

The Impact of Political Stability on Tourism Development in Sri Lanka (An ARDL Co-integration Approach for Sri Lanka)

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Introduction

Tourism is a very important part of the global economy. There are numerous benefits of tourism on host destinations. It boosts the income of the economy, creates job opportunities, develops the infrastructures of a country, and plants a sense of cultural exchange between foreigners and citizens. The number of jobs created by tourism in many different areas is significant. Given the dramatic rise in international travelers, approximately 9% of the world's GDP is estimated to be contributed by the tourist industry, or about USD 7 trillion, and it also contributes to reducing global unemployment by generating jobs in tourist destinations (Koenig, Postma, and Papp, 2018).

Tourism development refers to the planning, investments, and implementation activities for tourism (Smith and Richards, 2013). which means tourism development is the process of instituting and maintaining a tourism industry in a particular location at its most fundamental level. Tourism development can be defined as the process of developing strategies and plans to encourage tourism in a particular destination. Tourism development refers to the process of planning, promoting, and managing tourism activities and infrastructure in a way that maximizes the economic, social, and environmental benefits for a destination while minimizing any potential negative impacts. It often involves investment in facilities, transportation, accommodation, and attractions, as well as efforts to market the destination to domestic and international travelers. Effective tourism development focuses on sustainability and stakeholder collaboration to ensure long-term success (Gunn and Var, 2002).

Political stability is prominent for a country's tourism to develop. It refers to the degree to which a government is free from turmoil, consistent in its policies, and capable of maintaining order and governance within a state. It is characterized by the absence of political violence, frequent changes in leadership, or disruptions in government functions, ensuring a stable environment for economic growth, social cohesion, and long-term planning (Alesina et al., 1996).

It is a key sector in Sri Lanka, contributing significantly to GDP, employment, and foreign exchange earnings. On a global scale, the tourism industry as an economic sector element is an important consideration for economic growth, and further, as it plays the role of an export sector, it also generates income and tax revenue and creates jobs (Saha & Yap, 2014; Seddighi, Theocharous & Nuttall, 2002).

Sri Lanka's tourism has been significantly impacted by political instability, policy inconsistencies, and violence. The country's liberal economic policies initially led to increased tourist arrivals, but the civil war in 1983 and the subsequent civil war continued to decrease numbers. Despite a slight increase in tourism in 2010, 2019, and 2022, the Easter Sunday bombings and the "Aragalaya" protests further impacted the industry. The study aims to examine the impact of political stability on tourism development in Sri Lanka.

Methodology

The study is based on secondary data get from World bank and central bank. The main objective of this study is to identify the impact of political stability on tourism development in Sri Lanka through the Autoregressive Distributed Lag model analysis, focusing on identifying the relationship between political stability and tourism. To achieve this goal, the relationship between various economic and political variables for systematic study, a quantitative research approach has been employed. Specifically, this study has used time series analysis techniques and Autoregressive Distributed Lag modelling to unravel the influences of tourism development from 1996 to 2023. The model consists of one exogenous variable and four endogenous variables, including Political Stability (PS), Control of Corruption (COC), Exchange Rate (ER), Foreign Direct Investment (FDI), Gross Domestic Product (GDP), and Military Expenditure (ME).

Findings

This study explored the long-run and short-run impact of economic variables of exchange rate, foreign direct investment, gross domestic product, and political variables of control of corruption, military expenditure and political stability on tourism development in Sri Lanka over the period 1996 to 2023 by applied the Autoregressive Distributed Lag (ARDL) model.

The order of integration of the study variables tested by employing ADF unit root tests. The outcomes demonstrate that the calculated F-test in the ARDL bounds testing approach to co-integration were greater than upper critical bounds at 10%, 5%, 2.5% and 1% significance level in Sri Lanka. This study particularly examined the impact of political stability on tourism development of Sri Lanka in the long-run and short-run over the period 1996 to 2023.

This study employed separate ARDL models, where natural logarithm of tourism arrivals, exchange rate, foreign direct investment, and GDP. But natural logarithm does not use political factors like this political stability, control of corruption and military expenditure. According to that, for Sri Lanka, the estimated coefficients of the long-run relationship are significant for control of corruption, exchange rate, foreign direct investment, military expenditure and Political Stability but not significant for gross domestic product. The foreign direct investment and political stability are significant and has positive impact on tourism development in the long run, which is proxied by tourist arrivals. specifically, a 1% increase in foreign direct investment is associated with 0.54% increase in the tourist arrivals in the long run. A 1% increase in political stability is associated with 0.02% increase in the tourist arrivals in the long run. Based on the results, this study concludes that the impact of foreign direct investment on tourist arrivals of Sri Lanka is very high in the long run. Control of corruption, exchange rate, and military expenditure are significant and negative impact on tourism development in long run which is proxied by tourist arrivals. A 1% increase in control of corruption is associated with 0.05% decrease in the tourist arrivals in the long run. And also A 1% increase in exchange rate is associated with 2.38% decrease in the tourist arrivals in the long run.

Furthermore, a 1% increase in military expenditure is associated with 0.71% decrease in the tourist arrivals in the long run. Based on this results, this study concludes that the increase in control of corruption, exchange rate and military expenditure will decrease the tourism development in long run of Sri Lanka.

The coefficient of error correction term for in Sri Lanka carries an expected negative sign, which is highly significant since p-value of this (0.0000) is less than 0.05, indicating that, control of corruption, exchange rate, foreign direct investment, gross domestic product (GDP), military expenditure, and political stability are co-integrated.

The absolute value of the coefficient of the error-correction term (0.661293) indicates that about 66.1% of the disequilibrium in the tourist arrivals is offset by short-run adjustment in each year one period after the exogenous shocks. That means adjusting the disaggregated economic factors and political factors on tourism arrivals. if effectively done may be realized faster in Sri Lanka.

Recommendations

To improve governance in tourism, government agencies should be transparent about their decisions and regularly review tourism policies. Political parties need to collaborate to keep tourism a main concern, even with leadership changes, through a long-term national strategy. Policymakers should focus on political stability and good governance by creating a National Tourism Security Plan to assure tourists protection and a stable environment.

To attract long-term foreign investments in Sri Lanka's tourism sector, the government can offer long-term land leases alternatively of land ownership, which may appeal to foreign investors.

It is also crucial to have stable and predictable policies for tourism development, so investors feel secure. Additionally, encouraging investment in less-developed regions can help broaden development across the country and attract more diverse investments.

The government should foster strong partnerships with private sector to encourage tourism development. While political stability is present, it provides a predictable and secure environment, encouraging private sector to invest in tourism related projects. This collaboration can make opportunities to develop tourism in Sri Lanka such as joint marketing efforts, developing tourism infrastructure, creating new tourism packages, and ensuring the efficient delivery of services. The private sector's expertise, coupled with the government's support, can attract more international visitors, and tourism development.

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