

TOURISM AND DEVELOPMENT:
EXAMINING THE CASE OF SRI LANKA

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ERRATUM

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ABSTRACT

This thesis examines the role of tourism in socioeconomic development in Sri Lanka. A broad structural approach is taken to depict tourism development within a historical framework and in relation to political strategies to development. The effects of tourism in the economy, on employment, and on social, cultural and political processes in Sri Lanka are given emphasis in the analysis.

The analysis is built around the tourist industry's articulation with foreign and local economic sectors. Types of tourism development are then defined and related to the effects of specific changes in socioeconomic formations. In this way the analysis provides valuable insights into the kinds of impacts modern mass tourism has on particular developing countries lacking infrastructure and involved in dependency-type relations with metropolitan states.

The results of the analysis show that capital-intensive tourism development does not contribute positively to development in Sri Lanka. Rather, such developments are characterized by high foreign costs, high employment costs, diversion of resources from local utilization and various sociocultural dislocations. On a structural level, this kind of tourism development undermines the objectives for self-sustained economic growth by creating an overdependency on foreign enterprises for foreign exchange earnings, employment and policy direction at the expense of local producing sectors. Thus, the experience of Sri Lanka indicates that rapid

modern tourism development does not lead to greater internal integration and does not cater to the specific needs of the local people.

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CHAPTER 1

INTRODUCTION

Tourism is a highly complex phenomenon. It involves the activities and interests not only of airline companies, tour operators, resort owners, and of various tourist services and supply firms, but also of governments. Recently, many of the less-developed countries of the world have taken an active interest in tourism because of its assumed beneficial effects on economic development (Peters, 1969). Without seriously questioning the appropriateness of international tourism in developing areas, many of these countries have adopted tourism development on a large scale, subservient to the interests of foreign-based institutions.

The study of tourism in anthropology¹ is relatively new and diverse. Typically, the anthropologist has been interested in the effects or results of contact between the "guest" and the "host" (Nunez, 1976). Such studies necessarily restrict themselves to the cultural context, i.e. how cultural change is brought about by tourists - the representatives of alien culture. This study extends itself beyond the cultural realm into the economic, social, and political spheres. It approaches the tourist phenomenon in a wholistic fashion, anthropology's *raison d'etre*, in an attempt to better understand tourism's role in the process of development.

The intent of this study is to examine the importance of

international tourism to socioeconomic development in Sri Lanka. It endeavors to answer a number of questions: How does tourism affect regional development and economic growth? Is it relevant to the needs and aspirations of the local people? Does it justify the development assumptions upon which it is based? The objectives thus are three-fold: (1) types of tourist development will be identified and classified, outlining a structure of tourism; (2) effects of these types of development on the social, cultural, and economic well-being of the local people will be examined; and, (3) an evaluation of the structural traits emanating from tourism policy will be made.

The value of this study depends to a large extent upon the accuracy of the quantitative estimates and surveys completed by various Sri Lankan sources and the Ceylon Tourist Board. The quality of much of the published material on tourism in Sri Lanka is poor; for this reason, numerical estimates must be interpreted with caution. Another weakness of this analysis is the level of generality. Much qualitative data collected within the participant observation framework, during only a short period of field research in Sri Lanka, forms an important component in the abstract conceptualization and analysis of the industry.

This study is partly descriptive, noting the development and structure of the industry and its various impacts on society; partly analytical, examining the industry's articulation with foreign and domestic sectors, and its relation to development; and partly exploratory, directing attention to areas where future research is needed. It is divided into five chapters and a conclusion.

Chapter Two provides the background and wider context to the

study. It looks at the development of the international tourist industry and its impact in developing societies.

Chapter Three recounts the history and growth of tourism in Sri Lanka. It describes the tourist - motivations, expenditure patterns and expectations. It also examines the structure of the industry, describing facility development, organization, and the industry's operations and expenditures.

Chapter Four looks at various impacts international tourism has had on the economy, employment, social welfare, culture and political processes in Sri Lanka.

Lastly, Chapter Five considers structural limitations to local development that are the result of Sri Lanka's policy for modern mass tourism. The study concludes by calling for a basic shift in policy direction from *quantity* to *quality* tourism and suggests a need for greater local participation and control in tourist development.

1.1 Approaches to the Study of Tourism

Research literature on tourism in developing countries is very sparse, particularly in the social science disciplines. Indeed, only a handful of investigators have done what may be termed comprehensive studies on the subject. Most of the research has been completed by those catering to the tourist trade and those working in marketing and forecasting (Goeldner, et al., 1974), as evidenced in the numerous travel journals, newsletters and magazines. More recently, however, there have been a few conferences and seminars searching for a more integrated approach to the subject, with a special emphasis on the social and cultural

consequences (de Kadt, 1979; Farrell, 1977; Finney & Watson, 1975; Smith, 1976).

Most who have examined international tourism have tended to emphasize the benefits of foreign exchange and employment over and above the generally unquantifiable social and cultural effects. Project appraisals and planning within the framework of a cost-benefit analysis is perhaps the most common form of evaluation of tourism in development. This methodology attempts to express the consequences (social, economic, environmental) of a project in monetary terms for comparative purposes with alternative projects. The weights given to the social effects, however, are often negligible when compared to certain economic variables, especially in cases where the analyst has vested interests in the development of a project. Furthermore, cost-benefit analysis presents certain methodological problems, such as the transformation of financial profit streams into social profit by the use of "shadow pricing"², and there are also various externalities that distort the procedures. Ultimately, the analyst is faced with the problems presented by the need for value judgements and knowledge of constraints:

its validity rests upon the appropriateness of its assumptions rather than the quality of its predictions (the reverse of the normal case in 'positive economics'). It must be pointed out, however, that opinions differ widely on the value of such techniques and whether the 'paradigm' is at all appropriate for analysing the problems of income redistribution and the alleviation of poverty which are at the core of most development policies. (Varley, 1978:16)

For instance, the results of J. Brydens' well-known study of tourist developments in the Caribbean (1973) differed substantially from A. Forbes' study of the Trinidad Hilton, though both used cost-benefit

appraisal methods. Bryden concluded that:

an adequate analysis of the benefits from tourism indicates rather low net social benefits in the situation of the smaller Caribbean islands. These rather low net social benefits contrast with fairly reasonable rates of private return to hotel investors. (Bryden, 1973:5)

Forbes, on the other hand, states:

Under all three sets of assumptions the net social profit was more than double the present-value at market prices, and the lower the shadow wage rate the higher the social profit. When the shadow wage rate equalled zero the social profit was more than three times as great as the private profit to the Industrial Development Corporation. (Forbes, 1976:32)

The findings obtained in cost-benefit analysis can differ considerably in application and objectivity, as well as lose validity through distortion by externalities. Yet, as Bryden has shown, such a method for tourism evaluation can be quite valuable, particularly in the absence of more satisfactory appraisal methods.

Other approaches to the assessment of tourism in developing areas have made extensive use of various accounting and survey methods in order to measure the impacts on society. The most widely used technique attempting to measure the impacts of tourist expenditure on employment, production, income, and other aggregates, is the *tourism multiplier*³. Recently, the use of multiplier analysis has come under criticism from those who question the appropriateness of the linear production function or constant returns to scale assumption of input-output analysis (Varley, 1978). Furthermore, it is argued that the tourism multiplier is not at all indicative of relative benefits unless it is equally applied to other economic sectors (Bryden, 1973; Varley, 1978).

Social scientists have also begun to study other aspects of the impact of tourism in developing regions. Geographers have constructed spatial models and examined movement patterns, as well as various environmental consequences created by tourism (Farrell, 1974; Hills & Lundgren, 1977). Sociologists and anthropologists have focussed on the social and cultural aspects and some have analyzed the effects in relation to broader phenomena, such as urbanization or acculturation (Aspelin, 1977; Greenwood, 1972; McKean, 1973; Nettekoven, 1979).

So far, the impacts on social and cultural life have been of relatively low importance to tourism planners. The important qualitative changes have not lent themselves to quantitative evaluation techniques. Consequently, researchers have, for the most part, succeeded in documenting a formidable catalogue of social, cultural, economic, environmental, and psychological effects, much of which is left unrelated to the central problems of development. Tourism has been viewed as an event and not as a process in development. Hence, sociocultural impact studies have been less successful as appraisal methods for influencing tourism planning.

Nonetheless, it is important that studies of this nature be undertaken, for they reveal the errors and false assumptions by which some tourist developments have taken place. It is equally important that impact studies be put into proper perspective. In order for these kinds of studies to have value, the role of tourism in developing countries must be seen in the process of capital formation and extension from the developed industrial states. International tourism in the Third World is highly dependent upon the decision making process, the flow of capital, and the technology of the developed world. The development of mass

tourism plants cannot exist outside of this context. Thus, as tourism plays an increasingly larger role in developing economies, the more it makes sense to examine the "structure" of the tourist industry.

A structural analysis of tourism seeks to identify the long term patterns of socioeconomic development where tourism plays an integral part in the economic structure. An examination of tourism's linkages with other economic sectors, investment, resource allocation, and demographic and distributional processes outlines the major structural traits. As yet, there has been little rigorous work along these lines. Varley (1978) perhaps best utilizes the structural approach in his analysis of the tourist industry in Fiji. In assessing structural change, Varley concerns himself with measuring the effects of tourist expenditure on the economy, as well as noting important social consequences. In particular, he places a special emphasis on the linkages between domestic producing sectors and the hotel industry, analyzing their relationship (and lack thereof) to development. Varley concludes that structurally the economy has become more service-oriented, with primary production stagnating, but that tourism's role is difficult to assess due to unreliable and sparse sources of information on ownership and profitability (1978:103). He does suggest, though, that the metropolitan based, capitalistic structure of the industry conflicts with national objectives and that alternative economic activities more in tune with self-sufficient growth and development be recommended.

B. M. Renaud, in a study of tourism in Hawaii (1972), has taken a strictly economic approach in a structural analysis of tourism's effect on consumption and production. The study showed that tourism development

did not stimulate local agricultural productivity and questions the assumption that tourism is of great importance to traditional sectors:

Thus the experience of Hawaii indicates that the rapid expansion of the tourist industry simply generates a switch from an export-led growth based on agriculture to one based on tourism without the possibility of a simultaneous expansion of both sectors. Overall, the growth of the islands has been pro-trade biased and the increased level of local output has not been accompanied by a strong increase in internal integration. (Renaud, 1972:46)

Renaud's conclusion is of particular relevance to other island economies with large traditional sectors initiating programmes of mass tourism development.

R. C. Young has taken a structural approach in a sociologically oriented analysis of the Caribbean tourist industry (1977). Young attempted to test the hypothesis that tourist institutions tend to adapt and reflect the structural characteristics of the society in which they are introduced, and that tourism in "plantation" types of societies, for example, would develop along the same lines as other "plantation" institutions. The research strategy attempted to isolate dimensions of tourism and assess the degree of congruence with other political and economic structures. Young concluded that the tourist industry does, in fact, develop within the specific political and economic contexts of Caribbean island societies "without disturbing the basic island structures" (1977:672). Young then goes on to question tourism's impact on a given society:

It implies that the tourist industry, whatever its nature, can, in fact, change the social, economic, and political life of an island. However, this research suggests that tourism, whatever its form, is only another manifestation of the existing

social, economic, and political structure.
(Young, 1977:672)

This study, however, fails to realize the nature of social, political, or economic impacts on traditional structures by not analysing tourism (or other phenomena) within a historical context. Structural change has not been examined because tourism dimensions have been treated as synchronic data. The study only shows tourism as a structural component of the political and economic systems, with no relation to the process of development.

Tourism as a tool for fostering greater economic and political domination in the Third World has been the basis of more radical analysis of tourism. Studies of less-developed countries' "dependence" on the industrial states are not only descriptive of the structure of international trade, but are also qualitative and analytical in explaining tourism as part of the process of development and underdevelopment. These studies tend to be highly critical of economic growth relying upon foreign investment and the capitalist system.

G. Grynbaum (1971), in a study of tourism and underdevelopment in Latin America, describes how tourism, in the process of serving American business, works against local development. By diverting resources and capital away from the poor masses and into the hands of local capitalists and American multinationals, tourism contributes towards greater underdevelopment.

In similar fashion, L. Turner (1976) discusses how the tourist industry is dominated by the industrialized states which appropriate most of the benefits. As Turner has argued in a previous book (Turner & Ash, 1975), "it has become clear just how dependent the whole industry

is on the power of American, European, and Japanese companies. The advent of mass tourism has not yet improved the position of the Third World host nations within the total tourist transaction" (Turner, 1976: 15). Turner then goes on to state that the highly skewed distribution of economic and political benefits in these low growth economies leads to a greater degree of underdevelopment among the poorer people.

This approach attempts to characterize the structure of tourism as part of a production process that will not lead to self-sufficiency or development in the less-developed countries. Tourism is a package of export commodities that is subjected to the production conditions (prices, incomes, imports, policies, etc.) of developed countries. Economic and political dependence make the host country highly susceptible to disturbances from external forces (i.e. fluctuations in commodity prices and tourist demand). Moreover, tourism may exacerbate existent inequalities by affording the local elite increased economic and political power. As a result, pockets of wealth coexist with widespread unemployment and poverty in the rest of the economy, with little more than production in the primary sectors, independently producing domestic sectors (with few interlinkages), and a continuance of "plantation" type political and social processes.

The main weakness of studies of this nature has been the level of generality used to explain underdevelopment. Progress in applying this kind of structural analysis to tourism "will depend on the identification of specific patterns of development in a quantitative framework" (Varley, 1978:19). Developing countries have had different historical experiences due to different patterns of social and economic

relations in their development process. What role tourism plays in a country's growth pattern must be determined and the dependent variables isolated. A structural approach must examine the specialization of tourism services and demonstrate the relations to self-sufficiency and equitable socioeconomic development.

1.2 Scope of the Study

Literature on tourism in Sri Lanka is virtually non-existent, as it is with many other less-developed countries. Apart from the marketing profiles, survey reports and conference proceedings by the Ceylon Tourist Board⁴, there exists only a few outside independent reports (Economic Intelligence Unit, 1974; Goonatilake, 1978; Radke, 1975). This demonstrates the need for further independent research on tourism in Sri Lanka.

It has been the stated objective of the present Sri Lankan government to accommodate the international tourist industry and project the growth of every aspect of the industry in an effort to lure as much foreign currency as possible. The necessity of foreign exchange in Sri Lanka cannot be understated due to the growing demand for costly imports and the declining importance of traditional Sri Lankan exports. Yet, neither the government nor the foreign "tourist experts" have deemed it necessary to analyse tourism's viability and appropriateness in the development context or examine the social and economic costs to the local people. The absence of impact surveys and other forms of analysis attests to this fact. It has been assumed by some industry and government officials, unquestionably, that tourism would foster economic

and social development because it has benefited other less-developed countries. This kind of thinking reveals the ignorance and deception fostered by interests that lie outside developing regions⁵ and the extension of these interests among Sri Lanka's own "corporate elite" (Centre for Society and Religion, 1977).

This study is a broad structural analysis of tourism and its effects on Sri Lankan society. It is essentially prefatory and seeks to raise more questions than answers. It is based on the belief that a greater coordination is needed between planners, governments, academic researchers, and local people in order to adequately plan for development. Hopefully, then, this study will aid others formulate better questions and consequently envisage new avenues for social research.

FOOTNOTES TO CHAPTER 1

1. For a good bibliography on social science literature concerning tourism, see V. L. Smith (1977).
2. Economists typically use "shadow prices", or accounting prices, as a means of adjusting market prices to reflect more closely, in the economist's view, the products' scarcity values. Prices in the Third World do not reflect the true scarcity values on marginal productivities of their resources. The same is true with factors of production. Setting a shadow price allows costs to be estimated from the standpoint of the analyst, according to criteria the analyst deems justified; this reflects a conscious decision which has led critics to draw attention to potential individual bias:

The process of shadow pricing presupposes, first, a well defined social welfare function, expressed as a mathematical statement of the country's objectives, so that the marginal changes can be evaluated; and second, a precise understanding of the constraints and policies that determine the country's development, both now and in the future, and hence the existing or projected circumstances in which the marginal changes will occur. (Squire & Van der Tak, 1975:49)

Inevitably, cost-benefit analysis requires extensive value judgements by the analyst, which effectively conceal political and/or economic interests behind a highly technical project report. For a fuller discussion on fundamental problems of cost-benefit analysis, see E. J. Mishan (editor), Cost-Benefit Analysis: An Informal Introduction (London: Allen and Unwin, 1975); F. Stewart, "A Note on Cost-Benefit Analysis and Class Conflict in Lesser Development Countries", World

Development, 3(1), 1975.

3. R. G. Varley describes the tourism multiplier thus:

The relationship between an initial injection of tourist expenditure and the subsequent value added that is generated.... Constraining the creation of income are leakages from the system, particularly those of foreign exchange, arising out of the purchase of intermediate and capital goods from abroad and the repatriation of profits, which result in increased income to foreigners. At best the tourism multiplier should be regarded as a summary measure of the degree of linkage between tourism and other domestic sectors, and statements about the interdependence of tourism with other sectors are more meaningful when similar exercises are carried out for other sectors themselves. (1978:5)

Also, see J. Bryden (1973) for a critique on multiplier analysis in the Caribbean.

4. This includes reports compiled by outside tourist specialists for the Ceylon Tourist Board, such as the following: Ceylon Tourism Plan, by the firm of Harris, Kerr, Forster & Company (1967); Report on Tourism in Ceylon, by G. S. Kovach (1965), tourism advisor to the Middle East and Southeast Asia, United States Operation Mission; Tourism in Ceylon, by S. N. Chib (Colombo: Ministry of State, 1965), U. N. Advisor on Tourism to Ceylon; and, Report on the Prospects for Tourism Development in Ceylon, by H. D. Davis (Colombo: Ministry of Planning and Economic Affairs, 1968), of the International Bank for Reconstruction and Development (I.B.R.D.).
5. See, "Justifications for Tourist Development", Ceylon Tourism Plan, Harris, Kerr, Forster & Company (1967).

CHAPTER 2

THE DEVELOPMENT OF INTERNATIONAL TOURISM

2.1 Historical Development

Tourism is a recent phenomenon. This is particularly true of travel to areas outside of Europe. Transportation is the necessary pre-condition which demarcates the following three principal epochs of tourism: (1) travel prior to the Industrial Revolution; (2) the age of steam powered locomotion; and (3) post-1920s tourism - the epoch of internal combustion and civil aviation (Burkart & Medlik, 1974).

2.1.1 Prior to the Industrial Revolution

Travel prior to the Industrial Revolution was largely a matter of religious pilgrimages and of business purposes, and there was very limited private travel (Burkart & Medlik, 1974). The principal mode of transportation, until the eighteenth century, was the horse and wind-powered sailboat.

Toward the end of the Renaissance period, private travel among northern European aristocrats (mainly the British) to Italy and the Mediterranean developed into an important activity by which the wealthy young became "civilized" through exposure to southern European art, architecture, history, and manners. This concept of foreign travel became known as the "Grand Tour" - a part of the socialization and enculturation process of the ruling class. Tourism to the ruling elite

was not an activity separate from work, for leisure during this period was characteristic of social class. Thus, the "Grand Tourist" has been described as:

a member of an international elite whose aim it was to safeguard and perpetuate the interests of the ruling class.... It served as an education in culture, economics, history and political diplomacy. In many ways, then, the Grand Tour was not so much an escape or a rest from the day to day affairs, but an occupation of the aristocracy. The tour was itself a means for separating and maintaining the boundaries of nobility from "more" common folk. (Turner & Ash, 1975:33)

The scale of tourism prior to industrialization was very small and limited to only a fraction of the European population. For the majority, the idea of leisure and travel did not exist; life beyond the village and market district was an unexplored mystery.

2.1.2 The Steam Age

The changes the Industrial Revolution brought about in the economy and society had many important consequences for tourism. The dramatic growth and shift of population from the rural areas to the emerging industrial towns led to the creation of new purchasing power, stimulating consumer demand for foreign commodities (Burkart & Medlik, 1974:6). The dramatic upsurge in foreign trade was instrumental in broadening the base of tourism through innovations in transportation. By the nineteenth century, railways and steamships dominated the transport sector, providing a means of extended and efficient travel for the newly formed industrial middle class - a new wealthy elite that had adopted the idea of leisure as distinct from the work process.

The growing complexity of industrial life and the increased prosperity of industrial area residents led to a greater demand for

leisure services. The need arose for a travel organizer who could coordinate tourist services for the traveller on behalf of the hotels and transport firms. Thomas Cook was the first such organizer. With the support of hoteliers and the railway firms, Cook created the charter tour. By the 1880s, Thomas Cook provided tours throughout the European continent, the United States and parts of the Middle East, as well as banking and foreign exchange services, hotel coupons, and guide books. Before long, Thomas Cook & Son had offices situated in most parts of the world (Burkart & Medlik, 1974:15).

By the end of the nineteenth century tourism had become an established activity of the industrial elites. The military and political supremacy of the United Kingdom and France ensured that their citizens were treated in the finest fashion, suitable for bourgeois mentality. However, the idea of tourism also began to take hold of the lower working classes in the industrial centers, and the notion of an annual holiday began to take shape. Workers sought escape from the maladies and drudgery of industrialization, usually a trip to the countryside. International travel was still an expensive undertaking which was beyond their means.

2.1.3 Post-1920s Tourism

The First World War (1914-18) greatly accelerated the development of tourism through improvements made to the internal combustion engine and the creation of commercial air travel. The refinement in car manufacturing systems brought the price of cars down, profoundly changing the nature of regional tourism, and the formation of Imperial Airways in 1924 pioneered international travel for the richer tourist (Burkart &

Medlik, 1974:30). The tourism periphery had extended itself to such places as Bali and Tunisia for the aristocrat, to the Riviera for the industrial bourgeois, and to more regionally located, less expensive European and North American spots for the less wealthy. By 1939, the Holidays with Pay Act had secured the tourism activity for a considerable part of the British population (with other countries following), and a realizable goal for all (Burkart & Medlik, 1974:25).

The Great Depression of 1929-31 had a devastating effect on elite luxury tourism, particularly in the Riviera. Devoid of the big spenders, the exclusive pleasure reserves were no longer able to maintain the illusion of aristocratic grandeur. Prices fell in order to meet the demands of lower class tourists. The Riviera, and other established tourist enclaves, suddenly became the market for mass tourism. By the end of the 1930s, the scope of international tourism had become generalized as more and more people in the industrialized centers found it within their grasp to travel abroad for their holidays, on packages arranged by the numerous travel agencies. The idea of a paid holiday was the most single important factor contributing to the extension of tourism to the working people. Tourism ceased to become an activity of the elite; it became a national habit.

After the Second World War (1939-45) considerable improvements in transportation, particularly in aviation, created an enormous upsurge in travel. Americans began to find Europe as cheap to travel to as the Caribbean, and Europeans started to migrate towards the Caribbean for their holidays. The Japanese and Australians also became important travel markets. By the 1950s, international tourism had become a *mass*

activity. Tour operators found their traditional reserves being encroached upon by firms from other industrialized countries. Resort areas in the Caribbean, for example, found themselves competing with attractions in Europe, Africa, and even Asia for their traditional American clientele.

In the 1950s, world tourism statistics started to be seriously gathered; between 1950 and 1956 travel between O.E.C.D. (Organization for Economic Co-operation and Development) countries grew on the average by 14% per annum, and from 1956 into the 1960s the growth rate averaged around 10% (Young, 1973). Tour operators increased in numbers and power and became the principal medium of holiday travel. They were a significant factor in tourism's high growth rate since the 1950s.

The success of the operators in luring tourists by cheap tours led to increased competition between firms. As a result, three structural characteristics of modern mass tourism began to emerge. Firstly, increased competition between established tourist zones (e.g. Riviera, Mexico, Mediterranean) led tour operators to look to regions that were farther afield which were already fashionable spots for the richer, more adventuresome tourist - like resorts in Africa (Tunisia, Kenya, Tanzania), in Southeast Asia (Bali, Singapore, Thailand), as well as resorts in South America and the South Pacific. As tourist development extended to these regions another striking event was taking place - other tourist spots were losing their appeal. Consider, for example, Torremolinos, Spain. A poverty stricken village in 1955, by 1960 it had become one of the top fashionable resorts in Spain. A movie made nearby with Brigitte Bardot luring Hollywood buffs, a review by Playboy, and a novel written by James Mitchener, The Drifters, immortalised the region

(Turner & Ash, 1975:99). But when the stars left, so did its mystique and the tourists. Turner and Ash write:

There is nothing unusual about the rapidity of this change. After all, products have a limited life and, at the end of it, the industrialists replace them with new ones. But the "product" in tourism is not a car or cough mixture, but towns or regions which cannot be junked when the tourists choose to move on. Admittedly, the industry in its air-borne phase is too new for definitive statements but one suspects that we have created a series of totally artificial towns whose ultimate fate must be to be dynamited into the sea once the tourists lose interest in them. Certainly, the tourists will move on. That is what the impact of air travel is all about. (1975:99)

Finally, the third characteristic is the vertical integration of the tourist industry itself. The increase in competition between tourist firms on a global basis has led to an increase in capital concentration and the internationalization of units of production. Airlines have invested in hotels, tour operators have taken over the functions of travel agents, and banks and other credit institutions have entered the industry. The larger conglomerates of production units have had access to greater resources enabling them to streamline operations. This has afforded them an advantage in the marketplace, particularly with the increased costs of production. Pyramidal growth of the tourist industry in the form of multinational and multicorporational firms have resulted as they have penetrated each other's markets in their drive toward capital accumulation.

