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.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Macao, China.
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1 OVERVIEW

1.1. Macao, China is pleased to present its fifth Trade Policy Review at the World Trade Organization in the spirit of transparency to introduce the development of the Macao Special Administrative Region (MSAR) in respect of trade and trade-related areas since our previous review in 2013.

1.2. Macao, China embodies moderate economic diversification at the core of its economic policies. As a small and open economy, Macao, China adopts an outward-oriented approach by attracting foreign investment and supporting domestic enterprises to go global. In this connection, the MSAR has underscored its position as "One Centre, One Platform", with the "One Centre" being the World Centre of Tourism and Leisure, and the "One Platform" being the Commercial and Trade Cooperation Service Platform between China and Portuguese-speaking Countries. This positioning has been underpinned by the Five-Year Development Plan of the MSAR (2016-2020) as the core objective for economic development.

1.3. With openness in our development perspective, Macao, China remains supportive of the rules-based multilateral trading system and, simultaneously, explores cooperation opportunities with neighbouring regions. During the period under review, Macao, China has renewed its trade agreement with the Mainland of China, signed a free trade agreement with Hong Kong, China and actively participated in the development of the Guangdong-Hong Kong-Macao Greater Bay Area, which is the joint development strategy of the Guangdong Province of China and the two Special Administrative Regions of Hong Kong and Macao.

1.4. On the other hand, the MSAR Government also strives to reform public administration, optimize the economic and social environment by restructuring the functions of various government bureaux, introducing new laws concerning arbitration, public finance, tax, trade facilitation, financial services, environmental protection, social security system, government administration and so on.

1.5. In addition to the new economic and social measures, the State Council of the People's Republic of China issued a decision in December 2015 affirming, for the first time, the jurisdiction of the MSAR over the 85 square kilometres of the maritime area surrounding its land area. Since then, the administrative area of the MSAR has been expanded, empowering the government to develop and administer the surrounding maritime area under its jurisdiction.

2 MAIN INSTITUTIONAL DEVELOPMENTS

2.1 Legal Framework

2.1. Since China resumed its exercise of sovereignty over Macao in 1999, the Basic Law has been the constitutional document of the MSAR and no subsequent amendments have been made. The Basic Law stipulates the high degree of autonomy of the MSAR under the principle of "One Country, Two Systems", that the MSAR will maintain its status as a separate customs territory, a free port with zero tariff, free movement of goods, intangible assets and capital, freely-convertible currency and independent taxation system.

2.2 Participation in the Multilateral Trading System

2.2. As an original Member of the WTO, Macao, China remains committed to the rules-based multilateral trading system by maintaining the consistency of its trade measures and practices with the WTO rules, formulating and implementing its trade policy with the aim to promote a free and open trade environment, and upholding its support to the further liberalization of global trade.

2.3. In respect of transparency, Macao, China has fulfilled its obligations to submit notifications to keep Members informed of the changes in trade policies, including informing the WTO in a timely manner of its trade-related measures adopted during the COVID-19 pandemic to enhance the transparency of such measures. In respect of acceptance of new initiatives, Macao, China completed the ratification of the Agreement on Trade Facilitation (TFA) in 2016 with all facilitating measures therein duly implemented on 13 November 2019; while the ratification of the Protocol Amending the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which aimed at improving developing Members’ access to affordable medicines, was completed in 2017. Furthermore, Macao, China joined the expansion of the Information Technology Agreement (ITA II) and completed
the modification of the tariff schedule in December 2016. During the Eleventh Ministerial Conference (MC11), Macao, China has actively engaged in the discussions of Investment Facilitation for Development and will strive to achieve a concrete outcome on this initiative at the Twelfth Ministerial Conference (MC12).

2.3 Reform of Public Administration and Other Institutional Developments

2.4. With the objective to develop a service-based government that facilitates residents and businesses, the MSAR Government has initiated public administration reform to streamline administrative procedures and straighten out the functions of respective bureaux so as to better serve its policy objectives. The MSAR Government has made a series of public administration restructuring, including the inauguration of the Public Assets Supervision Planning Office of the MSAR, the transposition of the Civic and Municipal Affairs Bureau to the Municipal Affairs Bureau, the merging of the Macao Post and Bureau of Telecommunications Regulations into the Macao Post and Telecommunications Bureau, as well as the supervision entity of the Macao Government Tourism Office is changing from the Secretariat for Social Affairs and Culture to the Secretariat for Economy and Finance. In addition, the scope of responsibility of the Macao Economic Bureau will be extended to technology areas.

2.5. The MSAR Government has promulgated a number of new laws to improve the operation of public administration and optimize the trade environment. Among them, the Arbitration Law (Law No. 19/2019) serves to enhance the efficiency in handling disputes; the Budget Framework Law (Law No. 15/2017) stipulates and regulates the compilation, audit, approval, implementation and amendment of the government budget; the Legal Regime of Financial Leasing Companies (Law No. 6/2019) redefines and regulates financial leasing companies in the MSAR; Amendment to the Foreign Trade Law (Law No. 3/2016) introduces enhanced trade measures; the Maritime Area Management Framework Law (Law No. 7/2018) stipulates the goals and principles in managing the maritime area in supporting the sustainable development of the MSAR; the Electronic Governance (Law No. 2/2020) will also take effect in September 2020, marking a milestone of the MSAR’s e-government development.

2.6. On the front of tax cooperation, Macao, China is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes. In 2017, the MSAR Government promulgated the Legal Regime for the Exchange of Tax Information (Law No. 5/2017) to enable automatic exchange of information with other partner jurisdictions. With China extending the application of the Convention on Mutual Administrative Assistance in Tax Matters (MAC) to the MSAR, Macao, China became a signatory of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (MCAA) in September 2018. As of 2019, the MSAR Government has signed 16 Tax Information Exchange Agreements (TIEAs) and 13 Double Taxation Agreements (DTA) with other tax jurisdictions, of which one is on aviation enterprises.

