

China's cruise industry: progress, challenges and outlook

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ABSTRACT

China's cruise industry has been growing rapidly since 2006. In 2015, China's cruise market became the largest in Asia and the second largest in the world. This paper reviews the latest developments of China's cruise industry, analyses the challenges in cruise ports, cruise lines and law and regulations, and forecasts the trends of China's cruise industry. The paper concludes that the China's cruise industry will enter into its golden years in the coming decades.

KEYWORDS

Cruise Industry; China

The evolution of China's cruise industry

China has 18,400 km of coastline, starting from the temperate ports around the Rim of Bohai Gulf in the north to the tropical ports around the South China Sea in the south. Along the coastline, there are thousands of beautiful islands and beaches and hundreds of coastal ports connecting to rich inland tourism sources, via roads, highways and high-speed rails, making China a charming destination for world cruise tourism. In July 2006, the Costa cruiser *Allegra* arrived at Shanghai, and this can be considered the start of China's cruise industry.¹ On November 22, 2006, China Communications and Transportation Association (CCTA), which is affiliated with the China National Development and Reform Commission of the State Council, established a sub-branch, the China Cruise and Yacht Industry Association (CCYIA). CCYIA, a national non-governmental organisation, has published an *Annual Report on China's Cruise Industry* and "has been authorized by the Chinese government as the only national association to promote the cruise and yachting industries in China".²

Since 2006 the Chinese cruise industry has been growing rapidly, and the growth can be divided into three phases. In the first phase, from 2006 to 2008, Chinese ports mainly received foreign cruise ships; in the second phase, from 2008 to 2015, foreign cruise companies started using Chinese ports as home ports; and in the third phase, from 2016 to 2030, the Chinese cruise industry is expected to develop at a national scale. According to CCYIA, in 2015, the total number of cruise callings grew by three times while the number of cruise passengers grew by 10 times as compared to 2006. The cruise callings reached 629 calls, with 2,480,454 passengers.³ The four main home ports – Tianjin, Shanghai, Xiamen and Sanya – account for 90% of the cruise calls and 97% of cruise passengers. The berth capability of home ports has developed from the 30,000-ton class (for 1000

passengers) to over 150,000-ton class (for over 3800 passengers). It is estimated that the figure of Chinese cruise passengers will increase at the rate of 20% annually, and may reach 30,000,000 by 2030.⁴

The construction of cruise ports

In order to facilitate the rapid development of cruise callings and passengers, the Chinese Ministry of Transport issued *The National Deployment Plan of Coastal Cruise Ports* (NDPCCP) on April 22, 2015.⁵ The NDPCCP aims to develop 12 Chinese cruise ports before 2030. These are, from north to south: Dalian, Tianjin, Qingdao, Yantai, Shanghai, Ningbo-Zhoushan, Xiamen, Shenzhen, Guangzhou, Sanya, Haikou and Beigang. In the NDPCCP, the cruise ports are categorised into three types: ports of call, starting/ending ports and home ports. Among the abovementioned ports, Tianjin, Shanghai, Xiamen and Sanya, due to their ideal geographical positions, are being developed as comprehensive home ports; Tianjin is at the centre of the Rim of Bohai Gulf; Shanghai is at the centre of Yangtze river delta; Xiamen is at the centre of the West Taiwan Strait economic circle; and Sanya is at the centre of the South China Sea economic circle.

Tianjin

The Tianjin International Cruise Home Port (TICHP) is only 162 km from Beijing. Passengers who disembark in Tianjin port can travel to Beijing via high-speed trains in less than 1 hour. Beijing, the capital of China, is a world-class tourist destination and is endowed with the Forbidden City, the Great Wall and other historical and culture heritage. On June 26, 2010, TICHP welcomed its first cruise call, the *Costa Romance*. TICHP has four berths, which can receive four 50,000-ton cruise liners simultaneously, or three cruise ships from 50,000 to 150,000 tons at the same time. Until June 2015, TICHP had berthed 230 ships, with over 800,000 passengers.⁶ Tianjin is also the home port for Royal Caribbean, Costa Cruise line and HNA Cruise, and is considered the most important cruise home port in the north of China.

Shanghai

Shanghai is a dynamic business centre in China with a population of over 24 million. It is located at the centre of the Yangtze River delta, facing the East Sea, and is in the middle of the Chinese coastline, close to South Korea and Japan. With its ideal location, its status as a major business city having advanced facilities and its large number of high-income professionals, Shanghai has emerged as the centre of China's cruise industry.

