

India as a Source Market for Tourism Industry of Sri Lanka: *TOO BIG TO BE IGNORED*

1. Introduction

Out of over 11 million outbound tourists from India, Sri Lanka receives just over 1 percent only. India is not only a 'big market', but also 'many markets' and 'fast growing markets' for a given differentiated product for industry expansion and economies of scale. Even without much effort at policy level in either country, Sri Lanka has an easy access to India as an important source market for tourism industry. The existence of this potential in Sri Lanka has already been confirmed by India through its quick elevation to the top ranking position among all countries in terms of the number of tourist arrivals. The close proximity for transport by air or sea, cultural and historical relationships, and growing economic ties are unique factors that would

attract Sri Lanka as a tourist destination to the fast-growing Indian middle class with diverse tourist interests.

It is therefore, in the hands of the Sri Lankan policy circles to facilitate the potential growth of the tourism industry, to ease the remaining bottlenecks affecting the industry, and to let the industry grow by catering to the market segments in India. This policy brief provides guidelines to promote Sri Lanka as an attractive tourist destination to the Indian tourists, by identifying the specific characteristics of India as source market and diverse tourist attractions that Sri Lanka can offer to India as a tourist destination.

Annual tourist arrivals in Asian Countries 2008

	Millions	% of Population
China	53.1	4.0
Malaysia	22.1	81.7
Hong Kong	17.3	247.4
Thailand	14.2	21.7
Singapore	7.5	155.6
Indonesia	6.3	2.7
India	5.1	0.5
Vietnam	4.2	4.9
Cambodia	2.0	13.3
Sri Lanka	0.4	2.2

Sri Lanka: a popular tourist destination in Asia?

Due to its diversity of people, culture, history, natural environment, climatic condition, vegetation and of many other areas – all compact in a small island of 65 thousand square kilometers – is considered to be one of the most attractive tourist destinations in the world. However, it lies far behind the popular tourist destinations in the region, particularly the East and Southeast Asian countries. In terms of tourist arrivals and earnings, China is among the top 5 tourist destinations in the world. While many Asian countries attract millions of tourists a year, in some of these countries the annual tourist arrival exceeds their total population.

Source: World Tourism Organization (2010), World Bank (2010)

2. Economics of Tourism Industry

The tourism industry that produces tourist services as an 'export commodity' consists of a range of enterprises, establishments and organizations providing goods and services to meet the requirements of tourists.

- Tourism appears to be one of the most valuable sectors for reducing the economic marginalization of developing countries in the global economy, as well as that of relatively underdeveloped regions and social groups within a particular country.
- Tourism is more labour-intensive than most of the other service sectors, tourism development essentially means a creation of employment opportunities at a higher rate. It creates attractive job opportunities to 'educated-youth'.
- Tourism is an important source of poverty reduction strategy as it is essentially linked to construction, agriculture, transport and, infrastructure is characterized by wide spillover effects on other economic activities.
- Tourism also reduces regional development imbalances by promoting the growth and development in different regions based on their local identity and local comparative advantages.

3. Indian tourists, coming on the top

During the past decade Sri Lanka has recorded a substantial change in the composition of tourist arrivals with an increase in tourists from Asia in general and, from India in particular. India became the largest tourist source market ousting Sri Lanka's major traditional source market UK. With an abrupt increase by over 100 percent in 2002, the Indian tourist arrivals continued to grow, except during the period of intensified war between 2007-2009. Even though the tourist arrivals from the Western countries dropped drastically due to both internal and external security problems since the early 2000s, still Sri Lanka could sustain its tourism industry throughout the decade with increased tourist arrivals from India.

This was led by the increased economic integration between India and Sri Lanka together with Sri Lanka's 'visa on arrival' policy extended to the

citizens of the SAARC countries in early 2002. The implementation of the Indo-Lanka Free Trade Agreement in 2000 and the policy reforms in the early 1990s in India, had already established conditions for deeper economic integration between the two countries. The emerging economic integration between India and Sri Lanka spread beyond increasing bilateral trade, covering investment, air travel, port activities, health, education and many other service sectors. Along with strengthened economic integration between the two countries, tourism also grew fast either in association with the economic activities of integration or in isolation. Even if the tourist arrivals from any other country could grow fast in context of the country's peaceful environment, the importance of India as Sri Lanka's one of the biggest source markets is likely to remain.