Amalgamation, in its latest stages, has increased interdependence between international firms and dependence of the Third World tourist economies on these firms. The consequences of this trend for developing countries is of central importance, politically, socially, as well as economically.

2.2 Modern Mass Tourism - The 60s and Beyond

By the early 1960s, jet travel made possible the spread of international mass tourism to more distant destinations. From 1960 to 1970 total tourist arrivals and expenditure receipts escalated at an average yearly growth rate of around 10% and, for some developing countries, at a much higher rate (World Bank, 1972). Its economic consequences cannot be overlooked: during the late 1960s and the 1970s it accounted for the largest single item in world trade. For some countries it has been the largest source of income, particularly small island countries such as in the Caribbean (Caribbean Ecumenical Consultation, 1971). Tables 2.1, 2.2 and 2.3 show the growth of international tourism, its growth in developing countries, and the share of developing countries in world trade and in international trade.

An important catalyst in the growth of international tourism in developing countries was the emphasis placed on its role in economic development by delegates at the United Nations Conference on International Travel and Tourism, held in Rome, 1963. Some of the important considerations were as follows:

In effect, the United Nations recognized that international tourism represented not only a promising source of foreign exchange for developing countries, and a powerful influence in stimulating industrial development, mobilizing natural resources and developing the services and communications industry (which are fundamental to economic growth), but that the industry also was labour intensive and could lead to greater employment opportunities. (Peters, 1969:13)

The priority given to tourism at this conference as a means for economic development was, in retrospect, an important factor in influencing certain developing countries to adopt international tourism as part of

their overall development plans.

Table 2.1

International Tourist Arrivals
and Receipts: 1950-1979

| <u>Years</u> | <u>Tourist Arrivals</u> ¹ | | Index | <u>Tourist Receipts</u> ² | |
|--------------|--------------------------------------|----------------------|-------|--------------------------------------|----------------------|
| | Numbers (million) | Annual Increase % | | Amount \$ billion | Annual Increase % |
| 1950 | 25.3 | - | 100 | - | - |
| 1958 | 55.3 | - | 219 | - | - |
| 1959 | 63.0 | 13.9 | 249 | - | - |
| 1960 | 71.2 | 13.0 | 281 | - | - |
| 1961 | 75.3 | 5.8 | 298 | - | - |
| 1962 | 81.4 | 8.1 | 322 | 7.8 | 6.8 |
| 1963 | 93.0 | 14.2 | 368 | 8.3 | 6.4 |
| 1964 | 108.0 | 16.1 | 427 | 9.6 | 15.7 |
| 1965 | 115.5 | 6.9 | 457 | 11.0 | 14.6 |
| 1966 | 130.8 | 13.2 | 517 | 12.5 | 13.6 |
| 1967 | 139.5 | 6.6 | 551 | 13.4 | 7.2 |
| 1968 | 139.7 | 0.1 | 552 | 13.8 | 3.0 |
| 1969 | 154.1 | 10.3 | 609 | 15.4 | 11.6 |
| 1970 | 168.4 | 9.3 | 666 | 17.9 | 16.2 |
| 1971 | 181.5 | 7.8 | 718 | 20.9 | 16.8 |
| 1972 | 198.0 | 9.1 | 783 | 24.2 | 15.8 |
| 1973 | 215.0 | 8.6 | 850 | 27.6 | 14.0 |
| 1974 | 201.4 | 6.3 | 796 | 34.1 | 23.6 |
| 1975 | 206.9 | 2.7 | 818 | 38.6 | 23.2 |
| 1976 | 227.0 | 9.7 | 897 | 43.7 | 13.2 |
| 1977 | 243.6 | 7.3 | 963 | 52.4 | 19.9 |
| 1978 | 259.2 | 6.4 | 1025 | 65.1 | 24.2 |
| 1979 | 270.0 | 4.2 | 1068 | 75.0 | 15.2 |

1. The World Tourism Organization definition of an international tourist is a person visiting a country other than that of permanent residence for at least 24 hours, whatever his motive for travel (i.e. business, holidays and other travel).

2. These figures exclude payments for international transport.

Sources: World Tourism Organization, Fifth Annual World Tourism Review (New York: American Express, 1980)
Young, G. (1973)

Table 2.2

The Growth of International Tourism
in Developing Countries: 1962-1973

| <u>Years</u> | <u>Tourist Arrivals</u> | | | <u>Tourist Receipts</u> | | |
|--------------|-------------------------|--------------------|---------------------|-------------------------|--------------------|---------------------|
| | Numbers '000 | Annual Growth % | % of World Total | Amount \$ million | Annual Growth % | % of World Total |
| 1962 | 5,973 | - | 7.3 | 1,468 | - | 18.8 |
| 1968 | 10,300 | - | 7.4 | 2,348 | - | 17.0 |
| 1969 | 13,374 | 29.8 | 8.7 | 2,539 | 8.1 | 16.5 |
| 1970 | 16,151 | 20.8 | 9.6 | 3,389 | 33.5 | 18.9 |
| 1971 | 20,100 | 24.4 | 11.1 | 3,865 | 14.0 | 18.5 |
| 1972 | 26,655 | 32.6 | 13.5 | 4,909 | 27.0 | 20.3 |
| 1973 | 29,400 | 10.3 | 13.7 | 5,737 | 16.9 | 20.8 |

Source: Varley (1978)

Table 2.3

The Share of Developing Countries in World Trade
and in International Tourism: 1962-1973

| <u>Years</u> | <u>Share of World Trade</u> | | <u>Share of Int'l. Tourism Receipts</u> | |
|--------------|-----------------------------|---------|---|---------|
| | Value \$ million | Share % | Value \$ million | Share % |
| 1962 | 29,100 | 20.5 | 1,468 | 18.8 |
| 1968 | 44,350 | 18.5 | 2,348 | 17.0 |
| 1969 | 49,520 | 18.1 | 2,539 | 16.5 |
| 1970 | 55,450 | 17.8 | 3,389 | 18.9 |
| 1971 | 63,010 | 18.0 | 3,865 | 18.5 |
| 1972 | 74,650 | 18.0 | 4,909 | 20.3 |
| 1973 | 102,500 | 18.1 | 5,737 | 20.3 |

Source: Varley (1978)

With more and more countries entering the travel trade, the growth and specialization of tourist services became increasingly noticeable. Travel agencies began to appear in large numbers, tour operators expanded to become the most vigorous sector of the holiday market, and airlines and the accommodation industry became closely associated. By the 1960s, the airlines, "concerned that the supply of

aircraft seats might outstrip the supply of hotel beds", entered the hotel industry (Burkart & Medlik, 1974:33). Pan American acquired the Intercontinental Hotel chain, TWA acquired the Hilton International, and other major airlines developed interests in hotels.

This vertical integration was not limited to airlines and hotels. Other multinational firms and banking institutions became involved; airlines and hotels became part of larger multinational concerns (e.g. International Telephone and Telegraph), tour operators became associated with credit firms and large retail enterprises (e.g. Sears), and other tourist-related services began to merge. Some tour operators have become so successful that they have been able to own and operate their own hotels and airlines, managing nearly the entire tourist product (e.g. Club Mediterranean). This integration has ensured these larger tourist enterprises greater control over market forces, and thus stronger bargaining positions with host countries, greater consumer exposure through monopolistic advertising, and, thirdly, greater stability in times of economic uncertainty and risk as a result of increased diversification.

Another important innovation contributing to the success of mass tourism has been "service standardization" within the firm: *franchising*. This has not only reduced cost in operation, but has also ensured that maintenance of operations is kept under company control. By specifying patent designs, the Hiltons, the Intercontinentals, the Holiday Inns, and the others protect their subsidiaries from outside competition. For developing countries harbouring foreign franchise outlets, this has entailed the formation of fewer internal linkages and a greater reliance

on external imports, technology, and management.

As the industry has matured and developed, a greater demand has also presented itself for holidays to more remote areas. High prices, poor services, and overcrowding in the traditional, overdeveloped resort areas has encouraged tourists to seek new destinations, like Sri Lanka or the Seychelles islands. This demand, coupled with the need for foreign exchange, employment, and development in these areas, has led to a rapid expansion, and, unplanned expansion, of the tourist industry in the less-developed countries. The economic, social, and cultural impacts brought about by rapid large-scale tourist development in these "undisturbed" regions is a new concern that calls for a more critical look at the scope and nature of international tourism.

2.3 The Impacts of Tourism

The impacts of tourism on the economic, social, and cultural aspects in a developing region are essentially the outcome of three variables: (1) tourist expenditure patterns, which vary over a long period of time with respect to changes in the tastes and incomes of tourists and the supply conditions of the industry; (2) investment, which occurs over a relatively short period of time; and (3) intercultural interactions - direct and indirect exposure of local residents to tourist lifestyles.

2.3.1 Tourist Expenditure Effects

Tourist expenditure initially effects those sectors that directly supply tourist needs, such as transportation, accommodation, food and

beverages, shopping, and leisure pursuits (recreation & entertainment). The income that is accrued by these primary factors of production goes toward employment costs as well as the purchase of intermediate goods - i.e. goods which are used in the production of other goods, rather than for final consumption, such as steel. Employment generated depends on the labour intensiveness of the sector, and its value is measured in the opportunity cost¹ of providing that type of employment. The income used for the purchase of intermediate goods then goes toward employment in that sector, as well as its purchase of intermediate goods. This process may repeat itself successively as income is distributed down the line of production. The measure of the relationship between the initial expenditure and the value added as the income distributes itself throughout the sectors is known as the "tourism multiplier". Essentially this is a summary measure of the degree of linkage between tourist services and other economic sectors (Varley, 1978:5). The more intensive the linkage between tourism and domestic sectors of production, as well as between these sectors, the more effective tourism is at distributing economic benefits throughout the host society.

Within developing countries there are a number of factors that constrain the creation and distribution of income throughout the economy. Because of the monopolization of tourist service firms by foreign based multinationals, much of the tourist development within developing countries is controlled by outside interests through investment capital, management, and transference of technology. In 1972 the World Bank estimated that, excluding travel costs which may amount to 60% of the total tourist expenditure, normally 60% to 75% goes on food and

accommodation. In many developing countries the accommodation sector is largely composed of capital-intensive hotels which purchase intermediate goods from a foreign dominated industrial sector or from foreign sources. The latter is particularly the case with small "open" economies, such as in the Caribbean. On the whole, studies have shown that tourism expenditure effects on value added within many developing countries are very small when compared to larger developed economies (Bryden, 1973; Elkan, 1975; Varley, 1978).

Because of the high import requirements of modern tourism developments, relatively little tourist expenditure finds its way into domestic sectors of production. Some stimulus may be given to growth in the informal and petty manufacturing sectors, but tourist expenditure appears to contribute little to growth in the formal traditional sectors. This is due to the fact that there are weak forward and backward linkages. Varley suggests that:

a transference of the technology of the modern hotel/resort to the developing countries is likely to generate high import requirements, relatively weak backward linkages and practically no forward linkages.... Forward linkages means that the supply of an output reduces the costs and/or increases availability of inputs to other sectors, thus expanding the range of productive opportunities, whilst backward linkages operate through the intermediate purchase of the industry. (1978:6)

Much tourist expenditure goes toward the purchase of capital (i.e. goods which are used in production and which have themselves been produced) and intermediate goods which, as a result of the structure of ownership and control, finds its way into the hands of the multinational enterprises rather than local production sectors. Furthermore, the domestic sectors which may be providing goods to the tourist sector are

generally susceptible to exploitation in terms of unequal exchange relations. Multinational tourist firms have access to worldwide sources of supply which gives them a competitive edge in market relations, even to the point where they can become price-setters. In this manner, the growth effect of tourist expenditure is effectively minimized for the developing region.

The fact that modern tourism developments tend to maintain few linkages with local production sectors does not preclude value added from being generated. All things considered, the ability to generate value added lies within the level of consumer demand. If tourism expenditure is appreciably high in modern resorts, the amount of value added (i.e. mark-ups) may be considerably higher than for less import-prone developments with few tourists. This has been the main argument put forward by planners justifying capital-intensive developments. However, this policy does not ensure an equitable distribution of benefits throughout the economy as more labour-intensive resorts are designed to offer.

Another way in which tourist expenditure may fail to benefit the host society is through the abuse of foreign exchange controls and other tax evasion strategies by the international firms. Varley suggests that "transfer pricing" may be one method:

for example, expenditure made by tourists in the tourist-generating countries for goods and services to be supplied in the receiving country may not be made to the foreign owned domestic enterprise or, alternatively, may be understated as part of a multinational tax-minimizing strategy. (1978:7)

Furthermore, he suggests, travellers' cheques and credit card transactions complicate matters by avoiding local banking channels which

benefit from exchange rates.

The most important effect of tourist expenditure in a developing region is through employment. Writing of Fuenterrabia in Spain, Greenwood states: "The major impact of tourism on local people over the past twenty-five years can be summed up in one word: jobs" (de Kadt, 1979:34). Tourist expenditure varies considerably between developing areas, depending on the size and structure of the industry, as well as the social and economic conditions of the host country. In some small island economies, like Bermuda, tourist expenditure may go towards the employment of 50% of the labour force, whereas in other islands, such as Tahiti, Bali, or Malta, employment generated may be less than 5% of the labour force (de Kadt, 1979:36). However, indirect employment may account for a much larger proportion of the labour force that is not normally given consideration.

Tourist expenditure in the formal sector (e.g. hotels, etc.) goes toward direct employment as part of the overall investment costs. Its impact is a function of the scale of operations; employment opportunities created by direct investment are fueled by the size of the tourist expenditure. Income distribution occurs within the structure of the industry as a form of trickle down through the cost system. As such, the labour intensity of a resort may be determined by the proportion of its total costs paid out in wages to its workers (Marshall, 1977).

Indirect employment created within the formal sector depends on the degree of linkage between sectors meeting final tourist demand and other local producing sectors (Varley, 1978:10). In Tunisia, for example, there are three to four persons indirectly employed for every

hotel employee, whereas in Kenya indirect employment is only around 1.75 persons for each hotel job (de Kadt, 1979:39). Tourist resort areas with few linkages with domestic sectors suggest a relatively low "tourism employment multiplier" (i.e. the ratio of total (direct and indirect) to direct employment). Evidently, the generation of indirect employment in the formal sector depends upon whether import-substituting policies are adopted, strengthening intersectoral linkages, or foreign exchange maximization followed through high mark-ups on imported goods. The distribution of benefits to the local people is the burden of proof as to which strategy is most effective.

Employment in the informal sector is a direct function of tourist expenditure rather than investment. In fact, considerable employment may be informally generated through tourist expenditure (high demand) by small-scale entrepreneurs offering goods and services directly to tourists. Street vendors, unregistered guides, beach boys, prostitutes, touters, and so on, comprise this sector. Informal sector employment is an important but much neglected area of study (International Labour Organization, 1972). In many cases, this sector can provide more opportunities for employment than the formal sector, depending on demand and other factors, such as government policy. Prostitution, for example, is a source of informal employment that is openly tolerated in some countries (e.g. Thailand) but not in others.

Finally, tourist expenditure is a source of government revenue. Direct taxation on tourists, collected as entrance fees, and indirect taxes on consumer items, help finance the generally heavy infrastructure costs. But, for many developing countries, government revenue from

tourist taxation may be negligible because of concessions granted to the industry, which claim that taxes would act as a disincentive to potential tourists.

2.3.2 Investment Effects

The effects of tourism investment expenditure are principally in the formal sector, mainly in construction and transportation. Again, the degree to which expenditure benefits the local economy is dependent upon the strength and number of linkages created with domestic producing sectors. The type of tourist development strongly affects import content. In cases where the accommodation sector is dominated by foreign franchises, like the Hiltons or Holiday Inns, construction and operational maintenance expenditures (including salaries to expatriate technical and management personnel) will be more import-intensive than forms of domestic construction.

The amount of employment generated by investment tends to be positively related to the size of operation and, initially, is an important feature of tourism development. Modern resort construction may temporarily relieve unemployment strains but the short life span of the investment period often leads to later structural problems. As de Kadt states (quoting Green), "a building boom in tourism causes serious problems in the construction sector. Initial demand strains capacity and pushes up prices; then after the tourism sector enters a period of moderate growth there are major adjustments as the construction industry contracts" (1979:41). Inflation and the transformation of land usage may bring drastic changes to social and economic relations, such as in cases where tenants are forced off high rent lands to find work in urban

areas. de Kadt (quoting Noronha) states that "tourism cycles can mean unemployment of many who have been attracted to urban areas by tourism. The unemployed would then find themselves living in tropical slums, frustrated and unable to return to a substandard lifestyle" (1979:41).

"Structural unemployment" caused by this contraction in the construction sector, and uneven investment in other sectors, is especially serious in smaller economies where the construction industry is the major employer (Varley, 1978). Luxury modern resorts tend to generate more employment per room but the high cost per work place and the few intersectoral linkages inevitably lead to employment problems in small "open" economies lacking a diversified resource base. As Elkan (1975) shows in his survey of tourism employment in Kenya and Tanzania, tourism as an employment creator is greatly dependent upon the policies pursued (foreign exchange maximization vs import-substitution) with regard to the form of tourist resort development. Elkan discovered that the larger the hotel, the higher the cost per work place, and this often surpasses capital-labour ratios in the manufacturing sector. Elkan states:

Some forms of capital formation in industry have as their very object to replace labour by machines; in such a case, the effect of capital formation would in any case be to reduce employment, not to increase it.... it is nevertheless surprising - and quite contrary to common belief - that the cost of creating one hotel job should be apparently so much higher than in manufacturing.... Everything, in a sense, depends upon the linkage or indirect effects created by tourism. (1975:129)

Investment expenditure, like tourist expenditure, provides additional revenue for the host government through import taxation, exchange controls, and the like². But, as described earlier, the bargaining leverage of the international firms has effectively minimized

revenue through tax and import concessions.

2.3.3 Social Effects

The important feature that distinguishes tourism from other exporting activities in developing countries is the fact that tourists must come to the developing country in order to consume the product.

"It is the consequences of this confrontation, rather than the consequences of the mode of production *per se*" that has been ignored by economists and tourist management experts (Bryden, 1973:92). As commented on by the World Council of Churches:

An excessive number of tourists can generate social strains in small and unsophisticated communities. The human effect, on this scale and on the international scale, of competition for tourist "consumers" has been given too little attention and deserves serious research. (1970:21)

Modern resort tourism in developing countries, and particularly rural areas, give rise to various social dislocations. In Malta, for example, family ties have been loosened and intergenerational conflicts have emerged as a result of changing social values among the youth working in tourism (de Kadt, 1979:43). Contact with rich white tourists has also brought about some significant changes in social life in the Seychelles - "an increasing matriarchal family, for example, and growing resentment of tourists by the displaced Seychellois male" (Wilson, 1979: 224). It was noted that hotel jobs are particularly attractive in the Seychelles because they bring the girls into contact with Europeans. Parents often turn a blind eye to their daughters' fraternizing with such people, whereas to associate with Seychellois men in a similar fashion would not be tolerated. Other social researchers have also

drawn attention to important social changes in rural lifestyles as a result of tourism³.

In most developing countries nurturing large-scale tourism, the tourist is protected as much as possible, by the tourist organizers, from the human degradation, poverty and exploitation that exists outside the confines of the resort area. "The Moroccan government, for example, has built miles of walls to hide shanty towns outside Rabat from the tourists' gaze" (Asong, 1973:28). And luxury air-conditioned vans whisk tourists to their feature location, allowing only glimpses of the true cultural life of the destitute. The fact that tourists are pampered in luxury is suggested by some to give rise to feelings of relative deprivation and, thus, resentment (Bryden, 1973). Demas (1963) has raised this problem in relation to tourist developments, land usage and inflation in the Caribbean. And Wilson has also suspected this to be the case in the Seychelles:

"the feeling of relative deprivation may be compounded by historical inequalities associated with membership of a racial group". This may be one factor that contributes to an increasing resentment shown toward tourists by many Seychellois. One indication of how visitors to the islands are perceived by the Seychellois themselves is that the word "tourist" has been mistranslated into Creole as tous riches (all rich). (1979:230)

Another type of social effect, and, indeed, another explanation of local resentment toward tourism, is the so-called *corrosive effect* of tourism on the culture and value system of the host country (Bryden, 1973, Turner & Ash, 1975, Wilson, 1979). Under this effect, local culture is commercially exploited and devalued, leading to a loss of dignity and self-realization among the local people who perform in front

of "goggling strangers". Bishop Ban It Chiu of the World Council of Churches states:

People in Southeast Asia who were at the receiving end of the tourist boom often felt that they were made into something like a human zoo. Tourists came along to see "the natives" and to study the odd habits of the natives. Local people were thus encouraged to be "interesting natives" and go through traditional movements for the benefit of goggling strangers. It robbed a people of their dignity to be treated as zoo-objects. (World Council of Churches, 1970:31)

Yet, it can also be said that "tourist interest" in local culture and artifacts has stimulated a local pride in, and enthusiasm for, local culture and traditional arts and crafts (McKean, 1972; Silva, 1978; Wilson, 1979). The resurgence in "native folklore" and domestic cottage industries has been seen by many to be a positive social and cultural effect attributable to tourism, though, it must be pointed out, there is little evidence to substantiate the fact that commercialization and stimulation of the *production* of culture is indicative of a "cultural revival". This is an area that is in need of further research by cultural anthropologists.

The growth of tourism in developing regions, and, concomitantly, the growth of commercial outlets in general, increases the exposure of the local population to the Western value system which the tourist industry reflects. This encourages the spread of commercialized tourist/host relations throughout the tourist sector which, if not managed properly in promotional literature, could lead to dissatisfaction and resentment between tourist and host (Bryden, 1973). This has already led to social conflict in various "fun-loving" tourist paradises (Grynbaum, 1976).

Finally, intercultural contact is also said to bring about social change through what is commonly referred to as the *demonstration effect* - the adoption of tourist attitudes, values and behaviour by local residents. Greenwood (1972), for example, noted that in Fuenterrabia local people began to emulate lifestyles similar to that of the middle-class tourists they saw. Varley (1978) noticed similar patterns among the local people directly employed in the industry in Fiji, and Wilson (1979) writes of the adoption of European attitudes and behaviour among the Seychellois. Some claim that this demonstration is positive because it encourages people to work for things they have not got, and some see it as a negative social effect because it leads to increased Western-style consumption patterns and hence a higher marginal propensity to import (Bryden, 1973:95). Analysis of the tourist demonstration effect, however, is extremely difficult because tourism is only one factor among many agents of change. The media (radio, press, advertising, billboards, television) may also be identified with demonstration effects, thus confounding the tourism variable. Or, as Wilson suggests, the emulation of Western ways and increased consumption of imported commodities can be "interpreted not so much as emulation of tourists - the demonstration effect - but rather as a predictable emphasis on and extension of existing cultural values and priorities (1979:230). As such, the demonstration effect is a loose and vague concept that is difficult to observe empirically and, by itself, is weak in explaining social change.

2.4 Summary

1. This chapter started with a brief historical analysis of the development of international mass tourism. Transportation developments marked three eras of tourism development: (1) the era prior to the Industrial Revolution - characterized by the "Grand Tour"; (2) the steam age - characterized by increased mobility and prosperity in the industrializing centers, establishing tourism as an activity for the wealthy middle-class industrialists; and (3) the post-1920s era - characterized by the refinement of transportation modes, the "Holiday with Pay", and the specialization of tourist services, transforming "elite tourism" into an activity realized by all people in the industrialized regions. It was during this era that international mass tourism became established.

