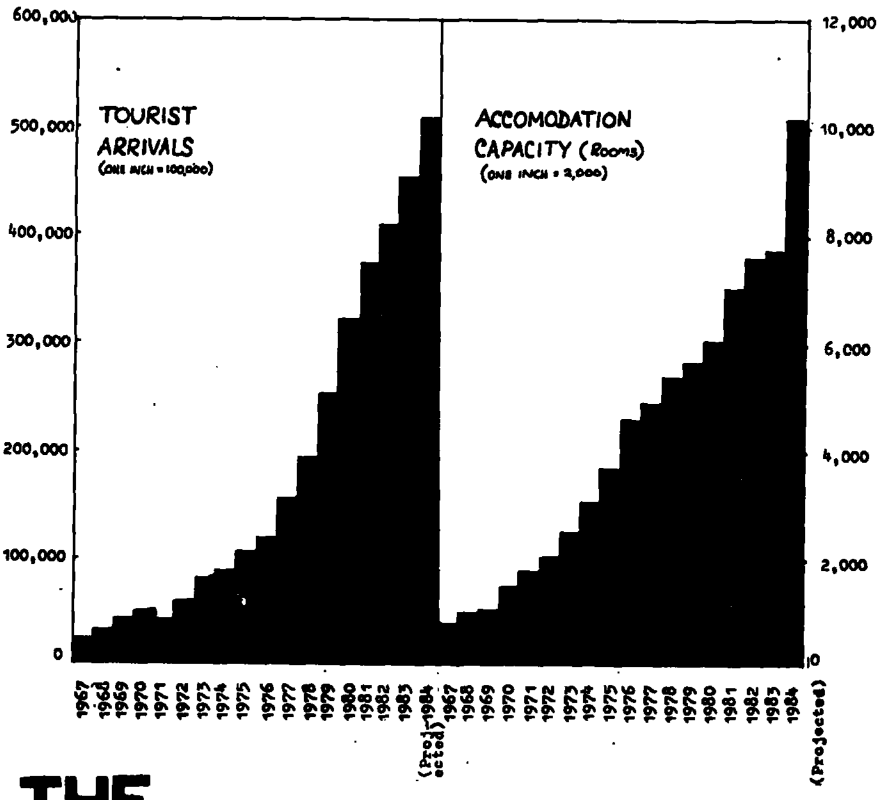


THE TOURIST INDUSTRY

Sri Lanka's tourist industry is in need of rehabilitation. The Ministry of State, responsible for the country's tourism sector, put up proposals recently for an intensive promotion campaign for the industry in Western Europe and the Government approved the release of a sum of US $ 1.5 million for the purpose. Meanwhile, representatives of the hotel and travel trade, together with the Tourist Board were preparing their own proposals seeking relief from Government taxes, levies and other dues, with the hope of attracting more tourists to Sri Lanka, remaining competitive internationally and staying on in business. The current crisis for tourism in the country was summed up bleakly in a Ministry of State memorandum to the Government which stated:

"Tourist arrivals had dropped by over 70 percent (in August) and the employment – both direct and indirect – of approximately 50,000 workers in the formal and informal sectors had been affected. All hotels, except those in Colombo were experiencing occupancies below 10 percent. Foreign exchange earnings estimated to average Rs 275 million per month, had fallen by 75 percent. Government revenue from direct and indirect taxes, computed to be about 10 percent of the gross earnings are also likely to fall in the same proportion."

The crisis facing the tourist industry in Sri Lanka has to be viewed not merely in the context of ethnic disturbances that overtook the country but within the peculiarities and underlying trends of the tourist industry itself.

The underlying trends recently, both worldwide and in Sri Lanka, have shown a structural tendency towards the levelling off of tourist arrivals from the more lucrative West European markets. This was partly due to the recession in the West (the year 1982 itself had seen a worldwide contraction in tourism of between 3 and 4 percent in terms of occupancy rates), and also partly due to a possible saturation of the Sri Lankan market. The 60's and 70's witnessed a spectacular growth rate of the global tourist industry. What was once a luxury reserved for the privileged became part of the life style of the average person in the Western world. Faster and cheaper international transport, together with rising incomes in these countries, brought semi luxury hotel accomodation of the less developed countries well within the reach of the average Westerner. The developing countries share of tourism which ranged from 10–20 percent of the world's total rose dramatically in the 70's with the Asia Pacific region experiencing the fastest increases. Between 1970 and 1980 visitors to this region increased four-fold, from just over 5 million to around 20 million. In East Asia alone it exceeded 11 million by 1980. (See table 1).

Table 1

Nine Major destinations of visitors to East Asia in 1980*

	Country	No. of Visitors
1.	Hong Kong	1,903,901
2.	Indonesia	465,003
3.	Japan	1,054,209
4.	Korea	784,830
5.	Malaysia (mainland)	1,285,627
6.	Philippines	829,448
7.	Singapore	2,074,867
8.	Taiwan	1,308,155
9.	Thailand	1,416,372
Total		11,122,412

* Taken from top six sources of each country.

Source: *Asia Travel Trade,April 1982*

In these years tourist arrivals in South and South East Asia went up at an average rate of about 20 percent, upto 1980. From 1981, however, there was a significant change in this trend and Sri Lanka particularly has felt the impact. The growth of tourist arrivals in Sri Lanka had dropped from 28 percent to 15 percent in that year. In 1982 there was a still further drop with an increase of only 10 percent (See table 2); and in 1983 growth rates were expected to drop still further, through a different set of circumstances.

Although overall traffic continued to grow, many major tourist generating markets were not able to sustain the expansion of the previous years. This resulted in a change in the composition of tourist arrivals in Sri Lanka.

Table 2 **Tourist Arrivals–Growth Trends**

Year	Index *	% Increase over previous year
1967	127	–
1968	149	+ 20.16
1969	211	+ 40.16
1970	243	+ 15.17
1971	209	+ 13.99
1972	295	+ 41.15
1973	410	+ 38.98
1974	447	+ 9.02
1975	543	+ 21.48
1976	626	+ 15.29
1977	808	+ 29.07
1978	1,013	+ 25.37
1979	1,316	+ 29.91
1980	1,692	+ 28.57
1981	1,947	+ 15.07
1982	2,160	+ 11.0
1983	2,368	+ 9.60

* Average 1963–1967 is taken as 100
** Provisional

Source: *Ceylon Tourist Board.*

Significant changes in the pattern of arrivals took place during 1982, the most notable being the substantial increase in arrivals from India which more than doubled over last year. In 1981 the proportion of Indian arrivals in Sri Lanka was only 13 percent but this rose to almost 25 percent in 1982. The reason for this sudden upsurge was the attractions offered at the Duty Free shopping complex in Colombo.

Another noteworthy feature in the trend of tourist arrivals in Sri Lanka in 1982 was the drop in Western European traffic. Amid the uncertainity of the current global economic environment many countries in Europe, including the leading market (West Germany) recorded decreases in traffic. The only market which consistently recorded a high growth rate was Australia; while from the North American region, USA recorded a moderate increase.

