

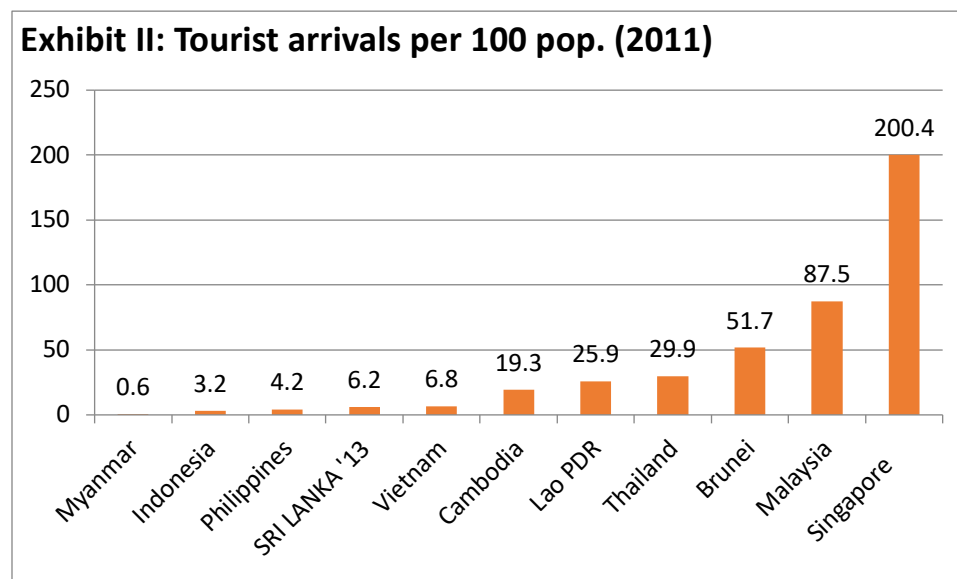
Sri Lanka Tourism: What got us here, won't get us there

DailyMirror – 23rd April 2014

In 2009, Sri Lanka's tourist arrivals were a mere 447 thousand. By 2010 arrivals increased almost 50 percent to 654 thousand. That number is estimated to have almost doubled by 2013 to almost 1.3 million. The current plans are for this number to double again by 2016 to 2.5 million. But what got Sri Lanka here (doubling tourist arrivals from 2010 to 2013) will not get it there (doubling again from 2013 to 2016).

Sri Lanka's tourism: room to boast

The reported growth in Sri Lanka's tourism sector over the past few years has been impressive. Average year-on-year revenue growth is reported as exceeding 40 percent¹ from 2009 onwards, the year the war ended. Looking at arrivals, UNESCAP, a UN body, found that Sri Lanka's 31 percent arrival growth rate between 2010 and 2011 was the world's highest².



¹ CB data

² <http://www.unescap.org/stat/data/syb2013/G.7-Tourism.asp>

This year's Central Bank Annual Report credits "the peaceful environment in the country together with the ongoing strategic investments in the tourism sector, new tourist attractions and mega promotional campaigns" with this success.

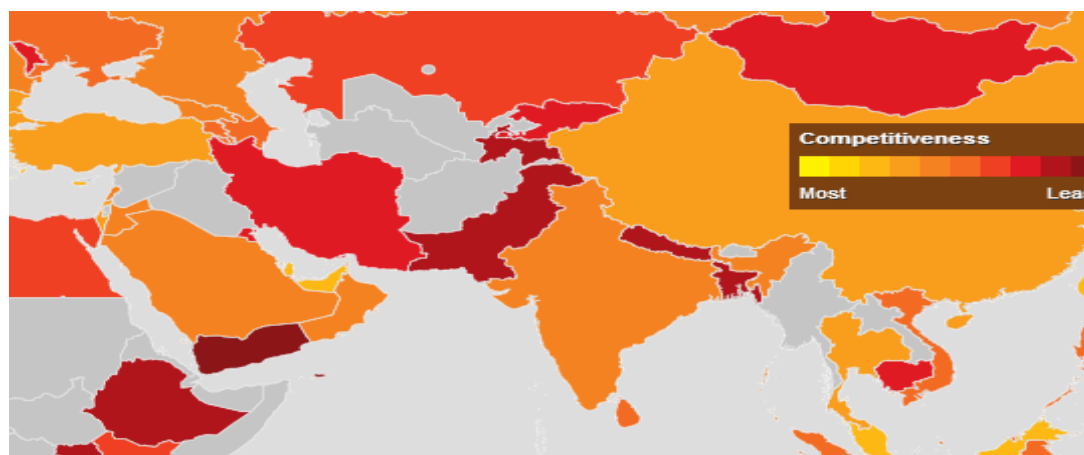
And indeed, the numbers do provide significant room to boast: the current growth rates at 26.7 percent³ is four times greater the 6 percent Asia-Pacific average⁴.

