



ASIAN TRADE CENTRE

Online Travel Agencies in Asia: A Major Opportunity in E-Services

Asian Trade Centre

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International online travel agencies provide benefits to many parties – travelers, accommodation providers, and local economies. This paper seeks to explain how this industry works, clarify its benefits, and provide advice on how regulators can work with the industry to ensure the best outcomes for all.



Introduction

Online travel agencies, or OTAs, have transformed the way people travel. Smartphones in hand, searching for places to stay, customers literally have the world at their fingertips. Within minutes, they can find hundreds of options; sort by cost, location, star rating, or customer reviews; compare prices; and book a reservation. This wealth of choices personalizes travel far better (and far more quickly) than was ever possible in the world of strictly brick-and-mortar travel agencies.

Travelers aren't the only ones who benefit. Hotels and local hosts can reach customers around the world; they can adjust pricing to benefit from or stimulate demand; they can market their properties in dozens of languages and accept payments in ways that were not previously imaginable. With good ratings, the owner who runs a tiny bed-and-breakfast in a small town in southern Japan can attract customers just as successfully as a five-star hotel in Tokyo – something that could never have happened before. Accommodation owners, small or large, benefit from world-class marketing that attracts travelers from everywhere, at every price.

Countries and cities benefit, too. Most destinations are looking for new visitors – particularly smaller cities and places that are off the well-beaten path. Online travel agencies are ideal partners for this goal, since they can market to anybody, anywhere.

It's true that innovative services sometimes disrupt traditional practices – that's what innovation does, after all. Just as travelers need to adapt, accommodation owners and municipalities need to learn new ways to work with online partners. Whether dealing directly with OTAs or working through channel managers, owners and hosts need to learn new ways of working and in many cases be more flexible – but the rewards can be significant, both in occupancy levels and in room rates. Tapping new markets means travelers will arrive from new countries, which can require all those who interact with them to learn new languages, develop new customer service skills, and adapt to new payment modalities and food preferences.

It is critical for regulators to understand how e-commerce works, since it is in some ways very different from trade in goods. **OTAs provide services – marketing, information sharing, and transactions – that benefit both providers and consumers of accommodation.** As international Mode 1 service providers, they send travelers – and their data – across borders. It is essential that they have the freedom to facilitate the free and open flow of travelers and information internationally.

When travel and tourism grow, occupancy rates increase. Travelers and the people they interact with gain cultural experiences, and travel provides substantial economic benefits not only to hotels but also to shops, restaurants, taxi drivers, entertainment venues, and more. Most travelers spend significantly more on other activities than they do on their accommodation; in 2016, for example, accommodation accounted for only 26% of total tourism receipts in Singapore, 22.6% in Bangkok, 34.8% in Hong Kong, 32.2% in Taipei, 23.5% in Osaka, and 30.5% in Shanghai. The remainder – well over half in every case – was spent on food and beverages, shopping, local transportation, and other local services.¹

OTAs, both international and domestic, have already captured 40% of the global travel market (airlines, hotels, packaged tours, rail, cruise, and OTAs) and even more in Asia,²



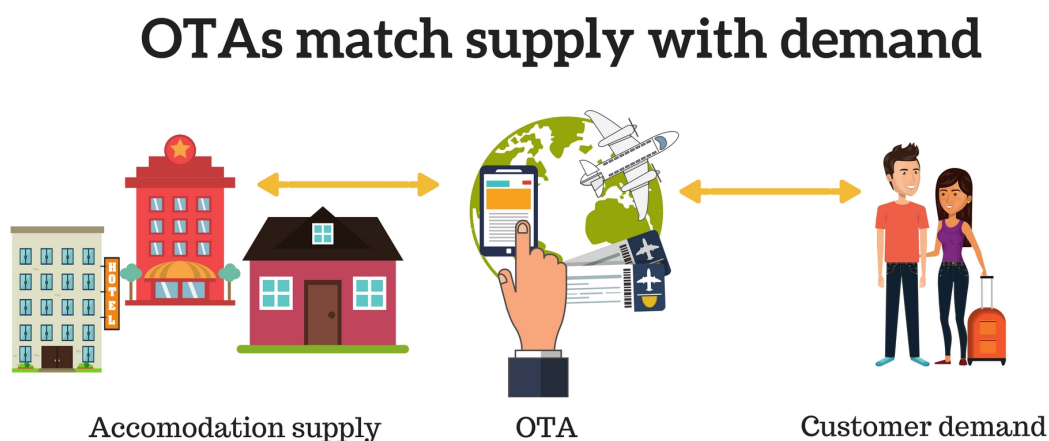
where online travel is growing 17% annually, three times faster than the total market.³ OTAs provide a powerful tool for both accommodation partners and governments that want to grow tourism.

In light of all this, public officials often have questions when they think about their relationships with OTAs. They may be uncertain how e-commerce companies like international OTAs work as a service to increase tourism in local markets – what unique benefits OTAs bring – and how they contribute to national economies, both in innovation and in long-term growth. This white paper seeks to help regulators in Asia understand key issues as they look for ways to work with international OTAs as their partners in e-commerce and trade.⁴ This paper will help governments understand the industry, get a closer look at its benefits to consumers, partners, and localities, and get a new perspective on some of the most important regulatory issues (e.g., consumer protection, the new trend of local host rentals, and taxation of e-commerce) to help navigate a complex and changing territory in ways that benefit travelers, accommodation owners, and towns, cities, regions, and countries alike.

I. Market Context

A quick overview of OTAs: How do they work?

Like most business innovations, OTAs were initially launched to solve a specific problem: how to distribute excess hotel inventory. Over time, OTAs have evolved to become electronic marketplaces that use technology to connect customer demand with accommodation supply. In other words, OTAs are more technology platforms than travel companies.



As mode 1 providers, OTAs provide services both to customers (e.g., real-time comparison pricing, global product offerings, peer reviews) and to suppliers (such as marketing, secure payment services, data analytics) across geographic boundaries. Like other online platforms (Google, Baidu, Amazon, Taobao ...) they offer their users benefits at unprecedented scale. They operate at the intersection of traditional trade services (tourism and travel) and the rapidly evolving e-commerce industry.