The total foreign exchange earnings from tourism in 1982 was estimated at Rs 3,100 million; but this was an increase of 21.8 percent over the figure of Rs 2,546 million recorded in 1981 compared with the increase in tourism earnings in 1981 which was as high as 39.1 percent. Thus tourism earnings too have decreased along with the slower expansion of tourist traffic.

There have been warnings from time to time concerning the uncontrolled increase in accommodation capacity in the hotel sector. The cautionary note in the *Economic Review* of February 1982 against this trend is worthy of repetition in this context. Between 1967 and 1980 the hotel industry in Sri Lanka has shown a remarkable rate of growth. This is unique in the sense that no sector of the economy had in recent times exhibited such growth. While tax incentives had obviously attracted investors to the tourist hotel industry, this alone cannot account for the growth, because the industrial sector, which also had equally attractive tax incentives did not attract as much investors or exhibit a growth comparable to the tourist hotel industry. Obviously there were other factors and among them the more important appear to be:

- Technical knowledge required for the tourist hotel industry is less demanding than for the industrial sector. This may have made many investors prefer the tourist hotel industry to the industrial sector.

- Sri Lanka entreprenurial experience and expertise is largely in trade activities; and such entreprenuers were more comfortable in the tourist hotel industry,

Table 3 **Computation of Tourist Nights Spent at Graded Accommodation as a Percentage of Total Tourist Nights in Sri Lanka**

(1) Year	(2) Accommodation Capacity (graded) rooms	(3) Annual Room Occupancy rate (graded) %	(4) Number of Tourist Nights spent at graded accommodation ('000)	(5) Total Number of Tourists Nights ('000)	(6) Percentage of Tourists who stayed at graded accommodation %
1967	770	35.0	167	262	62.40
1968	903	40.7	228	296	77.04
1969	989	44.3	273	406	67.26
1970	1,408	42.8	370	489	76.47
1971	1,767	31.1	340	395	86.33
1972	1,891	38.8	455	614	74.15
1973	2,468	42.4	649	804	81.88
1974	2,905	39.7	715	874	81.88
1975	3,632	36.8	829	1,015	81.71
1976	4,581	37.7	1,726	1,194	89.75
1977	4,851	42.0	1,264	1,645	76.91
1978	5,347	47.7	1,583	2,061	76.79
1979	5,599	52.8	1,834	2,777	66.06
1980	6,042	57.8	2,160	3,548	61.20
1981	6,891	54.5	2,330	3,907	59.64
1982	7,539	47.8	2,236	4,048	55.24

Notes:

1. Ceylon Tourist Board data for Columns 2,3 & 5
2. Column 4 has been arrived at as follows:
   Accommodation capacity (Col. 2) x 365 x Bed Nights realised ratio (1.7) x Occupancy rate (Col. 3)
3. Column 6 is Column 4 as a percentage of Column 5.

Table 4 Sri Lanka's Hotel Accommodation by Resort Regions 1979–1984

Region	1979	1980	1981	1982	As at 31st March '83	1984 Est.
	No. of Rooms as at 31st December					
Colombo City	1,332	1,418	1,486	1,294	1,293	3,790
Greater Colombo	1,046	1,100	1,219	1,314	1,326	1,390
South Coast	1,534	1,556	2,138	2,443	2,540	3,090
East Coast	367	424	430	464	464	1,149
Hill Country	263	223	260	259	268	293
Historic Cities	1,000	1,082	1,439	1,678	1,694	1,764
Northern Region	57	57	89	87	87	103
Total	5,599	5,870	7,061	7,539	7,672	11,582
Occupancy Rate % (Entire Year)	52.8	57.8	54.3	49.0*		
Official Receipts (Rs.Mn)	1,188.5	1,600	2,546	3,100*		

* Provisional

Source: *Ceylon Tourist Board* and *PERFORMANCE, Ministry of Plan Implementation*

whose business character was closer to their trading activity, than the industrial sector.

Persons in the construction industry, using their construction experience, were able to build hotels at lower cost and and with less construction management problems. This factor attracted many from the construction industry to the tourist hotel industry, may be initially as construction people and possibly later as partners or shareholders in these ventures.

Consequent to land reform acquisitions of the early 1970s, many with managerial experience in plantation management shifted to the tourist hotel industry, using their managerial experience and expertise with a combination of private, public and loan capital. The number of agency houses, which earlier managed plantations, that entered the tourist industry is illustrative of this factor at work.

The nature and character of the staffing and workers of the tourist hotel industry has not led to trade unionization on any significant scale. This may have also been a factor inducing capital to the tourist hotel industry, relative to the industrial sector.

This remarkable growth of the tourist hotel industry while being commented upon by many, was also the subject of concern. As early as 1977 opinion was expressed that if the growth rate of the hotel industry continued at the same rate it could lead to excessive room accommodation capacity, and if such a situation led the occupancy rate of hotels to fall below the break-even point it could have dire consequences for the industry. The Philippines experience of the mid seventies, when hotel construction boomaranged into excess capacities; inability to pay interest on loans the need for rescheduling of loans and repayment periods etc., was relevant in this context of the concern expressed over the expansion of the hotel industry in Sri Lanka.

The prediction of hotel room capacity exceeding demand, however, had upto 1980 not proved correct. The fears expressed were perhaps a little exaggerated; but a crucial factor that helped to prevent a drop in occupancy rates, was that the rate of growth of tourist arrivals was sustained over the period. It is apparent that this sustained rate of growth of tourist arrivals from 1977 onwards had led to the utilization of the increasing hotel accommodation at productive levels. That this had occurred should not cause complancancy about the future. Global tourism has its phases; trends; fluctuations and perhaps even saturation points both from the point of view of the "market economy" countries from whence tourists arrive as well as the host countries.

Despite this situation 33 more hotel projects capable of providing 4,145 beds were granted approval within the first three months in 1983. Investment on these projects would amount to Rs 4,372 million approximately. The distribution of the new rooms according to resort regions are as follows: Colombo 2,500; South Coast Resort Region 750; East Coast Resort Region 685; Hill Country 25; Ancient Cities 100; and Others 85. The tax concessions given to investors in hotel projects were withdrawn with effect from 31st March 1983, and the above projects were approved prior to the withdrawal. With these additional accommodation facilities, total room capacity is expected to reach 11,582 by the end of 1984. (See table 4).

A look at the room position, particularly planned capacity, can be alarming in the present situation. As table 5 below indicates as at March 31, 1983 there were a total of 7,668 rooms in operation or available, whereas a further 12,765 more rooms were due to be built of which nearly 4,000 were already under construction.

Table 5 Summary of Room Position as at 31st March 1983

	Region	In Operation	Under Construction	Approved not off the ground
1.	Colombo City	1,501	2,059	2,127
2.	Colombo Resort Region	1,233	478	1,697
3.	South Coast Resort Region	2,540	993	2,600
4.	East Coast Resort Region	444	128	1,919
5.	Kandy Only	660	211	216
6.	Ancient Cities	943	–	200
7.	Hill Country	260	50	88
8.	Other Resort Regions	87	–	–

Source: *Ceylon Tourist Board*

If all these rooms under construction and approved for construction were to materialise Sri Lanka could have as many as 20,433 on the March 31 position alone. The situation, as seen by the Ceylon Tourist Board, is that about 11,582 rooms will be available in 1984, a jump of nearly 4,000 from the 7,672 rooms in March 1983. See table 4.