It is not just pleasure and leisure

Nearly 40 percent of tourists from India visit Sri Lanka for the purposes other than pleasure (business, conventions, meetings, visiting friends and relatives, religious and cultural activities and other), as compared to less than 15 percent of the total from the Western Europe. However, the reported data representing the purposes other than pleasure appears to be highly underestimated as the tourists usually prefer to report their purpose as 'pleasure' in order to avoid immigration procedures and hazels. In this respect, even the 'visa on arrival' policy was confusing because all visitors other than those categorized as 'bona-fide tourists' should have actually followed the normal procedure of obtaining visa from the Sri Lankan missions in their respective countries. In addition, many tourists from India usually combine pleasure with other purposes in general and with 'business' in particular.

Sustaining off-season capacity utilization

An important distinction between the Indian and Western tourists is associated with seasonal variation of tourist arrivals. In fact, the seasonal variation between the two source markets exists in opposite directions as tourist arrivals from India rise during the off-season and fall during the peak season. This pattern of seasonal variation is cost-effective for the Indian tourists as the average cost per tourist is likely to rise in the peak season and to fall in the off-season. It is also advantageous to the local tourism industry and its related service providers, as it could minimize the seasonal drop in capacity utilization and income generation.

Spend less money and less time

The Indian tourists on average used to spend less money and stay less, compared to the tourists from Western countries, although it does not necessarily mean a lower profit margin. While the tourists from the Western Europe stay on average 10.2 days in Sri Lanka, the Indian tourists stay on average 8.1 days (Sri Lanka Tourism Development Authority 2009). According to the Survey of Departing Foreign Tourists from Sri Lanka (Sri Lanka Tourism Development Authority 2008/09: 29), the majority of Indians had stayed only 2 days, while the majority of tourists from UK stayed 14 days. However, the profit margin per Indian tourist may be still higher than that per a Western tourist due to cost differentiation between the two groups.

But visit more frequently and generate more income

Although the Indian tourists spend less money and less time permitted by the close proximity between Sri Lanka and India, for the same reason they increase their number of visits per year. The Survey of Departing Foreign Tourists from Sri Lanka (Sri Lanka Tourism Development Authority 2008/09: 30) reported that 52 percent of the tourists from India had visited Sri Lanka more than once, compared to 40 percent of the repeaters from all the tourists enumerated. The foreign exchange earnings per visit may be lower, but a number of visits by an average tourist can generate more earning from travel and tourism services.

More from the 'less-affluent' income groups

Indian tourists visiting Sri Lanka belong largely to the 'lower middle' income classes, because the USA or the Western Europe is the popular destination for the 'upper' income classes and, the East Asia is the popular destinations for the 'upper middle' income groups. They select cheaper modes of accommodation and spend less money. The key issue is

that Sri Lanka is not yet catering to the interests of the Indian tourists from the affluent income groups.

4. Tourism in India: the Outbound Outnumbers the Inbound

India is a country with peculiar features in its tourism industry that provides enormous opportunities for the expansion of the tourism industry in the neighbouring countries in general and in Sri Lanka in particular. The number of India's outbound tourists account for 11 million which is more than double the 5 million inbound tourist arrivals. The outbound tourism is still growing (at 12.4 percent per annum during 2005-2009) faster than the growth of inbound tourists (at 8.4 percent per annum during the same period).

Fast growing middle class leads travel and tourism demand

The size of the country with over 1.1 billion population and the rapid economic growth during the past decade could explain the phenomenon largely, but not entirely. During the period in which outbound tourism grew at around 16 percent (2004-2007), the Indian economy also recorded the highest rate of increase in its per capita income by over 7 percent and, its real GDP by about 9 percent on average. The increase in disposable income of the growing middle class in India, which is enormous in absolute terms owing to the size of the country, leads normally to booming demand for travel and tourism.