Global scope, local markets

International OTAs – brands like Agoda, Airbnb, Booking.com, Expedia, Priceline, and TripAdvisor – have no geographic boundaries. Global reach is one of their greatest strengths. Their scale permits OTAs increase international tourist flows while spreading large investments of resources, marketing, and expertise to markets in dozens of countries. **International OTAs can bring travelers from anywhere to anywhere.**

In many markets in Asia, local players such as Japan's Rakuten and Jalan and Korea's Interpark, operate largely within domestic borders. Others, however, are becoming international: China's Ctrip, the world's third-largest OTA by revenue, has global ambitions, and is well-positioned to be the first Chinese global online travel brand, as it invests in partners that serve Chinese-speaking customers worldwide. Indonesia's Traveloka has expanded to five new countries in Southeast Asia.⁵ Simultaneously, multinationals invest in local players, and the field is diversifying as non-travel players (like Meituan or Alibaba in China) add accommodation bookings to their product mix. Online companies expand across borders and segments fluidly. The Asian OTA market should allow both local and international players to thrive.⁶ With proper regulatory support that opens up Mode 1 services for travel and tourism, it will continue to do so.

Technological Innovation and Big Data

Innovation goes hand in hand with change. Just as Facebook changed the way friends communicate, Amazon redefined shopping, and Pandora and Spotify opened up the music industry, OTAs have created new and much more comprehensive ways of planning and booking travel.

Globally, and particularly in Asia, OTAs accelerate technology trends, such as mobile apps, secure payments, and the ability to customize travel experiences. These companies have become sophisticated, industry-shaping platforms that combine consumer analytics, technological innovation, cyber security, e-commerce, and digital marketing. The precision and scale of their data are unprecedented. Today, OTAs aggregate network data to answer millions of consumer queries every minute. This ability helps them personalize travel options – directly benefiting both customers and suppliers. At the same time, as OTAs move from the desktop to the mobile, they can provide more and more information to travelers at every step of their journey – from preliminary research to services right at the hotel.⁷ To do this, of course, they must be able to give customers the information and data they need – wherever the customers are, and whenever they want it.

The big data that international OTAs generate and use revolutionizes how hotels and countries manage resources and promote destinations. Working with OTAs, partners can capture consumer insights, dig deep into micro trends that drive tourism, and monitor, test, and promote new strategies. OTAs bring 21st-century capabilities to one of the oldest and most traditional service industries, to everybody's benefit.

Economics

Even though the technology is complex and ever-changing, the basic economics of OTAs are relatively simple, whether customers pay the OTA (the “merchant model”) or the property (the “agency model”). Unlike hotels, OTAs do not earn revenue from managing properties. Instead, OTAs charge fees for the services they provide – research and booking, advertising, and reservation services – on commercial terms they agree upon



with partners. Ultimately, OTAs operate as marketplaces that facilitate transactions between supply (accommodation providers) and demand (customers). They provide a service to both parties, delivering it through a digital platform (whether computer or mobile phone.) They rely on free movement of data and payments: this is their lifeblood. If access to data is blocked or its movement is restricted, these platforms cannot meet the needs of either customers or providers.

OTAs channel economic benefits to hotels and tourist economies. And because technology – their main asset – is highly scalable, it allows these companies to invest heavily in marketing, which helps their accommodation partners find customers far more efficiently and effectively than ever before.

Global Trends: Travel for everyone, especially in Asia

“While, historically, travel was a luxury good, the lowering of travel barriers and falling costs has put travel within reach of millions.”

– World Economic Forum 2017 Travel & Tourism Competitiveness Report

The changing face of travel



Globally, tourism is in the midst of a profound shift. No longer is travel only for the rich: Low-cost carriers fly between Krabi and Singapore for under US \$50, and long-haul flights between Asia and Europe can be purchased for as little as a few hundred dollars. Through the sharing economy, local hosts invite strangers into their homes. And “likes” on social media influence where friends plan their next vacations. The demographics of international travelers are radically different than those of a generation ago. Millennials are “more connected than any previous generation, and are changing the way travel is consumed.”⁸

Change is no longer being driven by only Western economies: in fact, according to the World Economic Forum’s *Travel and Tourism Competitiveness Report*, **emerging markets are leading the growth of the tourism market - especially in APAC.**⁹ Three factors fuel Asia’s lead: increased disposable income from rising middle class (more than half of the world’s middle class lives in Asia), rapid Internet and mobile penetration rates (growing more than double the rate of Western markets), and the growth and influence of China, which outpaces all countries globally in total travel market size and expansion.

Economic Growth

The numbers are staggering. **For the past six years, the growth of travel and tourism has increased faster than the global economy.**¹⁰ In 2016, more than 1.2 billion international travelers fueled the global travel market.¹¹ By 2030, this number will reach 1.8 billion.¹² According to the UNWTO, international tourism accounts for 7% of trade in goods and services, ranking third in global exports in the world after fuels and



chemicals.¹³ According to the World Economic Forum and WTTC, the tourism and travel industry contributed US \$7.6 trillion to the global economy in 2016.¹⁴

Regulators can be optimistic about the growth of tourism, even in the face of market change and political uncertainty. The UNWTO celebrates tourism as a “major category of international trade in services,” noting that “tourism has grown faster than world trade for the past five years.”¹⁵ **As billions of people travel across borders, the cash they spend contributes to a vibrant chain of economic activity that supports local businesses, infrastructure, and entrepreneurship, and creates jobs. Around the world, tourism spurs growth.**

Asia is the Future of Travel¹⁶

The epicenter of travel trends is moving to the East. According to the World Economic Forum’s 2017 Travel and Tourism Competitiveness Report, **Asia is becoming a “tourism powerhouse.”**¹⁷ **In terms of global destinations, six of the world’s top ten cities for international visitors are in Asia, with Bangkok leading all cities in 2016, ahead of London, Paris, New York, and Dubai.**¹⁸ Asia, as a travel market, has more total gross bookings than either Europe or the US. In 2015, **APAC accounted for 31% of the total global travel market**, with total gross bookings of US \$346.1 billion, according to Phocuswright, a global travel market research firm.¹⁹ By 2020, with a 6% projected growth rate, the APAC travel market should reach US \$488.0 billion.²⁰

Although growth levels vary from one country to the next, the region is fertile ground for the industry’s newest trends, especially online and in mobile. As Asian consumers travel between countries, they raise the bar for online travel services.

What does this mean for partners and regulators? OTAs present a major opportunity for e-services in Asia. As tourists increase and countries compete for their dollars, OTAs are well positioned to help grow tourist economies, one room at a time.

Transforming Travel

“What was once disruptive is now mainstream.”

