enough to rejuvenate the industry, “Tourism Development Strategy 2011 - 2016” can be considered as a positive move taken by the GoSL to enhance the languished industry for several decades. It has clearly defined the objectives and the strategy for the particular time period aiming a growth in both volumes and values of tourism. By referring the data presented in this chapter, it is clear that the war has done a huge impact on tourism and hospitality industry as a whole. But, by ending the war and ensuring the security situation of the country has led to grow in volume strongly and steadily. Various trends and patterns

related to the tourism and hospitality sector presented in this chapter too show the similar results. Even though there was a war for nearly three decades, the industry is revitalizing fast as result of regaining peace. Therefore, it is important to find out scientifically the exact reasons behind good and bad performance of the tourism industry. Some reasons can be controlled by the industry stake holders but some others cannot.

Looking in to the volume targeted objectives, the growth of tourist arrivals, employment opportunities and the inflow of FDI so far give us a positive picture about the future. But in order to keep the momentum of growing volumes steadily for future regular investigations on different market conditions and trends is essential. Because the past teaches us many lessons that can be used betterment of the future. The hidden objective of growing volumes is to grow the real value generated through tourism substantially and accordingly. Therefore this study analyses the challenges or the barriers that can be affected to grow in volumes and further how the value generation has been happened with the growth the volumes. For sustainable tourism, the industry itself should be capable of generating higher economic value in more realistic way and the policy should be made to support that process. Further the policy makers should keep eye on changing trends and patterns in the industry so as to grab the opportunities before competitors and to avoid threats in advance to create the industry more sustainable.

CHAPTER 4

STUDY METHODS, DATA ANALYSIS AND FINDINGS

4.1. Objective of the Research

The objective of this study is to evaluate the key objectives of current tourism policy in light of two particular angles in order to better understand the current status of tourism market of Sri Lanka towards sustainable industry and policy in future. As further discussed and summarized under the chapter number 3, policy objectives are divided into two streams as “Volume targeted” and Value targeted” for the purpose of narrowing down the scope of this study into three main research questions and analyze them respectively. First two research questions evaluate “Volume Based objectives” while the third question elaborates on “Value based objectives”. In addition to that the discourse of research methodology has been integrated in the three sections of analyses for easy understanding of the reader.

4.1.1. Research Questions

1. What was the major reason behind high growth and low growth of Business Cycle Tourism Market of Sri Lanka?
2. Were there any significant short term fluctuations in Tourist Arrivals?
3. Was there a significant growth in the real income generated from Tourism?

By examining the historical movements and the data presented so far in this study, it is observed that the war and peace situation of the country has been greatly affected on long term fluctuations and stagnation in tourist arrivals. Therefore, from the first research question, it is attempted to identify the major reason for varying the tourist arrival over past four and half decades. The second question examines the seasonality in tourism by studying the short term fluctuations because it is largely affected on tourism related investments and employment (Petrevska, 2013). The third one is focusing on calculating the real value generated by tourism towards the national economy and measuring the real growth of it.

4.1.2. Significance of the Study

Evaluating the current tourism profile, policy and strategy is essential for suggesting modifications for sustainable tourism development and planning in future. Setting up and achieving volume based objectives only will not serve the purpose of contributing a higher value to country's economy. Therefore a balance between volumes and the value is important in future policy making for a sustainable tourism development. Further the whole context of country has been changed with the end of war in 2009. Hence the factors that had been affected on decision making in past will no longer valid in future. Therefore the outcome of this study can be used in constructing future tourism policy and strategy by both government & private sector stakeholders, foreign investors, hospitality sector workers and many other financial and economic decision makers for their own decision making such as measuring the market risk, designing promotional campaigns, etc.

4.1.3. Methodology Used and Data Collection

This study includes three empirical tests and takes more quantitative approach. All analyses have been done based on secondary data. Data obtained from published reports, websites and online sources of international and national level organizations which are collecting tourism related statistics for years. For an instance number of ITA and figures of ITR were obtained from SLTDA and CBSL publications. All the references for the data sources are listed at the end of the report. Some data is available since 1970 and some of the data is limited to 20 to 10years. But data unavailability has no effect to the outcome of each section since the three research questions are addressed separately and they need independent data sets from each to other. Statistical software packages, EViews 9 - Student version and Microsoft Excel have been used for analytical purpose.

During the study the researcher has used two econometric models. They are adapted for this study with an extra care, specially after examining how they have been used in the

past studies for analyzing purpose. Other than that general statistical tools such as mean and correlation have also been used. Among the econometric models; Non-linear Markov Regime Switching (MRS) model has used to derive the market cycle of the tourist arrivals (Chen and et al, 2015) and Gini coefficient has used to measure seasonality in tourists arrivals (Petrevska, 2013).

The reason behind choosing MRS model for this analysis is, it is a new concept and rarely applied in tourism sector analysis in past. In fact that this model is largely used for financial sector analysis such as analyzing and forecasting stock price movements, etc, the researcher has observed that the number of international tourists arrivals to Sri Lanka during past four and half decades have also shown a similar type of behavior (in other words fluctuations). Thus the literature too provides evidences of using the MRS model in tourism sector analysis and come up with rational outcome. But this model is applying to Sri Lankan tourism sector analysis for the first time.

Use of Gini-coefficient in order to measure the unequal distribution of tourist arrivals within the year is also very new but edible application of the concept into tourism analysis. Seasonality in tourist arrivals is a fact that has been addressed even in Sri Lankan tourism policy in past and it is a commonly discussed in SLTDA publications as well. Therefore this study provides the necessary background for future policy making as well as further researches on similar type of matter.

The third analysis, i.e. measuring the growth in real income generated through tourism has been done not based on any econometric model but it has been used series of general mathematical calculations such as mean, correlation, etc. The outcome of the test will be interpreted using the hypothesis at the ending.

All three research questions have been addressed under three separate sections in this chapter and the results are summarized at the end of this chapter. In each sub section relevant model and the methodology has further described, step by step.

4.2. Long term Fluctuations of Tourist Arrivals and Possible Reasons

In order to scientifically find out how tourist arrivals have been fluctuated, the Business Cycle of Tourism Market (BCTM) is generated at first. As in every business cycle BCTM too consists of high and low grown states. And then the researcher observes how low grown and high grown regimes have been followed by the different political, economic, security and other issues prevailed in the country during the period which is considered. Finally it is expected to explain how weakened national security situation of the country has slowed down the tourist arrivals.

4.2.1 Business Cycle of Tourism Market in Sri Lanka

Empirical estimation suggests that the business cycle is better characterized by a recurrent pattern of such shifts between a recessionary state and a growth state (Hamilton, 1989). Even the tourism market business cycle too consists of different stages shifting between growing and declining stages (Graph 14). In this study the number of ITA over the period of past 46 years, i.e. since 1970 to 2016 has been taken into account so as to identify the Business Cycle of Tourism Market of Sri Lanka. To analyzing the business cycle, it has been used the annual growth rate of ITA over the sample period of time. Growth Rate of Tourist Arrivals (GRTA) is computed using the following equation:

Equation 01;

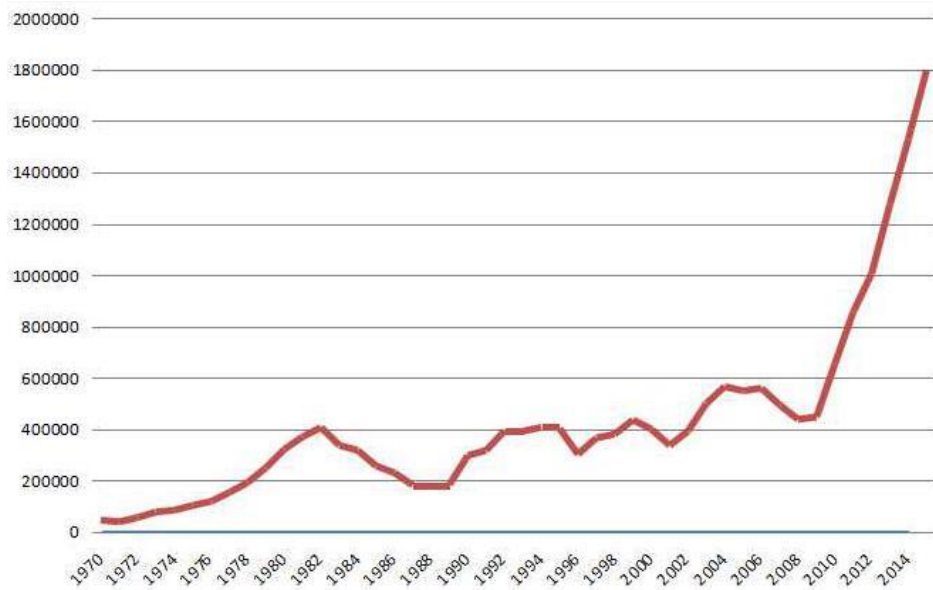
$$\text{GRTA} = \frac{\text{ITA}_t - \text{ITA}_{t-1}}{\text{ITA}_{t-1}} \times 100$$

Where:

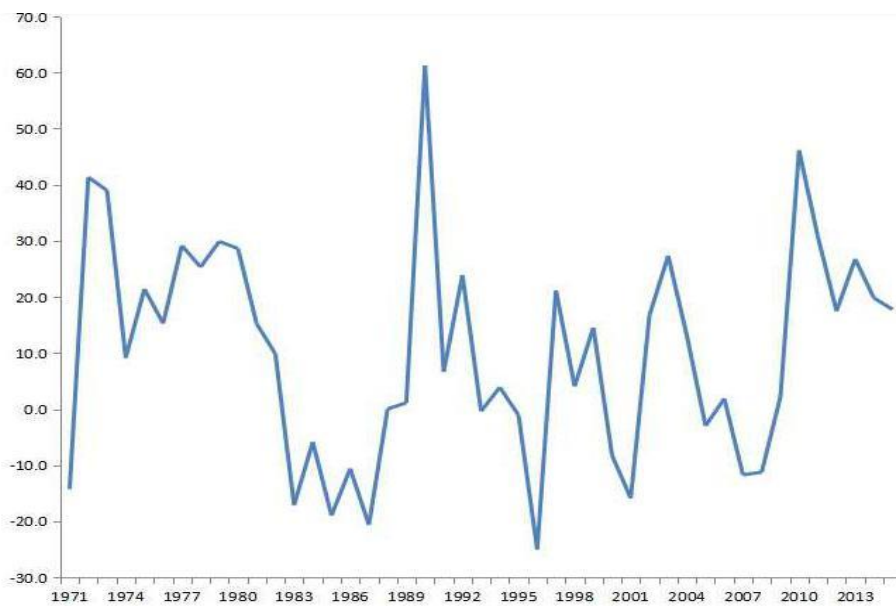
ITA_t = Total international tourist arrivals in period of “ t ”.

