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**MACAU WELL-PLACED FOR CONTINUING ECONOMIC GROWTH  
IN A CHALLENGING FUTURE - SAYS GATT**

"Macau's continued economic momentum for more than two decades, though partly based on artificial policy incentives under the Multifibre Arrangement and restrictions on casino gambling in surrounding regions, owes a lot to the entrepreneurial spirit and the flexibility of its business sector," says the GATT Secretariat's report on Macau's trade policies and practices. "Much depends now on it developing a capacity for strategic decision-making in a more liberal policy environment."

The report stresses Macau's strong interest, as a small trading entity with an open economy, in maintaining and developing an effective framework of rules and disciplines for international trade. Its trade régime is largely free from Government involvement. The territory does not operate any quantitative restrictions, apart from its obligations under the MFA, and maintains no tariffs on imports or exports. There are no export subsidy, credit or insurance programmes. Customs procedures and licensing requirements are straightforward and there is no evidence of significant technical barriers. Government procurement practices are non-discriminatory. The scope of regulated industries is essentially confined to basic services, including transportation, electricity, water and telecommunications; prices in these areas are predominantly cost-oriented.

Macau participated actively in the Uruguay Round negotiations, especially in the negotiations on textiles and clothing, and showed strong interest in such areas as rules of origin and dispute settlement. In the market access negotiations, Macau undertook to bind all its agricultural tariffs and 10 per cent of its tariffs on industrial products at zero rates. In the services area, Macau submitted a comprehensive schedule of sectors to be covered by the new disciplines of the General Agreement on Trade in Services.

The GATT Secretariat's report also points to the challenging future for Macau as it prepares for the transfer of sovereignty to China in 1999 and the economic adjustments resulting from the phasing out of the MFA. "With world trade in textiles and clothing increasingly subject to competitive forces, the mainstay of Macau's manufacturing sector is heading for significant changes. The new trading environment is likely to spark off structural reorganization towards more skill-intensive segments, including producer services. This may require considerable education and training efforts; it may also lead to reductions in manufacturing production and employment. However," says the report, "the proximity to booming economic zones in China offers promising new business opportunities, including in the transport, banking and insurance sectors, which may spur demand for Macau's emerging gateway services."

The report points out that Macau's recent policy actions have been aimed at upgrading the territory's resource base, improving the conditions for industrial diversification, and helping businesses exploit the locational advantages of one of the world's most dynamic regions. "Given Macau's small, open economy and its dependence on events in China and Hong Kong, the territory would benefit greatly from a liberal trading environment, founded on stable rules-based cooperation within the multilateral system."

#### Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Government of Macau, will be discussed by the GATT Council on 27-28 September 1994 under the Trade Policy Review Mechanism (TPRM).
2. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals, to monitor significant trends and developments which may have an impact on the global trading system.
3. The two reports, together with a record of the Council's discussion and of the Chairman's summing up, will be published in due course as the complete trade policy review of Macau and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.
4. The reports cover developments in all aspects of Macau's trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are the summary extracts from these reports. Full reports will be available for journalists from the GATT Secretariat on request.
5. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 & 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 & 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991), Japan (1990 & 1992), Kenya (1993), Korea, Rep. of (1992), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Tunisia (1994), Turkey (1994), the United States (1989, 1992 and 1994), and Uruguay (1992).

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**TRADE POLICY REVIEW MECHANISM  
MACAU****Report by the Secretariat - Summary Observations**Economic Environment and Sectoral Development

Proximity to Hong Kong and China has played a key rôle in the development of the small enclave of Macau. The territory's industrial take-off in the 1960s relied strongly on its attraction for Hong Kong enterprises that encountered shortages of land and labour at home and origin-based restrictions in export markets, particularly for textiles and clothing. With many cultural and institutional similarities - including an open trade and investment régime, a stable and fully convertible currency, and a common language - Macau was an attractive locational alternative, just 60 km across the Pearl River Delta. While gambling-related tourism has for many years dominated the economy, clothing has emerged as the mainstay of the manufacturing sector, accounting for up to 90 per cent of merchandise exports at the end of the 1970s. The industry is made up mainly of small, self-financed firms working under subcontracting arrangements.

Industrial diversification in the 1980s, with non-textile products reaching 30 per cent of merchandise exports in 1985, proved short-lived. The main production alternatives, toys and artificial flowers, have been shifted in recent years to lower-cost locations across the border with China. Manufacturing employment has fallen from 45 to 25 per cent of the active population in the past decade, with the clothing sector, still locked in by origin requirements under the Multifibre Arrangement, cementing its "traditional" rôle. Internal quota allocation is based mainly on past performance and, thus, tends to favour entrenched interests.

