
SUMMARY

1. Macao, China's economy is dominated by services, which account for over 95% of GDP and some 90% of total employment. During the review period (2013-20), gaming continued to be the main economic activity, although its share of GDP declined from 62.9% in 2012 to 50.5% in 2018. The authorities have been trying to diversify the economy away from gaming, since the high level of reliance on it has made the economy vulnerable to external shocks. The first Five-Year Development Plan (2016-20) provides the roadmap toward economic diversification. The Plan set a target for the gaming operators to diversify into other tourism-related activities, and to raise their non-gaming revenue. To promote intersectoral diversification, a number of service sectors have been encouraged, including the Meetings, Incentives, Conventions, and Exhibitions (MICE) industry, traditional Chinese medicine, cultural and creative industries, wholesale and retail trade, real estate and business activities, and financial sector activities.

2. Macao, China has one of the highest per capita incomes in the world. During the review period, GDP per capita rose from USD 75,536 in 2012 to USD 79,977 in 2019. GDP growth proceeded at an uneven pace during the review period: strong growth in 2012 and 2013 was followed by a sharp GDP contraction between 2014 and 2016, a result of weakening demand for gaming and tourism. Relative strong growth resumed in 2017 and 2018, resulting from a strong rebound in external demand, but the economy contracted again in 2019, with real GDP falling by 4.7%, reflecting the decline in gaming revenue, as well as a contraction in gross fixed capital formation. The negative impact of COVID-19 on Macao China's GDP was strong: real GDP is estimated to have declined by 48.7% in the first quarter of 2020 with respect to the same period the previous year. Both the gaming and the MICE industries were hit particularly hard by the COVID-19 pandemic.

3. National savings represent slightly over 50% of GDP, some three times the investment/GDP ratio. This translates into a structurally sizeable surplus in the current account of the balance-of-payments, which reached USD 17.7 billion in 2019, equivalent to 32.9% of GDP. This situation is explained by the sizeable services balance surplus, which amounted to USD 38.5 billion in 2019 or 71.4% of GDP, mainly a result of receipts from gaming and tourism services totalling USD 39.7 billion. Total services exports reached USD 43.2 billion in 2019, and accounted for 96.0% of total exports of goods and services. Although Macao, China has no public external debt, its gross external debt reached 186% of GDP in 2018, on account of large private external debt, and reflected the considerable inflows of private foreign capital, particularly destined to the gaming industry. Macao, China does not conduct an autonomous monetary policy, as its currency, the Macao pataca (MOP), is pegged to the Hong Kong dollar. Macao, China's monetary authority seeks to uphold monetary stability and the free convertibility of the Macao pataca; supporting the exchange rate peg is its prime monetary policy objective.

4. Substantial fiscal surpluses were posted throughout the period under review; they were deposited in a Fiscal Reserve Fund, which provides a buffer against the high volatility of the main source of revenue: direct taxes on gaming. The estimated fiscal surplus for 2019 was equivalent to 11.5% of GDP. A public-sector deficit is expected in 2020. This is mainly due to the effects on receipts of the temporary shutdown of casinos and the sharp decline in visitors caused by the COVID-19 pandemic, and to the cost of the fiscal packages put in place in February and April 2020 to partly offset the negative effects of COVID-19 on economic activity, which amounted to an estimated MOP 52.6 billion or 12.9% of (2019) GDP. The measures applied include: handouts to residents; additional health spending; transfers to eligible employees and to self-employed professionals and eligible firms under the condition of not laying off employees; transfers to certain services providers; utilities free of charge for residents for three months; interest-free loans and interest subsidies for SMEs; and tax exemption/deductions for residents and local enterprises. A number of welfare measures were also introduced.

5. Macao, China is an open economy, with the value of trade (imports and export of goods and services) equivalent to 117.1% of GDP in 2019. During the 2012-19 period, merchandise exports increased at an average annual rate of 6.5%, reaching USD 1.59 billion in 2019, while imports rose by an average of 3.2% per year and totalled USD 11.2 billion. Most merchandise exports are actually re-exports (88.2% in 2019). Machinery and electronic equipment are the main export items, accounting for 23.3% of total merchandise exports in 2019, followed by precision equipment (9.4%), precious stones and metals (8.6%), and textiles and clothing (7.9%). Imports of manufactures account for the largest share of merchandise imports, in particular machinery and electrical machines (14.1% of the total in 2019), chemicals (13.7%), prepared food, beverages and tobacco (10.5%),

and precious stones and metals (9.8%). Macao, China's major trading partners as regards imports are Mainland China (31.3% share in 2019); the European Union (27.3%); Switzerland (7.6%); Japan (6.7%); and Hong Kong, China (6.2%). The main merchandise export destinations are Hong Kong, China (60% of the total); and Mainland China (8.4%).

