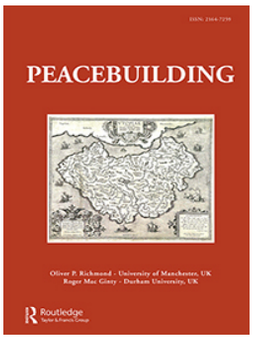

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Investigating the links between civil war, peace and foreign direct investment: a case study of Sri Lanka's tourism sector

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Investigating the links between civil war, peace and foreign direct investment: a case study of Sri Lanka's tourism sector

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ABSTRACT

It is often assumed that civil wars impede foreign direct investment (FDI). Peace is therefore typically considered important for countries to attract FDI. However, scholarly evidence is inconsistent and has uncovered a complicated relationship between conflict and FDI. While studies have tended to focus on the extractive industries, this article investigates how conflict and peace can impact FDI in the tourism industry. Using Sri Lanka as a case study, the evidence suggests that the country's civil war (1983–2009) inhibited inward flows of tourism FDI. Since the conflict ended, the tourism sector and tourism FDI rapidly expanded. However, the areas most affected by the conflict have seen limited growth in tourism and tourism FDI. High levels of militarisation – including military involvement in tourism – have stymied tourism in these areas. This suggests a more complicated relationship between FDI, civil war and peace than is typically recognised in the current scholarship.

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Civil war; peace; foreign direct investment; Sri Lanka; tourism

Introduction

Foreign direct investment (FDI) is often considered a key facet of economic development and is argued to be important for the economies of the Global South.[1] It is often assumed that civil war has a propensity to deter FDI, with negative impacts on economic development. However, several studies acknowledge the inconsistent findings of research into civil war and FDI.[2] While some

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[1]The extent to which FDI produces economic development has been debated. For a good discussion, see Andrew Sumner, 'Is Foreign Direct Investment Good for the Poor? A Review and Stocktake', *Development in Practice* 15, no. 3–4 (2005): 269–85, doi:10.1080/09614520500076183.

[2]Quan Li, 'Political Violence and Foreign Direct Investment', in *Regional Economic Integration*, ed. Michele Fratianni (Oxford: Elsevier/JAI Press, 2006), 225–49; Stephen Chen, 'Profiting from FDI in Conflict Zones', *Journal of World Business* 52 (2017): 760–68, doi:10.1016/j.jwb.2017.06.005; Caroline T. Witte et al., 'Dodging Bullets: The Heterogeneous Effect of Political Violence on Greenfield FDI', *Journal of International Business Studies* 48 (2017): 862–92; Colin M. Barry, 'Peace and Conflict at Different Stages of the FDI Lifecycle', *Review of International Political Economy* 25 (2018): 270–92, doi:10.1080/09692290.2018.1434083; David Maher, 'The Fatal Attraction of Civil War Economies: Foreign Direct Investment and Political Violence, A Case Study of Colombia', *International Studies Review* 17, no. 2 (2015): 217–48, doi:10.1111/misr.12218; David Maher, *Civil War and Uncivil Development: Economic Globalisation and Political Violence in Colombia and Beyond* (Cham, Switzerland: Palgrave Macmillan, 2018); David Maher, 'Investigating the "Curious" Case of Civil War and Foreign Direct Investment: Evidence from Sudan', *Review of International Political Economy* 30, no. 4 (2023): 1510–34, doi:10.1080/09692290.2022.2107045; Graeme Blair, Darin Christensen, and Valerie Wirtschafter, 'How Does Armed Conflict Shape Investment? Evidence from the Mining Sector', *The Journal of Politics* 84, no. 1 (2022): 116–33, doi:10.1086/715255.

studies suggest that armed conflicts lead to lower levels of FDI,[3] several studies show increased levels of inward FDI in countries with civil wars.[4] In contrast to war, it is often argued that peace and policies promoting peace are important for attracting FDI in countries with civil wars.[5]

Studies have shown a higher likelihood of companies operating in the primary sector to invest in countries with armed conflicts compared to companies operating in the secondary and tertiary sectors.[6] It is argued that companies operating within the primary sector are bound by geography and are likely to operate where particular resources are located.[7] In contrast, firms operating within other sectors – for instance, the services sector – are much less bound by geography/resources when compared to the extractive industries and are typically considered less likely to invest in countries with armed conflicts.[8]

The tourism sector is a case in point. Tourist attractions such as sunny beaches are available in many more global locations when compared to natural resources such as oil. On the one hand, political violence is often considered a key threat to the tourism industry and tourism FDI. Existing studies typically suggest an acute incompatibility of war and tourism, with the former having a detrimental effect on the latter.[9] On the other

[3]Matthias Busse and Carsten Hefeker, 'Political Risk, Institutions and Foreign Direct Investment', *European Journal of Political Economy* 23 (2007): 397–412; Adil Suliman and André Varella Mollick, 'Human Capital Development, War and Foreign Direct Investment in Sub-Saharan Africa', *Oxford Development Studies* 37, no. 1 (2009): 47–61; Hye-Sung Kim and Jeheung Ryu, 'Predicting FDI Inflows: Exploring a Nonlinear Relationship between Peace Years, Oil Wealth, and the Rule of Law', *Review of Development Economics* 27, no. 4 (2023), doi:10.1111/rode.13036.

[4]Massimo Guidolin and Eliana La Ferrara, 'Diamonds Are Forever, Wars Are Not: Is Conflict Bad for Private Firms?', *The American Economic Review* 97, no. 5 (2007): 1978–93; Maher, 'The Fatal Attraction of Civil War'; Maher, *Civil War and Uncivil Development*; Maher, 'Investigating the "Curious" Case'; Nusrate Aziz and Usman Khalid, 'Armed Conflict, Military Expenses and FDI Inflow to Developing Countries', *Defence and Peace Economics* 30 (2019): 238–51, doi:10.1080/10242694.2017.1388066; Rodion Skovoroda et al., 'The Attraction of FDI to Conflicted States: The Counter-Intuitive Case of US Oil and Gas', *Management International Review* 59, no. 2 (2019): 229–51, doi:10.1007/s11575-018-0374-y; Andreea Mihalache-O'Keef and Tatiana Vashchilko, 'Foreign Direct Investors in Conflict Zones', in *Ending Wars, Consolidating Peace: Economic Perspectives (Adelphi Series 50)*, ed. Mats Berdal and Achim Wennman (London: Routledge/IISS., 2010), 137–56; Nigel Driffield, Chris Jones, and Jo Crotty, 'International Business Research and Risky Investments, an Analysis of FDI in Conflict Zones', *International Business Review* 22 (2013): 140–55, doi:10.1016/j.ibusrev.2012.03.001; Chen, 'Profiting from FDI'; Blair, Christensen, and Wirtschafter, 'How Does Armed Conflict'.

[5]Suliman and Mollick, 'Human Capital Development'; Mihalache-O'Keef and Vashchilko, 'Foreign Direct Investors'; Barry, 'Peace and Conflict'; Kim and Ryu, 'Predicting FDI Inflows'.

[6]Chengchun Li, Syed Mansoob Murshed, and Sailesh Tanna, 'The Impact of Civil War on Foreign Direct Investment Flows to Developing Countries', *The Journal of International Trade & Economic Development* 26, no. 4 (2017): 488–507, doi:10.1080/09638199.2016.1270347; Witte et al., 'Dodging Bullets'.

[7]Mihalache-O'Keef and Vashchilko, 'Foreign Direct Investors'; Halvor Mehlum and Karl Moene, 'Aggressive Elites and Vulnerable Entrepreneurs: Trust and Cooperation in the Shadow of Conflict', in *The Oxford Handbook of the Economics of Peace and Conflict*, ed. Michelle R. Garfinkel and Stergios Skaperdas (New York: Oxford University Press, 2012); Driffield, Jones, and Crotty, 'International Business Research'; Li, Murshed, and Tanna, 'Impact of Civil War'; Witte et al., 'Dodging Bullets'.

[8]However, some studies have shown that companies operating in the services, high-technology and manufacturing sectors also likely to invest in countries with civil wars (for example, Mihalache-O'Keef and Vashchilko, 'Foreign Direct Investors'; Driffield, Jones, and Crotty, 'International Business Research'.

