

---

# The Macroeconomic of Tourism in Lao PDR: Impact on Poverty Reduction

---

**For**  
**Swiss Agency for Development and  
Cooperation (Lao PDR Office)**

---

By Mana Southichack, PhD  
26 April 2013

---

## Summary

This short paper provides a macroeconomic picture of tourism industry in Lao PDR (for convenient, Laos), the country's second largest foreign exchange earner after mining, and its potential impact on poverty reduction, with a focus on selected provinces. This study seeks to answer the question of how and by how much does tourism contribute to income, employment and poverty reduction at the national level and in three southern provinces of Sekong, Champasak and Attapeu and in Luang Prabang.

Tourism directly contributed US\$454.8 million to Laos' GDP in 2011, accounting for 5.8% of the country's total GDP, and created 143,500 jobs, accounting for 4.9% of the country's total employment, according to the WTTC's estimate. With indirect and induced impacts included, tourism's total contribution to GDP was US\$1,417.3 million (18.2%) in that year, and it was responsible for a total of 461,500 jobs, accounting for 15.9% of the total employment in the country. In the same year, Luang Prabang's tourism sector, with 10.4% of national accommodation capacity, directly added US\$56.6 million to the country's GDP with 15,000 direct jobs. With indirect and induced impacts accounted for, the province's tourism sector contributed a total of US\$176.4 million to national GDP and 48,000 jobs in total. Champasak's tourism sector, with 9.7% of national accommodation capacity, contributed US\$164.1 million in total to GDP and roughly 45,000 jobs to residents. The much smaller provinces of Sekong and Attapeu, respectively with 0.9% and 1.2% of the country's total accommodation capacity, were less visited by tourists and thus benefited proportionally less from tourism.

Tourism, although may accompany with undesirable social, cultural and environmental side-effects, is a very important sector in the Lao economy, for its roles in attracting foreign exchange, stimulating domestic production and job creation, and distributing income across business sectors and social lines. Tourism has greater backward and forward linkages than other sectors, as tourism is more integrated with the domestic production system. Thus, the economic impact of tourism is greater than most other sectors in the economy, in terms of income generation and job creation. This is supported by the fact that tourism is dominated by MSMEs and they are found in a survey by GIZ (2012) to be more dependent on domestic supply chain. As tourism is dominated by MSMEs, appropriate intervention to promote a sustainable growth in tourism, with environmental, social and cultural protection measures in place, has a relatively high potential of alleviating poverty.

With regard to poverty reduction, intervention by either government or development organization should go beyond skills development for waged jobs in tourism establishments. Intra- and inter-industry linkages should be studied and develop an intervention to maximize linkages of production system between poor villagers and the tourism industry. Training on basic management, financial literacy, business plan development and marketing for micro and small enterprises, couple with a micro/small loan programs, would provide opportunities for the poor to tap into the growing tourism industry.

**Content**

Introduction .....	4
A Brief Overview of Tourism in Laos .....	4
Economic Impact of Tourism .....	6
Tourism Impact on National Income of Laos .....	7
Tourism Impact on Employment in Laos .....	8
Economic Impact of Tourism in Luang Prabang, Champasak, Sekong and Attapeu ....	11
Tourism and Its Impact on Poverty Reduction .....	12
Tourism Trends in Luang Prabang, Champasak, Sekong and Attapeu .....	13
Conclusion .....	13
References .....	15

## **Introduction**

This short paper provides a macroeconomic picture of tourism industry in Lao PDR (for convenient, Laos), the country's second largest foreign exchange earner after mining, and its potential impact on poverty reduction, with a focus on selected provinces. This study seeks to answer these questions: How and by how much does tourism contribute to income, employment and poverty reduction at the national level and in three southern provinces of Sekong, Champasak and Attapeu and in Luang Prabang? What are some future prospects?

Rather than conducting a freshly new estimation of income and employment responsible by tourism, reliable and credible previous studies will be heavily utilized. New assessment and estimation may be necessary in certain areas, where available previous studies fail to either cover or sufficiently answer the main questions this study seeks answers for and if data are available.

The paper begins with a brief overview of the tourism industry in the country, then examines how and by how much tourism contributes to national income and employment. Following that, the examination turns to focusing on tourism impact on poverty through income and employment generation focusing on three selected southern provinces of Sekong, Champasak and Attapeu, and Luang Prabang in the north.

## **A Brief Overview of Tourism in Laos**

Lao PDR (Laos) began opening its border to foreign visitors in 1989, accompanying its economic reforms from a centrally planned economy to a market oriented one. The number of visitors grew rapidly, though with a pause in the early 2000s, when the number of visitors was actually declined in 2001, due to terrorist attack in the United States on September 11th, and in 2003 as a result of the spread of SARS epidemic in Asia in the first quarter of the year (see figures 1 and 2). Although the rate of growth of the number of visitors has not been smooth, over a ten year period between 2002 and 2011, the total number of visitors grew on average 14% annually, from 735,662 to 2.7 million.