-- Lorraine Sileo, Senior Vice President, Research and Business Operations, Phocuswright²¹

Online travel – which includes bookings sold by OTAs and suppliers like hotels, airlines, tour providers, and recreational activities -- is the new normal. Google’s travel business is estimated at US \$100 billion per year.²² TripAdvisor reports an average of 390 million unique visitors per month.²³ According to a 2017 report on e-commerce, Google identifies Southeast Asia as the “world’s fastest growing Internet region,” growing at 14% per year.²⁴ Projections forecast that Internet users will nearly double from 260 million in 2016 to approximately 480 million by 2020.²⁵

What do we know about this growth? According to Phocuswright, the **online travel market is growing at 10% to 11% annually, twice the rate of the travel market as a whole.**²⁶ By the end of 2017, online travel is projected to reach 43% of total travel market, or US \$567 billion.²⁷ **To be competitive in travel, digital strategies are “must-haves,” according to the World Economic Forum.**²⁸ Online infrastructure and digital strategies are a basic requirement for tourist economies – from government stakeholders to hotel partners.



Asia is even more promising. Asia is home to some of the world's most tech-savvy consumers – especially millennials. According to Phocuswright, the region's online travel market is growing at 17% per year, expanding almost three times as fast as its regional travel overall.²⁹ How large will it become? By 2020, APAC's online travel market is forecasted to exceed US \$211.3 billion. Of that, US \$62.8 billion (approximately 30%) will be online hotel bookings. According to Phocuswright, by 2020, total OTA gross bookings in APAC will reach US \$96.5 billion by 2020 – doubling since 2015.³⁰

More than any other consumers, Asians research travel, book accommodations, and send payments through apps on smartphones.³¹ In 2017, mobile will account for 37% of online travel gross bookings in the region, compared with the global rate of 33%.³² And China already accounts for more than half of all mobile bookings worldwide.³³ As Lorraine Sileo of Phocuswright remarks, "It's not mobile first. It's mobile only."³⁴

For OTAs in Asia, mobile innovation is synonymous with growth. Omri Morgenshtern, Agoda's Chief Product Officer, states that already over half of the company's bookings are made on mobile devices.³⁵ Like the travelers themselves, data must flow freely across borders. If this free flow continues, travelers, their mobile devices, their data, and their dollars will continue to help grow local and regional economies. OTAs are the key.

OTAs fuel Asian "Tourism Powerhouse"



- 40% of online tourism bookings are made through OTAs

- Online travel in Asia grows almost 3x as fast as tourism
- 2020: online travel in Asia will be \$211.8 billion
- 2020: \$96.5 billion bookings in Asia will be through OTAs



II. Consumer Benefits: Choice, Service, Convenience, Security and Trust

Let's step away from the numbers to walk through the benefits that OTAs deliver. To grasp their full value for hotel partners and tourist economies, think back to last few trips you planned – leisure or business. Now think about the millions of other travelers who are planning their own trips at exactly the same time as you. Imagine a Singaporean entrepreneur booking a serviced apartment in Bangkok for a business trip . . . or a young Bangkok couple planning a last-minute budget beach getaway . . . or an American family traveling to Taiwan for a family reunion. Each is looking for something unique, with different needs, budgets, and trade-offs. Yet most of them, at one point or another of the planning process, will consult OTAs for research and booking.

Why? First and foremost, because OTAs are built to meet travelers' needs. Understanding how this works will help show how OTAs also benefit their partners, both accommodations and local governments.



OTAs understand their customers in detail. With data from millions of users, they are constantly analyzing and improving their product offerings, providing travelers with easy, immediate, useful information. They do this because they have to: As Eric Schmidt, Google's former CEO, bluntly put it, "The consumer will not give you a second chance." In today's online economy, consumer choices reigns supreme, and OTAs help consumers find and book what they want and need.

OTAs deliver four clear benefits to travelers who book online: *choice, service, convenience, and security and trust.*

1. Choice: OTAs provide a huge range of information for consumers at the early stages of travel planning, letting them compare properties by price, location, segment, and ratings. They offer vacation rentals, apartments, resorts, B&Bs, hotels, payment options, currency choices . . . the list goes on. And they do it at huge scale: For example, Agoda's home page currently offers 1.4 million properties, whereas even large hotel chain sites can offer only

a few thousand. Within a single country, such as Thailand, any hotel chain will have a few dozen offerings, whereas Agoda has over 30,000 – and not only in Bangkok and Phuket, but in tiny villages that would otherwise be invisible to travelers. Hotel web sites are helpful when people know exactly what they want, but OTAs stimulate choice and help destinations and properties large and small find their customers at rates that work for all.



2. Service: In most international OTAs, the largest teams are customer support, because meeting customer needs is OTAs' top priority. Twenty-four hours a day, customer service representatives are locally staffed, ready to answer questions or trouble-shoot problems by phone, email, and often online chat. Travelers don't have to wait for regular business hours to speak with a service representative in their mother tongue: Both Expedia and Agoda sites are translated into 39 languages, while Booking.com can be read in 43 languages. Agoda customer support staff provide both local and global assistance from Singapore, Thailand, Malaysia, China, Japan, and Hungary, with plans to open in South Korea and the United States soon.

3. Convenience: Mobile apps provide the ultimate convenience for travelers on the go. Mobile apps help OTAs meet real-time, live, local consumer demand. Research shows that more than 80% of Priceline's mobile app customers book within 24 hours of their stay; close to 60% of Priceline app users booked within

20 miles (32 km) of the hotel, and 35% were as close as one mile (1.6 km) away.³⁶ Only mobile can provide this level of access and ease whenever consumers want it.



4. *Security and trust:* Trust is a critical factor in all transactions – especially on line. Working with familiar international OTAs help customers from around the world be comfortable booking with local properties through a trusted, global intermediary. Whether seeking a villa in Lombok or a hostel in Hanoi, consumers can use a familiar, secure interface.

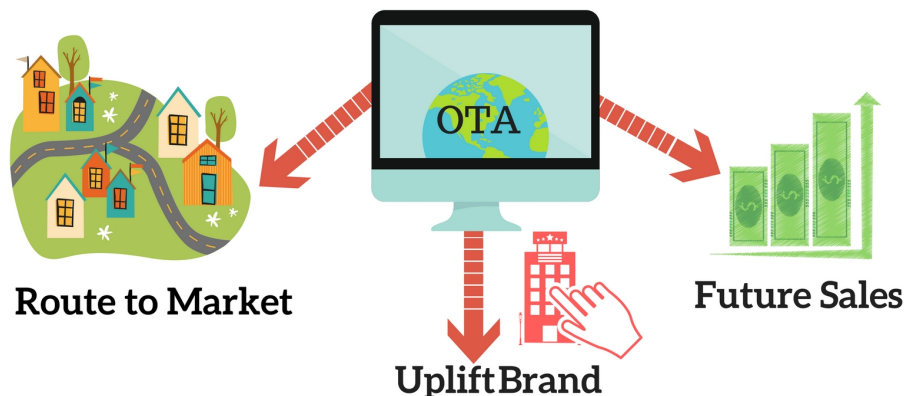
Data security is paramount to OTAs. Agoda, for example, invests in advanced security and fraud detection, mitigation, and data protection controls. Internal policies apply to all transactions with third parties and vendors. All data is secured with the latest security encryption standards, and is subject to continuous security assessments in compliance with global standards. The company has a data privacy officer and team that consumers can contact directly. OTAs also provide reviews from verified guests, high-quality photos, payment security, and data protection – important assets small properties benefit from, but can't provide on their own. **In today's digital world, customers expect data security, privacy, and trust. International OTAs provide levels of service and support in these areas that local players and individual properties and hosts cannot match.**

III. Benefits to Accommodation Partners

Just as OTAs open the world to travelers, they bring travelers to the world. OTAs connect hotels with guests they otherwise could not reach. Not just a sales channel, OTAs are a critical step in the tourism value chain.