[9]Eric Neumayer, 'The Impact of Political Violence on Tourism: Dynamic Cross-National Estimation', *Journal of Conflict Resolution* 48, no. 2 (2004): 259–81, doi:10.1177/0022002703262358; Alan Fyall, Bruce Prideaux, and Dallen J. Timothy, 'War and Tourism: An Introduction', *International Journal of Tourism Research* 8, no. 3 (2006): 153–55, doi:10.1002/jtr.564; Guillermo Andrés Ospina, 'War and Ecotourism in the National Parks of Colombia: Some Reflections on the Public Risk and Adventure', *International Journal of Tourism Research* 8, no. 3 (2006): 241–46, doi:10.1002/jtr.572; David Fielding and Anja Shortland, 'How Do Tourists React to Political Violence? An Empirical Analysis of Tourism in Egypt', *Defence and Peace Economics* 22, no. 2 (2011): 217–43, doi:10.1080/10242694.2011.542340; Sriyantha Fernando et al., 'Political Violence and Volatility in International Tourist Arrivals: The Case of Sri Lanka', *Tourism Analysis* 18, no. 5 (2013): 575–86, doi:10.3727/108354213X13782245307876; Sriyantha Fernando, Jayatilleke S. Bandara, and Christine Smith, 'Regaining Missed Opportunities: The Role of Tourism in Post-War Development in Sri Lanka', *Asia Pacific Journal of Tourism Research* 18, no. 7 (2013): 685–711, doi:10.1080/10941665.2012.695284; Jayatilleke S. Bandara, 'Tourism in Post-Conflict Development: Making Use of New Opportunities in Sri Lanka', in *Managing Domestic and International Challenges and Opportunities in Post-Conflict Development: Lessons from Sri Lanka*, ed. Dushni Weerakoon and Sisira Jayasuriya, South Asia Economic and Policy Studies (Gateway East, Singapore: Springer Nature Singapore, 2019), 173–94.

hand, peace and policies aimed at peace and stability are argued to be important for the development of tourism.[10]

Some studies have observed a more complicated relationship, suggesting that armed conflict and tourism are not mutually exclusive but instead have a complex, manifold and multifaceted relationship.[11] For example, the tourism sector can develop in countries with armed conflicts; however, tourists are likely to visit locations that are not directly impacted by the violence.[12] Others have noted how war can provide tourist attractions (e.g. battlefields, castles, fortifications, war graves, etc.), or provide so-called 'dark tourism' opportunities for tourists keen to visit sites associated with death.[13] Others have discussed a tourism–peace nexus, which typically assumes that tourism has a positive impact on peace and that tourism can sustain peace in post-conflict societies.[14] However, the evidence to support this view is weak, with studies producing inconclusive findings.[15]

Tourism may also have negative impacts on peace; for example, conflicts can emerge if tourism exacerbates political inequality and marginalises particular groups from decision-making processes.[16] Furthermore, when a civil war ends, post-conflict tourist destinations continue to face challenges. For example, post-conflict destinations can face prolonged image crises that deter tourism[17] and post-conflict tourism often develops through different stages in relation to safety and security.[18] Nevertheless, tourism destinations – including post-conflict destinations – can be considered adaptive systems, shaped by vulnerabilities to crises and the resilience to respond.[19]

To investigate armed conflicts and FDI, this study aims to provide insights into how Sri Lanka's civil war impacted tourism and tourism FDI during the armed conflict. This article also analyses tourism after the civil war and attempts to provide insights into the dynamics of post-civil war Sri Lanka in the context of the tourism sector. The key arguments are as follows: the civil war in Sri Lanka stymied flows of tourism FDI into the country. Following the end of the civil war, an uptick in tourism was observed, followed by greater levels of FDI in the tourism sector. However, the gains made from the

[10]For example, see Neumayer, 'Impact of Political Violence'; Ospina, 'War and Ecotourism'; Fielding and Shortland, 'How Do Tourists React'; Fernando et al., 'Political Violence and Volatility'; Fernando, Bandara, and Smith, 'Regaining Missed Opportunities'.

[11]Richard Butler and Wantanee Suntikul, 'Tourism and War: An Ill Wind?', in *Tourism and War*, ed. Richard Butler and Wantanee Suntikul, Contemporary Geographies of Leisure, Tourism and Mobility (Oxon, UK; New York, USA: Routledge, 2013), 1–11; Neumayer, 'Impact of Political Violence'; Fielding and Shortland, 'How Do Tourists React'; Anna Farmaki, 'The Tourism and Peace Nexus', *Tourism Management* 59 (2017): 528–40, doi:10.1016/j.tourman.2016.09.012.

[12]For example, Butler and Suntikul, 'Tourism and War'; Dallen Timothy, 'Tourism, War, and Political Instability: Territorial and Religious Perspectives', in *Tourism and War* (Oxon, UK; New York, USA: Routledge, 2013), 12–25.

[13]Butler and Suntikul, 'Tourism and War'; Fabio Carbone, '"Don't Look Back in Anger". War Museums Role in the Post Conflict Tourism-Peace Nexus', *Journal of Sustainable Tourism* 30, no. 2–3 (2022): 565–83, doi:10.1080/09669582.2021.1901909; Stephen Boyd et al., 'Post-Conflict Tourism Opportunity Spectrum (POCTOS): A Framework for Destinations Recovering from Conflict', *Journal of Sustainable Tourism* 31, no. 1 (2023): 131–48, doi:10.1080/09669582.2021.1993866.

[14]Farmaki, 'The Tourism and Peace Nexus'; Maximiliano Korstanje, *Terrorism, Tourism and the End of Hospitality in the 'West'* (Cham, Switzerland: Palgrave Macmillan, 2018); Carbone, 'Don't Look Back in Anger'.

[15]Farmaki, 'The Tourism and Peace Nexus'; Carbone, 'Don't Look Back in Anger'.

[16]Farmaki, 'The Tourism and Peace Nexus'; Korstanje, *Terrorism, Tourism and the End of Hospitality*; Carbone, 'Don't Look Back in Anger'.

[17]Sara Currie, 'Measuring and Improving the Image of a Post-Conflict Nation: The Impact of Destination Branding', *Journal of Destination Marketing & Management* 18 (2020): 100472, doi:10.1016/j.jdmm.2020.100472.

[18]For example, Boyd et al., 'Post-Conflict Tourism Opportunity'.

[19]Maharaj Vijay Reddy, Stephen W. Boyd, and Mirela Nica, 'Towards a Post-Conflict Tourism Recovery Framework', *Annals of Tourism Research* 84 (2020): 102940, doi:10.1016/j.annals.2020.102940; J.W. Buultjens, I. Ratnayake, and W.K. Athula Chammika Gnanapala, 'Post-Conflict Tourism Development in Sri Lanka: Implications for Building Resilience', *Current Issues in Tourism* 19, no. 4 (2016): 355–72, doi:10.1080/13683500.2014.1002760.

cessation of civil war violence were largely limited to areas that were not significantly affected by the armed conflict and which had already established tourism sectors. High levels of militarisation have inhibited tourism in areas that were most affected by the civil war, with the military involved in key economic activities, particularly tourism. The observations of this study suggest that a more nuanced understanding of the impacts of war and peace on inward flows of FDI is required, particularly in terms of post-civil war development and Security Sector Reform.

The Sri Lanka case study

Much of the research into civil war and FDI is characterised by econometric studies.[20] Nevertheless, while there is a propensity for large-N studies that use aggregate-level data, a minority of studies have employed different methods encompassing case study analyses.[21] These studies have provided insights into how violence and FDI interact, focusing on the extractive industries. This article uses a case study approach to analyse areas of armed conflict and tourism FDI in Sri Lanka. The Sri Lankan civil war was chosen as a case study because it often recorded high levels of civil war violence and is consistently coded as a civil war in relevant armed conflict datasets.[22] Furthermore, Sri Lanka's tourism industry is much less bound by geography when compared to the extraction of natural resources. This should provide different insights compared to existing case studies focused on armed conflict and FDI in the extractive industries.

While this study uses aggregate-level data (e.g. national-level civil war data), available disaggregate-level data are also used (e.g. the Armed Conflict Location and Event Dataset) and regional trends in tourism (e.g. SLTDA data). This is important as civil wars typically do not spread across entire countries but are instead restricted to particular areas, as are inward flows of FDI. In this light, disaggregated data illustrate the regional dynamics of armed conflicts.[23] The raw data used in this article were obtained from various sources – for instance, the Uppsala Conflict Data Program (UCDP) and the Peace Research Institute Oslo – or data were collated from official annual reports published by various entities of the Sri Lankan government, for example, annual reports published by the Central Bank of Sri Lanka (CBSL) and annual statistical reports from the Sri Lanka Tourism Development Authority (SLTDA). The statistics are analysed descriptively and are used with various qualitative sources, which include the observations of Sri Lankan and international non-governmental organisations (NGOs), international organisations, human rights groups, local media, official reports by the government of Sri Lanka (as

[20]See: Maher, 'Investigating the "Curious" Case'.

[21]For the case of Angola, see Guidolin and La Ferrara, 'Diamonds Are Forever'. For Colombia, see Maher, 'The Fatal Attraction of Civil War'; Maher, *Civil War and Uncivil Development*; For Sudan, see Maher, 'Investigating the "Curious" Case'.