ITA_{t-1} = Total international tourist arrivals in the previous time period “ $t - 1$ ”.

The time period can be a year, month or a quarter.



Graph 14 - Annual International Tourists Arrivals 1970 - 2015.
 (Source: Compiled by Researcher, SLTDA Data)



Graph 15 - Annual Growth Rate of Tourist Arrivals 1970 - 2015.
 (Source: Compiled by Researcher, SLTDA Data)

Graph 15 shows the YoY GRTA for 46 years of the sample period of time. It shows huge fluctuations of up turns and down turns. GRTA spreads the highest value of 61.3% in the year 1990 and the lowest -25% in 1996. Mean value of GRTA is 10.1 and the standard deviation is

19.4. Which means Sri Lanka's tourist arrivals has reported an annual average growth rate of 10.1% which has exceeded the annual average growth rate of the world 4% (UNWTO) during the same period of time.

Just by looking at a graphical illustrations of market behavior (like above) doesn't not give a comprehensive picture about the patterns or the high and low growth regimes. Burns and et al (1946) clarified that almost all series exhibit cyclical fluctuations, but these fluctuations bear widely different relationships in time to business cycle. In fact that those fluctuations simply can divide in to two i.e. peaks and troughs, in economic perspective these fluctuations are dissected into four as revivals, expansions, recessions and contractions (Burns, et al, 1946). Therefore we need to look into the patterns deeper by using statistical analytical tool.

4.2.2 MRS Model

In general, linear time series techniques such as autoregressive integrated moving average (ARIMA) have been used to analyze business cycles. But linear models are incapable of capturing the business cycle asymmetries (Chen and et al, 2015). Generally the business cycles show non-linear behaviors in the long run. A good statistical characterization of business-cycle dynamics may require some notion of regime switching between "good" and "bad" states (Diebold and et al, 1996). According to Chen and et al (2015) these expansions and the contractions of a business cycle can be considered as high-growth regimes (HGRs) and lo-growth regimes (LGRs). Therefore, Hamilton (1989) developed non-linear Markov Regime Switching (MRS) Model which caters the purpose of understanding the two-state of a business cycle. Chen (2015) further clarifies that MRS model has frequently used in the field of finance, specially as tool to analyze stock market performances and the behavior of share prices. This model contrasts from the other econometric models like Logit and Probit due to non-requirement of dates of the two periods, Chen (2015) endorsed.

Under this bivariate MRS model, the two states (HGR and LGR) of BCTM are identified. To illustrate the results following probability matrix has been used by Chen and et al (2015) and Hamilton (1989). This matrix is consisted from probabilities of staying in one regime and the probability of switching between the two regimes (expansion and contraction in other terms “1” or “2”).

Probability table - (adopted from Chen and et al, 2015);

$$P = \begin{Bmatrix} P^{11} & P^{12} \\ P^{21} & P^{22} \end{Bmatrix}$$

Where;

- P^{11} = Probability of staying in the regime 1,
- P^{22} = Probability of staying in the regime 2,
- P^{12} = Probability of switching from regime 1 to regime 2,
- P^{21} = Probability of switching from regime 2 to regime 1.

The MRS model which has been used in this study in order to analyze the BCTM of Sri Lanka is as follows;

Equation 04 (adopted from Chen, 2015);

$$(1 - p_1L - p_2L^2 - \dots - p_qL^q) \text{GRTA}_t = a_{st} + \epsilon_t$$

Where;

- L = Lag operator,
- S_t = Unobserved state/regime (Regime 1 or 2),
- ϵ_t = $\sim i.i.d. N(0, \sigma_{st}^2)$ (*i.i.d* = variables are independently and identically distributed),
- $a_{st} = a_0(1 - S_t) + a_1S_t$ (Mean of GRTA_t)
- (a_1 = Mean growth rate of regime 1 and a_2 = Mean growth rate of regime 2),
- And if;

$a_1 > a_2$ = Regime 1 is considered as the HGR and Regime 2 denotes LGR, and vice versa.

$$\sigma_{St} = \sigma_1 (1 - S_t) + \sigma_2 S_t \quad (\text{Standard Deviation (SD) of GRTA}_t)$$

(σ_1 = SD of regime 1 and σ_2 = SD of regime 2).

Using MRS model, the researcher has identified HGRs and LGRs of the BCTM of Sri Lanka. And then see how the fluctuations have been occurred as a cause of national security issues during the period.

4.2.3 Estimating Business Cycle Tourism Market of Sri Lanka using MRS model

Chen (2015) estimated the turning points of the business cycle of Taiwan tourism market and Hamilton (1989) figured out high and low grown regimes of the United States economic growth using MRS model. In this study to generate HGR and LGR of BCTM, Year on Year (YoY) GRTA has been calculated using *equation-1*. ITA data from 1971 to 2015 were obtained from SLTDA reports. The software used is EViews - 9 (Student version).

Dependent Variable: G
Method: Markov Switching Regression (BFGS / Marquardt steps)
Date: 10/13/16 Time: 19:27
Sample: 1971 2015
Included observations: 45
Number of states: 2
Initial probabilities obtained from ergodic solution
Standard errors & covariance computed using observed Hessian
Random search: 25 starting values with 10 iterations using 1 standard deviation (rng=kn, seed=204707712)
Convergence achieved after 9 iterations

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Regime 1				
C	-7.843442	3.590711	-2.184370	0.0289
LOG(SIGMA)	2.249582	0.266692	8.435126	0.0000
Regime 2				
C	22.25071	3.971144	5.603098	0.0000
LOG(SIGMA)	2.631643	0.187514	14.03435	0.0000

Table 5 - Estimation results.

(Generated by Switching Regression process of EViews - 9)

Results in Table 5 can be interpreted as this. Regime 1 (a_1) is the LGR and the mean growth rate during low grown period is -7.84% and the regime 2 (a_2) is HGR where the annual mean growth rate is 22.25%. Standard errors of LGR and HGR are 3.59 and 3.97 respectively. The outcome shows that a negative growth during the LGR. So simply we can say that regime 1 is the contraction while regime 2 is the expansion period of BCTM.

Date: 10/13/16 Time: 19:54
 Transition summary: Constant Markov transition probabilities and expected durations
 Sample: 1971 2015
 Included observations: 45

Constant transition probabilities:
 $P(i, k) = P(s(t) = k | s(t-1) = i)$
 (row = i / column = j)

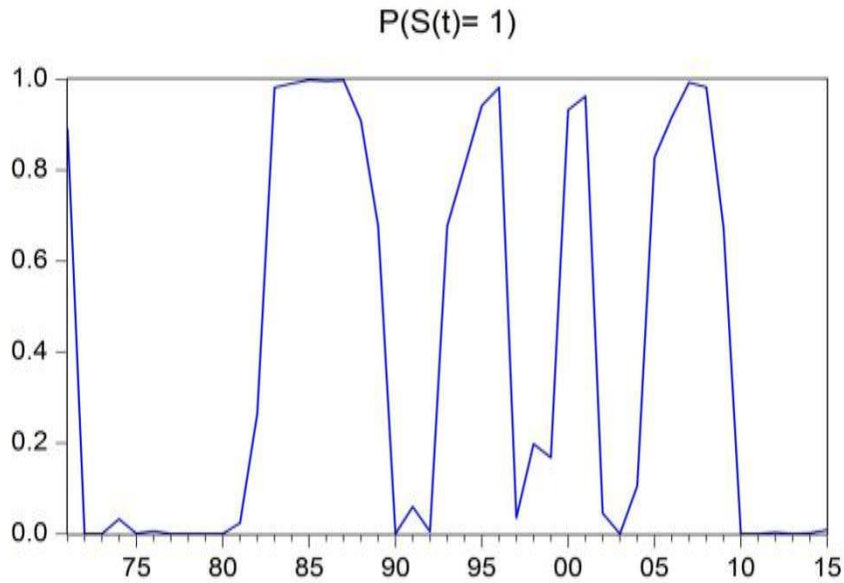
	1	2
1	0.733755	0.266245
2	0.180920	0.819080

Constant expected durations:

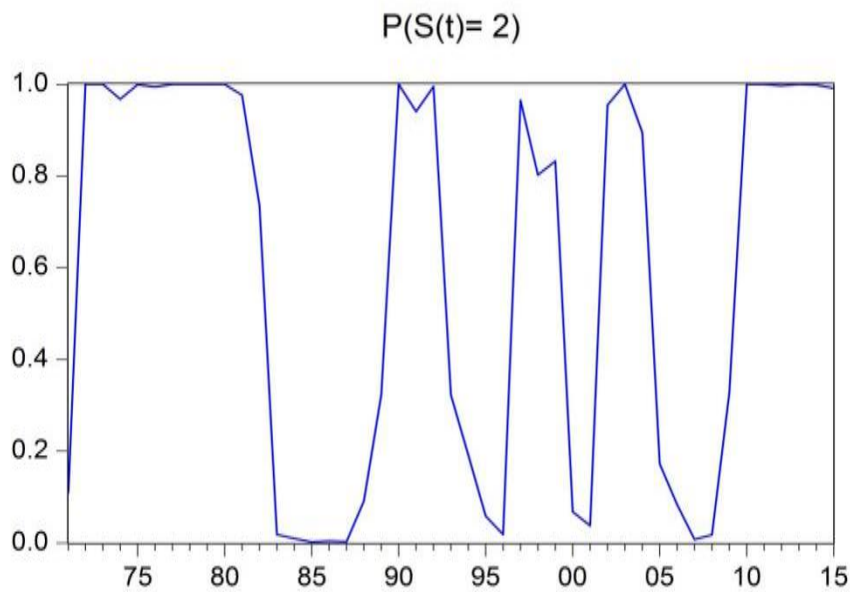
	1	2
	3.755939	5.527297

Table 6 - Probability table for the two regimes.
 (Generated by Switching Regression process of EViews - 9)

According to the probability table (Table 6) generated through the analysis shows that P^{11} (probability of stay in the regime 1 - LGR) is 0.73 and P^{22} (probability of stay in the regime 2 - HGR) is 0.82. It means that the chance to stay in HGR is little higher than stay in LGR. In other way, the possibility to shift from LGR to HGR (P^{12}) is 26.6% and it is higher than the chance to shift from HGR to LGR (P^{21}) which is 18%. The approximate time duration of staying in LGR (regime 1) is 3.75 years and HGR (regime 2) is 5.5 years. In total, time taken to complete a BCTM is 9.25 years (9 years and 3 months) approximately.



Graph 16 - Smoothed probability graph for regime 1 - Low Grown Regime.
(Generated by Switching Regression process of EViews - 9)



Graph 17 - Smoothed probability graph for regime 2 - High Grown Regime.
(Generated by Switching Regression process of EViews - 9)

These two graphs exhibit how the probability of staying in the particular regime and then shift to the other regime within BCTM. Graph 16 represents the probability of staying in LGR and shifting towards HGR and graph 17 shows the probability of staying in HGR and shifting towards LGR.