2. The growth of tourism since the 1950s has been marked by increased global competition between tourist enterprises, leading to greater tourist development in less-developed countries and the vertical integration of the industry into larger and more diversified firms. This increased scope of power of the international tourist firms has lessened the ability of the less-developed countries to control their own tourist development.

3. The impacts of tourism development in the less developed regions of the world are the result of three basic variables: (1) tourist expenditure patterns; (2) investment expenditures; and (3) tourist/host interactions. It was suggested that the benefits of tourist and investment expenditure on the social and economic well-being of the local people is a function of the number and strength of internal linkages the

tourist sector has with domestic sectors of production. This directly translates into jobs and income for rural residents. It was further suggested that structural imbalances in tourist expenditure and investment patterns, as evidenced by the construction of capital-intensive resorts in poor rural areas lacking infrastructure, leads to a variety of social and economic problems. Finally, the social effects of intercultural interactions were discussed. It was noted that international tourism gave rise to certain social changes in developing regions and, in some cases, has had negative consequences. It was emphasized that research in this aspect of tourism has been lacking and that future research is needed to complement economic analysis of tourism in less-developed countries.

FOOTNOTES TO CHAPTER 2

1. In economics, it is appropriate to define the cost of providing employment in terms of the value of alternatives or other opportunities which have to be foregone in order to create employment in that sector; opportunity cost is concerned with the sacrifice involved in achieving this.
2. The government may make additional returns if it chooses to also invest in this activity, such as in Sri Lanka.
3. Various conferences have been held on the subject of tourism's social and cultural effects. See, de Kadt (1979), Farrell (1977), Finney & Watson (1975), and Smith (1976).

CHAPTER 3

TOURISM IN SRI LANKA

3.1 The Setting

3.1.1 Historical Background

Sri Lanka is a compact island of 25,000 square miles located centrally in the Indian Ocean at the entrance to the Bay of Bengal, 22 miles off the southern tip of Peninsular India. Widely known as *Ceylon*¹, the country's official name prior to 1972, Sri Lanka has had throughout its history close links with the Indian subcontinent with which it shares many of its basic cultural traits (de Silva, 1974). But, despite its location and historical links with India, Sri Lanka has evolved and developed, socially and economically, quite apart from its larger neighbour. One reason explaining Sri Lanka's distinctiveness has been its centrality in the Indian Ocean which led to early colonization by seafaring traders and its eventual transformation into an "export economy" -- "an economic system in which productive activity is heavily oriented toward supplying a few primary commodities to the world market and consumption is largely made up of imported goods" (Snodgrass, 1966:16).

The impact of the first two European nations to govern Sri Lanka, the Portuguese (1597-1658) and the Dutch (1658-1796), had been limited to a narrow coastal belt. Their interests in Sri Lanka were principally concerned with controlling the trade of aromatics, cinnamon, pearls and ivory, as well as the proselytization of Christianity. Both of these

powers did little to alter the feudal political, social and economic structure of the Sinhalese and Tamil kingdoms in the interior.

By 1796 Dutch power passed into the hands of the British East Indian Company, which by this time had secured control over the Indian subcontinent. British interests in the early years centered on the cinnamon trade and it was not until the 1840s, with the introduction of the coffee plantation, that Sri Lanka transformed into an export economy. Snodgrass, quoting a leading historian's reaction to the revolution, writes:

Bringing with it new modes of economic behaviour and a host of concepts foreign to the prevailing economic system, it ate quickly into the foundations of the existing structure. Capitalism had arrived, and it is with its advent that the island's modern economic history takes its start. A virile commercial agriculture soon displaced in importance the old pursuits of the people and within the short space of a few years coffee had made itself responsible for almost a third of the Government's income.... Thus did Ceylon dance to the coffee-growers' tune for the greater part of the 19th century. In the process a new economic structure began slowly to evolve. The factors of production - land, labour and capital - took on a new meaning; roads, railways and ports appeared where there had been none before, political affairs were invested with a novel significance, and class in the modern sense of the term began its slow growth. Along with these developments a money economy emerged, bringing with it a consciousness of prices, profit, wages, rent and credit.... (1966:17)

The boom in the coffee industry was shortlived. Unstable world prices and the effects of a severe fungus decimated the product by the year 1886. But, before coffee had collapsed, farsighted planters and officials had begun to divert their attention toward the development of other crops, such as tea, rubber and coconut. The shift to these later products did not fundamentally alter the structure of the plantation

system. They, in turn, monopolized the export economy, retaining all the basic characteristics of the earlier industry: British ownership and management; British financing; large-scale, factory-style operations using imported Indian labour; control of the import-export trade by the British; complete reliance on imported supplies; and complete reliance on principally British markets for the product (Snodgrass, 1966:21). Subsistence peasant agriculture, on the other hand, suffered immeasurably from the diversion of local resources to the plantation sector. Principally, local agriculturalists lost much of their prime agricultural land in the wet zone areas (where nearly all rice cultivation was carried on), in addition to subsidizing the export crops through taxation payments.

One of the most far-reaching effects of the growth of the estate sector prior to Independence was the emergence of a class of relatively wealthy indigenous elites who were involved in various export enterprises, such as transport agents, merchants, contractors, etc. The new capitalist class used their wealth for the education of their children in British universities, a feature which was to have profound consequences on the future political situation (de Silva, 1974:74).

By the turn of the century, the English-educated, Western-oriented indigenous middle class had gradually replaced the Britishers in administrative positions and became very active in the political arena. Reform movements sprang up alongside growing nationalism:

Progressive reforms and gradualism in constitutional development characterized the demands of the Ceylonese nationalists. In this sense Sri Lanka was the ideal colony which saw a peaceful transition from dependence to self-government.... It was the top elite that was involved, not the lower layers. (Wilson, 1974:126)

From 1931 to Independence the conservative national elites were essentially in political control, under British constitution. Having interests themselves in the workings of the estate sector, the indigenous elites sought to maintain the system but, at the same time, pandered to their constituencies with generous social welfare measures. In this context, the larger issues of economic development tended to be overlooked by the contending parties trying to win popularity with short-term political policies (Wilson, 1974:127).

3.1.2 Independence

After 17 years of internal self rule, Sri Lanka was granted Independence in 1948. The transfer of power had been accomplished with an unusual degree of continuity and without political struggle and mass action. But, as time was to show, "Independence changed several of the key elements of the classical system, contributing in large degree to the increasing difficulty of maintaining the colonial pattern of international flows during the 1950s" (Snodgrass, 1966:81). The supply of foreign capital was severely curtailed by the decline in world commodity prices, while the labour supply had increased at an alarming rate, placing a tremendous strain on resources. In response, the newly formed Sri Lankan government sought to rectify problems through increased imports and substantially increased expenditures on transfer payments and social services, depleting existing foreign assets and leading to a balance of payments deficit that governments from then on would have to contend with.

Sri Lanka's development problems became increasingly intractable because economic priorities and growth objectives had been displaced by social objectives. Attempts to deal with these problems became a political

football over which the conservative and socialist forces battled for control.

3.1.3 Objectives and Policies

Sri Lanka's political scene has been one of periodic changes of government and development strategies, resembling the swinging of a pendulum between poles of free enterprise and socialism. The conservative United National Party (U.N.P.) was the first indigenous party to take office. They initially improved upon the "colonial pattern" by giving high priority to the development of peasant agriculture, leaving industrial development to the private sector (Dahanayake, 1977:12). But the resultant deceleration in export agriculture and the failure to stimulate industrial development constrained capital formation and import-substitution (with the exception of rice).

The Sri Lanka Freedom Party (S.L.F.P.) took office from the U.N.P. in 1956 (under the coalition of the Mahajana Eksath Peramuna - the M.E.P. - meaning People's United Front) and immediately shifted emphasis to industry. In contrast to the U.N.P., the S.L.F.P. pursued goals of economic nationalism and socialism, favouring policies of import-substitution over free enterprise and foreign exchange maximization. While the U.N.P. took an ideologically outward-looking stance subscribing to an "open" economy (i.e. free trade, free entry of foreign investments, a free domestic market system, and a flexible currency system), the S.L.F.P. subscribed to an inward-looking "closed" economy (principally after 1960), concerning themselves with social welfare and the protection of national interests through public ownership and restrictions on foreign investments and imports.

The periods of "open" and "closed" development policies closely follow the terms each party was in office (with the exception of 1956-60): the U.N.P. held office during 1948-56, four months in 1960, and 1965-70 under the leadership of D. S. Senanayake. They were again elected in 1977 under J. R. Jaywardene. The S.L.F.P. (and various coalitions) held office under the leadership of the Bandaranaike family during 1956-60 (under the M.E.P.), 1960-65, and 1970-77 (with the United Front).

Since Independence several attempts at accelerating economic development have been made, but none could be implemented successfully (Dahanayake, 1977:201). After 1956 export earnings declined dramatically and Sri Lanka found itself unable to independently finance the growing demand for imports. Compounding the problem, net foreign capital inflow dwindled and unemployment soared to the highest level in Asia. Both the U.N.P. and the M.E.P. tried to cope with these problems by increasing export earnings. An open economic period ensued, characterized by:

1. Export promotion policies that were confined to traditional items: tea, rubber and coconut.
2. Inflationary fiscal operations without counteracting monetary policies.
3. Failure to regulate imports with a sound tariff policy, according to the availability of foreign exchange resources.
4. An industrial policy favouring state ownership and control of heavy industries. (Dahanayake, 1977:203)

The rate of increase in imports and the growing imbalance in trade forced a reversal in trends; a closed economy period of inward-looking policies followed from 1961-66. These included:

1. Qualitative restrictions on imports.
2. Maintenance of an over-valued exchange rate through exchange controls.
3. Continuation of the policy of state ownership with greater emphasis on import-substitution.
4. Continuation of production subsidies to traditional exports. (Dahanayake, 1977:203)

These restrictions on imports (particularly capital and intermediate goods) and the lack of needed foreign exchange limited the growth of export-oriented industries. Traditional exports thus continued to dominate the country's export sector.

By 1966, outward-looking strategies were again initiated. In order to reduce the dependence on export commodities, which were not very stable markets, industrial development policies offered attractive concessions to both local and foreign private investors, and the introduction of the Foreign Exchange Entitlement Certificates (F.E.E.C.) Scheme² liberalized import restrictions. Industrial production grew considerably and it was during this period that tourism development entered its "take-off" stage. The outward-looking policies were short-lived, however, for by 1970 the S.L.F.P. had reintroduced protective measures (though still retaining a modified F.E.E.C. Scheme). Unfortunately, the trade deficit continued to mount as foreign exchange earnings fell, despite the efforts to curb imports. Finally, increased difficulties in the foreign trade sector, rising unemployment and slow economic growth led to the defeat of the S.L.F.P. coalition by the U.N.P. in 1977, ushering in another era of open economic policies.

In keeping with party philosophy, the present U.N.P. government has given priority to foreign exchange maximization strategies in an effort to bring about a rapid transformation in industry. The government's objectives in the present context can be summarized as follows:

1. To encourage export-led industrial development in preference to import-substitution oriented industrial development that has characterized the period since the late fifties, (with the exception of the 1965-70 period).

2. To attract both foreign and local capital, technical know how, and management skills, for production for export and for international marketing with a view to expanding export earnings.
3. To provide new employment opportunities for Sri Lankans.
4. To free the development of exports from the constraints imposed by the inadequacy of development banking facilities, foreign exchange shortages, import/export controls, custom regulations, as well as fiscal measures geared to revenue collection and income distribution. (Department of Information, 1979:3)

The establishment of a Free Trade Zone³ and increased tax benefits announced in the recent budget are steps taken toward achieving these goals. Of particular interest in this respect is the tourist and gem industries. Both of these sectors are considered to be leaders in providing the much needed foreign exchange and employment outside the traditional export sector.

3.2 Development of Tourism

Unlike the industrialized countries, Sri Lanka is without a tradition of tourism. Early travel was principally a religious undertaking to the shrines of Anuradhapura, Polonnaruwa, or Adam's Peak, and travel was strictly domestic and very limited. Prior to the colonial period, there was only a small inflow/outflow of Tamils between India and northern regions of the island (Kovach, 1965).

Tourism in Sri Lanka has always followed the orientation of a host country. It was during the British colonial era that tourism, in the Western sense, found its first expression. Luxurious resthouses and hotels of magnificent grandeur, such as the famous Grand Hotel in Nuwara Eliya, the Queens Hotel in Kandy, and the Galle Face, Taprobane, and Mount Lavinia Hotels in the Colombo region, were constructed during the

British period to cater mainly to the English public servant and planter. Although tourism statistics prior to 1948 were not reliable, early figures suggest that tourism during colonial times was probably substantial, relatively speaking (see Tables 3.1 and 3.2).

Sri Lanka set up its first Tourist Board in 1937. Three years later World War II brought its activities to a close, notably reducing the number of European visitors to the island. In 1948 a second Tourist Bureau was established, this time governed by Sri Lankans. Relative prosperity and stable foreign relations aided the tourism business enormously in gaining respect and confidence. From 1948 to 1953 tourism receipts doubled from Rs 5 million (\$ 1.04 million) to Rs 11 million (\$ 2.23 million). This provided the industry greater government recognition and in 1954 tourism was included in the Six-Year Programme of Investment for economic development (Goonatilake, 1978). However, it was during this period (1954-60) that tourism rapidly declined; receipts dropped by Rs 5 million and arrivals by approximately 30,000. Leading hotels, particularly in the interior, experienced unbelievably low occupancy rates⁴: the Grand Hotel hit a low of 7.73% for three years, while other well-known establishments experienced rates ranging from 14% to 32% (Kovach, 1965:15).

Provisions made for tourism expenditure under the investment programme were not carried out as planned. Underexpenditure on improving resthouses was as high as 80% in the fiscal year 1956/57 and 90% in the year 1957/58. Promotion budgets also dropped by 50% (Kovach, 1965:15-16). As a result, tourism development failed to take root. To some members of the S.L.F.P. cabinet, the international tourist industry was just another

Table 3.1

Tourist Arrivals: 1950-1978
(By Selected Country of Nationality)

| <u>Year</u> | <u>U.K.</u> | <u>Western Europe</u> | | | <u>Japan</u> | <u>India</u> | <u>Australasia</u> | <u>North America</u> | <u>TOTAL</u> |
|-------------|-------------|-----------------------|---------------|--------------|--------------|--------------|--------------------|----------------------|--------------|
| | | <u>West Germany</u> | <u>France</u> | <u>TOTAL</u> | | | | | |
| 1950 | 4,527* | - | - | - | - | 39,584 | - | - | 47,102 |
| 1952 | 8,454* | - | - | - | - | 53,016 | - | - | 66,185 |
| 1954 | 9,134* | - | - | - | - | 42,996 | - | - | 59,111 |
| 1956 | 8,439* | - | - | - | - | 32,033 | - | - | 52,156 |
| 1958 | 7,708* | - | - | - | - | 19,449 | - | - | 37,367 |
| 1960 | n.a. | - | - | - | - | n.a. | - | - | n.a. |
| 1961 | 8,007 | - | - | - | - | 10,053 | 1,189 | 4,841 | 27,777 |
| 1962 | 7,070 | - | - | - | - | 10,291 | 1,080 | 4,541 | 26,397 |
| 1963 | 7,125 | - | - | - | - | 3,337 | 936 | 4,021 | 18,440 |
| 1964 | 8,084 | - | - | - | - | 2,870 | 827 | 3,511 | 18,872 |
| 1965 | 8,015 | - | - | - | - | 4,663 | 752 | 3,265 | 19,781 |
| 1966 | 7,990 | - | - | - | - | 3,644 | 856 | 3,277 | 18,969 |
| 1967 | n.a. | - | - | - | - | 4,623 | - | - | 23,666 |
| 1968 | n.a. | - | - | - | - | 6,803 | - | - | 28,272 |
| 1969 | n.a. | - | - | - | - | 8,401 | - | - | 40,204 |
| 1970 | 5,484 | 5,771 | 4,480 | 22,924 | 1,043 | 10,686 | 1,378 | 5,826 | 46,247 |
| 1971 | 4,865 | 5,888 | 3,618 | 23,263 | 1,036 | 6,097 | 1,081 | 3,936 | 39,654 |
| 1972 | 6,084 | 8,627 | 6,353 | 33,877 | 1,501 | 7,843 | 1,409 | 4,914 | 56,047 |
| 1973 | 7,464 | 10,286 | 12,417 | 50,704 | 2,888 | 7,754 | 1,809 | 5,974 | 77,888 |
| 1974 | 6,969 | 13,893 | 10,839 | 56,309 | 3,013 | 6,773 | 2,502 | 6,271 | 85,011 |
| 1975 | 8,756 | 15,497 | 11,093 | 60,660 | 8,281 | 7,808 | 3,638 | 7,823 | 103,204 |
| 1976 | 9,376 | 19,788 | 11,360 | 73,149 | 8,514 | 7,959 | 4,120 | 7,685 | 118,971 |
| 1977 | 12,428 | 29,722 | 17,555 | 104,726 | 9,076 | 8,647 | 5,407 | 10,137 | 153,665 |
| 1978 | 14,274 | 37,032 | 23,813 | 128,234 | 8,730 | 14,627 | 6,510 | 12,426 | 192,592 |

* commonwealth status

Sources: Ceylon Tourist Board (1979)
Kovach (1965)

Figure 3.1

Tourist Arrivals: 1950-1978

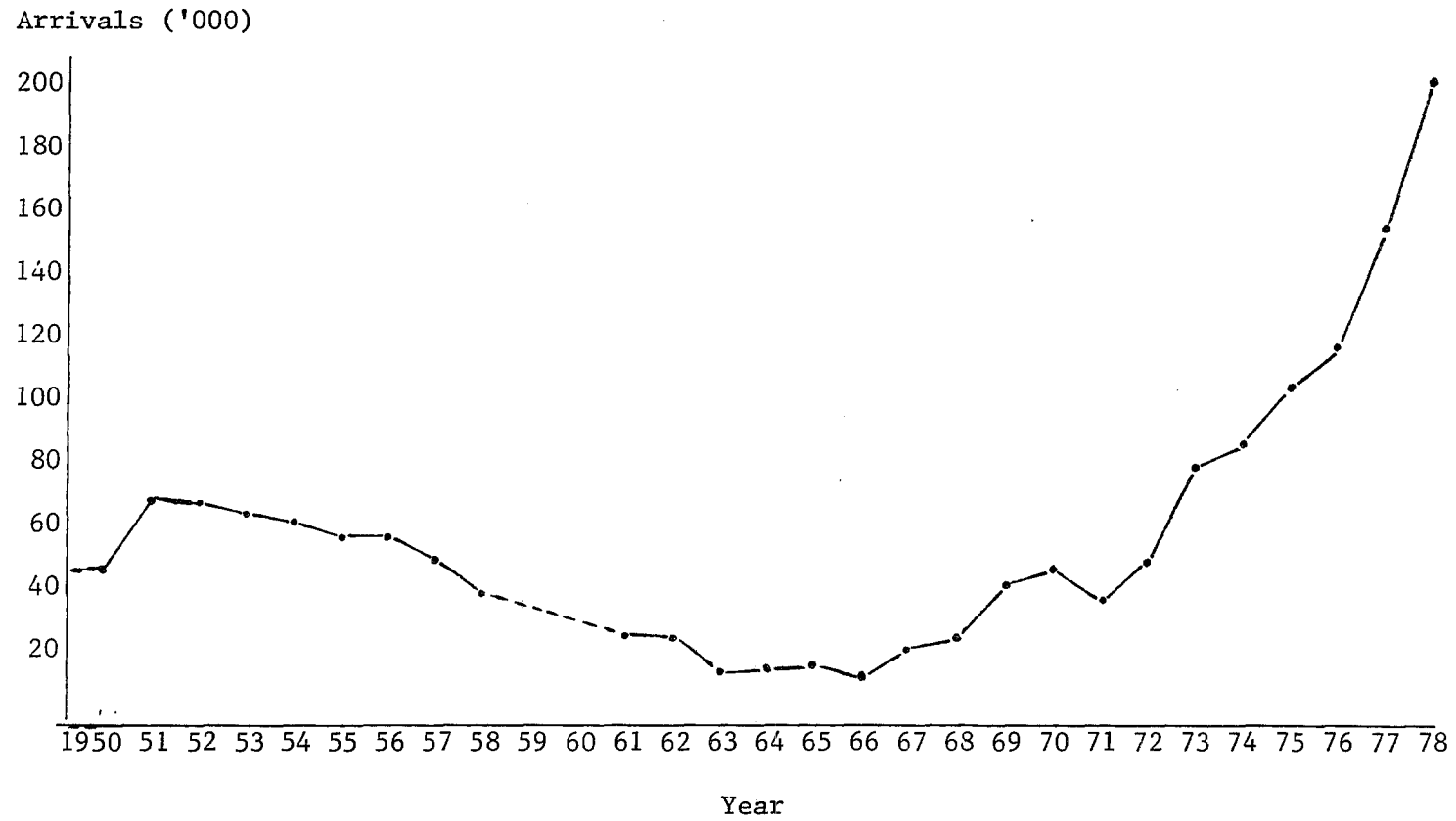


Table 3.2

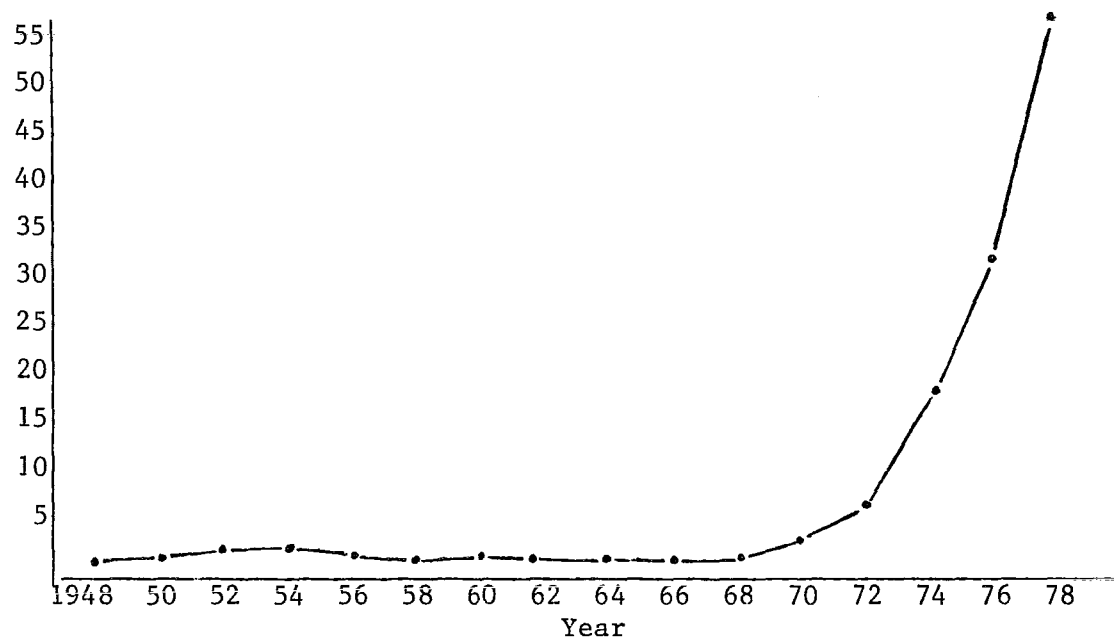
Tourism Receipts: 1948-1978
(\$ million)

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 1948 | 1.040 | 1964 | 1.147 |
| 1949 | n.a. | 1965 | 1.271 |
| 1950 | 1.260 | 1966 | 1.285 |
| 1951 | n.a. | 1967 | 1.211 |
| 1952 | 2.230 | 1968 | 1.710 |
| 1953 | n.a. | 1969 | 2.862 |
| 1954 | 2.070 | 1970 | 3.600 |
| 1955 | n.a. | 1971 | 3.400 |
| 1956 | 1.720 | 1972 | 7.300 |
| 1957 | n.a. | 1973 | 12.800 |
| 1958 | 1.260 | 1974 | 16.400 |
| 1959 | n.a. | 1975 | 22.400 |
| 1960 | n.a. | 1976 | 28.200 |
| 1961 | 1.609 | 1977 | 40.000 |
| 1962 | 1.106 | 1978 | 55.800 |
| 1963 | 1.162 | | |

Figure 3.2

Tourism Receipts: 1948-1978

\$ million



instrument of international capitalism - imperialistic and anti-development oriented. And international tourism was, in all respects, tangential to the basic development strategy pursued by the S.L.F.P. regime, that being to improve domestic forms of production.