Of interest in this contect is the comment, from outside-of the usually well informed monthly *Asia Travel Trade* — which warns in a leading feature in its August 1983 issue, titled **Colombo Hotels Heading for Over Capacity** as follows: "Chronic over capacity threatens Colombo if all the hotels planned over the next two years actually open. If only the likely ones open, over capacity in the Sri Lanka capital will be no more than serious.

Progress is particularly slow on three projects: Sheraton, Hilton and what was to be the Orchard.

No work has taken place on the Sheraton (in which the Walkers Tours group is to have a share) and on the Hilton (which was first announced four years ago). Neither is it likely to open before 1986 at the earliest.

As for the Orchard, Singapore-based Orchard International Hotels was saying last year that 200 rooms of its 404—room hotel would open this October. Though Orchard's management contract has apparently been annulled the hotel may eventually open as the Trans-Asia, though the January 1984 target looks impossible.

Only the Taj Samudra and the Galadari Meridien are resonably certain of starting operations before next April — a key date because PATA's annual conference will be held that month in Colombo.

An important reason for this recent upsurge in the expansion of the room capacity is the greater attraction of foreign capital into Sri Lanka's tourist sector. This sector earlier adhered to the policy of keeping the foreign component in hotel projects up to 49 percent; but this has been relaxed in recent times. The tourist sector it may be observed has also generally attracted considerable foreign investment (See table 6) An analysis of the envisaged investments in the approved projects by end of 1982 shows that 45 percent of the foreign investment approved between 1978 and 1982 was in the tourist sector. Every year 40—50 percent of the approved investments came into the tourist sector and this rose to almost 64 percent in 1982. Although there is a considerable gap between the approvals and the actual implementation and realisation of projects these figures indicate the dominance of the tourist sector as an attraction for foreign investments. This is a factor that should have a considerable impact on the room position of the local hotels.

The decrease in the rate of tourist arrivals coupled with the increased availability of tourist accommodation is reflected in the drop in room occupancy rates. The overall room occupancy rate in graded establishments which was 42.0 percent in 1977, kept going up to 47.7 percent in 1978, to 52.8 percent in 1979, and reached a peak of 57.8 percent in 1980; but declined to 54.5 percent in 1981 and dropped further to 47.8 percent in 1982. The figures available so far before the events of July for 1983 show a further drop roughly 8% compared to 1982 (See table 7).

The fall of the room occupancy rates of graded establishments is attributed to certain basic factors, one of which is the sharply rising prices for the tourists in these hotels. An index of tourist prices, maintained by the Ceylon Tourist Board, shows that the steepest increase in prices has been in the City and Beach resorts and it is in hotels in these locations (Colombo City, Greater Colombo and South Coast) that the sharpest decline in occupancy rates has been recorded. In the City, for instance, the accommodation index number of tourist prices (base prices

Rising Costs in Graded Hotels and Drift to the Informal Tourist Sector

It is not adequate to match tourist arrivals with accommodation and attempt to explain any variation or changing trends in terms of either of the two variables. There is a crucial third factor that has been generally ignored, namely the number of tourists who opt to stay in the graded hotels, where accommodation capacities only are taken into account and reflected in the Ceylon Tourist Board statistics. It is here that an increasingly significant trend can be observed since 1977. There appears to be a downward trend since 1977 in the percentage of tourists who stay in graded hotels. Obviously the rising costs of accommodation charges in graded hotels has contributed to this. This rising rate of hotel charges is no doubt linked to the general inflation in the country, but it is perhaps aggravated by rising construction costs and other overheads. It is estimated that during the last decade construction costs have increased nearly tenfold. The increased BTT charges on graded hotels may have also had some impact. It is also possible that in the increasing number of tourist arrivals there is a larger number of tourists who are of a type that do not seek graded accommodation. While the cheaper rates of the ungraded hotels may have been attractive to this type of tourist, they may also be attracted to such accommodation by its informal character, simplicity of decor, closeness to urban or middle class life style of Sri Lankans etc.

According to official computations, the total foreign exchange earnings from tourism in 1982 was estimated at Rs 3,100 million, comprising the income earned by tour operators, hoteliers, restaurants, shop keepers, transport operators, and from recreational and other facilities. Furthermore, according to estimates of the Ceylon Tourist Board's Research Department, about Rs 800 million was also earned by the informal sector of which there are about 3000 estsblishments providing accommodation, food, transport, shopping and recreational facilities to tourists. The earnings received by the local population from the formal tourist sector is estimated at 20 to 30 percent of total earnings, while in the informal sector it is placed as high as 90 percent particularly in areas such as Hikkaduwa, Negombo, Kalkudah and Arugam Bay where informal tourism activities are concentrated.

All this suggests the need for a prudent monitoring of the hotel expansion programme. For if the downward trend of occupancy in graded hotels continues and the occupancy rates drop below the occupancy break-even point of individual hotels it can be problematic. This is particularly so for the recently constructed hotels with high capital costs in hotel construction with consequent high fixed costs (by way of depreciation) to variable costs ratio. It has been established that hotels with such high fixed costs to variable costs ratio have a high occupancy break-even point which in the context of downward occupancy rates would be the first to cross the red line. They would also have to compete with older hotels, which with capital costs accounted on a historical cost basis could offer very competitive accommodation rates. (A five star hotel room which cost between Rs 1 lakh and Rs 1.5 lakhs to construct a few years ago today costs closer to Rs 1.5 million). In this context the 1981 83 trends acquire greater significance.

Table 6

Foreign Investment Advisory Committee (FIAC) Projects approved and in operation sector wise classification approvals 1979–82, operational December 31, 1982

Sector	No. of Projects Approved 1979–1982 1979	1980	1981	1982	No. of Projects in operation as at 31.12.82 No. of projects	Committed Investments (Rs.Mn) Foreign	Local	Total	Employment Actual
1. Agriculture, Animal Husbandry and Fishing	05	13	09	08	10	6.6	15.1	21.7	214
2. Manufacturing Industries	61	55	51	45	99	430.7	787.5	1,218.2	15,820
3. Civil Engineering construction and property development	26	17	17	09	25	69.2	216.8	286.0	1,510
4. Tourist hotels and Recreational facilities	15	26	53	23	33	45.5	258.9	304.4	1,597
5. Specialised services	06	26	21	17	36	60.4	208.2	268.6	741
Total No. of Projects	113	137	151	102	203	685.0	1,521.2	2,206.2	20,107
Total Investments Envisaged (Rs.Mn)	2,197	3,630	6,836	3,037					
Investment Envisaged in Tourist Sector (Rs.Mn)	924	1,450	3,214	1,915					

Source: *Public Investment 1983–1987; National Planning Division Ministry of Finance & Planning, May 1983*

Table 7

Occupancy Rates – Graded Establishments (Hotels)
(All Regions)

Month	1982	1983	Change(%)
January	66.8	63.3	– 5.24
February	71.4	65.1	– 8.82
March	62.0	58.3	– 5.97
April	45.7	41.6	– 8.97
May	31.9	29.8	– 6.58
June	27.6	24.7	– 10.51

Source: *Ceylon Tourist Board, Monthly Bulletin on the Performance of the Tourism Sector.*

1974/75 - 100) had moved up from 262 in 1978/79 to 741 by 1982/83, nearly three times as much over these four years. (See table 8); while hotels in the 'beach' resorts had also recorded steady price increases, with the index number here almost 600 by 1982/83. The overall food prices index had also gained nearly 300 points over the last four years, moving up from 199 in 1978/79 to 487 by 1982/83

The price situation, according to complaints received by tour operators, is so fluid that the tourist who expects a certain range in his expenditure when planning a holiday through the brochures, finds quite a different situation on arrival. The result is that it often becomes difficult for the tour operator and promoter to present an authentic picture in the tourist literature when the package is sold.

