

TOURISM DEMAND ANALYSIS AND FORECASTS

A. Tourism Sector Context

1. International visitor arrivals in Lao PDR exceeded 3.3 million in 2012, a 22% increase compared to 2011. The direct contribution of travel and tourism to GDP is 5.3% and is expected to be 5.4% of GDP in 2025. International tourism receipts reached an all-time high of \$513 million in 2012, sustaining 134,000 jobs or 4.5% of total employment.¹ While average annual growth during the past decade is the highest in the GMS at 20.2%, this is mainly attributed to high numbers of short-stay, lower spending visitors from neighboring countries, which accounted for 86% of inbound visitors in 2012. In 2012, 54% of international tourism receipts were generated by the 14% of arrivals from outside the GMS. Average length of stay (all markets) is 4.6 days and average daily spending \$54. The government's National Tourism Strategy 2012–2020 targets 4.5 million international arrivals and annual tourism receipts equivalent to \$760 million by 2020.² Given 2012 arrivals and receipts, together with surging growth rates in recent years, these figures are expected to be revised significantly upward during the strategy's midterm review in 2015.

B. Champassak Province

2. Champassak's main tourist attractions are (i) Pakse's old quarter with historic buildings, Buddhist temples and the Mekong River promenade; (ii) Vat Phou and associated ancient settlements within the Champassak cultural landscape, a UNESCO World Heritage Site; (iii) the four-thousand Mekong islands and Khone Phapheng waterfall—Southeast Asia's largest by volume; (iv) Xe Pian, Dong Houa Sao and Phou Xieng Thong National Protected Areas, and; (iv) the Bolaven Plateau. Popular tourist activities are visits to waterfalls, shopping for locally produced handicrafts, river excursions, trekking, and community-based tourism.

3. Champassak welcomed over 470,000 visitors in 2012 (50% international). Average annual growth in arrivals over the past five years is 20.9%. International arrivals are growing at 11.1% per annum compared to 37.7% for the domestic market. Receipts from tourism were \$35.1 million in 2012, a 15% increase over 2011. The main drivers of growth are (i) improved overland and air connectivity with Thailand, Viet Nam and Cambodia; (ii) availability of good-quality tourism services in Pakse, the provincial capital; and (iii) strong demand for culture and nature based tourism. While arrivals in Champassak are likely to continue to grow in the near term, without strategic investment in the destination there is a risk of stagnation. To mitigate this risk, and boost local socioeconomic benefits from tourism, the project will improve destination management, hospitality service quality, promote tourism-related enterprise development, and support marketing aimed at attracting higher spending markets. Three destinations with strong tourism potential are identified for inclusion in the project: (i) Vat Phou; (ii) the 4,000 Islands; and (iii) the Bolaven Plateau.

4. As shown in Table 1, the without-project forecast suggest that in 2019 Champassak will receive 703,872 tourists (341,991 international) and tourism receipts will reach nearly \$51 million. The with-project growth scenario places total arrivals at 821,733 (405,115 international) in 2019 with tourism receipts of nearly \$70 million. The without-project scenario assumes that annual growth in international arrivals will level off to 4% in 2016 and annual growth in domestic arrivals will fall to 5% in 2015; average receipts per tourist is assumed to remain at the 2012 level of \$109 until 2025. The with-project scenario assumes growth in international arrivals moderates to 8% in 2013 and 7% in 2021, and domestic arrival growth is 10% in 2013, 8% in 2015 and 7% in 2021; average receipts per tourist is forecast to rise to

¹ World Travel and Tourism Council. 2013. *Travel and Tourism Economic Impact 2013: Laos*. London. National and provincial forecasts for tourism receipts, and average tourism receipts per visitor, only consider international receipts due to the unreliability of data on domestic tourism spending.

² Ministry of Information, Culture and Tourism. 2012. *Lao PDR Tourism Strategy 2012–2020*. Vientiane. Arrival targets are updated annually and published in MICTs annual statistics report.

\$171 in 2019 due to increased visitor satisfaction, longer length of stay, and increased market awareness of the destination.

