



25 March 2013

(13-1547)

Page: 1/16

Trade Policy Review Body

Original: English

TRADE POLICY REVIEW

REPORT BY

MACAO, CHINA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Macao, China is attached.

Contents

1 OVERVIEW	3
2 MAIN INSTITUTIONAL DEVELOPMENTS	4
2.1 Legal Framework.....	4
2.2 Participation in the Multilateral Trading System.....	4
2.3 Reform of Public Administration and Institutionalization of Transparency	4
2.4 Other Institutional Developments.....	5
3 RECENT ECONOMIC AND POLICY DEVELOPMENTS.....	5
3.1 Macroeconomic Developments.....	5
3.2 Structural Developments	6
3.3 Other Developments	6
4 TRADE AND INVESTMENT POLICIES.....	7
4.1 Deepening Regional Cooperation.....	7
4.2 Other Trade and Trade-Related Policy Developments	8
5 SECTORAL DEVELOPMENTS	12
5.1 Overview.....	12
5.2 Trade in Manufactured Goods	12
5.3 Trade in Services.....	12
5.4 Other Sectors: Construction and Electricity.....	15
6 PROSPECTS	16

1 OVERVIEW

1.1. The Government of the Macao Special Administrative Region (MSAR) of the People's Republic of China (PRC) is pleased to present this report on developments in the economic and trade environment of Macao, China since its previous Trade Policy Review (TPR) in 2007. This is the fourth TPR of Macao, China and the third since the establishment in 1999 of the MSAR. Macao, China welcomes this review, which is undertaken in the spirit of transparency. It provides the opportunity to bring Members' attention to progress in improving the MSAR's trade policy regime in accordance with its Basic Law and the WTO's underlying principles. At the same time, it highlights the rapid economic and social development of Macao, China, and the role of key trade and trade-related policies in this process, as well as the future challenges it faces in this regard.

1.2. In accordance with the Basic Law principle of "one-country, two systems", the MSAR continues to enjoy a high degree of autonomy in its economic and trade relations and remains one of the WTO's most open and free economies with a fundamental commitment to free trade. Not only is the MSAR a free port, with no tariffs or other charges, or restrictions on its imports or exports, there are no barriers to inward foreign direct investment (FDI).

1.3. Notwithstanding the global financial crisis (GFC), no protectionist measures have been taken since the previous TPR. On the contrary, the Government of the MSAR has further liberalized its predominantly services-oriented economy, having already considerably improved its offer to liberalize services in the context of multilateral negotiations under the Doha Development Agenda (DDA).

1.4. Macao, China continues to look outward and strongly supports the multilateral trading system (MTS). At the same time, as a consequence of the Closer Economic Partnership Arrangement (CEPA) with Mainland China, the Government of the MSAR is deepening its economic and trade relationship with the Mainland, especially the Pearl River Delta (PRD) region. This closer relationship with the fast growing Mainland has helped Macao, China to weather the GFC storm and enjoy strong growth throughout the period under review, in which GDP grew at an average annual rate of 13.3%. The opportunities for freer trade created by the MTS and CEPA are also helping to pave the way for increased market-driven diversification of the economy of the MSAR, including its exports, traditionally a major contributor to growth.

1.5. Since 2007, the transformation of the economy into a primarily services-based one has continued, with services' share of GDP rising to 94% and manufacturing's share falling below 1% in 2011. The gaming sector accounts for almost 45% of GDP, 21% of employment, most of exports, and more than half of inward FDI. Gaming's large (and growing) share of GDP is the outcome of free market forces and the MSAR's existing strong comparative advantage as far as this particular service sector is concerned.

1.6. The Government's economic policy goal concerning both services and manufacturing is to ensure a business environment that is secure, with minimal intervention and thus as few distortions to competition as possible, including low taxation. Nonetheless, with a view to facilitating market-based economic diversification, the Government has been implementing a number of trade and trade-related policy initiatives since 2007 in order to nurture manufacturing, which had previously been the mainstay of the economy, but has remained in decline following the expiry of the Agreement on Textiles and Clothing (ATC), together with service sectors other than gaming, thereby creating new engines for growth. These and other policy initiatives are considered necessary in certain circumstances, including: the existence of economies of scale; the presence of technological or other spill overs, such as those contributing to traffic congestion and environmental degradation; the provision of "public goods (and services)"; and the fostering of small and medium-sized businesses (SMEs). In these instances, the domestic market may fail to reflect adequately social costs and benefits.

1.7. In order to achieve continued as well as inclusive growth, the Government of the MSAR faces this and a number of other policy challenges. These include ensuring that the fruits of economic growth are fairly shared, thereby fostering social harmony, that growth is not detrimental to the environment, and improving public infrastructure, particularly housing and transportation, the quality of human resources, and clearing the way for economic diversification.

2 MAIN INSTITUTIONAL DEVELOPMENTS

2.1 Legal Framework

2.1. Since the previous TPR of Macao, China in 2007, there have been no changes in the Basic Law, the main legal document that provides the basis for the MSAR's high degree of autonomy as far as economic and trade policies are concerned, in accordance with the principle of "one country, two systems". The Basic Law, *inter alia*, states that the MSAR shall maintain its status as a separate customs territory and free port, with its own freely-convertible currency and an independent taxation system, pursue the policy of free trade and safeguard the free movement of goods, intangible assets and capital.

2.2 Participation in the Multilateral Trading System

2.2. In formulating and implementing its trade policies, the MSAR adheres to the basic WTO principles of non-discrimination and predictability as well as transparency. As regards transparency, Macao, China has fulfilled its obligation to notify Members fully and promptly of changes in those trade policies subject to WTO agreements. Furthermore, Macao, China welcomes the current review of its trade and trade-related policies, undertaken in accordance with the TPR Mechanism.