2.7. Macao, China also joined the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) in November 2016 and has endorsed the BEPS minimum standards. With all these efforts, Macao, China has been considered to be a tax jurisdiction complying with the EU standards since March 2019 and will adopt most of the OECD’s recommendations in the future.

3 RECENT ECONOMIC DEVELOPMENTS

3.1 Macroeconomic Developments

3.1. Since Macao returns to China, the MSAR has experienced rapid economic growth, with gaming and tourism sectors as important pillars. This trend, however, was disrupted by economic fluctuations during the period under review. Three consecutive years of economic contraction abruptly came on the heels of the economy’s phenomenal growth in 2013, with its GDP slumping 1.2%, 21.6% and 0.7% respectively in 2014, 2015 and 2016, as a result of weakening demand for gaming and tourism. The economy was then rejuvenated by the uptick of external demand, and its GDP expanded by 9.9% in 2017 and 5.4% in 2018. In 2019, Macao, China’s GDP shrank by 4.7% in real terms, dragged down by falling investment and service exports. The GDP at current market prices amounted to MOP 434.7 billion (USD 53.9 billion) in 2019.

3.2. The global economic slowdown and uncertain trade environment have posed negative impact on Macao, China’s economy. Coupled with the COVID-19 outbreak in early 2020, the increasingly
sagging external demand is projected to further slow down the gaming and tourism sectors in the short term. The economy is still expected to moderately expand over the medium term, with the recovery of the tourism and leisure industry and appropriate increase in public investment.

3.3. Macao, China has high openness to trade, with its trade-to-GDP ratio equivalent to about 115\% of GDP on average during the period from 2013 to 2019. In 2019, imports of goods grew by 1.1\%, accounting for 88.1\% of total merchandise trade, while exports contracted by 8.3\%; for the first quarter of 2020, imports of goods dropped by 30.8\% year-on-year, accounting for 85.2\% of total merchandise trade, and exports dropped by 23.5\%. Total imports and exports of services in 2019 amounted to MOP 385.8 billion (USD 47.8 billion), about 90.3\% of which was exports of services; for the first quarter of 2020, total imports and exports of services amounted to MOP 43 billion (USD 5.3 billion). During the period from 2013 to 2019, exports of services grew at an average annual rate of 0.5\%, and imports of services grew at an average annual rate of 4.6\%.

3.4. The MSAR Government strictly adheres to the Basic Law’s mandate of maintaining balanced budgets, which lays the cornerstone to sustain prosperity and long-term development of the economy. The fiscal position of the MSAR Government remains strong with no public debt. Surplus for 2018 was MOP 58.3 billion (USD 7.2 billion) or 13.1\% of GDP. By the end of 2019, the accumulated fiscal reserves amounted to MOP 579.4 billion (USD 71.79 billion), representing approximately 133\% of GDP.

3.5. Due to the decrease in gaming tax revenue and the concurrent increase in spending in 2020 as a result of the COVID-19 pandemic, it is expected that the MSAR Government will have its first budget deficit since its establishment. In spite of this, the sufficient financial reserves allow the MSAR government to timely adopt proactive fiscal policies to mitigate the pandemic’s impact on the economy.

3.6. As a small and open economy, Macao, China has a credible exchange rate regime as an anchor for its monetary and financial stability. The existing Linked Exchange Rate System (LERS), which ties the MSAR currency, Macao pataca (MOP), to Hong Kong dollar at a rate of MOP 1.03 to HKD 1.00 and implicitly to USD 1.00 at a rate of MOP 8.00, has been implemented for over three decades and the IMF has reaffirmed its support for the LERS and envisaged that it remains well-suited for Macao, China. Under the currency board arrangement, the Macao pataca is fully backed by foreign exchange reserves. There are no exchange restrictions on current and capital account transactions in Macao, China.

3.7. The IMF recognized that Macao, China has strong fiscal and external financial positions, which greatly help stabilize the economy and reduce external vulnerabilities emanating from global economic uncertainties. Currently, the long-term credit ratings of Macao, China are "Aa3" by Moody’s and "AA" by Fitch.

3.2 Structural Developments

3.8. The service sector is the mainstay of Macao, China’s economy. Between 2013 and 2018, the average proportion of the service sector in total gross value added was 94.6\%, mainly contributed by the gaming sector, real estate activities, financial sector, distribution sector, renting and business activities, and hotel sector. Under the objectives and strategies of moderate economic diversification of the MSAR, it is notable that the proportion of gaming industry in total gross value added has declined from 63.1\% in 2013 to 50.5\% in 2018.

3.9. Apart from the service sector, the average proportion of gross value added of the production and construction sector in total gross value added was 5.4\%. Meanwhile, 4.3\% was from the construction sector, 0.6\% from the utilities sector\(^1\) and 0.5\% from the manufacturing sector during the period from 2013 to 2018.

3.10. The importance of economic diversification to sustainable development has received broad consensus across society and the MSAR Government has endeavoured to diversify the economy through promoting regional cooperation and nurturing emerging industries. These two paths are built on the advantages of the MSAR’s strategic positioning as the "World Centre of Tourism and Leisure" and the "Commercial and Trade Cooperation Service Platform between China and Portuguese-\

\(^1\) Electricity, gas and water supply.
Speaking Countries (PSCs)”. Meanwhile, the government supports small and medium-sized enterprises (SMEs) to improve their competitiveness and assists youth in starting business as well.