Table 1: Champassak Province Tourism Forecasts 2012–2025

Indicator	Baseline	Without-Project		With-Project	
	2012	2019	2025	2019	2025
Tourist arrivals (total)	470,714	703,872	917,683	821,733	1,244,725
International tourist arrivals	236,381	341,991	432,728	405,115	613,651
Domestic tourist arrivals	234,333	361,881	484,955	416,618	631,074
Tourism receipts (\$ million) ^a	35.1	50.8	64.3	69.4	107.8
Average receipts per tourist (\$) ^a	148.6	148.6	148.6	171.4	175.7

^a International receipts/per international tourist only.

Source: Ministry of Information, Culture and Tourism; Champassak Department of Information, Culture and Tourism.

Asian Development Bank Estimates.

C. Khammouane Province

5. Khammouane is known for its scenic karst landscape with many caves, including Konglor Cave, Buddha Cave and Xang Cave located close to the provincial capital of Thakhek. The main cultural attractions are Sikhottabong Stupa and associated ancient city ruins, and Thakhek’s old quarter with its many colonial-era buildings. A popular activity is to tour “the loop”, a 350 km circuit that starts and ends in Thakhek.

6. Khammouane welcomed over 340,000 visitors in 2012 (51% international). Average annual growth in arrivals over the past four years is 25%. International arrivals are growing at 19.8% per annum compared to 31.5% for the domestic market. Receipts from tourism were \$13 million in 2012, a 38.5% increase over 2011. The main drivers of growth are the recent opening of the third Mekong Friendship Bridge that links Thakhek with Thailand, and strong demand for culture and nature based tourism. To diversify Khammouane’s tourism offering and boost local socioeconomic benefits from tourism, the project will focus on improving (i) access infrastructure; (ii) tourism-related enterprise development; (iii) hospitality service quality; (iv) environmental services in Thakhek (Xang Cave and Sikhottabong Stupa); and (v) marketing and promotion of “the loop”.

7. As shown in Table 2, without-project forecasts suggest that in 2019 Khammouane will receive 538,680 tourists (273,394 international) and tourism receipts will reach \$20.5 million. The with-project scenario places total arrivals at 653,482 (336,174 international) in 2019 with tourism receipts of nearly \$29 million. The without-project scenario assumes that annual growth in international arrivals will level off to 4% in 2016 and growth in domestic arrivals will fall to 5% by 2015; average receipts per tourist is assumed to remain at the 2012 level of \$109 until 2025. The with-project scenario assumes growth in international arrivals moderates to 8% in 2013 and 7% in 2021, and domestic arrival growth is 10% in 2013, 8% in 2015 and 7% in 2021. Average receipts per tourist in the with-project scenario is forecast to rise to \$171 in 2019 due increased visitor satisfaction, longer length of stay, and increased market awareness of the destination.

Table 2: Khammouane Province Tourism Forecasts 2012-2025

Indicator	Baseline	Without-Project		With-Project	
	2012	2019	2025	2019	2025
Tourist arrivals (total)	340,345	538,680	643,212	653,482	962,012
International tourist arrivals	172,734	273,394	326,447	336,174	481,368
Domestic tourist arrivals	167,611	265,286	316,765	317,308	480,644
Tourism receipts (\$ million) ^a	13.0	20.5	24.5	29.0	43.1
Average receipts per tourist (\$) ^a	75.0	75.0	75.0	86.4	89.6

^a International receipts/per international tourist only.

Source: Ministry of Information, Culture and Tourism; Khammouane Department of Information, Culture and Tourism.

Asian Development Bank Estimates.

D. Luangprabang Province

8. Luangprabang's primary tourist attraction is the historic town of Luangprabang, a UNESCO World Heritage Site. Other important destinations are Pak Ou, with the Tham Ting Caves and nearby village Ban Xang Hai; and the Chomphet Heritage District, located across the Mekong River from Luangprabang Town, featuring several important temples and a pottery-making village. Popular tourist activities are visiting temples (there are over 30 in Luangprabang Town), shopping for locally produced handicrafts, waterfalls (Kuang Si Waterfall and Tad Se), river excursions, and community-based tourism.