4.2.4. BCTM is Mostly Driven by National Security Situation of the Country

Hamilton (1989) and Chen and et al (2015) have assumed that the two regimes are separated by the probability value of 0.5. Based upon the results illustrated on graphs 16 & 17 and by taking the cut-off value between the two regimes as 0.5, high growth and low growth regimes for the sample period of time has been differentiated and presented in the following table.

Period	Regime
1970 - 1971	LGR
1972 - 1982	HGR
1983 - 1989	LGR
1990 - 1992	HGR
1993 - 1996	LGR
1997 - 1999	HGR
2000 - 2001	LGR
2002 - 2004	HGR
2005 - 2009	LGR
2010 - 2015	HGR

Table 7 - High growth and Low growth regimes of Business cycle of Tourism Market.
(Source: Compiled by Researcher, based on the graphs 21 & 22)

In the next step, researcher is trying to find out what can be the most possible reason behind the contraction and the expansion of BCTM based on historical economic and political background of the country during the period from 1970 to 2015.

Period	Regime	Possible reason
1970 - 1971	Low Growth	JVP (Janatha Vimukthi Peramuna, a political party) Insurrection/ revolt between 1970 and 1971.
1972 - 1982	High Growth	Constitutional changes in 1972 and 1977 and Introduction of open economic policies in 1977.
1983 - 1989	Low Growth	Ethnic riot in 1983 (Black July) and the start of Eelam war, Air Lanka flight attack on 1986, JVP insurrection in 1988 & 1989 and new president was elected in 1989. Indian peace keeping army involvement in Eelam war between 1987 and 1990.
1990 - 1992	High Growth	Start of Eelam war-2 in 1990, Battle of Elephant pass and Killing the Government Minister of Defence in 1991.
1993 - 1996	Low Growth	Killing of the President and 5 other Cabinet ministers of the GoSL by LTTE during the period, New president was elected and change in the Government in 1994, Eelam war-3 started in 1995 and as a response operation “Riviresa” launched by GoSL and regained Jaffna peninsula, LTTE bombed Head Quarters of the Central bank of Sri Lanka in 1996. Sri Lanka won Cricket World cup in 1996.
1997 - 1999	High Growth	In 1997 LTTE bombed to World Trade Centre, Colombo and in 1998 bombed to Temple of tooth, Kandy, Operation “Jayasikuru” & “Unceasing wave-2” started in 1997 and Operation “Rana Gosa” & “Unceasing wave-3” launched in 1999 by GoSL. In December 1999 the President of Sri Lanka was attacked by LTTE.
2000 - 2001	Low Growth	LTTE declared a unilateral ceasefire in 2000, in 2001 LTTE attacked Elephant pass army base, attack in July 2001 to Bandaranaike International Airport (BIA) destroyed several air buses belonged to Sri Lankan airlines. Government changed in 2001 by election.

2002 - 2004	High Growth	In 2002, GoSL and LTTE signed to a ceasefire agreement and held several peace talks' rounds. Severe Acute Respiratory Syndrome (SARS) out broke in 2003.
2005 - 2009	Low Growth	A Tsunami attacked Sri Lanka in December 2004. LTTE broke the ceasefire agreement many times, Foreign Minister was assassinated by LTTE in 2005, A new president was elected, Army commander was attacked by a LTTE suicide attacker in 2006 and Start of Eelam war-4 in 2006. In 2008 GoSL decided to formally withdraw from the ceasefire agreement and war ends in May 2009 after militarily defeating LTTE. The global financial crisis between 2008 and 2009.
2010 - 2015	High Growth	In 2010 re-elected the war winning president for another 6 year term, strong government with having two third power in the parliament, development projects in war-torn areas such as reconstruction of roads, providing electricity and developing many other infrastructure, Highway network connecting Colombo suburbs with southern cities and the airport, building second international port in Hambantota and the airport in Mattala.

Table 8 - Possible reason behind High growth and Low growth of Business cycle of Tourism Market.

(Compiled based on Researcher's experience, knowledge and information collected from CBSL annual reports, WTTC & UNWTO reports, National and International news publications and Wikipedia)

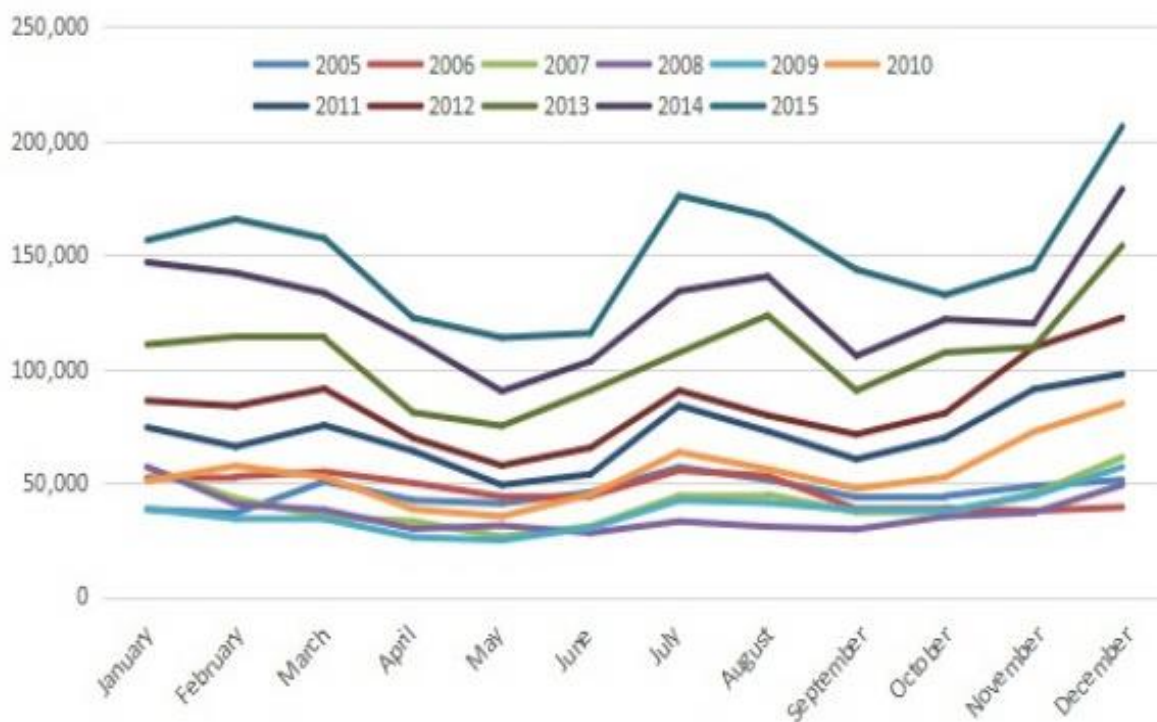
Table 8 Compiled all possible political, economic and other direct and indirect causes that would have affected positively and negatively on growth of tourist arrivals. Other than in two special occasions, in every other regime growth of ITA has decreased and decreased with the security situation of the country. One occasion is in 1990, tourist arrivals recovered not as result of tone-down the Ealam war but because of ending the JVP insurrection. In simply it is

because of calming down the security situation in the south but not the north of the country. The second occasion is showing a high growth of ITA between 1997 and 1999. It was also a recovery from the steep collapse of tourist arrivals during 1993 - 1996.

The number of annual ITA clarifies how civil war started in 1983 has affected badly on tourist arrivals till the end of war in 2009. In 1982 the total number of visitors was 407,230 and in 2009 it was 447,890. ITA has shown a higher growth rate before the start and after ending the war. It implies that the BCTM of Sri Lanka is mostly driven by the National security factor. All in all this analysis demonstrates how declination and stagnation has occurred in the industry which is deserved to be grown unless a bad security situation in the country.

4.3. Seasonality in Tourist Arrivals of Sri Lanka

It is obvious that the economic growth and the development of country's infrastructure have been supported by the tourism. Yet, its development is often interrupted by seasonality which is noted as one of the most influencing factor for limiting continuous tourism enlargement (Petrevska, 2013). Petrevska further describes that this seasonality of travel is encouraged by the social scheduling. There are three major factors that can simply be influenced on seasonal travel behaviour. 1) Natural factors - climate factors such as four seasons, temperature, snow fall, etc., 2) Institutional factors - schools and industrial holidays, cultural and religious believes and festivals and 3) Other factors such as social pressures, personal preferences, inertness, etc. Many scholars are trying to detect seasonality and patterns of a particular industry in order to provide a proactive vision on future changes and to act accordingly. Identifying future treats and opportunities and change the plan and policies is much important when facing the risk arose due to the seasonal changes.



Graph 18 - Monthly Tourist arrivals 2005-2015.
 (Source: Compiled by Researcher, SLTDA Data)

In general, the seasonal fluctuations of tourist arrivals are measured on monthly basis. Due to the fact that Sri Lanka has tropical weather and no four seasons during the year, tourists will experience the same climatic features with minor temperature changes and equal environmental beauty during the whole year. In fact that, by analyzing the monthly tourist arrival figures of Sri Lanka January, February, July, August and December are considered as the high season (or the peak) while May and June are known as low season (or mini peak) (Graph 18).

SLTDA has its' own index to measure monthly seasonal variances. This "SLTDA seasonality index" is compiled by taking the average arrivals per month as 100. Then compare each month's tourist arrivals with this mean value of the whole year. By dividing the highest monthly arrival by the particular year's mean arrival value, "Seasonality ratio" is generated for each year. Finally the coefficient of the seasonal variations is obtained by calculating the standard deviation of the seasonal indices (Table 9).