3.3 Other Developments

3.11. With the objective to lay out a comprehensive blueprint for the development of Macao, China that stretches over the economic, social, environmental and public administration aspects, the MSAR Government launched the Five-Year Development Plan of the MSAR (2016-2020) (the “Development Plan”) in September 2016. The Development Plan is the first and foremost attempt for the MSAR Government to set a broad array of goals for the government bureaux to follow. Prior to the promulgation of the Development Plan, the MSAR Government initiated a public consultation in the second quarter of 2016 to collect opinions from the general public.

3.12. The Development Plan aims to foster the establishment of “One Centre, One Platform” by developing the MSAR into a resident-friendly, business-friendly, commuter-friendly, tourist-friendly and entertainment-friendly city. To achieve these objectives, the Development Plan has rolled out the goals, which are maintaining the stable development of the overall economy, optimizing the industrial structure, improving people’s quality of life, improving the quality of education, and enhancing the efficiency and effectiveness of environmental protection, to name a few.

3.13. In order to have an objective assessment of the implementation of the Development Plan, a third-party assessment mechanism has been devised thereof. By the end of 2018, the average completion rate for the annual implementation plan was 90.3% according to the mid-term assessment released by the MSAR Government in October 2019.

3.14. Taking into account the positioning of “One Platform” and development strategies of the Mainland of China, PSCs and the MSAR, the MSAR is currently forging the development of a “commercial and trade service centre for SMEs between China and PSCs”, a “food product distribution centre for PSCs”, as well as a “convention and exhibition centre for economic and trade cooperation between China and PSCs”. Among other things, the “One Platform” also serves as a cultural exchange platform between East and West as well as renminbi (RMB) clearing platform for PSCs. In this context, the MSAR Government provides a variety of services to PSCs enterprises wishing to tap into the Mainland of China’s market and businesses from the Mainland of China, the MSAR and other regions intending to expand markets in the PSCs.

3.15. One of the objectives of the Development Plan is to improve the quality of life of Macao residents. To this end, the MSAR government has established a two-tier social security system, the first of which is composed of a social security system operated on the principle of social insurance to ensure the basic retirement life of all Macao residents, while the second of which is a non-mandatory central provident fund system operating as a savings-based pension scheme to provide residents with an extra cushion for retirement.

3.16. Protection of the environment is another fundamental in cultivating the MSAR as a more liveable city under the Development Plan. In recent years, waste management and improvement of air quality are the two main areas of concern of the MSAR Government. With respect to treatment of waste, the MSAR Government promotes the “polluter pays” principle, encourages the reduction and recycling of plastics as well as other wastes, optimizes the recycling facilities and other environmental protection infrastructures. Placing great emphasis upon waste reduction at source, the MSAR Government introduced a levy on plastic bags in November 2019, and launched a new recycling program in January 2020 for electronic and electrical devices. On improvement of air quality, the MSAR Government has raised the vehicle emission standards intending to reduce exhaust emissions from motor vehicles.

4 TRADE AND INVESTMENT POLICIES

4.1 Bilateral Trade Agreements

4.1.1 Mainland and Macao Closer Economic Partnership Arrangement (CEPA)

4.1. The Mainland of China and Macao, China signed the “Mainland and Macao Closer Economic Partnership Arrangement” (CEPA) on 17 October 2003. The two sides signed ten Supplements to
CEPA later on between 2004 and 2013 to broaden the scope of liberalization. Since 2014 and with the aim to enhance and consolidate the preferential measures under CEPA, the two sides have also signed five subsidiary agreements, namely, the "Agreement between the Mainland and Macao on Achieving Basic Liberalization of Trade in Services in Guangdong" (signed in 2014), the "Agreement on Trade in Services" (signed in 2015 and revised in 2019), the "Investment Agreement" and the "Agreement on Economic and Technical Cooperation" (both signed in 2017), and the "Agreement on Trade in Goods" (signed in 2018).

4.2. CEPA is a comprehensive free trade agreement that covers Trade in Goods, Trade in Services, Investment, as well as Economic and Technical Cooperation. Under CEPA, the Mainland of China agrees to apply zero tariffs to all goods originated from Macao, China upon fulfilment of the CEPA rules of origin starting from January 2006, except for goods that are prohibited from importation into the Mainland of China with the level of customs clearance facilitation being further enhanced. On Trade in Services, the Mainland of China has fully or partially opened up 153 sub-sectors to Macao, China, accounting for 95.6% of the service sub-sectors under the W/120 Services Classification of the WTO. On Investment, the two sides have committed to offering an internationally high level of investment protection in conformity with the principle of "One Country, Two Systems", with market access commitments expanded to non-service sectors. On Economic and Technical Cooperation, the two sides agreed to strengthen cooperation in 14 key areas, such as tourism, convention and exhibition, traditional Chinese medicine (TCM), finance, innovation and technology, SMEs, intellectual property rights as well as promoting economic and trade cooperation under the "Belt and Road" Initiative and other sub-regional cooperation programs.

4.1.2 Hong Kong Special Administrative Region and Macao Special Administrative Region Closer Economic Partnership Arrangement (HK-Macao CEPA)

4.3. The Hong Kong SAR and Macao SAR Closer Economic Partnership Arrangement was signed between Hong Kong, China and Macao, China on 27 October 2017. Being two economies with a long-standing relationship, the HK-Macao CEPA was signed with a view to further strengthening trade ties and economic and technical cooperation between the two places. The HK-Macao CEPA covers both Trade in Goods and Trade in Services, as well as an Economic and Technical Cooperation Work Programme.

4.4. Under the umbrella of the Agreement, the two sides committed to continue applying zero tariffs and pledged not to apply non-tariff measures inconsistent with WTO rules to goods originated from the other side. While both sides have undertaken commitments that go beyond those under the WTO, Macao, China has made new commitments with respect to the movement of natural persons, business services, communication services, distribution services, education services, environmental services, recreational, cultural and sporting services, as well as transport services.