[22]When discussing Sri Lanka, this article uses the terms 'civil war' and 'armed conflict' to specifically refer to the civil war fought between the Sri Lankan government and the Liberation Tigers of Tamil Eelam between 1983 and 2009. A broad definition of civil war violence is employed, which includes various forms of violence such as battle-related deaths, fatalities, forced displacement and violence against civilians. For a relevant dataset example, see Lotta Themnér and Peter Wallensteen, 'UCDP/PRIO Armed Conflict Dataset', *Journal of Peace Research* 49, no. 4 (2012): 565–75.

[23]For datasets, see Clionadh Raleigh et al., 'Introducing ACLED: An Armed Conflict Location and Event Dataset: Special Data Feature', *Journal of Peace Research* 47, no. 5 (2010): 651–60, doi:10.1177/0022343310378914; Ralph Sundberg and Erik Melander, 'Introducing the UCDP Georeferenced Event Dataset', *Journal of Peace Research* 50, no. 4 (2013): 523–32, doi:10.1177/0022343313484347.

noted above) and academic publications. Several of these sources provide observations recorded during fieldtrips to Sri Lanka both during and after the civil war.[24] These sources employed methods such as general field observations and gathering testimonies from civilians, as well as interviews and focus groups with a range of respondents, including (*inter alia*): victims of the conflict, locals engaged in particular economic activities (such as hotel employees and members of hotel management), local members of the community, local officials, community leaders, activists, government officials, political leaders, and lawyers. This article uses these sources in conjunction with observations made from armed conflict and tourism data to provide an understanding of tourism FDI in civil war and post-civil war Sri Lanka.[25]

The Sri Lankan civil war

Located in South Asia, Sri Lanka is an island country with a population of around 22 million people. Two major ethnic groups inhabit the country: Sinhalese (constituting over 75 percent of the population) and Sri Lankan Tamils (over 10 percent of the population). In 1983, the Liberation Tigers of Tamil Eelam (LTTE), also widely referred to as the Tamil Tigers, engaged in a full-scale armed conflict against the Sinhala-dominated Sri Lankan government. The LTTE aimed for a separate state, to be known as Tamil Eelam, located across the north and east of Sri Lanka. While the LTTE lost its key base in the Jaffna peninsula (the northern tip of Sri Lanka) in 1995, by 1998, the Tamil Tigers controlled significant areas of territory in the north and east of Sri Lanka. The civil war ended in 2009, with a decisive and unequivocal victory for the Sri Lankan government.

As Figure 1 shows, Sri Lanka's civil war was often a high-intensity armed conflict, consistently recording over 1,000 annual battle-related deaths (BRDs). In the period 1989–2009, the UCDP dataset records 61,234 battle-related deaths (BRDs) in Sri Lanka, representing an annual average of 2,916 BRDs during this period. The data show various periods of the civil war, including low numbers of BRDs during peace efforts (e.g. between 2002 and 2005) and peaks in violence during particularly intensive periods of the armed conflict (e.g. 1991, 1995, 2008 and 2009).

The civil war in Sri Lanka was heavily concentrated in the North Eastern Province (between 1989 and 2006), with 60 percent of fatalities recorded in this region (Table 1). In

[24]For example, Oakland Institute, *The Long Shadow of War: The Struggle for Justice in Postwar Sri Lanka* (Oakland, CA: Oakland Institute, 2015); Society of Threatened Peoples (STP), *Dark Clouds Over the Sunshine Paradise: Tourism and Human Rights in Sri Lanka* (Ostermundigen, Switzerland: STP, 2015); Adayaalam Centre for Policy Research-People for Equality and Relief in Lanka (ACPR-PEARL), *Normalising the Abnormal: The Militarisation of Mullaitivu* (Jaffna, Sri Lanka; Washington, USA, 2017); Human Rights Watch, ed., *'Why Can't We Go Home?'–Military Occupation of Land in Sri Lanka* (New York, NY: Human Rights Watch, 2018); South Asian Centre for Legal Studies (SACLS), *Power and Profit: Investigating Sri Lanka's Military Businesses* (Colombo, Sri Lanka, 2018).

[25]When discussing 'post-conflict', some Sri Lankans do not accept that the end of the civil war represents the end of the conflict, arguing that Tamils continue to face high levels of persecution in Sri Lanka. For example, see Andrea Malji, 'The COVID-19 Pandemic and Deepening Marginalization in Sri Lanka', in *The COVID-19 Crisis in South Asia: Coping with the Pandemic*, ed. Sumit Ganguly and Dinsha Mistree, 1st ed. (London: Routledge, 2022), 38–54, doi:10.4324/9781003248149. With this in mind, when specifically referring to Sri Lanka, the term 'post-civil war' is used instead of 'post-conflict'. Furthermore, studies discussed in this article typically assume a minimalist vision of peace, i.e. the absence of civil war violence. For example, see Anders Themnér and Thomas Ohlson, 'Legitimate Peace in Post-Civil War States: Towards Attaining the Unattainable', *Conflict, Security & Development* 14, no. 1 (2014): 61–87, doi:10.1080/14678802.2014.881088. The implications of this minimalist vision are briefly discussed in the conclusion section of this article.

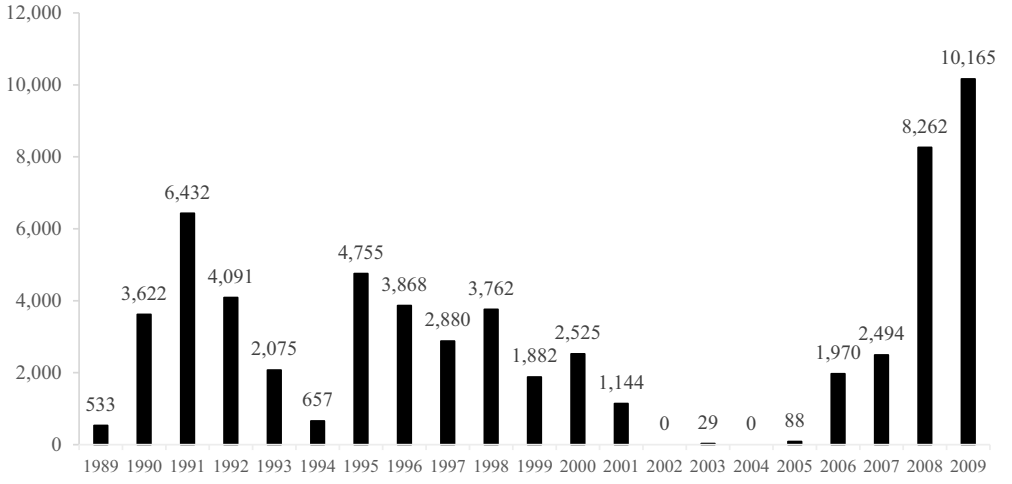

Figure 1. Annual battle-related deaths in Sri Lanka, 1989–2009.[26]

January 2007, the North Eastern Province was demerged into the Northern Province and Eastern Province (see Map of Sri Lanka).[27] In the demerged provinces, the civil war was heavily concentrated in the Northern Province between 2007 and 2009. Overall, most of the violence was located in districts in the north throughout the civil war. In the period 1989–2009, 45,209 fatalities – 78 percent of total fatalities in the north and east – were recorded in northern districts (Table 2). Mullaittivu – the location of the LTTE's last stand – was particularly affected in the latter stages of the civil war. In July 2007, the armed conflict ended in the Eastern Province. In May 2009, the armed conflict ended in the Northern Province and the civil war was over.

Table 1. Fatalities by province, 1989–2009.[28]

Province	Fatalities (1989–2009)	% of total fatalities
North Eastern Province (until 2006)	37,283	60
Northern Province (from 2007)	19,845	32
No info	2,344	4
North Central Province	905	1
Eastern Province (from 2007)	681	1
Western Province	490	1
North Western Province	155	0
Central Province	141	0
Southern Province	132	0
Uva Province	48	0
Sabaragamuwa Province	28	0
Grand Total	**62,052**	**100**

[26]Source: Shawn Davies, Therése Pettersson, and Magnus Öberg, 'Organized Violence 1989–2022, and the Return of Conflict between States', *Journal of Peace Research* 60, no. 4 (2023): 691–708, doi:10.1177/00223433231185169.
[27]The country is now divided into nine provinces, further divided into 25 districts.
[28]Source: Sundberg and Melander, 'Introducing the UCDP Georeferenced Event Dataset', 523–32, doi:10.1177/0022343313484347.

Table 2. Fatalities in districts of the North Eastern/Northern and Eastern Provinces before and after the 2002–2006 ceasefire.[29]

District	Total 1989–2002	Total 2006–2009	Total 1989–2009	% of total 1989–2009	Province (2007 onwards)
Mullaittivu	6,082	11,239	17,321	30	Northern
Kilinochchi	7,797	2,648	10,446	18	Northern
Jaffna	8,094	1,068	9,205	16	Northern
Vavuniya	2,589	1,660	4,250	7	Northern
No Info	2,317	1,900	4,218	7	N/A
Mannar	1,610	2,359	3,987	7	Northern
Batticaloa	2,950	586	3,554	6	Eastern
Trincomalee	2,269	710	3,000	5	Eastern
Ampara	1,693	130	1,828	3	Eastern
Total	**35,401**	**22,300**	**57,809**		

Map of Sri Lanka (2007 onwards)[30]

[29]Ibid.