During 1960-64, a second term dominated by the S.L.F.P. in government office, tourism continued to decline in traffic, receipts, and importance. Tourism development experienced a standstill under the directionless and loosely organized Tourist Bureau. If the Bandaranaike government had expressed awareness of the potentialities that tourism afforded, as suggested by Professor J. Wilson (1974:98), it certainly did not act accordingly. In fact, a continuation of poor publicity, poor management, poor accommodation maintenance, extensive red tape, and a poor investment climate were among the main reasons given for tourism's failure in a report to government by G. S. Kovach, tourism advisor of the United States Operations Mission:

Close review of the operational results of the Tourist Bureau over the past six years, wherein heavy losses were incurred and accounts were delayed for three years, reveals that the resthouse losses totalling \$67,000 perhaps could have been avoided; and that judging by India's earnings rising to \$34.9 million in one year, Ceylon's touristic earnings generally should not have suffered a 40% drop of \$950,000 if real know-how were applied. (1965:31)

Perhaps as a consequence of Kovach's report, and/or due to the political interests of certain people (since tourism was assigned to the Ministry of External Affairs in 1961), the Tourist Bureau made some attempts to improve the situation. A few of the Bureau's own resthouses were upgraded and private operators were urged to do the same (though most did not for lack of funds), plans were made to build a state-operated

Hotel school, and a new international airport began construction, with financial and technical aid from the Canadian government. In addition, the government openly invited applications from investors for the construction of "medium-sized" hotels in the Ceylon Government Gazette, No. 14,230 of November 20, 1964. Some incentives were made available but it was evident that import constraints and other nationalist protective measures were more than enough to keep international tourist firms at bay. In fact, looking backward from 1965, with the exception of one 20-room hotel, there had not been any significant tourism developments for over thirty years.

When the U.N.P. regained political power in 1965 they quickly took steps to stimulate the tourist industry. Recognized as a potential foreign exchange earner and employment creator, tourism seemed to be part of a remedy to current economic ills. Healthy tourism was also a statement to the industrialized countries that Sri Lanka was a propitious place for investment in other industrial and manufacturing sectors, like in Singapore and Hong Kong.

In 1966 a number of important developments occurred that were ultimately responsible for Sri Lanka's "take-off" into the international tourism marketplace. In March of that year a Ministry of Planning and Economic Affairs was created with the responsibility of formulating a foreign exchange budget. As part of its mandate, the Ministry issued a "White Paper" on foreign investment providing for new tax holidays, depreciation allowances, and a range of other concessions to lure foreign capital. As a means for promoting tourism, the Ministry issued a special policy for tourism investors⁵. Later, in May, the Ceylon Tourist Board

and the Ceylon Hotels Corporation were created as official arms of the government in tourism promotion, planning and development. The Board immediately hired a consortium of firms from the U.S.A.⁶, spearheaded by Harris, Kerr, Forster and Company, accountants from Hawaii, to propose a development plan for the industry. After only three months research on the island, this team compiled a "ten-year" tourism plan that literally became the blueprint for tourism development. Throughout the plan the emphasis was placed on the need for increased government expenditure on infrastructure and increased investment inducements if future developments were to take place (see APPENDIX B).

Basically, the plan divided the country into five resort development zones (see APPENDIX A):

1. Colombo Resort Region: from Negombo to Mt. Lavinia.
Attractions: central to city activities; beaches; scenery.
2. South Coast Resort Region: from Bentota to the Yala Preserve.
Attractions: beaches; cultural and historic areas; scenery and wildlife.
3. Hill Country Resort Region: vicinity around Nuwara Eliya.
Attractions: scenery, tea gardens, mountain climate.
4. Historic Areas Resort Region: triangular area from Kandy to Anuradhapura to Polonnaruwa.
Attractions: historic ruins and cultural wonders; ancient religious centers.
5. East Coast Resort Region: from Trincomalee to Batticaloa.
Attractions: beaches, scenery and wildlife.

Since 1967 most of the large-scale developments have been in the Colombo and South Coast regions. Just recently, massive construction has begun on a resort development complex in Trincomalee. Completely devoid of infrastructure, this development will encompass over 1000 acres of land and offer numerous attractions to the foreign visitor:

It is proposed that Clappenburg Bay be used for sailboat and fishing boat marinas. An 18-hole golf course is sited inland adjacent to Sweat Bay.... situated on knolls, are a series of cluster residential developments. These can be permanent homes for retired families, vacation cottages, or golfers' cottages operated by the hotels. A botanical garden is (also) planned.... (Harris, et al., 1967:109)

The recommendations and proposed developments in the plan have been followed very closely by the Tourist Board. As a pre-packaged, made-to-order model for tourism development, it did not give strong consideration to the specific needs of local residents. Stating only that Sri Lankans would benefit economically, Harris, Kerr, Forster & Co. focussed their attention on the needs of the international tourist firms and the Western tourist. As a plan for attracting foreign tourists and enterprises, it was ultimately successful, and for this reason it suited its purpose for the Sri Lankan government. But, what the impacts of this tourism plant on society at large might be was a question that was not considered.

During the years 1967 and 1968 two more economic measures were introduced which had favourable effects on tourism development: the devaluation of the Sri Lanka rupee and the F.E.E.C. import-liberalization scheme. Following the devaluation of the Pound Sterling by 14.3%, the Sri Lanka rupee was devalued by 20% in November, 1967 (Dahanayake, 1977: 112). This move was designed to make Sri Lanka's goods and services more competitive in the world marketplace⁷. Despite the devaluation, export earnings still continued to fall. In response, a dual rate for foreign exchange was introduced to increase price incentives. This became known as the Foreign Exchange Entitlement Certificates (F.E.E.C.) Scheme. Briefly, it provided a system whereby certain categories of imports were

allowed without any quota restrictions but were to be paid at a higher rate of exchange than the official rate. In addition to the increased rupee value made possible by the devaluation, tourists would receive a cash bonus on their foreign currency at exchange centres. This bonus was equivalent to the F.E.E.C. rate (65%). Table 3.2 reveals substantial increases in receipts after 1968 (the periodic setback in 1971 was due to widespread civil disturbances).

1968 also saw the enactment of the Tourist Development Act⁸. This act made possible the acquisition of land for the purpose of development by the Tourist Board, the establishment of national resort holidays, and the protection of national landmarks, park areas and wildlife.

By 1969, a number of hotels had been constructed and many more were on the drawing board. Increased budget allocations to the Tourist Board during the period 1965-70 made this development possible, as well as set the stage for further expansion.

The election in May, 1970, brought about another change in the political administration. Consistent with party philosophy, the new S.L.F.P. government reintroduced import control measures and public sector oriented industrialization strategies. Mr. T. B. Subasinghe, in a statement to Ceylon Today, summarized the government's position:

We are definitely committed to a socialist policy.... Socialism means that in industry - basic industries - those that are most essential to society - would be either state owned or to a certain extent controlled by the state to meet the needs of the people.... (in regards to foreign capital) the economic growth of this country can be achieved mainly by our own efforts. The contribution that foreign capital can make can only be marginal. (1970: September/October, pp.29,33)

Tourism development fell in importance with the inception of the new government, as well as the rate of investment growth, due to the re-establishment of control measures. The grants received from the government by the Tourist Board declined by 60% from 1969/70 to 1970/71, and the Tourist Board budget remained low for the next five years (Ceylon Tourist Board, 1974). Nevertheless, resort construction continued to expand during this period. Various multinational hotels were constructed (e.g. Holiday Inn, Intercontinental, Oberoi), and international tourist firms also increased operations (e.g. Kuoni, Neckermann). These developments were not, as it may seem, the direct result of favourable actions taken by the S.L.F.P. towards touristic investment. Rather, they were in response to earlier incentives implemented and negotiations conducted with the Tourist Board, contracts and incentive arrangements that the S.L.F.P. did not completely undo (Dahanayake, 1977). The emphasis, however, shifted from the development of large, capital-intensive complexes to "medium-sized" units, locally owned and operated. This was to ensure greater local participation in the industry and stronger (and more) linkages with other local economic sectors, particularly in manufacturing and food processing. Furthermore, the S.L.F.P. stressed the need for the state to control foreign tourist investments.

Throughout the 1970-77 period there was a considerable amount of construction of accommodation facilities. In fact, room supply began to exceed the demand for accommodation forcing the government to put a hold on large resort development approvals after 1974. As occupancy rates declined as a result of oversupply and resorts experienced increased revenue losses, it became evident that earlier projected demands were

overstated (Ceylon Tourist Board, 1976). In response, greater promotional efforts were resumed in 1976 and a greater collaboration with foreign enterprises was formed. The strong commitment to tourism by the previous government had finally taken its toll. The S.L.F.P. felt the dependency created and now began to shift gears in an effort to increase tourism traffic for the sake of employment and the survival of their own national resorts.

In 1977 the pro-west U.N.P. was elected back into office. The rise in import prices, the decline in traditional export earnings, and the growing rate of unemployment which the country had experienced moved the U.N.P. farther to the political right. The extreme foreign exchange maximization strategy thus implemented significantly raised the importance of international tourism development. This led to a rapid increase in touristic companies being incorporated and a substantial increase in tourism project approvals.

3.3 The Tourists

In 1978, 192,592 tourists visited Sri Lanka. Most of the visitors came from Western Europe (67%) and Asia (19%), while North America provided only 6%, Eastern Europe 3%, the Middle East and Africa 1%, and Australasia 3% of the market share (Ceylon Tourist Board, 1979). Most of the tourists described their purpose of visit as pleasure (92.3%). the sex, age, and occupational distribution of the tourists are given in Table 3.3.

Table 3.3
Tourist Profile: 1978

| | |
|--------------------------|-------|
| Male | 60.8% |
| Female | 39.2 |
| Age Group: 3 - 19 | 5.9% |
| 20 - 29 | 26.1 |
| 30 - 39 | 28.3 |
| 40 - 49 | 18.0 |
| 50 - 59 | 13.4 |
| 60 & Over | 8.3 |
| Businessmen | 11.4% |
| Professionals | 4.8 |
| Executives | 11.6 |
| Scientists & Technicians | 12.1 |
| Educationists | 6.2 |
| Other occupations | 25.1 |
| No occupation | 26.2 |
| Retired persons | 2.6 |

Source: Ceylon Tourist Board, 1979

Of particular interest are the reasons why tourists chose Sri Lanka as their holiday destination and what they expect to find (and do) during their stay. Surveys carried out by the Tourist Board (Samaranayake, 1970, 1972), Pacific Area Travel Association (P.A.T.A.), and the Economic Intelligence Unit (1974) reveal carefully structured perceptions that were generated through various means of tourist publicity in the countries of tourist origin. 67% of the tourists who came to Sri Lanka in 1978 travelled on package tours promoting various aspects of Sri Lanka. Practically all of the literature material distributed by the tour operators emphasized the exotic, cultural, historic and leisure aspects of the island. Knowing the importance tourist perception plays in the industry, the Ceylon Tourism Plan (Harris, et al., 1967), in reference to the P.A.T.A. survey of 1966, has emphasized Sri Lanka's

"exoticism" as the most important publicity factor.

The image motivation study carried out in 1972 by the Economic Intelligence Unit supported the earlier P.A.T.A. findings. On the basis of its survey it recommended that the following tourism theme for Sri Lanka be promoted:

A charming tropical island with beautiful natural scenery, intriguing culture and customs, historic old buildings, and relics, fascinating temples, a wide range of tours and activities to be indulged in, a warm friendly artistic people who produce a fine range of craft work, an atmosphere of peace and relaxation, warm sunshine and uncluttered beaches, a range of hotels to suit all tastes and means, and a variety of evening entertainment; a unique blend -- it is called Sri Lanka, resplendent isle. (1974:74)

The exotic image conjured up in the minds of most tourists to Sri Lanka was further substantiated in a survey of charter tourists conducted by the Tourist Board (Samaranayake, 1972). In that survey, 74.3% of the respondents stated that their decision to visit Sri Lanka was a result of tourist publicity.

The expectations built up by the publicity are all part of the business or commercialization of "exoticism". These expectations are catered to within a well defined institutional setting: staged Kanyan dancing; well protected beach areas; day tours off the beaten track to elephant country; or a visit to a "primitive" Veddah village, the aboriginal hunting/gathering people of Sri Lanka. On the basis of the tourist responses, two-thirds described their stay as most enjoyable and that most expectations had been met.

Another interesting finding in the Tourist Board survey was the need expressed by most tourists for accommodation facilities that did not differ significantly from that found in their home countries. Security

and comfortable surroundings ranked high in importance for 75% of those surveyed. The exotic aspect built up in the literature was the attractive feature of the country, so long as this could be experienced within the comfort of familiar surroundings, such as a modern hotel or touring van.

This "enclavic" attitude has been a factor in the development of resorts that strongly resemble forts from the outside; tall walls surround many of the hotels and uniformed security guards patrol the grounds. In some of the more exclusive resorts patrons are urged not to go out late in the night. In addition, the government's Tourist Police assure the tourist maximum protection from "outside undesirable influences". Their responsibilities include the control of beggars, local prostitutes, and other poverty indicators from coming in contact with the tourist. As Goonatilake has observed, this enclave tourism "constitutes islands of affluence within the country, walled in and separate from the rest of the population" (1978:7).

The type of tourist who prefers the "home away from home" environment - the Holiday Inn and the Intercontinental - is referred to here as the *institutional tourist*⁹. This tourist was found to display attitudes of a colonial nature within the resort environment in Sri Lanka. These attitudes have been nurtured by the tourist literature distributed in the developed countries, where the people in Sri Lanka have been pictured as friendly and most willing to look after the needs of the tourist. Exposure to hordes of accommodating servants within the resorts has only served to reinforce feelings of superiority on the part of tourists, and this in turn has evoked stereotypical responses from resort workers toward their economic "masters".

It has also been observed that the more prolonged this type of interaction between the tourist and the local workers takes place within this highly institutionalized setting, the more acute discrimination becomes. Goonatilake states:

Longer exposure to the country often elicits in the tourist stereotypical views of the locals based on both race and colonial attitudes. Thus, local personnel are viewed not only as the fun-loving inhabitants of paradise as they were described in the tourist literature, but also as simple-minded inferiors, in accordance with the colonial tradition. These attitudes are reinforced by the structure of interaction within the tourist industry itself. (1978:8)

The consequence of this interaction between the *institutional tourist* and the concomitant *institutional servant* has been a relationship of brittle shallowness. More recently, occasions have arisen where interpersonal conflict within various tourist resorts has broken the surface. The hospitality that the industry projects has, in these instances, been lacking.

In contrast to the mass, *institutional tourist* are the *non-institutional* types (e.g. the adventurer, the hippy, etc.). This class of tourist has come with a different set of needs and expectations and consequently has a different impact on the host society. They are characterized as non-institutional for, unlike the majority of those surveyed, their expenditure patterns and motivations for coming to Sri Lanka do not place a high demand on functioning within an environment similar to that in their own society. *Non-institutional tourists* abhor enclavism; they tend to stay longer and move around much more. As lower income tourists, they stay in the lower class guesthouses, youth hostels, and private residences.

3.4 The Structure of the Industry

The tourist industry is based in the capital city, Colombo, through which over 92% of all tourists enter the country. It is the center of business activities for approximately 94% of all tour agencies and 47% of the existing graded accommodation establishments. The principal tourist services are, of course, supplied by the airlines serving Sri Lanka. At the destination, however, accommodation, catering, tour services and entertainment constitute the primary tourist services. The coordinating agency for these services is the national tourist organization - the Ceylon Tourist Board. This section will examine these components and their relations to each other and the international tourist market.

3.4.1 Ceylon Tourist Board

The objectives of the Tourist Board are to ensure that Sri Lanka accrues the maximum possible social and economic benefit from international tourism. This benefit, from the government's point of view, is measurable by the number of jobs created and the amount of foreign exchange brought into the country. It also is said to go beyond tourism into other export-oriented sectors. As C. N. de Zoysa, Chairman of the Tourist Board, stated: the Tourist Board is responsible for introducing a "national outlook" or image to other countries, to promote this image and attract foreign businesses (1978:2,3).

The Tourist Board is concerned mainly with four areas of activities: (1) regulations and administration; (2) development; (3) promotion; and (4) financing.

The regulation and administration are concerned with the personnel of the board, its relation within the government, the imple-

mentation of standards and codes of operation for resorts, restaurants, tourist shops, agencies, and other services, and frontier formalities (customs, etc.). A tourist police force has been established under the Board to enforce these regulations and codes of conduct.

Development is concerned with all the activities that make up the entire tourism product. This includes the development of the country's resources, infrastructure, facilities, hotel school training and recruitment, cultural tourism, and developing links between different sectors within the tourist industry.

The promotion section is concerned with research into the principal and potential tourist markets (size, characteristics, etc.), sales promotion and marketing, and international relations with governments and tourist bodies. The Board presently maintains membership in the World Tourism Organization (W.T.O.), Pacific Area Travel Association (P.A.T.A.), The Travel Research Association (T.T.R.A.), The American Society of Travel Agents (A.S.T.A.), and the International Congress and Convention Association (I.C.C.A.).

Finally, the Board, on behalf of the government, finances tourism ventures and channels funds for international agencies, like the World Bank and the International Development Research Centre, into tourism projects and research studies. Most of its expenditures go toward National Holiday Resorts, resthouses, and the hotel school.

Its sister agency, the Ceylon Hotels Corporation, is an entirely separate government body that owns and operates hotels and restaurants, transport firms, and tourist shops. The Corporation functions in much the same way a private corporation would, entering into profit sharing with

other enterprises, and so on. Its major obstacles are its own inabilities to promote itself in the tourist-generating countries.

3.4.2 Airlines

Presently fourteen scheduled airlines operate services to Sri Lanka and account for the majority of tourist arrivals. Carriers which service most of the international flights are: Singapore International Airlines (S.I.A.), Swissair, British Airways, U.T.A., and K.L.M. Air Maldives, I.A.C., Thia Airways, and Air Ceylon accounted for most of the intraregional traffic (see Table 3.4). During 1978, Condor, Belair, Scanair, Sterling Airways, L.T.U., J.A.L., and Air Montana operated charter services. (Scheduled airline figures also include charter inclusive tourists as they provide services for charter extension tours to neighbouring countries (Ceylon Tourist Board, 1979:8).

Table 3.4

Percentage Distribution of Arrivals

| <u>Carrier</u> | <u>1969</u> | <u>1972</u> | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interregional flights: | 39.9 | 35.3 | 32.7 | 37.7 | 37.6 | 36.1 | 34.2 |
| Intraregional flights: | 29.8 | 24.0 | 28.4 | 27.1 | 24.9 | 29.4 | 32.6 |
| Charter flights: | 16.3 | 31.2 | 31.7 | 28.0 | 31.1 | 28.7 | 26.0 |
| <u>TOTAL AIR:</u> | <u>86.0</u> | <u>90.5</u> | <u>92.8</u> | <u>92.8</u> | <u>93.6</u> | <u>94.2</u> | <u>92.8</u> |
| Passenger ships: | 2.6 | 1.0 | 0.5 | 0.6 | 0.3 | 0.3 | 0.2 |
| Ferry boat: | 11.4 | 8.5 | 6.7 | 6.6 | 6.1 | 5.5 | 7.0 |
| <u>TOTAL SEA:</u> | <u>14.0</u> | <u>9.5</u> | <u>7.2</u> | <u>7.2</u> | <u>6.4</u> | <u>5.8</u> | <u>7.2</u> |

Source: Ceylon Tourist Board, 1979

Sri Lanka's Air Ceylon has been an important source of foreign exchange to the government. Total operating revenue in 1975, for example, was \$13.4 million, less the outflow of foreign exchange calculated at \$3.55 million (slightly less than half the total tourism earnings for that year). Yet, ironically, the airline has itself become a victim of the U.N.P.'s foreign exchange maximization policies. In granting landing rights to nearly any major airline, the government's "open skies" policy has effectively finished Air Ceylon's competitiveness in foreign markets.

Prior to 1978, the national airline managed quite well out of Southeast Asia and India, carrying about 60% and 40% of the arrivals respectively, but fared less well in the major tourist-generating regions in Europe (Asia Trade, February, 1977). In 1978, Air Ceylon's services in the international sector were suspended, as well as drastically curtailed in the intraregional sector. In 1979, total operations were abandoned and the national government handed the management reins over to S.I.A. under the airline's new name, Air Lanka.

As a joint venture of S.I.A., Air Lanka now extends Singapore's airline control over Asia and Europe. There has not yet been any firm decision on the degree of control and ownership the Sri Lanka government will maintain over the airline, but it is expected that this move will undoubtedly increase airflow through the island. Whether or not the foreign exchange benefits will outweigh the benefits of operating a solely owned national airline is a debatable issue that must account for employment losses and political and economic dependency.

3.4.3 Resort Operations

Sri Lanka offers a wide range of tourist accommodation units (resorts). The Tourist Board has categorized these establishments into: Hotels, Rest Houses, Guest Houses, Economy units, Paying Guest units, and Park/Estate Bungalows. Hotels, Rest Houses and Guest Houses are further graded on the basis of the type of facilities offered (see Appendix C). For purposes of analysis, these gradings are grouped into the following categories: Class I (graded three, four, and five star hotels), Class II ("A" grade resorts), Class III ("B" and "C" grade resorts), and Class IV (ungraded establishments - e.g. economy units, etc.).

Class I resorts consist of all the major multinational and modern hotels and resthouses. These resorts cater exclusively to the high-spending tourist, are highly capital-intensive, and have large import expenditures in order to accommodate the demands of their Western consumers. Class II resorts consist of the grade "A" luxury guesthouses. They are also capital-intensive and cater to the high-spending tourist. They are distinguished from Class I resorts because of their smaller scale of operation. Class III and IV resorts cater to the low-spending domestic and *non-institutional* tourist. They have extremely low room costs and minimal market exposure; visitors often discover these places through informal means (e.g. word of mouth) or local advertising.

Since the late 1960s, the growth of all classes of establishments has been quite substantial. Class I and II resorts are responsible for most of the rooms in service (109 units / 5265 rooms), though Class III and IV establishments number only slightly less (84 units / 752 rooms).

Despite the high growth rate in tourist arrivals since 1968, the growth rate of available rooms has actually exceeded demand in most regions of the island. Five star hotels have been able to maintain high occupancy rates because of block bookings by foreign tour operators, but many lower grade Class I and II resorts outside urban areas have suffered because of their weak business links with the major foreign tourist firms. On the other hand, Class III and IV establishments have remained viable and, in some regions, have prospered because of the growing number of young travellers to the island.

The effect of room oversupply is seen in Table 3.5. The recent improvement in occupancy levels (5.7% over 1977/78) has been due to the high rate of tourism growth. However, room expansion has also kept above the growth in occupancy rates (10.2% over 1977/78). Consequently, many of the modern resorts have continued to experience financial hardships. These establishments were constructed with loans on the basis of 60% to 70% occupancy rates which, to date, few have yet to achieve.

Table 3.5

Occupancy Rates by Region: 1969-1978 (%)

| <u>Region</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Colombo - City | 71.2 | 62.6 | 43.4 | 46.4 | 43.3 | 48.4 | 48.4 | 48.5 | 49.6 | 62.2 |
| - Greater: | 48.1 | 53.4 | 35.7 | 49.9 | 52.1 | 43.2 | 38.8 | 43.4 | 47.4 | 47.8 |
| South Coast: | 44.1 | 40.6 | 28.9 | 38.1 | 46.2 | 39.1 | 33.4 | 36.0 | 42.0 | 41.6 |
| East Coast: | 24.1 | 25.7 | 16.3 | 23.4 | 34.1 | 26.6 | 24.0 | 18.3 | 30.3 | 45.3 |
| Hill Country: | 21.7 | 23.1 | 16.0 | 13.3 | 17.5 | 16.5 | 16.2 | 18.7 | 26.3 | 31.2 |
| Ancient Cities: | 37.8 | 37.9 | 27.8 | 36.7 | 41.8 | 37.2 | 32.7 | 30.3 | 33.9 | 40.6 |
| Northern: | 23.8 | 22.5 | 19.8 | 23.1 | 20.4 | 13.2 | 17.5 | 17.6 | 16.7 | 17.1 |
| ALL REGIONS: | 44.3 | 42.8 | 31.1 | 38.8 | 42.4 | 39.7 | 36.8 | 37.7 | 42.0 | 47.7 |

Source: Ceylon Tourist Board, 1979

Class I and II resorts import nearly all of their intermediate and capital goods. Many of these items are highly technical modern goods which have no local substitutes (e.g. stereos, air conditioners, etc.). Even if local products were available it is doubtful if they would find their way into the tourist sector because of the special marketing arrangements that have developed to provide these resorts with imported goods.

