

Sri Lanka's Tourism: Competing with the region

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There is an often repeated story of two people walking in the forest. They see a tiger advancing towards them. As they start running in the opposite direction, one stops to take out and wear a better pair of shoes. “What do you think you are doing,” asks the other. “Do you think you can outrun the tiger?” “No,” replies the first. “I don’t need to outrun the tiger. I just need to outrun you.”

Competitiveness in any industry works on the basis of outrunning others. Especially, when it comes to travel and tourism, Sri Lanka should be more focused on outrunning the region than outrunning the world.

Context of Sri Lanka's tourism performance

This Insight follows on Verité's previous Insight published in April 2014: Sri Lanka Tourism: What got us here, won't get us there. The Insight then was that while Sri Lanka's tourism had a huge increase after the end of the war, the pace of growth could not be sustained without some fundamental improvements to the factors that affected Sri Lanka's competitiveness in the sector.

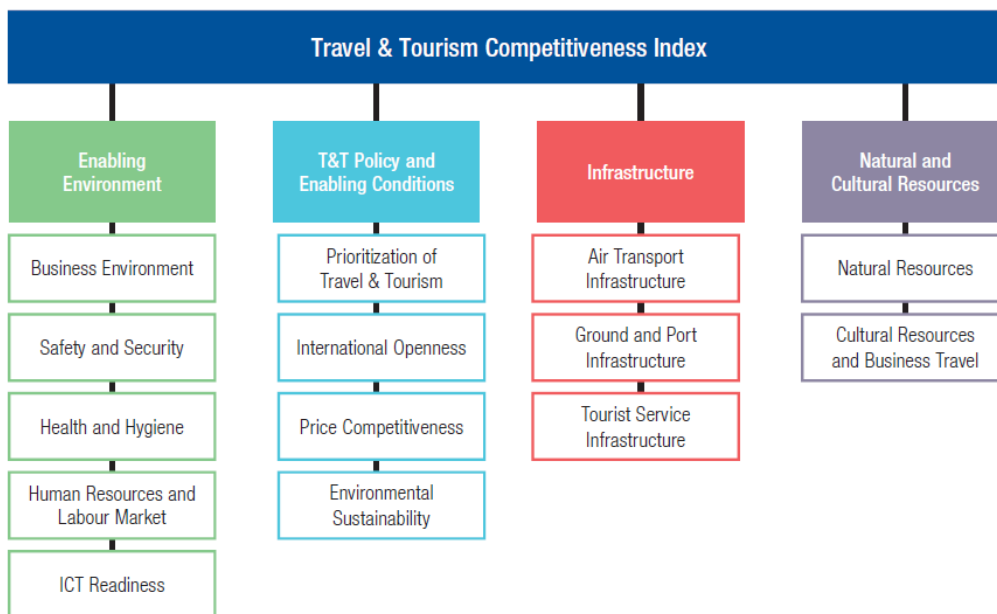
That Insight turns out to have been correct. Sri Lanka's tourist arrivals increased by 50 percent to 654,000 in 2010 and then by 2013 had almost doubled to 1.27 million. That is an annual growth rate of 25 percent since 2010. The government's projections were that it would reach 2.5 million by 2016, which means it was expected to continue growing at the same rate of 25 percent. However, the growth rate slowed to just under 20 percent in 2014 and it will continue to slow unless the weaknesses pointed out in the 2014 Insight are addressed.

Tourism Competitiveness Index

The present Insight looks at a different dimension of the problem of growing tourism in Sri Lanka. It also uses The World Economic Forum's Travel and Tourism Competitiveness Index (TTCI) to derive the analysis. This global index assesses the extent to which economies are putting in place the factors and policies that enable sustainable development of the travel and tourism sector, which in turn contributes to the development and competitiveness of a country. The 2015 index (data is from the previous year) ranks 141 economies.

Published biennially, the TTCI benchmarks the travel and tourism competitiveness of 141 economies. It comprises of four sub-indexes and 14 pillars as seen in Exhibit 1. There are 90 individual indicators, distributed among the different pillars.

Exhibit 1: TRAVEL & TOURISM COMPETITIVENESS INDEX



The good news is that Sri Lanka’s rank improved dramatically in 2014. While Sri Lanka only rose from 78th to 74th place from 2009 to 2013, by 2015 it has risen 11 places to 63rd place. This is more in keeping with competing countries in the region that have seen dramatic increases in their rank in the last five years (see previous Insight).

The bad news is that Sri Lanka looks quite weak in the region. In six of the 14 indicators, Sri Lanka is in the bottom 50 percent and is not in the top 25 percent for any of the indicators (see Exhibit 2).

Exhibit 2: Regional and Global Competitiveness of Sri Lanka (Percentile Rank)