Pleasure and leisure or business and shopping

The most preferred tourist destinations of the Indian tourists are Singapore (8%), China (5%), Thailand (5%), USA (5%) and Hong Kong (4%), the countries which together attract more than a quarter of the Indian tourists. Perhaps the USA among these top 5 destinations could be an exception as it caters to the tourism demand from the 'high' income groups of the Indian tourists. But the most preferred destinations in East Asia appear to be catering to the interests of the 'middle' income groups who combine pleasure and leisure with business and shopping.

Sri Lanka too enjoys more potentials

Although Sri Lanka attracts only a small share of 1.6 percent of total outbound tourists from India (2005), Sri Lanka is also among the top 10 attractive tourist destinations, occupying the 7th position in the ranking order following Malaysia. Perhaps the geographical, historical, ethnic and cultural connectivity between India and Sri Lanka could be much stronger than that of between India and the East Asian countries. All these given factors yet appear to have remained intact in Sri Lanka in the case of exploiting the fast-growing outbound tourism in India. Even though Sri Lanka has a fairly 'open' economic regime and 'liberal' immigration procedures which have obviously given a boost to the Indian tourists to come on the top in terms of numbers, the tourism and business environment too has remained relatively underdeveloped compared to the East Asian countries.

Top 10 Tourist Destinations of India 2005		
	No. of tourists (1000s)	% of Total
Singapore	583.5	8.1
China	356.5	5.0
Thailand	352.8	4.9
USA	344.9	4.8
Hong Kong	273.5	3.8
Malaysia	225.8	3.1
Sri Lanka	113.3	1.6
Nepal	95.7	1.3
Bangladesh	86.2	1.2
Pakistan	59.6	0.8
Total	7184.5	34.7

Will Sri Lanka be in East Asia or in South Asia?

Sri Lanka enjoys the 7th position among the top 10 tourist destinations of India. This position is below that of the East Asian countries and, is above that of the South Asian countries. Indian outbound tourism is set to grow fast along with its rapid economic growth. In this context, whether Sri Lanka will climb up to a high position among the East Asian countries or will continue to remain at a low position among the South Asian countries is a decision that Sri Lanka itself has to make.

Source: <http://www.itopc.org/travel-requisite/outbound-tourism->

Barriers to inbound tourism of India

India is one of the poorest countries in terms of inbound tourist arrivals which could also provide an additional advantage for the neighboring tourist destination countries such as Sri Lanka. India attracts about 5 billion tourists a year, compared to a similar country like China that receives 10 times more (over 50 billion per year). This could be due to the high tourist costs (the highest in the region), unpleasant tourism environment and the rigid regulatory and bureaucratic systems.

5. Policy Guidelines

Sri Lankan tourism industry has a unique potential to grow fast with its specific advantages to gain benefits from the growing Indian source market that has already been diverting to the East Asian destinations. This does not mean the formulation of tourism policy measures in selective nature which would distort the incentive structure within the industry. At the outset it is necessary to identify the importance of the Indian source market for tourism along with Sri Lanka's unique advantageous position. The overall tourism policy framework can accommodate the specific characteristics of this particular source market to provide a competitive tourism environment as outlined below.

Business, shopping and MICE tourism: Since the tourism interests and purposes of the tourists from India are much more diverse than those of the other major source markets such as the Western Europe, it could be worthwhile creating a 'niche market' in the Sri Lankan tourism industry. This niche market would provide a competitive tourism destination for business, shopping and MICE (meetings, incentives, conferences or conventions and exhibitions or events) activities. While the government can play a facilitating role concentrating on infrastructure, law and order and, regulatory reforms, the major players need to be the private sector. The most popular major tourist destinations in Asia and the Middle East could provide benchmarks in creating the tourism niche market. The less-attractive Indian tourism environment has made it easier for Sri Lanka.