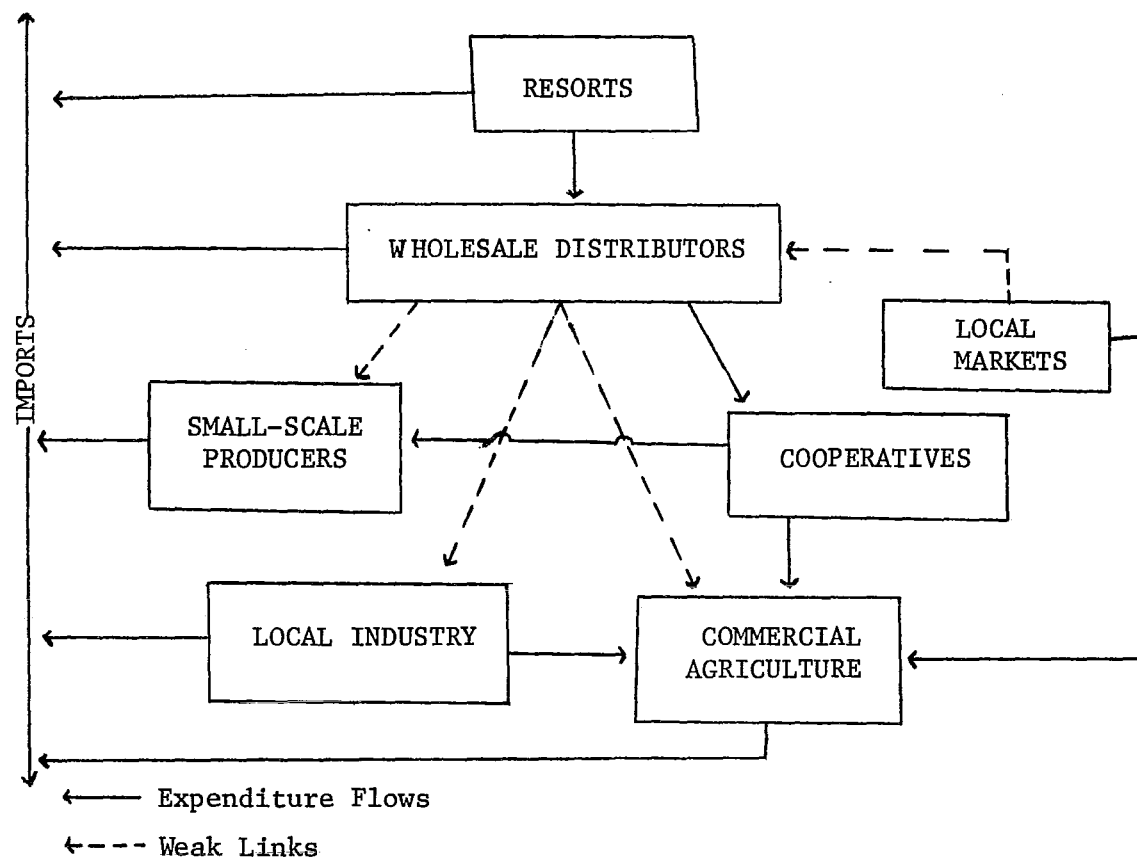
Class I and II resorts purchase their requirements from large wholesale distributors who deal exclusively with foreign export firms and local cooperatives (see Figure 3.3), and only in a very limited way with local producers and manufacturers. Local products reach the resorts primarily through multipurpose cooperatives via these distributors. Yet, contrary to common belief, even food items that are available locally end up being imported in processed form. Canned goods from Singapore are favoured over readily available fresh products because, it was stated by one hotel manager, these items are much easier to store and are quicker to prepare.

Purchases of local foodstuffs are confined to fruits, vegetables, rice, some highly savoured fish products (lobster, crab, etc.), and some locally consumed goods. A basic problem with servicing the hotel sector with local food products is the low production of Western food items. Meat, for example, is a commodity that faces production problems because of the high cost of stock feed. And productivity in the fish industry has declined because of increased operation costs (Department of Census & Statistics, 1977). What food and beverage items are available in processed form on the island are not purchased in any great quantity

because of the "refined" cultural tastes of the *institutional tourist*.

Figure 3.3

Expenditure Flows in Class I & II Resorts*



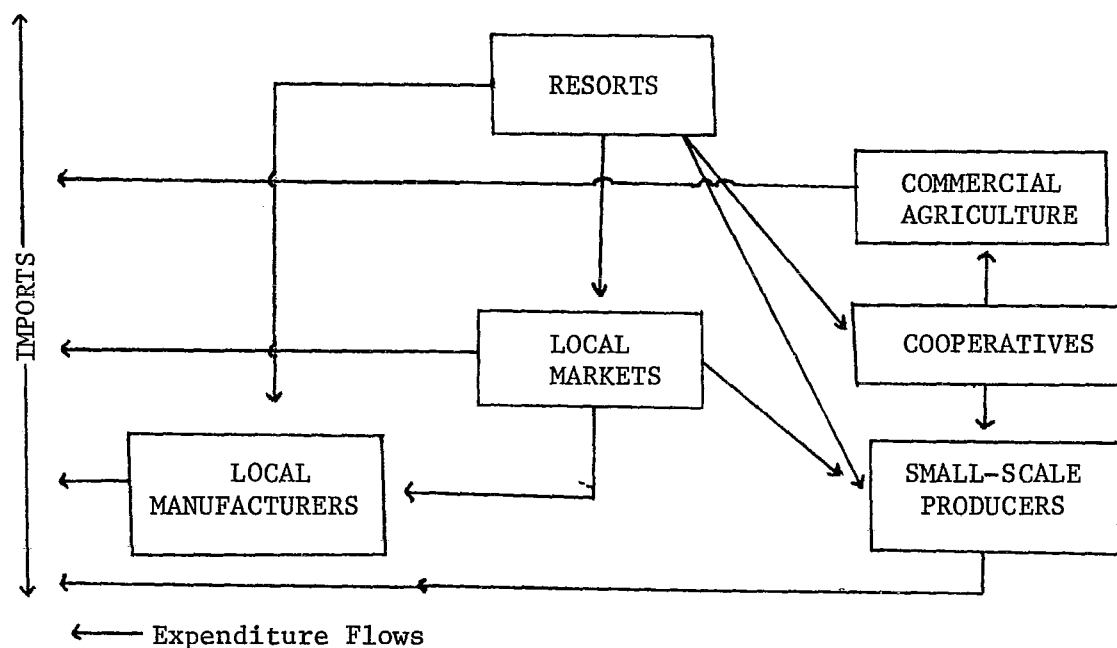
* A similar flowchart is used by Varley (1978)

The operations of the Class III and IV local resorts rely extensively upon locally produced and manufactured goods. These resorts purchase their supplies (what the proprietors do not manufacture themselves) directly from local markets, rural producers, and cooperatives (see Figure 3.4). The number of linkages established marks how well these resorts are structurally in balance with other local sectors of the economy. Catering to small numbers of tourists with fewer demands for

Western culture, these resorts are highly cost efficient to the extent that they provide local substitutes for imports. Resorts with the greatest articulation with the local producing sectors are most often found in the most rural parts of the country, along the East Coast and in the Hill region, as well as areas located outside the tourist resort zones. The smaller the scale of operation is also a factor.

Figure 3.4

Expenditure Flows in Class III & IV Resorts



The emphasis on capital-intensive resorts is part of the U.N.P. plan for a rapid economic transformation using foreign capital as the catalyst. These resorts adversely affect the growth of import-substitution and local industry in the country by relying heavily on foreign markets for their operational supplies. Wholesale distributors essentially block a balanced distribution of foreign exchange by channelling capital to the large supply firms, most of which are foreign. In this fashion, foreign

exchange earnings are maximized to the fullest extent but are concentrated in only the few tourist firms and foreign support industries. In contrast, the smaller local resorts maintain numerous linkages with the local sectors, contributing to a more balanced distribution of commodity and capital flows. This balanced system retards rapid growth, but provides a better basis for sustained growth and economic viability in times of declining tourist traffic.

3.4.4 Travel Agents and Tour Organizers

Travel agencies abound in Sri Lanka. Presently there are approximately 170 registered agencies with the Tourist Board and it is not known how many other unregistered agencies also seek to distribute the tourism product. Many of the registered agencies are affiliates of major tour operating firms in the industrialized countries, such as Interlink, L.T.U., Touropa, Hapag Lloyd, and others. About a quarter of all registered agents are also members of international travel associations, such as P.A.T.A.

Class I and II resorts have tour facilities that are registered as agencies. Some of them also work as tour operators, arranging travel packages to India and the Maldives islands as an extension to the tourist's Sri Lanka package. For the most part, though, agents in Sri Lanka act principally as guides and retailers.

The travel agency business has provided a means to promote various local industries for Sri Lankan entrepreneurs. Many retailers in the gem and handicraft business have entered the tourism sector as certified travel agents in order to better promote their products. This has permitted them to legally wander in and out of airports and other

tourist gathering places, accosting tourists with their services with no fear of being removed by the tourist police. Unlike travel agencies in the industrial countries, many agents in Sri Lanka are in the business of bringing the goods and services to the tourist, or, conversely, bringing the tourist to them.

Tour operators, on the other hand, are considered indispensable by the Tourist Board. They are responsible for selling Sri Lanka internationally and so they play a most vital role in the industry. Foreign tour operators also promote various services offered by the major resorts in Sri Lanka. Thus they effectively eliminate the need for local travel agents by providing their own services as part of the tour package, reducing Sri Lanka's share of potential foreign exchange earnings through commissions and the channeling of earnings into import-prone areas of tourism activity (Radke, 1975).

3.4.5 Internal Transportation

A good proportion of tourist expenditure in Sri Lanka goes toward internal transportation services: hire cars, coaches, taxis, tri-shaws (three wheeled cabs), plane and helicopter, and public transit (bus and rail). Public transport is the cheapest means of travel. Services are quite satisfactory as Sri Lanka is endowed with a good roadway system, should the tourist not be concerned with comfort and time. Most *institutional tourists* do not ride public transit because of the crowded and, to some minds, hazardous conditions.

All of the tourist transport firms operate as travel agencies. Most have an expensive fleet of imported air-conditioned coaches, limousines, or touring cars that come equipped with an English, German, or French-

speaking guide. High maintenance costs necessitate most of these firms to be part of the operations of large resorts or foreign tour firms.

International car rental franchises represented in Sri Lanka are: Hertz, Inter-Rent, American International, Europcar, and National Car. These rental franchises operate under concessions granted by American and European firms to two major tourist firms which are represented in many of the modern resorts.

The Sri Lanka Air Force are the sole operators of local air charter tours.

3.4.6 Restaurants

Most of the popular tourist restaurants in Sri Lanka are located within the major resorts. The operations of these restaurants are part of the resort operations which have already been described.

Of the restaurants regularly listed in tourist publicity magazines distributed in Sri Lanka¹⁰, over three-quarters are found within the resorts. Outside the urban centers of Colombo, Kandy and Jaffna, tourist-class restaurants are only found in the resorts. Only *non-institutional tourists* frequent the local foodstands and tea houses scattered throughout the country which do not prepare Western foods.

3.4.7 Entertainment and Recreation

Nearly all of the popular tourist night spots are located in the expensive resorts. Playing the latest in Western disco, jazz and rock, they cater exclusively to the *institutional tourist*. The few night clubs that are not located within the hotels are expressions of Sri Lankan "Westernization". They are frequented by the local prostitutes, sailors,

young Sri Lankans on the make, and various *non-institutional tourists*.

Traditional dances and cultural shows are sponsored by the major resorts, travel firms, and the Tourist Board. They provide a glimpse of commercial choreography of Sri Lankan cultural life as it is normally depicted in the tourist literature. These events generally take place within resort facilities or cultural centers which charge the going tourist rate.

All of the popular tourist recreation facilities (pools, tennis courts, etc.) are found in the major resorts. Use of these facilities are confined to tourists only.

3.4.8 Tourist Shops

In 1978, the Tourist Board listed 168 shops approved for international tourists, but these reflect only a proportion of shops that specialize in tourist wares - gems, handicrafts, batiks, fabrics, furniture, and curios. Many of the tourist shops are located in the Fort and Pettah areas in Colombo, and in Kandy. The government sponsored emporiums (Laksala) and the private sector department stores (Cargils, Walkers) are prominent tourist shopping areas. They offer imported luxury goods in addition to a large selection of locally produced tourist items; some, in fact, are owned by expatriates that have long settled in Sri Lanka. The most successful tourist shops are the chain enterprises which are commonly found in resorts. Lastly, there are the outdoor vendors which provide the tourist a chance to bargain for small souvenir items of lower quality and value.

3.5 Summary

1. Sri Lanka's development scene since Independence has been one of radical changes in policy and strategy, predominantly characterized by the two major political parties, the U.N.P. and the S.L.F.P., which had different ideological views. The U.N.P. favoured a free enterprise approach to development and implemented outward-looking policies to lure foreign enterprise to stimulate industry. The S.L.F.P. pursued goals of economic nationalism and socialism, implementing inward-looking, import-substitution oriented policies.

2. The development of a large-scale tourism plant did not really occur until the 1965-70 period when the right-wing U.N.P. government seriously took steps to build the tourism industry. During this period the government compiled a national tourism plan, incorporated a national tourism board and hotel corporation, instituted a new Ministry of Planning and Economic Affairs, passed a Tourism Development Act, and instituted economic measures that were very favourable to foreign investment in the industry (the "White Paper"; the F.E.E.C. Scheme; the rupee devaluation).

3. The 1970-77 period saw a continuing improvement in tourism growth but at a much slower pace due to the re-establishment of import-control measures under the S.L.F.P. government. Tourism development fell in national importance, though it continued to receive attention from the private sector. Towards the end of the S.L.F.P. reign, import restrictions began to loosen and more active international promotion was undertaken to aid the ailing industry.

4. In 1977, tourism again received a shot in the arm as the U.N.P. government returned to power, lifting the S.L.F.P. controls and

seeking, more than ever before, foreign investment into the tourist sector.

5. Tourists to Sri Lanka can generally be divided into two camps: *institutional tourists* and *non-institutional tourists*. Most visitors to Sri Lanka are of the former type. They come to Sri Lanka on tour packages, stay in the modern resorts, and demand basic Western amenities and cultural support. The latter type, in contrast, are the exact opposite. They seek a culture other than their own, i.e. Sri Lankan culture. They stay in low cost establishments, the small locally owned resorts, and live very much away from typical tourist spots. They are what is commonly referred to as low-spending "hippies".

6. The tourist industry is coordinated and regulated by the Ceylon Tourist Board. As the mouthpiece for government policy, the Tourist Board has given favour to the development of capital-intensive developments over smaller, local projects. The Board in fact discriminates against the more informal sectors of the industry and its tourists (i.e. hippies) by regulating against their operations. A sister body created to assist the Tourist Board is the Ceylon Hotel Corporation, a national firm that develops tourist resorts and other services as a state-run business, a counterpart to the private firm.

7. With respect to the structure of the tourist industry in Sri Lanka, two distinct forms of development have emerged: (1) the formal, capital-intensive resorts that are promoted by the Tourist Board and foreign tour operators; and (2) low cost informal resorts that cater to the low-spending domestic and foreign tourist. The trend in Sri Lanka has been toward the development of the former type since it is in the national and foreign interest to maximize foreign exchange earnings and

tourist arrivals. These resorts are the Class I and II varieties. They are highly import-prone and poorly articulated with local economic sectors. They do, however, provide the government and wealthy influential businesspersons large sums of foreign currency that would not otherwise be made if smaller, less capital-intensive resorts were constructed. The smaller resorts, Class III and IV establishments, are all locally owned and are well articulated with local producing sectors. They earn much less foreign exchange collectively but are able to evenly distribute their benefits throughout other sectors of the economy.

8. Travel agencies, restaurants, transport firms, and tourist shops also follow the pattern of being capital-intensive (i.e. they are integrated with the operations of resorts, foreign enterprises, or wealthy local firms) or they cater mainly to the informal sector of the economy.

FOOTNOTES TO CHAPTER 3

1. Ceylon and Sri Lanka, as used in this text, are interchangeable.
2. The F.E.E.C. Scheme, a two tier exchange rate system known as the Foreign Exchange Entitlement Certificates Scheme, was introduced in May, 1968 (see page 55 of this text). The introduction of this Scheme was essentially a means through which gradual decontrol and transition to an "open" economy were expected to be achieved. For tourism, this meant that tourists would receive a cash bonus on the foreign currency they encash in Sri Lanka.
3. The Free Trade Zone, or Export Processing Centre as it is sometimes referred to, is a defined territory situated near the international airport just outside Colombo in which processing facilities have been set up by foreign investors into which imported materials are brought in, free of duty, for the purpose of adding value in further processing, using cheap local manpower, utilities and other services, together with locally available raw materials. (Other areas throughout the island are also being considered for Free Trade Zone activities.)
4. Only the Galle Face Hotel, located in the heart of Colombo, had an appreciable occupancy rate of 80%. The hotel, situated across from the parliament buildings, was patroned by foreign dignitaries and businessmen to Sri Lanka (Kovach, 1965:15).
5. This special policy booklet was entitled, Tax Concessions for the Promotion of Tourism (Colombo: Inland Revenue Department, 1967).
The principal sections of the policy were the following:

- (1) Tax Holidays for Hotels
- (2) Capital Allowances
- (3) Deduction of Capital Expenditure
- (4) Savings Relief for Companies
- (5) Savings Relief for Individuals
- (6) Exemption for Foreign Personnel
- (7) Exemption of Profits Arising to Foreign Contractors
- (8) Relief from Double Taxation

See also APPENDIX B.

6. The Consortium consisted of Harris, Kerr, Forster & Company, Certified Public Accountants, Honolulu, in association with Belt, Collins & Associates, Engineers, Planners and Landscape Architects, Honolulu; McCann-Erikson (Hawaii) Inc., Advertising and Marketing Agency, Honolulu; and, Wimberly, Whisenand, Allison & Tong, Ltd., Architects, Honolulu.

7. However, the extent to which the devaluation of the rupee would succeed in improving the trade balance would depend mainly on:

the price elasticities of demand for exports and imports of Sri Lanka.... in the case of imports, the effects of a devaluation on the trade balance are certain to be favourable, provided that the price elasticity of demand for imports is not perfectly inelastic. In the case of exports.... a devaluation would result in a greater amount of foreign exchange earnings than before only if the price elasticity of demand for exports is greater than 1 (assuming the supply of exports is infinitely inelastic - which for Sri Lankan exports, it is not). (Dahanayake, 1979:114)

8. See footnote 4 of Chapter 4 of this text.
9. There is a wide range of tourist roles described in the literature: the "organized mass tourist", the "individual mass tourist", the "explorer", the "drifter", etc. (see, E. Cohen, Who is a Tourist, Sociological Review, 22(4), 1974). Their impact on the local community differs widely. They are broadly characterized in this

text as either *institutional tourists* or *non-institutional tourists*, a division used by Varley (1978).

10. One of the most widely distributed tourist magazines in resorts is This Month in Sri Lanka, published by Spectrum Lanka Ltd., Colombo.

CHAPTER 4

THE SIGNIFICANCE OF TOURISM IN SRI LANKA

Tourism is a highly regarded and very much pampered industry in Sri Lanka today. Its significance to the country was summed up in a recent seminar sponsored by the Ceylon Tourist Board and the Ceylon Hotels Corporation¹:

1. It contributes valuable foreign exchange.
2. It is a valuable employment creator because tourism is a labour-intensive industry.
3. It brings social and economic development to non-industrialized regions and, indeed, to other sectors of the economy through the "multiplier effect" and by creating new markets. (de Zoysa, 1978:1-4)

In response to the first point, it could be said that any export-generating or import-substitution activity would contribute "valuable foreign exchange". Secondly, as an employment creator, tourism appears to be neither a "significant" employer nor a "labour-intensive" industry when compared with other industrial activities, particularly rural, small industrial developments. As to the final point, it is assumed that resources are used in a fashion that would benefit rural residents and that income effects are dispersed throughout the economy, thereby contributing to social and economic development. The observable realities unfortunately indicate the contrary. The diversion of resources for tourist use and the social and cultural costs involved in this development have proven to be of little help to the majority of local residents who live in poverty.

This chapter will examine these claims in detail by looking at specific impact tourism has had on the economy, employment, social structure, culture and politics. This preliminary look at tourism's impacts reveals some fundamental problems with the claim that tourism is significant to the country's development. But because of the incompleteness of much of the data, this analysis must be viewed as essentially exploratory and in need of deeper investigation, particularly with respect to the social and cultural issues.

4.1 Tourism in the Economy

The role of tourism in the economy may be seen in macro terms when tourist expenditure is related to total foreign exchange earnings and National Income, and in micro terms when tourist expenditure is related to regional growth and government revenue.

In 1977, tourism's contribution to total foreign exchange earnings was 5%. It ranked as the fourth largest foreign exchange earner in gross terms (Samaranayake, 1978:5). Since 1966, tourism's gross foreign exchange contribution to the economy has increased in large measure (see Table 4.1). But tourism's real significance to the economy can only be judged when foreign exchange costs are taken into consideration. These include the following:

1. Direct operating costs: which include import of food and beverages, spares for hotel plants and vehicles, travel abroad for sales promotion, commission payments, emoluments to foreign staff, foreign management fees, etc.
2. Foreign debt servicing: repayment of foreign loans and interest payments.
3. Depreciation: depreciation allowances on hotel plants, vehicles, resort development, etc.

4. Write-offs on foreign expenditure on publicity and promotion.
 5. Import content of local supplies (e.g. sugar, rice, flour, cement, iron, steel, fertilizer, etc.). (Samaranayake, 1978:5)

Table 4.1

Contribution of Tourism to the Balance of Payments

| <u>Year</u> | <u>Receipts from Tourism (Rs million)</u> | <u>Total Earnings from Goods and Services</u> | <u>% contribution of Tourism</u> |
|-------------|---|---|--------------------------------------|
| 1966 | 5.9 | 1877.8 | 0.32 |
| 1967 | 6.5 | 1859.8 | 0.35 |
| 1968 | 10.5 | 2178.8 | 0.47 |
| 1969 | 17.0 | 2162.8 | 0.79 |
| 1970 | 21.5 | 2253.3 | 0.95 |
| 1971 | 20.3 | 3244.2 | 0.90 |
| 1972 | 43.8 | 2205.9 | 1.99 |
| 1973 | 79.5 | 2733.3 | 2.91 |
| 1974 | 107.1 | 3844.3 | 2.79 |
| 1975 | 157.1 | 4471.6 | 3.51 |
| 1976 | 237.8 | 5349.9 | 4.44 |
| 1977 | 363.1 | 7262.0 | 5.00 |

| <u>Commodity</u> | <u>1966</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1976</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Tea | 1027 | 1162 | 1261 | 1360 | 1932 | 2100 |
| Rubber | 337 | 265 | 592 | 738 | 654 | 890 |
| Petroleum Products | n.a. | 87 | 138 | 360 | 394 | 514 |
| Coconut | 196 | 266 | 145 | 397 | 397 | 383 |
| Gem Products | n.a. | 12 | 141 | 109 | 180 | 261 |
| Tourism | 6 | 44 | 80 | 107 | 157 | 238 |

Source: Ceylon Tourist Board, 1977, Market Intelligence Report No. 3.

It should be apparent from the list of foreign exchange costs that it is painstakingly difficult to evaluate precisely the "net" receipts from tourism. Nevertheless, the Tourist Board has "estimated" that foreign costs were around 22% in 1977, meaning "that out of every rupee spend by tourists in foreign exchange, during this period, 22 cents went out as foreign costs of servicing the tourists and the balance 78 cents constituted the surplus which was available for use by the

country" (Samaranayake, 1978:5). This figure has been dismissed by certain Class I hoteliers in the private sector to be extremely low. A study conducted by a West German research team during 1972 substantiates this claim (Radke, 1975). They estimated a foreign leakage (i.e. the percentage of tourist expenditure that goes back out of the country) of 77% for charter tourist expenditures, a rate only slightly higher than for scheduled airline tourists staying in the same resorts.

Estimations of leakages for other foreign developed tourist economies in small countries may provide some indication of the magnitude involved. Various islands in the Caribbean, for example, show import content to be 40% to 50% of their total earnings, and for other long-haul destinations, these costs may be much higher (Turner, 1976; Britton, 1977). In a survey of hotels in Barbados, Doxey (1971:19) reported a leakage figure of about 42 cents of the tourist dollar, but suggested that caution be taken in drawing definitive conclusions from this because of the difficulty in obtaining "true" accounts from the private sector and tourists. In view of the fact that an accurate assessment has yet to be made in Sri Lanka, it can only be suggested that tourism leakages (direct and indirect) limit the significance gross tourism receipts play in the balance of payments accounts.