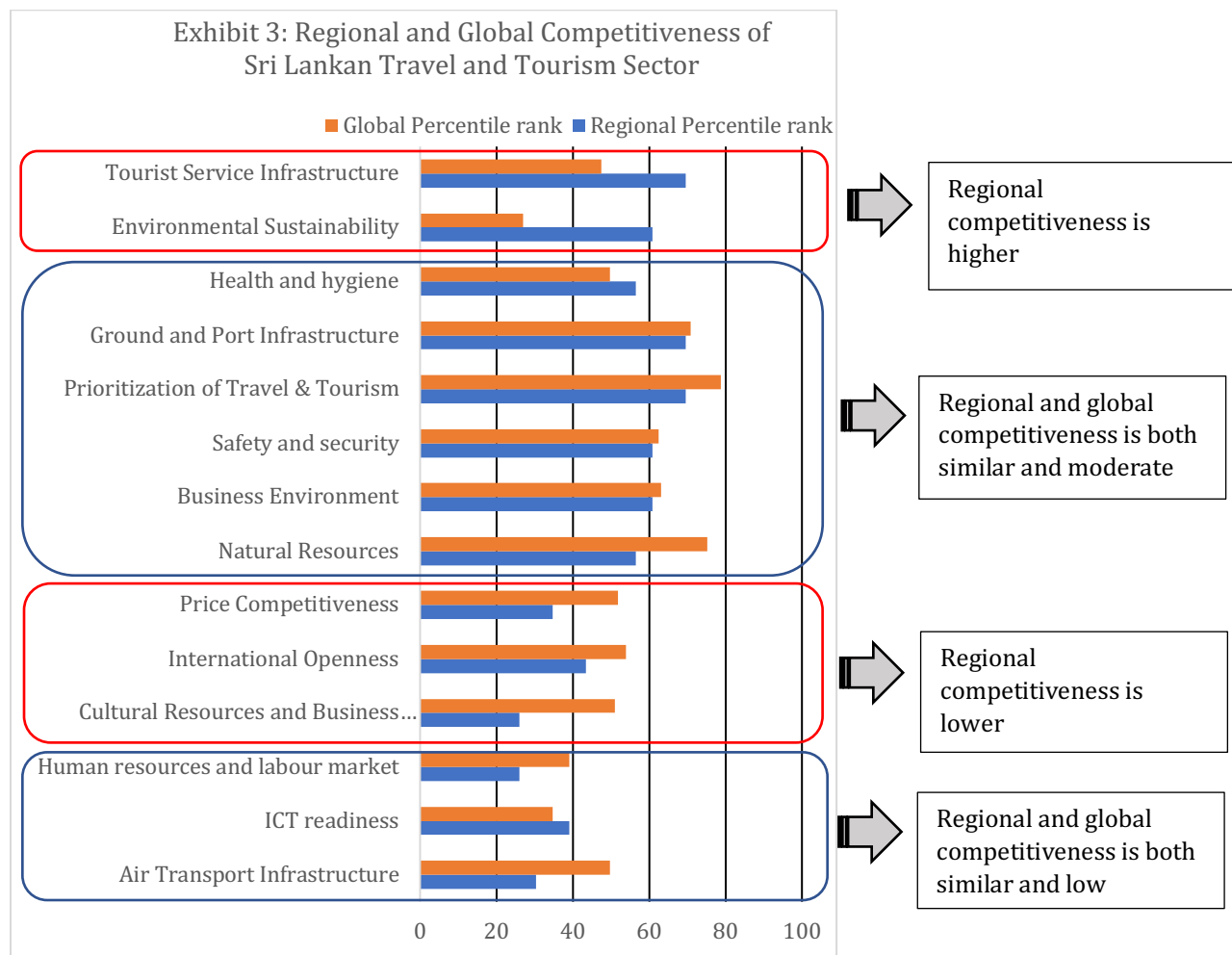
| | Regional Competitiveness | Global Competitiveness |
|-----------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------|
| | Percentile rank out of 23 countries of the Asia Pacific region | Percentile rank out of 141 countries in the world |
| Enabling Environment | | |
| Business Environment | 61 | 63 |
| Safety and Security | 61 | 62 |
| Health and Hygiene | 57 | 50 |
| ICT Readiness | 39 | 35 |
| Human Resources and Labour Market | 26 | 39 |
| T&T Policy and Enabling Conditions | | |
| Prioritization of Travel & Tourism | 70 | 79 |
| Environmental Sustainability | 61 | 27 |
| International Openness | 43 | 54 |
| Price Competitiveness | 35 | 52 |
| Infrastructure | | |
| Ground and Port Infrastructure | 70 | 71 |
| Tourist Service Infrastructure | 70 | 48 |
| Air Transport Infrastructure | 30 | 50 |
| Natural and Cultural Resources | | |
| Natural Resources | 57 | 75 |
| Cultural Resources and Business Travel | 26 | 51 |

Two-step decision-making and substitution

Tourism decisions are likely to take a two-step approach: first, a decision on the region and then, a decision on the destinations within the region. Once a decision is made on the region, a tourist can easily substitute one destination for another and countries in the region might be better able to substitute for Sri Lanka's cultural and geographic attractions than countries from other parts of the world. Therefore, differentiations and competitiveness in the region become doubly important. Exhibit 2 enables identification of Sri Lanka's weakest points in relation to the region.

Exhibit 3 helps to understand the challenge of regional competitiveness over global competitiveness. There are only two areas in which Sri Lanka has a higher regional than global competitiveness. These are ‘Tourism Service Infrastructure’ and ‘Environmental Sustainability’. There are three areas in which Sri Lanka’s regional competitiveness is lower than the global: ‘Business and Cultural Resources’, ‘Price Competitiveness’ and ‘International Openness’.

The 2014 Insight on tourism identified the ‘low-hanging fruit’ and the areas that Sri Lanka should attempt to fix to make the fastest progress along improving its rank on the Travel and Tourism Competitiveness Index. This Insight has surfaced the importance of regional competitiveness and identified the areas that Sri Lanka should focus on to grow the tourist industry by improving its attractiveness in the region.



Source: Verité Research Calculations using TTI data published by the World Economic Forum



(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.)