Year	Seasonality Ratio	Coefficient of Seasonal Variation	Year	Seasonality Ratio	Coefficient of Seasonal Variation	Year	Seasonality Ratio	Coefficient of Seasonal Variation
1970	1.4	28	1985	1.5	30	2000	1.3	20
1971	2	60	1986	1.7	41	2001	1.4	43
1972	1.7	33	1987	1.7	40	2002	1.5	15
1973	1.5	30	1988	1.3	25	2003	1.4	23
1974	1.5	37	1989	1.7	25	2004	1.4	26
1975	1.7	44	1990	1.4	18	2005	1.1	15
1976	1.7	47	1991	1.5	22	2006	1.2	15
1977	1.5	37	1992	1.3	18	2007	1.5	25
1978	1.6	36	1993	1.3	21	2008	1.6	24
1979	1.5	30	1994	1.3	22	2009	1.5	23
1980	1.4	27	1995	1.4	21	2010	1.6	25
1981	1.5	26	1996	1.4	20	2011	1.4	20
1982	1.2	16	1997	1.3	16	2012	1.5	22
1983	1.7	45	1998	1.4	21	2013	1.4	20
1984	1.3	19	1999	1.2	16	2014	1.4	19

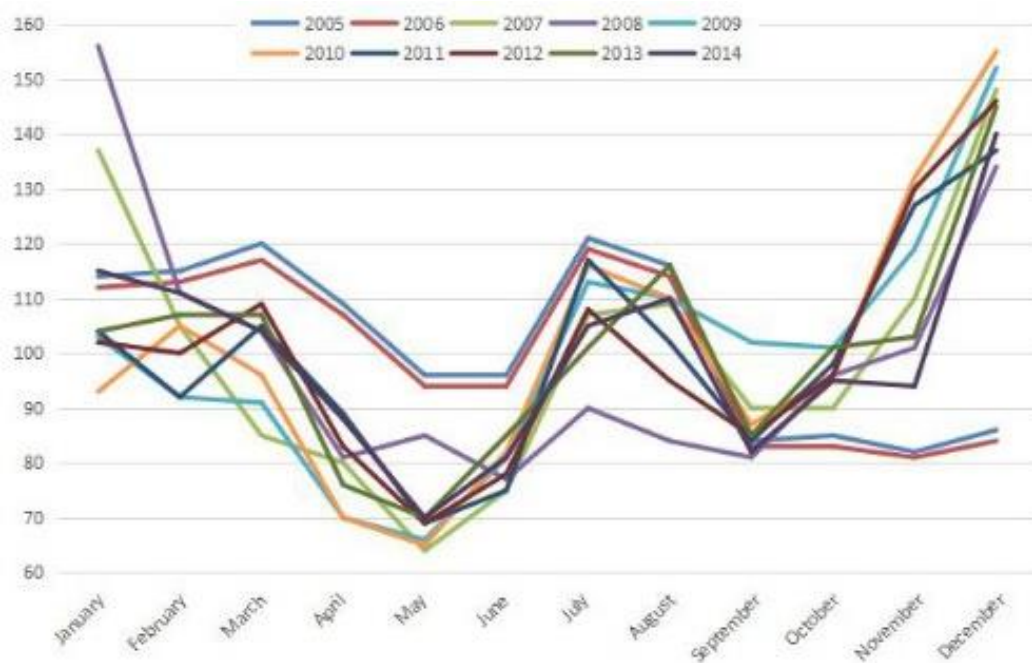
Table 9 - Sri Lanka Tourism Development Authority seasonality indices 1970-2014.
(Source: Compiled by Researcher, SLTDA Annual Statistical report 2014)



Graph 19 - Coefficient of seasonal variations 1970-2014.
(Source: Compiled by author, SLTDA Data)

It has shown a greater variance in monthly tourist arrivals within the year of 1971. In January the index was 179 and by May and June it has reduced up to 29 (SLTDA Statistical report, 2014). Since the variance is much higher, both the seasonality ratio and the coefficient

of seasonal variance have shown the highest values ever. In 1970's and 1980's, the coefficient of seasonal variations has been shown a higher value compared to the next two and half decades. It is clear that the variation is diminishing gradually (Graph19).



Graph 20 - Seasonal Index movement 2005 - 2014.
(Source: Compiled by Researcher, SLTDA Data)

SLTDA seasonal index can be considered as a showcase of monthly tourist traffic. Graph 20 shows its' fluctuations during the year from 2005 to 2014. By referring to the above graphical illustration, there can be seen a cyclical pattern of tourist arrivals. But in order come a conclusion about whether there is a strong seasonality in tourist arrivals to Sri Lanka or not, these data should be further examined using a certain analytical model. For that purpose the researcher has used Gini - coefficient as a tool to measure strength the seasonality pattern and it will be further elaborated in the later part of this chapter.

4.3.1. Policy Measures to Mitigate Seasonal Variances

Seasonal fluctuations may create an uncertainty in any kind of industry. As we observed tourist arrivals to Sri Lanka too has a certain seasonality effect. But the country has its' ability

to attract similar number of tourists in every month irrespective of the different seasonal patterns that can be seen in some other countries. Therefore, in order to mitigate these seasonal variations several new policy actions were introduced through National Tourism Development Strategy 2011-2016 (Table 10).

Month	Main Theme	Theme Activities
January	Beaches	Beach Conservation Day in all beach tourist destinations, catamaran race, photographic exhibition in Negombo, sand castle, beach volleyball competition and beach fiesta in Bentota, seminar on “Underwater Marine Life”, “Sancharaka Udawa” Tourism Mart.
February	Sports & Adventure	ICC cricket matches, elephant run, gem mining expedition, mini surfing event, white water rafting, trekking, marathon, sailing regatta, seminar on adventure sports and display of traditional martial arts - Angampora.
March	MICE	UNWTO Commissions Meeting, “Kooriya” fish festival, Law Asia Conference, Education Advisors Conference.
April	People & Culture	“Aluth Sahal Mangalya”, New Year celebrations in 3 main tourist cities i.e. Kandy, Trinco, Galle. Seminar on “People & Culture”.
May	Religious	2600 year “Sam Buddha Jayanthi” Celebrations, Wesak festival, Buddhist Film festival, Buddhist trails & retreats, Buddhist tour operator and festive media programs from potential markets.
June	Wedding & Honeymoons	Industry organised “100 Weddings” programs for foreign tourists and leading wedding and honeymoon journalists’ tours.
July	Mind & Wellness	Ayurvedic exhibition and island wide health shows to promote “Body & Mind Wellness”.
August	Heritage	Kandy Esala Perahera, “Vel” festival, “Nallur” festival, “Madu” festival, special tour operator and media journalists’ programs, seminar on “Heritage”.
September	Nature & Wildlife	Minneriya elephant gathering, bird/elephant/leopard/blue whale/butterfly watching events, CSR project on protecting wildlife, seminar on “Wild Life”.

October	Community & Education	Developing tourism villages (home stays) in nine provinces, organizing awareness event on community & education, paddy harvesting ceremony.
November	Culinary	World Spice Festival, Culinary Exhibitions in different parts of the island.
December	Shopping & Entertainment	Introduce a signature event “Colombo Shopping Festival”, organizing various mini shopping festivals and entertainment events in tourism destinations.

Table 10 - Monthly Tourism Event Calendar 2011.

(Source: Compiled by Researcher, SLTDA National Tourism Development Strategy 2011-2016)

Under the promotional campaign of “Visit Sri Lanka (VSL) - 2011”, 12 themes for 12 months were introduced with an objective of showing off monthly activities and the special happenings in the country in order to get a vibrant media publicity. These calendar activities are based on the natural and cultural background of the country. Many of them are inherited in country’s soil and adopted as it is while some other events are created merely to get the awareness of the prospective visitors.

In addition to that, this cyclical effect can be directly affected on hospitality sector. It may lead to regular fluctuations on monthly room occupancy rate and the hotel sector employment too. In order to mitigate these issues, the researcher suggests to promote local tourism during the off peak/mini peak seasons.

4.3.2. Empirical Study on Seasonality in Tourist Arrivals of Sri Lanka

This chapter focusses on measuring the cyclical effect or in other words the seasonality in monthly tourist arrivals to Sri Lanka. To analyze empirical data the researcher has used the Gini coefficient which is commonly used in economics as a tool to compute the inequality in income distribution of a country. The results will be answered the questions of “is there a significant variation in tourist arrivals within a year?”.

Equation 01 - (adopted from Petrevska, 2013);

$$G = 2/n \sum_{i=1}^n (x_i - y_i) = 2/n[(x_1 - y_1) + (x_2 - y_2) + \dots + (x_n - y_n)] = 2/n[\sum_{i=1}^n x_i - \sum_{i=1}^n y_i]$$

Above equation is used in calculating the Gini Coefficient. Where “x” is rank of the months, “y” denotes the cumulative relative frequency of tourist arrivals in ascending order and “n” is the number of months. Secondary data which is obtained from SLTDA publications has been used. The sample is contained data from January 1970 to December 2015. The hypothesis (H₁) which will be testing on is “Tourist arrival to Sri Lanka has a significant variation within the year”. In other way if the mean Gini coefficient of all 46 years (from 1970 to 2015) is higher than 0.5 ($G < 0.5$) the hypothesis will be accepted or else will be rejected.

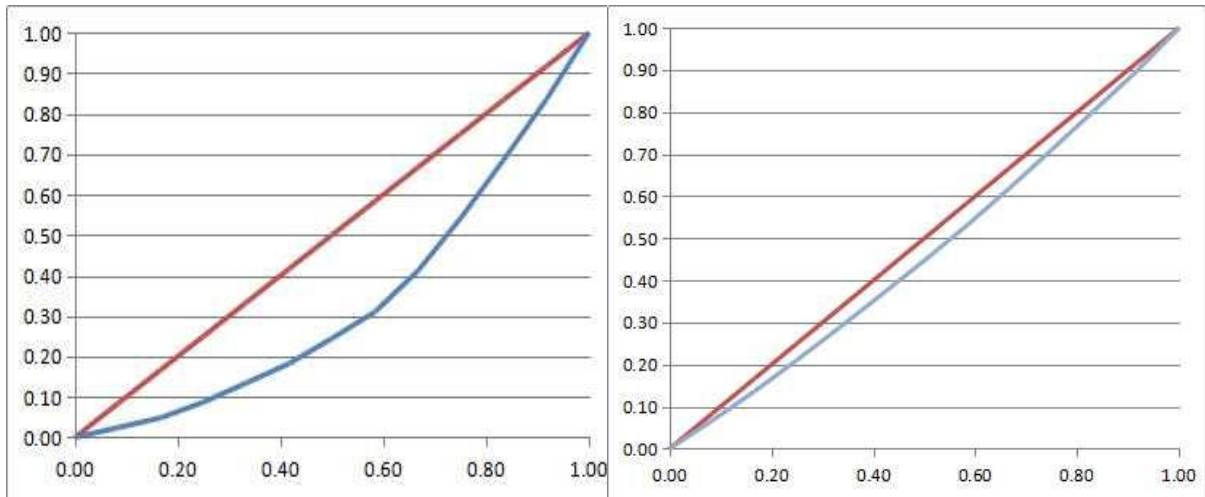
Year	Gini Coef:	Year	Gini Coef:	Year	Gini Coef:	Year	Gini Coef:	Year	Gini Coef:
1970	0.157461	1980	0.151786	1990	0.092853	2000	0.113515	2010	0.133010
1971	0.333153	1981	0.145557	1991	0.119619	2001	0.242423	2011	0.108953
1972	0.184168	1982	0.088320	1992	0.103923	2002	0.081353	2012	0.114107
1973	0.172594	1983	0.257470	1993	0.116713	2003	0.112117	2013	0.101064
1974	0.207772	1984	0.108421	1994	0.123276	2004	0.144759	2014	0.098906
1975	0.202434	1985	0.169580	1995	0.112913	2005	0.070932	2015	0.096923
1976	0.265498	1986	0.224378	1996	0.106874	2006	0.080178	Mean	0.145213
1977	0.207881	1987	0.224884	1997	0.083810	2007	0.130720		
1978	0.207208	1988	0.143713	1998	0.115625	2008	0.118782		
1979	0.169293	1989	0.124552	1999	0.089277	2009	0.121050		

Table 11 - Gini coefficients from 1970 to 2015.