[30]Source: JRC, European Commission. This file is licenced under the Creative Commons Attribution 4.0 International licence (https://creativecommons.org/licenses/by/4.0/deed.en). The map/file is from Wikicommons: https://commons.

FDI during and after the civil war

The Sri Lankan government has implemented various measures to liberalise its economy (e.g. in 1977 and 1990) and to move towards deeper integration into the global economy.[31] In 2002, economic reforms were accelerated by the government in what has been called the second wave of neo-liberalisation in Sri Lanka.[32] During Sri Lanka's civil war, the economy performed well and, at times, exhibited strong economic growth. Between 1983 and 2009, Sri Lanka had an average annual growth rate of approximately 5 percent.[33] However, Sri Lanka's FDI inflows were considered less positive. For example, relative to GDP, the World Bank highlighted that Sri Lanka's FDI inflows trailed behind other rapidly expanding Asian economies, such as China, Thailand and Vietnam.[34]

A common argument is that the civil war inhibited flows of FDI.[35] Relatedly, high levels of military spending have been argued to inhibit FDI in Sri Lanka.[36] Tourism and tourism FDI in Sri Lanka were often argued to have been particularly inhibited by the civil war; moreover, tourism was often considered most likely to benefit from peace.[37]

Sri Lanka's tourism industry before and after the civil war

Sri Lanka has a favourable climate, palm-fringed beaches on its southern coastlines and shares a maritime border with India and the Maldives. The country has a rich cultural heritage, has many wildlife reserves and national parks, and boasts diverse landscapes. While the south has an abundance of beaches, the southern half of the country has rugged hills and the northern half of Sri Lanka is a large plain. The country has eight UNESCO World Heritage Sites, which includes various Buddhist and Hindu temples. With 1,585 km

wikimedia.org/wiki/File:Base_Map_of_Sri_Lanka.png (Accessed June 27, 2023). This map has been edited by this author to (1) resize the image to make it smaller and include only Sri Lanka and (2) change the colour to black and white.

[31]For example, Nisha Arunatilake, Sisira Jayasuriya, and Saman Kelegama, 'The Economic Cost of the War in Sri Lanka', *World Development* 29, no. 9 (2001): 1483–1500, doi:10.1016/S0305-750X(01)00056-0; Ahilan Kadirgamar, 'Sri Lanka: Global Finance, Authoritarianism and the Second Wave of Neo-Liberalism', 2011, https://capital.commons.gc.cuny.edu/2011/09/03/sri-lanka-global-finance-authoritarianism-and-the-second-wave-of-neo-liberalism/.

[32]Ahilan Kadirgamar, 'Sri Lanka'.

[33]K. Renuka Ganegodage and Alicia N. Rambaldi, 'Economic Consequences of War: Evidence from Sri Lanka', *Journal of Asian Economics* 30 (2014): 42–53, doi:10.1016/j.asieco.2013.12.001.

[34]For example, Saman Kelegama, 'Economic Costs of Conflict in Sri Lanka', in *Creating Peace in Sri Lanka: Civil War and Reconciliation*, ed. Robert I. Rotberg (Cambridge, MA : Washington, DC: World Peace Foundation and Belfer Center for Science and International Affairs ; Brookings Institution Press, 1999), 1–16; Rotberg, 'Sri Lanka's Civil War'.

[35]World Bank, ed., *Sri Lanka, Development Policy Review: Including Executive Summary in Sinhala and Tamil Translation* (Colombo: World Bank Colombo Office, 2004); K. Ravinthirakumaran et al., 'Determinants of Foreign Direct Investment in Sri Lanka', *South Asia Economic Journal* 16, no. 2 (2015): 233–56, doi:10.1177/1391561415598458.

[36]For example, Kelegama, 'Economic Costs of Conflict'. Some studies cast doubt on an assumed link between military spending and lower levels of FDI (e.g. Aziz and Khalid, 'Armed Conflict').

[37]For example, Jayatilleke S. Bandara, 'The Impact of the Civil War on Tourism and the Regional Economy', *South Asia: Journal of South Asian Studies* 20, no. sup001 (1997): 269–79, doi:10.1080/00856409708723315; Bandara, 'Tourism in Post-Conflict Development'; Arunatilake, Jayasuriya, and Kelegama, 'Economic Cost'; Saroja Selvanathan, 'The Effect of War and Other Factors on Sri Lankan Tourism', *Applied Economics Letters* 14, no. 1 (2007): 35–38, doi:10.1080/13504850500425576; Fernando et al., 'Political Violence and Volatility'; Fernando, Bandara, and Smith, 'Regaining Missed Opportunities'; Rina Alluri et al., 'Understanding Economic Effects of Violent Conflicts on Tourism: Empirical Reflections from Croatia, Rwanda and Sri Lanka', in *International Handbook on Tourism and Peace*, ed. Cordula Wohlmuther and Werner Wintersteiner (Klagenfurt: Drava, 2014), 101–19; Sriyantha Fernando, Jayatilleke S. Bandara, and Christine Smith, 'Tourism in Sri Lanka', in *The Routledge Handbook of Tourism in Asia*, ed. Michael Hall and Stephen Page (Oxon, UK; New York, USA: Routledge, 2016), 251–64.

of coastline, tourists can enjoy the sun and beaches but also other types of holidays, including wildlife excursions and cultural tours.

The tourism industry was able to operate in Sri Lanka during the civil war, albeit confined to particular regions. Tourism began to develop during the 1990s and was concentrated in the south and west of the country. For the most part, tourism in Sri Lanka was geographically removed from the location of the civil war. Travelling to Sri Lanka's western and southern beaches was still possible during most of the civil war,[38] with the Southern Province largely untouched by the civil war.[39] None of the large hotels in Sri Lanka was required to close during the civil war, with the number of hotel beds increasing from 1996 onwards.[40] However, several studies have argued that Sri Lanka's tourism sector was acutely and negatively impacted by Sri Lanka's political violence.[41] It has been argued that the civil war caused dramatic fluctuations in international tourist arrivals.[42]

By 2009, the civil war had ended as the military defeated the LTTE, giving the government control of all of Sri Lanka's territory. According to the literature investigating tourism and political violence in Sri Lanka, creating a peaceful environment and political stability are important prerequisites to facilitate post-war economic development through tourism.[43] There were high hopes that Sri Lanka's tourism sector could significantly benefit from the absence of civil war and the arrival of peace, with the potential for the sector to attract high levels of inward FDI. As Butler and Suntikul note,[44] peace can allow tourism to expand into previously restricted areas or regions deemed too dangerous to visit during the civil war. This is reflected in the Sri Lankan government's plan for its tourism sector, identifying tourism as a key growth area in the country's post-civil war development.[45] After the end of the civil war, the Sri Lankan government implemented its Tourism Development Strategy, which included a 5-year plan (2011–16) to attract 2.5 million annual tourists by 2016.[46]

Post-civil war, Sri Lanka's tourism industry made a strong recovery and became one of the country's fastest expanding industries.[47] The tourism sector rapidly recovered immediately after the civil war ended.[48] In the decade after the civil war, Sri Lanka was ranked as one of the world's top tourist destinations. In 2013 and 2019, Sri Lanka was ranked first in the Lonely Planet's top holiday destinations, one of the world's leading travel guide publishers.[49] Sri Lanka's tourism industry

[38]Alluri et al., 'Understanding Economic Effects'.
[39]Arunatilake, Jayasuriya, and Kelegama, 'Economic Cost'; Muttukrishna Sarvananthan, 'Elusive Economic Peace Dividend in Sri Lanka: All That Glitters Is Not Gold', *GeoJournal* 81, no. 4 (2016): 571–96, doi:10.1007/s10708-015-9637-3.
[40]Alluri et al., 'Understanding Economic Effects'.
[41]Selvanathan, 'The Effect of War'; Fernando et al., 'Political Violence and Volatility'; Fernando, Bandara, and Smith, 'Regaining Missed Opportunities'; Fernando, Bandara, and Smith, 'Tourism in Sri Lanka'; Alluri et al., 'Understanding Economic Effects'.
[42]Fernando et al., 'Political Violence and Volatility'. In December 2004, the Indian Ocean Tsunami had a negative impact on the tourist industry; however, tourism quickly recovered (Buultjens, Ratnayake, and Gnanapala, 'Post-Conflict Tourism'.).
[43]See Fernando et al., 'Political Violence and Volatility'.
[44]Butler and Suntikul, 'Tourism and War'.
[45]K. Ravinthirakumaran et al., 'Tourism and Foreign Direct Investment Inflows in Sri Lanka', *South Asia Economic Journal* 20, no. 2 (2019): 248–73, doi:10.1177/1391561419858475.
[46]Fernando et al., 'Political Violence and Volatility'; Bandara, 'Tourism in Post-Conflict Development'.
[47]Fernando, Bandara, and Smith, 'Tourism in Sri Lanka'.
[48]Fernando et al., 'Political Violence and Volatility'.
[49]For example, STP, 'Dark Clouds'.

