

## **SECTOR ASSESSMENT (SUMMARY): TOURISM IN THE GREATER MEKONG SUBREGION<sup>1</sup>**

### **Sector Road Map**

#### **1. Sector Performance, Problems, and Opportunities**

1. International tourist arrivals in Asia and the Pacific rose by 7% in 2012, reaching 234 million, and generating \$324 billion in tourism receipts and 79.8 million jobs. Long-term forecasts suggest that international arrivals will increase by 4.9% per year to 535 million (29.6% of the global total) in 2030, outpacing growth in all other regions. Remarkably, the People's Republic of China (PRC) became the world's top outbound source market in 2012, with over 83 million outbound travelers spending \$102 billion, up 37% from 2011.<sup>2</sup>

2. Among country groupings in Asia and the Pacific, the Greater Mekong Subregion (GMS) has a strong comparative advantage in tourism as a result of its strategic location, diverse tourism assets, good air and land connectivity in gateway destinations, effective visa policies, and surging demand for leisure travel. International visitor arrivals in the GMS are growing at 12.4% per year—over four times the world average—and reached 44.8 million in 2012, an all-time high. About one-third of international tourists visit at least two countries while travelling in the GMS, providing a strong rationale for subregional tourism cooperation. Major source markets include Asia and the Pacific (60% of arrivals), led by Malaysia, the PRC, Japan, the Republic of Korea, and Thailand. Europe accounts for 20% of international visitors and the Americas 7%. Domestic tourism is also significant. Guangxi Zhuang and Yunnan, PRC, each record around 200 million domestic tourists per year, followed by Thailand (98 million), Viet Nam (32.5 million), and Cambodia (7.9 million).

3. International tourism in the GMS currently generates about \$44.3 billion in annual receipts, with spending on accommodation, food and beverages, transport, shopping, entertainment, and other discretionary items directly sustaining 7.1 million jobs. In the GMS tourist spending of about \$6,200 equivalent sustains one tourism-related job, making tourism one of the most labor-intensive of the non-agricultural sectors. Women account for over half of GMS tourism workers, but many are employed in relatively low-skill, low-wage jobs, and are underrepresented in management positions.

4. The GMS is on track to meet its 2015 strategic targets of 52.02 million international arrivals, \$52.4 billion in tourism receipts, and 7.2 million tourism-related jobs, but there is persistent inequity in the distribution of tourism benefits. Thailand currently earns \$25.4 billion in international tourism receipts, while the combined receipts for Cambodia, the Lao People's Democratic Republic (Lao PDR), and Viet Nam are less than \$10.5 billion. In addition, there are wide disparities in average tourism receipts per visitor, with Thailand generating \$1,138 compared to \$616 in Cambodia and \$154 in the Lao PDR. This is significantly below the benchmark of \$1,390 per visitor in Asia and the Pacific. Per capita tourism receipts are \$411 in Thailand, \$150 in Cambodia, \$90 in Viet Nam, and \$78 in the Lao PDR. Asymmetric distribution of arrivals and benefits within each GMS country is also a problem. For example, Siem Reap, the gateway to Cambodia's iconic Angkor Wat, draws 58% of visitors and has over one-third of the country's accommodation stock. Vientiane Capital accounts for 43% of Lao PDR's arrivals and 47% of hospitality investment. Similarly, Halong Bay receives 2.8 million visitors per year, accounting for 40% of Viet Nam's international arrivals.

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<sup>1</sup> This summary assessment highlights sector performance and issues in the GMS with a focus on the Lao PDR. ADB. 2011. *Greater Mekong Subregion Tourism Sector Assessment Strategy and Road Map*. Manila. <http://www.adb.org/documents/greater-mekong-subregion-tourism-sector-assessment-strategy-and-road-map>

<sup>2</sup> United Nations World Tourism Organization. 2013. *UNWTO Tourism Highlights*. Madrid.

5. **Strategic direction in the Greater Mekong Subregion.** To address this inequitable pattern of development the GMS Tourism Sector Strategy emphasizes support for infrastructure improvements; micro-, small and medium-sized enterprise promotion; marketing of multicountry tours; capacity building to remove the key constraints that inhibit expansion of tourism into new areas; and improved management of established tourist destinations.<sup>3</sup> The estimated cost to implement the strategy is \$430 million, of which 83% is earmarked for infrastructure. The focus on upgrading last-mile transport infrastructure, expanding the quality and coverage of environmental services, and improving tourism destination management is consistent with GMS Strategic Framework 2012–2022 priorities to strengthen transport linkages, enhance environmental performance, and support human resource development that facilitates GMS integration. Effectively addressing these interrelated priorities is critical to mitigating the risks GMS tourism is facing, particularly environmental degradation at tourism sites, human trafficking, and the effects of climate change.