With the phasing-out of the MFA and the eventual loss of scarcity rents on its major markets, the clothing industry is heading for difficult adjustments. Some 90 per cent of its exports go to only two destinations, the United States and the European Union, with the major part covered by bilateral restraints. In the European Union, Macau has lost market share since the mid-1980s, pressed by low-cost competitors, in particular China, and suppliers with more favourable access conditions under preferential trade agreements. Exports to non-MFA markets such as Japan have exhibited no real growth in recent years.

Recent policy actions have been aimed at upgrading the territory's resource base, improving the conditions for industrial diversification, and helping businesses exploit the locational advantages of one of the world's most dynamic regions. Large private and public investments in this context, including the upgrading of port facilities and the construction of an international airport, have underpinned economic expansion; real GDP growth exceeded 6 per cent a year in the period 1991-93.

Despite the surge in public investment, the authorities have kept taxation low and the budget in surplus. Fiscal revenue has been buoyed by receipts from land leases and the thriving gambling sector, which accounts for one-third of total government income. However, resource constraints, related in particular to land and labour, have fuelled inflationary pressures. Given Macau's currency peg to the Hong Kong dollar and thus, indirectly, the U.S. dollar, the monetary authorities have had no scope for tightening but have rather been required to tolerate the expansionary effects of strong foreign asset inflows. Higher inflation than in the United States, peaking at about 9½ per cent in 1991, has translated into real currency appreciation and, consequently, adjustment pressures on price-sensitive activities.

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Macau's current economic momentum is founded largely on private service activities which have ensured, despite an increasing deficit in merchandise trade since 1991, a strong surplus in the territory's goods and services balance.

### Institutional Framework

Macau's current legal status is that of a "Chinese territory under Portuguese administration". According to its Organic Statute, promulgated by the Portuguese Parliament, executive authority is vested in the Governor, who is appointed by the President of Portugal. He is assisted by up to seven Secretaries. The Governor also has legislative powers on any issues that are not under the exclusive competence of, or have been delegated by, the Legislative Assembly. Of the Assembly's current 23 members, eight are elected by direct and universal suffrage, eight by indirect suffrage by constituencies representing various interest groups, and seven are appointed by the Governor. Basic regulations are currently under revision with a view to streamlining procedural requirements and replacing remaining Portuguese legislation by local law.

The main agency involved in the preparation and implementation of trade-related policies is Macau Economic Services, which operates under the purview of the Secretary for Economic and Financial Affairs. Trade-related legislation is normally drafted by administrative units, submitted to the Secretary and, after approval, promulgated by the Governor in the form of decree-laws. The private sector participates in the policy formulation and co-ordination process through the Economic Consultative Council.

After more than four centuries of Portuguese administration, Macau will become a Special Administrative Region of China in December 1999. Under the Sino-Portuguese Joint Declaration of 1987 and the Macau Basic Law, promulgated in 1993 by China's National People's Congress, the territory is to have full autonomy in the administration of its affairs, with the exception of defence and foreign policy, for the following fifty years. It will maintain the status of a free port and will be exempt from all taxes imposed by the central government. Macau succeeded to GATT in 1991: as a separate customs territory, it may continue to conclude and participate in international agreements governing economic, trade and financial relations and will be a member of the future WTO under the name "Macau, China".

### Trade Policy Features and Trends

Owing to its free-port tradition since the sixteenth century, free market principles are deeply ingrained in Macau's political and economic fabric. The territory does not participate in any preferential trade agreements; all trade enters and exits duty-free. (However, this access is not bound and, even after the Uruguay Round, only one-fifth of Macau's duty-free tariff rates - all agricultural items and 10 per cent of industrial tariff lines - will be bound.) There are no origin or local content requirements, provisions for safeguard actions, export subsidy, credit or insurance programmes. Nor is there any evidence of significant technical barriers to trade; where standards or technical regulations are seen as necessary, Macau relies as far as possible on internationally recognized requirements and on type approval granted by competent foreign bodies. Portuguese law on anti-dumping and countervailing measures, though gazetted, has not been implemented and the territory has therefore no active legislation in this field. Confident of the disciplinary effects of free competition, Macau has no means of discouraging collusive business practices such as price cartels and bid-rigging.

Macau does not levy a general sales tax, but raises consumption taxes on alcoholic beverages, soft drinks, tobacco and tobacco products, motor vehicles, fuels and cement. Their rates have remained unchanged since 1986 and do not in general differentiate between individual sources of supply. The

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only exception are wines and other liquors imported from Portugal, which bear half the regular rates; these preferences are scheduled for elimination, although without any stated timeframe.

