



# **ENHANCING BACKWARD LINKAGES BETWEEN TOURISM AND OTHER SECTORS IN LAO PEOPLE'S DEMOCRATIC REPUBLIC**





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The report has been prepared by Dr Dorothea Meyer from Sheffield Hallam University, under the supervision of Bonapas Onguglo and Henrique Pacini from UNCTAD. Peer reviews and additional inputs have been provided by Lalen Lleander, Mariona Cusi and Glen Wilson of UNCTAD and Franck Caussin of UNOPS. The desktop formatting was done by Rafe Dent, and the editing was done by Vivien Stone.

Guillermo Valles  
Director  
Division on International Trade  
in Goods and Services, and Commodities.

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## Acronyms

ADS	approved destination status
ASEAN	Association of Southeast Asian Nations
B2B	business-to-business
CCC	Cambodian Craft Cooperation
CPEC	Caribbean Programme for Economic Competitiveness
CSR	corporate social responsibility
EMS	environmental management systems
EPRP	Export-led Poverty Reduction Programme
FIT	fully independent traveller
FTI	full travel innovation
GDP	gross domestic product
GMS	Greater Mekong Subregion
GRI	Global Reporting Initiative (United Nations)
GTM	Green Travel Market
ITC	International Trade Centre
JAS	Jamaican Agricultural Society
JMA	Jamaica Manufacturers' Association
LNTA	Lao National Tourism Administration
MICE	meetings, incentives, conferences, exhibitions
MOU	memorandum of understanding
NGO	non-governmental organization
OAS	Organization of American States
TCCI	Tata Council for Community Initiatives
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
VISIT	Voluntary Initiative for Sustainability in Tourism (European Union)
WN	Woodlands Network (Sri Lanka)
WTTC	World Travel and Tourism Council

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## KEY RECOMMENDATIONS

In Lao People's Democratic Republic, as in other parts of the world, tourism development is frequently promoted as it promises high potential for intersectoral linkages with attendant multiple development impact. However, this report reveals that in Lao People's Democratic Republic these intersectoral linkages have not been well developed, with particularly weak linkages to the domestic economy. There are especially weak links between tourism and agriculture, with rural economies often receiving very few economic benefits. Rather than creating synergies between different sectors, tourism tends to generate increased food imports, which both undermines local agriculture and drains foreign exchange earnings. It is recognized, however, that there is always a trade-off between different sectors and while tourism may increase the cost of production, labourers and landowners also benefit from increased wages, resource values and infrastructure improvements.

The sourcing of goods locally, particularly from the agricultural sector, is seen as a key potential beneficial impact that the tourism sector can have in developing countries. In fact, many national tourism development plans are drawn up based on the assumption that the economic benefits of tourism will stimulate other sectors of the economy, in particular, agriculture.

This report highlights that in order to make the most of tourism and maximize the benefits to the Lao economy, there is a need to try and encourage tourists to stay in the country for longer and for Lao People's Democratic Republic to become a destination in itself rather than simply a transit destination. Focusing on increasing the demand for tourism products, there is a need for an improved ability to cater for both the emerging Asian market as well as backpackers, while targeting groups specifically and improving the quality of service and experience. Quality and service are aspects of high importance to the emerging Asian market while an exciting experience and value for money are high on the list of expectations of backpackers. The age range of tourists is also changing and needs to be taken into account when targeting specific groups. Improved use of technology and social media are of ever growing importance as tourists are increasingly connected and information can be updated more rapidly than via traditional channels. With increased arrivals, there is a need to maintain the charm of tourist sights, for example, Luang Prabang. If this is lost, a major resource for attracting the tourists will be gone, decreasing the value of the destination.

As for the supply side of tourism products, higher standards and greater amenities will be critical to the success of diversifying the tourism market away from the low-end backpacker market, and thus increasing the value of tourism to the Lao economy. The number of tour operators has more than doubled since 2006, but they are all competing for a relatively small market, offering the same products and mainly competing on price, often ignoring quality issues. An increased focus is needed on supplying higher quality products and services in order to attract higher spending by tourists in Lao People's Democratic Republic. Excursions focus mainly on nature and adventure. The offer in cultural excursions, however, is minimal. This cultural aspect has a much higher potential to increase spending and involve local people in the tourist value chain.