6. Macao, China, an original Member of the WTO, grants at least MFN treatment to all its trading partners, and considers non-discrimination, predictability and transparency as important elements for a stable multilateral trading system. In this regard, it regularly submits up-to-date notifications concerning changes to its legislation and trade policies covered under the WTO Agreements, and has actively participated in negotiations, such as those on information technology. Macao, China ratified the Protocol concerning the Trade Facilitation Agreement (TFA) in April 2016 and, in August 2017, it ratified the Protocol Amending the TRIPS Agreement, which it had accepted in June 2009. In the Eleventh WTO Ministerial Conference in Buenos Aires, Macao, China, subscribed to the Joint Ministerial Statement on Investment Facilitation for Development, and participates in the informal dialogue on this subject. Macao, China is not a signatory nor an observer to the Plurilateral Government Procurement Agreement. Macao, China has not been involved in any WTO dispute settlement cases either as a complainant, respondent or third party. In September 2020, Macao, China notified the WTO that it would join the Multi Party Interim Appeal Arbitration Arrangement, pursuant to Article 25 of the Dispute Settlement Understanding.

7. Since the last Review in 2013, Macao, China has been engaged in the continuous updating and implementation of the Closer Economic Partnership Arrangement (CEPA) with Mainland China. In addition, it concluded a free trade agreement with Hong Kong, China. Five new agreements were signed under the CEPA, including two on services (the Guangdong Agreement and its extension), and one each on investment, economic and technical cooperation, and trade in goods. The Agreement on Trade in Goods, which came into effect on 1 January 2019, establishes rules of origin for over 8,000 tariff lines, instead of only 1,260 tariff lines previously, and contains measures aimed at facilitating trade within the area. The Guangdong Agreement and its extension resulted in the opening of 153 services subsectors in China to service suppliers from Macao, China. The CEPA between Hong Kong, China and Macao, China, signed on 27 October 2017, covers trade in goods, trade in services, investment, intellectual property, and economic and technical cooperation. The liberalization of trade in goods and services was implemented on 1 January 2018; this includes binding the existing zero-tariff regimes, agreeing not to apply anti-dumping or countervailing measures on imported goods originating in the other party, granting national treatment to the services and services suppliers of the other party, and making specific commitments on a number of services subsectors.

8. There is no specific foreign investment legislation in Macao, China, as its laws do not distinguish between domestic and foreign investment. Domestic and foreign companies are subject to the same commercial and bankruptcy laws and the same registration rules. Foreign firms and individuals may freely establish companies, branches, and representative offices. There are no restrictions on capital flows or foreign exchange operations, nor on the participation of foreign capital in existing or newly established businesses, provided that the investor abides by the Anti-Money Laundering and Combating the Financing of Terrorism Guideline issued by the Monetary Authority of Macao, China. Foreign investors can freely acquire real estate property and land in Macao, China. Licensing requirements apply to domestic and foreign investment in finance, insurance, and banking. Investment in gaming and in public services (electricity, water and gas) by both domestic and foreign companies requires a concession from the Government. Terrestrial television services are also subject to concession contracts, whereas satellite TV services require a licence.

9. Since the last Review, Macao, China has adopted measures to further streamline customs procedures and facilitate trade, including the ratification of the WTO Trade Facilitation Agreement (TFA); the enhancement of an IT-based customs clearance system; and the simplification of customs procedures for goods under the CEPA agreement between Macao, China and Mainland China. Since the entry into force of the TFA on 22 February 2017, Macao, China has implemented provisions contained in Section I of the Agreement under Category A, except paragraph 4 of Article 10 (Single Window), which was designated to fall under category B with an indicative date for implementation of 31 December 2019. Macao, China has no preferential or non-preferential rules of origin on imports, but it does have preferential rules of origin with respect to exports to China under the CEPA. For re-exports, the initial conferred origin of the goods is maintained.

10. All applied tariffs are kept at a rate of 0%. The tariff schedule comprises 6,641 tariff lines at the eight-digit level in 2020. Macao, China continues to submit its customs tariff and import data regularly to the WTO Integrated Database. During the review period, to reflect commitments under the Information Technology Agreement (ITA) Expansion, Macao, China rectified and modified its WTO schedule of tariff concessions, effective from 6 November 2014. Macao, China has bound only 30.5% of its tariff lines, all at a zero rate. While all agricultural lines are bound, only 19.2% of non-agricultural tariff lines are bound, with the binding coverage varying by product group. The absence of bindings for nearly 70% of total tariff lines is in contrast with Macao, China's practice of having all applied rates at zero, and may create uncertainty for traders. The predictability of its trade regime would be considerably enhanced by increasing the number of lines bound.