6. **Lao People's Democratic Republic tourism profile.** International visitor arrivals totaled 3.33 million in 2012, a 22% increase from 2011. Travel and tourism directly contribute 5.3% of gross domestic product, and this is expected to increase to 5.4% of gross domestic product in 2025. International tourism receipts were equivalent to \$0.51 billion in 2012, directly supporting 134,000 jobs, or 4.5 % of total employment.<sup>4</sup> About 92% of arrivals originate in Southeast and East Asia, with Thailand (58%), Viet Nam (21%), and the PRC (6%) representing the top source markets. Average length of stay is 4.6 days, and average spending \$54 per day, both the lowest in the GMS. There are 2,030 accommodation establishments with 35,857 bedrooms, less than 10% of which are have 5-star ratings. During 2006–2012 the number of bedrooms increased by 96%, but there are about four times as many small guesthouses (1,562) as hotels (486). Following the passage of the Tourism Law in 2005 the number of registered tour operators increased from 93 to 236. International airports in Vientiane, Luangprabang, and Pakse are served by eight airlines and receive about 10,500 flights per year with 1.31 million scheduled inbound seats. Lao PDR offers tourist visa-on-arrival for over 180 countries and visa exemptions for member states of the Association of Southeast Asian Nations.

7. **Main challenges.** Although Lao PDR possesses many cultural and natural tourism assets, including two World Heritage Sites and a protected area network covering 16.3% of the country, international tourist arrivals are concentrated in Vientiane Capital. Savannakhet is the only other province that receives more than a million tourists per year, because of a surge in day-tripping Thai visitors following completion of the second Mekong friendship bridge in 2009, and subsequent opening of a large integrated resort at the border. Underinvestment in transport infrastructure and environmental services needed to catalyze private investment in secondary destinations is a major constraint. Low service standards and poor destination management are also major impediments that prevent Lao PDR from increasing the value and yield of its tourism industry. This is exacerbated by weak institutional support for micro-, small and medium-sized enterprise development; as a result around 40% of tourism receipts leave the country in the form of tourism-related imports.

8. Marketing efforts—such as the “*Laos, Simply Beautiful*” and the 2012 Visit Lao Year campaign—have had limited success in promoting new destinations and generating return visits because of insufficient coordination between industry stakeholders, and a lack of funding. The shortage of quality emergency medical assistance, especially in small towns, discourages higher-spending tourists from visiting the country or venturing outside of Vientiane. Public–private collaboration in marketing and destination management remains weak. Similarly, the number of public–private partnerships that support tourism-related infrastructure development is low as a result of an incomplete legal and regulatory framework and the scarcity of affordable finance. The tourism

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<sup>3</sup> ADB. 2005. *Greater Mekong Subregion Tourism Sector Strategy 2005–2015*. Manila.

<sup>4</sup> World Travel and Tourism Council. 2013. *Travel and Tourism Economic Impact 2013: Laos*. London.

industry's competitiveness is further undermined by policy and regulatory impediments that make it difficult to start a business, with Lao PDR currently ranking 163 out of 185 countries assessed in the World Bank's Doing Business Report, the lowest among GMS countries and the second-lowest in Asia and the Pacific.<sup>5</sup> Areas of particular concern include investor protection (ranked 184th) and access to credit (ranked 167th).

## 2. Government's Sector Strategy

9. The Lao PDR's seventh National Socioeconomic Development Plan (NSEDP) 2011–2015 focuses on supporting sustainable economic growth and reducing poverty and inequality, and underscores economic diversification, human resource development, productivity, and the inclusion of women and ethnic groups in national development. Cross-cutting themes embrace environmental protection, regional cooperation and integration, and the maintenance of political stability and peace. The NSEDP's five strategic thrusts are (i) economic development, (ii) rural development and poverty eradication, (iii) livelihood promotion, (iv) effective public administration, and (v) increased competitiveness. Recognizing its potential to contribute to inclusive economic growth and poverty reduction, the NSEDP prioritizes tourism development, emphasizing service quality improvement and expansion of the accommodation and handicraft subsectors. The estimated cost of the government's public investment program for tourism for 2011–2015 is \$118 million.