The number of visitors to Laos has traditionally been dominated by those originated in the Asia Pacific region, which accounted for 90.5% of the total in 2011, growing from 82% in 2000, especially from Thailand (58%), Vietnam (20.6%) and China (5.5%). Visitors from Thailand, Vietnam and China combined accounted for 84% of the total number of visitors to Laos in 2011. The share of visitors to Laos by major regional origin is illustrated in Figure 3. Although the number of visitors between 2000 and 2011 from Europe increased more than double and from Americas nearly double, their shares respectively declined from 11.7% to 6.7% and 5.7% to 2.6% as a result of rapid rise in the number of visitors from the Asia-Pacific region.

Visitors' average length of stay markedly differed between *international visitors* and *regional visitors*.<sup>1</sup> In 2011, international visitors spent on average 7 days in the country while regional visitors spent 2 days on average. Average length of stay for international visitors lengthened from 5.5 days in 2000 to 7 days by 2005 and remained roughly the same since. In contrast, average length of stay for regional visitors was shortened from 2.4 in 2000 to 2 days since 2003 (see Figure 4). Visitors from the Americas and Europe tended to stay longer. A survey of 417 international visitors in 2009 suggests that they stayed 9.3 days on average.<sup>2</sup> A more recent survey conducted between 1 January and 10 March 2012 by the Ministry of Information, Culture and Tourism suggests that European visitors from France and the United Kingdom stayed 10-12 days on average while visitors from Thailand tended to stay about 3 days on average.

Figure 1.

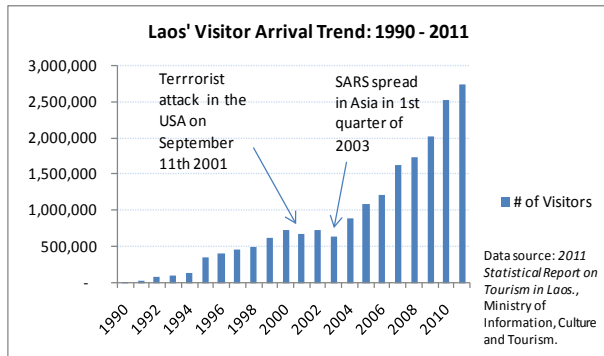


Figure 2.

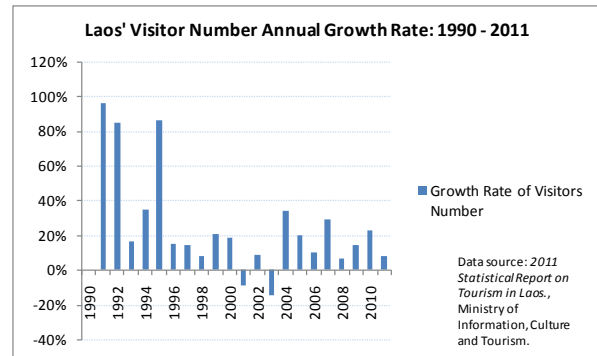


Figure 3.

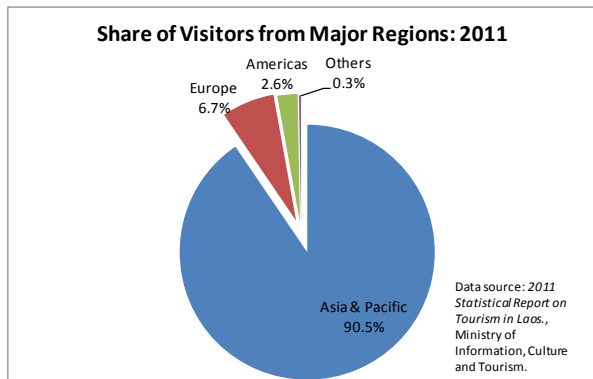
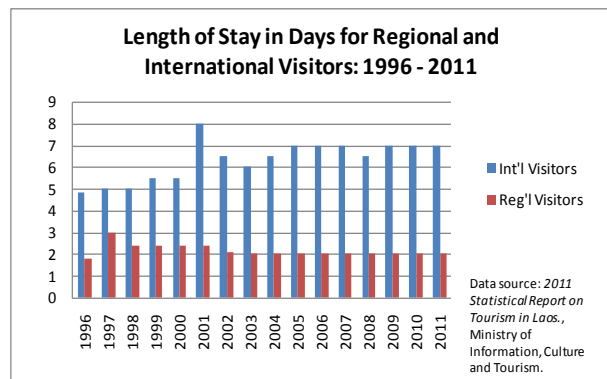


Figure 4.