was a core driver of the economy, increasing levels of foreign exchange earnings, employment and inward FDI.[50]

Civil war and tourism data

The evidence supports arguments that political violence – particularly the civil war – inhibited the tourism sector and stymied tourism FDI in Sri Lanka. As Figure 2 shows, Sri Lanka exhibited strong growth in tourist arrivals after the civil war ended. In 2009, there were 447,890 tourist arrivals in Sri Lanka, rising to 654,476 in 2010, a 46 percent increase. This increased by a further 31 percent in 2011, when 855,975 tourist arrivals were recorded. Strong growth continued throughout the 2010s. Tourist arrivals peaked in 2018, when 2.3 million arrivals were recorded. While the 1990s exhibited some growth in tourist arrivals as BRDs were high – and while small increases were recorded during the 2002–2006 ceasefire – tourist arrivals began to exhibit strong and stable growth after 2009.[51]

Hotel occupancy rates also increased following the civil war (Figure 3). Between 2001 and 2009, the annual occupancy rate averaged 48 percent. As with other trends, an increase in occupancy rates was recorded immediately following the civil war, rising to 70 percent in 2010 and peaking at 75 percent in 2016. The rate was particularly strong between 2010 and 2018, with an annual average occupancy rate of 73 percent.

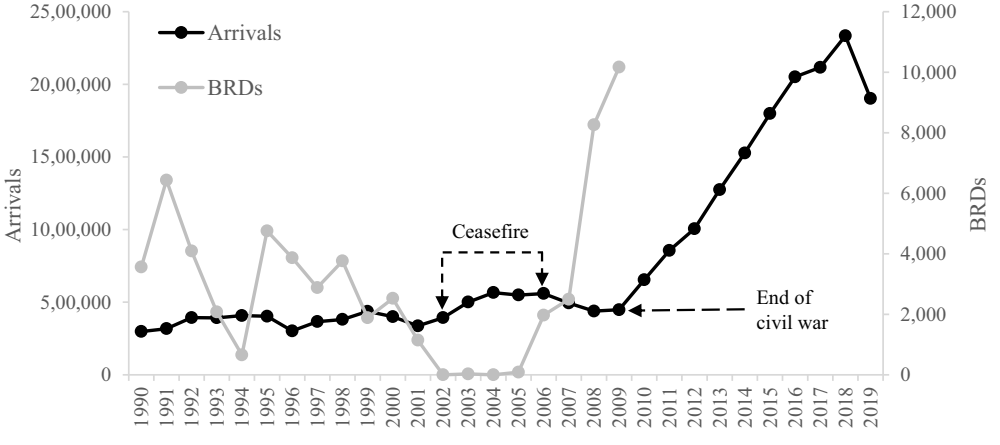

Figure 2. Battle-related deaths (BRDs) and tourist arrivals in Sri Lanka, 1990–2019.[52]

[50]Fernando, Bandara, and Smith, 'Tourism in Sri Lanka', 260.

[51]In 2019, tourist arrivals and occupancy rates dropped, largely due to the Easter Sunday terrorist attacks, which targeted churches and luxury hotels in Colombo. See: CBSL, 'Annual Report (2019)' (Colombo, Sri Lanka: CBSL, 2020). The sector began to recover faster than expected in 2019 (Ibid., 183); however, worldwide tourism was significantly impacted by travel restrictions following the COVID-19 pandemic in 2020. Furthermore, despite observations that the pandemic enabled the Sri Lankan government to introduce and implement authoritarian measures, Sri Lanka's civil war has not restarted. See: Malji, 'The COVID-19 Pandemic and Deepening Marginalization in Sri Lanka'.

[52]Sources: Sri Lanka Tourism Development Authority (SLTDA), 'Annual Statistical Report 2020' (Colombo, Sri Lanka: SLTDA, 2021); Davies, Pettersson, and Öberg, 'Organized Violence 1989–2022, and the Return of Conflict between States'.

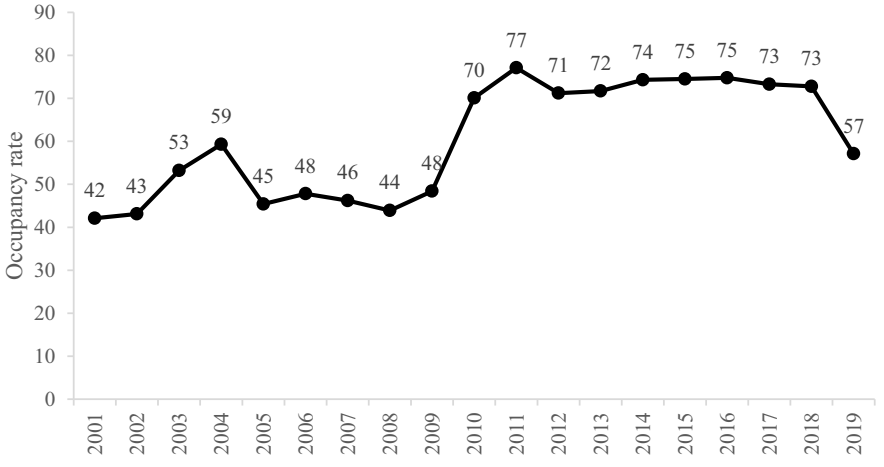

Figure 3. Hotel room occupancy rate in Sri Lanka, 2001–2019.[53]

Tourism FDI and development of Sri Lanka's tourism industry

It is difficult to obtain specific data on inward flows of FDI in Sri Lanka's tourism sector during the entire civil war period, particularly pre-2005. Nevertheless, Figure 4 shows that annual inflows of FDI in the country's Hotels and Restaurants sector exhibited strong growth after the civil war and followed the upshot in tourist arrivals that began in 2010. Between 2005 and 2010, annual FDI inflows ranged between US$2–8 million. In 2011, inward FDI rose to US$216 million, and the Hotels and Restaurants sector attracted most of Sri Lanka's FDI inflows during this year.[54] FDI peaked in this sector in

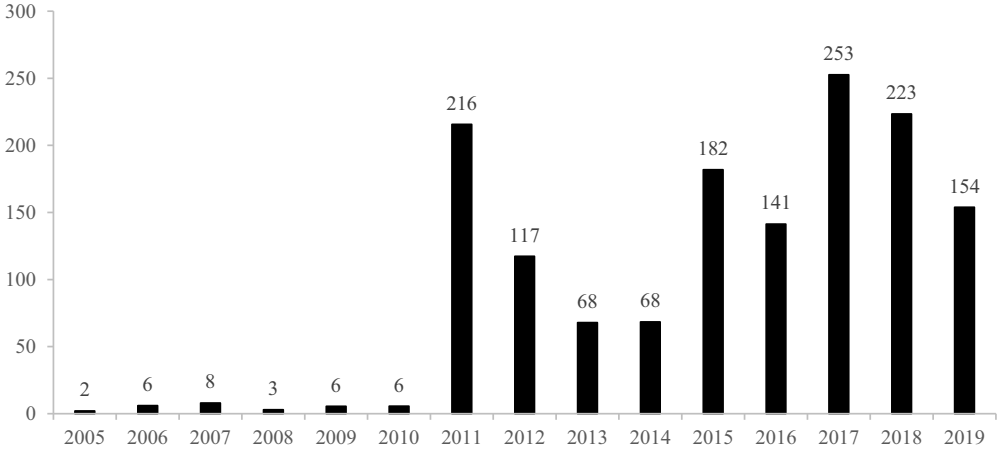

Figure 4. Annual FDI in Sri Lanka's Hotels and Restaurants sector, 2005–2019.[55]

[53]Source: Sri Lanka Tourism Development Authority (SLTDA), 'Annual Reports (2010-2019)' (Colombo, Sri Lanka: SLTDA, n. d.), https://www.sltda.gov.lk/en/sri-lanka-tourism-development-authority-publications.

[54]In 2011, the Hotels and Restaurants sector attracted 20 percent of FDI inflows, followed the Telecommunication sector, previously the dominant sector for FDI around this period, which attracted 18 percent of FDI inflows. See: CBSL, 'Annual Report (2011)' (Colombo, Sri Lanka: CBSL, 2012).

[55]Sources: Chantal Sirisena, 'Sri Lanka's Tourism Industry and the Foreign Ownership Debate', Institute of Policy Studies of Sri Lanka, 2016, https://www.ips.lk/talkingeconomics/2016/08/18/sri-lankas-tourism-industry-and-the-foreign-ownership-debate/; Central Bank of Sri Lanka (CBSL), 'Annual Reports (2009–2019)' (Colombo, Sri Lanka: CBSL, n.d.).