9. Luangprabang welcomed over 410,000 visitors in 2012 (72% international). Average annual growth in arrivals over the past five years was 6.2%. Growth in international arrivals is relatively stable however domestic tourism is stagnating, with growth of only 2.7% in 2012. Tourism receipts were \$110 million in 2012, a 15% increase over 2011. Average length of stay for international and domestic tourists has remained stable over the past five years at 5 and 3 days respectively. While tourism in Luangprabang is likely to continue growing into the foreseeable future there is a need to develop new destinations outside the town. In response, the project will improve land and river access and services in two secondary destinations with good tourism potential: (i) Tham Ting Caves-Ban Xang Hai craft village, and (ii) Chomphet Heritage District, including the pottery-making village of Ban Chan Neua.

10. As shown in Table 3, without-project forecasts suggest that Luangprabang will receive 630,373 tourists in 2019 and tourism receipts will reach \$171 million. The with-project growth scenario places total arrivals at 694,998 in 2019 and tourism receipts at over \$224 million. The without-project scenario assumes that annual growth in international and domestic arrivals will level off to 6% in 2016; average receipts per tourist is assumed to remain at the 2012 level of \$375 until 2025. The with-project scenario assumes growth in international arrivals is 8% in 2013 and 7% in 2021, and domestic growth is 8% in 2016. Average receipts per tourist in the with-project scenario is forecast to rise to \$455 in 2019 due increased visitor satisfaction, longer length of stay, and increased market awareness.

Table 3: Luangprabang Province Tourism Forecasts 2012-2025

Indicator	Baseline	Without-Project		With-Project	
	2012	2019	2025	2019	2025
Tourist arrivals (total)	410,855	630,373	894,196	694,998	1,066,510
International tourist arrivals	294,213	454,987	645,407	504,229	763,784
Domestic tourist arrivals	116,642	175,386	248,789	190,769	302,726
Tourism revenue (\$ million) ^a	110.3	170.6	242.0	224.3	339.7
Average revenue per tourist (\$) ^a	375.0	375.0	375.0	444.8	444.8

^a International receipts/per international tourist only.

Source: Ministry of Information, Culture and Tourism; Luangprabang Department of Information, Culture and Tourism.

Asian Development Bank Estimates.

E. Tourism in Oudomxay Province

11. Oudomxay's main tourist attractions are its diverse ethnic culture, lush forests, Nam Kat Waterfall, Buddhist temples and the Chom Ong Cave, the 9th longest in Southeast Asia.

12. Oudomxay welcomed over 142,000 visitors in 2012 (57% international). Average annual growth in arrivals over the past five years is 8.7%, mainly attributable strong domestic growth and a surge in visitors from the People's Republic of China (PRC). Annual tourism receipts have remained flat at \$4.5 million due to decreasing length of stay and stagnant spending. About half of all international arrivals transit Pak Beng, a one night stop-over for visitors travelling on the Mekong River between Luangprabang and Houey Xay. To diversify Oudomxay's tourism offering, boost spending and length of stay, and improve tourism management the project will (i) upgrade the access road to Chom Ong Cave; (ii) promote

tourism enterprise development; (iii) improve hospitality service skills; and (iv) strengthen destination management and marketing.

13. As shown in Table 4, without-project forecasts suggest that Oudomxay will receive 193,485 tourists in 2019 and tourism receipts will reach around \$5.5 million. The with-project scenario places total arrivals at 228,094 in 2019, with tourism receipts of nearly \$9 million. The without-project scenario assumes that annual growth in international arrivals is 3% and domestic growth levels off to 5% in 2016; average receipts per tourist is assumed to remain at the 2012 level of \$56 through 2025. The with-project scenario assumes growth in international arrivals is 5% in 2016 and domestic growth moderates to 10% in 2013. Average receipts per tourist in the with-project scenario is forecast to rise to \$82 in 2019 due increased visitor satisfaction, longer length of stay, and increased market awareness.