4.2 Regional Cooperation

4.5. Macao, China actively participates in regional cooperation to help overcome the limitation of small domestic market size and thus attain moderate economic diversification. Key areas of cooperation include investment, finance, tourism, convention and exhibition, science and technology, SMEs and youth entrepreneurship. Apart from participating in the "Belt and Road" Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), Macao, China is open to seeking more regional cooperative partnerships and welcomes other parties to join its regional cooperative programs under the principle of economic complementarity and mutual benefit.

4.2.1 The "Belt and Road" Initiative

4.6. In 2018, the National Development and Reform Commission of China and the MSAR Government signed the Arrangement for Advancing Macao's Full Participation in and Contribution to the "Belt and Road" Initiative (the "Arrangement"), which focuses on financial cooperation, economic and trade exchanges and cooperation, and development of the GBA.

4.7. Under the Arrangement, Macao, China gives full play to its resources and provides investment and financing services for the "Belt and Road" Initiative development. Macao, China actively provides assistance to PSCs or organizations engaging in RMB financial business and plays the role as a RMB clearing platform between China and PSCs. Macao, China promotes the conjoining of "One Centre, One Platform" and the "Belt and Road" Initiative through participating in regional trade
cooperation and other non-sovereign international professional organizations, and hosting a high-level "Belt and Road" Initiative development themed forum and international exhibitions.

4.2.2 Guangdong-Hong Kong-Macao Greater Bay Area (GBA)

4.8. Under the principle of "One Country, Two Systems", the MSAR Government has participated in the drawing up of a development plan for the GBA with the National Development and Reform Commission of China, People's Government of Guangdong Province of China and the Hong Kong SAR Government. The main objectives of the development plan are to coordinate the development and define the positioning of the cities in the GBA, fully leverage on the composite advantages of each city, as well as facilitate the cross-boundary and regional flow of factors of production.

4.9. The MSAR is to develop into a world-renowned tourism and leisure centre, a commerce and trade cooperation service platform between China and PSCs, and a multicultural exchange and cooperation base with an emphasis on Chinese culture. In order to better capitalize on the role as a platform bridging China and PSCs, the MSAR is determined to make full use of its advantages by building close ties with PSCs, with the aims to help bringing in PSCs investments to the GBA and the Mainland of China, as well as facilitating investors of the Mainland of China reaching out to the markets of PSCs, EU, South America, Africa and countries along the "Belt and Road".

4.3 Other Trade and Trade-Related Policies

4.3.1 Customs procedures

4.10. Macao, China is determined to provide a level-playing field for all traders and maintains *de minimis* import and export control measures. Adhering to its free trade policy, Macao, China applies neither tariff nor other taxes on imports and exports, making it one of the most liberalized Members of the WTO. With the absence of any laws concerning anti-dumping, countervailing or safeguards, no such duties or measures have ever been applied. Declarations on import, export and re-export can be made through the Electronic Data Interchange (EDI) system, which makes the customs procedures more convenient for traders and fulfils part of the requirements under the Agreement on Trade Facilitation of the WTO.

4.3.2 Import licensing procedures

4.11. Pursuant to the Foreign Trade Law (Law No. 7/2003), goods regulated by the licensing regime and specific legislation of the MSAR are subject to prior import authorization, which are mainly for health, safety, environmental and public security reasons. Goods covered by the licensing regime are live animals, meat, fish, vegetables, pharmaceutical products and medicines, milk for infant feeding, alcoholic beverages, tobacco, vehicles, telecommunication apparatus, arms and ammunition, among others. The import licensing regime for petroleum products has also been implemented since February 2015. In compliance with international obligations, the MSAR also imposes import licensing requirements or prohibitions on narcotic drugs and psychotropic substances, ozone-depleting substances, endangered species of animals and plants, chemical substances and their precursors, and hazardous wastes.

4.12. As no tariff is levied on imports, Macao, China has neither preferential nor non-preferential rules of origin for imports and thus, no Certificate of Origin is required for imports of goods.

4.13. With the adoption of the Agreement on Trade Facilitation in WTO, establishing trade-facilitating border measures to optimize the trade environment has become a global phenomenon. In this connection, the MSAR Government amended the Foreign Trade Law and its relevant administrative regulations in 2016 by adopting a number of enhanced measures, namely, allowing businesses or individuals to use the A.T.A. carnet as a single document for tax-free import and export clearance, introducing Transit Licence for goods subject to transit control, cancelling licensing requirement for export of textiles and garments to the EU, Norway, Turkey and the U.S. as well as introducing expeditious clearance measures by allowing the submission of electronic declaration after clearance of goods subject to import or export declaration.
4.3.3 Consumption tax

4.14. Consumption tax is an indirect tax levied on domestic consumption. Goods that are subject to consumption tax in Macao, China are beverages of alcoholic content of not less than 30% and tobacco products, with the former taxed at a rate of 10% and the latter at different unit tax rates. In an effort to promote a smoke-free environment, the tax on tobacco products was raised by 200% in 2015 (Law No. 9/2015).

4.3.4 Foreign investment policies

4.15. Macao, China has long been a free port with minimal trade restrictions. This policy has been stipulated under Articles 110 and 111 of the Basic Law that the MSAR will maintain the status of a free port and pursue the policy of free trade and safeguard the free movement of goods, intangible assets and capital.

4.16. The MSAR Government maintains no restrictions on the setting up of foreign companies with their presence easily found in different sectors of the economy, for instance, telecommunications, electricity, water supply, public transport, banking and insurance, building and constructions, gaming, hotels and retailing. Thus, foreign investment contributes to the economic development of Macao, China by bringing in not only capital but also state-of-the-art technology and management skills.