2017 at US$253 million. Between 2011 and 2019, annual FDI inflows ranged between US$68–253 million.

As noted, higher rates of FDI followed other developments in Sri Lanka's tourism industry, particularly the end of the civil war and increasing levels of tourist arrivals. This is also the case in terms of the number of hotels in Sri Lanka, which accelerated post-civil war. Following increases in tourist arrivals in 2010 and injections of FDI into the sector since 2011, hotel numbers increased from 2012 onwards, rising to 269 hotels in 2012 and peaking at 474 hotels in 2019 (Figure 5).[56]

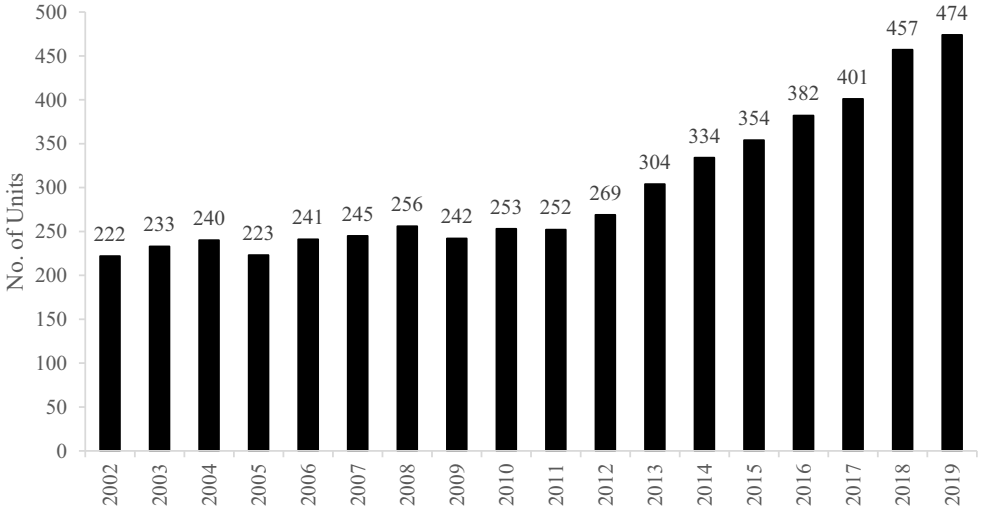

Figure 5. Number of hotels (units) in Sri Lanka, 2002–2019.[57]

Tourism in the civil war-affected areas: the north and east

During the civil war, tourism in areas most affected by the armed conflict – namely, the north and the east – was considered both insecure and inadvisable to visit.[58] As the civil war ended, there was a good deal of optimism that Sri Lanka's tourism industry would benefit from peace and inward flows of tourism FDI would increase, particularly in the former conflict zones of the civil war.[59] Untouched beaches – a corollary of the civil war – and cultural treasures of the Northern and Eastern Provinces were considered significant attractions for tourists once the civil war had ended. Following the civil war, the Sri Lankan government encouraged investment in the tourism sector and approved various

[56]Hotel data are taken from SLTDA Annual Reports. Where possible, figures in the most recent reports are used, to reflect the most accurate data. Data on Tourist Hotels include classified, unclassified and boutique hotels.
[57]Source: Sri Lanka Tourism Development Authority (SLTDA), 'Annual Reports (2010–2019)'.
[58]Alluri et al., 'Understanding Economic Effects'.
[59]For example, CBSL, 'Annual Report (2009)' (Colombo, Sri Lanka: CBSL, 2010); H.M.S. Samaranayake, Nizam Lantra, and Chandana (Chandi) Jayawardena, 'Forty Six Years of Organised Tourism in Sri Lanka (1966–2012)', ed. Chandana (Chandi) Jayawardena and Richard Teare, *Worldwide Hospitality and Tourism Themes* 5, no. 5 (2013): 423–41, doi:10.1108/WHATT-05-2013–0026; Ron P. Smith, 'The Economic Costs of Military Conflict', *Journal of Peace Research* 51 (March 2014): 245–56, doi:10.1177/0022343313496595.

new projects that focused on the northern and eastern beaches.[60] However, as will be discussed, these developments have had a very limit impact on tourism in these areas.

Hotels across Sri Lankan provinces

During the civil war, most of Sri Lanka's tourist accommodation was located on the country's south coast (Southern Province) but was also centrally located in the cultural triangle and around the capital, Colombo: In terms of percentage share of hotel rooms (Table 3), the south coast had an average of 37.3 percent in the period 2001–2009,[61] followed by Colombo City (20.6 percent), Ancient Cities (17.8 percent) and Greater Colombo (17.7 percent). The east coast and the northern regions had significantly smaller shares, accounting for 1.4 percent and 0 percent of hotel rooms, respectively, in the period 2001–2009. Post-civil war, these figures remained relatively stable: the south coast continued to have most hotel rooms (35.5 percent share), followed by Colombo City (20.9 percent), Ancient Cities (18.4 percent) and Greater Colombo (15.6 percent). While exhibiting some tourism development, the East Coast (3.7 percent share) and the Northern Region (0.5 percent) continued to account for much smaller shares of hotel rooms in the period 2010–2019.

In terms of hotels and post-civil war development of the tourism sector,[63] the Eastern Province has recorded limited growth, with eight hotels recorded in 2010, increasing to 22 in 2015 and 31 in 2019, the latter representing just 7 percent of total hotels in Sri Lanka. The Northern Province has performed even weaker in terms of hotels. In 2010, the SLTDA records no hotels in the Northern region, rising to four in 2015 and eight in 2019. This represents just 2 percent of all hotels in Sri Lanka. In contrast, the number of hotels located in the South Coast rose from 93 in 2010 to 182 in 2019, representing 38 percent of all hotels in Sri Lanka. Hotels in Ancient Cities (mainly located in the Central and North Central Provinces) have also risen from 22 to 48 (21 percent of the total). While Greater

Table 3. The average percentage share of hotel rooms in different regions of Sri Lanka, 2001–2009 and 2010–2019.[62]

Region	2001–2009*	2010–2019
Colombo City	20.6%	20.9%
Greater Colombo	17.7%	15.6%
South Coast	37.3%	35.5%
East Coast	1.4%	3.7%
High Country	5.2%	5.5%
Ancient Cities	17.8%	18.4%
Northern Region	0.0%	0.5%

*Data for 2000 not available.

[60]Smith, 'The Economic Costs of Military Conflict'; Buultjens, Ratnayake, and Gnanapala, 'Post-Conflict Tourism'.
[61]Data pre-2001 were not available.
[62]Sources: Sri Lanka Tourism Development Authority (SLTDA), 'Annual Reports (2010–2019)' (Colombo, Sri Lanka: SLTDA, n.d.), https://www.sltda.gov.lk/en/sri-lanka-tourism-development-authority-publications.
[63]Pre-2010 data on hotels by region were not available.

Table 4. Number and percentage share of hotels (units) by region (2010, 2015 and 2019).[64]

No. of Units by Region	2010*	2015	2019	% of total (2010)	% of total (2019)
Colombo City	22	32	44	9	9
Greater Colombo	54	61	60	21	13
South Coast	93	128	182	37	38
East Coast	8	22	31	3	7
High Country	22	29	48	9	10
Ancient Cities	54	78	101	21	21
Northern Region	0	4	8	0	2
All Regions	**253**	**354**	**474**		

*Data unavailable before 2010.

Colombo (Western Province) has seen its share fall from 21 percent in 2010 to 13 percent in 2019 and the Eastern Province's share increased from 3 percent to 7 percent, shares of hotels across regions have remained stable (Table 4).