2.3. As regards further liberalization, Macao, China is committed to achieving a successful conclusion of the ongoing negotiations related to the DDA. In this context, Macao, China remains willing to bind more of its tariff lines and it has considerably improved its offer of commitments pertaining to those service sectors covered by the GATS.

2.3 Reform of Public Administration and Institutionalization of Transparency

2.4. Macao, China already has a high degree of transparency where its trade and trade-related policies, measures and regulations are concerned. Nonetheless, in accordance with its objective of more open and transparent government in order to promote evidence-based policy-making, the MSAR has continued to implement reforms intended to enhance transparency of its trade and trade-related policies and regulations, thereby increasing public accountability and integrity.

2.5. In particular, in 2010 a Government Spokesperson system was established to explain policies and respond to public concerns. In 2011, Standard Guidelines for Public Policy Consultations were implemented with the aim of providing the opportunity and reasonable time period for interested parties to comment on the proposed introduction or amendment of policies and laws, including those related to trade.

2.6. As highlighted in Section 4.2(a), since the previous TPR in 2007, steps have continued to be taken to improve the transparency and openness of the Government procurement process. Moreover, as a consequence of the completion of the second phase of public consultation in 2011, a revision of the Land Law has been submitted to the Legislative Assembly. One of the objectives of this revision is to further enhance the transparency of land allocation.

2.7. In connection with the MSAR's membership of the Global Forum on Transparency and Exchange of Information for Tax Purposes, exchange of information (EOI) will be further enhanced with the passage of the Exchange of Information for Tax Purposes Act by the Legislative Assembly in 2009, and subsequent conclusion of the Tax Information Exchange Agreements (TIEAs) with ten countries, as well as one new double tax convention (with Cape Verde) and two protocols with Mainland China.

2.8. As regards measures to combat corruption, the Commission Against Corruption (CCAC) has stepped up supervision of the private as well as the public sector, with the establishment under its auspices of an anti-graft system involving, *inter alia*, amendments, adopted by the Legislative Assembly in 2013, to the System of Declaration of Income and Property for civil servants and the

entry into force of the Prevention and Suppression of Bribery in the Private Sector Law in 2010 as well as measures to deal with complaints.¹

2.9. The Commission of Audit (CA), including staff training, has been strengthened with a view to promoting an auditing culture embodying the concepts of value-for-money and efficient resource allocation as far as public expenditure is concerned.

2.10. Another development was the establishment in 2011 of the Policy Research Office. Its functions include research and consultations concerning policies, thereby contributing to improvements in the effectiveness of economic and social policies. For example, following the 2011 Population Census, the Policy Research Office has begun public consultations on the MSAR's population policy framework.

2.4 Other Institutional Developments

2.11. Several government agencies have been reformed or established since the previous TPR. They include: 1) the Law Reform and International Law Bureau (DSRJDI), whose responsibilities entail assisting the Government in law making procedures, conducting preparatory work and drafting legislation, including major codes and legal regimes, and providing legal assistance in the coordination, formulation and monitoring of legislative schemes, as well as in the scope of International Law, namely regarding the application of International Law in the MSAR's legal system; 2) the Transportation Infrastructure Office (GIT), which is responsible for coordinating the construction and development of the Light Rapid Transit (LRT) system; 3) the Transport Bureau (DSAT), which is responsible for developing a safe, smooth, environmentally-friendly and convenient commuting and traffic system; and 4) the Environmental Protection Bureau (DSPA), whose principal duties involve research and planning as well as implementing, coordinating and promoting policies related to environmental protection. Another institutional development of possible interest to Members in connection with this review is the establishment of the Food Safety Coordination Group in September 2008. This group is responsible for monitoring food safety and dealing with any potential food safety incidents in a timely fashion, consisting of representatives from various government departments. The Centre for Food Safety will be established once the new Food Safety Law comes into effect. Another noteworthy institutional development was the implementation of the Fiscal Reserve System on 1 January 2012, which is intended to enhance reserve management with a view to optimising the MSAR's financial resources as well as providing a safeguard against financial risks.

3 RECENT ECONOMIC AND POLICY DEVELOPMENTS

3.1 Macroeconomic Developments

3.1. Growth in GDP slowed down in 2008 and 2009 from double- to single-digit rates as a result of reduced demand for gaming and tourism, and therefore the suspension of related infrastructure construction projects, partly due to the global financial crisis (GFC). However, growth rebounded to over 20% in 2010 and 2011, largely owing to increased exports of services, particularly those related to gaming, and large scale public investment in infrastructure. GDP thus grew at an average annual rate of 13.3% during the period under review. Moreover, the unemployment rate declined to a record low of 2% in the third quarter of 2012, with non-residents' share of total employment rising to 29% by the end of 2011. Having fallen markedly from 8.6% in 2008 to 1.2% and 2.8%, respectively, in 2009 and 2010, inflation jumped to 6.1% in 2012, mainly owing to rising domestic demand and higher prices of food, most of which is imported.

3.2. Economic growth during the period under review can be attributed to the resilience of the MSAR's economy, whose open and free market provides room to respond to external shocks, including the GFC. Gaming in particular has continued to prosper since its liberalization by the MSAR Government in 2002, not just in order to stimulate competition in the sector, but also to modernise it by attracting management know-how from abroad and developing non-gaming tourism. Gaming's contribution to GDP grew from 30% in 2007 to 44.7% in 2011. Gaming taxes

¹ According to the annual report for 2012 released by Political and Economic Risk Consultancy, Macao ranks sixth among 16 Asia-Pacific Members of the WTO with a grade of 2.85, much lower than the 4.78 points it scored in 2006 when it ranked fourth out of 13 Members in the Asia-Pacific region. The grades are scaled from 0 to 10, with 10 being the most corrupt and 0 being the cleanest.

also contribute to the financing of key social programs, which are necessary to ensure social cohesion, as well as to public investment that is essential for the achievement of a more diversified and balanced economy in the long term, without raising other taxes. The rebound in growth is also partly due to large-scale public investment in infrastructure (including the Light Rapid Transit project, improvements in border checkpoints, construction of the Hong Kong-Zhuhai-Macao Bridge and public housing projects) as well as the MSAR's deepening economic and trade relationship with Mainland China, especially the Pearl River Delta (PRD) region. At the same time, prudent fiscal policy (namely consistent fiscal surpluses since 2001, owing largely to tax revenues from gaming, and the Government's debt-free position) together with the continued link of the Macao pataca (MOP) to the Hong Kong dollar (and thus indirectly to the U.S. dollar) have contributed to macroeconomic stability and strengthened the confidence of local and foreign investors in Macao, China.