10. Closely aligned with the NSEDP is Lao PDR's National Tourism Strategy (NTS) 2012–2020, which targets 4.5 million international arrivals and annual tourism revenue equivalent to \$760 million by 2020.<sup>6</sup> The 2005 Tourism Law provides the legal basis for the strategy, setting out the parameters for creation of a sustainable tourism industry that contributes to national development and promotes international cooperation. The Ministry of Information, Culture, and Tourism (MICT) is the public agency charged with overseeing implementation of the NTS. Strategic objectives aim to (i) generate employment and income for local people, (ii) strengthen heritage protection and destination management, (iii) increase public–private cooperation, (iv) improve compliance with rules and regulations, (v) diversify Lao PDR's tourism products and services, and (vi) improve tourism education and training. The MICT recognizes that a well-functioning tourism industry requires effective coordination between many agencies and the provision of quality services by the private sector. In this context, the NTS intends to provide the public sector with a blueprint for prioritizing sector investments in transport, urban development, education and training, and policy enhancements needed to facilitate private investment in tourism superstructure and related services.<sup>7</sup> There are five priority programs covering all subnational areas.<sup>8</sup>

## 3. ADB Sector Experience and Assistance Program

11. The Asian Development Bank (ADB) has supported GMS tourism cooperation since 1992, first by assisting the GMS countries form the GMS Tourism Working Group, and subsequently with technical assistance to identify priority infrastructure projects and build tourism planning capacity within national tourism organizations (NTOs).<sup>9</sup> During 2003–2013, ADB provided about \$60 million in loan and grant assistance for GMS tourism projects, focusing on improving transport infrastructure

<sup>5</sup> World Bank. 2013. *Doing Business 2013*. Washington DC.

<sup>6</sup> Ministry of Information, Culture and Tourism, Lao PDR. 2012. *Lao PDR Tourism Strategy 2012-2020*. Vientiane. Arrival targets are updated annually and published in MICT's annual statistics report.

<sup>7</sup> Tourism superstructure comprises facilities developed specifically in response to visitor demands.

<sup>8</sup> The five programs focus on (i) organizational restructuring and improvement, (ii) tourism infrastructure and product development, (iii) improving tourism management, (iv) marketing and promotion, and (v) human resource development.

<sup>9</sup> ADB. 1997. *Mekong/Lancang River Tourism Planning Study*. Manila; ADB. 1998. *Tourism Skills Development in the GMS*. Manila.

and the quality and coverage of environmental services in key tourist destinations.<sup>10</sup> ADB's ongoing tourism sector assistance promotes the development of pro-poor tourism products and services to increase employment and income generating opportunities for local people, and supports capacity building for NTO staff and private enterprises to strengthen tourism management. Cross-cutting project design features intersect with ADB's core areas of infrastructure, environment, and regional cooperation and integration.<sup>11</sup> Capacity-building efforts are enhanced by ADB's annual GMS Phnom Penh Plan for Development Management *Tourism Management in the GMS Learning Program*.<sup>12</sup>

12. Other development partner support complements ADB assistance, including Lux-Development's focus on strengthening tourism education and vocational training. German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit, the International Trade Center, Japan International Cooperation Agency (JICA), the New Zealand Aid Programme, SNV Netherlands Development Organization, Swisscontact, the World Wildlife Fund and Wildlife Conservation Society work with public agencies to improve tourism planning and assist private entities develop and market tourism products. The Pacific Asia Travel Association, with over 1,100 members comprising international airlines, NTOs, media, hospitality providers and educational institutions, is the leading industry group in the GMS.

13. ADB's GMS tourism sector assistance program and completed GMS tourism projects are rated *successful*.<sup>13</sup> Key lessons include the need to (i) conduct detailed analysis of tourism demand during project preparation, (ii) improve cross-sector coordination to build synergies within ADB and among development partners active in the sector, (iii) support policy dialogue to facilitate simplified border-crossing arrangements, and (iv) promote enterprise development alongside infrastructure to increase the proportion of destination spending that reaches the poor. Lessons to improve project design embrace the need to select relevant subprojects, ensure that sustainable operations and maintenance systems are in place prior to project closure, and tap the expertise of the private sector to market and promote tourist destinations.

