

## **EFFECTS OF TOURISM ON EMPLOYMENT GENERATION IN SRI LANKA: AN ECONOMETRIC APPLICATION**

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Tourism has become the world's largest industry and creator of jobs across national and regional economies. In Sri Lanka, tourism contributes to a large proportion of the national income and generates employment opportunities. Tourism creates direct, indirect, and induced employment in regional and national economies. Direct Employment refers to the type of employment provided in tourism facilities, such as accommodation, transport, entertainment, travel agents, management, finance, and health care. Indirect Employment covers the employment in other sectors that receives income from expenditure done in touristic relations. Induced Employment refers to the additional employment in economy arising from re-spending of the income which has been gained through direct and indirect employment methods. The multiplier effect of tourism plays an important role in the emergence of induced employment. In Sri Lanka, the ratio of jobs generated, both directly and indirectly, to the number of tourist arrivals for the year is 1:5.6. Due to increased arrivals and the use of new technology in tourism establishments, this ratio has increased to one job for every four arrivals. The research problem of the resent study: What are the effects of tourism on employment in Sri Lanka? There are no recent studies on this issue that uses the multiplier effect model for Sri Lanka. The objective of this study is to test whether there is a long-term effect of the tourism sector on employment according to the multiplier effect model. This paper also investigates the integrated relationship between tourism and employment in Sri Lanka for the period from 1970 to 2015. The data for all the variables were taken from annual reports of the Central Bank of Sri Lanka for the years from 1990 to 2015. This study utilizes ARDL bound test analysis, the long run model, and the error correction model to estimate the effect of tourism on employment. The ARDL bound test results show that there is a long run co integration relationship between the variables of tourism revenue and employment. The ARDL test results suggest that there is a positive, long run and simple relationship between the tourist revenue and employment. The results of the short run dynamic coefficients (ECM) show that tourism revenue has a positive, statistical and simple significant impact on employment in the short term and a fairly low speed of adjustment to equilibrium after a shock. These results suggest that tourism creates multiplier effect to generate employment in Sri Lanka.

*Keywords:* Tourism, Employment, Multiplier effect model, ARDL approach