Shanghai has two international cruise terminals: Shanghai Wusong International Cruise terminal (SWICT), and Shanghai International Tourist Centre (SITC). SWICT, located at the mouths of the Yangtze River and Huangpu River, is a major water transport hub of the Yangtze River delta. SWICT occupies 1.6 million m² and was built with an investment of CNY 1.26 billion. It has the capability of receiving two 100,000–150,000-ton cruise calls simultaneously. In 2014, SWICT had 216 cruiser callings, which is 46% of the total amount of China cruise calls. In the same year, SWICT received over 1,000,000 passengers, which is nearly 64% of the total passengers. In 2015, SWICT

received nearly 1,500,000 passengers, and it has become the largest home port in Asia. In June 2015, SWICT started its expansion project to realise the capability of berthing four large cruise ships simultaneously.

SITC is located on the west bank of Huangpu River and has 880 m of coastline with water depths of 9–13 m. SITC receives small cruisers (under 70,000 tons), and can berth three small cruisers simultaneously. The nearby Baoshan district is building bonded warehouses and logistics facilities for cruise passengers, and will be developed to supply bases for SITC and SWICT.⁷

Xiamen

Xiamen International Cruise Terminal (XICT) started its operation in 2008. It has the capability to simultaneously berth one 180,000-ton cruiser or two cruisers of less than 100,000 tons, and the number of cruiser callings and cruiser passengers has increased rapidly. From 2008 to 2014, XICT received 124 cruisers and over 250,000 cruise passengers. In 2015, XICT received 40 callings and 120,000 passengers. On June 22, 2015, Royal Caribbean's *Quantum of the Seas* the largest cruiser in Asia (168,666 gross tonnage, 347 m in length), called at Xiamen port and was the largest cruiser received by XICT. In 2016, the three cruisers *Sapphire Princess* (June to July), *Star Libra* (April to August) and *Legends of Seas* (August to October) will call at Xiamen and will use it as the home port to conduct several cruise lines, from Xiamen to Japan and South Korea.⁸ Xiamen launched an expansion project in XICT and will reconstruct a 1432-m berth into one 150,000-ton berth, two 100,000-ton berths and one roll-on/roll-off berth. The project also has plans for berthing a 225,000-ton mega-cruiser in the near future. The reconstruction project will be finished in 2017, and XICT is expected to receive 800,000 cruise passengers and 250,000 roll-on/roll-off passengers annually.⁹

Sanya

Sanya is located in the south of Hainan Island, facing the South China Sea. It is one of the most popular tourist destinations in China, and is known for its tropical weather and beautiful beaches. Sanya Phoenix Island Cruise Terminal (SPICT) started operations in 2006. It is on the coastal area of the artificial Phoenix Island and is connected to land with a 394-m-long and 17-m-wide bridge. SPICT has comprehensive facilities, including a seven-star hotel, an international recreation condominium residential area, an international yacht club, tropical boutique streets, business and resort mansions, and a theme park. SPICT is working on the second phase of the CNY18 billion project, which includes construction of another 474,000 m² artificial island, one 100,000-ton berth, two 150,000-ton berths and one 225,000-ton berth. After these are completed in 2016, SPICT will be one of the largest cruise ports in Asia.¹⁰ Sanya is a favourite home port for cruise lines to travel around the rim of South China Sea, and to other Southeast Asian ports. After China proposed the 21st-century “Maritime Silk Road” initiative in 2014, Sanya has become one of key ports to promote China's Blue Economy in the South China Sea. The details of cruise Calls and passengers of these four home Ports are given in Table 1.

Table 1. Cruise Calls and Passengers in Chinese Home Ports (2008–2014).

	Year	Tianjin	Shanghai	Xiamen	Sanya
Cruise calls	2008	15	60	56	132
	2009	26	79	26	34
	2010	40	178	58	15
	2011	31	105	11	35
	2012	35	121	19	86
	2013	70	197	13	113
	2014	55	272	23	71
	Passengers	2008	20,000	130,000	73,668
2009		-	183,000	20,247	75,474
2010		100,000	341,808	19,656	39,384
2011		72,000	237,309	12,572	68,970
2012		119,096	357,539	35,917	116,777
2013		250,000	756,578	24,858	135,328
2014		224,000	1,218,802	56,444	155,965

Source: Zhu Jianhai, ed., *China Ports Year Book 2015* (Shanghai: China Ports Magazine Press), p. 352.

Cruise lines and sightseeing routes

In the first phase (2006–2008) of the Chinese cruise industry, Chinese ports mainly received foreign cruisers. After several years of development, during the second phase (2008–2015), Chinese ports became home ports for foreign cruise companies and 2014 was a significant year for the Chinese cruise industry. There were 446 cruise calls, with 14.78% annual growth over the previous year, and 1,723,400 cruise passengers, with 43.36% annual growth over the previous year.¹¹ The world's three leading cruise lines – Carnival Cruise Lines, the Costa Cruise Lines and Princess Cruises – have been operating in the Chinese market. Additionally, three Chinese cruise lines – HNA Cruises, Bohai Ferry Co. Ltd and Skysea Holdings International Ltd. – have joined this highly competitive cruise market.¹² The details of major cruise companies and cruisers operating in China are given in Table 2.