<sup>1</sup> As defined in the 2011 Statistical Report on Tourism in Laos, *international visitors* are those "who enter Laos with a valid passport and visa obtained from a Lao embassy or consulate abroad, or a visa obtained on arrival at an international border checkpoint." *Regional visitors* are those "from neighboring countries such as: Thailand, China, Myanmar, Vietnam and Cambodia, which share borders with Laos. They enter Laos with valid border passes or passports."

<sup>2</sup> Cited in Khanal et al (December 2011).

Total annual foreign visitors' spending has been growing with the number of visitors, rising from roughly US\$114 million in 2000 to US\$406 million by 2011, according to official estimates of the Ministry of Information, Culture and Tourism. This makes tourism the second largest foreign exchange earner of the Lao economy after mining. International visitors spent the most per person per day, at US\$72 on average. Regional visitors, mainly Thai, Vietnamese and Chinese, tended to spend less per person per day. However, per person per day spending by an average Thai visitor carrying passport tended to be considerably higher (US\$52) than an average visitor carrying passport from China or Vietnam (US\$30). The most recent official visitor survey conducted between January and March 2012 suggests that an average Thai visitor carrying passport spent US\$73 per day while an average visitor from the UK and France spent US\$90 and US\$80 per day, respectively.<sup>3</sup>

While gauging foreign visitors' expenditures is a crucial starting point for assessing economic benefit of tourism, it gives only part of the picture of tourism contribution to the host country's economy. Also, although foreign visitors are an important part of the tourism sector and sources of foreign exchange, tourism spending by domestic residents and government are also important parts of the tourism industry. Hence, economic contribution of tourism goes far beyond income and job creation by the initial spending originated from foreign visitors. Economic impact originated from foreign visitors' expenditures and from domestic sources are both important in terms of income and job creation.

### **Economic Impact of Tourism**

Tourism is an industry that cuts across many industries, making income and employment created by tourism more difficult to measure than for other sectors as defined in the International Standard Industry Classification (ISIC).<sup>4</sup> Because income and employment created by tourism are spread across industries, its economic contribution cannot be quantified the same way as in other industries as defined in ISIC. Income and employment responsible by tourism must be estimated from industries as defined in ISIC.

Generally, visitors spend money on transportation, accommodation, food and beverages, entertainment, activities and shopping. Visitors also need other services, such as communication (telecommunication and internet), banking, laundry, health care for incidents, etc. Where visitors spend money, there is a direct impact on income and employment. However, non-tourist, local

---

<sup>3</sup> Focken (March 2012).

<sup>4</sup> ISIC industries include (1) agriculture, forestry and fishery; (2) mining and quarrying; (3) manufacturing; (4) electricity and gas; (5) water supply and sewerage; (6) construction; (7) wholesale and retail trade; (8) transportation and storage; (9) accommodation and food service; (10) information and communication; (11) financial and insurance; (12) real estate; (13) professional, scientific and technical; (14) administrative and support service; (15) public administration and defense; (16) education; (17) human health and social work; (18) arts, entertainment and recreation; and (19) other service activities.

residents are also customers of businesses that serve visitors, such as restaurants, entertainment venues, and taxi service. Thus, only part of income and employment in these businesses are from tourism, and the proportion of incomes and employment that are responsible by tourism vary across industries and as well as across individual enterprises in the same industry. In addition to the **direct impact**, there are **indirect** and **induced** impacts on income and employment, through backward linkages, that must be accounted for in order to assess the total economic impact of tourism.<sup>5</sup>

**Direct economic impact** in tourism comes from total spending on travel and tourism within the country by residents and foreign visitors, either for leisure or for business, and by government on services directly related to tourism, such as public parks and museums.

**Indirect economic impact** comes from investment spending on travel and tourism, such as purchases of buses and planes, construction of new hotels, etc. It also comes from government spending to support tourism, which could include marketing, security, infrastructure improvement, etc. Additionally, the indirect economic impact of tourism also comes from the supply chain through purchases of goods and services from domestic sources by businesses dealing directly with tourism. For example, they include purchases of food and beverages, laundry services, flowers and decorative plants, and miscellaneous by hotels; of marketing services, maintenance and repairs by tour companies, hotels and resorts.

**Induced economic impact** comes from consumption expenditures (on food, housing, clothing, transportation, communication, health care, household items, etc.) by those who are directly or indirectly employed by the tourism industry. Thus, incomes of individuals derived directly or indirectly from travel and tourism spending get further spent on goods and services that create more incomes and jobs through the supply chain.