3.2 Structural Developments

3.3. Between 2007 and 2011, the MSAR continued to undergo major structural change in its merchandise trade, mainly as a result of the expiry of the ATC. This involved the decline in exports of textiles and clothing, which had accounted for two-thirds of manufacturing production and almost 90% of merchandise trade in domestic exports in 2007. As a consequence, manufacturing's share of GDP fell from 2.9% in 2007 to 0.7% in 2011. However, the CEPA has provided the MSAR with the opportunity to develop new manufacturing industries (such as coffee, recycled plastics and refined copper foil) by exempting tariffs on imports from the MSAR on condition that the goods concerned satisfy the specified rules of origin. It also provides foreign-owned enterprises that manufacture products in the MSAR with a tariff-free gateway to Mainland China's market.

3.4. By contrast, whereas the Mainland's share of the MSAR's merchandise imports dropped from 42.6% to 30.7% during the same period, the shares of the EU and Switzerland (and to a lesser extent Hong Kong, China) rose considerably. This shift in the pattern of imports is due to the MSAR's increased imports of luxury consumer goods, fuelled by soaring incoming visitors and some domestic demand.

3.5. As regards services exports, which account for 97% of the MSAR's total exports, tourism's share rose from 94% to 97% during the period under review, greatly facilitated by the CEPA's "Individual Traveller Scheme (ITS)", which accounted for roughly a quarter of the 28 million visitor arrivals in 2012.

3.6. Conscious of the importance to Macao, China of gaming and the need to nurture new sources of growth, the Government has been implementing a number of trade and trade-related policy initiatives since 2007 aimed at facilitating market-based economic diversification. These initiatives, which include the CEPA and other forms of regional cooperation (outlined below), are aimed at: paving the way for the upgrading of manufacturing; continuing to oversee the development of gaming, while regulating its scale and actively facilitating growth of tourism-related sectors; nurturing the conventions and exhibitions sector; positioning Macao, China as a world tourism and leisure centre; strengthening its unique regional role as a platform for commerce and trade services between China and Portuguese-speaking countries; the development of emerging industries, especially traditional Chinese medicine as well as cultural and creative industries; and supporting efforts by small and medium-sized enterprises (SMEs) to improve their competitiveness and develop Macao-branded goods and services.

3.3 Other Developments

3.7. In order to ensure that growth is more inclusive, so that it raises the standard of living of all Macao's inhabitants and thereby contributes to social harmony and stability, the Government has also been implementing various social policies. These policies concern mainly education, healthcare, social security and public housing. It has also been implementing policies to ensure environmentally-friendly growth.

3.8. Reflecting the high importance that the Government attaches to public education and its objective of alleviating the financial burden on parents of their children's education, in 2007 the MSAR began to implement the "15-year Free Education Scheme". As a consequence of this and

other programmes, the MSAR Government has increased spending on education from MOP 1.8 billion in 1999 to MOP 8.5 billion in 2011.

3.9. The main improvements to the healthcare system include: expanded patient support services; measures to increase the effectiveness of medical treatment; better allocation of human resources; and enhanced medical service quality.

3.10. In view of the MSAR's aging population, the Government has been overhauling the social security system in order to ensure better protection of Macao residents' standard of living after retirement. This system currently consists of two tiers. The first tier involves the Social Security System, which operates on a pay-as-you-go basis in accordance with the social insurance principle, and, since 1 January 2011, provides basic social security to residents of the MSAR, particularly the old-age pension. The System consists of obligatory system and arbitrary system. The obligatory system entails mandatory contributions from both employers and employees, whereas in the arbitrary system, qualified beneficiaries can apply for enrolment and pay contributions wholly on their own. The second tier currently involves an incentive basic fund involving a special allocation from budget surplus by the Government to the newly-introduced Provident Fund Individual Accounts on behalf of each qualified permanent resident aged 22 or over. These contributions by the Government are intended to pave the way for an eventual Fund (Central Provident Fund) consisting of non-mandatory contributions by both employers and employees.

3.11. Given the scarcity of land, the construction of public housing is also an important policy goal of the MSAR Government. Accordingly, 19,000 units of public housing have been constructed, as planned. To support the long-term development of the city and population growth, the Government will continue to reserve more land in the urban and newly reclaimed areas for additional public and private housing units.

3.12. The MSAR Government has also been implementing policies to protect the environment. Macao, China has been working on the Environmental Protection Planning of Macao (2010-2020) for the next decade until the year 2020, with the vision of "Building a low carbon Macao, creating green living together".

3.13. In addition, Macao, China has also established the "Environmental Protection and Energy Conservation Fund". The aim of this Fund is to encourage local enterprises and associations to purchase products and equipment that are environmental-friendly, energy efficient as well as water-saving so as to improve the environmental quality of Macao, China and promote the environmental industry development and the appropriate environmental-friendly measures for improving quality of life.

4 TRADE AND INVESTMENT POLICIES

4.1 Deepening Regional Cooperation

4.1. With a view to diversifying its increasingly services-oriented economy, and as part of its "Inviting In and Going Out" strategy, the MSAR has continued to widen the scope of its CEPA with Mainland China, particularly as far as services are concerned, through supplements, of which there have been six since 2007 (and nine since the CEPA was concluded in 2003). Thus, the CEPA has provided more investment and business opportunities for Macao, China's service providers as well as manufacturers to export to the Mainland market. In this connection, any qualified enterprise established in the MSAR may benefit from these opportunities. CEPA has also greatly increased the attractiveness of the MSAR to foreign investors wishing to enter the Mainland market.