The cruise lines in China now have three main sightseeing routes: Tianjin to Japan, South Korea and Russia; Shanghai to Japan, South Korea, Taiwan, Hong Kong and Macao; Xiamen and Sanya to Japan, South Korea, Taiwan, Hong Kong and Southeast Asia. Currently, few cruise lines are operating regularly for sightseeing routes to the Indian Ocean, European countries and Americas, due to the Chinese short holiday scheme, which will be elaborated in the following section.

Table 2. Main Cruise Companies and Cruisers in China.

Company	Cruisers	Tonnage	Cabins	Passengers
Costa Cruise	<i>Victoria</i>	75,166	964	2394
	<i>Atlantica</i>	85,619	1057	2680
	<i>Serena</i>	114,000	1500	3780
Royal Caribbean	<i>Voyager of Seas</i>	138,000	1557	3114
	<i>Legends of the Seas</i>	70,000	900	2074
	<i>Mariner of the Seas</i>	138,000	1557	3114
	<i>Quantum of Seas</i>	168,000	2101	4180
Prince Cruise	<i>Sapphire Princess</i>	11,600	1337	2670
Star Cruises	<i>Super Aquarius</i>	51,039	756	1529
	<i>Superstar Gemini</i>	19,000	356	716
HNA Cruises	<i>Henna</i>	47,000	739	1965
Bohai Ferry Co.	<i>Tai Shan</i>	24,500	385	927
Skysea Holdings	<i>Golden Era</i>	71,545	907	2114

Source: CCYIA, *Annual Report on China's Cruise Industry (2015)* (Beijing: Social Science Academic Press China), 2015, p. 10.

Cruise passengers

According to the CCYIA annual report, the average age of the Chinese cruise passengers is 38 which is much younger compared to that of European and American passengers. Fifty percent of cruise passengers come from two large Chinese metropolitan cities, Beijing and Shanghai, while the balance come from other provinces and cities. Seventy percent of the tourists belonged to the middle-income group with a monthly salary between CNY10,000 and 20,000 (around US \$1500–3000). Ninety percent of these tourists were professionals and employees in education, law and finance sectors.¹³

On January 1, 2008, the China State Council implemented the National Paid Holiday Leave Scheme (NPHLS), where there were limited paid leave days. Apart from public holidays, an employee who has been working for 10 years has only five paid leave days; 20 years, 10 days; and over 20 years, 15 days.¹⁴ Chinese tourists make full use of public holidays, and the dates of holidays are subject to the schedule of national holidays: two seven-day Golden Weeks (Spring Festival in February and National Day in October), and four three-days holiday (Qingming Festival in April, Labour Day on May 1, the Dragon Boat Festival in June and the Mid-Autumn Festival in September). Chinese cruise passengers prefer a cruise programme of less than seven nights, and the average cruise programme in the Chinese market is 4.5 nights.¹⁵ The shorter cruise duration results in limited sightseeing destinations. The regular sightseeing routes of China's cruises are to Japan, South Korea, Russia, Taiwan and Southeast Asian countries. There are a few interesting activities for tourists to choose from on routes to Japan and South Korea, and the main activities for Chinese tourists are shopping.

Recently, however, there was one exception to this pattern. On March 1, 2015, Costa *Atlantica* began its 86-day global cruise programme from Shanghai; this programme was customised for over 600 Chinese passengers, and the cruiser travelled around the Indian Ocean, the Atlanta Ocean and Pacific Ocean, visiting 18 countries and 28 destinations.¹⁶ However, the journey was long and too expensive for common tourists (one standard ticket was priced at CNY169,999, approximately US \$26,117).¹⁷

Challenges for China's cruise industry

China's cruise industry is facing challenges due to ports, cruise lines, passenger laws and regulations.

Limited capability of cruise ports and lack of supply chains

Although China has been building cruise ports, the limited capability of Chinese ports is still a major bottleneck for the growth of the cruise industry. Furthermore, most of China's cruise ports lack supporting facilities, or the facilities are scattered. A good cruise port needs a full-range supply chain to support cruise operations, such as inland transport facilities, hotels, shops, recreation centres, etc. However, the terminals are far from public transportation services, which is inconvenient for tourists.