### **Tourism Impact on National Income of Laos**

The World Travel and Tourism Council (WTTC) estimated economic impact of tourism in economies around the world on an annual basis in the past 20 years, using an input-output model that accounts for the total impact of tourism. The WTTC estimated that tourism contributed US\$454.8 million directly to Laos' GDP in 2011, accounting for 5.8% of the country's total GDP. With indirect and induced impacts included, the total contribution of tourism to GDP was US\$1,417.3 million (18.2%) in that year.

There are two major types of tourism related spending, leisure and business, and two sources of expenditures, domestic and foreign.<sup>6</sup> Table 1 summarizes economic impact of tourism, showing

---

<sup>5</sup> In general, there are three types of economic impacts: direct, indirect and induced impacts.

<sup>6</sup> Business tourism spending involves spending on travelling to a place(s) far beyond the normal work area, which may involve an overnight(s) stay, to attend a meeting(s) or conference(s), or to conduct any other business matter.

disaggregation of direct economic impact according to types and sources of tourism spending from indirect and induced economic impacts. According to WTTC's estimates, in 2011, leisure spending accounted for 67.9% of tourism direct contribution to GDP and business spending accounted for 32.1%. Of all tourism direct contribution to GDP, 54.4% came from foreign visitor spending and 45.6% came from domestic tourism spending. It is worthy to notice that, of the total impact of tourism spending, indirect impact generates the largest domestic output (47.2%), followed by direct impact (32.1%) and induced impact (20.7%).

Table 1.

<b>Tourism Contribution to GDP by Types and Sources: Laos 2011</b>				
	<b>Mn USD*</b>	<b>%Direct Impact</b>	<b>%Total Impact</b>	<b>%GDP**</b>
<b>Direct Impact</b>				
<b>By Types of Tourism Spending</b>				
Leisure	308.8	67.9		4.0
Business	146.0	32.1		1.9
<b>Total</b>	<b>454.8</b>	<b>100.0</b>	<b>32.1</b>	<b>5.8</b>
<b>By Sources of Tourism Spending</b>				
Domestic	207.4	45.6		2.7
Foreign visitors	247.4	54.4		3.2
<b>Total</b>	<b>454.8</b>	<b>100.0</b>	<b>32.1</b>	<b>5.8</b>
<b>Indirect Impact</b>	<b>669.2</b>		<b>47.2</b>	<b>8.6</b>
<b>Induced Impact</b>	<b>293.4</b>		<b>20.7</b>	<b>3.8</b>
<b>Total Impact</b>	<b>1,417.3</b>		<b>100.0</b>	<b>18.2</b>

\* Converted from kip value in the original report at Kip8,029/USD (year average rate). \*\* Percentages of GDP for types and sources of spending do not add up to the exact percentages for each category as shown in the table due to rounding; they are most consistent with the 2011 GDP figure reported by the Bank of Lao PDR in its Annual report for 2011. If compared to GDP reported by the Lao Statistical Bureau, Asian Development Bank or the World Bank, the percentages slightly lower, to 5.5% for direct impact, 8.1% for indirect impact, 3.5% for induced impact, and 17.1% for total impact. Source: WTTC Travel & Tourism Economic Impact 2012.

### **Tourism Impact on Employment in Laos**

According to the WTTC's estimate, tourism was directly responsible for 143,500 jobs in Laos in 2011, accounting for 4.9% of the country's total employment. With indirect and induced impacts included, tourism was responsible for a total of 461,500 jobs, accounting for 15.9% of the total employment in the country (see Table 2).

Table 2.

<b>Tourism Contribution to Employment: Lao 2011</b>		
	<b>Jobs</b>	<b>%Total</b>
<b>Direct Impact</b>	143,500	4.9
<b>Indirect &amp; Induced Impacts</b>	318,000	11.0
<b>Total Impact</b>	461,500	15.9

Source: WTTC Travel & Tourism Economic Impact 2012.

Table 3.