11. Excise duties are imposed on certain products: imported and domestically produced tobacco products and alcoholic beverages over a certain alcoholic content are subject to the consumption tax, while vehicles are subject to vehicle taxes; both are levied based on their c.i.f. value in the case of imports, regardless of their origin. Taxes on tobacco and automobiles were increased since the last Review. Import licensing requirements are applied to several categories of goods, primarily on grounds of public health, safety, public security, environmental protection, intellectual property rights enforcement, and consumption tax collection. The products concerned include: live animals; plants listed under CITES; certain foods; pharmaceuticals; narcotic drugs and psychotropic substances; certain chemicals; goods subject to excise duty; equipment and materials for the production of compact discs; radiocommunication equipment; and arms and ammunition. Import licences are granted within three working days if the criteria stipulated in the law are met; they are valid for 30 days and are not transferable. Macao, China does not have legislation on trade remedies, nor does it apply any such measures.

12. Macao, China does not grant any export subsidies. It does not maintain any export processing zones, special economic zones or free trade zones. Exporters can benefit from the promotional activities and other services provided by the Macao Trade and Investment Promotion Institute, which include trade, economic and statistical information, help to participate in international fairs, and facilitation of business-matching contacts. Macao, China does not operate any concessional export finance scheme, or any insurance or guarantee scheme.

13. The taxation system relies mostly on direct taxes, in particular those imposed on gaming activities. In 2020, in order to help cope with the adverse effects of the COVID-19 pandemic, legislation was approved to provide temporary exemptions or deductions from several direct and indirect taxes. Macao, China offers several incentive schemes across economic activities in order to attract businesses to establish and operate in the territory. They take the form of tax incentives, financial support, and other forms of assistance. There are also incentives to promote the development of particular industries, such as local fisheries, tourism and the MICE industry. Tax incentives are granted for projects considered to promote development and are applied equally to foreign and local enterprises. The most common type of incentive remains profit tax exemptions and reductions.

14. There are also a number of non-tax incentives, mainly in the form of financial support targeted to investment projects, SMEs and young entrepreneurs. Enterprises investing in Macao, China may benefit from the Enterprise Financing Loan Interest Subsidy Scheme, which provides an interest rate subsidy of 4 percentage points per annum for a maximum period of four years to companies investing in Macao, China. SMEs may benefit from interest-free financial assistance and credit guarantees for loans. Additionally, in March 2020, the SME Bank Loan Interest Subsidy Scheme was introduced, with an implementation period of six months, to assist SMEs facing difficulties due the COVID-19 pandemic. Macao, China also grants subsidies to companies to promote job creation among targeted social groups, such as the unemployed, young first-time job seekers, and persons with disabilities.

15. There is no integrated regime for standardization, accreditation and certification, and there is no official standardization body. Macao, China does not establish its own standards but adopts prevailing international standards and technical requirements. There are no specific procedures to develop technical regulations. However, when a product becomes subject to a licensing requirement, the corresponding standard becomes mandatory; hence, it becomes a technical regulation. During the review period, Macao, China made 12 notifications to the WTO under the TBT Agreement. Macao, China maintains a list of products subject to SPS inspection, which is reviewed periodically. The SPS table was most recently amended on 1 January 2017. Products subject to inspection include most plants, flowers, fruit and vegetables, animals, fish, animal products, ice cream, and sugar cane.

The importation of these products requires an import licence, as well as a valid sanitary certificate. Since 2013, Macao, China has published 11 food safety standards, notified to the WTO as SPS measures. It maintains two active SPS measures which have the effect of prohibiting imports.

16. Macao, China does not have a comprehensive competition law, nor does it have a dedicated competition enforcement agency. Provisions aimed at fostering competition, discouraging unfair business practices, and protecting consumer interests are scattered throughout the Commercial Code and sector-specific regulations. Although, in general, there are no price controls or administered prices, public utility tariffs, such as electricity, water, telephone service, postal services and taxi fares, are regulated or monitored by the relevant regulatory agencies.