Some strategic analysis can help as well

The World Economic Forum's Travel and Tourism Competitiveness Index is a good place to begin some strategic analysis. This global index assesses the extent to which economies are putting in place the factors and policies that make them attractive to develop the travel and tourism sector. The index ranks the best economy in the first place (rank one) and the worst economy as last (rank 140).

Examining the index, it becomes clear that Sri Lanka's high growth rates in the number of tourists are due to its low base, and the end of the war, not because of significant improvements in its global competitiveness. Since 2009, the year the war ended, Sri Lanka's rank on the index improved by just four places, going from 78th place to 74th. This is not very encouraging as some of Sri Lanka's competitors performed much better. For example, Indonesia increased its rank by 11 places, and Vietnam by nine places. If Sri Lanka is to become as competitive as the regional tourism heavyweights, Thailand and Malaysia, it will have to increase its rank by 30 places.

This analysis is corroborated by looking at tourist arrivals per capita. Sri Lanka started off with less than 2.5 tourist arrivals per 100 people in 2009, and has now increased to 6.2 per 100 people. These figures are among the lowest when compared to the ASEAN region (see Exhibit III).



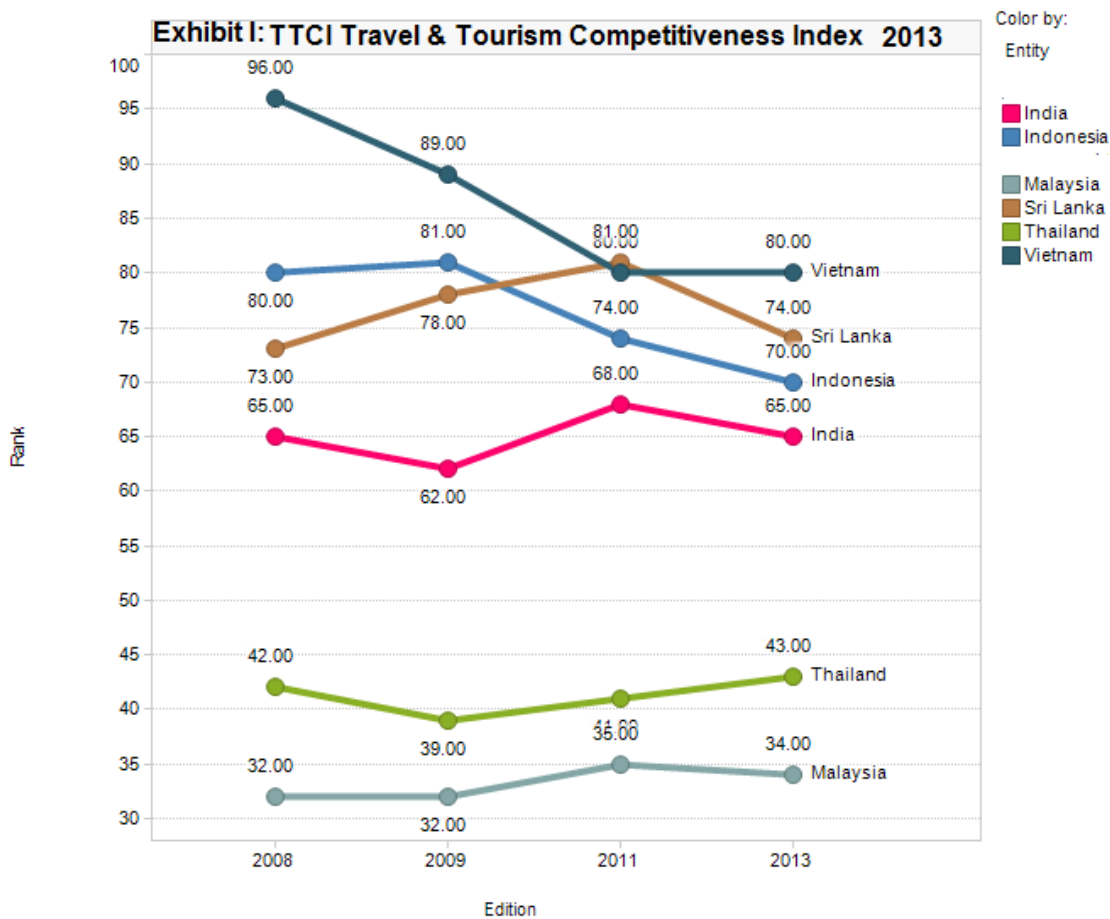
³ CB data

⁴ <http://www.forbes.com/sites/edfuller/2013/12/18/asia-global-tourisms-driving-force/>

What got us here, won't get us there

Sri Lanka has already milked the benefits of ending the war (what the Central Bank calls “peaceful environment”). What the Central Bank calls “strategic investments” (mainly in adding hotels and rooms) and “mega promotional campaigns” suffer from what economist call diminishing marginal returns: the more you do it, the less you gain from continuing to do more of it.

Therefore, what got Sri Lanka here from 2009 is not likely to get it there - achieving 2.5 million arrivals in 2016. Realising this goal will require some new strategies to increase competitiveness. One good starting point is to begin by identifying opportunities highlighted in the Tourism Competitiveness Index.



The index has some clues on where Sri Lanka should focus its attention. Sri Lanka’s four place bump between 2009 and 2013 is explained by an improvement in its regulatory environment sub-rank and human, cultural and natural resources rank. The primary cause for the regulatory environment sub-rank’s significant increase is the over 100 place improvement in Sri Lanka’s business cost of terrorism sub-rank. Having won the war, Sri

