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## SUMMARY

1. Macao, China remains an open economy, with zero-rated applied tariffs, and few restrictions on trade and investment. Its economy recorded strong growth during the review period (2007-12), with double-digit GDP growth rates for most of the years (except 2008 and 2009). Growth has been led by services exports, in particular tourism including gaming. Competition between gaming operators, since the opening of the sector in 2002, has stimulated a prospering tourism sector: tourism exports rose to US\$38 billion in 2011, from US\$7.5 billion in 2004 when the first foreign-invested gaming concessionary entered into operation, and from US\$4.3 billion in 2002 when the gaming sector was liberalized. The "Individual Traveller Scheme" under the Closer Economic Partnership Arrangement (CEPA) between Macao Special Administrative Region (SAR) and China, which has been in place since 2004, has enabled an increasing number of tourists from China.

### Economic performance

2. Macao SAR is heavily dependent on trade. In 2011, trade (imports and exports of goods and services) was equivalent to about 160% of GDP. Macao SAR has maintained a current account surplus due to strong services exports, while merchandise trade deficits reflect a shrinking manufacturing sector. Merchandise exports dropped 65% during the review period. FDI has in general grown. Half of the FDI into Macao SAR was in the gaming sector, while retail and wholesale business was the second largest recipient.

3. Macao SAR's economy became more services oriented during the review period. In 2011, services accounted for about 90% of GDP and employment; the gaming sector accounted for 45% of GDP and 20% of employment. Direct tax from gaming accounted for about 80% of total government revenue, which allowed the Government to maintain a fiscal surplus, and thus to continue to improve its infrastructure. Macao SAR has been transformed into the world's leading gaming destination. The Government is trying to maintain the sustainable development of the gaming industry and recently took several decisions to regulate the scope and pace of the industry's expansion.

4. The fast growth of the economy and the dominance of the gaming sector has placed upward pressure on prices, in particular of land and labour. Macao SAR's currency, the pataca, is pegged to the Hong Kong dollar and hence indirectly to the U.S. dollar, so that during the review period, the pataca depreciated against the currencies of Macao SAR's major trading partners, including China. Thus, Macao SAR had to pay more for imports. The composite CPI, a measurement for inflation, has been increasing. However, Macao SAR does not have autonomous monetary policies because of its exchange rate system.

5. Soaring local factor prices harm the competitiveness of non-gaming sectors, including manufacturing. Although Macao SAR is a free port, where goods enter with zero tariffs and few border measures, the manufacturing sector continued to shrink mainly because of the relatively high production costs pushed up by the small size of the territory and the population, and a prospering tourism and gaming sector. The contribution from manufacturing to GDP dropped from 2.9% in 2007 to 0.7% in 2011, and its share of total employment fell from 7.1% to 3.9%.

6. The Government's efforts to diversify the economy include facilitating the development of non-gaming services, such as conventions and exhibitions, cultural and creative industries, traditional Chinese medicines, and commercial and trade services (i.e., import and export services). Regional cooperation (such as with Guangdong Province of China) would be an important channel for Macao SAR to overcome its constraints and improve its competitiveness.

7. The Government has adopted a number of measures to nurture an attractive business environment, for example, measures to lower business costs include maintaining a simple taxation structure and a low level of administrative fees, as well as opening the telecommunication market. It has also adopted measures to introduce competition in the public utility sector. To meet the increasing demand for electricity, most of which has to be imported, the Government is preparing for a "partial liberalization" of the electricity market. According to a renewed concession contract with the incumbent electricity supplier, signed in 2010, the Government may decide when to open the markets of upstream power generation and electricity importation to other investors.

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### Trade and investment regime

8. Macao SAR's institutional and policy framework has remained largely unchanged since its Review in 2007. In accordance with the Basic Law, Macao SAR maintains the status of a free port, pursues the policy of free trade, and safeguards the free movement of goods, intangible assets, and capital. Promoting economic diversification and increasing regional cooperation remain the top priorities of the Government. The CEPA with China is felt to provide opportunities for Macao SAR's future development.

