
Investment Opportunity in China Travel and Tourism Industry

News on the China central government website said that the State Council has in principle passed a new policy, namely, the *Opinions on Accelerating Development of Tourism Industry* (the “**Opinions**”), on November 25, 2009. Here are the key points of the Opinions as summarized in that news.

The significance of the tourism industry for the national economy is further recognized by the state and it is acknowledged in the Opinions that tourism industry is to be fostered as “strategic pillar industry” of the national economy. For the first time, tourism industry is depicted as “strategic” pillar industry. One can reasonably foresee that in the near future, China will step up more policies and measures to boost the travel and tourism industry.

Several measures are outlined in those Opinions with regard to further development of the travel and tourism industry. The first measure is to “lower threshold for market access, encourage social capital and various kinds of enterprises to be engaged in the industry, further push the restructuring and reorganization of state-owned travel and tourism enterprises, support the growth of private and medium-small travel enterprises, and actively introduce foreign investment”. The spotlight in there is “actively introduce foreign investment”.

According to Jason Tian, the lawyer from the Beijing Zhongyin Law Firm, Shanghai Office, the Opinions further assure foreign investors that China is to open up its travel and tourism market at a stride, a move that has begun early this year.

Previously, China has been cautious and prudent in opening up its travel and tourism sector to the foreign investors.

The Regulations on the Administration of Travel Agencies, enacted in 1996, provided for much higher threshold for foreign investment, for instance, foreign investor shall have annual operation revenue of over USD 40 millions. Under this 1996 regulation, foreign investors are only allowed to set up Sino-foreign equity joint venture and Sino-foreign cooperative joint ventures and such foreign invested enterprises shall not establish branches. China later further opened its travel and tourism sector in 2003 by allowing foreign investors to establish wholly foreign owned enterprises on the condition that such foreign investor shall have annual operation revenue of over USD 500 millions. Such requirements have de facto deprived those foreign medium and small sized travel agencies of the access into the Chinese market.

Also, in the latest version of the Industry Catalogue for Guiding Foreign Investment (2007), travel and tourism is only classified into the “allowed” category, not belonging to the “encouraged” category.

The significant shift in China’s attitude towards foreign investment in the travel and tourism industry started with the promulgation of the Regulations on Travel Agencies on February 20th 2009, effective as from May 1st of 2009. These new regulations have substantially lowered the threshold for foreign investment into China’s travel market, removing the annual

operation revenue requirement, reducing the registered capital amount, and shortening the approval time period. With that, foreign investors are virtually granted with the same rights to access into the market only that foreign investors are still forbidden from operating outbound travel business.

Given that, Mr. Tian predicted that the future version of the Industry Catalogue for Guiding Foreign Investment will very probably include the travel and tourism into the “encouraged” category.

It is reasonable to foresee an apparent surge in foreign investment in the travel and tourism industry soon, as a result of the Opinions. We hope foreign investors will utilize their expertise and innovative ideas in their China undertakings and will improve the quality of domestic travel service.

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