An additional charge of 25 per cent is levied on various alcoholic beverages and all motor vehicles if these are not imported directly from the country of origin. Designed to reduce the territory's dependence on indirect trade via Hong Kong, the charge tends to strengthen the exclusive position of, and may translate into significant monopoly rents for, local distributors. These effects are amplified by an import prohibition, mainly on environmental grounds, on second-hand cars, motorcycles and trucks.

All imports and exports are currently subject either to licensing, trade declaration or prior authorization requirements. Licences and trade declarations (for perishable goods) are normally issued immediately, free of charge. Apart from textile exports subject to MFA restraints and trade in gold and platinum, prior authorization is confined to products considered sensitive for health, safety, environmental or technical reasons. Cases in point are chemicals, pharmaceuticals, arms and ammunition, fuels, radio transmitting equipment, motor vehicles, and endangered species of wild flora and fauna. Currently, legislation is in draft to implement Macau's commitments under the Vienna Convention and the Montreal Protocol concerning trade in CFC-containing products.

Government procurement of goods, services and works is normally effected through public tendering, administered by Committees comprising three representatives of the entity involved. Direct purchases (single tendering) of a significant scale are normally confined to special circumstances and must be authorized either by the responsible Secretary or, depending on the value, by the Governor. In the case of single or selective tendering, consultations with at least three specialized firms registered in Macau are required. In 1993, approximately P 1.13 billion (US\$140 million) was spent on goods, services and construction projects.

Macau's framework for investment incentives, designed to encourage industrial modernization and diversification, relies mainly on tax breaks and on subsidized loans for the construction or purchase of premises and new equipment. However, the incentives have to date been little used. Their importance as an industrial development instrument is dwarfed by the Government's influence on the use of land. Some 95 per cent of Macau's territory of 18 square kilometres is government-owned and industrial land is allocated among investors through leases whose conditions are negotiated case-by-case. Revenue from land leases, half of which is reserved for the post-1999 Government, has risen tenfold since 1988.

Basic public services such as broadcasting, telecommunications, water, electricity and transport are provided by private monopoly operators under government concessions. Prices are predominantly cost-oriented and do not normally differentiate between users. The telecommunications concession is under review with a view to limiting the scope of the current monopoly to the provision of network facilities and simple voice transmission. Macau has not notified any State trading activities under the relevant GATT provision.

In most areas of industrial property, protection is currently provided through the extension of the Portuguese Industrial Property Code to Macau. The Paris Convention applies to the territory via Portugal's membership; legal action to defend industrial property rights are in principle left to the owner or his licensee. Implementation of the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights appears to require major changes to domestic legislation.

#### Trade Policies and Foreign Trading Partners

Macau's economic progress has been spurred by external impulses, in particular the prohibition, until recently, on casino gambling in surrounding regions and the operation of the MFA quota régime.

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However, the territory's favourable business climate and its ability to attract foreign investment and entrepreneurial talent, rest mainly on its long record as a free trader with a laissez-faire government, rather than on formal incentives or constraints.

Macau is preparing for the transfer of sovereignty in 1999 and, coincidentally, the economic challenges resulting from the phasing-out of the MFA. The authorities have thus sought to encourage industrial diversification, encourage gateway services for neighbouring regions, and promote the territory as a commercially independent entity. Given Macau's small, open economy and its dependence on events in China and Hong Kong, the territory would benefit greatly from a liberal trading environment, based on stable, rule-based co-operation within the multilateral system.

**TRADE POLICY REVIEW MECHANISM  
MACAU**

**Report by the Government  
Executive Summary**

Trade is the lifeblood of Macau. The territory has historically been a free port and it operates one of the most liberal trading regimes in the world. There are practically no restrictions at all on the free flow of goods and capital in to, and out of, Macau. This free trade approach is both logical and necessary for a territory such as Macau. It has limited natural resources and a very small domestic market: so it relies on trade for its own economic survival.

Macau intends to continue with this free market approach both during the transitional period before December 1999, and in the time thereafter, once sovereignty has been transferred from Portugal to China. The Basic Law governing the territory after December 1999, provides that Macau may remain as a free port and as a GATT member.

Macau is fully committed to the GATT and to the system of open, fair and transparent trade which the rules are intended to promote. The multilateral framework of GATT is particularly important for Macau since it exports to, and imports from, a wide range of trading partners. Consequently, Macau would like to see a free trade system maintained and strengthened on a truly global level.

Historically, traders in Macau have depended very heavily on the textile sector. This dependency still exists, though efforts have been made towards diversification of industrial production and development of the services sector. Macau believes that the GATT system, and the principle of free trade which it is designed to protect, is absolutely fundamental for the continuing development of the territory as a modern, outward-looking, dynamic economy.

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