(Source: Compiled by author, SLTDA Data)

The calculation of Gini coefficient has been done for each year separately based on monthly tourist arrivals. Finally the mean value of “G” has been obtained by all Gini coefficients. The results are shown in the table 11 and it spreads between 0.33 (1971) (Graph 21) the highest to the lowest 0.07 (2005) (Graph 22). For better understanding of the highest

and the lowest Gini coefficient values, Lorenz curves have also been generated. In fact that there is a huge fluctuation can be seen within the year 1971, in the rest of the years it has not been shown a significant variation in monthly tourist arrivals.



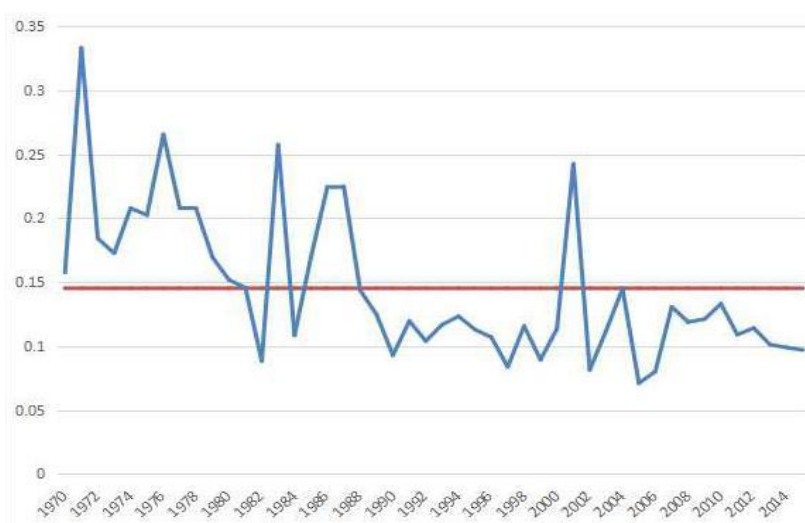
Graph 21 - Lorenz curve for 1971.

(Source: Compiled by author, SLTDA Data)

Graph 22 - Lorenz curve for 2005.

(Source: Compiled by author, SLTDA Data)

Besides that as we observed in the graph 23 and Illustration 3, the first two decades shows a higher Gini coefficient and later lowered it gradually. This can be interpreted as Sri Lanka has experienced a higher fluctuation in monthly tourist arrivals in past (1970's and 1980's) than the present.



Graph 23 - Gini coefficient movement 1970 - 2015.

(Source: Compiled by author, SLTDA Data)

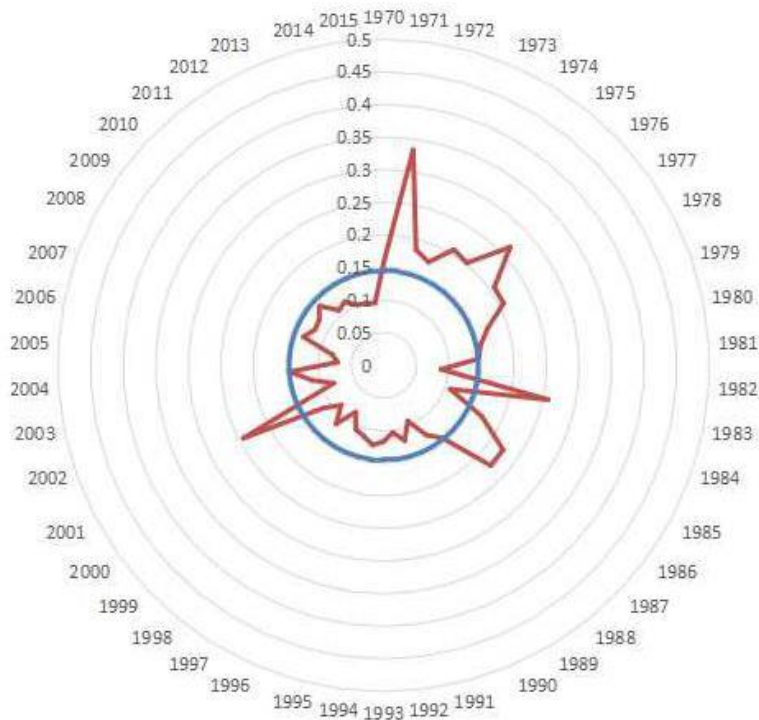


Illustration 3 - Gini coefficient movement against the mean 1970 - 2015.
 (Source: Compiled by author, SLTDA Data)

Hypothesis (H_1) is rejected since the mean value of the Gini Coefficient is 0.145 and it does not exceed 0.5 in any of the years. Standard deviation of the yearly Gini coefficients too is quite low as 0.0579.

By referring monthly tourist arrival data and the seasonality index made by SLTDA, readers may get a wrong picture about Sri Lankan tourism industry as it is experiencing significantly a higher seasonality effect within the year. Further one can support this idea by analyzing the COO or the visitor profile and realize that the majority of the visitors are from Europe where experience four seasons and that would have been indirectly created an artificial seasonality effect in tourist arrivals in Sri Lanka. But based on the outcome of this study, it can be concluded that during the entire sample period of time (1970 - 2015), there is no significant month on month (MoM) variation or a strong seasonality in tourist arrival in Sri Lanka.

4.4. Analysis on Economic Impact of Tourism Earnings

“The Government recognizes the multiplier effect of tourism development in creating employment opportunities and distribution of wealth through a variety of economic activities”. (SLTDA, Tourism Development Strategy, 2011 – 2016). Even though the new policy framework covers many areas of tourism developments, in terms of economic perspective, some objectives such as the proportionate contribution of tourism to the GDP has not been defined clearly as many tourism nations have done.

In fact that, it is important to find out how tourism is significant to Sri Lankan economy in many angles. According to World Travel & Tourism Council (WTTC), there are three different ways where the economic impact is occurred through tourism. 1) Direct impact - This includes all the internal expenses that are borne by the tourists themselves such as transportation, accommodation, food and beverages, clothing, entertainment, etc. Simply this is equal to the calculation obtained through national accounts. 2) Indirect impact - This includes tourism related investments and taxes generated to the government via tourism related activities. And 3) Induced impact - Expenditure generated by the employees who are directly and indirectly engaged in Tourism industry. The total contribution towards the Gross Domestic Production (GDP) through tourism is calculated by adding above all three together.

WTTC Economic impact (2015) report shows that the direct contribution from the tourism industry to the GDP of Sri Lanka is about 4.8% and the total contribution from tourism is equal to 11.1% in 2014. The other most valued economic indicator is the number of employment opportunities generated through tourism related activities. According to the above report it has been estimated as the number of tourism related direct employment opportunities is about 351,900 and the total number of jobs that has been generated is approximately 819,600 in 2014.

WTTC Rankings	2013		2014		Rank Advancement/ Drawback
Component	Indicator	Rank	Indicator	Rank	
Absolute size - Direct contribution towards GDP	2.7Bn US\$	68	3.5Bn US\$	63	Advanced
Absolute size - Total contribution towards GDP	6.3Bn US\$	71	8.2Bn US\$	65	Advanced
Relative Size - Direct contribution towards GDP as a %	3.9%	77	4.8%	61	Advanced
Relative Size - Total contribution towards GDP as a %	9.4%	87	11.1%	70	Advanced
Direct Contribution to Employment	286,200	46	351,900	41	Advanced
Total Contribution to Employment	688,500	45	819,600	42	Advanced
Visitor Exports/International Tourist Receipts (ITR)	2Bn US\$	76	3.5Bn US\$	59	Advanced
Capital Investments on tourism industry	700Mn US\$	71	900Mn US\$	68	Advanced
Real Growth (Forecast for current year) Per annum	4.3%	95	2.5%	125	Drawback
Long Term Growth (Forecast to the next 10 years) Per annum	6.2%	16	6.1%	21	Drawback

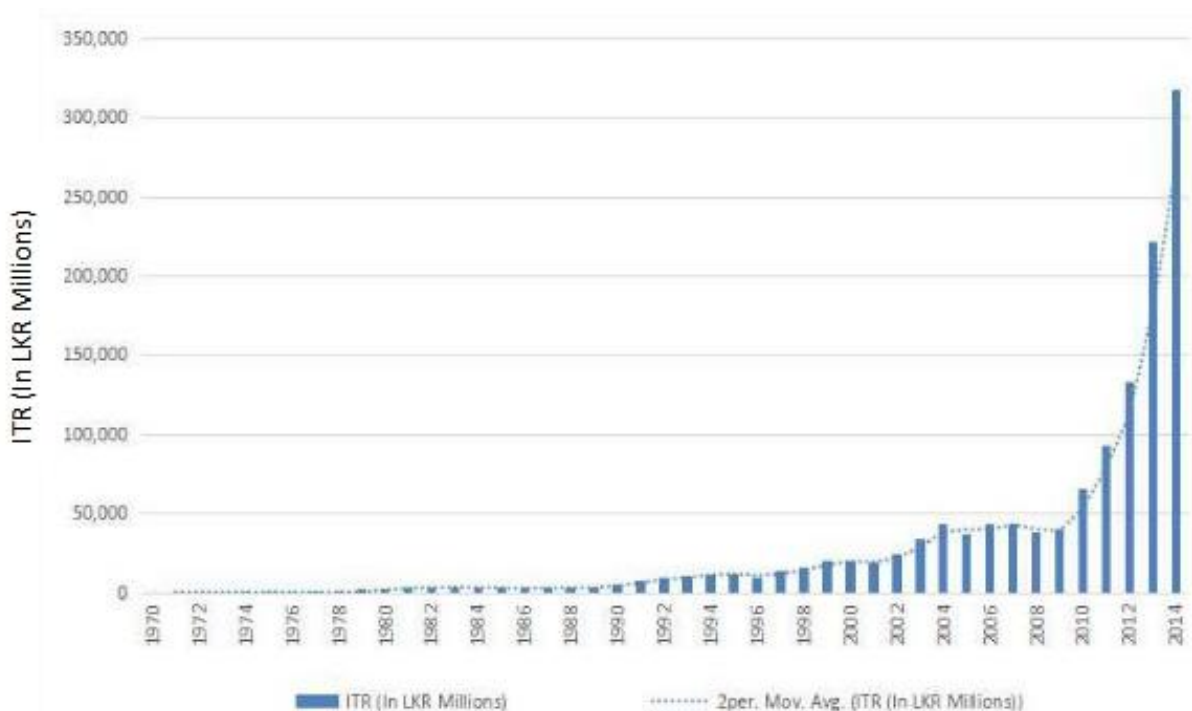
Table 12 - Rank of Sri Lanka out of 184 countries.
(Source: Compiled by Researcher, WTTC data)

By referring the Table 12, it is clear that there is an overall advancement in Sri Lankan Tourism Industry in 2014 against the previous year as well as compared to the other tourism nations in the world. But the annual real growth of tourism sector has been declined considerably in 2014. But in terms of the long term growth, the country will be maintaining the 6% growth per annum according to the WTTC forecasts. Among the ranks, one of the most attractive advancement can be seen in the relative size of total contribution towards GDP. Sri Lanka has been able to climb up 17 positions within one year. This means that the total contribution from the Tourism and Hospitality sector towards GDP is about 11.1%. As a benchmark, it exceeds the total contribution of Tourism for world's GDP in 2014, i.e. 9.8%.