Transport infrastructure is improving, with flights into Lao People's Democratic Republic's main international airport in Vientiane increasing and internal transportation improving, but air access and internal transport need expansion to meet growth objectives. Lao People's Democratic Republic has traditionally attracted a significant number of backpackers. However, it wants to attract more high-yield visitors and thus needs to build capacity, especially in the accommodation sector, which is still transitioning from the budget market and has a majority of rooms in guesthouses. Establishing international standards in the hotel industry must also be addressed. Tourism is still concentrated in the cities of Vientiane and Luang Prabang and its benefits have been slow in reaching rural populations. The excursion products are often of low quality and unimaginative. Better training of local staff and understanding of tourists' expectations would help to improve experiences and thus promote activities as well as spending around excursion options.

The handicraft sector suffers from high levels of sales of imported goods, reducing the captured value in Lao People's Democratic Republic itself, as well as the authenticity of the product for the buyer. There is

also a limited product range that might appeal to tourists and tourism businesses due to a lack of innovation and new designs. This, along with poor product quality, limited knowledge of tourists' expectations and difficulty to compete on price with imported products, in particular when the clientele is price conscious (e.g. backpackers), results in lower sales to tourists and thus a missed opportunity to create local jobs and to increase levels of income. The sector also suffers from poorly developed market linkages with retail shops in the main tourist locations and low integration in holiday packages of tour operators and hotel resorts, resulting in yet more missed opportunities. Most hotels use relatively few locally produced products, although most managers of the high-end hotels stated that they were generally interested in procuring locally but that the quality of produce and reliability of sellers made it at times difficult.

In order to support the procurement of local inputs and to maintain sustainable linkages between tourism and other domestic sectors, the demand, supply and marketing and intermediary related factors as well as government policy have to be taken into account. A frequent problem in increasing intersectoral linkages is often the mismatch between supply and demand and the lack of intermediary support structures that enable buyers and suppliers to come together. A key issue is the lack of communication between sectors and consequently the lack of awareness of needs and objectives that often make it impossible to cooperate. Frequently highlighted problems are inadequate quality, reliability and volume of produce, exacerbated by poor transport, storage and communication facilities. Addressing these needs in national tourism development programmes' linkages with the development plans of other sectors, including the agriculture (especially organic) sector, remains a challenge for Lao People's Democratic Republic and its development cooperation partners.

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## I. INTRODUCTION

In the Lao People's Democratic Republic, as in other parts of the world, tourism development is frequently promoted as a growth sector with promises of high potential for intersectoral linkages and thus as tourism grows, theoretically it also lifts up the other interconnected sectors – having a multifaceted development impact. However, this report shows that in Lao People's Democratic Republic the linkages are not well developed, with particularly weak linkages to the domestic economy. There are especially weak links between tourism and agriculture, with the rural economy often receiving very little economic benefit. Rather than creating synergies between different sectors, an alternative scenario often emerges in which tourism generates increased food imports, which both damages local agriculture and drains foreign exchange earnings. There is always a trade-off between different sectors and while tourism may increase the cost of production, labourers and landowners also benefit from increased wages, resource values and infrastructure improvements.

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### A. Tourism in Lao People's Democratic Republic and Luang Prabang

Despite being one of the poorest countries in Asia, Lao People's Democratic Republic's wealth of natural

and cultural heritage resources and “off-the-beaten track” appeal has fuelled growth in international tourist arrivals. With 20 national protected areas, strong cultural traditions and history, Lao People's Democratic Republic has benefited from tourists' desire for more “authentic” experiences while also offering a relatively inexpensive tourism product. Political and economic reforms and the government's prioritization of tourism in 1995, upgrades in tourism infrastructure, reduced investment restrictions, the opening of the country to international agencies and non-governmental organizations (NGOs), intraregional travel, marketing partnerships with neighbours and increased media coverage have all driven up tourist arrivals.

Today, tourism is Lao People's Democratic Republic's main source of foreign exchange. The World Travel and Tourism Council (WTTC, 2013) forecasts that by 2019, Lao People's Democratic Republic's travel and tourism economy (directly and indirectly) will generate US\$1.4 billion in activity and account for 205 000 jobs (one in every 13.5 or 7.4% of total employment). In 2012 the direct contribution of travel and tourism to gross domestic product (GDP) was LAK 3 679.6 billion (5.3% of total GDP), and it is forecast to rise by 5.3% per annum, from 2013–2023, to LAK 6 631.2 billion in 2023. In 2012, the total contribution of travel and tourism to GDP was LAK 11 544.8 billion (16.7% of GDP), and this is forecast to rise by 5.9% per annum to LAK 22 366.8 billion in 2023. This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). It also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists.