Because of the small size of the tourist industry relative to the total economy, tourism's contribution to the National Income is only around 0.7% (Samaranayake, 1978:6). This is indicative of a low tourism multiplier and high foreign costs. On the other hand, tourism seems to have made more of a contribution to the country's growing

inflation rate, which is presently around 30%. The growth in tourist demand for certain food items (lobster, crab, prawns, eggs, etc.) have created local shortages in some regions of the island (e.g. Pasakudah), escalating prices beyond what the local person can afford (Goonatilake, 1978). Rising real estate values have also been a factor.

The importance of tourism as a means for diversified growth in industrial production is expounded in all the tourism plans. Indeed, tourism has stimulated the development of some service industries, craft manufacturing and the production of certain foods (pineapple and passion fruit). The gem industry especially has profitted enormously from the tourism boom: roughly Rs 3.9 million was realized from gem sales to tourists in 1975 and Rs 9.1 million in 1976 (exclusive of F.E.E.C.s), representing an increase of 42.7% (Department of Census & Statistics, 1978). However, the economic impact on other local production sectors is not all that impressive. Marketing arrangements are such that few linkages are forged with small producers. Local products are purchased from large firms and cooperatives via distributors. Consequently, much small-scale production is confined to the informal sector. In fact, tourism's impact on agricultural productivity may be negative in certain regions due to the expropriation of agricultural land, the low demand for locally produced and manufactured goods, and the imbalance in wage structures between the tourist and agricultural sectors, drawing workers from the latter into the former.

Finally, tourism is seen to be an important source of revenue for the national government, as well as local authorities, by way of taxes, state-run tourist resorts and enterprises, and fees for

photographic permits, entrance to parks, zoos, etc. (Samaranayake, 1978:

6). The following represent some of the taxes paid by the tourism sector in the fiscal year 1976/77 (Samaranayake, 1978:6):

| | | | |
|-------------------------------------|-------|-----------------|---|
| 1. Business Turnover Tax | | | |
| (a) Tourist Hotels | .... | Rs 19.0 million | |
| (b) Travel Agencies | .... | 8.3 | " |
| 2. Embarkation Tax | .... | 3.8 | " |
| 3. Entrance Fees to Parks, etc..... | | 1.2 | " |
| TOTAL: | ..... | 32.3 | " |

If government expenditure on infrastructure, facilities, and promotional expenditure abroad by the Tourist Board are taken into consideration, these revenues are miniscule by comparison. The Tourist Board's expenditures for 1976/77 alone were:

| | | | |
|-------------------------------|------|------------------|---|
| 1. Development Projects | .... | Rs 23.26 million | |
| 2. Other Capital Expenditures | .... | 2.42 | " |
| 3. Operational Costs | .... | 18.90 | " |
| TOTAL: | .... | 44.58 | " |

These costs do not include government outlays for infrastructure, which may far outweigh the Board's expenditures. For example, a government investment of Rs 30 million is slated for infrastructure in the Trincomalee Resort Development Project (Ceylon News, September 6, 1979). (This would be commendable if the local people were sure to benefit from it.) Even more striking is the amount of government money being poured into the renovation of Sri Lanka's international airport:

A massive development program costing Rs 600 million is scheduled to continue through 1980, to bring the Katunayake International Airport in line with the most modern airports in the world.... For Sri Lanka, the new, swank airport will have a direct impact on the country's image abroad. (Ceylon News, January 17:1, 1980)

It was further stated that income from state-run resorts was an additional revenue source, but, as already noted, many of these resorts

have experienced financial losses, even before depreciation costs.

Recent trends in government policy toward foreign enterprise do not give much promise for the growth in state revenue. These trends have been toward greater foreign control over tourist expenditure and types of investment. New taxes imposed would increase revenue, but, to the state's reluctance, this would most likely have an adverse effect on tourism growth.

4.2 Tourism as an Employer

Most developing countries have severe unemployment or underemployment problems.... The tourist industry is a labour-intensive service industry which could be a promising stimulus to economic development and, especially, employment. (Peters, 1969:243-44)

Tourist services generate employment, but problems with defining employment within the industry and the limitations of the data frustrate accurate statements to be made about the significance of tourism as an employer in many countries. The claim that tourism is a significant employer is not easy to accept without looking beyond the gross figures. What are the criteria for significance? How does it compare with other forms of employment? What are the costs and benefits involved?

Unemployment has been a major problem that successive governments in Sri Lanka have grappled with over the past 30 years. It has been a pervasive thorn which inflicted considerable pain during the 1971 civil uprising. It was in the mid-1960s that tourism was suddenly considered a potential employment generator. However, the perceptions of the S.L.F.P. and the U.N.P. on how this employment would be generated differed radically.

The S.L.F.P. envisioned the development of a manufacturing sector, which included tourism, by using labour-intensive methods and local capital inputs. In the tourism sector, the emphasis was laid upon the construction of small or medium-sized resorts with strong links to other domestic sectors of production. In this fashion, tourism expenditure would permeate to other sectors of the economy and thereby contribute to employment generation. The emphasis on tourism was low key, however, since it was considered by many to be an industry that would extend foreign control.

The U.N.P. approached industrial development through capital-intensive methods utilizing foreign capital inputs. For tourism this meant the development of large-scale resorts to accommodate large numbers of tourists. These resorts would employ more persons per room, as well as multiply expenditures throughout the economy (Harris, et al., 1967). In this respect, tourism was considered to be labour-intensive and a significant employer.

Labour-intensity refers to the labour employed in relation to other factors of production, especially capital, and implies a comparison with other sectors. For tourism to be more labour-intensive than another industrial sector, it must produce more jobs for a given unit of capital. By saying tourism is a "significant" employer, it is generally meant that tourism's contribution to the total employment situation has particular value. This means that tourism must be a proportional contributor, relative to other sectors in the economy.

In assessing tourism's significance it is necessary to look at employment generated directly and indirectly in both formal and informal

sectors, as well as investment-related employment in construction and other capital goods industries (de Kadt, 1979:37). Employment in the formal sector refers to jobs created directly by services needed in tourist establishments (hotels, restaurants, travel agencies, tourist shops, airlines, etc.), as well as jobs created indirectly in sectors which supply goods and services to the tourist establishments. Employment in the informal sector refers to those activities which are not part of the tourist establishment but which provide goods and services for tourists. This sector is highly visible around tourist resorts but also highly amorphous. It is a very important sector of employment in Sri Lanka about which little is known and for which no statistical data are available. In fact, informal sector employment is a phenomenon which is a natural outgrowth of tourism development in poverty areas. Among the most prevalent informal occupations in Sri Lanka are the beach merchants and traders, snake-charmers, relic hawkers, guides, and beggars (especially child beggars). Prostitution is also on the rise but it has not reached near the proportions attained in other tourist countries, such as Thailand (Silva, 1978). Finally, it must be added, there are a relatively large number of temporary accommodation units erected during the tourist season in the outlying areas to accommodate young travellers. These are commonly known as "hippy shacks" and are considered informal sector establishments.

The next step is to examine the statistics on the number of jobs created and the costs involved for tourism and other sectors of the economy. Indirect employment figures are "estimated" for the formal sector; it is not known on what basis these estimations are calculated.

For other countries, indirect employment is usually estimated by "rule of thumb". Marshall states that: "writers are forced to use 'the ratio of direct to indirect employment of 1:1', although ... we frankly have not been able to find any empirical or even justifiable basis for this ratio" (1977:9). Due to the rather undeveloped state of statistical gathering methods in the Tourist Board, these figures must be viewed only as approximate indicators.

Table 4.2 shows the total number of persons employed directly and indirectly in tourism from 1970 to 1978, and Table 4.3 shows the break-downs into job categories of those employed directly from 1976 to 1978. The figures for persons directly employed rise steadily on an average increase of around 14.75% per annum. Nearly two-thirds of the new jobs have been created in the accommodation sector but, unlike other tourist countries, the recreation sector has provided few job opportunities (Ceylon Tourist Board, 1979:11). The break-down into job categories show that most of the employees were in the manual and operative grades. It is also interesting to note that of the total number of persons directly employed in tourism in 1978, 85% were males (Ceylon Tourist Board, 1979: 11). The low proportion of females may be offset slightly by the fact that women tend to find more employment in temporary or part-time positions.

Tourism's significance as a direct employer is summarized in Table 4.4. The proportion of the working population employed directly by tourism increases by only about 0.2% from 1971 to 1977, and by about 0.4% when indirect tourism jobs are taken into consideration. The proportion of the total labour force employed by tourism directly and directly & indirectly together shows an even lower increase; 0.1% and

0.2%, respectively. This distinctly shows tourism as a poor employment creator in the formal sector. Work by the International Labour Organization (1972) suggests that, unlike the formal sector, the informal sector is probably a very significant employer and one that is closely linked to the local community. This is an area in need of future research.

Table 4.2

Employment Trends: 1970-1978

| <u>Year</u> | <u>Direct</u> ¹ <u>Employment</u> | <u>%</u> <u>Increase</u> | <u>Indirect</u> ² <u>Employment</u> | <u>%</u> <u>Increase</u> | <u>Total</u> |
|-------------|---|-----------------------------|---|-----------------------------|--------------|
| 1970 | 5,138 | | 6,940 | | 12,078 |
| 1971 | 6,397 | 24.5 | 8,640 | 24.5 | 15,037 |
| 1972 | 7,040 | 10.0 | 9,500 | 9.9 | 16,540 |
| 1973 | 7,134 | 1.3 | 10,780 | 13.4 | 17,914 |
| 1974 | 8,551 | 19.8 | 11,550 | 7.1 | 20,101 |
| 1975 | 10,148 | 18.7 | 13,700 | 18.6 | 23,848 |
| 1976 | 11,752 | 15.8 | 15,900 | 16.0 | 27,652 |
| 1977 | 13,716 | 16.7 | 18,520 | 16.5 | 32,236 |
| 1978 | 15,404 | 12.3 | 20,795 | 12.3 | 36,199 |

1. In Service Sectors

2. In Supply Sectors

Source: Ceylon Tourist Board, 1979

It was also noted that the Tourist Board has claimed tourism to be labour-intensive. Mr. H. M. S. Samaranayake, Director of Research and Planning for the Tourist Board states (1978:6):

Tourism ... has a greater capacity to generate employment than many of the modern manufacturing industries.... It is interesting to compare the capital-employment ratio in the tourist sector with those of other modern sectors in order to get an idea of the employment generation capacity of the tourist industry. The investment per unit of direct employment in the tourist industry works out to be Rs 43,000. Comparative figures in respect of some selected manufacturing and processing industries in Sri Lanka are given below:

(continued page 96)

Table 4.3

Direct Employment in the Tourist Industry: 1976-1978

| <u>Category of Establishment</u> | <u>No. of Establishments</u> | | | <u>Managerial, Scientific & Professionals</u> | | | <u>Technical, Clerical & Supervisory</u> | | | <u>Manual & Operative</u> | | | <u>TOTAL</u> | | |
|--|------------------------------|------|------|---|------|------|--|------|------|-------------------------------|------|------|--------------|-------|-------|
| | 1976 | 1977 | 1978 | 1976 | 1977 | 1978 | 1976 | 1977 | 1978 | 1976 | 1977 | 1978 | 1976 | 1977 | 1978 |
| Hotels & Restaurants - | 213 | 197 | 194 | 564 | 544 | 632 | 1981 | 1919 | 2207 | 5498 | 6606 | 7227 | 8043 | 9069 | 10066 |
| Travel & Transport Agencies - | 77 | 95 | 118 | 227 | 264 | 288 | 712 | 698 | 854 | 581 | 859 | 1125 | 1520 | 1821 | 2267 |
| Airlines - | 11 | 11 | 14 | 126 | 178 | 120 | 517 | 526 | 542 | 295 | 309 | 320 | 938 | 1013 | 982 |
| Agencies Providing Recreation Facilities - | 10 | 10 | 11 | 4 | 2 | 3 | 14 | 6 | 7 | 62 | 74 | 74 | 80 | 82 | 84 |
| Tourist Shops - | 103 | 116 | 125 | 185 | 174 | 192 | 554 | 554 | 678 | 107 | 652 | 791 | 846 | 1380 | 1661 |
| Ceylon Tourist Board - | 1 | 1 | 1 | 37 | 40 | 47 | 192 | 165 | 140 | 96 | 146 | 157 | 325 | 351 | 344 |
| TOTAL - | 415 | 430 | 463 | 1143 | 1202 | 1282 | 3970 | 3868 | 4428 | 6639 | 8646 | 9694 | 11752 | 13716 | 15404 |

Source: Ceylon Tourist Board, 1979

Table 4.4

Direct Employment in Tourism as Percent of the
Total Employment and the Labour Force: 1971-1977

| <u>Year</u> | <u>Total Working Population¹ ('000)</u> | <u>Direct Employment in Tourism ('000)</u> | <u>Estimated Labour Force ('000)</u> | <u>% of Working Pop.²</u> | <u>% of Labour Force</u> |
|-------------|---|---|---|--|----------------------------------|
| 1971 | 1957.2 | 6.397 | 6544 | 0.33 | 0.09 |
| 1972 | 2074.4 | 7.040 | 6678 | 0.34 | 0.10 |
| 1973 | 2282.1 | 7.134 | 6797 | 0.31 | 0.10 |
| 1974 | 2339.0 | 8.551 | 6897 | 0.36 | 0.12 |
| 1975 | 2422.9 | 10.148 | 7009 | 0.42 | 0.14 |
| 1976 | 2358.1 | 11.752 | 7122 | 0.50 | 0.16 |
| 1977 | n.a. | 13.716 | 7238 | n.a. | 0.19 |

1. Employees of the Establishments/Estates employing five or more persons.

2. % of employees of Establishments/Estates employing five or more persons.

Supplementary Data

Total (Direct and Indirect) Employment in Tourism as
Percent of the Total Employment and the Labour Force: 1971-1977

| | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| % of Working Population | - 0.77 | 0.80 | 0.78 | 0.86 | 0.98 | 1.17 | n.a. |
| % of Labour Force | - 0.23 | 0.25 | 0.26 | 0.29 | 0.34 | 0.39 | 0.44 |

Source: Ceylon Tourist Board, 1979

| | | |
|--------------------------------|------|------------|
| 1. Cement Corporation | .... | Rs 135,000 |
| 2. Mineral Sands Corporation | .... | 188,000 |
| 3. Ceylon Ceramics Corporation | .... | 42,000 |
| 4. Ceylon Steel Corporation | .... | 132,000 |
| 5. Salt Corporation | .... | 47,000 |
| 6. Sugar Corporation | .... | 74,000 |
| 7. Flour Milling Corporation | .... | 59,000 |
| 8. Plywood Corporation | .... | 34,000 |
| 9. Ceylon Leather Products C. | .... | 25,000 |
| 10. Ceylon Tyre Corporation | .... | 46,000 |
| AVERAGE | .... | 65,000 |

The capital-employment ratio calculated for the tourist sector by the Tourist Board is extremely low in comparison with estimates for Class I hotels in the private sector, as well as estimates for hotels in other developing countries (de Kadt, 1979). The cost of a room in a five star hotel in Sri Lanka is estimated to be around Rs 200,000 but this may be as high as Rs 300,000 (Goonatilake, 1978:15). The investment cost per job works out to be between Rs 100,000 and Rs 160,000. Investment costs per job in lower grade Class I and II resorts is estimated to be much less, but still higher than the Tourist Board figure².

Because precise figures are not available for the number of persons directly employed in the hotel sector, the gross direct employment figures for hotels and restaurants (see Table 4.3) are taken to be the base to the total number of rooms in graded establishments in 1978. From this, the employee-room ratio was calculated to be around 1.88:1.00³, and around 0.96 employees per bed. This compares well with ratios estimated for hotels in the Caribbean (Marshall, 1977).

In the absence of reliable data from the private sector, it is only possible to generalize on the basis of scant data for a few Class I and Class II resorts. These resorts are highly capital-intensive and

and have high operating costs. The cost of creating employment exceeds that of most of the manufacturing sectors and the Tourist Board figure of Rs 43,000. From this, then, it is surmised that Class I and the more capital-intensive Class II resorts are not labour-intensive (nor do they contribute toward a labour-intensive industry because of few interlinkages with domestic sectors) and do not compare favourably with the cost of creating employment in other sectors.

Even the Tourist Board employment cost figure is highly capital-intensive when compared with the investment costs in light manufacturing industries and, especially, with the various Divisional Development Council (D.D.C.) investment projects initiated by the S.L.F.P. government in 1970-71. The D.D.C. Scheme funded the development of small-scale industrial, agricultural and fisheries projects oriented to cater to the needs of the middle and lower income groups in Sri Lanka. It was stated that: "on the average, the capital-labour ratio of the D.D.C. projects was below Rs 1500, compared to over Rs 60,000 calculated for the public sector projects" (Randeni, et al., 1978:61). These ratios are listed in Table 4.5. Tourism, in relation to these projects, is extremely expensive as an employment creator, clearly reflecting the needs of the income group tourism caters for.

One final point concerns seasonality as it affects employment in different regions. Large hotels outside the urban areas employ persons on a seasonal basis. This was personally observed in a modern 36-room resort in the South Coast region during the off-season. At that time, this hotel had only one room occupied; ten workers were employed. It was learned that the hotel usually maintained a 70% to 80% occupancy

rate during the tourist season in the region and employed over thirty persons. Smaller resorts in the area fared much better during the off-season and kept all of their employees on staff.

Table 4.5

D.D.C. Capital-Labour Ratios

| <u>Sector</u> | <u>Rs.</u> |
|------------------------|------------|
| 1. Agriculture | 1033 |
| (a) Cultivation | 980 |
| (b) Animal Husbandry | 2030 |
| 2. Mining | 276 |
| 3. Fisheries | 2312 |
| 4. Construction | 731 |
| 5. Manufacturing | 1576 |
| (a) Capital Goods | 4862 |
| (b) Intermediate Goods | 2084 |
| (c) Consumer Goods | 1478 |
| 6. Services | 1810 |
| 7. Average | 1159 |

Source: Randeni, et al. 1978

4.3 The Social and Cultural Effects: Costs and Benefits

The implicit assumption made throughout the development plans of the U.N.P. government, and to some extent the S.L.F.P., has been that tourism would benefit the country through employment and the stimulation of local industry. On the other hand, it is surprising how little attention has been paid to the distribution of these benefits and to the increasing strain on public services as well as the sociocultural fabric of local community life. How does tourism development affect the social and cultural well-being of the local residents?³

4.3.1 Development and Resource Diversion

The largest concentrations of Sri Lanka's 14 million people are found primarily in the wet zone districts of the southwest coast littoral. The three districts which comprise the littoral - Colombo, Kalutara, and Galle - have population densities of 3,694, 1,281 and 1,241 person per square mile, respectively (Central Bank, 1978:13). The density for the island as a whole is 558 persons per square mile. Most of the modern tourist establishments are located in this high density area, stretching from Negombo to Galle. It is also in this region where poverty is set sharply in contrast against the backdrop of multimillion dollar tourist hotels. Tourism is not the cause of such poverty, but careful analysis reveals an association between the development of modern tourism plants and the increased diversion of benefits away from the local masses,

Large tourism development projects have taken place in the most scenic areas in Sri Lanka - on beaches, lakeshores, as well as prime residential and agricultural locations. Natural resources have been diverted for tourist use by the Tourist Board and wealthy landowners who undertake tourist development themselves or sell out for high profits to investors. The conversion of large tracts of land by the Tourist Board⁴ for tourist development is claimed to be more profitable economically for local residents (Samaranayake, 1978:6), and yet the local residents have no choice in the matter.

The quantity of resources set aside for tourist development and its social and economic costs have been quite significant. Consider, for example, the diversion of 1000 acres of land for tourist purposes in the Trincomalee region. Or compare the government's investment into

the airport project with the total capital outlay for certain industries in the 1980 U.N.P. budget. The Katunayake airport project's estimated cost of Rs 600 million is more than the total outlay for the fishing industry (Rs 254 million) and the coconut industry (Rs 141 million), and is more than two-thirds of the expenditure slated for Health services (Rs 882 million) and over a third of that for housing and local government (Rs 1500 million) (Ceylon News, 1979, December 20; p. 5).

The diversion of land and sea area to tourist use has, as expected by landowners, driven up the value of real estate. Rising rents have forced small tenant agriculturalists off their land directly and indirectly to find employment in other sectors. Fishermen, peddlers, and other residents have been denied access to the sea and beach areas near resorts, severely disrupting their livelihoods. Tourist police employed at tourist resorts have ensured the tourist's and developer's interests over the rights of the local people. Tall walls and fences stretching around many resorts give added protection to the tourists from local "intruders". S. Goonatilake writes:

"Our people bother tourists and we must keep them away otherwise money to the country will stop", says a tourist policeman at Confifi, Bentota. Sometimes fishermen (for example, members of the Fisheries Cooperative in Beruwela) have protested to the authorities about this denial of access to the sea, but to no avail. (1978:9)

The expansion of tourism has had a serious impact on the fishing industry. Because of the reduced fishing area, and consequently fewer fishermen, and a growing demand for fish products from the tourist sector, fish prices have doubled from 1975 to 1978, and have increased at a much higher rate than other commodities (Central Bank, 1978). This

has in turn brought greater hardships for the low income groups who can no longer afford to purchase adequate quantities of the product. Considering the abundance of fish just off the shores of Sri Lanka, it is perhaps unfortunate that greater resources have not been diverted toward developing this local based industry rather than away from it. This would make a significant contribution to the economy and would create more employment opportunities.

Drinking water is another important resource being diverted away from the local residents to foreign tourists. Severe water shortages periodically plague residents of Sri Lanka and urban areas, like Colombo, have regular water cuts. Water is also extremely precious to the agricultural life on the island; water shortages reduce productivity and, in some cases, threaten the existence of small-scale agriculturalists. Nevertheless, all the modern tourist resorts maintain high water supply levels. It has been estimated that the number of gallons of water used by one tourist per day is more than ten times the average consumption by a Colombo resident⁵. But, Goonatilake states, "this is a low estimate because it does not take into account the larger quantities of water transported by bowlers to the hotels during the drought season" (1978: 15). Residents in the Trincomalee area currently face water problems; this will only be exacerbated when resort development is completed.

The diversion of natural resources clearly demonstrates the subordination of local modes of production (fishing, agriculture, etc.) and human needs to the capital interests of the national elites and foreigners. Tourism, in this respect, has only intensified Sri Lanka's class structure by accentuating the existing system of inequality that

benefits those already better off.

4.3.2 The Labour Market

One of the major problems facing lower class rural people in tourist areas is the selectivity of tourist jobs for certain types of people in the formal sector. The hotel industry is particularly representative. The Tourist Board Hotel School trains personnel for lower rung management positions and service jobs; the top management positions are reserved for expatriate personnel or resort owners. Preference for these courses is given to middle-class English-speaking applicants. Lower middle-class applicants are channelled toward craft jobs and upper middle-class applicants take the managerial positions (Goonatilake, 1978:8). Once training is completed, these urban based workers are placed in state-run rest houses in various regions of the country or find employment in the private modern hotels. For the rural person, the probability of finding a hotel job is extremely low without hotel school training. The training of service-skilled labour is important to the Tourist Board and resort developers as a source of cheap "productive" labour, and not as a development strategy for employment creation or education.

Large numbers of unemployed and underemployed rural people have migrated to resort areas in search of tourist money. This is clearly evidenced by the many squatter settlements that have emerged around modern tourist resorts. Some have come with hopes of finding employment in the formal sector, though few gain entry. Many end up performing tourist services in the informal sector. Some of these people comprise

a segment of the "structurally unemployed" - they have left other sectors of employment to find work in the higher paying tourist sector. It is common knowledge in Sri Lanka that tourism employment is more lucrative and easier than the poorer paying unskilled labour jobs.

On the other hand, informal tourism activities have caused considerable concern to better-off local residents, tourist resort owners, and tourism promoters. Many informal activities, such as begging and prostitution, are a major embarrassment to the tourist industry because they threaten the tourist illusion that Sri Lanka is an innocent veritable paradise. Mr. N. Silva, Deputy Director General of the Tourist Board, states:

Organised beggary is on the rampage in almost every tourist destination within the country and every urban bazaar from the Pettah to Nuwara Eliya and back.... when it becomes a harassment to the visitor and a danger to our image abroad, and when the tourist is made to extend his pity and charity in helping the destitute of a developing country, then it becomes an aggravated problem. (1978:9)

In response, the Tourist Board, in collaboration with the Department of Probation & Child Welfare and the Police Department, attempt to cover up the problem by rounding up the touters and removing them to "rehabilitation camps", or by simply transporting them to another part of the island to resume their activities. Such dislocations have been very costly for the poor. Relocating touters away from their source of livelihood is beneficial only to the tourists, foreign firms and the government, not the poor and unprotected who migrated to the tourist sector only to reduce misery.