In addition to that, in terms of economics, advancement in visitor exports or in other words ITR is also impressive. It has grown by 75% from 2 Billion US\$ in 2013 to 3.5 Billion US\$ in 2014. And the rank is also being advanced from 76 to 59 by 17 positions.

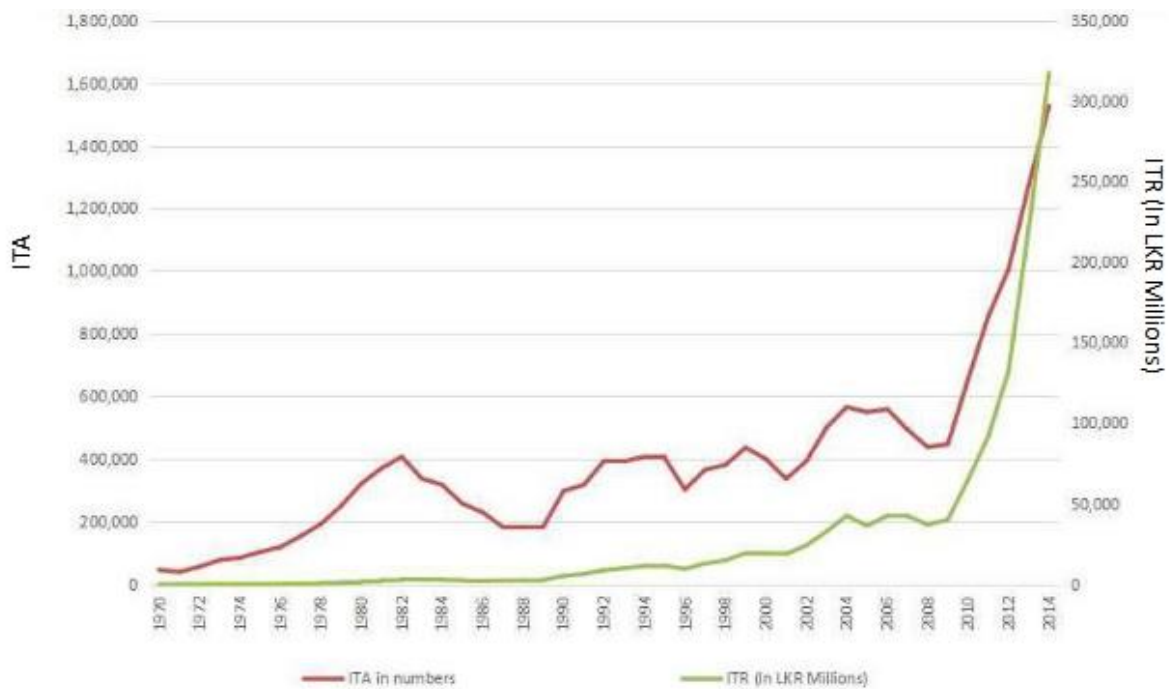
4.4.1. Growth in International Tourism Receipts (ITR)

With the sudden expansion in tourist arrivals to Sri Lanka, it has been expected an advancement in tourism receipts too. Graph 24 shows the ITR was very low and growing sluggishly before 2009. But with the boom in tourism industry specially after ending of war, growth of tourism receipt has exceeded the growth of ITA.



Graph 24 - International Tourist Receipts in LKR millions (1970 - 2014).

(Source: Compiled by Researcher, SLTDA data)



Graph 25 - Tourist arrivals and Tourist Receipts 1970 - 2014.

(Source: Compiled by Researcher, SLTDA data)

The annual average growth rate of ITA from 1970 to 2014 is 10.1%, and for ITR it is about 28.4%. Further, the Year on Year growth of ITA and ITR during the period from 2010 to 2014 is 28.2% and 51.6% respectively. Simply, tourism receipts have grown faster than the tourist arrivals. In economic terms this is an optimistic move.

The correlation coefficient between ITA and ITR is 0.93. Therefore, it is clear that there is a strong positive relationship between the two elements. In fact that, just by looking at the graph 25 we can observe that the ITA has grown faster than ITR till 2009 and thereafter ITR has climbed up at a higher rate than the growth of ITA. Because of this contradictory viewpoints, the researcher decided to do an in depth analysis based on historical data of ITA and ITR in order to take much clearer picture about what has actually happened for tourism earnings during past few decades. The next chapter will elaborate how tourism income has grown in relation to several other benchmarks.

4.4.2. Measuring the Growth of Real Income Generated through Tourism

Under this chapter, the researcher intends to do an empirical test using the secondary data in order to measure the real growth rate of Tourism Receipts of Sri Lanka for past few decades. The necessary data could be found for the period starting from 1986 to 2014 from SLTDA and The Central Bank of Sri Lanka (CBSL) reports. This analysis will answer to the question of “Is there a significant growth in real tourism earnings/receipts in Sri Lanka during past two and half decades?”. For that purpose mean growth rate of nominal and real per capita per day receipt from tourism, mean growth rate of ITA (GRTA), mean growth rate of per-capita income of a Sri Lankan citizen, should be calculated on Year on Year (YoY) basis.

The hypothesis (H_2) that attempt to be tested is “The real receipts/earnings from tourism in Sri Lanka have been increased significantly during past two decades”. If the mean (annual average) growth rate of real per capita per day receipt from tourism is higher than the mean value of per-capita income of a Sri Lankan citizen, the hypothesis will be accepted or else it will be rejected.

Year	(A) ITA	(B) GRTA (YoY)	(C) ITR (LKR Million)	(D) GRTR (YoY)	(E) Nominal Per day per tourist earnings - US\$	(F) Growth rate % (YoY) of Nominal per- capita receipt per day	(G) Real per day per tourist earnings - LKR	(H) Growth rate % (YoY) of Real per- capita receipt per day	(I) Growth of Real Per Capita income of a Sri Lankan citizen
1986	230,106		2,300.10		32.7		2,552.00		
1987	182,620	-20.6	2,415.20	5.0	34	4.0	2,607.09	2.2	0.9
1988	182,662	0.0	2,438.30	1.0	33.3	-2.1	2,474.67	-5.1	-0.1
1989	184,732	1.1	2,739.70	12.4	38.6	15.9	2,966.74	19.9	2.1
1990	297,888	61.3	5,303.30	93.6	41.1	6.5	2,924.67	-1.4	5.0
1991	317,703	6.7	6,485.80	22.3	42.8	4.1	2,833.12	-3.1	2.6
1992	393,669	23.9	8,825.60	36.1	49.7	16.1	3,166.36	11.8	2.7
1993	392,250	-0.4	10,036.80	13.7	50.1	0.8	3,210.35	1.4	5.6
1994	407,511	3.9	11,401.60	13.6	54.2	8.2	3,254.30	1.4	4.4
1995	403,101	-1.1	11,551.60	1.3	56.1	3.5	3,223.33	-1.0	4.7
1996	302,265	-25.0	9,559.10	-17.2	57.9	3.2	3,200.24	-0.7	1.5
1997	366,165	21.1	12,980.30	35.8	58.6	1.2	3,183.27	-0.5	5.1
1998	381,063	4.1	14,868.00	14.5	59.5	1.5	3,262.47	2.5	4.0
1999	436,440	14.5	19,297.30	29.8	61.4	3.2	3,511.03	7.6	2.4
2000	400,414	-8.3	19,162.20	-0.7	62.3	1.5	3,595.52	2.4	6.0
2001	336,794	-15.9	18,863.30	-1.6	63.1	1.3	3,820.32	6.3	1.2
2002	393,171	16.7	24,202.00	28.3	63.4	0.5	3,790.60	-0.8	2.9
2003	500,642	27.3	32,810.00	35.6	66.8	5.4	3,833.29	1.1	7.2
2004	566,202	13.1	42,666.30	30.0	72.2	8.1	3,992.24	4.1	4.1
2005	549,308	-3.0	36,377.30	-14.7	74.6	3.3	3,709.66	-7.1	4.9
2006	559,603	1.9	42,585.50	17.1	83.4	11.8	3,855.25	3.9	6.1
2007	494,008	-11.7	42,519.30	-0.2	79.1	-5.2	3,412.75	-11.5	5.8
2008	438,475	-11.2	37,094.00	-12.8	76.7	-3.0	2,785.52	-18.4	4.5
2009	447,890	2.1	40,133.00	8.2	81.8	6.6	2,977.35	6.9	2.3
2010	654,476	46.1	65,018.00	62.0	88	7.6	2,935.88	-1.4	6.5
2011	855,975	30.8	91,926.00	41.4	98	11.4	2,964.54	1.0	6.8
2012	1,005,605	17.5	132,427.00	44.1	103	5.1	3,301.47	11.4	8.4
2013	1,274,593	26.7	221,147.10	67.0	156.5	51.9	4,756.52	44.1	6.1
2014	1,527,153	19.8	317,501.70	43.6	160.8	2.7	4,702.99	-1.1	6.0
Mean =		8.6		21.8		6.3		2.71	4.3

Table 13 - Mean Calculation table.

(Source: Compiled by Researcher, SLTDA and CBSL data)

Calculations are as follows:

Equation 01 -

$$(B) \text{ GRTA} = \frac{\text{Current year ITA} - \text{Previous year ITA}}{\text{Previous year ITA}} \times 100$$

Equation 02 -

$$(D) \text{ GRTR} = \frac{\text{Current year ITR} - \text{Previous year ITR}}{\text{Previous year ITR}} \times 100$$

Equation 03 -

$$(F) \text{ Growth rate of Nominal per-capita receipt per day} = \frac{\frac{\text{Current year nominal per day per tourist earning} - \text{Previous year nominal per day per tourist earning}}{\text{Previous year nominal per day per tourist earning}}}{\text{Previous year nominal per day per tourist earning}} \times 100$$

Equation 04 -

$$(H) \text{ Growth rate (YoY) of Real per-capita per day receipt} = \frac{\frac{\text{Current year Real per day per tourist earnings} - \text{Previous year Real per day per tourist earnings}}{\text{Previous year Real per day per tourist earnings}}}{\text{Previous year Real per day per tourist earnings}} \times 100$$

* Secondary data for “A”, “C” and “E” are being obtained from SLTDA data while Exchange rates, GDP Deflator and the growth of real per-capita income of a Sri Lankan citizen are been obtained from CBSL data.