It is in the background of this declining market situation that the ethnic disturbances of July/August need to be viewed. There is no doubt that these events have caused a significant impact on Sri Lanka's tourism sector, and that the falling hotel occupancy position was further aggravated since then. A breakdown of the occupancy-rates in the Colombo hotels would reveal this trend. By late September some hotels were having only 5 percent of their rooms occupied. The figure in August 1983, as indicated in table 9 below, show that the average occupancy rates in six of Colombo's leading hotels during this month had fallen from 64.5 percent in 1982 to 29.7 percent for the same month this year. Occupancy rates in the graded hotels of all regions experienced this fall. The tourist arrivals figures for January–August 1982 and 1983, seen in table 10, further confirm this situation.

Table 8 **Index Numbers of Tourist Prices (1974/75)**

SEASON	CITY	BEACHES	CIRCUITS	ALL AREAS	FOOD	TRANSPORT	ALL TIMES
1975/76	114	119	125	118	133	131	126
1976/77	154	140	143	146	152	146	148
1977/78	168	159	149	160	167	151	159
1978/79	262	254	188	243	199	198	219
1979/80	420	336	246	346	248	206	281
1980/81	555	453	367	462	354	233	369
1981/82	701	532	463	558	409	241	429
1982/83	741	595	526	578	487	262	464
AVERAGE ANNUAL INCREASE %	25	22	20	22	19	11	19

Source: *Ceylon Tourist Board*

Apart from Western tourists, arrivals from India have also shown a steep drop. Duty Free Shopping had already suffered a significant blow with the decision of the Indian government to cut the duty free allowance of its nationals coming to Sri Lanka as tourists from June 1983. This has resulted in a drop in both duty free shoppers (see tables 11 and 12) as well as in arrivals from India. The ethnic disturbances in Sri Lanka followed soon after. It is in India that there was the most extensive coverage of the events of July/August in Sri Lanka; a coverage that was almost uniformly negative to the Sri Lankan image. The consequence has been a dramatic collapse of arrivals from India. The Duty Free Shop traffic figures also reflect these trends, showing a drop of customers between July and September. Indian tourists and duty free shoppers largely patronized the smaller city hotels and guest houses and only this sector could have felt the drop in Indian tourist arrivals.

From the long term point of view too, there are reports of cancellations for the 1983/1984 season. Clearly the effects of July/August are going to be seen at least over the next 'high' season. An important question to be then raised is — what should be the remedial measures ?

Tourist Arrivals

The most recent figures for October 1983 however indicate that the industry is recovering although the figures are still far below the 1982 figures. To quote the Tourist Board Bulletin.

Table 9 **Occupancy Rates at Leading Hotels in Colombo 1982/83 (August)**

Hotel	1982	1983	Change
A	74.1	30.1	– 59.4
B	75.0	55.0	– 26.7
C	71.0	20.8	– 70.7
D	79.6	22.0	– 72.4
E	31.0	10.5	– 66.2
F	56.0	40.0	– 28.6

Source: *Ceylon Tourist Board*

Table 10 **Monthly Tourist Arrivals – 1982/83 (Jan-Aug.)**

Month	1982	1983	Change 1983 over 1982	
			Total	Percentage
January	40,932	49,104	8,172	20.0
February	40,148	44,018	3,870	9.6
March	42,178	44,710	2.632	6.0
April	29,606	32,556	2,950	10,0
May	28,972	32,860	3,888	13.4
June	25,772	24,344	–1,428	– 5.5
July	30,942	25,114	–5,828	– 8.8
August	34,332	8,430	-25,902	-75.4

Source: Ceylon Tourist Board, Monthly Bulletin on the Performance of the Tourism

"In comparison with September, the month of October registered an increase of arrivals by 6,320. The respective arrivals for October and September were 16,306 and 9,986.

The corresponding arrivals figure for October 1982 was 30,296 and registered a drop of 46.2 per cent in terms of the inter year/monthly comparison. However, the arrival situation since the July disturbances has been progressively improving with lower percentage drops for each month e.g. August 75.4 per cent, September 66.4 per cent and October 46.2 per cent.

In the context of the trends that have emerged over the last two years a necessary factor to understand, in the future planning of tourism, is the changing nature of the market. This is a sociological factor that needs to be investigated, for instance, in understanding the move away from the established forms of tourist accommodation. Particularly in the tourist traffic from Europe, there seems to be a large section of tourists who feel the atmosphere of the expensive tourist resorts unattractive, since the environment itself puts one into the image of the 'tourist' in the classical sense. The image of an affluent white living under the imitated European environment of a hotel, served by the natives and looked upon by the local inhabitants as a 'money bag' on the move, is not attractive to sensitive Europeans travelling on a holiday. Expanding knowledge about the Third World and greater awareness of conditions in these countries has created a diversity of needs among the European tourists. (See Box). There are many among these tourists

"Formal and Informal" Sectors

There seems to be a clear demarcation of the tourist industry into two sectors viz. "approved" or a formal sector and the informal sector. The formal sector has benefitted most from governmental encouragement of the tourist industry including tax holidays and other fiscal and monetary incentives. Doubts have been raised recently about investments in the formal sector. To quote from the Annual Report from the National Development Bank a sister state lending institution — "over-investment . . . seems to be happening in tourism as investments in hotels snowball through re-investment of profits in new hotels . . . . the rate of expansion in room capacity may be accelerated much faster than the rate of increase in demand for hotel rooms . . . . by the monopoly powers in marketing of the few international companies operating across national boundaries in Western Europe, on the basis of a well organised system of information gathering".

The informal sector on the other-hand has hardly had any encouragement from the organised state incentive system, yet it has continued to grow and in certain areas its growth rate is much faster than the formal system. In 1979 estimates based on Tourist Board data indicates that roughly 40 percent of tourist arrivals stay at these informal sector accommodations. With the introduction in recent years of higher hotel rates, this share would have increased much further.

The boom in the hotel construction industry since the late 70's also coincided with a period of high inflation in the construction industry as well as high interest rates in the country. Consequently many of the new hotel rooms now coming up seem to be highly priced and the tendency for switching over of tourists to lower priced accommodation in the informal sector will be emphasised. The recession in the West has also helped this tendency. There is also a tendency in the international travel trade to lobby for excess room capacity because of obvious advantages to them, irrespective sometimes of actual capacity usage.

During the period 1976 to 1980 the percentage of tourists who stayed in the formal or approved category of hotels has dropped from 89 percent to 61 percent (See Table 2) and possibly since 1980 has dropped even further.