In the formal sector, resort employees are usually not from the local area surrounding rurally located resorts. They are expatriates or

urban middle-class Sri Lankans. The resort, and its employees, are outsiders to the rural community.

Many of the modern resorts hire Burghers (people of mixed Dutch and Sri Lankan ancestry) and Eurasians for service positions that involve direct contact with the tourist public. These persons comprise only around 0.3% of the total population. There is a tendency to employ Burghers and Eurasians because of their fine physical appearances and English mannerisms, a trend that has led to some social problems within the local community.

Since Independence, the situation has become increasingly difficult for middle-class Burghers and Eurasians. They have faced severe discrimination from the dominant Sinhalese and Tamil populations, because of their visible connection with early European colonialists, forcing many to migrate to other countries (Wilson, 1974). Their employment in the tourist resorts have inflamed local prejudices among those who cannot gain entry into the sector and those who see tourism as the source of their economic and social ills.

4.3.3 Social Change

Because of the economic changes Sri Lanka has recently experienced, notably rising import costs, tourism is now an attractive source of "immediate" income for individuals. Not surprisingly, the exaggerated claims about tourism's potential as a source of income has raised the expectations of many, and thus has changed their social behaviour as well. A central problem to the anthropologist's field of study is how traditional social relations have changed in this context. What are the impacts on family life, on marriage patterns, and so on?

These questions are difficult to deal with in the tourism context because of other confounding urban variables. In the case of Sri Lanka, only broad implications are possible at this stage because of the lack of data. It is a particularly important area of human research that has been neglected and that needs investigation.

One significant area of social change that has already been referred to are informal tourism activities. Some of these activities are well articulated with local social values and have caused the least amount of strain on social relations. These are, for example, the sale of handicrafts or food items such as pineapple, service occupations that are linked to caste, or informal accommodation services. Other activities, such as prostitution, are discordant with traditional modes of conduct and are severely disapproved of locally, partly explaining the low incidence of this practice.

On the other hand, local people employed in the formal sector exhibit more radical divergencies from traditional lifestyles. Young resort workers especially are highly mobile and thus experience more loosely structured family ties.

Formal sector employees receive incomes that are often higher than those in other "higher status" jobs. Some hotel employees are even able to make more money than a university professor. To some observers, this appears to have led to a change in the consumption patterns among resort (Class I) workers. It would be premature to explicitly link these changes with tourism because of other existing Western values and priorities. This will again be referred to in the discussion of tourism's *demonstration effect*.

The most visible area of socioeconomic change that has taken place as a result of tourism has been the growth of wealthy middle-class businessmen who deal in gems, handicrafts and transportation. The people who own and operate businesses in these sectors have benefitted the most from tourism and thus have risen in social standing. They have increased their expenditures on, and identification with, Western luxury goods. Those gaining the least benefit from tourism development have undoubtedly been the lowest income groups. Inflation and rising unemployment within this group, which tourism has failed to help alleviate, have increased their hardships immeasurably.

4.3.4 Cultural Change

One of the most discussed about impacts of tourism on a host society concerns the "commercialization" of cultural activities. By providing opportunities for local people to produce souvenir items and perform traditional activities for money, many claim that tourism has thus debased culture and has taken away the pride and dignity of the local people. On the other hand, others argue that tourism has stimulated a local pride in culture, which has slowly eroded under Western influences. Tourism, it is claimed, has revived appreciation of traditional activities that have been considered "low-status" indicators since colonial times (Silva, 1978:11).

It is true that modern tourism has been responsible for transforming culture into a saleable commodity, undergoing what Amin (1977) refers to as a change from "use-value" into "exchange-value". For this reason, tourism has become an instrument by which the class structures at the core are replicated in the periphery (Schiller, 1976:14). Economic

activity has dissociated itself from other social activities. A craftsman can produce a Buddha figure without it being vested with ritual significance for either himself or his buyer. Batik designs now have bright colours which evoke the conventional Western European image of the primitive and exotic; very rarely do they have the soft lines and gentle colours of traditional Sri Lankan batik (Goonatilake, 1978:11). And traditional dance is no longer a spontaneous cultural expression. Rather, it is a carefully choreographed display of all types of traditional dancing, with little cultural continuity.

In the final analysis, Schiller states, "pure tourism" is the ultimate expression of Western cultural domination: "everything - people, customs, ceremonies, food, clothing, art, household ornaments - is for sale. The community itself becomes one huge market" (1976:15). Traditional culture is enacted within the institutional framework of Western culture. Dancers, artists, waiters, etc. are educated in the new economics and social laws which have been imposed on their society. Traditional dances are removed from their cultural context and placed within the confines of a resort. Craft production follows a similar pattern: batik factories, ebony factories, etc. are set up to allow tourists observe how "native handicrafts" are produced. Another example of culture change in this context is the well-known Kandyan perahera. Originally, the perahera was a cultural display for royal Sinhalese patrons. Today, the tourist is the official patron and the perahera is a procession of advertisements for various businesses. Even the perahera route has changed to pass in front of all the major tourist establishments.

It must be emphasized, however, that the commercialization of culture within the tourism context represents a cultural adaptation to economic circumstances. Sri Lankans have seized on economic opportunities, have adapted styles of dance and artwork to suit the tourist, have provided local styles of accommodation, cheap modes of quaint tourist transportation (the tri-shaw), and have formed new associations such as dance troupes.

In Colombo, the Pettah and Fort markets are proof of local adaptiveness to modern economics. Cooperatives specializing in arts and crafts have sprung up around resort sites in response to tourist demand. Traditional styles have changed to meet tourist preferences, but insofar as the Sri Lankans have aptly adjusted to opportunities presented by tourism, local culture has not eroded but has moved with the winds of change. Tourism presents the opportunity to profit from doing things the Sri Lankans have always done - dance, carve, trade, design batik, and so on. Performing for tourists bears a different meaning than performing for one's community. The income gained from the former fuels the latter. School children delight when a professional Kandyan dancer comes to perform, instructing them on traditional values. Similarly, professional carvers and brass workers are increasingly sought after by young people who wish to learn traditional techniques.

Has commercialization debased Sri Lankan culture? This must be answered in the negative at present. Tourism has strengthened and made local people more aware of their cultural heritage, albeit in a commercial framework. Sri Lankan officials and merchants recognize that tourism benefits them in this respect and thus have focussed attention on

"cultural tourism". However, these benefits must be tempered by the fact that few linkages exist between domestic sectors of production and the tourist sector, the absence of consultation with local Sri Lankans about tourism development, the growing strength of the large tourist firms, growing unemployment, and the potential that future tourism development will further isolate local residents from contact with *institutional tourists* informally and create systems in which the resorts maintain total control over tourist expenditure. Thus, the enthusiasm which some Sri Lankan now feel for the industry must be viewed from within the structural limitations that the industry itself presents.

Finally, the question arises: What problems emerge in this sociocultural sphere as a result of the impact of tourism? One area of intercultural conflict that immediately comes to mind is the transgression of religious values by tourists and others who exploit it for commercial reasons. A recent example cited in the Ceylon News notes the conflict generated in rural areas, in the ancient cities region, over tourism's promotion of ancient religious monuments. In 1979, the Tourist Board had invited a fashion photographer and a model from a well known New York magazine to promote Sri Lanka's historical heritage. As it was reported in the Ceylon News:

The photographer had attempted to take girly photographs using the statues of Buddha at Polonnaruwa and Anuradhapura and Buddhist temples at Kandy as a backdrop.... the foreign woman had herself photographed lying prostrate in front of the statue of the reclining Buddha.... soon, an angry crowd of villagers had gathered and the foreigners had to withdraw. (1979, December 13, p8)

Other disrespectful tourist and promotional activities have fueled resentment toward tourism among both rural and urban folk. The Tourist

Board claims to be aware of these problems and have taken some steps to protect further disruptions, but its abilities to control and check these dangers are clearly limited. As Mr. N. Silva puts it: "We cannot eradicate them overnight without killing the goose that lays golden eggs" (1978:12).

Tourism is also held responsible for a great number of problems caused by the so-called *demonstration effect* - the argument that high-spending tourists, who consume imported luxury goods, in some way induce changes in the local spending patterns among those who copy tourist behaviour. Analysis of this "effect" is an extremely difficult task. It is just one factor in the process of Westernization; the media perhaps has a more profound impact in this direction. S. Goonatilake (1978) claims that a tourism *demonstration effect* is evident among the small local elite that stay in tourist hotels, among local tourist shops, in the batik industry, and among certain hotel employees. These preferences and social behaviours cannot, however, be isolated from the status ideals and priorities of typical Western-oriented middle-class Sri Lankans - a cultural ideal that has evolved out of the colonial context before the advent of mass tourism.

Much criticism in Sri Lanka has been directed toward the habits of the "hippy" tourist. This condemnation emanates from within the tourist industry itself - the Tourist Board and the resorts - rather than from the local residents. The reasons for this are self-evident; "hippies" are low spenders who tarnish Sri Lanka's image as a "luxury paradise". Not conforming to the commercial standards of the tourist industry, the *non-institutional tourist* does not contribute to

the creation of "exchange-value". Speaking of "possible bad effects" from tourism, Mr. N. Silva of the Tourist Board states:

dangers that rise in this cultural-social sphere as a result of the impact of tourism (include) the uncontrolled influx of the Hippy-type of low spending young people from the West with their decadent habits of loose morals.... The Hippy is also a type of tourist. He or she comes to a country like Sri Lanka because of its long tradition of being the home of a living religion like Buddhism. But being aware of the degenerate effect of their way of life, the Tourist Board has enlisted the assistance of the Police and where necessary even the armed forces.... so that they will not live off the land or exploit the villager. (1978:12-13)

Rather than being perceived as a type of tourist that benefits local establishments, the "hippy" is considered a threat to the tourism business - which chiefly benefits those at the top.

Intercultural relations between *non-institutional tourists* and Sri Lankans are not, generally speaking, commercially oriented (outside of the institutional (modern resort) setting). These tourists tend to adopt local customs, speak some Sinhalese or Tamil (some are quite proficient) and interact frequently with local people. The intercultural relationships are, for the most part, "complimentary", on an equal basis. Exchanges are mutual. In this context, tourism is an expression of international friendship within a setting (small local accommodation units) where the tourist does not wield economic or political power over the host, at least overtly. This type of relationship ideally allows persons from both cultures to obtain the maximum amount of human benefit from the tourism activity.

In contrast, *institutional tourists* interact with Sri Lankans within an idiom not conducive to the "meeting of cultures" on equal terms.

Intercultural encounters, when they do occur, are formal and commercially oriented. They are set within a "master-servant" framework, a carry-over from colonial times. Relationships are "symmetrical"; host and guest interact on a commercial transactional level trying to maximize benefits from each other in a ritualized and prescribed manner. Roles are strictly defined; any deviation takes the relationship out of the institutional context where the actors become suspect of each other's motive. The impact of institutional tourism upon culture is "assymetrical" - local people are forced into a Western cultural framework from which orientation they must interact.

Tourism's impact on culture in Sri Lanka should not be viewed outside the context of class relations. *Institutional tourism* represents the replication of these relations as they exist within the capitalist system. *Non-institutional tourists* are accused of "degenerate behaviour" because they do not perpetuate the system. The cultural effect of these "degenerate" types of loose morals must be weighed against the call-girl and gigolo rings that exist within the modern hotels, permissible by Western standards (Goonatilake, 1978:23). *Institutional tourists* value the end product - the item they can take home, the pictures and the postcards; *non-institutional tourists* value the utility, the meaning and the cultural history - the means or the experience that has no "exchange-value".

4.4 Tourism and Politics

The U.N.P. government claim they want tourism to promote foreign exchange earnings, employment, GNP growth and regional development.

Yet, as has been shown, tourism's contribution in these areas has been disappointing. Why, then, is tourism promoted with such great vigor? An answer to this question may lie in the self-interests of a small "corporate elite" and among politicians who view tourism promotion as a means for extending Sri Lanka's image to other foreign industries.

During the late 1970s, the Centre for Society and Religion in Sri Lanka discovered that a very small group of business-oriented families were the main beneficiaries of development policies to encourage private enterprise (1977:10). Termed the "corporate elite", they were instrumental in persuading government, with foreign interests, to provide lucrative incentives for local industry, tourism and gemming (1977:11). Together with marketing and cooperative officials, this elite represented the private capitalist sector. Their linkage with U.N.P. politics and personal connections with party members greatly influenced policy generation. Of course, political patronage by corporate interests was not restricted to the U.N.P. During the S.L.F.P. reign, elitist elements ran through the party; their political platform often seemed to say: "socialism is for the masses, capitalism is for the elite" (Centre for Society and Religion, 1977:20).

Presently, particular influence over policy making is exerted by the foreign investment firms who can supply the trained manpower, goods, and capital for Sri Lanka's economic growth. Tourism is recognized as an industry that can encourage investment in other industrial sectors. President Jayawardene's U.N.P. strategy in this respect is clearly represented in the promotional advertising the Tourist Board undertakes in the industrialized countries.

Links between transnationals, corporate elites and the government are a significant factor in policy formulation. Transnational enterprises wield considerable bargaining power over the government in granting concessions. Because of their control over the tourist business (marketing, charters, hotels, etc.), Sri Lanka must deal with these firms from a subordinate position. This has proved to be highly disadvantageous to the interests of the local people who receive no concession for the use of their resources.

Local corporate interests also benefit by integrating themselves with the larger foreign enterprises, as do the political elites who draw support from this class. By controlling policy formulation through investment demands, foreign and national elites alike increase their share of benefits and reinforce existing inequalities in class structures.

The increasing loss of local control over tourism planning presents some obvious development constraints. Foreign enterprise and the national government are presently involved in an avid relationship that has the government playing a subordinate, "servant-type" role. The implications of this dependency situation and the decline of the state as a locus of effective decision-making renders tourism highly susceptible to external forces, thus curbing tourism's potential contribution to local development.

4.5 Summary

1. The impacts of the tourist industry on the economy, employment, and social, cultural and political life are viewed from a

negative perspective. Tourism's positive contribution to the economy and employment are presupposed by politicians and local capitalists in Sri Lanka because tourism has catered to their own particular interests - economic and political. Viewed from an alternative position, tourism has brought few benefits to the masses. Rather, tourism has diverted resources from the local people and has excited social and cultural dislocations.

2. Due to the magnitude of foreign costs in the industry, tourism has contributed little to the National Income. Its importance in regional economic development has been effectively diminished by its heavy demand for foreign products and by the market preference for large scale commercial producers.

3. The justification for large-scale tourism development on the basis of the employment it creates is also refuted when its significance in the total employment scene and its investment costs are examined. The creation of small-scale resorts, as proposed by the S.L.F.P., is much more justifiable as a labour-intensive industry, though it is evident that tourism's potential as a "significant" employer, relative to other economic sectors, is very low.

4. The diversion of land, water, capital, and labour into tourist development constrain local social and economic development. These factors of production are desperately needed by the lower income groups in Sri Lanka; their diversion by the wealthy classes and the government only accentuates existing inequalities between the elites and the masses.

5. The commercialization of culture is another aspect of the

power and domination exerted by the national elites and foreign capitalists over the masses. *Institutional tourism's* exploitation of local culture has helped change its value throughout society from "use" to "exchange". This process has not been fostered by the *non-institutional tourists* who are actively discriminated and regulated against by a government pursuing the road to capitalism and Westernization.

6. Finally, it is claimed that the U.N.P. strategy to promote tourism has afforded foreign and corporate interests to attain greater political and economic control over the direction of economic development as a whole. The subordinate position of the government relative to foreign tourist firms constrain the development of internal domestic linkages and growth.

FOOTNOTES TO CHAPTER 4

1. See, Tourism in Sri Lanka: The First Decade, Department of Information, Government of Sri Lanka, 1978 (Colombo: Ministry of State):
Proceedings of the Seminar on Tourism held in Colombo on November 2, 1978. The Seminar was sponsored by the Ceylon Tourist Board and the Ceylon Hotel Corporation and conducted under the auspices of the Ministry of State, Government of Sri Lanka.
2. This estimate is based on limited data for a few Class I resorts.
Caution is advised in using this as a comparative figure.
3. See, E. de Kadt (1979) for a brief discussion on class structure and the distribution of the benefits of tourism.
4. The Tourist Development Act, No. 14 of 1968 (Colombo: Government Publication Bureau) gives the Tourist Board powers to acquisition any land for the purpose of any tourist development project, this being declared as a "public purpose". See, Part I. (Compulsory Acquisition of Land, Vesting of Foreshore and Resthouses in the Board, Alienation of Land, and Provisions Applicable to Loans).
5. This estimation, according to Goonatilake (1978), works out to be 374.72 gallons over the year, as compared to only 35.7 gallons used by the Colombo resident.

CHAPTER 5

TOURISM POLICY AND STRUCTURAL CONSTRAINTS ON DEVELOPMENT

Tourism Policy, as it is formulated by the present government of Sri Lanka, and several structural characteristics that have emerged from its implementation, are examined here to concretize constraints tourism has posed for development.¹ Many of these constraints are the result of the extreme "open" policies that the government has adopted for the development of all industrial sectors. In this respect, then, tourism is a particularly good representative because of its metropolitan nature and inherent links with foreign enterprise.

The development of tourism during the period 1966-1971 took place according to the guidelines set out in the ten-year Ceylon Tourism Plan (Harris, et al., 1967). During this period, tourism growth (arrivals, receipts, investment) accelerated rapidly. Between 1971 and 1976 tourism continued to grow rapidly, despite a change in general economic policy, a moderate shift in emphasis toward less capital-intensive hotel plants, and world energy problems (Ceylon Tourist Board, 1977). The "closed" economic policies at that time slowed the number of foreign tourism investment projects, for obvious reasons, and probably would have succeeded in creating a tourism sector more in tune with the needs of the average Sri Lankan had these policies been given sufficient time and support to work. The rejection of these policies and their replacement again with the "open" strategies of the U.N.P. is vividly reflected in the 1977-1981

Tourism Plan - a reaffirmation of goals set forth in the Harris, Kerr, Forster Plan.

The objective of the 1977-1981 Tourism Plan (the second 5-Year Plan) is to achieve an accelerated growth of tourism by: (1) increasing the promotional efforts in the existing markets, as well as extending promotional activities into new markets, through more intensive relations with foreign tour operators, airlines, hotel chains, etc., and (2) providing more avenues for tourists to spend their money within the country. This entails improving existing facilities and providing better, more luxurious resorts to encourage higher levels of spending. The promotional programmes focus on attracting a greater proportion of high-spending, high class tourists to the island (Ceylon Tourist Board, 1977:4-5). At the same time, the Tourist Board is stepping up efforts to dissuade low-income travellers - the *non-institutionalized tourist* - by regulating their entry. (This tactic is very much reminiscent of Singapore's attempt to ban entry of 'hippies' to their island-state.)

The Tourism Plan is built around the government's general economic strategy to maximize foreign exchange earnings. To this end, the Tourist Board is attempting to provide greater opportunities for shopping and entertainment within tourist centers by increasing the scale of resort development (i.e. providing more facilities under one roof), and by supporting the construction of modern shopping complexes in resort areas. The construction of capital-intensive shopping centres is an extension to resort planning since they are oriented toward the foreign visitor; the five-storey supermarket at Borellajanata is a case in point (Ceylon News, November 1, 1979). In all, the Tourism Plan calls

for increased luxury class tourism development and a greater proportion of foreign participation in all aspects of formal development.

5.1 Limitations

The structural traits that have emerged from tourism planning of this sort, and that continue to emerge, constrain local development in Sri Lanka in various ways. These constraints are a function of foreign penetration of the economy and of the "conventional, private enterprise-oriented, upper middle class dominated, merchant capital-influenced, pro-west national government" of J. R. Jayewardene (Wilson, 1971).

The first constraint derives from the disparity between supply and demand in the industry: the result of basic export-biased production and import-biased consumption. Tourism involves the diversion of domestic capital, land, water, labour, etc. towards the production of the tourist product. Controlled by foreign enterprises and national elites, the bulk of the tourist earnings go toward these patrons and not the local people. Supplies into the tourist plant (furnishings, appliances, food, etc.) are import-biased. External linkages are forged at the expense of domestic connections. This generates a host of development problems. One, is the limited endogenous capacity to multiply or convert tourist expenditures into a higher standard of living for the local residents. Second, reliance on foreign tourist firms implies little control over the amount of foreign tourist expenditure injected into the local economy. Third, the dependence on imports to supply the tourist sector puts local developers in a subordinate position with respect to price and availability of foreign merchandise. And finally,

this "openness" increases dependence; tourism expansion requires import expansion inducing tighter external links with foreign markets, thereby increasing the development of "enclavism" within the industry.

A second constraint concerns the market structure facing modern tourist developments. Mass tourism is an activity that functions within a highly competitive international environment which largely determines the cost, quality, and supply of the tourist product. The large scale of tourism activities entices multinational control, leading to a myriad of domestic problems (e.g. loss of local decision-making, structural imbalances, etc.). At the same time, the local market servicing the tourist sector encourages control from large local producers, wholesalers and cooperative patrons who are able to supply large quantities of specialized products (e.g. handloom products), effectively crowding out the many small-scale producers. Thus, the market arrangements with the domestic sector limit balanced growth. Income is not distributed proportionately and intersector linkages are few because of the tourist sector's preference for dealing exclusively with these market patrons. Because of the specialization, quality control, integration and scale of operation in the international market, the domestic sector is restricted to few inputs; thus, the development of a capital and intermediate goods support industry is constrained, further reinforcing the reliance on external forces.

Dependence on foreign expertise in management and technology is a third constraint on local development. This dependency weakens local control, strengthening external linkages and increasing resource diversion to the tourist sector. Again, "openness" tends to be reinforced because

of a propensity to import Western items into the tourism plant- a function of expatriate incomes and taste patterns. Secondly, expatriate management also appears to be a factor in determining ethnic composition in service positions, occupational incomes and mobility, and, in the case of resorts, the price level (McElroy, 1978:6). Thirdly, dependence on external technology marginalizes the competitiveness of small-scale producers and import-substituting enterprises that seek a market in the tourist sector (McElroy, 1978). Finally, dependence on foreign technology may have an effect on the fragile insular ecology of Sri Lanka through the construction of inappropriate capital-land intensive resorts in marginal areas, such as beaches (McElroy, 1978). Pollution and sea erosion have been noticed by Sri Lankan conservationists in various coastal regions (Ceylon News, 1979, August 23, p. 1). This can cause long-run development problems by reducing resource manageability and hence the viability of certain local industries (e.g. fishing).

The present Tourism Policy also constrains development by, fourthly, allowing socio-demographic and cultural structures to be manipulated by powerful Western influences. Occupational enclavism in the tourist industry, although in a small way, contributes to the reduction of labour mobility, initiative, and social integration by perpetuating inequalities based on class and ethnicity. This practice has debarred rural residents (i.e. those below the middle class) from opportunities to benefit from tourism in the formal sector.

In addition, the commercialization of culture and tourism demonstration effects, where present, can induce a change in consumption patterns for Western goods (e.g. sun glasses, cameras, etc.). This has

an unfavourable impact on local economic development by: (1) creating a higher demand for certain import items, and consequently, (2) retarding capital formation. (As already indicated, the tourism demonstration effect is an unknown variable; hence, the magnitude of this impact is also unknown.)

A fifth problem relates to induced inflation from both external and internal pressures. As a heavy importing price taker, modern tourism plants are susceptible to metropolitan-induced inflation. This includes: increased transport costs, petroleum costs, food costs, liquor costs, luxury merchandise costs, and so on. Externally-induced inflation makes capital-intensive facilities more dependent upon a higher demand structure from foreign tourists (increasingly income elastic). This places severe stress on the inelastic import structure of the tourist plant in the event of declining tourist receipts. A drop in tourist spending, due to political, monetary or energy constraints, reduces the capacity of these large resorts to remain economically viable. Hence, the local workers in resorts find themselves without jobs, as do those indirectly employed in the supply sectors, and without control over the internal resource inputs utilized by the resorts. In addition, the government faces revenue losses which tend to worsen the balance of payments and constrain growth.

Internally-induced inflation results from the effects of increased demand for certain domestic items (lobster, land, water, etc.), spillover effects of luxury tourism on prices² (McElroy, 1978), demonstration effects, and the upward wage-drift from the capital-intensive resorts and foreign-run travel firms to smaller firms (e.g. smaller Class I and Class

II resorts, independent tour firms, taxis, etc.). The net outcome of these factors is to reduce local competitiveness in the tourist sector and reduce their general capacity to import and invest.