As we have noted, OTAs are not hoteliers or accommodation providers: they are marketplaces. Marketing services are among their core competencies, to the benefit of hotels, large and small. As tech companies, they use technology to collect and analyze insights about consumer demand to deliver highly personalized products to a large customer base – and to deliver customers to their partners. OTAs can leverage this expertise to help train hotels with revenue management. In the words of one industry executive, **"OTAs provide skills, technology, and resources simply unavailable to most hoteliers."**³⁷

Small and large hotels benefit from OTAs' expertise.



OTAs benefit hotels – large and small – not only by providing a distribution channel, but also by increasing brand awareness. It's easy to see that OTAs significantly benefit independent hotels; more than two-thirds of all OTA bookings



globally are with small, privately owned hotels that have fewer resources, networks, and smaller customer bases of large global brands.³⁸ In Asia, OTAs are the “de facto distribution channel for most independent hotels.”³⁹ This is a global trend; according to Phocuswright, OTAs account for well over 60% of bookings worldwide, and 70% or more in Asia-Pacific, Latin America, Eastern Europe, and the Middle East.⁴⁰

OTAs amplify hotel brands and create paths for future sales. For global chains, OTAs comprise a much smaller percentage of sales,⁴¹ but online presence generates measurable value for properties, whether or not the sale actually takes place through an OTA. Before any sale is made, a consumer needs to know that a hotel exists, understand its offering, and compare its value with other options. In the language of marketing, these needs are met by brand awareness, brand attributes, and brand proposition.

OTAs facilitate this entire process – without any direct cost to the hotel. OTAs do all this by investing heavily in online marketing – especially pay-per-click ads on search engines like Google and Baidu. Industry experts estimate that, on average, hotels spend 6% to 9% of revenues on marketing. International OTAs, on the other hand, spend between 35% and 45%.⁴² In 2016, for example, the Priceline Group spent at least US \$3.5 billion on overall marketing – with the primary channel being Google.⁴³ Expedia spent US \$4.3 billion.⁴⁴

This investment by OTAs has quantifiable benefits for hotels. Research conducted by Professor Chris Anderson, of Cornell University’s School of Hotel Administration, demonstrated that hotel branded sites gain direct sales through third-party OTA listings, a process he named the “billboard effect.” Approximately 75% of customers who booked a room through a direct hotel site started the process by visiting an OTA.⁴⁵ In terms of direct sales uplift, Anderson set up an experiment in which he listed and then removed hotels from listings on Expedia. Compared to weeks when hotels were not listed, incremental reservations grew 26% through OTA listings.⁴⁶ For hotels, partnering with OTAs makes financial and marketing sense: hotels benefit both directly and indirectly from the e-marketing services that OTAs provide.

IV. E-Commerce Regulatory Issues: Consumer Protection, Local Host Rentals, Taxation

Market disruptions do more than solve problems; they take them apart, reimagine them, and put them back together in ways that permanently change the landscape. OTAs have done this for travel, more in particular accommodation reservations: As one member of Asia’s online travel industry explains the phenomenon of OTA disruption, “Once the genie is out of the bottle, you can’t put it back in.”⁴⁷ And in the digital age, disruptive innovation scales fast. Consumers, businesses, and regulators need to be able to deal with this change. Just as few people will go back to a world without Google and Facebook, so travelers will not abandon OTAs to return to earlier ways of planning travel, which were not only more cumbersome but also more limited, less convenient, and more opaque.

All participants in the travel industry need to adapt, with the support of regulators. In many places, and especially in Asia, commercial rules written for a brick-and-mortar industry need to be updated for e-commerce services in the digital and mobile age. When consumers can now choose to book a room in one country or halfway across the world



the moment they connect to wifi, regulators need a new tool kit to serve their countries’

3 Policies need to be updated for digital age



needs. Tax authorities that were set up to collect revenue from local corporations now need to figure out if the same principles are appropriate for working with multinationals that bring in travel from all over the world without a foothold in country. Departments of Consumer Affairs that traditionally looked after public safety, fraud protection, and fair business practices within their domestic domain now need to ask whether policies written for local, physical transactions still work as they should in a world that is operating under international e-commerce norms. Agencies considering data localization laws need to understand better how an open policy for cross-border data promotes e-commerce; cyber security and data protection are not at odds with online trade. And when new products and services function in fundamentally different ways from old ones, regulators need to create new policies that are designed to accommodate the changes that will inevitably come.

Let’s look at three regulatory issues that touch closely on OTAs: 1) *consumer protection*, 2) *the emerging segment of local host rentals*, and 3) *taxation of cross-border e-commerce businesses*. We will look at some examples that may help regulators in other countries, too. Given that 78% of international travel in APAC happens within the region, it makes sense for regulators to look to other Asian countries for lessons learned.⁴⁸

Protecting Consumers through Pricing Choice

OTA customers value choice, and they are willing to pay for it. Like airlines, hotels around the world charge different rates depending upon cancellation terms; non-refundable bookings are cheaper than refundable ones because they reduce risk for the airline or hotel selling the seat or room or are simply tied to a particular time-limited promotion. Around the world, travelers are accustomed to reading the terms and conditions of bookings – and choose bookings based upon preference tradeoffs. Customers know what they are doing when they shop for travel deals online, and they are good at it. (Note that it is hotels, not OTAs, that determine refund policies for room rates.)