<b>Occupational Distribution by Genders and Occupational Link to Tourism in Lao PDR: 2010</b>								
<b>Occupation</b>	<b>Distribution in Number</b>			<b>Distribution in Percent</b>			<b>Relation to Tourism*</b>	
	<b>Male</b>	<b>Female</b>	<b>Total</b>	<b>Male</b>	<b>Female</b>	<b>Combine</b>	<b>Direct</b>	<b>Indirect</b>
1. Agriculture, forestry and fishery	1,050,593	1,104,518	2,155,111	69.23	73.46	71.33	L	M
2. Mining and quarrying	11,633	4,193	15,826	0.77	0.28	0.52	N	N
3. Manufacturing	64,425	88,608	153,033	4.25	5.89	5.07	L	M
4. Electricity and gas	6,338	1,280	7,618	0.42	0.09	0.25	L	L
5. Water supply and sewerage	2,523	665	3,188	0.17	0.04	0.11	L	L
6. Construction	65,423	5,661	71,084	4.31	0.38	2.35	L	L
7. Wholesale and retail trade	97,328	170,098	267,426	6.41	11.31	8.85	M	H
8. Transportation and storage	28,148	3,841	31,989	1.85	0.26	1.06	H	H
9. Accommodation and food service	4,961	12,633	17,594	0.33	0.84	0.58	H	H
10. Information and communication	7,717	3,644	11,361	0.51	0.24	0.38	M	H
11. Financial and insurance	4,299	2,911	7,210	0.28	0.19	0.24	L	M
12. Real estate	501	79	580	0.03	0.01	0.02	L	M
13. Professional, scientific and technical	3,440	1,937	5,377	0.23	0.13	0.18	L	L
14. Administrative and support service	5,841	4,572	10,413	0.38	0.30	0.34	L	M
15. Public administration and defense	100,669	31,992	132,661	6.63	2.13	4.39	L	L
16. Education	38,147	34,072	72,219	2.51	2.27	2.39	L	L
17. Human health and social work	4,766	8,804	13,570	0.31	0.59	0.45	L	L
18. Arts, entertainment and recreation	4,140	2,706	6,846	0.27	0.18	0.23	H	H
19. Other service activities	8,702	14,125	22,827	0.57	0.94	0.76	NA	NA
20. Others**	7,990	7,288	15,278	0.53	0.48	0.51	NA	NA
<b>TOTAL</b>	<b>1,517,584</b>	<b>1,503,627</b>	<b>3,021,211</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>		

\* H - High, M - Medium and L - Low in relation to total employment in own sector. \*\* They include categories specified as "Activities of household as employer," "Activities of extraterritorial organization and bodies" and "Not recorded." Data source: Occupational distribution, from Lao PDR Labor Force and Using Child Labor Survey, Year 2010, LSB; relation to tourism, author's own assessment.

Table 3 provides useful employment data in 19 industries as defined in the ISIC definition (plus one, which does not fit appropriately with the industry definition of the ISIC) for comparison and cross-check with the WTTC's estimate of tourism impact on employment. It summarizes a survey result, conducted in 2010, showing employment distribution across industries based on ISIC definition. Since tourism is not classified as a separate industry of its own, the employment survey does not explicitly reveal employment in tourism. However, one can at least glance at figures in the table, particularly under wholesale and retail trade; transportation and storage; accommodation and food service; art, entertainment and recreation; and other service activities. Then, compare them with the direct impact figure in Table 2. The total number of jobs that deal directly with tourism (143,500) estimated by the WTTC, although one year apart from the employment survey data, is about 41% of the total number of jobs in industries that cater

specifically to visitors (i.e., accommodation—hotels, guesthouses) and those cater to both visitors and local residents (i.e., wholesale and retail trade; transportation and storage; food service; art, entertainment and recreation; and other service activities).

### **Economic Impact of Tourism in Luang Prabang, Champasak, Sekong and Attapeu**

Estimates of economic contribution of tourism for selected provinces of Luang Prabang, Champasak, Sekong and Attapeu are summarized in Table 5. Tourism contribution to GDP and job creation for each province is estimated based on WTTC's national level estimate for Laos. The difference among the four selected provinces is based on the number of rooms for traveler accommodation and province average occupancy rate relative to national average occupancy rate. Visitors are assumed to behave similarly in each province—sleep, eat, drink, visit places, and buy gifts. However, under or over estimation for each province may result, depending on the differences between province-specific and national average for per visitor expenditure per day, composition of domestic and foreign visitors, local government spending on tourism, and income and job multipliers. Thus, these estimates are considered rough. Nonetheless, these rough figures are useful in determining and gauging potential economic benefits of spending in tourism, whether it is by the private sector or government.

As shown in Table 5, Luang Prabang, with 10.4% of the country's accommodation capacity and higher occupancy rate than national average, had the largest tourism economy. In 2011, Luang Prabang's tourism sector directly added US\$56.6 million to the country's GDP with 15,000 direct jobs. With indirect and induced impacts accounted for, the province's tourism sector contributed a total of US\$176.4 million to national GDP and 48,000 jobs in total. Luang Prabang Province Tourism Authority's data presented in a study by Southiseng and Walsh (2011) suggests that the majority of management positions in general management, finance and marketing in hotels were, in 2006, held by foreign expatriates. This reflects the country's and, specifically, the province's lack of human resource with the required management skills and experience in tourism. Expatriates accounted for 4.2% (30 positions) of the province's total employment of 715 positions in hotels that year. With guesthouses, restaurants and tour operators included together with hotels, foreign expatriates accounted for just 1.8% of the total of 1,809 jobs. Most local workers in these four types of business providing services directly to visitors were in general service positions (reception, maintenance, cleaning, cook, etc.).

