

# Mega Ships: Asia Pacific Ready to Go Cruising

Asia Pacific has become a key growth market for the global cruise category. With a population of over 3.5 billion people and an increased desire to travel, the region presents enormous opportunities for growth in the medium to long term.

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Overall, the early stage of development of the cruise industry in the region is what appeals the most to cruise companies worldwide. The region resisted the 2008-2009 global financial crisis with a positive 3.6% real GDP growth rate in 2009 - positive albeit slower than the historical average. The region's growth is driven by dynamic emerging economies such as China, India, Indonesia and Vietnam, whose real GDP growth rates all were above 4.0% in 2009.

## Global Cruise

The global cruise industry achieved sales of US\$29.5 billion in 2009. North America continued leading value sales followed by Western Europe. Asia Pacific came in third with an 18% value share of the market and enormous potential for growth.

Royal Caribbean's Legend of the Seas, for example, has seen an annual growth rate of 150% in the number of Chinese passengers carried since 2008 according to the company. As of 2010, the cruise company operates nearly 27 cruises from the Chinese ports of Tianjin and Shanghai and 75%-80% of its passengers are Chinese.

## Race to Consolidate

The potential of the region is highly concentrated in China, which according to Euromonitor International ranked second globally in value sales terms in 2009, with US\$ 4.6 billion, losing only to the US, with US\$15.7 billion. In an attempt to capitalize on this market, Royal Caribbean and Carnival are investing aggressively in the region and developing the Chinese market from the inside by setting up local offices.

To further consolidate its presence in the region, Carnival introduced a second vessel in China in 2009 - Costa Classica (1,302-passengers) - and substituted its Costa Allegra (784-passenger) with a much larger ship - Costa Romantica (1,356 double passenger occupancy). Since its debut in China back in 2006, Costa Cruises has invested a total of EUR50 million in Asia Pacific and increased five times its capacity with a total of 93 stops in Chinese ports in 2010.

All of its ships sail from Shanghai, Tianjin, Hong Kong and Singapore with stops at world famous resorts in the region including Sanya (China), Halong Bay (Vietnam), De Nang (Vietnam), Okinawa (Japan), Kagoshima (Japan), Nagasaki (Japan), Fukuoka (Japan) and Cheju (South Korea).

It is important to note, however, that local source markets are not the main driver for all ships and itineraries. Princess from Royal Caribbean often diversifies its itineraries for its repeat passengers coming from North America, Europe and even Australia.

## **Fast Developing Port Infrastructure**

As Asia Pacific gains space in the global cruise category, the region will see increased investment in port infrastructure, a critical factor to guarantee the delivery of exceptional service and compete against well-established cruising markets like North America and the Caribbean.

Early in 2010, China inaugurated a new terminal in Tianjin, and in 2012 it will debut a second facility in Shanghai, boosting its capacity to handle eight cruise ships per day. Hong Kong and Singapore are also developing new port terminal facilities capable of handling ships as large as the Oasis class from Royal Caribbean.



## **Pricing Advantage**

The region will also benefit in terms of pricing in the short term. Although not ideal to cruise companies as it sacrifices operational margins, it is a great competitive advantage over the Caribbean and Europe. It is important to note, however, that as demand increases, prices are most likely to follow.

## **Intra-Regional Flows**

Also key for local tourists is to keep in mind that Hong Kong is the first choice of many Chinese mainland residents when they travel abroad, according to the Beijing office of the Hong Kong Tourism Board.

More than 90% of over 8,000 netizens on the Chinese mainland surveyed late last year said Hong Kong is the very place they hope to visit the most. Mainland Chinese consumers are especially attracted to the wider selection of luxury goods in Hong Kong and the fact that Hong Kong has no sales tax, unlike mainland China. Luxury goods can be 10%-20% cheaper than they are on the mainland.

All these factors combined are expected to turn Asia Pacific into the ultimate cruising destination, boosting tourism flows to and within the region, further enhancing economic development to the detriment of other destinations worldwide.

**Global Cruise Sales  
in US\$ million**

<b>Region</b>	<b>2009 Value</b>	<b>% Market Share</b>
<i>North America</i>	16,705.7	56.7%
<i>Western Europe</i>	5,996.9	20.3%
<i>Asia Pacific</i>	5,393.3	18.3%
<i>Latin America</i>	907.3	3.1%
<i>Australia</i>	277.0	0.9%
<i>Eastern Europe</i>	154.1	0.5%
<i>Middle East/Africa</i>	50.5	0.2%
<b>TOTAL</b>	<b>29,484.8</b>	<b>100.0%</b>

**Source: Euromonitor International**

**By Lisandra Minussi** (Travel and Tourism Analyst at Euromonitor International)

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