* Calculation of (H) Real per day per tourist earnings is included in the Table 13.

* All Means are calculated using the equation = $\bar{X} = \frac{\sum X}{N}$

Year	Tourism earnings Per day Per tourist (nominal) - US\$	Annual Average Exchange rate (US\$ to LKR)	Nominal Tourism earnings Per day Per tourist - LKR	GDP Deflator (1996 = 100)	Real per day per tourist earnings - LKR
1986	32.7	28.02	916.17	35.9	2,552.00
1987	34	29.44	1,001.12	38.4	2,607.09
1988	33.3	31.81	1,059.16	42.8	2,474.67
1989	38.6	36.05	1,391.40	46.9	2,966.74
1990	41.1	40.06	1,646.59	56.3	2,924.67
1991	42.8	41.37	1,770.70	62.5	2,833.12
1992	49.7	43.83	2,178.46	68.8	3,166.36
1993	50.1	48.25	2,417.40	75.3	3,210.35
1994	54.2	49.42	2,678.29	82.3	3,254.30
1995	56.1	51.25	2,875.21	89.2	3,223.33
1996	57.9	55.27	3,200.24	100	3,200.24
1997	58.6	58.99	3,457.03	108.6	3,183.27
1998	59.5	64.59	3,843.18	117.8	3,262.47
1999	61.4	70.39	4,322.08	123.1	3,511.03
2000	62.3	75.78	4,720.92	131.3	3,595.52
2001	63.1	89.36	5,638.79	147.6	3,820.32
2002	63.4	95.66	6,064.96	160	3,790.60
2003	66.8	96.52	6,447.60	168.2	3,833.29
2004	72.2	101.19	7,305.80	183	3,992.24
2005	74.6	100.50	7,497.23	202.1	3,709.66
2006	83.4	103.96	8,670.46	224.9	3,855.25
2007	79.1	110.62	8,750.30	256.4	3,412.75
2008	76.7	108.33	8,309.20	298.3	2,785.52
2009	81.8	114.94	9,402.48	315.8	2,977.35
2010	88	113.06	9,949.69	338.9	2,935.88
2011	98	110.57	10,835.39	365.5	2,964.54
2012	103	127.60	13,143.15	398.1	3,301.47
2013	156.5	129.11	20,205.70	424.8	4,756.52
2014	160.8	130.56	20,994.14	446.4	4,702.99

Table 14 - Calculation of Real per day per tourist earnings.
(Source: Compiled by Researcher, SLTDA and CBSL data)

* Exchange rate - annual average US\$ to LKR rate for each year obtained from CBSL Data.

Equation 05 -

$$\text{Nominal Tourism earnings Per day Per tourist - LKR} = \frac{\text{Nominal Tourism earning (per day per Tourist) US\$}}{\text{Annual Average Exchange rate (of each year)}} \times$$

Equation 06 -

$$\text{Real Per day Per tourist Tourism earnings - LKR} = \frac{\text{Nominal Tourism earnings Per day Per tourist - LKR}}{\text{GDP Deflator}} \times 100$$

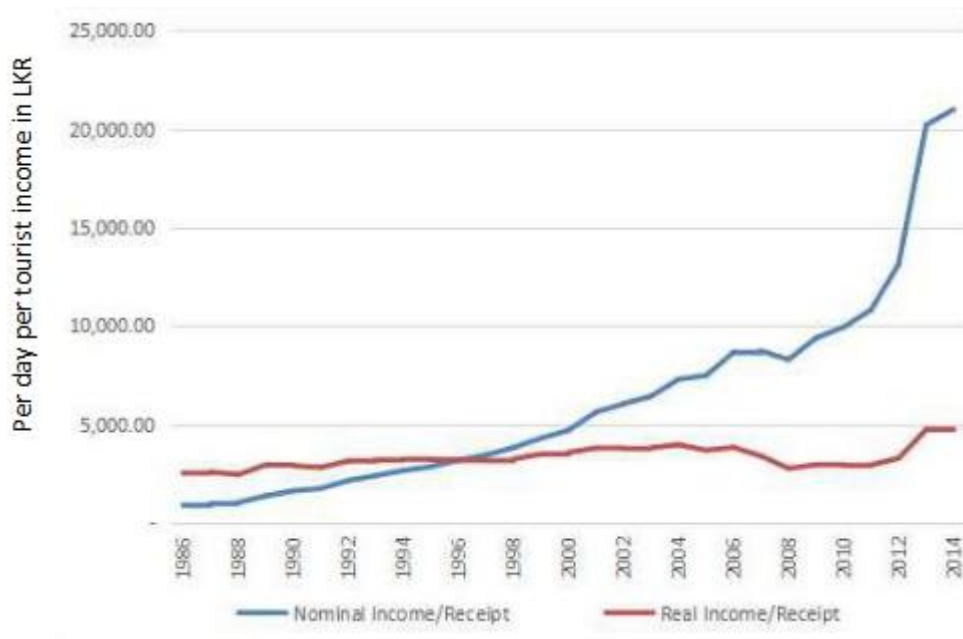
By comparing the mean values of YoY GRTA (column B) and YoY GRTR (column D), it shows a 2.5 times higher growth in GRTR than GRTA.

Mean of GRTA (YoY) 8.6%	<	Mean of GRTR (YoY) 21.8%
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Further, the annual average growth of nominal per day per tourist income (column F) has exceeded the annual growth of per capita income of a Sri Lanka citizen (column I).

Mean of annual growth rate of real per capita income of a Sri Lankan Citizen 4.3%	<	Mean of annual growth rate of per day per-tourist income (nominal) 6.3%
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But because of the nominal figures do not illustrate the real economic value, the researcher has done the same comparison by calculating the real growth of per day per tourist earning. For this calculation, GDP Deflator has been used. In there, the result gives a contrariwise result.



Graph 26 - Nominal Vs Real per day per tourist income in LKR (1986 - 2014).
 (Source: Compiled by Researcher using the data in the Table 14)

Mean of annual growth rate of Real per-capita per day receipt from tourism 2.71%	<	Mean of GRTA (YoY) 8.6%
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According to the results shown in the Table 13, tourist arrivals to the country have been grown at a higher pace than the growth of real per day per tourist income.

Mean of annual growth rate of Real per-capita per day receipt from tourism 2.71%	<	Mean of annual growth rate of real per-capita income of a Sri Lankan Citizen 4.3%
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But, the growth of real income has not exceeded the growth of per-capita income growth of a Sri Lankan citizen. Therefore, the hypothesis (H₂) will be rejected. As the results of this test, we could see that though there is a huge growth in tourist arrivals to the country, the real income generated through tourism is growing at a lesser rate. Further, the real income growth

from tourism is far below to the annual economic growth of the country. All in all, the conclusion is; there is no significance growth in real tourism earnings during past two and half decades in Sri Lanka.

4.4.3. Pearson Test

Pearson Test	Result
Between (A) ITA and (C) ITR	0.9682
Between (B) GRTA and (D) GRTR	0.9354
Between (A) ITA and (G) Real per day per tourist income	0.6959
Between (B) GRTA and (H) Growth of Real per day per tourist income	0.2257
Between (H) Growth of Real per day per tourist income and (I) Growth of per-capita income of a Sri Lankan Citizen	0.0423

Table 15 - Pearson test to determine the correlation.

(Source: Compiled by Researcher using data in Table 13)

In order to add more meaning to the above explanation, Pearson test has been done in between several elements in the Table 13. As the result of this test, correlation coefficient between the two factors can be found.

Equation 07:

$$r = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2 \sum(y - \bar{y})^2}}$$

Where; \bar{x} and \bar{y} are the sample means of the two arrays.

According to the results there is a strong positive linear relationship between International Tourist Arrivals & International Tourism Receipts, and Growth Rate of Tourist Arrivals & Growth Rate of Tourism Receipts. The relationship between International Tourist Arrivals and Growth rate of per day per tourist real income is a moderate uphill one. And the

correlation between Growth Rate of Tourist Arrivals and the growth of per day per tourist real income is very weak. In other words even though there is a huge growth in ITA, the growth of real income generated through tourism is very poor. At last, the growth of per day per tourist real income and the growth of per-capita income of Sri Lankan citizen has no linear relationship. In other words, Per capita income of a citizen in Sri Lanka is not depending on the Income generated from Tourism. Therefore, it can be concluded as the contribution towards the per-capita income of the country from tourism earnings is still insignificant.

4.5. Major Findings

In order to compile and present the major findings that are attained from three different analyses throughout this chapter, restating the three research questions is essential. During the first analysis the researcher attempted to find the answer for the question “What was the major reason behind high growth and low growth of Business Cycle Tourism Market of Sri Lanka?”. The outcome shows that national security (in other words war and peace situation) of the country was the main factor behind the high and low grown regimes of the Business cycle tourism Market of Sri Lanka during past four and half decades and if the security situation was peaceful, tourist arrivals would have been grown rapidly.

Secondly, the question “Were there any significant short term fluctuations in Tourist Arrivals” was addressed. The major intention of this question was to find out whether is there a seasonality effect in monthly tourist arrivals to Sri Lanka. The result shows that there is no significant fluctuations or seasonality effect within the year during the period from 1970 to 2015.

Thirdly, the study focuses to find the answer for the question “Was there a significant growth in the real income generated from Tourism?” during past three decades. The outcome shows a negative result that in fact the number of arrivals has grown; the real income generated through tourism has not grown parallel to that. Based on these results the conclusion has been presented in the chapter number five.

CHAPTER 5

DISCUSSION AND CONCLUSION

5.1. Summary of the Study

Sri Lanka was a famous tourist destination for those who travelled across the Indian Ocean, for thousands of years. Western temptation towards “The Orient” resulted in colonialism and Sri Lanka too victimized the same dispossession since 1505. But after gaining independence from British rule, Sri Lanka was trying to develop inbound tourism using the fame persisting among the international tourists, and the resources remaining as a result of colonization. With the formation of the Ceylon Tourist Board (now SLTDA) in 1966, the tourism sector was restructured and formalized by the Government. Until the civil war began in 1983, the number of inbound tourists was growing steadily. But due to civil conflicts and war, the Sri Lankan Tourism industry was disrupted and stagnated for more than two and half decades while many other competing nations were growing. Ending the war in 2009 was a major strength and benefit for the industry, and it began to grow rapidly, as did every other sector in the country’s economy.