When consumers are certain of their travel plans, they benefit from lower prices of non-refundable rates. Offering both types of reservations gives consumers more choice, helps hotels manage their inventory, and allows OTAs to earn more commissions by selling more. This tiered pricing system is an international standard, as it follows the basic laws of supply and demand.⁴⁹

In a few countries, however, non-refundable hotel rates are heavily restricted or even prohibited. Such regulation hurts consumers, hotels, and OTAs. As international law firm Baker McKenzie has explained, hotels are the “ultimate perishable good”: the value of a \$400, five-star hotel room goes straight to zero if it does not sell by midnight.⁵⁰ If travelers can cancel at any time, then hotels and agencies have no way to set stable prices.



Regulation that bans non-refundable rates interferes with the most fundamental market forces, punishes hotels, and eliminates consumer options.

Ironically, **regulation that seeks to protect consumers by eliminating non-refundable rates can in fact harm them – by raising prices.** If OTAs cannot sell non-refundable rooms, the net result will be increased cost to consumers. In the long run, if a tourist market is limited to stock of only higher priced accommodations, total tourism spend will shift. Tourists may go to cheaper destinations, or they may spend less on complementary businesses (food and beverage, tourist attractions, entertainment) – thus hurting the overall economy. Over time, regulations that raise prices will have a negative impact on tourism – which means that efforts to protect consumers can damage the economy overall and end up doing the opposite of what they intend. It is also worth noting that counterproductive restrictions like this will harm the OTA business, forcing them to make special exceptions to filter out hotel policies, leading to potential commercial complications and restricting contractual freedom. Finally, tech-savvy consumers will find ways to get to the lowest rate either through MSE searches or by going to different websites, whether directly or through virtual private networks (VPNs). Ultimately, **it is both simplest and best for consumers when regulators allow OTAs to provide good information, consumer choice, and lower prices, and create a level playing field for all players, whether local, international, or foreign.**

Local host rentals

Hotels, inns, and resorts are no longer the only game in town when it comes to accommodations. The sharing economy has transformed tourism's supply chain. Local host rentals, in which travelers rent from privately owned residences, are popping up everywhere. They offer travelers a greater variety of accommodation than hotels can provide; they often provide facilities – like kitchens and laundry facilities – that are attractive to families or groups; they offer closer encounters with local culture; and in many cases they are cheaper than hotels, as well. This style of accommodation is already well established and is growing rapidly – and both in Asia and elsewhere, it's here to stay. In 2016, a TripAdvisor survey found that 67% of travelers planned to book rental accommodations for their travel – an increase from 59% the previous year.⁵¹ Airbnb announced in August 2017 that “on any given night, 2 million people are staying in other people's homes around the world” through the company's platform.⁵² Led by sites like Airbnb.com, Expedia's Homeaway.com, and Booking.com, OTAs are rapidly adding short-term rentals to inventory.

Around the world, communities and regulators are trying to determine the right policies for local host rentals in areas that range from taxation and consumer protection to health and safety, housing affordability, and community impact. In Asia, as in Western economies, mature markets have begun to regulate this market in ways that does not hinder but instead creates opportunities for OTAs and the economies they serve.

Japan's approach to local host rentals illustrates how online tourism can serve as a lever for a country's national tourism strategy. To date, Japan has been Airbnb's fastest growing market – largely because tourism in the country continues to grow faster than the supply of hotel rooms.⁵³ In March 2017, with an eye to the 2019 World Rugby Cup and 2020 Olympics, the national Cabinet approved legislation to permit residents to rent privately up to 180 days per year, while leaving the door open for municipalities to regulate further. (Short-term rental properties are required to register and seek landlord approval.) The legislation, which takes effect in 2018, distinguishes between



accommodations rented directly by on-premise owners and non-resident landlords.”⁵⁴
By setting clear terms to help local host rentals flourish, Japan paves the way for other Asian countries to use local host rentals as assets for economic growth.

OTAs can work as allies with regulators to help make local host rentals work in ways that are beneficial for tourists, businesses, and local economies alike. **When given the green light to operate, OTAs that list local host rentals can be strategic partners for national tourism priorities.** By setting clear guidelines, Japanese regulators have sent a clear signal that local host rentals are aligned with tourism goals – expanding affordable supply, opening up communities to tourists, and promoting local cultural exchange by utilizing existing housing resources, rather than investing in additional infrastructure. This is a model that OTAs support.

OTAs welcome regulatory clarity. In the words of Mika Yamamoto, public policy manager at Airbnb Japan, “What’s important is that there will now be clear rules governing home-sharing.”⁵⁵

In countries where accommodation supply is low and tourist demand is high, local host rentals are a strategic solution for Asian markets. **OTAs excel at bringing international tourists to local destinations; regulation that enables local host rentals to thrive will enhance their success.**

Taxation of Cross-Border E-Commerce:

OTAs’ greatest asset for tourist-based economies – their global reach – presents local regulators with a complicated situation. Like many multinationals, OTAs pay corporate income taxes in home countries but do not pay these taxes in countries where they are not “onshore” – i.e., where they don’t have a taxable presence. Companies work hard to comply with the appropriate tax authorities, but regulators need to think about whether taxing e-commerce is truly beneficial – and, if it is, how it should be done. (It should also be noted that the hotels and other accommodation properties typically have an obligation to remit certain taxes based on the room rate – either collected from guest or received from the OTA – as well as paying regular income taxes.)

As cross-border entities, OTAs let guests book accommodations but are often not liable for paying local tax on the profit earned from these transactions since they are not local entities. **Regulators must ask themselves a fundamental question: Do they want to maximize tax – or do they want to maximize the overall economic benefits of travel and tourism? Focusing only on maximizing tax revenues in the short term could cause their countries long-term economic losses if doing so deters business and so drives travelers away.**

This is a new and important area in international law.⁵⁶ Over-regulation or excessive bureaucratic burdens may make the country a less competitive tourism destination and so hinder the overall economy. Laws that require international e-commerce companies to pay indirect taxes or risk paying fines or even losing their licenses could inadvertently drive business away. In addition to collecting taxes, the intent of such regulation may be to level the playing field between domestic and international operators, but international players bring in far more overseas business and many more foreign tourists than local companies. (Tourists from Southeast Asia, for example, are very unlikely to make bookings through a local OTA in Korea or Japan, since they are unfamiliar with the brand



and may not know the local language.) OTAs thus bring in substantial revenues that might otherwise go elsewhere. As the international law firm Baker McKenzie explains, “Both tax authorities and business players in this sector face a real challenge: how to create a business environment and tax mechanism that balance economic growth and tax revenue.”⁵⁷

Regulators considering tax levies should focus not only on the incremental tax revenue but also the overall economic value that international OTAs bring to countries before they over-regulate. As the *Jakarta Post* notes, regulation on cross-border commerce can be a “bottleneck” for companies.⁵⁸ And since international e-commerce is the fastest-growing segment, slowing growth will have a disproportionate negative impact. And the numbers are substantial: Singapore-based Temasek Holdings and Google estimated in May 2016 that Southeast Asia’s online travel economy is growing at a rate of 15% per year and will reach US \$90 billion by 2025.⁵⁹ Maximizing tax revenue in the short term could reduce this number, with significant and negative long-term consequences. In contrast, accelerated economic growth will lead to increased tax revenue in other areas.