4.17. The simple and low tax system adopted by the MSAR helps to attract foreign investment. The MSAR Government implements exemption of business registration tax; while profit tax ranges from 3% to 12% with an exemption threshold of MOP 600,000 in taxable income. Expenditure on innovation, science and technology research as well as Research and Development can be tripled and doubled as deductions for taxable income. Furthermore, to relieve the pressure on businesses posed by the COVID-19 outbreak, the MSAR Government offers a variety of temporary tax breaks to enterprises, such as increasing deductions of profit tax and urban property tax, exempting the tourism tax for six months, exempting motor vehicles registered for business operations from circulation tax for 2020 and so forth.

4.18. To attract foreign investment, the MSAR Government has launched "One-Stop Service" to offer professional advice to potential foreign investors on Macao, China's business environment and administrative procedures, and to facilitate the implementation of their investment projects in the MSAR. The MSAR Government also designates personnel to assist the work comprehensively from the initial consultation stage and to facilitate the proceeding of relevant administrative procedures. There are also appointed public notaries to provide companies with set-up and registration services.

4.3.5 Intellectual property rights

4.19. The MSAR Government continues to improve its administrative process concerning industrial properties registration, e.g. by launching online application service and simplifying application requirements. In tandem with the economic development, trademark applications increased from 10,084 in 2013 to 15,390 in 2019. With respect to patent, there is a growing trend that applicants increasingly choose patent extension over direct filing to have their inventions protected. The patent extension system herein refers to the cooperation agreement signed between the Mainland of China and Macao, China in 2003. The procedures of extension are simple, and no further substantive examination is required.

4.20. Fully recognizing the profound impact of the development and convergence of information and communication technologies on the creation and use of literary, artistic works, performances and phonograms, Macao, China closely keeps up with the evolution of global intellectual property protection. Thus, WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty, which are special agreements under the Berne Convention for the Protection of Literary and Artistic Works to adapt the international protection of copyright and related rights to the Internet age, have been extended to the MSAR since December 2013. Meanwhile, to enhance the cooperation with the Mainland of China in the area of intellectual property, the MSAR and the Mainland of China signed the Arrangement on Deepening the Exchange and Cooperation in the Area of Intellectual Property between the National Intellectual Property Administration and the Macao Economic Bureau of the Government of the Macao Special Administrative Region in 2020.
4.21. Macao, China continues to step up efforts to protect the interests of Intellectual Property Rights (IPR) owners and combat infringing activities. To achieve these objectives, Customs of the MSAR strengthens risk assessment in this respect, develops cooperation with neighbouring regions to make enforcement against IPR infringement more efficient, maintains close contact with IPR holders and other government bureaux, inspects export and transit goods at checkpoints and enhances the professional knowledge on IPR for the law enforcement officers.

4.22. Customs of the MSAR also devotes itself to raising IPR awareness in society. The Community Liaison Mechanism Against Counterfeiting was established in 2016 to facilitate Customs of the MSAR in communicating directly with different communities to help combating IPR infringement, while school visits and events dedicated to educating students of the concept to protect IPR and say "No" to piracy have been held. Through these promotional and educational activities, the concept of IPR protection in daily lives has been effectively delivered and communications between the general public, students, communities and private enterprises have been strengthened.

4.3.6 Government procurement

4.23. In 2019, government procurement accounted for a share of 6.2% of the GDP of the MSAR. The MSAR government has always strived to maintain its sound, transparent and well-functioning government procurement regime in public administration. The legal system of government procurement of the MSAR is composed of three main sets of laws, namely, Legal System of Expenditure on Government Procurement Related to Goods, Services and Public Works (Decree-Law No. 122/84/M, as amended by Decree-Law No. 30/89/M), Tendering Procedures of Acquisition of Goods and Services (Decree-Law No. 63/85/M), and Contracting Regime of Public Works (Decree-Law No. 74/99/M).

4.24. The MSAR Government is in the course of reforming the government procurement regime in order to ensure its compliance with international standards and cope with the development of the economy. With this objective, a specific task force was set up with the release of the Document for Consultation of the Public Procurement Law in November 2018 and a public consultation of 60 days initiated simultaneously. The revision covered several aspects, for instance, transparency, types of procurement procedures, thresholds and special requisites for the types of procedures to be selected, introduction of e-procurement and so on. The opinions collected during the consultation process have been circulated in June 2019 under the Consolidated Report of the Consultation on Government Procurement, and will serve as references for the MSAR Government in devising a new government procurement law.

4.3.7 Competition policy

4.25. As a free port and open economy, the MSAR spares no effort to ensure fair competition in domestic goods and service markets. The Commercial Code, promulgated in 1999 and amended in 2015, contains relevant provisions that safeguard fair competition in the economy. Provisions under the Commercial Code prohibit any agreement or practice that violates competition regulations or restrict competition, and stipulate that the injured party has the right to file a lawsuit at court to stop unfair competition practice, eliminate relevant effects and claim compensation.

4.26. Besides the Commercial Code, provisions that fortify market competition can also be found in sector-specific supervisory regulations, especially for the industries with a high cost of entry or economies of scale. These sectors include gaming services, financial services and telecommunications, which have been representing a large part of the MSAR’s economic activities.

4.27. With all these regulations being put in place, rules are adequate and appropriate for ensuring fair competition in the economy. The MSAR Government continues to optimize the market competition environment by following market-based mechanisms to evaluate the effectiveness of relevant regulations.