14. ADB should continue its involvement in the tourism sector given its successful experience in financing multisector projects with regional public goods characteristics and substantial positive development impacts, such as the creation of employment for the poor and improved environmental performance in tourism destinations. Consistent with the GMS Tourism Sector Strategy, GMS Strategic Framework 2012–2022, and the tourism development plans and policies of GMS countries, ADB's tourism sector assistance will continue to focus on (i) improving last-mile access infrastructure, sanitation, water supply and other public infrastructure in secondary tourist destinations; (ii) micro-, small and medium-sized enterprise promotion linked to the tourism sector; (iii) capacity building for public officials; (iv) tourism vocational training; and (v) policy dialogue that reduces non-physical barriers to travel across borders. The proposed pipeline of projects and technical assistance aims to maximize synergies with other ADB investments in the transport, urban and social sectors.

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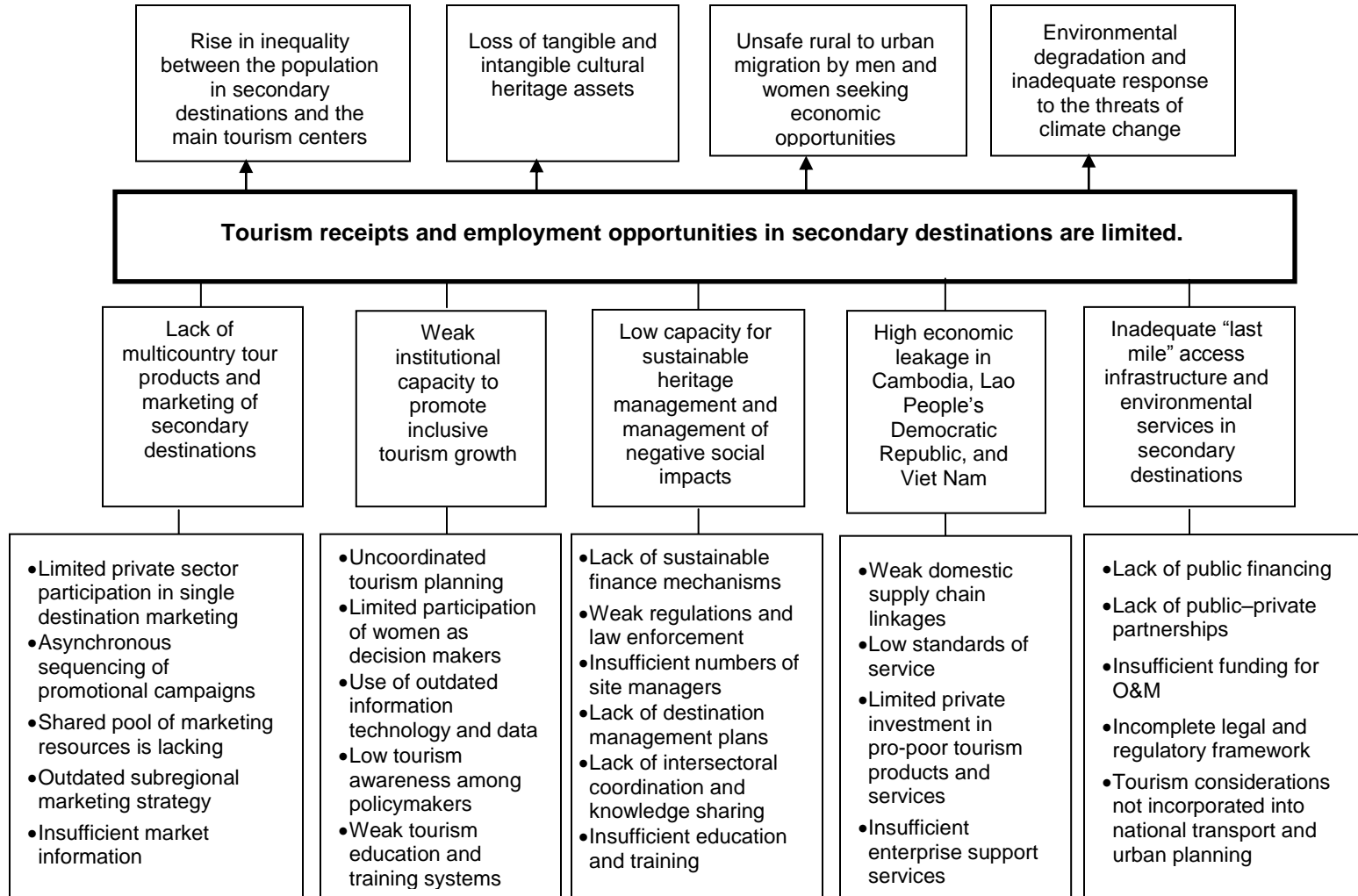
<sup>10</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Kingdom of Cambodia, Lao People's Democratic Republic and Socialist Republic of Viet Nam: GMS Mekong Tourism Development Project*. Manila; ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Lao People's Democratic Republic and Loan to the Socialist Republic of Viet Nam: GMS Sustainable Tourism Development Project*. Manila.

