

Potentials for Foreign Exchange Earnings in Sri Lankan Tourism Industry: Considering Leakage and Linkage Effect

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Introduction

Tourism is one of the fastest growing industries globally and especially in the developing countries. International tourism is crucially needed for foreign exchange earnings, employment, income, government revenue and stimulation of regional development. The tourism industry is a cluster of goods and services that incorporates numerous inter-related industries such as infrastructure, transportation, hotels, food and beverages industry etc. which can create a spillover effect across all the sectors.

Even though the tourism sector has opportunities to significantly contribute to regional economic development, tourism and hotels tend to use large wholesale retailers rather than small enterprises. Due to several reasons such as shortage of capacity, poor quality and general unreliability of service delivery, the tourism related companies import goods, services, and skilled labor that alleviate the industry's positive impact on the local economy (Hall, 2008). This is because the revenue from the industry often flows back to foreign owners and suppliers. More than two-thirds of the revenue from international tourism never reaches the local economy because of high foreign exchange leakage (Pleumarom, 1999). In view of the fact that one third of tourism spending accounts to food (Belisle, 1983), maximizing linkages to local food sector could have a significant impact on reducing leakage. Leakage from at least six factors: (i) the cost of goods and services purchased to satisfy the needs of visitors, (ii) purchase of materials and equipment from other countries to provide infrastructures for tourism,

(iii) payments to foreign factors of production, (iv) expenditure for promoting a destination abroad, (v) transfer pricing and (vi) payment of profits, dividends, royalties, and incentives etc. to attract investments in the sector (Mill and Morrison, 1999).

The foreign exchange earnings are usually overstated as leakages neglected and not taken into consideration. The leakages must be subtracted from foreign exchange earnings in order to estimate the real possible economic impacts associated to tourism. Therefore there is a research worthy area in Sri Lanka regarding the net foreign exchange earning capability of the tourism sector is left out for serious studies. The problem of this research, therefore, relates to the net foreign exchange earnings of the tourism industry in Sri Lanka.

Objectives

The main objective of this study relates to the net foreign exchange earnings of the tourism industry in Sri Lanka. Sub objectives are; (i) to identify the strength of linkages and the degree of leakages in Sri Lankan tourism sector, (ii) to identify the avenues to reduce leakages and to promote the potentials for development of high foreign exchange earning tourism sector via extensive linkages.

Methodology

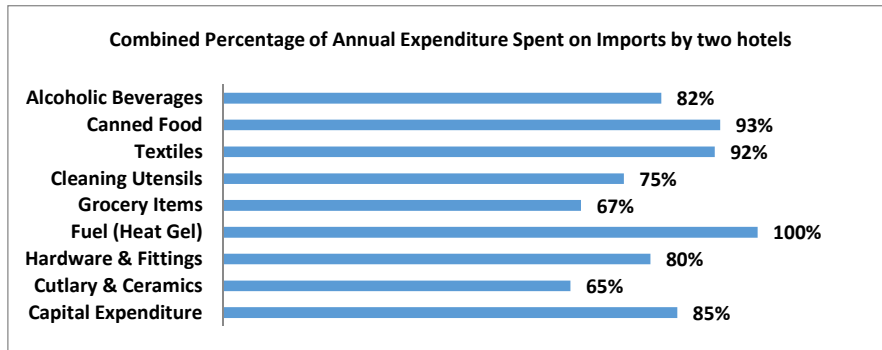
The study uses both primary and secondary data to identify foreign exchange earnings from the tourism sector. Primary data were collected through a field survey and interviews to identify foreign exchange earnings from the hotel sector as it is the largest foreign exchange earner in the tourism industry. Convenient sampling technique was used on two target hotels in Kandy and Kalutara to identify local and imported goods by examining one year's procurement budget 2013/14. Secondary data were collected from critically analyzing the literature and surveys available from previous works and also from SLTDA statistical report from 2013 and SLTDA survey report on the departing

foreign tourists from Sri Lanka. This study used the descriptive analytical technique.