4.3.8 E-Commerce

4.28. The MSAR Government is committed to promoting a healthy and sustainable environment for e-commerce. With continuing efforts of the MSAR Government and the Guangdong Province of China, the logistics channel for cross-border e-commerce between the Mainland of China and the MSAR has
opened since 2017 for both goods manufactured in the MSAR and goods from other economies to enter the Mainland of China via the MSAR through cross-border e-commerce.

4.29. The MSAR Government has devoted considerable efforts to galvanize enterprises into the usage of mobile payment in their operations, thereby streamlining the transaction process and enhancing consumer experience. The number of mobile-payment devices installed in Macao, China increased substantially by 437.5% in the first quarter of 2020 compared to the beginning of 2017. Mobile payment is now being used in public transportation, retail shops, restaurants, fresh food markets and public administration. The soaring number of places accepting mobile payment, as well as numerous marketing campaigns by mobile-payment service providers, have helped speed up the popularization of mobile payment usage.

4.3.9 Support for small and medium-sized enterprises (SMEs)

4.30. The roles of SMEs in terms of employment, innovation and contribution to moderate economic diversification are crucial to the sustainable development of the MSAR. The three supportive measures to alleviate SMEs’ difficulties in obtaining financing, namely SME Aid Scheme, SME Credit Guarantee Scheme, and SME Credit Guarantee Scheme Designated for Special Projects, have been enhanced several times to cope with the rapidly changing business environment.

4.31. Setting up an upward trajectory for young entrepreneurs to develop and harness their potentials has been an important task for the MSAR Government. In 2013, the Young Entrepreneur Aid Scheme was launched to provide interest-free loan to local youth start-ups. In tandem with the above, the Macao Young Entrepreneur Incubation Centre has been established to provide all-round supporting services and resources, including professional consulting, training and mentoring, road-show marketing, investment-capital matching and so forth, to innovators and entrepreneurs. The MSAR Government also spares no effort to promote exchanges and collaboration among SMEs and young entrepreneurs from the Mainland of China, PSCs and the MSAR, in order to seize a broader scope of development.

4.32. To promote rebranding and sustainable development of the classic brands in the MSAR, the MSAR Government supports business associations to establish the Macao Classic Brand Reshaping Assistance Program. Industry representatives and experts together assist classic brands in brand environment research, brand positioning, brand design and brand promotion strategy, and innovate based on inheritance, so as to infuse the brand with modern style and enhance market competitiveness.

4.33. In view of the impact of the COVID-19 pandemic on the production and operation of SMEs, to mitigate the impact of the pandemic on SMEs, the MSAR Government has taken timely and effective economic stimulus measures to provide financial assistance to SMEs. Major assistance measures include a temporary easing of the eligibility criteria for the SME Aid Scheme, launch of the SME Bank Loan Interest Subsidy Scheme, early cash disbursement of Wealth Partaking Scheme 2020, and launch of a MOP 10 billion anti-epidemic fund, which provides tax relief and refunds for residents and businesses, and issues an e-consumption card to each eligible Macao resident, and so forth, so as to stimulate and encourage local consumption, thereby boosting the economy.

4.3.10 Construction of new control points

4.34. The Hong Kong-Zhuhai-Macao Bridge (HZMB), which links the three places in its name, was opened in October 2018. It is a momentous and mega addition to the current eight border checkpoints in Macao, China, six of which are operating on a 24-hour basis. The 55km-long HZMB, the longest bridge-cum-tunnel sea crossing in the world, provides a new land transport link between the Hong Kong SAR and the MSAR. With respect to air transport, Phase I extension of the Macao International Airport was completed in 2018 and expected to increase its carrying capacity by 30%, while Phase II extension was approved in 2019 and is about to get underway. The Taipa Line of Macao Light Rapid Transit (MLRT), which connects the Taipa Ferry Terminal and the Macao International Airport to Cotai district and other parts of Taipa, was operational in 2019, further improving the travel environment and connectivity among control points.

4.35. In addition, the Cotai Frontier Post, a border checkpoint for entry into Hengqin of Zhuhai of China, has been relocated to Hengqin Port to enable a joint border control system for enhancing border-crossing efficiency, and the Qingmao Frontier Post, to be completed by 2021, will be
operational around the clock and supplement the nearly saturated Border Gate. To improve travel experience, both of them will serve as spur lines to the Guangzhou-Zhuhai Intercity Railway.

5 SECTORAL DEVELOPMENTS

5.1 Manufacturing Industries

5.1. The MSAR Government has been actively promoting moderate economic diversification, attaching high importance to the development of manufacturing sector. The MSAR Government has been supporting industrial upgrade and transformation by promoting "Made in Macao" products, encouraging the upgrade and transformation of production by organizing training and certification programs on product development, improvement in production process as well as attainment of quality standards. The Macao Product Quality Certification Scheme, which is a voluntary scheme launched in 2018 and aimed at fostering enterprises to adopt product quality certification as the means to enhance consumer trust and market competitiveness, supports the development of the industrial sector.

5.2. During the period under review, the gross value added of the manufacturing sector as a percentage of all economic activities edged up from 0.4% in 2013 to 0.6% in 2018. Manufacture of food products and beverages is the largest sub-sector owing to the rising demand from domestic consumers and tourists.

5.3. In the external sector, domestic exports accounted for 11.8% of Macao, China’s total exports in 2019, and 11.6% for the first quarter of 2020. The major export markets for domestically produced goods are Hong Kong, China; the US; the Mainland of China; and the EU, which have been collectively accounting for 86.5% of the total in 2019, and 85.9% for the first quarter of 2020. Despite the increase in export to the Mainland of China, the dwindling demand from the US; Hong Kong, China; the Mainland of China; and the EU brought down domestic exports by 24.7% during the period from 2013 to 2019. Among the goods exported, copper and articles thereof, tobacco, pharmaceutical products and organic chemicals, articles of apparel and clothing accessories have been taking up 81.1% of the total domestic exports in 2019.