<sup>11</sup> ADB. 2008. *Strategy 2020: The Long Term Strategic Framework of the Asian Development Bank*. Manila.

<sup>12</sup> The Phnom Penh Plan has trained over 120 mid-level GMS officials in sustainable tourism management since 2006.

<sup>13</sup> ADB. 2009. *Sector Assistance Program Evaluation. Tourism Sector in the Greater Mekong Subregion*. Manila; ADB. 2011. *Completion Report: GMS Mekong Tourism Development Project*. Manila.

**Problem Tree for Tourism in the Greater Mekong Subregion**



O&M = operations and maintenance

Source: Adapted from ADB. 2011. *Greater Mekong Subregion Tourism Sector Assessment Strategy and Road Map*. Manila.

### Sector Results Framework (Tourism): Contributions to Municipal Infrastructure and Services

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
<p>Transport corridors become economic corridors.</p> <p>Clean and green economic growth through (i) urban centers as focal points for economic development, (ii) improved urban planning and management, (iii) improved environmental management and protection.</p>	<p>Trade and investment (national and regional) in each corridor town increased by 10% by 2022.</p> <p>GMS corridors become economic corridors by 2022 (GMS Strategic Framework 2012–2022)</p>	<p>Urban and transport infrastructure investments to deepen economic corridors and facilitate tourism growth</p> <p>Capacity building to improve tourism promotion and tourism knowledge management in corridor towns.</p> <p>Enhanced tourism planning, development and diversification</p> <p>Strengthened capacity for tourism destination management and O&amp;M of infrastructure.</p> <p>Increased preparedness for potential climate change impacts in tourist destinations.</p>	<p>By 2020 GMS corridor towns will have improved environmental and economic infrastructure.</p> <p>By 2020 80% of residents have access to water supply and wastewater treatment; 80% of solid waste is collected; flood incidence is reduced by 100%.</p> <p>Integrated urban development projects developed and operational by 2020.</p> <p>Plans and procedures integrating tourism and urban development in place in four secondary towns.</p> <p>Sustainable urban and tourism strategies that incorporate gender concerns.</p> <p>Climate change policy in place for tourism destinations by 2020.</p>	<p><b>Planned key activity areas</b> Urban development. Urban and feeder road rehabilitation.</p> <p><b>Pipeline projects with estimated amounts</b> Second GMS Corridor Towns Development (\$50.0 million, 2015) Urban Environmental Improvement (\$20 million, 2015)</p> <p><b>Ongoing projects with approved amounts</b> TA for Strengthening the Mekong Tourism Coordinating Office (\$0.225 million, 2013) Water Supply and Sanitation Sector Project (\$35 million, 2013) GMS East-West Economic Corridor Towns Development (\$40.7 million, 2012) Paske Urban Environmental Improvements (\$27.5 million, 2012) GMS Sustainable Tourism Development Project (\$10 million, 2009)</p>	<p><b>Planned key activity areas:</b> Increased competitiveness of at least four GMS corridor towns in the Lao PDR. Town urban development strategies developed in at least four towns. Improved management of urban tourist destinations. Increased gender equity in urban development and tourism. 60 kilometers of feeder roads in urban–rural tourist destinations upgraded. Institutional capacity of National Tourism Organization to promote multicountry tour circuits strengthened. Rehabilitated drainage and sanitation in at least two urban tourist destinations. Rehabilitated piped water supply system in at least three small towns that are tourism centers. New water supply systems in at least 10 small towns that are tourism centers. 10 kilometers of feeder roads in urban tourist destinations upgraded.</p>

ADB = Asian Development Bank, GMS = Greater Mekong Subregion, Lao PDR = Lao People's Democratic Republic, O&M = operations and maintenance, TA = technical assistance

Source: Asian Development Bank.