4.2. Building on the "Outline Plan for the Reform and Development of the Pearl River Delta" as well as the "Hengqin Island Overall Development Plan" and the CEPA and its Supplements, the "Framework Agreement on Cooperation between Guangdong and Macao" was signed on 6 March 2011, reinforcing Guangdong as the pilot for new liberalization measures under the CEPA and enabling closer Guangdong-Macao cooperation. One of the main outcomes of this Framework Agreement is to foster cooperation between the MSAR and Guangdong in the joint development of industries in the Hengqin Island of Zhuhai.

4.3. Under the 2011 Framework Agreement, the MSAR and Guangdong Province will jointly develop the Guangdong-Macao Co-operation Industrial Park in Hengqin. The Industrial Park, including the "Guangdong and Macao Traditional Chinese Medical Science and Technology Industrial Park" (hereafter referred to as "Traditional Chinese Medicine Park"), is set out to provide for the joint development of Chinese medicine, cultural and creative industries, education and professional training, and other industries, thereby promoting regional cooperation. Currently, there are two major co-operation projects under way on Hengqin Island, the "Traditional Chinese Medicine Park" and the University of Macau New Campus in Hengqin.

4.4. The new campus of the University of Macau involves a legal arrangement between the MSAR and Mainland China, that falls under the jurisdiction of the MSAR. Located in the east of the Island, the campus covers a 1.09 square kilometre plot of land connected with the MSAR by an underwater tunnel, so that students and staff do not need to go through immigration checkpoints. Construction work began on the new site in December 2009 and is due to be finished by the second quarter of 2013.

4.5. The above new developments concerning the MSAR's deepening economic relationship with the Mainland, especially the breakthrough involving joint projects, are aimed at helping Macao, China to deliver on its advantages, increasing the competitiveness of its enterprises, especially SMEs, and providing new engines for economic development.

4.6. However, the MSAR is also looking beyond Mainland China to develop trade ties. The Government continues to work with the private sector to explore business opportunities with Portuguese-speaking countries, the EU and Latin America. In particular, the MSAR has established itself as a platform between China and Portuguese-speaking countries as far as trade and economic cooperation are concerned following the hosting in 2003 of the *Ministerial Conference* of the Forum for Economic and Trade Cooperation between China and Portuguese-speaking countries. In order to perform this role, the Permanent Secretariat to the Forum is located in Macao, China. During the Third Ministerial Conference of the Forum held in November 2010, an action plan was formulated for economic and trade cooperation between China and Portuguese-speaking countries from 2010 to 2013. This action plan encompasses cooperation in various areas, including trade, investment, business, human resources, natural resources, tourism, finance, and construction of basic infrastructure.

4.2 Other Trade and Trade-Related Policy Developments

(a) Trade policies

Customs procedures

4.7. In accordance with its status as a free port, the MSAR does not levy any tariffs or other taxes on imports or exports, and, in the absence of any laws concerning anti-dumping, countervailing or safeguards, imposes no such duties. Nor are there any charges for customs clearance. In general, imports and exports are subject only to a declaration for statistical purposes. Customs clearance procedures were normally completed within 20 minutes prior to May 2011. Since then, clearance is even quicker if importers choose to make declarations electronically through the Electronic Data Interchange (EDI) System, which encompasses import/export licenses, import/export declarations and re-export declarations. This is a major step in facilitating trade and improving the accuracy of trade statistics. In the near future, Macao Customs Service intends to extend the EDI system to documents for goods in transit.

4.8. Traders importing or exporting products regulated by the Foreign Trade Law and other specific laws must obtain prior authorisation in the form of a license. Import and export licensing is used mainly for health, safety, environmental and security reasons, and also (in the case of equipment or raw materials used in the manufacture of optical discs) for preventing infringement of intellectual property rights. In addition, export licenses are necessary for exports of textiles and garments destined for Canada, the European Union, Norway, Turkey and the United States. Since 2009, licenses are also required for imports or exports of certain chemical substances, in accordance with the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

4.9. Macao, China does not impose any bans on imports other than those required on grounds of health and safety, environmental protection and compliance with international obligations, including U.N. resolutions.

4.10. As Macao, China does not levy any tariffs on imports, it does not have preferential or non-preferential rules of origin for imports, and therefore, no certificate of origin is required for imports of goods. As regards exports of goods to Mainland China under the CEPA, in order to enjoy duty-free treatment, a certificate of origin is required to prove that the agreed rules of origin are met. A certificate of origin is also required for exports of goods under GSP.

Tariff policy

4.11. In accordance with the Basic Law, the MSAR will maintain its traditional status as a free port and thus not levy tariffs on any imported goods, irrespective of its tariff bindings. All of its tariff lines subject to bindings are bound at zero (including those pertaining to agricultural products). Since the conclusion of the Uruguay Round negotiations, successive additional bindings were agreed in respect of items covered by the Information Technology Agreement and products contained in the Pharmaceutical Agreement. As a consequence, 27.9% of all tariff lines are currently bound at zero. As stated in its previous TPR, Macao, China remains open to bind more tariff lines in order to contribute to a successful conclusion of the current DDA negotiations, provided mutually satisfactory results can be achieved in these negotiations.

Consumption tax

4.12. The consumption tax is an internal indirect tax, which, like excise taxes elsewhere, is levied on the domestic consumption of a few specific products, irrespective of whether they are produced domestically or imported. The same applies in the case of the other main indirect tax on motor vehicles. Since August 2008, fuel and lubricants as well as beverages with an alcoholic content of less than 30% are no longer subject to consumption tax (and thus importers of these products no longer require the associated import license necessary to facilitate consumption tax collection). Thus, the consumption tax is now levied only on tobacco products and beverages with an alcoholic content of 30% or more.