In 2012 travel and tourism directly supported 134 000 jobs (4.5% of total employment). This is expected to rise by 1.2% per annum to 154 000 jobs (4.3% of total employment) in 2023. Visitor exports generated LAK 3 463.4 billion (20.0% of total exports) in 2012. This is forecast to grow by 5.1% annually, from 2013–2023, to LAK 6 246.4 billion in 2023 (16.4% of total). Travel and tourism investment in 2012 was LAK 2 464.7 billion, or 8.9% of total investment. It should rise by 6.3% per annum over the next 10 years to LAK 5 007.8 billion in 2023 (8.6% of total).

### B. Tourism and intersectoral linkages

Tourism development is frequently promoted as it seems to promise high potential for intersectoral link-

ages. However, several studies have also noted the failure of intersectoral linkages to develop. Taylor *et al.* (1991) argue that linkages between the tourism and the agricultural sector in the Caribbean are weak and that import substitution could lead to approximately 25% more local inputs being used. Similarly, Mbaiwa (2000) states that tourism has minimal economic impact on rural development in the Okavango Delta in Botswana mainly because it has weak linkages to the domestic economy, with tourism only contributing 0.5% to agricultural purchases locally. Freitag (1994), discussing the Dominican Republic, argues that the lack of cohesion between the tourism industry and traditional economic sectors, in particular agriculture, has led to tourism not fulfilling its expectations.

Rather than creating synergies between different sectors, an alternative scenario is often revealed in which tourism generates increased food imports, which both damages local agriculture and drains foreign exchange earnings (e.g. Belisle, 1984a, 1984b; Hermans, 1981; Long, 1992). Bryden found that tourism grows in competition with other sectors, "principally export and domestic agriculture" (1973: 214). Similarly, Weaver claims that the demise of agriculture can be "attributed largely to the emergence of tourism as a viable alternative to a chronically unstable agricultural sector, promoting the lateral transfer of investment capital by local and expatriate plantation interests from agriculture to tourism" (Weaver, 1988: 324).

On the other hand, Latimer (1985) states that tourism development sites are often chosen precisely because of their poor agricultural potential. Bowen *et al.* (1991) contend that there is always a trade-off between different sectors and while tourism may increase the cost of production, labourers and landowners also benefit from increased wages, resource values and infrastructure improvements. Citing examples from Hawaii, they

In order to support the procurement of local inputs and to maintain sustainable linkages between tourism and agriculture, the demand, supply and marketing and intermediary related factors as well as government policy need to be taken into account. A frequent problem in increasing intersectoral linkages is often the mismatch between supply and demand and the lack of intermediary support structures that enable buyers and suppliers to come together. A key issue is the poor communication between sectors and consequently the lack of awareness of needs and objectives that often make it impossible to cooperate. Frequently highlighted problems are inadequate quality, reliability and volume of produce, exacerbated by poor transport, storage and communication facilities.

An example of cooperation between the tourism and agricultural sectors is the *Eat Jamaican* campaign launched in 2003 by several Jamaican associations and businesses, including the Jamaica Agricultural Society (JAS) and the Jamaica Manufacturers' Association (JMA), to promote locally produced goods to residents, visitors and exporters. Since its launch the JAS reported growth of the agricultural sector, which is strongly linked to the support provided by one of the leading all-inclusive tourism resorts: *SuperClubs*. In addition to buying fresh fruit and vegetables from JAS, and promoting the *Eat Jamaican* campaign in their resorts, *SuperClubs* is said to be working with JAS to provide incentives for local farmers and it assists with designing technical assistance programmes for JAS members. The company also provides the Jamaican Government with policy guidelines for initiatives that aim to benefit both the agriculture and tourism industries (*Caribbean News*, 2004). While much of this could be attributed to public relations initiatives and marketing, a key reason for *SuperClubs*' engagement in the scheme is said to be the need for the supply of high quality goods from local sources.

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