On the question of multiplier or spill over effect it appears that the formal tourist hotel sector has not lent itself significantly to a multiplier effect. For example, studies on the impact of rural markets at Bentota had revealed that there is hardly any positive impact on even the rural markets in the immediate perphery of the tourist resort areas other than in sea food.

The informal sector appears to have caused greater multiplier effects in the immediate periphery. Economic activities in this sector have quickly percolated down to all income groups of the population in region. Thus one on-going study indicates that in Hikkaduwa alone there are 90 small hotels, 150 small scale restaurants, 250 shops and boutiques and 68 accommodation houses. Most of these economic activities have been without the benefit of official encouragement. Clearly the economic and employment benefits of tourism seems to have spread wider in Hikkaduwa than in Bentota, a resort primarily for the formal sector.

Inspite of some examples to the contrary, the informal sector seems to bring about a greater social and cultural contact between the tourist and Sri Lankan without the "buttler-waiter" relationships and attitudes in the large scale tourism which had been commented upon adversely by several writers in the 70's. Some tourists who come here on a regular basis acquire a rudimentary knowledge of Sinhala and Tamil.

Hikkaduwa has a concentration of the informal tourist hotel industry and allied trades and also attracts the type of tourist who has a less heirarchical interaction with the indigenous population. Hikkaduwa it appears has been singled out in a campaign, as a centre of the type of tourism that should be eradicated. Whilst recognising some of the negative features of developments at Hikkaduwa, it appears that the current debate is partly inspired by an implicit conflict of interest between the large sector hotels and the unorganised sector.

The informal sector is pictured in the popular press as the breeding ground of vices associated with tourism. Complaints of drug taking and semi nudity are the oft mentioned symptoms. Studies have found that semi-nudity is also present in the formal sector. Many hotels in the formal sector illegally maintain "private" beaches which operate a strict form of apartheid, with security guards keeping out local villagers. Nudity and semi nudity is practised in these illegal zones.

who would like to know more about the country they visit, the way people live, their problems and their customs. To them the atmosphere of the normal tourist establishments that are geared to only the four S's (Sea, Sand, Sun and Sex) of the package are clearly unattractive. As usually believed this changing nature of tourists needs is not simply a youth phenomenon. It should be remembered that the middle aged Europeans of the eighties are the youth who witnessed profound changes in their societies in the sixties. Their values will be different from the outlook the 'white sahib' of an earlier era had of the developing countries. But thinking in the local tourist industry yet seems to be more influenced by this image, rather than being sensitive to the changing nature and needs of today's tourists.

This sensitivity will question a tourist promotion strategy that has only numbers in view. The target of 500,000 by the year 1986 has become a regular slogan in tourist promotional activity. But this preoccupation with numbers can become a big drawback for a future-oriented tourist policy. There are many examples of tourist resorts where a mere increase in numbers has destroyed their attraction. In contrast to this is the more selective policy where the demands of a specific tourist segment are carefully considered and the industry organised to meet these needs.

The response of the tourist planners to the presence of so significant a proportion of 'cheap tourists' has been the attempt to aim at the higher spending tourist in Western Europe and to a lesser extent in North America and Japan. (See table 13) The recently launched publicity campaigns in popular American journals such as 'Newsweek' and 'Time' is a reflection of this strategy. Apart from the monetary benefits this diversification is also supported by the widely propagated view that the 'cheap' tourist alone brings in social and cultural problems. Doubts have been raised over this assumption and the attempt to relate the so called 'hippie' type tourist with social and cultural problems.

It appears that the informal sector seems to have proved itself economically on certain accounts more than the formal sector. It is possible that informal sector tourism conducted under the auspices of the Tourist Board, with a certain measure of "control" (that is effective "control" of both the formal and informal sector) would lead to a maximising of the benefits the state had identified for tourism.

The occupational categories or types of visitor among the tourists to Sri Lanka is of interest in this regard. As seen in table 14, the number of businessmen and professionals visiting Sri Lanka has been on the increase in recent years and by 1982 over 21 percent of the visitors to Sri Lanka belonged to these two categories. Meanwhile, those in the category of "No Occupation" had reached a peak of 33.8 percent in 1973 and then gradually declined to 22.4 percent by 1982. There was an unusual increase in 1982 in those not categorised into any specific occupation and in the 'Other Occupations' category.

Foreign Exchange Earnings

The hoteliers and travel trade, and government planners and economists, tend to evaluate the benefits of tourism mainly on the financial returns on the investment that is going into this sector. It is maintained that there has been a growth rate in foreign exchange earnings of 37 percent a year between 1977 and 1982. This is based on the estimate that gross foreign exchange earnings from tourism had gone up from US $ 40 M in 1977 to US $ 147 M by 1982. In rupee terms earnings were estimated at Rs 3,050 million in 1982, as seen in table 15. It is also argued that tourism has contributed towards the diversification of the base of Sri Lanka's foreign exchange earnings which was earlier heavily dependent on the three major export crops of Tea, Rubber and Coconut. The contributory share of tourism as a foreign exchange earner has increased from 0.3 percent of total earnings in 1977 to 7 percent of the total in 1982; accounting for about one-third the total earnings in the invisible account of the Balance of Payments and helping to reduce considerably the overall deficit in the Balance of Payments.

In considering foreign exchange earnings, however, it is more realistic to look at the nett earnings, particularly when there is a high degree of leakage through imports. The import leakages are principally due to such sources as purchases of goods and services by the tourist industry for investment and current consumption as well as on import of goods required for provision of tourist amenities, payments in foreign exchange to factors of production foreign exchange expenditure incurred for services abroad such as publicity and tourist promotion etc. Studies conducted by the Tourist Board, the German Development Institute and the International Development Research Centre have shown that the foreign exchange leakage in 1978 was 24.5 percent of earnings while in 1979 it was estimated to be 26.6 percent. The figure for 1982 was not expected to exceed 30 percent even with the recent larger participation of foreign capital in the hotel industry, according to a Marga study.

Since by the end of 1982 only a small proportion of projects with foreign capital involvement were in actual operation, in the immediate future it could be expected that the outward remittances connected to foreign investments would increase and to that extent there could be a proportionate reduction in the rate of nett foreign exchange earnings. In addition, this tendency could be aggravated as a result of the new market strategies being adopted. It is generally accepted that the servicing of 'expensive' tourists will also require large scale imports of expensive food, beverages, etc. Hence an increase may be anticipated in import leakages. But far more significant could be the social impact of such a trend if any changes in the market, significantly affects the income distribution possibilities in the present system. Although the so called 'cheap' tourists bring in a smaller amount of foreign exchange it must be remembered that they are a source of income to a broader section of the local population. This dispersion of the benefits of tourism has also been a significant factor that has resulted in very little resentment