Government procurement

4.13. Like many other economies, as government procurement accounts for a substantial share of commercial activities in the MSAR, public procurement policy plays a significant role in economic development. The Government has always strived to achieve a high standard of transparency and openness in its procurement regime. Although Macao, China is not a signatory to the Agreement on Government Procurement (GPA) of the WTO, its procurement procedures and disciplines are in compliance with international standards concerning tender offer, tender collection, tender opening and evaluation of tender documents, awarding contract and monitoring.

4.14. Since the previous TPR in 2007, efforts to improve transparency, streamline the procurement process and increase competition in public procurement have continued. For instance, the Office of Secretary for Transport and Public Works published guidelines on public works procurement in 2008 in order to further improve value for money, accountability and due process. The guidelines were subsequently revised in 2009 to include an annex, which specifies the duties of an assessment committee for public procurement.

4.15. With the aim of improving the efficiency of public works procurement, the Land, Public Works and Transport Bureau (DSSOPT) also introduced a new registrar system of qualified contractors for invited tendering in 2009. To be eligible for this system, contractors are required to register with DSSOPT. Entries of contractors in the system database are then designated to different groups according to their qualifications and past experience. Witnessed by an assessment committee, an appropriate list of qualified contractors is then drawn randomly from the database whenever a public tender is held. This mechanism helps to improve the reliability of the tender, quality of products and services, as well as maintenance and after-sale support.

4.16. Furthermore, multilingual tender notices in Chinese, Portuguese, and/or English are published in the Official Gazette, local newspapers and relevant government websites in order to provide better dissemination of information among the bidders and users.

4.17. In essence, the MSAR maintains an open and non-discriminatory procurement system. In the pursuit of continuous improvements in its government procurement regime, the Government will continue to conduct regular reviews in order to improve related laws and regulations, as well as to follow the government procurement developments at the international level.

Measures to facilitate diversification of exports

4.18. The Government of MSAR does not levy any taxes or other charges on exports, nor does it provide subsidies or other financial incentives to exports. However, in order to increase domestic and foreign-owned enterprises' awareness of the export opportunities provided by multilateral and regional trade liberalization, and enable them to take advantage of these opportunities, the Macao Trade and Investment Promotion Institute (IPIM) is responsible for facilitating trade and attracting foreign investment, as well as disseminating trade, economic and statistical information on various export markets. Its "Regulations on Participation in Promotional Activities" also helps exporters to participate in trade promotion events, including local and international fairs. Furthermore, the IPIM organises exhibitions to promote "Macao products", facilitate business-matching contacts, exchange information, and highlight the MSAR's role as an economic and trade platform between China and foreign, including Portuguese-speaking, countries. In May 2011, the "Macao Ideas" initiative was launched to serve as a product display centre to promote products "Made in Macao", "Macao Brand", and "Designed in Macao", and Portuguese-speaking countries' products.

(b) Foreign investment regime

4.19. Macao, China is open to foreign investment, with no restrictions or controls whatsoever on FDI or the repatriation of profits. Its long-standing openness to FDI is such that foreign-owned companies are strongly represented in many sectors of the economy, including aviation, banking and insurance, construction, electricity, gaming, hotels, telecommunications and water supply. Given FDI's considerable contribution to the MSAR's economic growth during the past decade and its key role in further developing and diversifying the economy, attracting FDI is a very important objective of Government policy.

4.20. Accordingly, the MSAR's tax system is simple and tax rates are low, with the corporate tax rate, for example, ranging from 3% to a maximum of only 12% of profits. At the same time, the Government provides a number of tax as well as non-tax incentives to foreign and local investors alike, with the aim of enhancing the business environment. These include complete or partial exemptions from corporate profits tax, business registration tax, property tax, tourism tax and stamp duty for investments aimed at, *inter alia*, alleviating tax burden on the residents, individuals running a business, and enterprises.

4.21. Furthermore, the "One-Stop Service" operated by IPIM continues to assist investors starting up and registering a company in Macao, China. IPIM's Macao Business Support Centre may also grant foreign companies establishing themselves in Macao, China temporary office space and other facilities in order to reduce their start-up costs.

(c) Intellectual property rights

4.22. Fully aware of the important role played by protection of intellectual property rights (IPRs) in attracting inward FDI (as well as associated new technology and know-how), the Government continues to strengthen transparency, the legal framework and enforcement of IPR laws, especially concerning copyright and related rights and optical disc piracy. Accordingly, an amendment to the Copyright and Related Rights Code entered into force on 1 June 2012 with the aim of strengthening copyright protection in a digital environment, in compliance with international standards. More specifically, the amendment provides protection for technological measures and electronic information for copyright management, as well as criminal penalties in respect of copyright violations as a result of dissemination by means of the Internet. Furthermore, a review of the Industrial Property Code was initiated in 2012 in order to improve and update existing legislation. In this regard, following the MSAR's acceptance of the Protocol Amending the TRIPS

Agreement concerning compulsory licensing for pharmaceutical products in situations of national emergency or other circumstances of extreme urgency, the Code will be amended to incorporate the relevant TRIPS provisions. No compulsory license has ever been granted by Macao.

4.23. Macao, China has also stepped up efforts to enforce protection of IPR by preventing and punishing violations. As a result of the recent amendment to the Copyright and Related Rights Code, the Macao Customs Service is focusing its enforcement resources increasingly on infringement of IPRs through the Internet.

(d) Support for small and medium-sized businesses (SMEs)

4.24. The Government recognises that SMEs form the backbone of Macao's economy. Not only do SMEs account for a major share of employment, thereby contributing to social stability, they are also a potentially important source of innovation and economic diversification. In this regard, the Government has been enhancing measures in recent years to support the development of SMEs. These enhanced measures are not just intended to alleviate the problems SMEs encounter in obtaining finance for investment and acquiring new technology, but, more broadly, to improve their competitiveness, thereby enabling them to take advantage of the opportunities provided by deepening regional cooperation to enter new markets.