Sixth, because of the tourist sector's dependence on foreign firms, and because of the relative impotence of the domestic sector (i.e. lack of internal linkages), the Tourism Policy's objective of inducing higher tourist spending has negligible multiplier impacts on the local economy. This problem is compounded by tax, import duty, and foreign exchange control evasions practiced by the international tourist firms, which maintain that these concessions are necessary to induce higher tourist arrivals and expenditures.

Seventh, the present Tourism Policy propagates a number of "institutional" constraints that are carry-overs from the colonial past. The bureaucratic structure of the Ceylon Tourist Board is highly inflexible and, thus, incompatible with the social and cultural needs of the local people. Because of its own inability to plan outside of the local context, the Tourist Board is primarily concerned with minor issues as they relate to the larger dominant tourist enterprises (i.e. frontier formalities, 'hippies', price regulation, conduct codes, etc.). The function of the Tourist Board to assist and cooperate with tourist firms and international organizations in the development of the industry greatly restricts the capacity of the Board to act in accordance with the needs of the lower income masses. Decision-making is out of step with the local setting and basic questions as to who really benefits are not examined because of the Board's mandate to play mistress for the 'pro-west', elite-dominated U.N.P. and the international tourist firms.

Furthermore, the administration of the Board itself operates on the rules of "elite politics" and connections (social and kinship), reproducing the structure of class and ethnicity within the organizational framework of the Board. This network of relations extends to the "corporate elite" whose interests are in tourism, gemming and handicrafts. These powerful interests influence policy formulation and constrain whatever capacity the Board has to develop small industrial and manufacturing programmes for local people to market products in the tourist sector (competing with established "corporate" enterprises).

Lastly, and related to these issues, is the constraint of informational dependence. As a promotor of the tourist product, the Tourist Board must rely on external interpretations of the needs of the international market. This obfuscates local perceptions of planning alternatives and development constraints. Over time, tourism policy becomes trapped in inappropriate strategies externally imposed that may not be economically viable for the state or local entrepreneurs (e.g. capital-intensive luxury resorts, resource diversion, heavy infrastructure). Local solutions to the problem of projected high tourist demands tend to imitate international strategems (as depicted by organizations like the W.T.O. and P.A.T.A.), encouraging external dependence. Thus, what follows is a continuance of neo-colonial patterns whereby foreign concerns dictate the direction of tourism development.

What has been described in broad terms for the tourist industry may apply to the national industrial strategy as a whole. This is apparent in the context of Sri Lanka's developing free trade zone. As with these other industrial sectors following the U.N.P.'s "open"

economic policies, the structural features deriving from the present tourism policy are seen to be incongruent with the development needs of the local masses (employment, better resource allocation etc.).

5.2 Policy Options

The foregoing analysis suggests the need to explore policy options to counteract constraints on local development embedded in the current tourism policy. These alternatives might be along the lines proposed by the earlier S.L.F.P. commitment toward import-substitution, local skill development, and the improvisation of "Schumacher-type" intermediate technology. The return to "closed" policies would secure greater control over resource allocation and substantially improve the position of the small-scale producer by affording him greater access to the tourism marketplace.

From what has been said, there is plenty of scope to reduce the degree of "openness" in tourism policy but it should also be clear that the ties with foreign enterprises cannot be completely cut. Controls to protect domestic industries and reduce imports of non-essentials and luxuries are needed, as is a greater emphasis upon improving internal linkages between the domestic and tourist sectors. However, this strategy would need to recognize its own limitations of size, the need for certain imports and commercial capital, and, obviously, the linkages with the international tourism market. An appropriate tourism strategy would entail a greater reliance on management and technology catering to local needs -- reducing the demand for non-essential imports and the construction of luxurious resorts requiring massive diversions

of local resources.

A tourism policy that encourages *quality* rather than *quantity* tourism need not rely so intensively upon maximum growth strategies. Thus the Ceylon Tourist Board could focus upon potential impacts (social and economic), the encouragement of efficient small-scale resort developments with high standards of operation and maintain a greater degree of autonomy in its dealings with foreign tourist firms.

An alternative tourism policy should integrate the needs of other sectors of the economy as well, to ensure balanced wage and employment structures. This would include an evaluation of other policies to uncover biases favouring particular sectors and a review of external policies. Tourism needs to be adapted to other local sectors and traditional sociocultural institutions to ensure greater domestic-oriented policy.

5.3 Summary

1. Briefly, this chapter points to various structural limitations that the present tourism policy poses for social and economic development in Sri Lanka. They include the following:
 - (i) Problems resulting from export-biased production and import-biased consumption.
 - (ii) An imbalanced market structure that limits internal linkages.
 - (iii) Dependency on foreign tourism consultants.
 - (iv) Biases toward Western sociocultural frames of reference

(e.g. employment of Western-oriented, middle-class service workers).

(v) Induced inflation (external and internal).

(vi) Low multiplier effects.

(vii) Institutional constraints and colonial carry-overs within the government and the Ceylon Tourist Board, and their dependence on foreign organizations for policy direction.

2. These limitations suggest a need for an alternative tourism policy that is better coordinated with local producing sectors. This policy should display a greater sensitivity toward local needs and sociocultural conditions and, to this end, aim towards *quality* rather than *quantity* tourism.

FOOTNOTES TO CHAPTER 5

1. The constraints listed in this chapter derive from a discussion of general structural problems and policy constraints in small island economies by J. L. McElroy in an unpublished paper entitled, Internal and External Policy Constraints in the Small Island Context, prepared for the Conference on the Economic Development of the Small State with Special Reference to the U. S. Off-Shore Areas of the Caribbean, held in San Juan, Puerto Rico, March 1978. See also W. G. Demas (1965).
2. Spillover effects have been quite substantial in the Bentota and Beruwella resort areas which have caused considerable concern to the Ceylon Tourist Board. See, Ceylon News, 1979, December 27.

CHAPTER 6

CONCLUSION

This study has taken a critical and negative view of tourism in the process of development in Sri Lanka. Perhaps it has overstated the negative aspects in making the point that tourism is not the panacea for development problems that certain politicians would have us believe; tourism, properly developed and managed, can contribute in a positive way toward social and economic development. The position taken here - that tourism has not contributed positively to development in Sri Lanka - must be understood within the context of economic planning undertaken by the U.N.P. government in the 1960s and the general state of economic affairs at that time.

Following the colonial transformation and Independence, Sri Lanka faced numerous structural problems that severely affected its path of development: rising unemployment; an expanding population; a growing dependence on imports; and, the declining importance of traditional exports in the world market. In attempting to deal with these problems, the U.N.P. and S.L.F.P. governments sought to effect structural change through diametrically opposite strategies. The former's strategy was to adopt a free enterprise approach and encouraged foreign investment to catalyze the economy. The latter stressed the need for inward-directed development through import-substitution and socialism.

During the mid-1960s, the U.N.P. began to intensively develop the tourist sector as part of its foreign exchange maximization program. Its decision to promote the development of a foreign-dominated, mass institutionalized tourism plant, without careful and integrated planning with other domestic sectors of the economy, led to various structural imbalances. The dislocations with local marketing structures served to illustrate this fact. The distributional and social consequences of the U.N.P. tourism plan was different from the type of tourism the S.L.F.P. tried to promote, rather unsuccessfully, when they regained office in 1970; i.e. less capital-intensive, small group tourism. Although tourism did moderate in character during the S.L.F.P. reign, the structural framework had already been laid for the course of its development. From 1970 to 1976 tourism arrivals grew considerably as foreign-operated resorts began to appear on the scene; but S.L.F.P. tourism planning, with its emphasis on small-scale developments, discouraged the continued development of large-scale capital-intensive resorts.

In 1977 "open" economic programmes were again implemented, fuelling the growth rate of modern tourism investments. This time, tourism policy became more integrated with plans to develop other export-oriented industries, such as those in the free trade zone and the gem sector. Luxurious resorts and other high-cost tourist facilities were favoured over smaller projects for the reason that they would lure the "high-spending" tourist; smaller resthouses, guesthouses and economy accommodation units were given little consideration in the plan.

Upon closer examination, the impacts of modern mass tourism on the economy, employment, and sociocultural fabric were found not to be

what the Tourist Board and investors had alleged. Tight external linkages, particularly with the luxury hotels, caused high expenditure leakages. In addition, high infrastructure costs, lucrative financial concessions afforded to foreign investors, and the dual market structure hampered tourism's economic contribution to Sri Lanka. Secondly, tourism's impact on the employment situation has neither been significant nor labour-intensive when compared with other sectors of the economy, particularly the rural development programmes (D.D.C.) introduced by the S.L.F.P. Furthermore, employment opportunities have not been geared toward the lower income residents within the resort areas, but rather the middle-class, English educated urbanite. Finally, modern tourism development has had some detrimental effects on the social welfare of local residents. Many large-scale tourist developments are located in heavily populated areas where basic resources, such as land, drinking water, and certain foods (e.g. fish), are in short supply. These resources have been diverted for tourist use, severely affecting the small-scale fishermen, agriculturalists, and other local producers.

Institutional tourism has also been responsible for the commercialization of traditional culture: Buddhist religion, dances, artwork, primitive ritual and history. This has, in some cases, led to conflict between the local residents and the tourism promoters and tourists. Also, tourism has kindled resentment between community members and migrant resort workers (e.g. Burghers) in many of the rural regions of the island. These and other local concerns have been dismissed by the Tourist Board officials as minor social costs compared to tourism's major economic benefits - but, for whom?

On a macro, structural level, it was pointed out that the U.N.P. tourism policy, with its emphasis on luxury developments, has presented a number of constraints for local development. Far from providing a base for self-sustained economic growth, mass tourism has created an overdependency on foreign enterprises for exchange earnings, employment and policy direction. This dependency has reproduced structural conditions that reinforce external linkages, making them tighter and further fragmenting ties with domestic sectors of the economy. Consequently, local economic growth has not been stimulated by tourism, except in an informal way.

In conclusion, it was suggested that an alternate policy, planned on an integrated basis with other sectors, taking into account the social, economic and cultural needs of the local people, be adopted to remove these structural limitations on development. A policy developed somewhat along the lines of the earlier S.L.F.P. strategy, emphasizing the development of smaller resorts locally owned and operated and closely linked with domestic supplying sectors, was seen to be more congruent with local development objectives.

Other policy recommendations that would favour the development of *quality* tourism, suitably fitted to the specific sociocultural and economic needs of local residents, may incorporate some of the suggestions arrived at during a recent UNESCO/IBRD seminar on the Social and Cultural Impacts of Tourism (de Kadt, 1979:339-347). Some of these are:

1. That, "tourism should be developed on a scale, at a rate of growth, and in locations, which do not place undue strain on national and local resources and which seriously avoid social, cultural, and environmental impacts;" via - integration with domestic sectors; interdisciplinary and intersectoral planning; using profits

and revenue surplus "to secure a sectorally, regionally, and socially balanced pattern of investment"; utilize existing infrastructure rather than planning for development in remote areas; conduct impact studies; and, initiate other means to ensure maximum local participation, benefit and control.

2. That, ownership of resources should "remain in the public domain" and that their use for tourism should not be alienated from the people in the country.

3. That, technical and financial assistance be provided for publicity and promotion of small resorts and other tourist enterprises.

4. That, the hotel school "play a (stronger) role in providing knowledge about local, regional, and national culture".

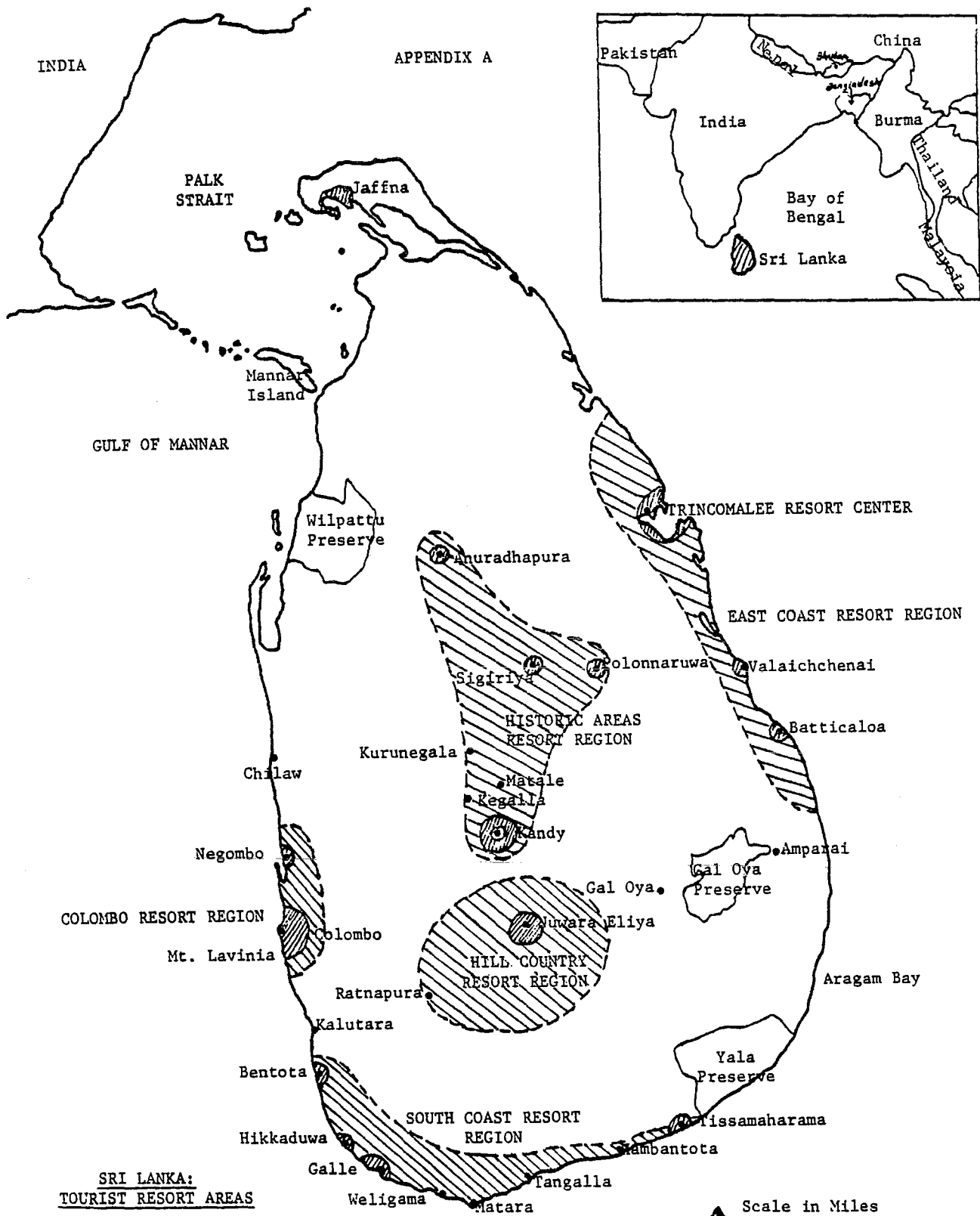
5. That, authorities institute measures to protect against unequal distribution of benefits through community corporate ownerships, building controls, taxation, etc.

6. That, "host populations be actively consulted and involved in tourism plans for their areas and have a voice in determining if they should have tourism, the rate of tourism growth, the types of tourists and investors to be encouraged, and, concomitantly, the type of overall development suitable for the community. This implies the creation or encouragement and strengthening of local and community groups".

7. That, tourists be presented with honest and informative publicity material and be prepared for the social, cultural, religious, and economic environment they will encounter. In particular, tourists should be sensitized to the types of problems experienced by the local people.

This structural analysis of tourism and its effects on Sri Lankan society has, as suggested in the text, been exploratory on various accounts. Little is known about the ways in which tourism development affects local kinship systems, belief systems, values or attitudes. Nor is very much known about informal sector activities, resource distribution and its effects, or tourist-host relations. It would be desirable to conduct research on these various impacts and tailor findings to the

needs of tourism planners. Ethnographic analysis can play a pivotal part in tourism research in problem area identification and information gathering and interpretation. A methodology focussing on qualitative data analysis, like that proposed by Doxey (1975) in assessing tourism "irritation" in local communities, carefully considering the social and cultural needs of the local people, is an important prerequisite to appropriate tourism planning. Hopefully, this study has identified certain problem areas in Sri Lanka that will incite future research to aid in the formulation of better directed tourism policies.



APPENDIX B

INDUCEMENTS

Foreign Capital for the Government Approved
Industries of Hotel, Manufacturing and Agriculture.

-- No Expropriation, No Discrimination, No Nationalization* --
Investment Guarantee Programs Exist with West Germany and the U.S.A.

A. The Industry

1. Five year exemption from Sri Lanka Income Tax from date of commercial production.
2. All dividends of limited liability companies similarly exempt.
3. Three year income tax exemption of export profits of industrial undertakings.
4. One-shot lump sum allowance for depreciation for certain types of machinery, equipment and buildings.
5. Developing rebate of 20% of cost against profits for certain types of machinery, equipment and buildings on commencement of business.
6. Loss carry-forward indefinitely.
7. Rebate of 5% of value of goods for industrial exports, in the form of a setoff against tax payable.
8. No import duty on raw materials for export orders.
9. No excise duty on industrial exports.
10. No turn-over tax on industrial exports.
11. Double tax relief agreements with India, Pakistan, Japan, Sweden, Denmark, Norway, West Germany.
12. 5-year tax holiday proposed for new approved hotels to promote tourism.

B. Foreign Investors

- FREE REMITTANCE:
1. Profits and dividends.
 2. Interest on borrowings, debentures, preference shares, overdrafts, etc.
 3. New proceeds of sale or liquidation.
 4. Reasonable royalties.
 5. Payments for technical services and fees.

C. Foreign Personnel

- FREE REMITTANCE:
1. Funds for family maintenance.

2. Savings on retirement.
3. Emoluments and any income arising abroad free of up to three years (if employed in tax exempt industry), *including approved hotels for tourism.*

* In the event overriding considerations demand nationalization, then prompt, effective, adequate payment will be made to investors.

Excerpts from: "Inducements", Ceylon Tourism Plan, Harris, Kerr, Forster & Co., Hawaii, 1967.
Government of Ceylon White Paper of March, 1966.
 Colombo: Government Publication Bureau.

APPENDIX C

THE CLASSIFICATION OF ACCOMMODATION ESTABLISHMENTS

Accommodation establishments in Sri Lanka are classified, for internal and promotional purposes, by the Ceylon Tourist Board. This system of classification, as outlined in the Sri Lanka Accommodation Guide and other promotional literature, is defined as follows:

(a) Hotels: Accommodation units of not less than 10 rooms providing catering services. Hotel establishments range from the luxury multinational class hotels to small locally owned units which are operated like resthouses.

(b) Resthouses: Resthouses derive from the Dutch Rest Huys where colonial administrators rested while on inspection and tax gathering missions throughout the island. Many more were built by the British in most of the provincial towns. Today they are constructed by the government. Their size ranges from 10 to 60 rooms, averaging larger than a Guesthouse. Resthouses are somewhat more informal than hotels. In fact, in some, menus are still decided upon by consultation between host and guest.

(c) Guesthouses: These units are usually less than 10 rooms. Cheaper than hotels and resthouses, these units provide a more informal atmosphere for tourist-host interaction. These units are locally owned and managed.

(d) Paying Guest Accommodation: These units are for those who wish to experience living with Sri Lankans in private homes. By far, these units encourage close interaction between host and guest, as well as offer a cheap means of accommodation.

(e) Economy Accommodation: Economy units are co-op style facilities geared for the young traveller. They are the Youth Hostels, YMCAs, YWCAs, and their Buddhist counterparts (YMBA & YWBA), and servicemen hostels. They are quite popular among the domestic traveller as well as foreigners who are on a tight budget.

(f) Park/Estate Bungalows: These units (small and self-contained) are situated within the National parks or Estate regions and

are managed by the Department of Wildlife Conservation or Plantation enterprises. (Camping facilities are also available.)

The Grading of Accommodation Establishments

Accommodation establishments are graded by the Tourist Board according to the types of facilities offered, room rates, resort size, and other service standards. They are graded as follows:

- (a) 5-star hotels (luxury): multinational hotels - e.g. Holiday Inn, Colombo Intercontinental, Lanka Oberoi, etc.
- (b) 3 & 4-star hotels: international standard hotels. (Geared toward accommodating the high-spending tourist. Ownership: local and foreign.)
- (c) "A" grade resorts: luxury guesthouses and resthouses. (Geared toward the high-spending tourist. Ownership: local.)
- (d) "B" grade resorts: moderate grade guesthouses. (Geared toward the medium to low spending tourist and middle-class domestic traveller. Ownership: local.)
- (e) "C" grade resorts: low grade guesthouses. (Geared toward the lower income domestic traveller and the low-spending tourist. Ownership: local.)
- (f) Ungraded resorts: economy, paying guest, and other accommodation units that do not meet Tourist Board standards of operation. (Geared toward the domestic and low-spending traveller. Ownership: local.)

The rate intervals, resort sizes and facilities for the above gradings are listed in Chart 1.

CHART 1

The Classification of Accommodation Establishments

| Classification | <u>Class I</u> | <u>Class II</u> | <u>Class III</u> | <u>Class IV</u> |
|------------------------------------|--|---|---------------------------------------|---------------------------------------|
| Tourist Board Resort Grades | International Hotels | A Grade | B & C Grade | Ungraded |
| Number of Rooms | Greater than 50 | 10 to 50 | 4 to 15 | 2 to 10 |
| Rates per Region: | | | | |
| Colombo | Rs 450 - 1500+ | Rs 150 - 1200 | Rs 25 - 120 | Rs 6 - 100 |
| Southwest Coast | Rs 450 - 1500+ | Rs 150 - 800 | Rs 25 - 120 | Rs 6 - 80 |
| Ancient Cities | Rs 300 - 600 | Rs 100 - 400 | Rs 15 - 100 | Rs 6 - 50 |
| Hill Country | Rs 300 - 600 | Rs 100 - 400 | Rs 15 - 100 | Rs 6 - 50 |
| East Coast | Rs 375 - 1125 | Rs 80 - 600 | Rs 15 - 100 | Rs 6 - 100 |
| Ownership | Foreign; Local | Local | Local | Local |
| Facilities and Services Offered | Air conditioning; Shopping arcade; Tour services; Swimming pool; Restaurant; Disco; Conference facilities; Recreation facilities; Western appliances. | Lounge; Hot/cold water; Laundry; Restaurant; Baby sitting services; (may have shopping facilities). | Laundry; Baby sitting services. | Laundry; Baby sitting services. |

Source: Ceylon Tourist Board, Accommodation Guide, 1979 (Colombo: Ceylon Tourist Board, 1979).

APPENDIX D

LIST OF ABBREVIATIONS

| | |
|----------|---|
| M.E.P. | - Mahajana Eksath Peramuna (People's United Front) |
| P.A.T.A. | - Pacific Area Travel Association |
| Rs | - Sri Lanka Rupees (see Rates of Exchange below) |
| S.I.A. | - Singapore International Airlines |
| S.L.F.P. | - Sri Lanka Freedom Party |
| U.N.P. | - United National Party |

RATES OF EXCHANGE

| Year | U.S. Dollar = | Canadian Dollar = | British Pound = |
|----------------------------|------------------|----------------------|--------------------|
| Before Nov. 21, 1967 | Rs 4.76 | - | Rs 13.33 |
| December 29, 1971 | Rs 5.82 | - | Rs 15.19 |
| End of 1972 | Rs 6.39 | Rs 6.49 | Rs 15.60 |
| End of 1973 | Rs 6.74 | Rs 6.74 | Rs 15.60 |
| End of 1974 | Rs 6.68 | Rs 6.78 | Rs 15.60 |
| End of 1975 | Rs 7.71 | Rs 7.62 | Rs 15.60 |
| End of 1976 | Rs 8.86 | Rs 8.75 | Rs 14.61 |
| Nov. 4, 1977 | Rs 8.59 | Rs 7.68 | Rs 15.52 |
| Nov. 16, 1977 ¹ | Rs 15.97 | - | Rs 29.00 |
| End of 1978 | Rs 15.49 | - | Rs 31.64 |
| End of 1979 | Rs 15.70 | - | Rs 32.71 |

¹ From Nov. 15, 1977, the Sri Lanka rupee was allowed to float.

Sources: Central Bank of Ceylon Bulletin: April 1979 (Colombo: Central Bank of Ceylon.)
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