Table 4: Oudomxay Province Tourism Forecasts 2012-2025

Indicator	Baseline	Without-Project		With-Project	
	2012	2019	2025	2019	2025
Tourist arrivals (total)	142,308	193,458	244,701	228,094	357,205
International tourist arrivals	81,013	99,636	118,970	108,647	145,598
Domestic tourist arrivals	61,295	93,822	125,730	119,447	211,607
Tourism revenue (\$ million) ^a	4.5	5.5	6.6	8.9	13.7
Average revenue per tourist (\$) ^a	55.5	55.5	55.5	82.2	93.9

^a International receipts/per international tourist only.

Source: Ministry of Information, Culture and Tourism; Oudomxay Department of Information, Culture and Tourism.

Asian Development Bank Estimates.

F. Forecasts for Output 1 and 2 Infrastructure Subprojects

14. An overview of baseline conditions and projections for each site where infrastructure will be improved is presented in Table 5. A detailed description of each subproject is presented in the Project Administration Manual.

Table 5: Subproject Sites Tourism Forecasts 2012-2025

Subproject site / Indicator	Baseline	Without-Project		With-Project		Incremental With-Project Benefit	
	2012	2019	2025	2019	2025	2019	
<u>Xang Cave Access Improvement (Khammouane)</u>							
Total visitors	4,524	10,079	11,351	17,358	33,051	7,279	72.2%
International visitors	1,000	2,228	2,509	4,250	9,831	2,022	90.8%
Domestic visitors	3,524	7,851	8,842	13,107	23,221	5,256	67.0%
Tourism revenue (\$) ^a	1,947	4,448	5,009	11,081	21,991	6,633	149.1%
<u>That Sikhottabong Environmental Improvement (Khammouane)</u>							
Total visitors	105,800	148,871	199,502	237,293	476,737	88,421	59.4%
International visitors	31,740	44,661	59,851	71,188	143,021	26,526	59.4%
Domestic visitors	74,060	104,210	139,651	166,105	333,716	61,895	59.4%
Tourism revenue (\$) ^a	50,784	71,458	95,761	164,523	330,538	93,065	130.2%
<u>Ban Xang Hai–Tham Ting Cave Access Improvements (Luangprabang)</u>							
<i>Pak Ou District</i>							
Total visitors	183,012	278,170	394,589	304,780	475,026	26,611	9.6%
International visitors	69,756	107,874	153,022	119,550	181,088	11,675	10.8%
Domestic visitors	113,256	170,295	241,567	185,231	293,938	14,936	8.8%
Tourism revenue (\$)	228,765	347,712	493,236	380,975	593,783	33,263	9.6%
<i>Tham Ting Caves</i>							
Total visitors	164,141	235,306	319,010	254,562	344,566	19,256	8.2%
International visitors	96,131	148,662	210,880	164,752	233,232	16,090	10.8%
Domestic visitors	68,010	86,644	108,130	89,811	119,233	3,166	3.7%
Tourism revenue (\$)	270,340	427,470	606,374	472,784	672,004	45,315	10.6%
<u>Chomphet Heritage District Access Improvements (Luangprabang)</u>							
Total visitors	7,500	12,607	17,884	32,842	50,298	20,235	160.5%
International visitors	n/a	9,100	12,908	25,211	38,189	16,112	177.1%

Domestic visitors	n/a	3,508	4,976	7,631	12,109	4,123	117.5%
Tourism revenue (\$)	14,063	14,599	14,599	126,316	193,455	111,717	765.2%
<u>Chom Ong Cave Access Road Improvement (Oudomxay)</u>							
Total visitors	500	1,107	2,323	13,251	29,897	12,144	1,097.3%
International visitors	500	808	1,432	6,084	8,736	5,276	652.8%
Domestic visitors	-	299	892	7,167	21,161	6,868	2,300.1%
Tourism revenue (\$) ^a	-	-	-	12,394	24,764	12,394	-

^a Revenue figures are from domestic and international sources, mainly comprising site entry fees and other charges.

Source: Ministry of Information, Culture and Tourism; Departments of Information, Culture and Tourism of Khammouane, Luangprabang and Oudomxay Provinces; Asian Development Bank Estimates.