Table 11 Composition of Indian Tourists Among Total Tourists to Sri Lanka

Year	Total Tourists	Growth Rate	Total Indians	Growth Rate	Other Foreigners	Growth Rate	Indians as a percentage of total tourists
1978	192,592	–	14,627	–	177,965	–	7.59%
1979	250,164	+ 29.9	28,099	+ 92.10	222,065	+24.78	11.23%
1980	321,780	+ 28.6	36,284	+ 29.13	285,496	+28.56	11.28%
1981	370,742	+ 15.2	48,520	+ 33.67	322,222	+12.86	13.09%
1982	407,230	+ 9.8	93,112	+ 91.9	314,118	– 2.52	22.86%
1982*	207,608						
1983	227,592	+ 9.6	75,122	+ 61.4	152,470	– 2.93	33.01%

Source: *Ceylon Tourist Board Monthly Bulletin*

Table 12
Comparison of Customer Traffic to the Duty Free Shopping Complex Colombo (1982/1983*)

Month	1982 No. of tickets issued for the month	1982 Average per day	1983 No. of Tickets issued for the month	1983 Average per day	Change % 1982/1983
January	–	–	33,401	33	
February	–	–	30,819	1,400	
March **	22,311	897	32,632	1,255	+ 39.89
April	21,860	950	28,331	1,231	+ 29.6
May	25,644	1,165	32,312	1,404	+ 26.0
June	26,411	1,015	27,396	1,095	+ 3.73
July	25,915	996	15,828	719	– 38.92
August	30,929	1,237	12,748	509	– 58.78
September	30,012	1,200	11,919	567	– 60.29
October	23,759	950			
November	22,415	896			
December	28,324	1,132			

* Duty Free Shopping Complex was opened in November 1981
** Started the issue of tickets in March 1982

Source: *Ceylon Tourist Board*

Table 13 **Projections of Tourist Arrivals, Tourist Nights and Foreign Exchange Receipts 1982 – 1984**

Market Areas	Actual 1982	Projected 1982	Projected 1983	Projected 1984
Western Europe	232,080	259,500	298,400	337,200
North America	17,686	20,100	22,100	24,100
Japan	11,998	19,000	21,000	23,000
Australasia	12,788	10,400	11,400	12,400
Eastern Europe	4,148	8,500	9,300	10,100
India	92,940	51,500	56,000	61,800
Other Asian Countries	28,948	24,300	26,300	29,100
Middle East	3,098	3,600	4,100	4,600
Africa	3,012	2,200	2,400	2,600
Latin America	532	900	1,000	1,100
Total	407,230	400,000	452,000	506,000
Tourist Nights (in'000)	4,048	4,200	4,746	5,313
Tourist Receipts				
– in Rs. Mn.	3,050.4	2,255.4	2,676.8	3,147.9
– in US $ Mn.	146.6	150.4	178.5	209.9

Source: *Ceylon Tourist Board*

Table 14 **Percentage Distribution by Occupational Categories 1975 – 1982**

Occupation	1975	1976	1977	1978	1979	1980	1981	1982
Businessmen	8.8	7.1	8.5	11.4	11.8	9.7	9.7	13.8
Professionals	8.7	10.3	7.7	4.8	5.0	5.2	6.1	7.3
Executives, Scientists & Technicians	13.3	14.1	11.5	12.1	11.8	12.3	13.3	8.5
Educationists	7.0	8.4	8.1	6.2	5.2	7.4	7.3	5.6
Other Occupations	12.0	16.0	19.9	25.1	24.7	25.8	17.6	31.3
No Occupation	29.1	25.7	29.0	26.2	24.1	25.2	21.3	22.4
Retired Persons	2.3	2.7	2.7	2.6	2.8	2.7	2.4	2.3

Source: *Ceylon Tourist Board*

Table 15 **Foreign Exchange Earnings from Tourism by Sources 1981 and 1982**

Sources	In Rs. Million 1981	1982	Total Change	% Change	In US $ Million 1981	1982	Total Change	% Change
Banks	943.0	1,032.4	89.4	9.5	49.0	49.6	0.6	1.2
Travel Agents	846.4	818.9	–27.5	- 3.2	44.0	39.4	-4.6	-10.5
Shops	190.3	671.2	480.9	252.7	9.9	32.3	22.4	226.3
Hotels	554.2	513.8	- 37.4	- 6.7	28.8	24.8	- 4.0	-13.9
Gem Corporation	12.6	11.1	- 1.5	- 11.9	0.7	0.5	- 0.2	- 28.6
Total	2,546.5	3,050.4	503.9	19.7	132.4	146.6	14.2	10.7

being shown by the local population to the influx of large numbers of foreigners into their midst. If, however, the industry concentrates on expensive tourists who could be serviced only by those having access to bigger investments and if it results in any significant changes in the present pattern of distribution of economic benefits of tourism there can be social resentment, which can easily disrupt the entire market.

Tourism it must be accepted, is not built on the basic premise of a meeting of peoples of different countries or of a meeting of civilisations (that is, of cultural understanding). It is a commodity purchased like any other saleable good where demand and supply, competition, etc. play an interactive role. It is built partly on the selling of myths about the recipient country to gullible foreigners. In the Western market it is usually the myths of the four S's of sea, sun, sand and sex, that are used to entice foreigners. In Sri Lanka the last compoent has not been very important, although in the case of countries like Thailand and the Philippines it has been a predominant feature. In this type of tourist industry, often exaggerated exoticism is packaged and sold in the Western market.

The tourist industry is like that of cosmetics, one of images and make believe. The industry in the countries of tourist origin are controlled by a few firms that have several competing destinations apart from Sri Lanka. These firms operate at a local town level in their countries through small tourist kiosks (Buros) which retail tourist excursions. A tour operator in the West has very high stakes if his customers switch to a competing firm in the case of any perceived discomfort to a tourist. A tourist death, injury or inconvenience in a destination would have a far reaching impact on the entire firm and hence their extreme sensitivity as regards destination situations. (See our special issue on Tourism – Economic Review June/July 1979 – where we discussed the broad nature of the tourist industry.).

The tendency in the packaging of Sri Lanka recently was the use of the excessive hyperbole of Sri Lanka as a "Paradise" As any serious social psychologist would testify the ad writers use of the word 'Paradise' and its other associations (blatantly used also in Air Lanka advertisements) has inherent dangers. The reason is that a "Paradise" marred would be extremely

The events of July and August provided precisely the grounds for such a collapse. The television screens in the

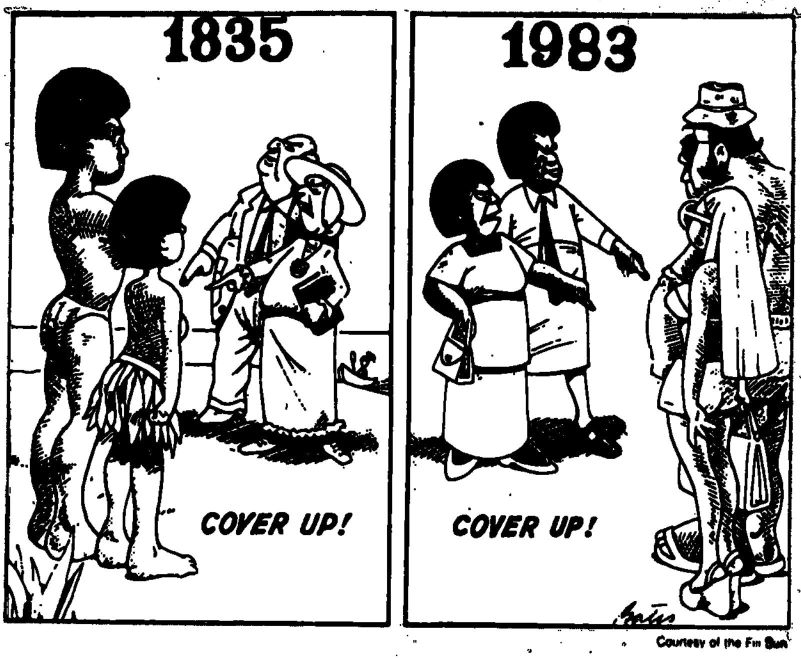
susceptible to an image collapse and consequently of course to a contraction in the flow of tourists.