When comparing Sri Lanka's most-developed tourist regions with the north and east of the country, the unequal development of the tourism industry is further highlighted by the quality of hotels. In 2020, the Western Province (including Colombo) had 12 five-star hotels and 5 four-star hotels, the Central Province had 6 five-star and 9 four-star hotels, and the Southern Province had 5 five-star and 3 four-star hotels (Figure 6). In contrast, the Eastern Province had 1 five-star and 2 four-star hotels, while the Northern Province had no five- or four-star hotels.[65]

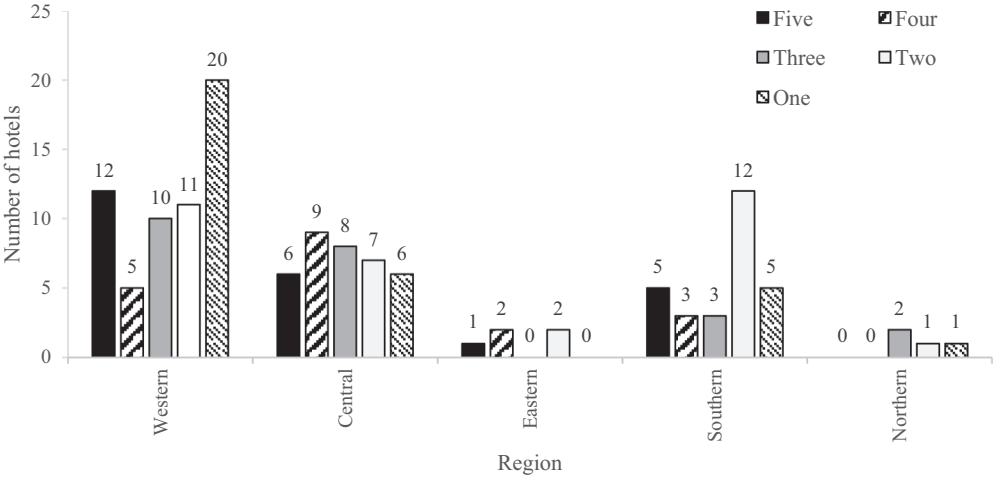

Figure 6. Quality of hotels in Sri Lanka by stars (2020).[66]

[64]Source: Ibid.
[65]These figures do not include unclassified hotels.
[66]Source: Sri Lanka Tourism Development Authority (SLTDA), 'Tourism Sri Lanka' (Colombo, Sri Lanka: SLTDA, 2020).

Understanding tourism trends in former conflict zones of the civil war

Militarisation

The data show the provinces that dominated Sri Lanka's tourism industry during the civil war continued to do so after the armed conflict ended. The Northern and Eastern Provinces have shown limited tourism development. This is particularly the case in the Northern Province, the region most affected by the civil war. This article argues that a key reason for this is due to high levels of militarisation, which have been high in the Northern Province. This has had acute implications for access to land, with a large number of properties remaining under military control.[67]

The extent of militarisation in Sri Lanka is stark and, despite the civil war ending, observers note the continued high level of military occupation and militarisation in Sri Lanka, which is particularly the case in the Northern and Eastern Provinces.[68] By the mid-2010s, the military had 243,000 active members, higher than the militaries of countries such as France, Israel, Saudi Arabia, and the UK.[69] It is estimated that 75 percent of the army's divisions were located in the Northern Province, with an estimated 180,000 personnel stationed there.[70] By 2014, the Oakland Institute estimated that at least 160,000 soldiers continued to be stationed in the north.[71] In 2022, 14 out of 21 of Sri Lanka's Army divisions were still stationed in the north.[72]

Processes of forced displacement – which also continued after the civil war ended – were a central aspect of the civil war and formed a crucial part of the militarisation of the north and east. By the end of the civil war (2009), the IDMC estimated there were 400,000 IDPs in Sri Lanka. In 2014, it is estimated that there were still 90,000 IDPs and 27,000 IDPs in 2019.[73] Displacement due to the civil war was particularly acute in the north and east, with many Sri Lankans displaced several times over in these regions.[74] Much of the territory the military occupied during the war remained in its possession well after the civil war ended; moreover, the military occupied new areas, which prevented IDPs returning to their land.[75] While some government efforts – albeit lacking in transparency – were enacted to release land back to original owners, Sri Lanka's armed forces retain control of large areas.[76]

It became increasingly clear that much of this militarisation had no direct links to security but was instead linked to commercial activities.[77] As Sri Lanka's armed forces

[67]Bhavani Fonseka and Mirak Raheem, *Land in the Northern Province: Post War Politics, Policy, and Practices* (Colombo: Centre for Policy Alternatives, 2011).
[68]For example, Tisaranee Gunasekara, 'Militarisation, Lankan Style', *Economic and Political Weekly* 48, no. 7 (2013): 33–38; Oakland Institute, 'Long Shadow of War'; STP, 'Dark Clouds'; ACPR-PEARL, 'Normalising the Abnormal'; Law and Society Trust, 'Biting the Bullet: Demilitarising Economic Relations in Post-War Sri Lanka' (Colombo, Sri Lanka, 2017); Human Rights Watch, *Why Can't We Go Home?*; SACLS, 'Power and Profit'.
[69]ACPR-PEARL, 'Normalising the Abnormal'.
[70]Oakland Institute, 'Long Shadow of War'.
[71]Ibid.
[72]Human Rights Watch, *Why Can't We Go Home?*; Viruben Nandakumar, 'In Sri Lanka, the Military Still Runs the Show', Foreign Policy, https://foreignpolicy.com/2022/08/04/sri-lanka-military-power-protests-history/ (2022).
[73]Internal Displacement Monitoring Centre (IDMC), 'Global Internal Displacement Database', n.d., https://www.internal-displacement.org/database/displacement-data.
[74]Human Rights Watch, *Why Can't We Go Home?*
[75]Oakland Institute, 'Long Shadow of War'; STP, 'Dark Clouds'; SACLS, 'Power and Profit'.
[76]Human Rights Watch, *Why Can't We Go Home?*
[77]Oakland Institute, 'Long Shadow of War'; ACPR-PEARL, 'Normalising the Abnormal'; Human Rights Watch, *Why Can't We Go Home?*; SACLS, 'Power and Profit'.

consolidated territorial control – which included a shift from occupying land to legally acquiring territory – it established barracks and commercial ventures, particularly in tourism/hospitality and agriculture, as well as other commercial activities.[78]

Militarisation and tourism

While the military is involved in several economic sectors, its presence within the tourism industry 'is perhaps the most striking example of involvement in economic activity'.[79] With the military increasingly focused on tourism, a number of military-run businesses occupy important state lands including vast tracts of coastal areas, such as in Kankasanthurai (Northern Province) and beaches in Trincomalee (Eastern Province). This also includes other coastal areas (e.g. Mirissa in the Southern Province), as well as occupying land within national sanctuaries.[80]

The Sri Lankan government created plans for large tourist and development projects in the north; however, local communities expressed concern regarding ownership and control of land related to many of these projects.[81] While the Sri Lankan government promoted investment and encouraged firms to engage with tourism, the military became increasingly involved in the tourism industry, building hotels, resorts and restaurants, as well as providing services such as air travel and whale watching.[82] The Sri Lankan military now runs several hotels and resorts throughout Sri Lanka, appearing to rely on state resources for the construction and continued operations of these ventures, often with no record of private investment or corporate partners.[83]

In the Jaffna peninsula (Northern Province), the military claimed about 6,000 acres of land to establish a High-Security Zone (HSZ).[84] One source estimates that HSZs covered approximately 18 percent of the territory in Jaffna by the end of the war and caused the displacement of over 30,000 families.[85] According to analysis conducted by the American Association for the Advancement of Science (AAAS),[86] the landscape of the western half of the Valikamam HSZ in Jaffna dramatically changed between 2011 and 2014. Based on time series, high-resolution satellite imagery of this HSZ, the analysis shows that, during this time period, hundreds of new structures of various sizes were constructed, with the number of structures increasing from approximately 550 to over 2,700.[87] Along the coast, several areas were developed, which included several reported luxury resorts, such as the Thalsevana Holiday Resort at Kankesanthurai, which is 'highly touted by the Sri Lankan

[78]Colombo Telegraph, 'Increasing Military Involvement in Sri Lankan Business Ventures', *Colombo Telegraph*, 2014, https://www.colombotelegraph.com/index.php/increasing-military-involvement-in-sri-lankan-business-ventures/; Oakland Institute, 'Long Shadow of War'; STP, 'Dark Clouds'; Law and Society Trust, 'Biting the Bullet'; Human Rights Watch, *Why Can't We Go Home?*
[79]SACLS, 'Power and Profit', 23.
[80]Ibid., 30.
[81]Fonseka and Raheem, *Land in the Northern Province*.
[82]SACLS, 'Power and Profit'. See also: Law and Society Trust, 'Biting the Bullet'.
[83]SACLS, 'Power and Profit'.
[84]STP, 'Dark Clouds'. During the civil war, the military occupied regions and established military bases, demarcating areas as High Security Zones (HSZs).
[85]Oakland Institute, 'Long Shadow of War'.
[86]AAAS, 'Geospatial Technologies and Human Rights Project. Monitor Change in Sri Lanka's Valikamam High Security Zone: 2009–2014' (New York: AAAS, 2014).
[87]Ibid., 6–7.

Military.[88] Nandakumar describes the current situation in Jaffna, where one HSZ remains fenced off and out of bounds for locals but welcomes well-off foreign tourists.[89] Local civilians were told in Jaffna that the military confiscated land to build a military base; however, a military-run hotel was established on part of this appropriated land.[90]

In Mullaitivu (Northern Province), an estimated 60,000 military personnel were stationed there in 2022. This amounts to approximately one soldier for every two civilians, making Mullaitivu one of the world's most heavily militarised areas.[91] In October 2017, it was estimated that the military occupied about 30,000 acres of land in Mullaitivu District.[92] As with other areas of the north, the military began developing the tourism sector in Mullaitivu and now dominates the tourism economy in this area.[93] Within 3 years of the civil war ending, two resorts were opened by the military in the area and, by 2017, the armed forces ran at least five different hotels and resorts in Mullaitivu.[94] As Miles notes,[95] this area is now the setting for holiday homes run by the military, despite the alleged atrocities committed by the Sri Lankan armed forces and the estimated deaths of tens of thousands of civilians.

