

Inquiries about foreign-invested travel agencies in China

Description

With Chinese people getting rich (to some extent this can be true) and starting emerging as tourists all over the world, China's travel industry has been appealing to international investors.

We have been inquired frequently by foreign travel agencies about setting up their business presence in China. Very often, these foreign investors want to set up a travel agency to be engaged in outbound travel business, taking Chinese tourists to their home countries.

For instance, yesterday, a European tour operator that has conducted travel business in Europe for years wrote us an inquiry about setting up their own travel agency in China. Here is their question:

Hi Jason

I found your blog very helpful as I am currently trying to understand how foreign owned companies (such as my own, XXX) could operate travel agencies in China.

Would it be necessary to create a joint venture with a Chinese company to get the travel agency license? And does this Chinese company need to be in the travel industry? And if so, are there any ownership % splits between the foreign owned and Chinese companies? How much could the foreign owned company own?

If it's not necessary to create a JV, could XXX come to China and apply for a WFOE as an outbound travel agency?

I have just hidden the real name of this company to avoid unnecessary exposure to clients.

And here is my answer for the inquirer:

Dear XX:

1. First of all, you need to bear in mind that Chinese government has totally different attitudes towards inbound travel and outbound travel. Namely, if you are going to set up a travel agency in China to be engaged in inbound travel, you are welcome at large. However if you are to do outbound travel, you will for sure experience lots of trouble to get this license.
2. To do inbound travel, you don't have to set up joint venture with Chinese partner, you can go for WFOE. But if you are eyeing the opportunity to do outbound travel in the future, you will have to set up a joint venture with Chinese partner. The Chinese partner does not have to be a Chinese travel agency, though it is better to partner with Chinese travel

agency. There is no restriction on shareholding of the foreign investors in the joint venture. You can take up the majority stake.

3. The current environment seems not good for foreign investors who want to do outbound travel in China, which is clearly indicated in the number of joint venture travel agency so far. Only three. There are not even aspiring number of inbound travel agencies invested by foreign investors. I have also noticed a change of attitude from positive to negative with Shanghai Tourism Bureau which received me and another client in their office for detailed discussion on foreign invested travel agency in Shanghai, and which now turns cold shoulders to us just recently when we tried to get ideas from them at request of another client. We sensed that Chinese governments are not ready for large number of foreign invested travel agencies operating in China.

My advice is that foreign travel agencies that are courting Chinese customers will have to wait for some time. On the other hand, foreign travel agencies should set their feet in China early so as to understand the market on the ground. You may either set up a representative office (not allowed to do any real travel business but to serve a foothold in China for your people to be "in" the market.) or set up a travel agency doing inbound travel. Eventually, I believe the outbound travel market will open up for foreign investors, a hope that may not be far away after Chinese new liberal leadership comes into office soon. Of course, you may have a different idea, but I believe this is the strategy foreign travel agencies should adopt.

If you want to know more about setting up a foreign invested travel agency in China. Please type "travel agency" in the search box on this blog, and you will find a slew of articles on this subject.

Date Created

November 2012

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