17. The Protocol Amending the TRIPS Agreement on compulsory licensing under Paragraph 6 of the Doha Declaration entered into force in Macao, China on 6 September 2017. Macao, China is not a contracting party to the Convention Establishing the World Intellectual Property Organization (WIPO). The membership of international treaties administered by WIPO is extended to Macao, China through arrangements between China and WIPO. Since the last Review in 2013, China has notified to the WIPO that two international treaties have been extended for application in Macao, China; these are the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

18. Agriculture and fisheries account for less than 1% of GDP. Macao, China is a net importer of agriculture and fish products, and its trade deficit in these products grew to USD 1.82 billion in 2019 (from USD 1.32 billion in 2013), with imports of USD 1.92 billion, accounting for 15.4% of total imports of goods, and exports of USD 101 million, representing 6.2% of total merchandise exports. The major suppliers of imports of agriculture and fish products were Mainland China and the EU-28, which accounted for about 29.6% and 25.1% of the total, respectively, in 2019. All applied tariffs on agricultural and fishery products are maintained at a zero rate. The fisheries sector benefits from the Fisheries Development and Support Fund, which provides interest-free loans to fishermen for ship maintenance and repair, to purchase fuels, for research and training activities, and in cases of natural disasters or epidemics.

19. In its energy policy, the Government prioritizes environmental protection, energy conservation, and the use of clean and safe alternative energies. All prices related to energy must be approved by the Government. A "partial liberalization" of the electricity market has been pursued in recent years, with a view to introducing competition and ensuring a steady supply of electricity. Generation and importation were liberalized, but Macao, China continues to rely mainly on the China Southern Power Grid; local generation plays a supplemental role, with natural gas being the principal fuel. There is still one single operator for the downstream transmission and distribution of electricity, under a 15-year concession contract from the Government, valid until 31 December 2025, and subject to review every five years.

20. The manufacturing sector is small, representing less than 1% of GDP. Food and beverages remain the main subsector, accounting for almost half of all manufacturing production. Other subsectors include publishing and printing, and cement and concrete production. Almost all enterprises in the manufacturing sector are SMEs. Macao, China is a net importer of manufactures; its trade deficit reached USD 7.1 billion in 2019. The EU-28 and Mainland China were the main suppliers. Major imported items included consumer goods, and machinery and transport equipment. Applied duties for imported goods in the manufacturing sector are zero rated; however, only 19.2% of non-agricultural tariff lines are bound in the WTO.

21. Banks and other credit institutions require a licence to operate in Macao, China; no economic needs test is performed. As at December 2019, there were 30 banks, mainly foreign-owned, a financial company, and a non-bank credit institution. The three largest banks hold almost two thirds of the total banking assets, which were the equivalent of more than 400% of GDP in 2019. The banking sector is well capitalized, with a capital adequacy ratio well above the 8% requirement; the non-performing loans ratio remained low during the review period, at 0.2% in the second quarter of 2019. During the period under review, new provisions were incorporated into the legislative and regulatory framework to fight money laundering and combat the financing of terrorism. A number of regulations to strengthen the supervision of the financial system, for instance on capital adequacy, were also introduced. Insurance companies may be licensed as a locally incorporated company, a branch with its head office overseas, or a representative office. Locally incorporated companies and branches of foreign insurance companies may conduct insurance business in Macao, China on a national treatment basis. No individual or corporate body may acquire, directly or indirectly, a

qualified shareholding in an insurer with its head office in Macao, China, or increase its shareholding to a proportion equal to or higher than 5% of the capital or of the voting rights, without prior authorization.

22. Since 2012, when fixed-line telecommunications services were liberalized, there have been no exclusive telecommunication services in Macao, China, and the market is currently fully liberalized. Companies may apply for licences to install and provide public telecommunication networks and services in accordance to applicable regulations and licensing regimes; however, licences may be made conditional upon the needs of the economy. Obtaining a licence is generally subject to public tendering; the licence is transferrable, subject to prior approval from the regulator. A licensed operator must be a company registered in Macao, China. Licences are granted following a positive list approach, listing the services that can be provided by the licensee. During the review period, the penetration rate for mobile telecommunications reached 411.0% in 2019, up from 277.2% in 2012 and, as at end-2019, 86.5% of the population had access to Internet. There are currently two operators licensed for building and operating fixed public telecommunications networks, and five operators, including one mobile virtual network operator, licensed to provide mobile telecommunications services.

23. Macao, China pursues an "open-skies" policy in air transport services. Therefore, there are no restrictions on, *inter alia*, designation, capacity, and ownership. Macao, China currently maintains 50 air services agreements. As regards land transport, developing a system of mass public transportation is a priority, as laid out in the Macao General Policy of Land Transport (2010-20). In this respect, the Macao Light Rapid Transit (MLRT) Taipa Line became operational in December 2019, and the Government has initiated extension projects.