4.25. The main measures to alleviate SMEs' difficulties in obtaining finance for investment are the SME Aid Scheme (enhanced in 2009 and 2012), the SME Credit Guarantee Scheme (enhanced in 2009), and the SME Credit Guarantee Scheme Designated for Special Projects. In addition, the "E-Commerce Promotion Incentive Measures" was launched in 2009 by the SME Service Centre under the auspices of the IPIM.

(e) Other trade-related policies

Land

4.26. In December 2012, the Government submitted to the Legislative Assembly a revised Land Law with a view not just to enhancing transparency with regard to the allocation of land, which, in accordance with the Basic Law, remains the property of the State, but also to improving its allocation and urban planning.

Infrastructure policy

4.27. Other major policies involve the development of infrastructure (notably transport and public works), particularly projects aimed at integrating transportation in the Greater Pearl River Delta.

4.28. Of all the infrastructure regarding transport links between the MSAR and nearby regions, the Hong Kong-Zhuhai-Macao Bridge is the most important. This bridge will strengthen economic ties between the two SARs and the western part of the Pearl River Delta region. Construction started in December 2009 and is scheduled for completion by 2016. The bridge will undoubtedly help to boost the development of Macao, China as a world tourism and leisure centre, as well as facilitate economic diversification.

4.29. As part of its strategy to put "Public Transport First", the MSAR Government is also in the process of constructing an integrated urban public transport system for the MSAR, including the Light Rapid Transit (LRT), in order to provide a more efficient and environmental-friendly way of travel for residents and visitors (see section 5.3)(e)). It is envisaged that the LRT will eventually link up with Hengqin, the future Hong Kong-Zhuhai-Macao Bridge, and the Guangzhou-Zhuhai intercity rail system, which was launched at the end of 2012, thereby further integrating the Pearl River Delta region.

Competition policy

4.30. The MSAR's traditional status as a free port, and consequent openness to imports, has, by and large, guaranteed competition in domestic goods markets. Its openness to inward FDI, and thus commercial presence (the main mode for cross-border delivery of services), also ensures vigorous competition in services markets, many of which are now characterized by strong

commercial presence of foreign-owned companies. The MSAR's overall openness to trade in services is exemplified by its revised offer of commitments on services in negotiations in the context of the DDA; this revised offer involves commitments in eight of the eleven sectors (73 subsectors) covered by the GATS.

4.31. At present, the MSAR does not have a comprehensive competition law. Relevant provisions are instead found in the Commercial Code and other sector-specific regulations and rules, which the Government believes are sufficient and appropriate, given the high degree of openness, very small scale and scope of the local economy. Competition was recently introduced into fixed telecommunications, bus services and the electricity market.

5 SECTORAL DEVELOPMENTS

5.1 Overview

5.1. During the period under review, manufacturing's long-term decline has continued. But growth in the services sectors has more than compensated for the resulting loss of manufacturing production, exports and employment. The outcome is that services accounted for 94% of GDP, 97% of exports and about 87% of employment in 2011. Gaming accounted for 44.7% of GDP and most of the MSAR's exports. This restructuring of the economy has been greatly facilitated by the flexibility of the domestic market and the Government's market-oriented policies.

5.2 Trade in Manufactured Goods

5.2. Manufacturing's contribution to Macao's GDP dropped from 2.9% in 2007 to 0.7% in 2011 owing to the intensifying competition in the global market, particularly of textiles and clothing, which account for most manufactured goods. Revival of manufacturing, therefore, will depend on manufacturers' ability to improve their international competitiveness, develop new market niches and capitalise on Macao's proximity to Mainland China.

5.3. The opening of the Mainland market to imports from Macao, China owing to the CEPA provides domestic manufacturers with export opportunities. In order to help domestic manufacturers to take advantage of these opportunities in the Mainland market and elsewhere, thereby diversifying the economy, the Government of the MSAR has launched various measures to promote "Made in Macao" products. First, it provides assistance related to technical production, product design, and vocational training for the textiles and clothing industry, which remains the main exporter of manufactured goods. Second, as mentioned earlier, "Macao Ideas" was set up in 2011 to display and promote products designed and manufactured in Macao. Third, "Dynamic Macao Business and Trade Fairs" organised by local business association and supported by the MSAR Government departments were held in various Mainland cities to help the MSAR's businesses to promote their products and seek opportunities in the vast Mainland market. As mentioned earlier (in section 4.2(d)), since most manufacturers in the MSAR are SMEs, they have also received support enabling them to develop their own brands and improve the quality of their products. These measures, together with further market opening under the CEPA, have contributed to economic diversification of the manufacturing sector by facilitating the development of new products, such as coffee, refined copper foil, stamps, and recycled plastics; exports of these products to Mainland China have increased markedly since 2009.

5.4. Moreover, in conjunction with the establishment of the "Traditional Chinese Medicine Park" on Hengqin Island, with a view to facilitating the development and manufacture of high quality Chinese medicines, the State Key Laboratory for Quality Research in Chinese Medicine (QRCM Lab) was set up in 2011. The QRCM Lab is jointly operated by the University of Macau and the Macau University of Science and Technology. Furthermore, the MSAR and the World Health Organization signed a four-year cooperation plan (starting in September 2011 and ending on 31 December 2015) involving the co-organisation of a series of training programs in the area of traditional Chinese medicine.

5.3 Trade in Services

5.5. The MSAR's traditionally high degree of openness to trade in services, especially to inward FDI, helps to ensure vigorous competition in most services markets, including, aviation, banking

and insurance, construction, gaming, hotels, and telecommunications. In a few instances, however, concessions are accorded to public utilities owing to the small size of the domestic market, although some of these sectors have also been gradually opened to competition, including mobile telecommunications and internet services in 2001, electricity generation in 2010, and fixed telecommunications services in 2012. The MSAR's revised offer of commitments on services in eight of the eleven sectors (73 subsectors) covered by the GATS negotiations in the context of the DDA is indicative of its willingness to open its services markets further to international trade.