Immigration procedures and Regulatory mechanisms: Immigration procedures and regulatory mechanisms affecting tourism are important areas that have to be reformed in any country that expects to promote its tourism. The importance of relaxing visa procedures, particularly in the case of India as a tourism source market of Sri Lanka, was already confirmed in 2002 when the tourists from India recorded more than 100 percent increase following the implementation of the 'visa on arrival' policy. For a country like Sri Lanka which suffered post-conflicts over the decades, given the importance of the security issue it is difficult to adopt a liberal immigration procedure. Yet, there are few main issues that need to be focussed on in reforming the immigration procedures.

- 'Liberal' immigration procedures and regulatory mechanisms are important for a country that looks forward to be a 'regional tourism centre' and a 'global economic hub', as confirmed by the examples of a few countries in Asia (such as Singapore).
- The problems of a 'visa on arrival' policy are associated more with the (a) lack of visitor-information system, (b) weak surveillance system and (c) the weaknesses in law enforcement than with the liberal immigration policy.

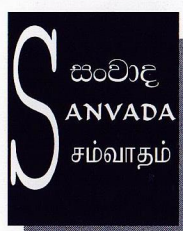
• In a more liberal immigration and regulatory system, scope for confusions and ambiguity needs to be avoided. For instance, under the 'visa on arrival' policy introduced in 2002 as many short-term visitors whose purpose was different from 'bona-fide' tourism, faced with a confusion discouraging them to report the purpose genuinely.

Although the focus here was on the immigration procedure, there is a need to make a fresh assessment of the overall framework of rules and regulations related to tourism sector.

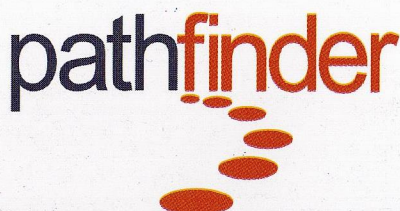
Regional 'entry points' in Northern Sri Lanka: During the past few decades the country had only a single entry point for almost all international travellers to enter the country by air through the international airport in Colombo. Particularly with respect to India as a tourism source market and related economic transactions, it is important to look into the possibilities of developing different modes of travel and transport by air and sea and to facilitate it by establishing an international or at least a regional Port and an Airport in the Northern Sri Lanka. This initiative would also be a catalyst in enhancing the rapid growth and development of the conflict-affected Northern region which lags behind the rest of the country. The importance of this proposal had already been identified and been a topic of interests at bilateral discussions with the idea of constructing a Land Bridge (2002) and a Railway Link (2006) between Rameswaram (India) and Talaimannar (Sri Lanka).

Reforms for greater economic integration: The increase in tourist arrivals from India in the past decade was also associated with Sri Lanka's bilateral and regional economic integration. In this context, the most important integration of Sri Lanka has been with India under bilateral agreements, while both countries have undertaken overall policy reforms for global integration. The importance of economic integration for tourism development has been confirmed by the more diverse tourism interests and purposes of the tourists from India. It is necessary to continue with the policy and regulatory reforms to open the Sri Lankan economy and to enhance its integration with the sub-continent. Although bilateral and multilateral integration is not the first best option as their outcome is secondary to 'global integration', they have an important place in the absence of a uniform liberalization process. In particular, further opening up through the continuation of reforms in policy environment and regulatory mechanisms to enhance integration in the areas of investment and service trade remains to be addressed. The expansion of investment and trade is accompanied by increased travel and transport under which India would play a major role as Sri Lanka's source market for tourism.

This Policy Brief was prepared by Dr. Sirimal Abeyratne, Prof. of Economics, University of Colombo on the basis of his own analytical study and presentations made by Mr. Hiran Cooray – Chairman, Jetwin Group, Mr. Anura Lokuhetty-President, Tourist Hotels Association of Sri Lanka and Dr. Rohan Samarajiva-Executive Director, LIRNeasia at a public seminar held in Colombo



'POLICY BRIEF 26'



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