The gaps between Luang Prabang's and Champasak's tourism sector, which contributed US\$164.1 million in total to GDP and roughly 45,000 jobs, may be surprisingly close in terms of tourism contribution to GDP and employment (see Table 5). However, the narrow gaps between the two is due to the fact that Champasak, with 9.7% of the country's total, had only slightly less accommodation capacity than that of Luang Prabang. The two provinces had the same occupancy rate of 68%.

The much smaller provinces of Sekong and Attapeu, respectively with 0.9% and 1.2% of the country's total accommodation capacity, were less visited by tourists. Sekong and Attapeu respectively had 53% and 44% occupancy rate, lower than the national average of 57% in 2011, and thus benefited proportionally less from tourism.

Table 5.

Estimates of Tourism Economic Impact in Luangprabang, Champasak, Sekong and Attapeu: 2011											
	Rooms	%Country	Occupancy		Contribution to GDP (mil USD)*				Number of Jobs Created*		
			Prov. Rate	Prov / Country	Direct	Indirect	Induced	Total	Direct	Indirect & Induced	Total
<b>Luang Prabang</b>	3,965	10.4%	68%	1.19	56.6	83.3	36.5	176.4	14,973	33,180	48,153
<b>Champasak</b>	3,688	9.7%	68%	1.19	52.7	77.5	34.0	164.1	13,927	30,862	44,789
<b>Sekong</b>	360	0.9%	53%	0.93	4.0	5.9	2.6	12.5	1,359	3,013	4,372
<b>Attapeu</b>	452	1.2%	44%	0.77	4.2	6.1	2.7	13.0	1,707	3,782	5,489
<b>Total Four</b>	<b>8,465</b>	<b>22.3%</b>			<b>117</b>	<b>173</b>	<b>76</b>	<b>366</b>	<b>31,966</b>	<b>70,837</b>	<b>102,802</b>
<b>Total 3-South</b>	<b>4,500</b>	<b>11.8%</b>			<b>61</b>	<b>90</b>	<b>39</b>	<b>190</b>	<b>16,993</b>	<b>37,657</b>	<b>54,650</b>

\* Tourism contribution to GDP and job creation for each province is estimated based on WTTC's national level estimate for Laos. These estimates are considered rough. Data sources: 2011 Statistical Report on Tourism in Laos, MolCT, and Travel & Tourism Economic Impact 2012 Laos, WTTC.

### Tourism and Its Impact on Poverty Reduction

A study by Khanal et al (December 2011), using an input-output model, found evidence suggesting that tourism has higher backward and forward linkages than other sectors, meaning that tourism was more dependent on domestic production system than other sectors between 2003 and 2008. Because of its being more dependent on domestic production system, tourism thus stimulates more domestic production per dollar spent in the sector than any other sectors. Tourism backward and forward linkages, a characteristic of the indirect impact of tourism as describes earlier, that are advantageous to local economy are not difficult to understand. Visitors must use transportation, sleep and eat; they may choose to engage in activities and buy souvenir.

**Backward linkages** create demand for goods and services that serve the needs in the tourism industry, which ultimately decided by visitors. Visitors prefer to experience something—the surrounding, food, activities—not common in their everyday living environment, and they may want to obtain a locally unique souvenir and, thus, create demand for local products and services (e.g., cultural). Souvenir stores catering to tourists must order merchandises from local suppliers; hotels, restaurants and entertainment venues must order ingredients for food and beverage preparation, various local products and services (e.g., flowers, decorative plants, art pieces, laundry and other cleaning services) and miscellaneous. Government must spend on keeping public parks, tour sites and museums in good condition; invest in and maintain road infrastructures to allow easy access to tourism sites and in drainage and sanitation system to maintain cleanliness.

**Forward linkages** of tourism that create economic benefit in the form of lower cost and better quality of inputs required by businesses would be transportation, electricity, and water supply

infrastructure improvement, among others. An isolated village with tourism assets could have paved road linking it with other major population clusters, electricity and clean water supply as a result of tourism, thus lower the cost of transportation, energy and clean water to businesses in the entire village. Also, raw and semi-processed materials produced to primarily serve the tourism market that were not available prior to the emergence of tourism could benefit producers who need them as inputs to produce finished goods for residents or for other non-tourist markets (beyond the local market). If there is scale economies in production, tourism could be a key to lower per unit cost of production of certain products as the market would expand with growing demand from the tourism sector.<sup>7</sup>

Thus, tourism can significantly help reduce poverty through its backward and forward linkages by creating income earning and job opportunities. Another (perhaps most) important quality of tourism is that tourism spending spreads out across many business sectors—accommodation, food, transportation, entertainment, art and crafts, causing income distribution across sectors immediately. Also, each tourist is, in a sense, an independent income distributor, who may chose to purchase services or goods directly from microenterprise owners, directly creating income to individuals. Thus, tourism allows income distribution to take place even from the initial spending, skipping the trickle-down system of income distribution.