How do OTAs drive economic growth and contribute to a nation’s domestic economic health? The World Travel & Tourism Council (WTTC) answers this question by measuring tourism’s “direct contribution” (tourist business and leisure spend on travel plus government investment to tourism-related services) and its multiplier effect. Multiplier effect is calculated through “total contribution” (direct contribution plus indirect economic activity from tourism-related jobs, spend, government services, and investment) and job creation.⁶⁰ In Thailand, for example, tourism *directly* contributes to 9.2% of GDP, but that number grows to 20.6% of GDP when economic activity in tourism-related activities is considered. Looking at the big picture in Thailand, the WTTC notes that 6.1% of the country’s jobs are in the tourism sector – but that tourism actually contributes to 15.1% of total employment.⁶¹

WTTC data reminds regulators that travel and tourism contributes to local economies in many ways – of which taxes are only a small one. **Regulators need to take a broad economic view to gain the many economic benefits of tourism, rather than focusing only on tax.**

V. Conclusion: The value of OTAs’ future in Asia

“The role of Travel & Tourism becomes even more significant, as an engine of economic development and as a vehicle for sharing cultures, creating peace, and building mutual understanding.”

– WTTC former CEO and President David Scowsill⁶²



Compared with the hospitality and tourism industries they serve, OTAs are a relatively new phenomenon. They have evolved at a rapid pace, in step with accelerating global online consumer demand. In Asia, where travel is growing faster than GDP, online penetration is escalating, and tech-savvy consumers are hungry for online services, OTAs fuel economic transformation.

Customer preferences, regulatory frameworks, business context, and objectives differ among Asian markets. But one trend is shared by all: online travel is the new standard. Across Asia, OTAs are engines for growth and innovation. They aren't slowing down; in fact, in the coming months and years, this trend will only accelerate. UNWTO forecasts that, on average, international tourists around the world will increase by 43 million visitors per year, with more than 500 million international tourists visiting APAC by 2030.⁶³ As demand for online travel services increase and consumer demographics and preferences shift, OTAs will be ready.



Partners and regulators will benefit from these trends if they accept them and work with these innovative companies to adapt to change and ensure they benefit everyone. They need to keep their eyes on four key trends: *diversification, innovation, culture, and employment*.

Tourism diversification

As we have noted, OTAs are highly effective marketers that help bring travelers *from everywhere to everywhere*. More and more countries and tourist hot spots are beginning to face overtourism, which brings crowding, economic and environmental stress, mismatch of supply and demand, and threats to local culture. “The issue is that while tourists come *from everywhere*, they don’t go *to everywhere*,” explains Alex Dichter, senior partner and lead of the Consumer, Transport, Travel, and Logistics Practice at McKinsey & Company.⁶⁴

OTAs are a powerful tool to spread the wealth of tourism. With their millions of customers and their ability to share reliable information instantaneously, OTAs are a key to new market access. They can help shine a light on low-traffic destinations and accommodations, and can spread demand among new players and communities. As the UN defines sustainable tourism as “tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors,

the industries, the environment and host communities,” **OTAs are natural allies as leaders set goals for sustainable growth.**⁶⁵

Innovation

Agoda projects that in a few years, 90% of bookings will be on mobile apps.⁶⁶ Consumers behave differently when booking travel on their mobile devices: they spend less time on sites and move faster, with sharper focus. In APAC, notes Phocuswright, “OTAs are at the forefront of mobile innovation, development, marketing, and distribution.”⁶⁷ With



strengths in mobile payments, data protection and cyber security, OTAs are leading technological innovation. **As a result, they stimulate entrepreneurship, talent development, and employment on broad scale.**

Culture

“Travelers today often look for experiences, whether it be an authentic local experience, an adventure or even and the opportunity to make a difference at the destination.”

– World Economic Forum 2017 Travel & Tourism Competitiveness Report

International tourism promotes cultural exchange and increased understanding. As the World Economic Forum points out, “the growing number of connected citizens around the world provides a unique opportunity to benefit from the inclusive nature of the (travel and tourism) industry.”⁶⁸

Following the rise of local host rentals, demand for local experiences is surging. OTAs are extending their product offerings to include a new suite of “in-destination activities” that satiate travelers’ appetites for discovery. TripAdvisor, Booking.com, Airbnb, and a number of startups have all added new products for activities – from learning how to cook a Thai meal in Bangkok, to personal shopping in Seoul, to making paper crane jewelry in Tokyo.⁶⁹ **As travel continues to be more personalized, OTAs can help tourist boards execute campaigns through targeted promotions that align with cultural objectives.**

OTAs can help make tourism personal. As Ctrip CEO Jane Jie Sun explains,

*“When so many Chinese people go out into the world we always ask our customers to become the diplomats for China, and to bring the best of China to the world. Let people know China through you and ask these customers also to bring the best of the world to China so people in China will know what’s going on in the rest of the world. **From that perspective, I think it’s increasing the friendships between Chinese people and the rest of the world.** . . . Every day when we are issuing a ticket or booking a hotel, and we don’t see it just as people working. It’s a mission.”⁷⁰*

With their expertise in consumer insights and analytics, OTAs can help countries better understand tourist preferences for cultural activities. But inbound tourism is only one part of the equation. OTAs also are platforms for outbound tourism, easing opportunities for citizens to explore the world. **As millions of tourists cross international lines, countries can look to OTAs to help promote their culture and values around the world.**

Employment

Customer by customer and country by country, OTAs are a key part of the business of tourism – a huge creator of jobs. **Globally, “tourism provides 10% of the world’s GDP, 7% of global trade and as many as one in every 11 jobs.”⁷¹** The World Economic Forum calculates that “for every 30 new tourists to a destination, one new job is created.”⁷²