5.4. The MSAR formally began implementing the Kimberley Process Certification Scheme through the participation of the People’s Republic of China in the Kimberley Process in 2019. Implementation of this Scheme permits the introduction of rough diamond trade into and enables a favourable and stable market environment for the international trade in rough diamonds in Macao, China. Drawing on its strength as a commercial and trade cooperation service platform between China and PSCs, Macao, China will attract investors to enter its market and introduce jewellery-related industry chain to facilitate the development of the manufacturing industry towards high-end and high value-added products and processes, including diamond polishing and processing, diamond analysis and grading and jewellery design, in the longer run.

5.2 Gaming

5.5. The MSAR Government has been ramping up its efforts to encourage the gaming industry to reinforce non-gaming elements, including more diversified and creative non-gaming tourism and entertainment projects to cater the needs of different customers, family-friendly hotels and children facilities to target family tourists, uniquely designed hotels and internationally renowned entertainment and shows for business travellers. To promote intra-sectoral diversification of the gaming industry, the MSAR Government encourages the gaming operators to actively transform the gaming industry from high-end VIP-oriented to less-volatile mass-market gaming. Regarding inter-sectoral diversification, the MSAR Government aims to galvanize the growth of non-gaming sectors, by encouraging the gaming operators to inject more non-gaming elements within their establishments and to promote interactive growth of related industries through synergy.

5.6. The MSAR Government conducts on-going monitoring over the gaming sector to ensure the industry complies with the relevant gaming laws and regulations, consistently reviews the preventive measures established by the gaming operators to combat money laundering activities, and strictly oversees the accounting system, business records and internal control of junket promoters. The MSAR Government has recently finished the process of further revising anti-money laundering regulations in 2019.
5.7. During the pandemic, various border controls or restrictions imposed by countries around the world in response to COVID-19 have resulted in a significant decline in the number of visitors to Macao, China, and these restrictions have had a profound impact on Macao, China's gaming industry. As a result, the gross revenue from games of fortune in the first five months of 2020 plummeted by 73.74% to MOP 33 billion compared with the same period in 2019. Nevertheless, the MSAR Government is confident in the long-term development of Macao, China's gaming industry, and believes that the rebound in the number of tourists to Macao, China after the pandemic will drive the rapid recovery of Macao, China's gaming industry as well as other industries.

5.3 Tourism

5.8. Over the past seven years, the overall tourism industry continued to perform well, as the number of inbound visitors increased from 29.32 million in 2013 to 39.41 million in 2019, the highest ever recorded. The Mainland of China is still the primary source while the number of visitors has been growing steadily. The structure of visitor arrivals has gradually changed with the swelling proportion of overnight and family visitors. The upgrading of infrastructure, especially urban transportation as well as land, sea, and air links with the Mainland of China, the Hong Kong SAR, and abroad, has ratcheted up the attractiveness of the MSAR to tourists. While the tourism industry of Macao, China was booming during the period under review, the COVID-19 outbreak suddenly wreaked havoc, the tourism industry and the airline industry particularly suffered an unprecedented blow, exerting a huge impact on the tourism industry in Macao, China and the world. In the first quarter of 2019, the number of inbound visitors to Macao, China totalled 10.3 million, while the number of inbound visitors in the first quarter of 2020 was only 3.21 million, a slump of 68.93% over the same period of 2019.

5.9. The Macao's history, a cultural exchange between East and West, has nurtured its heritage consisting of a blend of cultures, people and architecture. Along with the establishment of the Committee for Development of the World Centre for Tourism and Leisure in 2015 and the announcement of the Macao Tourism Industry Development Master Plan in 2017, the MSAR is dedicated to developing into a "World Centre of Tourism and Leisure" through promoting the development of different tourism products, e.g. leisure tourism, cultural tourism, community tourism, festive tourism, etc., to reach the goal of tourism product diversification and attract visitors from around the world for a longer stay. In 2017, Macao, China was designated as a new member of the UNESCO Creative Cities Network in the field of Gastronomy, which brings an array of new opportunities to promote its unique gastronomic culture.

5.10. The MSAR will fully capitalize on the leading technology in cloud computing, big data application and other areas to push forward smart tourism, with goals such as monitoring tourist attractions and congested locations, so as to disperse and divert visitor flows, and providing guidance through smart tourism applications, which, in turn, enhance visitors' travel experiences.

5.11. As regards regional and international cooperation, the MSAR has been working closely with the tourism authorities of nearby regions to further strengthen communication and cooperation. The MSAR is actively seeking to join hands with other tourism authorities from the GBA and showcase the destination glamour of the GBA in innovative ways, encouraging the travel trade to tailor a variety of multiple-destination themed tour itineraries and products for various international markets. The MSAR has cultivated rich experiences and strengths in training and education in recent years, which can be leveraged on for the MSAR to establish a tourism-related professionals training base of the GBA.

5.4 Financial Services

5.12. The MSAR Government has remained highly vigilant regarding international financial risks, with a view to safeguarding the stability of the financial system. Making every endeavour to strengthen financial supervision, Macao, China was ranked among the higher tier of Asia/Pacific Group on Money Laundering (APG) members with a remarkable result achieved in the assessment of the effectiveness outcomes in the APG evaluation in 2017. For the technical compliance assessment which deals with completeness of legal and institutional framework, out of the 40 Financial Action Task Force (FATF) Recommendations, the MSAR obtained 37 compliant and largely compliant ratings in 2017 and upgraded the remaining three to largely compliant ratings in August 2019, making the MSAR the first member that passed all 40 FATF Technical Compliance Recommendations among all globally evaluated members.
5.13. The banking sector has been sustaining a steady growth in its asset scale and profitability, with its capital adequacy ratio and non-performing loan ratio at 14.73% and at 0.3% by the first quarter of 2020 respectively, which reflects the fact that the banking sector has been maintaining a strong capital base and good asset quality.