While this trend is not limited to the north and east, it is nevertheless these regions which have been impacted most. In its guide to ethical tourism in Sri Lanka, the Sri Lanka Campaign for Peace and Justice specifically noted 32 hotels, resorts, holiday homes and bungalows of concern.[96] As Figure 7 shows, the overwhelming number of these tourist accommodations was located in either the Northern Province (12) or the Eastern

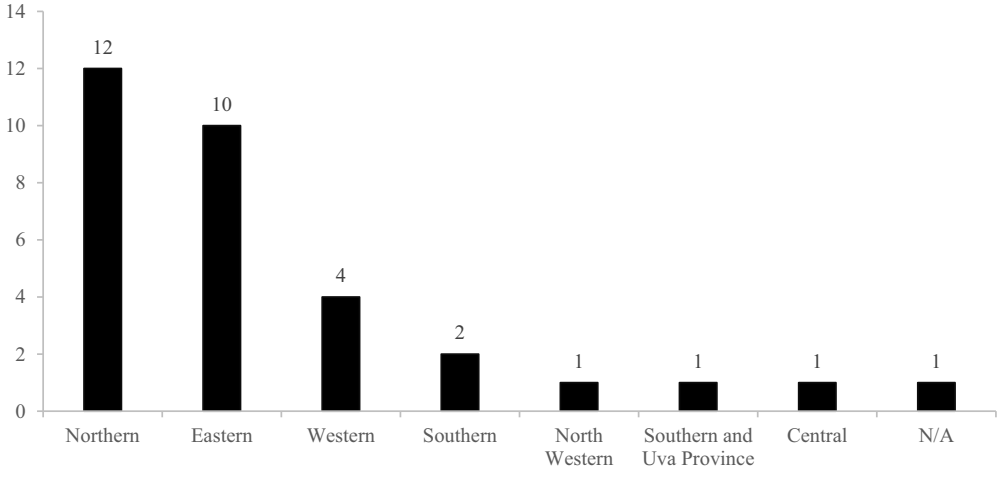

Figure 7. Number of tourist accommodations with 'ethical concerns' by province.[97]

[88]Ibid., 7–8.
[89]Nandakumar, 'In Sri Lanka'.
[90]STP, 'Dark Clouds'; Nandakumar, 'In Sri Lanka'.
[91]For example, Nandakumar, 'In Sri Lanka'.
[92]ACPR-PEARL, 'Normalising the Abnormal'.
[93]Ibid., 22.
[94]Ibid.
[95]Paul Miles, 'Sri Lanka Criticised over "War Tourism"', *The Telegraph*, (February 4, 2016), https://www.telegraph.co.uk/travel/news/Sri-Lanka-criticised-over-war-tourism/.
[96]Sri Lanka Campaign for Peace and Justice (SLCPJ, 'A Guide to Ethical Tourism in Sri Lanka' (np: SLCPJ, 2018).
[97]Source: Sri Lanka Campaign for Peace and Justice (SLCPJ, 'A Guide to Ethical Tourism in Sri Lanka' (np: SLCPJ, 2018).

Province (10). Of the 22 tourist accommodations of concern in these provinces, the majority of the concerns (19) centred on the establishments being run by the military, followed by concerns regarding land/sea disputes and forced displacement (7 concerns).

The impact on tourism and the local economy

The military's expansion into commercial activities has led to negative economic consequences in Sri Lanka. This has distorted markets and denied civilians economic opportunities. State-funded/operated businesses lack transparency and accountability. Furthermore, the military enjoys economic privilege, creating an environment of unfair competition. In terms of tourism, the military can undercut competitors by making significant cost savings, particularly on labour costs. Military-run hotels and resorts are often exclusively staffed by military personnel and not civilians, thus salaries are paid by the state through the Ministry of Defence budget. Moreover, the Sri Lanka military has capital outlay (which includes buildings, vehicles, machinery, equipment, furniture, etc.) that is covered by their respective government budget allocations and are being used for their military-run businesses, with no additional costs related to rent or the purchase of necessary capital.[98] As discussed above, this can include land belonging to civilians that is occupied by the military.

As SACLS highlights,[99] there is significant price-cutting by military-run resorts when compared to private market competitors, with military businesses able to offer similar or identical services as their market competitors but charge significantly lower prices. By undercutting competitors and creating an environment of unfair competition, this can crowd out future investment, with the military continuing to occupy space in the private sector with the capacity to undercut potential investors, with these conditions likely to act as a barrier to entry for potential private investors. The role of the military in commercial activities, including control over attracting and managing private capital investment in areas such as Mullaitivu, can also discourage investment from socially responsible firms, as well as sections of the Tamil diaspora and investors unwilling to associate with a military accused of widespread abuses.[100] This helps to explain why, despite the growth of Sri Lanka's tourism sector, the CBSL observed an inadequate level of interest from some of the world's most renowned hotel chains.[101]

The tourism sector is also characterised by a lack of transparency. This includes local populations not being consulted about the planning of tourism projects, despite hotels and resorts having a negative impact on lives of local civilians.[102] It has also been reported that the military has issued threats to firms operating in similar fields. The alleged aim is to deter firms raising issues against the military's commercial involvement and to dissuade firms from competing against military-run businesses.[103] There is also a culture of impunity that pervades the Sri Lankan military, with military officials

[98]For a good overview of these economic consequences, see: SACLS, 'Power and Profit'.
[99]Ibid., 24.
[100]ACPR-PEARL, 'Normalising the Abnormal'.
[101]CBSL, 'Annual Report (2015)' (Colombo, Sri Lanka: CBSL, 2016).
[102]STP, 'Dark Clouds'.
[103]Colombo Telegraph, 'Increasing Military Involvement'.

rarely held to account for alleged crimes as serious as human rights violations and war crimes.[104]

Conclusion

The observations of this article support the argument that Sri Lanka's civil war inhibited tourism and inward flows of tourism FDI. Tourism rapidly expanded in Sri Lanka following the end of the civil war, including large increases in tourism FDI. The evidence therefore supports observations that particular sectors (e.g. the services sector) are more vulnerable to political violence than other sectors (e.g. the primary sector/extractive industries) in terms of attracting FDI. However, post-civil war increases in tourism FDI were largely limited to regions of Sri Lanka that had already developed tourism sectors. Tourism in the north of the country – the region worst affected by the civil war – has not significantly benefitted from the end of the armed conflict. While the east has fared somewhat better, the region still lags behind Sri Lanka's more popular tourist destinations. This lack of tourism development in the north and east has weakened Sri Lanka's ability to attract higher levels of tourism FDI.

A limitation of the Sri Lankan case study is that civil wars do not typically end in outright military victories.[105] Sri Lanka may therefore represent a less typical case in terms of how civil wars end. Nevertheless, the Sri Lankan case suggests further scrutiny is required when assessing FDI in countries where civil wars have ended. As Barry notes,[106] just as armed conflicts do not present the same risks to foreign investors, peace does not present the same assurances across different cases. Moreover, studies in this area tend to subscribe to a minimalist vision of peace: simply, the absence of organised violence such as a civil war.[107] However, societal conflicts and other forms of violence can persist following the cessation of civil war violence. In the Sri Lanka case study, 'peace' includes continued persecution and violence directed at minority groups – particularly targeting the country's Muslim and Tamil groups[108] – as well as high levels of militarisation, which have inhibited tourism FDI in the areas most affected by the civil war. Relatedly, the ability of local communities to act as key stakeholders in tourism development is important to attract tourists to post-conflict destinations;[109] however, militarisation and the military's involvement in Sri Lanka's tourism industry have also inhibited this aspect of tourism development in former conflict zones of the civil war. In this light, a more nuanced understanding of peace that goes beyond the absence of civil war violence could provide deeper insights into FDI and post-conflict societies. Factors such as Security Sector Reform could also be important to understand FDI inflows after civil wars.

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[104]For example, see Nandakumar, 'In Sri Lanka'.
[105]For example, Joakim Kreutz, 'How Civil Wars End (and Recur)', in *Routledge Handbook of Civil Wars*, ed. Edward Newman and Karl DeRouen (London ; New York: Routledge, 2014), 349–62, doi:10.4324/9780203105962.ch28.
[106]Barry, 'Peace and Conflict'.
[107]For example, Themnér and Ohlson, 'Legitimate Peace in Post-Civil War States'.
[108]Malji, 'The COVID-19 Pandemic and Deepening Marginalization in Sri Lanka'.
[109]Boyd et al., 'Post-Conflict Tourism Opportunity'.

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