An enterprise surveyed conducted in 2011 (GIZ, 2012) found that large enterprises sourced 26.9% of their inputs from domestic suppliers while MSMEs (micro, small and medium enterprises) purchased 70.6% of their inputs from domestic sources.<sup>8</sup> This suggests that MSMEs are more likely to create backward linkages, through their purchases of domestic inputs, to create more jobs and incomes to domestic input suppliers (agricultural and non-agricultural raw and semi-processed materials, labor). Tourism industry in Laos is dominated by MSMEs, tended to be locally-run and founded by individual entrepreneurs. The tourism industry in Laos was largely operating without the support of either government or development organizations, as cited in Sunkul et al (no date). Although there has been growing awareness of the importance of tourism and its potential positive impact on poverty alleviation, the Lao tourism industry is still lacking proper and adequate supports from government and development organizations operating in the country. For example, country and regional marketing for tourism, human resource development for hospitality businesses, town sanitation management system to maintain a decent

<sup>7</sup> Economies of scale is a situation in which per unit cost of production declines with larger scale of output. This situation normally exists in production that either has relatively high capital (fixed) investment or requires specialized skills that, over time, a producer learns and improves skills to be able to produce more with less time or materials (e.g., wood crafting, painting, drawing, growing quality vegetables and meat).

<sup>8</sup> More specifically, among the survey samples, micro, small and medium enterprises respectively purchased 82.8%, 71.3% and 59.4% of their inputs from domestic sources. The survey covered a total of 728 enterprises in five provinces (Vientiane Capital, Luang Namtha, Luang Prabang, Savannakhet and Champasak). The largest number of samples is in "Wholesale and retail trade, repair of motor vehicles" (322), followed by "Accommodation and food service" (128), "Manufacturing" (112). There were eight agricultural enterprises covered in the survey. Of the 728 samples, 164 (22.5%) were micro enterprises, 436 (59.9%) were small enterprises, 102 (14%) were medium enterprises, and 26 (3.6%) were large enterprises. Micro, small, medium and large enterprises are respectively defined as enterprises with 1-2 employees, 3-19 employees, 20-99 employees, and 100 plus employees.

environment, public safety regarding to safe sidewalks, street lighting, access to public tourism information, among others.

### Tourism Trends in Luang Prabang, Champasak, Sekong and Attapeu

Tourism industry has been growing rapidly in all of the four selected provinces, as reflects in the growing number of rooms for visitor accommodation. In the four selected provinces, new rooms were added at annual growth rates of between 13.8% (Sekong) and 19.4% (Attapeu) between 2005 and 2011. Champasak and Luan Prabang each added new rooms at a rate of more than 15% annually on average. With improved road networks linking Sekong and Attapeu with Vietnam in the east and with national road route number 13 running north to Savannakhet and south to Champasak, tourism in the two smaller southern provinces is expected to expand. Champasak probably still have more room to expand its tourism industry than Luang Prabang, given its geographical setting and its rich natural, historical and cultural assets.

Figure 5.

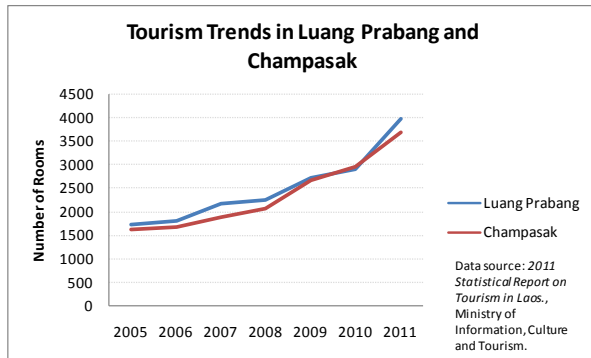
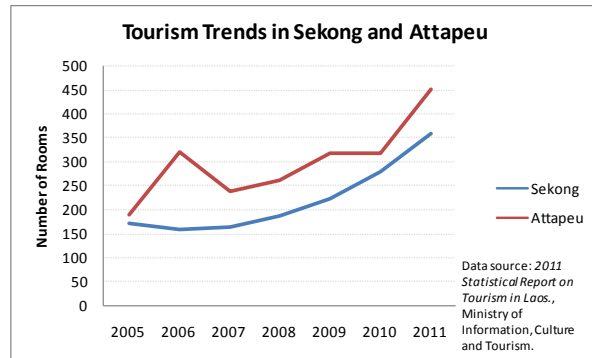


Figure 6.