The dominant position of foreign cruise lines

From the beginning of the Chinese cruise industry, the market has been dominated by foreign companies, namely Royal Caribbean, Carnival Cruises and Star Cruise. These

large companies control 80% of the world's cruise share, and it is no surprise that they occupied a 95% share of the Chinese market. Though the Chinese shipping building industry constructs 31.2% of the ships in the world, China still lacks techniques and expertise to build cruise liners. Building a luxury cruiser is a complex task which requires vast amounts of money and technology. For example, an average cruise ship costs US\$ 50–70 million, and a luxury ship costs US\$ 1.5 billion.¹⁸ Putting this amount together is difficult task for a single company without the help of governments and national banks.

Chinese perception of the cruise culture

The cruise culture in the West has matured through the decades, while cruising as a form of leisure is a new phenomenon for Chinese tourists. According to a survey, the majority of Chinese tourists consider cruises as a means of transportation and are more keen on onshore excursions when they choose the cruise packages.¹⁹ China's cruise companies are therefore trying to cultivate the notion that “when you are on board a cruiser, you have arrived at your holiday destination”. Furthermore, Chinese tourists have different tastes, compared to the western passengers; for example, Chinese girls dislike sun-tanned skin, thus they are unlikely to lie down in the sunshine and enjoy sunbathing. It is reported that *Costa Allegra* had to remove some sunbathing areas and put in shopping areas.²⁰ For most Chinese passengers, shopping and gambling are two major attractions on a cruiser. Also, Chinese tourists prefer Chinese food to western food, and are sensitive to and expect cheap and discounted packages.

Lack of legal instruments to regulate the cruise industry

According to current Chinese domestic laws and regulations, foreign cruise companies cannot do cross-border cruise business independently. Foreign cruise companies are required to sell cruise tickets and travel packages through Chinese travel agencies. Travel agents negotiate with cruise companies for terms and service packages, and sell to the Chinese tourists directly. For example, Costa Cruises has cooperated with 130 local Chinese travel agents to sell cruise tickets in China.²¹ However, the obligations and responsibility of travel agents and foreign cruise companies for cruise passengers have yet to be clarified. If passengers have complaints, they have to file complaints with the travel agents rather than directly with the cruise company. There were reports of some incidents when Chinese passengers refused to disembark until their complaints were resolved. The most recent incident occurred on August 31, 2015; due to typhoon Goni, the Royal Caribbean *Quantum of the Seas* changed its halts from Japan to South Korea, following which about 300 Chinese passengers were upset and angry. These passengers asked for compensation for changing the itinerary, and refused to disembark when the cruiser arrived in Shanghai until they were forced to leave the cruiser.²²

The other challenge is the lack of effective measures to regulate the pollution caused by cruise ships and passengers. It is estimated that emissions of pollutants from a cruise liner equal those of 15,000 automobiles.²³ With the rapid growth in cruise ships, there are fears that the air quality in Chinese cruise ports might deteriorate.

Outlook

According to the NDPCCP, China will develop 12 starting/ending cruise ports before 2030. Apart from the four home ports discussed, Dalian port will be developed into an important starting/ending port in North China, to serve the market in Northeast China, and to deal with the Northeast Asian Cruise sightseeing routes. Qingdao and Yantai will also serve and promote the Northeast Asian sightseeing routes. Shenzhen will be the next super home port in the South, and the Shenzhen Prince Bay Cruise Terminal (SPBCT) is under construction. SPBCT is located at the tip of Nantou Peninsula, central Pearl River Delta region, and connects mainland and Hong Kong Special Administrative Region (SAR). The SPBCT project covers 700,000 m²; it will have berths for 220,000-ton cruisers, and the whole project will be implemented by 2021. SPBCT will be one of the largest cruise home ports in China.²⁴

In terms of cruise ships, more cruise ships would join China's cruise market; Carnival Cruises has announced that the company will introduce the two cruisers *Carnival Miracle* and *Carnival Splendor* into the China market in 2017 and 2018. Chinese cruise lines HNA Cruise, Bohai Ferry Co. Ltd and Skysea Holdings International Ltd. are also planning to buy more cruise ships to operate in the Chinese market.²⁵

China's gross domestic product (GDP) in 2015 touched CNY 6359.10 billion, and real GDP per capita is CNY 46,629 (US \$7120).²⁶ The real GDP per capita of seven provinces (Inter-magnolia, Liaoning, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong) and three cities (Beijing, Tianjin, Shanghai) has exceeded US \$10,000. It is estimated that the number of rich Chinese people reached 15.28 million in 2015,²⁷ and these will be potential customers for the Chinese cruise industry. According to the Cruise Lines International Association (CLIA)'s *State of the Cruise Industry Outlook* (2016), the global cruise industry is expecting 24 million passengers to sail in 2016, up from 23 million in 2015.²⁸ It is therefore expected that the coming decades will be a golden period for the Chinese cruise industry.

Notes

1. The Chinese cruise industry, in this paper, only refers to mainland China, excluding Hong Kong SAR Macao, SAR and Taiwan.
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