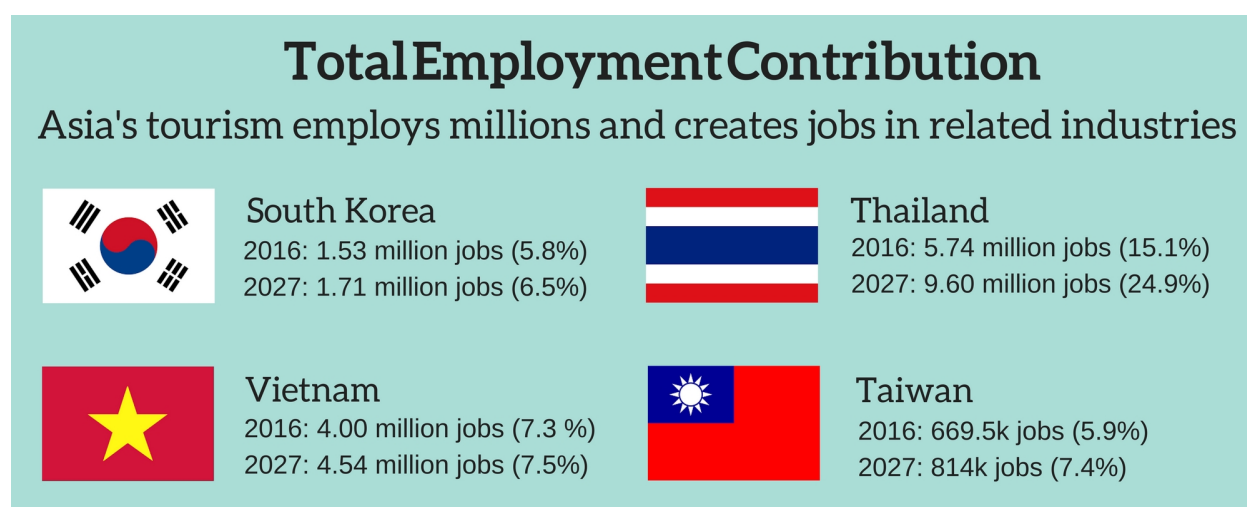
In Asia-Pacific,⁷³ travel and tourism generated 3.7% of direct total employment in 2016 (more than 67.3 million jobs) and the numbers continue to grow. By 2027, the sector will directly employ more than 85 million people.⁷⁴ When 2027 forecasts are tallied for total



employment contribution, including jobs created that are indirectly related to tourism, the industry will generate **10.6% of total APAC employment**.⁷⁵

At a country level, this translates into real employment gains for local work forces. As the World Economic Forum's 2017 Report on Tourism Competitiveness points out, "With technology and innovation propelling the so-called 'collaborative economy', there are also many new employment opportunities in tourism that . . . can make a large contribution to job creation. **Yet tourism's role in employment generation and entrepreneurship is often underestimated and undervalued in policy formulation and implementation.**"⁷⁶

See below for a snapshot of tourism's contribution to total job creation – through direct and indirect employment – in several Asian countries:



Source: WTTC 2017 Country Economic Impact Reports

These numbers show how important it is for partners, regulators, and OTAs to work together to promote policies that open up – rather than constrain – online travel in Asia. In the words of WTTC's former CEO, "pro-growth travel policies that share benefits more equitably" will only strengthen tourism's positive impact.⁷⁶

* * *

"Change is at the core of online travel."

– Tim Hughes, Vice President, Business Development, Agoda

Dealing with change is always difficult. But hotel partners and regulators have a lot to gain by understanding the benefits that OTAs bring to business, cities, countries, and tourist destinations. As this white paper has illustrated, **OTAs can be valuable allies that expand economic opportunities for hotel partners and tourist destinations – if regulators help them provide this service.** OTAs bring expertise, resources, and, most of all, travelers (and their revenue) to destinations that are out of reach for most hotels and tourist bureaus. By making a vast marketplace accessible on every mobile phone, OTAs give leisure and business travelers choice, 24/7 service, convenience, and trust, whether they are looking for travel bargains months in advance or on-the-go. For accommodation partners large and small, OTAs complement marketing activities by raising brand awareness and directing travelers to their doorsteps – wherever they may



be. The sophistication of OTAs' consumer insights cannot be rivaled; OTAs can help hotels, tourist bureaus, and governments achieve their strategic goals through data analytics and marketing, delivered through on-line advertising, promotions, co-branding, and niche campaigns.

To get full value from OTAs, partners need to adapt. As regulators evaluate issues consumer protection, the rise of local host rentals, and e-commerce taxation, they have an opportunity to reframe the narrative of OTAs' role in tourist economies. Rather than viewing international OTAs as outsiders with little interest in local accommodations and economies, **international OTAs should be welcomed as partners with shared goals. Regulators need to recognize the value these services provide to their citizens, businesses, and national economies, and ensure that they foster the free flow of data, meet international standards, and provide a level playing field for all participants.** In an industry that decades ago was defined by brick-and-mortar retail, OTAs are now fundamental building blocks of tourism in the digital era.

With this collective mindset, OTAs, hotels, and government officials can work together to establish mutually beneficial relationships towards one end goal: to promote tourism. They can do this by celebrating – and supporting – what OTAs do best: provide customers with choice.

**By 2030, Asia will
welcome 535
million
international
visitors ...**



By 2030, UNWTO projects that international arrivals to **Asia and the Pacific**⁷⁷ **will welcome 30% of the world's travelers - 535 million visitors**, an increase of more than 331 million over 2010.⁷⁸ Many (perhaps even most) of these visitors will plan their trips and book accommodations and local experiences through international OTAs. OTAs can help accommodations attract tourists from all over the world. They can support the strategic objectives of regulators and tourism bureaus to stimulate economic growth – while also

improving citizen welfare. OTAs will do this all across Asia – from remote villages in northern Vietnam to the winding *sois* of bustling Bangkok, to the rice fields of Bali and the hot springs of Japan. With increased understanding, government support, and constructive relationships, all partners will benefit.

The Asian Trade Centre (ATC) is the premier regional thought leader, advocate and educator for trade in Asia. ATC works directly with governments from around the world, companies, think tanks, foundations, non-governmental organizations, aid agencies and serves as the resource for trade-related activities in Asia.