### Conclusion

Tourism, although may accompany with undesirable social, cultural and environmental side-effects, is a very important sector in the Lao economy, for its roles in attracting foreign exchange, stimulating domestic production and job creation, and distributing income across business sectors and social lines. Tourism has greater backward and forward linkages than other sectors, as tourism is more integrated with the domestic production system. Thus, the economic impact of tourism is greater than most other sectors in the economy, in terms of income generation and job creation. This is supported by the fact that tourism is dominated by MSMEs and they are found in a survey by GIZ (2012) to be more dependent on domestic supply chain. As tourism is dominated by MSMEs, appropriate intervention to promote a sustainable growth in tourism, with environmental, social and cultural protection measures in place, has a relatively high potential of alleviating poverty.

With regard to poverty reduction, intervention by either government or development organization should go beyond skills development for waged jobs in tourism establishments. Intra- and inter-industry linkages should be studied and develop an intervention to maximize linkages of production system between poor villagers and the tourism industry. Training on basic management, financial literacy, business plan development and marketing for micro and small enterprises, couple with a micro/small loan programs, would provide opportunities for the poor to tap into the growing tourism industry.

---

## References

- Focken, K. (March 2012). *Visitor Survey Laos 2012*. Ministry of Information, Culture and Tourism, Vientiane, Lao PDR.
- GIZ (November 2012). *Enterprise Survey 2011, Vol. 1 Main Report*. Human Resource Development for a Market Economy (HRDME), Vientiane, Lao PDR, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn, Germany.
- Harrison, D. & Schipani, S. (2007). Lao Tourism and Poverty Alleviation: Community-Based Tourism and the Private Sector. In M. Hall (ed.), *Pro-poor Tourism: Who Benefits?: Perspectives on Tourism and Poverty Reduction*, 84-120. Clevedon: Channel View.
- Khanal, B.R. et al (December 2011). An Economic Impact of the Lao PDR Tourism Industry, *Policy Brief*, Department of Accounting, Economics and Finance, Faculty of Commerce, Lincoln University, New Zealand.
- Lao Statistical Bureau (2012). *Labor Force and Using Child Labor Survey, Year 2010*. Ministry of Planning and Investment, Vientiane, Lao PDR.
- \_\_\_\_\_ (2011, various others). *Statistical Year Book*. Ministry of Planning and Investment, Vientiane, Lao PDR.
- Phommavong, S. (2011). *International Tourism Development and Poverty Reduction in Lao PDR*. Doctoral Dissertation, Department of Social and Economic Geography, Umea University, Sweden.
- Schipani, S. (2008). *The Effects of Tourism on Culture and the Environment in Asia and the Pacific: Alleviating Poverty and Protecting Cultural and Natural Heritage through Community-Based Ecotourism in Luang Namtha, Lao PDR*. UNESCO, Bangkok, Thailand.
- SNV Netherlands Development Organization (December 2007). *Tourism on Road 9 in Lao PDR and Vietnam: Identifying opportunities for the poor, a value chain appraisal*. SNV Netherlands Development Organization, Vientiane Office, Lao PDR.
- \_\_\_\_\_ (No publication date). *Tourism and Poverty Reduction in Lao PDR: A reflection of SNV's work 2003 – 2011*. SNV Netherlands Development Organization, Vientiane Office, Lao PDR.
- Southiseng, N. and Walsh, J.C. (January 2011). Study of Tourism and Labour in Luang Prabang Province, *Journal of Lao Studies*, Volume 2, Issue 1, pp 45-65.
- Suntikul, W. et al (no date). *Pro-Poor Tourism Development in Viengxay, Laos: Current State and Future Prospects*. Institute for Tourism Studies, Macau, and School of Hotel and Tourism Management, Hong Kong Polytechnic University, Hong Kong, China.

Tourism Development Department (2011). *2011 Statistical Report on Tourism in Laos*. Ministry of Information, Culture and Tourism, Vientiane, Lao PDR.

Lao National Tourism Administration (2009). *2009 Statistical Report on Tourism in Laos*. Planning and Cooperation Department, Statistics Unit, Vientiane, Lao PDR.

Thomas, F (2009). *Tourism Market Study, Savannakhet Province, Lao PDR*. SNV, for Savannakhet Provincial Tourism Department, Savannakhet Province, Lao PDR.

World Travel and Tourism Council (2012). *Travel & Tourism Economic Impact 2012 Laos*, London, UK.