5.14. As regards the insurance sector, while consistently strengthening supervisory measures and monitoring of the financial strength and risk management of insurance companies, the MSAR has finalized the legislative proposal on revising the current Macao Insurance Ordinance, through referencing the Insurance Core Principles (ICPs) set out by the International Association of Insurance Supervisors (IAIS) and taking into account the actual situation of the insurance industry, so as to improve the prudential supervisory framework of the industry and to further protect public interests.

5.15. The MSAR has also been devoting additional efforts to the development of financial services, which focuses on RMB clearing services between China and PSCs and wealth management and financial leasing. During the period under review, a breakthrough was achieved in the development of the bond market with the issuance of Chinese central government bonds and corporate bonds in the MSAR. To further promote its development, the MSAR Government has promulgated regulatory guidance on bond market activities, including the Guideline on Management of Corporate Bond Issuance and Trading and the Guideline on Underwriting and Custody of Corporate Bond. To promote the development of financial leasing services, two laws were approved by the Legislative Assembly, aiming to simplify the requirements and encourage the setting up of financial leasing companies in the MSAR.

5.5 Telecommunications

5.16. In order to cope with the trend of convergence, the MSAR Government is formulating the framework of convergence regime, which shall include the terms of issuance of 5G licence. The corresponding legislation that leads to convergence of services is expected to be accomplished and introduced in the near future.

5.17. Mobile telecommunications, Internet services, and fixed telecommunications services have been opened to competition. The MSAR Government issued licences for the installation and operation of a fixed public telecommunications network in 2013 to two fixed network operators. During the period under review, the mobile telecommunication service sector continued to expand, while the fixed-line sector started to contract. Currently, there are five mobile operators, of which one is MVNO (mobile virtual network operator), ten Internet service providers (ISPs), ten Internet content providers (ICPs) and two fixed network operators.

5.6 Other Key Focus Industries

5.6.1 Conventions and exhibitions (MICE)

5.18. The MICE industry in Macao, China has shown promising growth in recent years, with both the software and hardware of the industry upgraded and qualified for high-quality meetings. Gaming operators are encouraged to introduce more services focusing on conventions and exhibitions, thereby boosting the competitive edge and attractiveness of the industry. The number of MICE visitors is expected to burgeon further following the opening of the Hong Kong-Zhuhai-Macao Bridge.

5.19. The number of conventions and exhibitions held in Macao, China increased from 1,030 in 2013 to 1,536 in 2019, with the number of participants increasing from less than 1.0 million to over 2 million. A total of 21 meetings with over 1,000 participants were held in Macao, China in 2019. Compared with 2015, the gross value added of the industry in 2018 soared by 158.0%, amounting to MOP 3.5 billion and its relative importance to the economy went up by 0.5 percentage points.

5.20. The MICE sector is gaining budding international recognition. Statistics released by the International Congress and Convention Association (ICCA) accredited 54 international meetings held in Macao, China in 2019, giving rankings of 48th worldwide and 12th in the Asia-Pacific region. For the exhibition segment, the 2019 report released by the Global Association of the Exhibition Industry (UFI) stated that Macao, China has a reasonably strong performance in the trade fair sector.
5.6.2 Traditional Chinese medicines (TCM)

5.21. The development of TCM plays a pivotal role in the moderate economic diversification of the MSAR. The Guangdong and Macao Traditional Chinese Medical Science and Technology Industrial Park (the "GMTCM Park") has been established through regional cooperation. In addition, the State Key Laboratory for Quality Research in Chinese Medicine in the MSAR provides consulting services to GMTCM Park. It will further deepen the cooperation in research and development and production with the GMTCM Park.

5.22. The MSAR Government will speed up the development of TCM industrialization by regulating TCM registration through laws and regulations and deepening the regional cooperation in TCM industry. Meanwhile, Macao, China will continue to introduce TCM to PSCs in Africa by adopting an approach of introducing medicine through treatments, facilitate registered products to enter the market and strive for getting more products licensed for sale.

6 PROSPECTS

6.1. Macao, China has made leaps forward to develop the economy in these two decades after the return of its sovereignty to China, reshaping the economy in both economic and social aspects. This phenomenal growth has indisputably been attributed to the long-held open and liberalized trade regime, which has been bringing in foreign direct investment, technology and expertise for the economic development of Macao, China. In this connection, Macao, China will continue to uphold the rules-based multilateral trading system in devising its trade policies in the future.

6.2. As the COVID-19 pandemic poses a significant impact on the global economy, Macao, China has to inevitably face unprecedented economic challenges. In response to the pandemic, the MSAR Government has introduced a package of economic stimulus measures with the aim to restore and stabilize the economy. In the midst of the global outlook clouded by uncertainties, Macao, China, emboldened by its past experience grappling with economic downturn, is poised and competent to overcome challenges on multiple fronts. Macao, China has the resilience to handle some of the most challenging situations, and will remain vigilant and responsive to minimize the negative impact on the economy by taking steps to expand investment in infrastructure and bolster internal demand in order to stimulate economic growth. Furthermore, Macao, China's strong financial stability and ample financial reserves can also enable it to flexibly roll out economic policies to shore up its economy.

6.3. Looking ahead, Macao, China will, by perseverance, underpin its positioning of "One Centre, One Platform" to consolidate its existing economic accomplishments and proactively explore new engines of growth through the participation in regional co-development initiatives. Macao, China will spare no effort to promote moderate economic diversification as the cornerstone of its sustainable economic development.