Results and Discussions

The survey of the hotels shows a relatively high propensity to import various goods with more than 50% of the total expenditure being spent on imports. Hotel A, a three star hotel, that operates 73 rooms annually spends Rs. 30 million whereas hotel B, a four star hotel with 133 rooms spends Rs. 106.3 million for imported goods respectively. Both Hotel A and B spend a considerable amount of the total expenditure for imports on specialized items such as beef, sea foods. All hotels irrespective of their star status import almost 90% of the requirements such as textile items and canned foods. The purpose is to maintain certain international standards required. More than 65% of cutlery and cookery items are directly imported. The investigated hotels show overall leakage rate of more than 80% in the procurement imported goods in housekeeping, food and beverages.

Figure 1: Percentage of Imports per Product Category



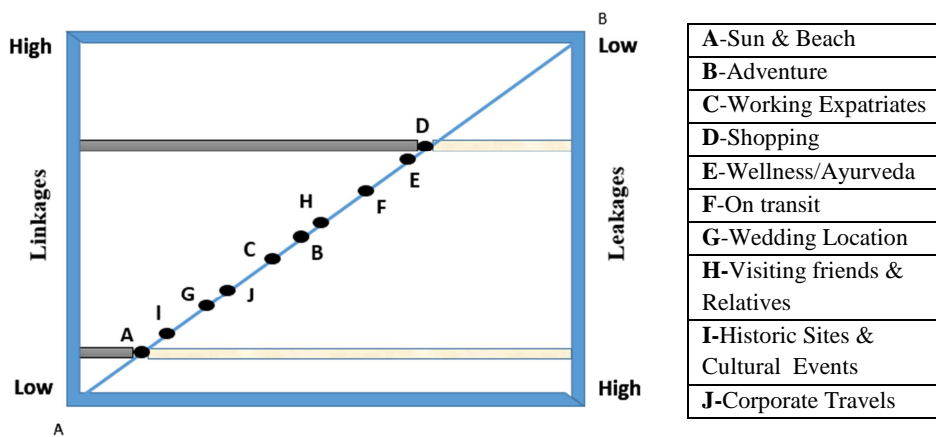
Source: Author's Field Survey

During the interview, it was realized that the hoteliers do not have a concern about leakages. This could be due to the fact that the local content has not been seriously thought of by the tourism industry. An official of the census and statistics department said that there are three areas need to be addressed in depth to calculate leakages; (i) lack of

transparency in the overseas transactions, (ii) paucity of literature in costing the imported items, (iii) indigenous potentials to supply goods and services to the tourism industry.

The important point on leakages that could be concluded is that the tourists look to have the same home comfort, branded quality foods, wine, liquor, high quality housekeeping items, beds, ceramic ware, travel facilities and comfort and value for the money paid. Therefore there will be a significant leakage effect across the tourism sector but there should be policy devices to cope with the leakages and to substitute imported content with local content.

Figure 2: Leakage and Linkage Matrix



Analysis of above data shows that the first preference events under leakages attract larger numbers than the first preference under linkages. Events categorized under leakages are all pre planned, fixed schedule tours, packaged special tours, and basically a pre-arranged and programmed arrivals. Therefore it is extremely difficult to extract some foreign exchange directly to the local economy as the guest is fully concerned with the care for all needs paid up for. When the events, tour itinerary and other support service factors are deeply analyzed it is possible to conclude that ways and means to promote local content of tourism. As far as the first preference events are concerned it already

has a basic local input which needs to be seriously exploited to its maximum to attract foreign exchange directly to the local community based individual and institutional service providers, farmer societies and Small & Medium Enterprises who would provide goods and services as regular suppliers.

Conclusion

The study confirms that in order to make the tourism industry with a positive and favorable segment of the economy. It is important to identify local content areas to reduce leakages to a minimum level and improve linkage activities to a maximum level. This can be done by calculating the endogenous potential to exploit the area carefully and systematically. There should be short, mid and long term sustainable tourism supportive industries either created newly or through improving existing ones. The promotion of tourism should go hand in hand with the promotion of the local content in it for sustainable development in that sector and contribute to economic development through effectively earning foreign exchange.

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