With the intention of gaining the maximum benefits from a growing industry for all the stakeholders, a novel policy framework, i.e. “Tourism Development Strategy 2011 – 2016,” was set up. The key objectives of this were to increase in the number of inbound tourists and tourism related employment, increase Foreign Direct Investments, Tourism Receipts, distribute real economic benefits to the society, improve global trade, and position Sri Lanka as a most treasured island for tourism. These seven objectives were summarized into two sets in this study, based on their orientation as volume based objectives and value based objectives, to make the policy evaluation process more simple and easy to understand. The first two research questions of this study focused on to understand the behavior of tourist arrivals and the barriers to increases in tourism volumes. From the third research question the researcher enquired about increases in real value generated from tourism.

5.2. Summary of the Findings

The findings of the whole research process are summarized and presented here. Firstly, the main research questions and the results of the empirical tests, and secondly, the recent trends identified during the research.

5.2.1. Findings Based on Main Research Questions

The first question observes the long-term fluctuations and stagnation in volumes of tourist arrivals and briefly identified the major reasons behind them. The fluctuations are clearly illustrated from High growth regimes and Low growth regimes in the Business cycle tourism market which is generated during the study. The mean growth rate during the Low growth regimes is -7.84% and the chance to stay in low growth season is 73% while the mean growth during High growth regimes is 22.2% and the chance to stay in high growth period is 82%. The total time taken to complete one business cycle is 9 years and 1 quarter. Out of it, 3.75 years are low growth while 5.5 years are high growth. These findings indicate that there is a higher tendency to stay in the high growth state even though there is an unfavorable security situation for tourism in the country.

The analysis showed that the violence and failing to maintain a proper security situation within the country slowed down tourist arrivals. When the country becomes peaceful, there is a greater tendency to grow tourist arrivals. Therefore, it can be concluded that national security was the major driving force behind the Business cycle tourism market of Sri Lanka for the last 45 years.

The second question addressed the short-term fluctuations in tourist arrivals to Sri Lanka. In fact, the SLTDA seasonality index shows huge fluctuations within the year, but seasonality is irrelevant to Sri Lankan tourism context. Further, the variations/fluctuations in Month on Month tourist arrivals are reducing gradually in the present. Change in the profile of the Country of Origin may have indirectly affected in calming down the seasonality effect at present. In past, the main source market for Sri Lankan inbound tourism market was Europe

and the four seasons in Europe may have created an artificial seasonality pattern in tourist arrivals. But now losing market share from Europe has forced a change towards Asian visitors and therefore seasonality has become less relevant to the inbound tourism market of Sri Lanka.

In line with the third question the researcher has attempted to measure the growth of real value generated from tourism. The findings show that the growth rate of the real income of tourism is lower than the per-capita income growth rate of a Sri Lankan citizen. In other words, the process of value generation from tourism is happening poorly compared to this benchmark. Therefore, it can be concluded that the real value of tourism receipts has not grown enough during the period 1986 to 2014. Further, the correlation between per-capita income growth of a Sri Lankan citizen and the growth of per tourist per day real income is 0.04. That means the income of a Sri Lankan citizen does not depend on tourism earnings. In other words, the real income generated from tourism has not significantly contributed towards an increase in the per-capita income of Sri Lankan citizens. Therefore, while volumes are growing, the value generated from tourism has not yet become a crucial economic factor in deciding individual income in Sri Lanka.

5.2.2. Findings Based on Recent Trends

- The main source market for Sri Lanka's inbound tourism was Europe for many decades. But recently there is a trend of capturing the inbound tourism market by the Asian visitors. Specially the Indian, Chinese and Maldivian visitors are largely visiting to the country and the European visitors are proportionately declining due to the low annual growth rate compared to the Year on Year growth of Asian visitor.
- There has been no change of purpose of visit. Between 70% and 80% are leisure oriented visitors. However, the share of mature visitors (over 40 years) is increasing faster than the young visitors (below 40 years). According to the SLTDA Airport

survey of 2011, 70% of the respondents said that they are travelling with family members including children below the age of 15 years.

- Recently the number of short term visitors (stay less than a week) has been proportionately increasing. According to Miththapala (2012), the average period of stay of European visitors (specially UK and German tourists) is longer, at 14 to 21 nights. But since there is an increasing trend for Asian visitors and they do not stay as long as Europeans, this may reduce the period of stay in total.
- Hospitality sector indicators such as tourist guest nights, room occupancy rate, number of accommodation units (especially supplementary establishments), and number of room stock and beds, are increasing with the demand and expansion in the market accordingly. Instead of star class graded tourist hotels, there is a boost in supplementary accommodation facilities in order to cater for the growing demand.

5.3. Concluding Remarks on Current Tourism Policy

The key objectives of the Tourism Development Strategy 2011-2016 are separated and narrowed into two, as defined in chapter 3, i.e. increasing in volume and generating more value to the economy are being evaluated based on the findings under this section. For that purpose, two major factors that interrupt in volume enlargement are identified. One is long term fluctuations and the second one is short term fluctuations.

It is clear that there are no any significant seasonality effects/short term fluctuations during past four and half decades. Therefore, Business cycle tourism market of Sri Lanka is free from seasonality disorders. In addition to that, there are significant low grown and high grown phases over time due to the security situation prevailing in the past, and those fluctuations have resulted in long term stagnation in the market. But since 2009, that barrier too has been removed. Therefore, these findings show that the current background in the country is supportive and positive towards achieving the volume driven objectives of the

current tourism policy. The no seasonality effect supports increasing the number of employment opportunities, while the safer national security situation keeps tourist arrivals in high growth regime. And these two factors indirectly promote local and foreign investments in tourism and hospitality sector.

Further, the current National Tourism policy is reasonably doing well in achieving most of its volume based objectives. Foreign Direct Investments has already exceeded the targeted 3 Billion US\$ and International Tourist Arrivals and number of employment opportunities too will reach the target at the end of 2016. In fact, when it comes to the value driven objectives that have been mentioned in national tourism policy statements; these should be questioned given the outcome of this study. In other words, the findings of this study are negative towards value driven objectives. In general, the objectives are set in nominal terms, not in real values. But this study has attempted to understand their actual economic contribution by measuring the real growth of per day per tourist income and found that it has not been significantly grown. According to the Tourism Development Strategy 2011 - 2016 policy statement, though there is an attempt to attract the “right type of tourists,” which has the inner meaning of catering into the high-end market that generates more real value to the economy, the strategy has not been clearly defined. To get real benefit from this economic activity, increases in the nominal value are not useful. Sufficient growth in real value is too important. Therefore, future policy and strategy should be focused on achieving both volume and value oriented objectives in a balanced way.

5.4. For a Sustainable Tourism Industry and Policy in Future

We could observe that the peaceful situation in the country is the major driving force behind high growth in International Tourists Arrivals. In addition to that, the fluctuations between the high and low growth regimes and the time duration of stay in the particular regime of the Business cycle tourism market have in the past been decided mostly by the

national security situation of the country. Therefore, we can expect that the industry will be growing in numbers continuously in the future. However, since the peaceful situation of the country will promote tourism, it is the responsibility of all citizens to keep this situation of peace to protect this volatile industry, and to grow it sustainably in the future.

But, as in every business, the influential factors can change from time to time. In future, many political, economic, social, and other factors such as competition, natural disasters (e.g.: global warming), etc. will impact on the driving forces of the Sri Lankan tourism industry. The cyclical pattern of the tourism market will also change in future. The length of High grown regimes & Low grown regimes and time duration taken to complete the business cycle will also be changed. Therefore, continuous research is essential from this time onward to identify the new challenges and major decisive factors behind the future Business cycle tourism market.

Secondly, the results of the two-volume based empirical tests are important for investors, managers and the employees who are engaging in tourism related activities. Importantly, the fact that there is very low seasonality patterns within a year, promoting local tourism will be enough to neutralize the effect of what remains of this to some extent. On the other hand, a gradual increase in the market share of Asian visitors will also cover the current variations in the market caused by those European visitors who have created an artificial four season based seasonality effect in Sri Lanka's inbound tourism market. All in all, the low or absence of seasonality will support the smooth running of businesses, and enhance investor confidence on travel and hospitality sector investments in future.

Thirdly, government and private sector policy makers should take immediate action to find out new ways and means to increase the real value generated through tourism activities, and make the necessary policy and strategy changes to create more sustainable industry in future. This is because the current background of the country is supportive to growth in the number of arrivals, employment opportunities, and to tourism sector Foreign Direct Investments. But only achieving increases in volumes alone will not strengthen the national

economy. Real value should also be increased along with volumes; if low volumes can create much higher value to the economy, this will be much more efficient and productive.

Further, tourism receipts have not become a major income source that contributes to increases in per-capita income of a Sri Lanka citizen yet. In other words, tourism has not become a major income source or a contributor to the overall national economy. But in future, the industry has a capability to grow in terms of volumes and values, and will become one of the biggest foreign exchange earning activities in the country. Therefore, national tourism policy should be made in a way that the economy can extract real value from growing volumes, and distribute those dividends to every citizen.

On the other hand, the growing number of tourist arrivals may create several social and environmental issues in the future. Therefore, tourism policy makers together with the industry stakeholders and the professionals such as sociologists and environmentalists should make a proper plan to confidently face these challenges while maintaining increasing volumes. In fact, Sri Lanka was late to harvest the benefits from the tourism industry compared to its regional competitors; in future, tourism will shape the economic structure of the country.

5.5. Limitations of the study

The econometric models which have been used in this study are extracted from previous studies related to the tourism. And those are very new and recent studies. In fact the literature was limited; application of those models is clearly described in the content of the chosen research papers. However in future, the application of such statistical models into the tourism sector analysis is encouraged from this research as well.

In fact, there is several studies focused into the tourism policy of Sri Lanka, still there are many areas that have not been researched. Lack of interest due to the stagnation of the tourism market for decades and lack of policy measures to develop the industry could be the

major reasons behind this. But now the industry is rejuvenating and accordingly the changes in the national tourism policy is also demanded by the industry stakeholders. Therefore this circumstance will provide a favorable background and new clues for future researches.

The other limitation was the data unavailability and un-accessibility of data. Most of the data for this study obtained from SLTDA. Some of the data is available from even 1970 but some are only for recent years. This has caused to limit the analysis of measuring the real income from tourism from 1986 onwards in this study. Further, the software that can process the data of new analyses such as MRS is limited and expensive too. The Software package that has been used for this study (Eviews 9 - student version) has only limited functions and a span than the full version.

All in all, the models which have been used in this study can be used in future analyses as well. Therefore the comparison of the results with the past is viable. And the MRS model can be used for forecasting theoretically the number of tourist arrivals and earnings for future and it would provide a different platform for further studies. Therefore this study provides an outset and a backdrop for that.

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