TOURISM AND CLOTHES

The authorities responsible for the promotion and development of the tourist sector in Sri Lanka have shown deep concern in recent times over the excessive state of undress displayed by tourists on beaches and in hotels. More recently a high powered official committee was appointed to probe this trend and make recommendations. Meanwhile, the Ceylon Tourist Board has published a leaflet titled "Come Share Our Way of Life ...." where specific attention of the tourist is drawn to that of dress in the illustration below) and in the following manner:

"Except for an urban minority, the greater mass of our people have an outlook in life that is simple and traditional. But because that outlook is blended with an inborn spirit of hospitality and tolerance, they do not as a rule resent differences in dress, social behaviour, or manners. In fact, they take a special delight in the company of foreign visitors, language barriers notwithstanding — which we consider, is a tribute to the very large numbers of tourists themselves. But there are instances when what may be quite normal in your country may be alien or embarrassing to our people. The question of clothes for example.

While brevity in the dress might be the expected thing on a beach, or while relaxing in the privacy of your hotel, it might be wanting in prudence to enter a place of worship dressed in that manner, or even to walk so in public. And as for nudity on the beach, sea bathing or sun bathing, sorry ; we have to draw the line there. Please do not do something that is totally alien to our environment. Thank you."



Courtesy of the Fiji Sun

Such behaviour is looked on as typical excesses of Western tourists which contrasts sharply with the presently accepted practices in most host cultures. But such behaviour is also to be expected by the very nature of the tourist industry.

Most tourists from the more developed countries travel to less developed countries such as Sri Lanka not necessarily because of income differentials, but rather because of the carefully structured perceptions of our countries which are fed to them.

The Donts for Tourists Conveyed Graphically

The. services being offered as tourism are packaged and fed to potential tourists as an item with a particular image just as any other commercial commodity, such as soap, would be sold. The building of an exotic image is a necessary part of the exercise.

Tourism is often grafted onto such societies where the standard of living is very low compared to that which is enjoyed by the tourists. Poverty is widespread in these tourist destinations and a conspicuous phenomenon is the free spending vacationer no longer bound by the rules of his daily routine and escaping into leisure as distinct from that of work.

The gap between the life style of the rich tourists and that of the poor inhabitants is most noticeable where large scale resort tourism exists. Such tourists demonstrate values and behaviour patterns that clash with the mores of their hosts.

The behaviour of Western tourists in the Third World is a necessary manufactured one without even his realising that his intimate behaviour is conditioned by the industry for his vacation. From the moment he contacts his travel agent he is an object whose functions are manipulated and controlled. So that he would live in a fantasy world for a few weeks away from the dreary everyday drudgery. Tourism especially in developing nations, functions as a safety valve and escape for the pent-up frustrations of industrial society; in the process the tourist leaves behind his or her societal norms and morals and therefore feels no need to conform to them or worry "what would people say ?". Behaviour is defined by the tourist peer group and the latters manufactured fantasies and not by the host society's moral code.

A study on "Pacific Tourism" by Cynthia Z. Biddlecomb, illustrates well eccentric clothing and dress is one of the diverse forms of this unregulated behaviour. She comments "Tourists tend to wear clothes they would never wear in their own social setting for fear of ridicule or out of modesty. Women who wear bikinis on the street in the destination country don't think how it would be to see someone in a bikini walking downtown in their home town. Men who wear loup print flowered bermuda shorts with underskirts must realise that they would be laughed at in that ourfit at home, why not in the host country ? (In the Pacific where so many tourists tend to wear beach clothing in town, it is ironic that although Western missionaries first taught islanders about modesty in dress, it is now the islander who brain washed into Christianity, in the 19th century reminds the Western tourist !). 20th century European puppets are administered by puppets programmes by late 19th century Europe. There are no easy prescriptions or solutions to such situations.

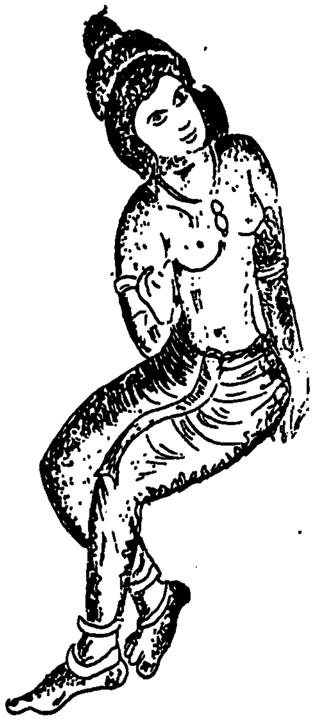
A more typical Pacific problem is the increase of nude and topless bathing among tourists. The occurence is, in some Pacific cultures, totally unacceptable and local people are greatly offended by it.

In Sri Lanka the dress of its people has been guided by socio-economic changes that occurred in the country over the centuries. Before the advent of the Portuguese and other colonials the manner in which Sri Lanka women are attired is depicted in various frescores, sculptures and artistic records. (See illustrations). A good survey of such dress was done by Martin Wickremasinghe several decades ago.

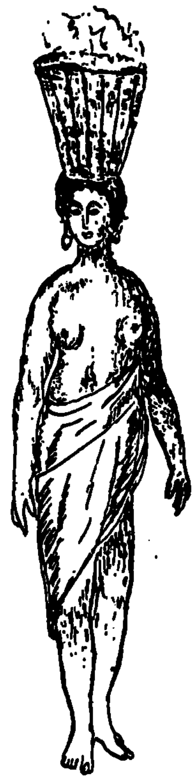
This dress did not cover the entire body and was attuned to the country's hot and humid climate. With the coming of the Portuguese and subsequent colonial influences, modes of dress begin to gradually change and took on more European characteristics. Ridiculous heights of top hat and tails were reached in the height of the colonial era.

From early colonial times, and more particularly in the 19th century and the early 20th century, the dresses adopted were largely inimical to a hot humid climate in that the wearer was completely enmeshed in heavy clothing from the neck to anckles, as illustrated here. The very recent cultural imports of dresses have introduced imitative patterns that have somewhat reversed the tendency for heavy clothing and have set trends towards lighter forms of clothing, reminiscent of early Sri Lanka clothes.

