

# Practical tips about setting up a foreign invested travel agency in Shanghai China

## Description

Since China relaxed its rules about setting up foreign-invested travel agency by enacting the Regulation on Travel Agency (the "Regulation") in February of 2009, there have been a flurry of interests aroused thereby and we have been approached frequently by potential foreign clients inquiring about how to set up their own travel agency in China.

However, in contrast of the hot market enthusiasm, China National Tourism Administration (the "CNTA"), the watchdog for access to Chinese tourism industry, has been exercising strict prudence in approving application for setting up foreign invested travel agency. On January 4, 2011, CNTA made an announcement on its official website in respect to the twelve (12) new foreign invested travel agencies that have been incorporated in accordance with the new Regulations, among which eight (8) agencies are incorporated in Beijing with the remaining four (4) scattered in Shanghai, Shenzhen, Dalian and Qingdao. It is quite a surprise to see that there is so far only one (1) foreign invested travel agency approved, considering that Shanghai has vowed to build itself into an international tourism centre.

Our research on this matter has showed that several factors that may affect your chances of successfully securing the approval from CNTA.

### 1. Do not rush to submit application documents

The Regulations and its implementation rules are still kind of new in practice. It is not clear cut to everyone as to the documentation of application materials. Since application is firstly submitted to local tourism department, it is advisable to talk to people with local department in person to get things clear before submission. Otherwise, you may end up wasting too much time and ruin your business plan.

### 2. Set a pleasing amount of registered capital

Though the Regulations make it clear that a travel agency can be established with a registered capital of RMB 300,000, in practice, big cities like Shanghai always wants to have foreign investment of big scale. It is widely believed, though not explicitly stipulated in any official documents, that Shanghai generally requests that the registered capital of any foreign investment project be more than USD 100,000. In case that the registered capital is less than that, authorities will require that the money of registered capital shall be paid up in shorter period than prescribed in laws. Our inquiry into a district foreign investment bureau elicited an answer that small companies like consultation companies may start business with a registered capital of RMB 300,000 but that capital shall be paid up in a lump sum manner.

The principle is investment with a larger amount of registered capital will better please local government and therefore has a greater chance of being approved. It is our suggestion that investors shall maximize the registered capital within its investing budget in order to secure a smooth deal.

However, we do notice that in the case of foreign invested travel agencies, CNTA has approved, among the above-mentioned twelve (12) newly approved travel agencies, two (2) agencies with the threshold amount of registered capital, namely, RMB 300,000.

### 3. Inbound travel encouraged, outbound travel denied

While China has a strong imperative to boost its tourism sector, a new pillar and strategic industry designated by the Cabinet, it is actually very cautious and prudent about the outbound travel activities of its citizens, compared with its open arm gesture towards foreign travelers into China. This caution has translated into a policy provided in the Regulation that foreign invested travel agencies are prohibited from conducting outbound travel by PRC citizens, which has definitely greater appeal to investors. None of the twelve (12) travel agencies is granted an approval to carry out outbound travel business.

When preparing application materials, investors shall make all efforts to fully present that the proposed travel agency will be engaged in inbound travel only with no inclination to do outbound travel activities.

Starting from October of 2010, foreign investors that want to conduct outbound travel business shall have to partner with a Chinese company in order to be qualified for a pilot program under which selected Sino-foreign equity joint venture travel agencies are granted approval to carry out outbound travel activities.

Given that CNTA is quite selective in issuing approvals for foreign-invested travel agencies, it requires that application documents shall have to well and craftily prepared with good presentation skills in order to impress the people whose nods are being sought.

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