Lanka's focus should now turn to (1) the low hanging fruit, areas where its sub-rank is particularly low and (2) the rotting fruit, areas where Sri Lanka's sub-rank is declining.

Exhibit III: Sub-index analysis

SUB-INDEX (RANK)	2013	2011	2009	09-'13
Subindex A: T&T regulatory framework	61	79	86	25
A.01 Policy rules and regulations	62	91	68	6
A.02 Environmental sustainability	119	117	112	-7
A.03 Safety and security	35	91	107	72
A.04 Health and hygiene	83	81	90	7
A.05 Prioritization of Travel & Tourism	31	32	47	16
Subindex B: Business environment and infrastructure	86	83	73	-13
B.06 Air transport infrastructure	88	90	87	-1
B.07 Ground transport infrastructure	29	34	32	3
B.08 Tourism infrastructure	108	104	92	-16
B.09 ICT infrastructure	116	94	90	-26
B.10 Price competitiveness	34	60	28	-6
Subindex C: T&T human, cultural and natural resources	66	68	71	5
C.11 Human resources	78	54	49	-29
C.12 Affinity for Travel & Tourism	51	99	65	14
C.13 Natural resources	42	44	59	17
C.14 Cultural resources	86	82	75	-11

Rotting and low hanging fruit

The analysis indicates that environmental sustainability, tourism infrastructure and ICT infrastructure are the key low hanging and rotting fruit. The primary cause for Sri Lanka's low and declining, environmental sustainability rank is its low environmental regulation, pollution and environmental treaty ranks. In the case of tourism infrastructure the number of hotel rooms, presence of major car rental companies and number of ATMs are the major areas to focus on. Finally, in the case of ICT infrastructure improving broadband access and the number of individuals using the internet will help increase the score considerably.

Rotting and mid-level fruit

Human resources and cultural resources come under this category. Three major factors explaining the decline in human resources are the availability of qualified labour, hiring and firing practices and ease of hiring foreign labour. Cultural resources can be improved by increasing the number of world heritage sites and hosting more international fairs and exhibitions.

The insight is simply this: Sri Lanka has doubled its tourist arrivals since 2010, and credit goes to “ending the war” and “building the rooms”; and emphasis on “promotional campaigns”. But these factors have diminishing marginal returns. If Sri Lanka is to double its tourist arrivals again by 2016, as planned, it will need to adopt some new strategies – a good place to start is with the opportunities identified here by analysing Sri Lanka’s place in the Tourism Competitiveness Index. If the success is to be sustained a strategic shift is required. Now.

(Verité Research is an independent think-tank based in Colombo that provides strategic analysis to high level decision-makers in economics, law, and media. Comments are welcome. Email publications@veriteresearch.org.)