CG

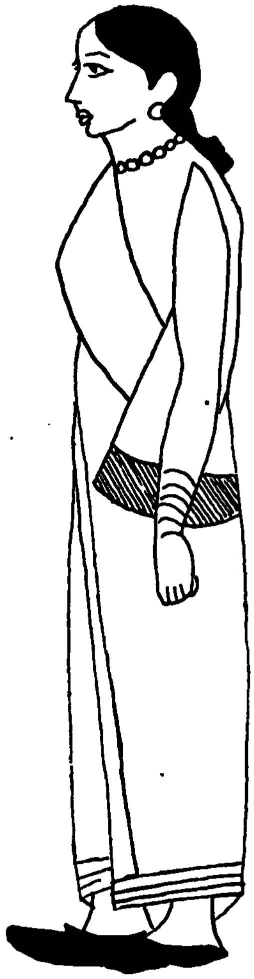


Early Anuradhapura Period



A female vendor 19th Century Kandy

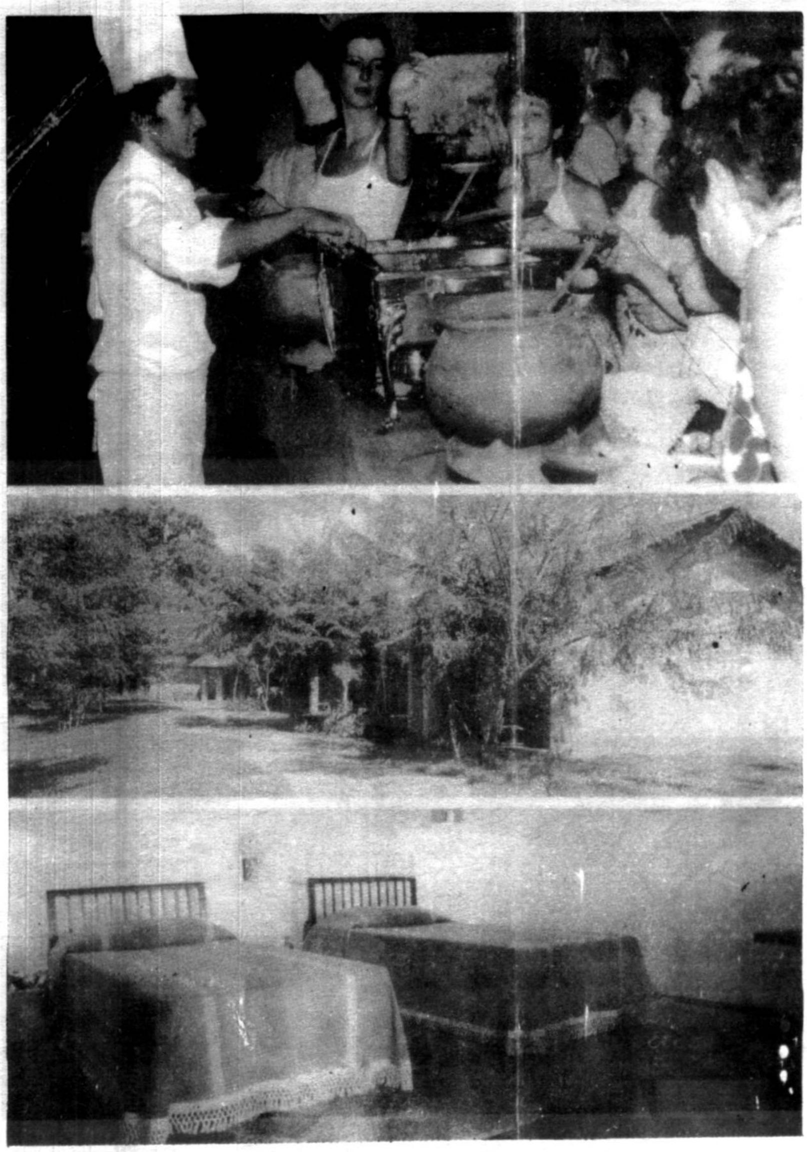
Polonnaruwa Period



Early 20th Century Kandyan Lady

Portuguese Period

Dutch Period



The need to attract more tourist traffic to Sri Lanka is being felt most strongly by the industry and publicity brochures such as this one are now finding their way out more frequently to potential tourists.

target markets of the West showing burning shops, cars and sometimes even people, brought graphically to Western drawing rooms a different Sri Lankan reality. Newspaper coverage, as well as magazine articles played on the paradise theme and spoke of a paradise lost. The image collapse could no doubt have very serious consequences.

Tight censorshop of news in Sri Lanka at the time also had an adverse impact on the tourist industry. Because of the absence of hard news from Sri Lanka Western media would interview tourists arriving from this country, often in a highly emotional and excited state. Whereas a professional journalist would report the July/August calamity in a dry and technical sense, a tourist would do it in a highly subjective personal sense.

In fact one of the stories that went round the world both on TV, radio and in printed words was that of a Norwegian tourist who had allegedly seen a mini bus set on fire with the occupants inside. The uncertainity in Sri Lanka has had a telling effect. The tourist arrival figures for July and August this year showed the immediate impact of the disturbances. There was a dramatic contraction of arrivals with a total drop of 75.4 percent for August.

Premature, and in retrospect, irresponsible statements in late July and August, to say that everything was back to normal and to force the appearance of normalcy was also unfortunate. Normalcy is not ushered in by media or press announcements, but by actual reality as every travel agent in the target countries would only be too acutely aware of The period of the disturbances saw also an exodus of the local representatives of foreign travel firms which belied the sanguine media pronouncements in the eyes of the most sensitive targets, the travel representatives themselves.

The obvious remedial measures is not an emphasis on excessive image boosting Such attempts can be brought to nought by a single event that runs counter to the image. More important than the image is the reality of peace and calm on a permanent basis. The establishment of a real situation of peace, calm and confidence of all Sri Lankans is the best remedy for the tourist industry.

In the sight of the slowdown in growth of tourist arrivals in recent years, the changing travel patterns and promotion strategies, and recent events in Sri Lanka, the need for a prudent monitoring of the country's hotel expansion programme and market strategies need not be over emphasised.

In 1971 when an islandwide insurrection broke out the industry suffered a similar image collapse whose effects lasted for another year Today the industry has a greater momentum so it would perhaps recover faster. On the other hand the events of 1983 were probably more damaging to the country's tourist image than those of 1971.

A recent study conducted by the Tourist Board's Research Division, shows that while the 1966 to 1976 era marked only a modest growth pattern in tourist arrivals, the post 1976 period accounted for very high growth rates; and this pattern was however curtailed from 1981 due to the world-wide recession which affected the western economies. A trend of decreasing arrivals was initiated during this period and continued until the recent disturbances. While the disturbances acted as a severe blow to the tourism industry, the recovery process has also been at a relatively rapid pace.

The post disturbances trend in arrivals indicates that Sri Lanka would be able to return to the 1982 status in tourist arrivals by 1984. If this trend continues undisturbed it is possible that a growth rate of about 15 per cent could be realised between 1984 and 1985. Such a prediction is based on the possible reversal of the recessionary situation in the western economies which still is a significant factor in terms of generating tourist arrivals to Sri Lanka.

There is no doubt that for the future of tourism in Sri Lanka both factors are equally important, namely a reversal of the recessionary trend in the western market economies and the restoration of Sri Lanka's image as an attractive tourist destination.

C.G.