(a) Gaming

5.6. Since the end of the 40-year monopoly in the gaming sector in 2002 and its opening to FDI and associated foreign know-how, gaming has grown rapidly. The sector has been further boosted by the introduction and subsequent extension of the Individual Travellers Scheme (ITS) under the CEPA. Consequently, in 2012, Mainland China accounted for roughly 60 per cent of the 28 million visitors arriving in the MSAR. Even though tourism has undoubtedly benefitted from the prosperity of gaming, with a view to diversifying services, the Government has been implementing and, when necessary, modifying measures to regulate the scope and pace of the gaming industry's expansion while facilitating growth of associated tourism.

5.7. Thus, during the period under review, the Government has strengthened supervision of gaming to ensure the gradual and healthy development of the sector and promote responsible gaming. It also passed a law in 2012 increasing the age of those gaming or working in the casinos from 18 to 21. At the same time, it has imposed limits on the number of new casinos, gaming tables and slot machines. As a consequence, no new casinos were opened in 2010 and only one each was opened in 2011 and 2012. Moreover, in March 2010, the Government announced that the number of gaming tables would be limited to 5,500 until 2013, after which their growth would be restricted by an average of 3% annually until 2023. Those casino operators that wish to expand their business are required to build non-gaming facilities, although some operators have been doing this already. In addition, the Government is in the process of revising anti-money laundering legislation in order to improve "due diligence" concerning customers.

(b) Tourism

5.8. The Government attaches high priority to developing the MSAR into a high-quality "World Tourism and Leisure Centre" destination, in which business tourism, involving meetings, incentives, conventions and exhibitions (MICE), also takes root. Heritage and culture play a key role in tourism and provide social benefits for local residents. Clearly, the MSAR's international reputation regarding cultural tourism has been greatly enhanced by the designation of its unique Historic Centre by UNESCO as a World Heritage Site. The MSAR's history, cultural exchange between east and west has nurtured its cultural heritage consisting of a blend of cultures, people, and architecture.

5.9. The Government's goal is to broaden the MSAR's attractiveness, by facilitating the development of high-quality family-oriented leisure resorts, featuring, *inter alia*, holiday hotels and other non-gaming tourist attractions. In order to achieve this goal, the Government continues to work closely with operators in the tourism sector to evaluate and improve laws and regulations concerning hotels, food and beverage establishments, travel agencies and tour guides as well as to strengthen the training of tourism-related professionals (including tour operators). To this end, it has organized retail sector training and co-organised job training courses for the food and beverage sector.

5.10. Enhancement of the MSAR's international reputation as a high-quality "World Tourism and Leisure Centre" destination is also closely dependent on urban planning and the upgrading of its infrastructure, especially urban transportation as well as land, sea and air links with Mainland China, the Hong Kong SAR and abroad. Clearly, major infrastructure projects, such as the Light Rapid Transit, the Hong Kong-Zhuhai-Macao Bridge and the New Ferry Terminal, once completed, will undoubtedly improve the attractiveness of Macao, China to visitors.

5.11. As regards regional and international cooperation, the MSAR has been working closely with the tourism authorities of the nearby regions to further strengthen communication and cooperation. It has also been actively participating in international tourism organisations, namely

the World Tourism Organization (UNWTO), Pacific Asia Travel Association (PATA), International Congress and Convention Association (ICCA), Asian Association of Convention and Visitor Bureaus (AACVB) as well as the Asia-Pacific Economic Cooperation (APEC) Tourism Working Group, where Macao, China has "guest economy" status.

(c) Conventions and exhibitions

5.12. Following the completion of major convention and exhibition venues, the convention and exhibition sector has been taking shape in recent years. To facilitate its growth, the MSAR Government has established the Committee for the Development of Conventions and Exhibitions, which formulates strategies and measures in support of its development. In addition, the Conventions and Exhibitions and Economic Activities Development Department was set up under the Macao Economic Services with the aim of boosting the competitive edge of the MSAR's conventions and exhibitions sector and developing Macao, China into a destination for various major events of this kind.

5.13. In 2011, a total of 1,045 MICE events were held in Macao, China, with the total number of participants and attendees nearing the 1.3 million mark, a 59% increase on a year-on-year basis, reflecting improvements in the quality of the conventions and exhibitions held.

(d) Cultural and creative industries

5.14. The MSAR Government sees great potential in capitalising on the cultural heritage from both East and West, especially with the inclusion of "The Historic Monuments of Macao" on UNESCO's World Heritage List. Furthermore, the Cultural Affairs Bureau established the Department for the Promotion of Cultural and Creative industries in 2010, to facilitate the growth of emerging cultural and creative industries in Macao, China. Its work includes: promoting and exhibiting cultural and creative products; conducting studies and formulating a policy framework for its development; as well as collecting information on local businesses with a cultural and creative orientation.

(e) Transportation

5.15. The MSAR Government has also adopted a strategy of "Public Transport First" by establishing an integrated urban public transport system. Announced in 2007, the construction of the MSAR's Light Rapid Transit (LRT) is aimed at providing a more efficient and environmentally-friendly means of travel for residents and visitors. The construction of the first phase of the LRT officially began in 2012, and is expected to be in service by 2015. The LRT will eventually be linked with Hengqin, the future Hong Kong-Zhuhai-Macao Bridge, as well as the recently launched Guangzhou-Zhuhai intercity rail system, so that the Pearl River Delta is more integrated regionally. A dedicated department, the Transportation Infrastructure Office, was set up in 2007 to oversee this project.