24. Macao, China is a net exporter of travel services. After a brief stagnation during 2015 and 2016, arrivals started to rise and in 2019, Macao, China welcomed its highest ever number of total visitors, estimated at 39.4 million. Tourists from Mainland China; Hong Kong, China; and Chinese Taipei comprised over 90% of the total market. Following the worldwide outbreak of COVID-19 in early 2020, Macao, China's tourism industry was severely affected, with a sharp decline in visitor arrivals and tourist spending. In response to the COVID-19 pandemic, the authorities put in place a number of measures to assist the tourism industry, which include: an exemption for six months, from 1 May 2020, of the tourism tax for establishments providing services, such as hotels, nightclubs, bars, and other venues; the waiver of fees; and profit tax relief.

25. The gaming sector remains the major driving force for the tourism industry and for the overall economy. Although below its 2013 record level (87% of GDP), gross gaming revenue remains very large: it represented over 65% of GDP in 2019. Gaming is regulated through the Gaming Law and other laws and regulations. During the review period, Macao, China changed the regulatory regime of gaming services, discontinuing greyhound activities in 2018. Gaming activities that remain available are casino games of fortune, horse racing, and lotteries. Regarding casinos, licences were granted to three concessionaires and three sub-concessionaires, each of whom has the right to operate a land-based casino gaming business as an independent legal person; they ran a total of 41 casinos in 2018. There is also a concession for horse racing, and two concessions for lotteries. The Gaming Law stipulates that the Government treat all gaming concessionaires and sub-concessionaires in a non-discriminatory manner and ensure that they comply with the rules of competition; arranged agreements and practices are prohibited. The abuse of a dominant position in the market or a substantial market share in the gaming industry that may impede, restrict or distort competition between the concessionaires is also prohibited. Casino operators must pay a gaming tax of 35% of their gross revenue, an additional annual contribution of 1.6% to the Macao Foundation (which supports cultural and philanthropic activities), and an annual contribution of not more than 3% of gross revenue for urban development, tourism promotion and social security. Revenue from gaming (direct taxes and transfers) accounted for 84.4% of the Government's total revenue in 2019.

26. During the review period, the Government continued to promote the meetings, incentives, conventions and exhibitions (MICE) activities, which followed an upward trend up to early 2020. The number of events increased by 50% between 2012 and 2019, mainly driven by an increase in the number of meetings and conferences; the number of participants and revenue also rose. Despite its positive previous trend, MICE activities were affected by the outbreak of COVID-19 in 2020, with a sharp decline in the number of events and participants. To help develop MICE activities, the Government launched a series of incentive programmes, including financial incentives, to support

activities and encourage local enterprises to participate in trade fairs to promote their products. The amount of financial support varies according to the programme. In addition, the industry may benefit from the general measures introduced by the Government to support economic activity during the COVID-19 pandemic.

27. Creative and cultural industries are part of the Government's strategy of promoting economic diversification. During the review period, activities grew steadily, although the industry's contribution to GDP remains small. There are several support schemes to promote the cultural and creative industries, including the Subsidy Programme Series for Macao's Cultural and Creative Industries, dedicated to cultural and artistic activities such as design and filming. Since 2013, the Cultural Affairs Bureau has been implementing subsidies programmes for fashion design, feature film production, production of original song albums, and production of original animation short films. The Cultural Industry Fund provides financial aid to projects related to cultural industries, in the form of subsidies and interest-free loans; commercial enterprises legally established and registered in Macao, China are eligible. In view of the economic effects of COVID-19, the Fund adopted a one-year extension of the repayment period from 2020 to 2021 for interest-free loans for 75 funded cultural and creative enterprise projects.

28. Macao, China continues to support the traditional Chinese medicine industry (TCM), which is one of the priority areas for economic diversification under the guidelines of the Five-Year Development Plan (2016-20). In 2015, the Traditional Medicine Centre was established, aimed at fostering the development of Chinese medicine professionals, enhancing their qualifications through training, and increasing the investment of resources for the industry's development. The Traditional Chinese Medicine Science and Technology Industrial Park of Cooperation between Guangdong and Macao (GMTCM Park), inaugurated in 2011, seeks to promote the integrated development of industry-academy-research and the application of technologies and products in the area of TCM, and assists enterprises with high-quality TCM products and technologies in breaking into the markets of Portuguese-speaking countries, the European Union and others, thus promoting the internationalization of TCM.