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- ¹ Mastercard, Top 50 global city destinations by international visitor overnight arrivals (2016).
- ² *Global Online Travel Overview, 4th Edition* (November 2016). By Lorraine Sileo and Cathy Schetzina Walsh, Phocuswright.
- ³ *Phocuswright Asia Pacific Online Travel Overview 9th edition* (October 2016).
- ⁴ This paper focuses on international OTAs – multinational corporations with global online travel platforms that span markets. The terms “international OTAs” and “OTAs” are used interchangeably.
- ⁵ <https://www.reuters.com/article/us-indonesia-startups-idUSKBN1A110D>.
- ⁶ <http://www.webintravel.com/trends-matter-online-travel/>.
- ⁷ https://www.biz.uiowa.edu/henry/download/research/Online_Travel.pdf.
- ⁸ http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf.
- ⁹ *Ibid.*
- ¹⁰ *Ibid.*
- ¹¹ *Ibid.*
- ¹² http://media.unwto.org/sites/all/files/pdf/unwto_2030_ga_2011_korea.pdf.
- ¹³ <http://www.e-unwto.org/doi/pdf/10.18111/9789284419029>.
- ¹⁴ http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf.
- ¹⁵ <http://www.e-unwto.org/doi/pdf/10.18111/9789284419029>.
- ¹⁶ “Asia” for the World Economic Forum encompasses 22 countries across three sub-regions – Eastern Asia and Pacific (including Australia and New Zealand), South Asia, and Southeast Asia (ASEAN) which is comprised of Singapore, Malaysia, Thailand, Indonesia, Sri Lanka, Vietnam, Philippines, Lao PDR, and Cambodia (Brunei is excluded from WEF data, although it is a member of ASEAN). APAC for Phocuswright research includes 13 markets: Australia, China, Hong Kong, India, Indonesia, Japan, Macau, Malaysia, New Zealand, Singapore, South Korea, Taiwan, Thailand.
- ¹⁷ http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf.
- ¹⁸ <https://newsroom.mastercard.com/wp-content/uploads/2016/09/FINAL-Global-Destination-Cities-Index-Report.pdf>.
- ¹⁹ *Phocuswright Asia Pacific Online Travel Overview 9th edition* (October 2016).
- ²⁰ *Phocuswright Asia Pacific Online Travel Overview 9th edition* (October 2016).
- ²¹ <http://www.webintravel.com/trends-matter-online-travel/>.
- ²² <https://skift.com/2017/09/18/google-travel-is-worth-100-billion-even-more-than-priceline/>.
- ²³ <https://www.forbes.com/sites/petertaylor/2016/12/07/watch-out-homeaway-airbnb-heres-why-tripadvisor-may-be-your-biggest-competition/>.
- ²⁴ Research included Southeast Asian countries of Indonesia, Singapore, Malaysia, Philippines, Thailand, Vietnam and excluding Cambodia, Laos, and Myanmar.
- ²⁵ <http://www.temasek.com.sg/Documents/userfiles/files/e-economy%20SEA.pdf>.
- ²⁶ *Global Online Travel Overview, 4th Edition* (November 2016). By Lorraine Sileo and Cathy Schetzina Walsh, Phocuswright.
- ²⁷ *Ibid.*
- ²⁸ http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf.
- ²⁹ *Phocuswright Asia Pacific Online Travel Overview 9th edition* (October 2016)
- ³⁰ *Ibid.*
- ³¹ *Ibid.*
- ³² *Global Online Travel Overview, 4th Edition* (November 2016). By Lorraine Sileo, Cathy Schetzina Walsh, Phocuswright and http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf.
- ³³ *2017 Phocus Forward: The Year Ahead in Digital Travel and Global Online Travel Overview, Fourth Edition* (November 2016) written by Lorraine Sileo and Cathy Schetzina Walsh, Phocuswright.
- ³⁴ <http://www.webintravel.com/trends-matter-online-travel/>.
- ³⁵ <https://outside.agoda.com/wp-content/uploads/2017/07/Omri-on-mobile-v4-20170720.pdf>.
- ³⁶ http://hotelexecutive.com/business_review/2682/the-role-of-otas-in-revenue-management-the-only-constant-is-change.
- ³⁷ Industry expert interview, June 2017.
- ³⁸ <https://www.morganstanley.com/ideas/hotels-vs-online-travel-agencies>.
- ³⁹ *Phocuswright Asia Pacific Online Travel Overview 9th edition* (October 2016).
- ⁴⁰ *Global Online Travel Overview, 4th Edition* (November 2016). By Lorraine Sileo and Cathy Schetzina Walsh, Phocuswright.



- ⁴¹ Morgan Stanley estimates the rate at about 8%: <https://www.morganstanley.com/ideas/hotels-vs-online-travel-agencies>
- ⁴² *Ibid.*
- ⁴³ <https://www.tnooz.com/article/priceline-group-3-5-billion-advertising-2016/> and <http://www.fse-online.co.uk/proof-that-ppc-works-priceline-group-spent-3-5-billion-on-digital-marketing/>.
- ⁴⁴ *Ibid.*
- ⁴⁵ <https://sha.cornell.edu/about/news-and-publications/news/newsdetails.html?id=783>.
- ⁴⁶ <http://scholarship.sha.cornell.edu/cgi/viewcontent.cgi?article=1003&context=chrrpubs>
- ⁴⁷ Industry expert interview, June 2017.
- ⁴⁸ http://www.wise.co.th/wise/Knowledge_Bank/References/Tourism/UNWTO_Tourism_Toward_2030.pdf.
- ⁴⁹ <https://amcham.com.tw/wp-content/uploads/2017/06/Travel-Tourism-EN.pdf>.
- ⁵⁰ Industry expert interview, June 2017.
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- ⁵² <https://press.atairbnb.com/app/uploads/2017/08/4-Million-Listings-Announcement-1.pdf>.
- ⁵³ <http://www.japantimes.co.jp/news/2017/03/10/business/corporate-business/airbnb-gets-cabinet-ok-japan-sets-rules-home-sharing-businesses>.
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- ⁵⁶ <http://english.vietnamnet.vn/fms/business/171094/don-t-kill-the-goose-that-lays-the-golden-eggs.html>.
- ⁵⁷ *Ibid.*
- ⁵⁸ <http://www.thejakartapost.com/news/2017/01/18/regulations-becoming-key-obstacle-for-regional-e-commerce.html>.
- ⁵⁹ <https://www.slideshare.net/economySEA/economy-sea-by-google-and-temasek>.
- ⁶⁰ <https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2017/world2017.pdf>.
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- ⁷⁰ <https://skift.com/history-of-online-travel/#global-voices-13911>.
- ⁷¹ http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf.
- ⁷² *Ibid.*
- ⁷³ WTTTC research defines “Asia Pacific” as five sub-regions of Northeast Asia, Central Asia, Oceania, South Asia, and Southeast Asia (ASEAN). For complete list of countries see <https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2017/asiapacific2017.pdf>.
- ⁷⁴ <https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2017/world2017.pdf>.
- ⁷⁵ *Ibid.*
- ⁷⁶ *Ibid.*
- ⁷⁷ UNWTO defines “Asia and the Pacific” region as four sub-regions of North-east Asia, South-east Asia, Oceania, and South Asia. For complete list see <http://asiapacific.unwto.org>.
- ⁷⁸ http://media.unwto.org/sites/all/files/pdf/unwto_2030_ga_2011_korea.pdf.