9. The CEPA consists of three parts: trade in goods, trade in services, and trade and investment facilitation. So far, the biggest effect of the CEPA on Macao SAR's economy was through the Individual Traveller Scheme: the relaxed visa restrictions on travel by Mainland Chinese have enabled strong growth in the number of tourists to Macao SAR. The authorities are attempting to utilize the resources and opportunities offered by the CEPA to encourage manufacturers to bring new industries into the territory, albeit with limited success so far. Textile and garment manufacturing has continued to shrink, since the Agreement on Textiles and Clothing (ATC) expired in 2005. Figures from the authorities indicate that preferential treatment under the CEPA has nurtured some "new" manufacturing industries, such as food and coffee processing. Macao SAR exports more services than merchandise and it is possible that the services sector, and the sale of services to the Pearl River Delta region of the neighbouring Guangdong province, rather than manufacturing, will make more effective use of preferential access to the Chinese market under CEPA's services provisions.

### Trade policies and practices

10. Macao SAR's trade and investment regime remains relatively open. All imports enter duty free. However, the scope of Macao SAR's tariff binding remains limited, with around 70% of its tariff lines unbound. During the review period, Macao SAR notified the WTO that additional pharmaceutical products were bound as a result of the expansion of product coverage in the Pharmaceutical Agreement.

11. There are few non-tariff border measures, and import licensing has been maintained only for reasons of health, safety, environment, and the administration of consumption tax. Although consumption taxes are levied on imports and domestically produced goods alike, they fall disproportionately on imports because there is little or no domestic production of these goods. Partially reflecting the economic diversification efforts to develop other non-gaming tourism sectors, the Government abolished its consumption taxes on beverages with alcoholic concentration below 30%. Hence, the importation of these products no longer requires an import licence.

12. Macao SAR does not develop its own standards but adopts international or overseas standards, where appropriate. Imports of automobiles and radio-communication equipment are subject to licensing to ensure that mandatory technical requirements for these products are met. When applying for licences, testing results and certifications issued by the manufacturers or other authorities are accepted as a useful reference.

13. Macao, China is not a signatory to or an observer of the WTO Agreement on Government Procurement (GPA). Foreign presence in government procurement increased markedly during the period under review. In 2011, foreign supplies accounted for 27% of procurement contracts signed centrally by the Financial Service Bureau, up from 9% in 2007. This may still under-represent the share of foreign supplies in public procurement, as foreign companies registered with the Financial Services Bureau are considered local companies (regardless of whether they are locally corporatized), and country of origin is not recorded.

14. Macao SAR maintains a simple tax structure and low tax rates. In response to soaring global prices, consumption tax on fuel and lubricants were abolished in August 2008. New purchases of environment-friendly motor vehicles are exempt from motor vehicle taxes. The Government offers tax incentives including exemption/reduction of profit tax. Non-tax incentives such as interest subsidies and credit guarantees are also available, mainly for small and medium-sized enterprises (SMEs).

15. The Copyright and Related Rights Code was amended in 2012 to enhance copyright protection in a digital environment. Subject to approval by the Macao Economic Services, holders of invention patents granted by China's State Intellectual Property Office (SIPO) may request extension of their rights to Macao SAR. During the review period, the number of invention patent applications declined whereas the number of extensions increased steadily. Macao SAR maintained active IPR enforcement, in particular confiscation of infringing products such as compact discs, medicines, and cigarettes.

16. There has not been overarching competition legislation in Macao SAR. The authorities consider that current provisions, which are scattered around various laws and sector-specific regulations and rules, have provided adequate protection given that the territory is small and most businesses are SMEs. In the last ten years, a series of measures were adopted to introduce competition to the gaming sector, the public utility sector, and the telecommunication sector.

### **Outlook**

17. As a small open economy, Macao SAR's future growth is strongly influenced by external demand in its trading partners. Given that international organizations including the IMF have lowered growth forecasts for the East Asian region, the Macao Monetary Authority (AMCM) estimates that the economy grew, in real terms, 9.0% in 2012, down from 21.9% in 2011. The AMCM also anticipates single-digit growth in 2013. Domestic demand, underpinned by both public- and private-funded construction of infrastructure and tourism-related facilities, is expected to be one of the driving forces of economic growth. Services exports are expected to grow at a slower pace than in recent years.

18. During the period under review, Macao SAR began infrastructure improvements through a number of public construction projects, such as the Light Rapid Transit project, improvement of the Border Gate checkpoint, and the construction of the Hong Kong – Zhuhai – Macao Bridge. These improvements in infrastructure will allow better connection and thus better integration into the Pan-Pearl River-Delta region, which is believed to be crucial to Macao SAR's diversification efforts: by sourcing more land supplies and pooling all resources in the area such as financial intermediates, passenger hubs, and logistics facilities, to facilitate the development of tourism industries as well as manufacturing.