5.16. In 2008, the MSAR Government inaugurated public consultations, the "Reform and Optimisation of Public Transport Scheme – 2008," to solicit opinions on various aspects of public transport in Macao, China. A majority of opinions was in favour of liberalizing the public bus market. Thus, in 2009, the MSAR Government opened a tender for all existing bus routes, which attracted one additional bus company to the existing two-operator concession market. The new bus services began in August 2011. To better coordinate all public transport affairs, the Transport Bureau was set up in 2008.

5.17. As regards civil aviation, the Government intends to implement gradually the master plan for the development of Macao International Airport in order to provide more convenient inbound and outbound air transport services for local residents and visitors as well as facilitating air cargo business.

(f) Telecommunications

5.18. Following the liberalization of mobile and internet services in 2001, the fixed telecommunications market was gradually liberalized as a result of the MSAR Government's midterm review of the concessionary agreement with the incumbent Companhia de Telecomunicações de Macau (CTM) in November 2009. Starting with the partial liberalization of

local and international leased lines and transit services, all other fixed telecommunications services have been fully liberalized since 1 January 2012. To cope with the full liberalization of the telecommunications market, the MSAR has launched a public tendering of a public fixed public telecommunications network licence. The tendering process is expected to be completed in the first quarter of 2013. The new entrant is required to commence services within 18 months of obtaining the license.

(g) Financial services

5.19. In the absence of a capital market, banks are the main form of external finance for investment. The MSAR Government has remained highly vigilant regarding international financial risks, with a view to safeguarding the stability of the financial system. Taking into consideration the operating environment of the MSAR and the relevant international supervisory principles and standards, particularly those advocated by the Basel Committee on Banking Supervision and the Financial Action Task Force on Money Laundering, the Monetary Authority of Macao (AMCM) has been making every endeavour to strengthen financial supervision. Between 2007 and 2012, the AMCM enhanced the supervisory requirements in relation to capital adequacy, anti-money laundering/combating financing of terrorism and financial disclosure, and introduced new supervisory guidelines on management of country risk, interest rate risk, liquidity risk, e-banking and investment activities, provision and distribution of financial products, outsourcing, business continuity and residential mortgage business. Given that a majority of banks in the MSAR are either branches or subsidiaries of overseas institutions, the AMCM has been maintaining a close working relationship with the respective home supervisory authorities, including participation in relevant supervisory colleges organised by these foreign counterparts, to exchange information on authorised institutions of dual presence. Furthermore, in order to enhance protection of depositors, the MSAR Government has established the Deposit Protection Fund under the "Deposit Protection Scheme" Law (No. 9/2012) with effect from October 2012.

5.20. As regards the insurance sector, in view of the financial crisis in late-2008, supervisory measures and monitoring of the financial strength and risk management of insurance companies have been strengthened with special emphasis on solvency and adequacy of financial guarantees. While recognising the need for greater co-operation with the home supervisors of regulated insurance companies, a Multilateral Memorandum of Understanding was signed in 2011 with the members of the International Association of Insurance Supervisors (IAIS) to promote co-operation and to facilitate information sharing and exchange between members. In the following year, the AMCM participated in supervisory colleges formed by home and host supervisors to foster closer co-operation and enhance information exchange. As regards customer protection and for the purpose of enhancing transparency during the sales process, life insurance companies are required to meet higher disclosure requirements relating to products sold, such as policy benefits, premiums and associated risks to prospective customers, to enable them to make informed choices.

5.21. The MSAR's largely foreign-owned financial services sector, which accounts for approximately 6% of its GDP, is among those ripe for diversification. The CEPA and its Supplements enable the MSAR's financial institutions to explore new business opportunities in Mainland China. In addition, the MSAR is seeking to widen the scope of RMB business and promoting its role as a RMB settlement platform in trade and other economic activities between China and Portuguese-speaking countries.

5.4 Other Sectors: Construction and Electricity

5.22. The construction sector has experienced robust growth in recent years. Strong demand for private residential housing has spurred investment of different scales in the sector. At the same time, the MSAR Government has increased the supply of public housing to help its citizens meet their accommodation needs. In addition to housing, building of new hotels and resorts has contributed substantially to the growth of the construction sector. Moreover, as mentioned in Section 4.2(e), several major infrastructure projects have been initiated since 2007.

5.23. In December 2010, the MSAR partially liberalized the electricity market by ending the concession of Companhia de Electricidade de Macau S.A. (CEM) in the generation of electricity.

6 PROSPECTS

6.1. Looking ahead, while Macao, China quickly resumed its robust growth in the wake of the GFC, the Government is nonetheless constantly seeking to strengthen its economic foundations and enhance the competitiveness of the MSAR's enterprises. Improved competitiveness will enable its enterprises to take advantage of new trading opportunities opened up by regional and multilateral trade liberalization and eventually achieve diversification of the MSAR's highly open and market-oriented economy. Diversification should be consistent with these enterprises' evolving comparative advantages.

6.2. In view of the existing uncertainty and instability concerning the global economy, the MSAR Government is seeking to create a favourable economic and trade environment to grasp opportunities arising from the steady growth of Mainland China and the rest of Asia. Deeper regional cooperation, enhancement of its position as a World Tourism and Leisure Centre and the development of other non-gaming sectors, such as conventions and exhibitions, cultural and creative industries as well as traditional Chinese medicine, are the primary development objectives of the MSAR Government in the near future. In this context, the MSAR Government will remain flexible in the face of the ever-changing economic environment and capitalise on the solid economic foundation that has been built up in the past ten years to achieve sustainable and more inclusive growth, thereby ensuring the MSAR's social stability and prosperity in the long-term.

6.3. Looking beyond Asia, given the vital role that international trade has traditionally played in ensuring the vibrancy of the MSAR's economy, and thus its prosperity, Macao, China continues to attach high importance to the multilateral trading system. In this regard, Macao, China believes that a successful conclusion of the DDA negotiations is the key to future economic growth and development, not just in Macao, China, but particularly for other developing as well as least-developed economies.
