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Hong Kong, 11th June 2008

Annual economic report: Macao 2007

1. Appreciation of the economic problems and issues

1.1 General overview:

Macao is small in both size and population. Macao, which consists of Macao Peninsula, Taipa and Coloane, covers 28.6 sq. km with population of about 530,000 residents. In the run-up to the handover of Macao from Portugal to China in December 1999, Macao suffered decline of GDP for 4 straight years. The public order was then threatened by notorious organised crime and fights between rival triad gangs.

An economic upturn started in 2000 and has been growing unceasingly for 8 years. At the back of real GDP growth at 28%, 7% and 17% in 2004, 2005 and 2006 respectively, real GDP further expanded by 27% in 2007. The robust economic growth has been undoubtedly driven by tourism and the gaming industry (please refer to 1.3 for more details).

Retail sales rose to an all-time record of US\$ 1,774 million (+33%)¹ whereas inflation rose to 5.6% (5.2% in 2006) in 2007. The unemployment rate fell to 3.1% (3.7% in 2006) in 2007 and further dropped to 2.9% in the first quarter of 2008.

As far as merchandise trade is concerned, total exports dropped very slightly to US\$ 2,542 million (-0.2%) whilst total imports increased to US\$ 5,365 million (+18%) in 2007. On the other hand, exports of services reached US\$14.5 billion (+38%) and imports of services amounted to US\$2.6 billion (+37%) in 2007.

1.2 Concerns of the public

Although gaming liberalization sounds very successful in the booming Macanese economy, social discontent rose to a certain extent in the last two years. Citizens demanded anti-cronyism, anti-corruption, transparent labour import scheme and actions against influx of illegal workers.

Low-skilled local workers thought they were not sharing the benefits of the economic boom. Instead, they found their wages dragging down by illegal workers, rising housing prices and leading to higher living costs.

The Aos' case² revealed loopholes in the land zoning system in which land was suspected to be given away to developers at prices well below market value, thus breeding cronyism and corruption. Since the handover, only one plot of land was sold through open bidding in 2004. Under mounting public pressure, the Macao SAR Government promised to enhance transparency in land sales and zoning. The first site for open bidding in nearly four years was sold in January 2008. The public welcomed it as a small but commendable step towards a transparent system.

¹ Variations in % mentioned in this report are on year-on-year basis, unless otherwise stated

² Ao Man-long, former Secretary for Transport and Public Works of the Macao SAR Government, was sentenced to 27 years' imprisonment on charges of accepting bribery, money laundering and abuse of power in February 2008. It is the most serious corruption scandal exposed after the establishment of the Macao SAR in 1999.

To address rising housing prices, the Macao SAR Government pledged to build over 7,000 Home-Ownership Scheme Housing HSH units by 2009 and build a further 19,000 HSH units by 2012.

The widening wealth gap is another serious problem for the Macao SAR Government to tackle. The GDP per capita looks very impressive and reached USD 36,357 in 2007. However, the wealth has gone mainly to the richest few locals and overseas gaming investors. To ease the public discontent, the Macao SAR Government announced a few measures in April 2008 including a one-off cash subsidy and an electricity bill subsidy to every resident and household.

An immediate impact of all these relief measures and improvements was that the rally or protest on May 1 this year was more peaceful and on a much smaller scale than the last two years.

1.3 Tourism and gaming industry

The tourism and gaming industry, a general term for tourism, hotels, catering, retails and gaming, is a major driving force for Macao's economy.

With a history dating back to the mid 19th century, gaming is one of the oldest industries in Macao. During 1930-2002, the Macao gaming industry was operated under a monopoly system. The Macao Special Administrative Region (SAR) Government liberalized the gaming industry and granted concessions to three gaming operators including a current concessionaire, a Hong Kong company and a casino operator from Las Vegas in 2002. They were then allowed to sign sub-concessions with some other casino operators which brought in more investors. The liberalization of the gaming industry is believed to bring about investments worth around US\$ 20 billion in new casino and hotel projects. In the first quarter of 2008, there were a total of 29 casinos operating by 6 concessionaires. Its gross gaming revenue³ roared by 46% to US\$ 10.5 billion in 2007, overtaking Las Vegas as the world's number one gaming destination since 2006. On the other hand, the direct taxes from gaming generated US\$ 3.7 billion in 2007, representing 72% of the total revenue of the Macao SAR Government.

A total of about 27 million visitors (+23%), or 51 times the size of local population, came to Macao in 2007. The majority of tourists came from Mainland China (55% of total), Hong Kong (30% of total) and Taiwan (5.3% of total). Excluding the spending in gaming, the spending per visitor was about US\$ 204. The tourists from Mainland China spent about US\$ 384 per capita in 2007.

In order to ensure sustainable and balanced growth of the gaming sector and Macao as a whole, the Macao SAR Government imposed a freeze on its gaming industry in April 2008. A series of measures included a decision not to grant more land for casino development and a freeze on new gaming licences and gaming tables. The Macao SAR Government admitted that the fast casino growth had strained the land and other resources of Macao and led to unfavourable social repercussions.

1.4 Challenges in human resources market

Economists warned that the gaming sector flourished at the expense of other sectors. Given a population of about 530,000, the domestic labour supply could hardly match the huge demand for talents, resulting in an acute manpower shortage and a scramble for talents. Other local industries are facing the challenge of their human capital being hollowed out to the gaming and hospitality sectors. Young people are being lured to work in casinos because of high pay and low entrance requirements.

1.5 Bottle neck in infrastructure

Owing to its small size and rapid economic growth, Macao feels the strain of bottle neck in infrastructure. Macao is going to build a light rail transit system to address traffic problems. The system, which will span 20 kilometres with capacity to carry 8,000 passengers per hour, is expected to be completed in 2011. To improve cross-border marine transportation, the new ferry terminal on Taipa is under construction and in partial operation.

³ Gross gaming revenue is the net win from gaming activities, which is the difference between gaming wins and losses before deducting costs and expenses

1.6 Plans to diversify the economy

While the gaming industry is the most important sector of the Macao's economy, the government wishes to move towards a diversified economy for sustainable development. They are therefore keen to promote retail sector, cultural industries, entertainment business and MICE (Meetings, Incentives, Conventions and Exhibitions). The government understands that it will take some time to achieve this goal and at present, it will adopt a pragmatic and step-by-step approach.

2. International and regional economic agreements

2.1 Macao's policy and priorities

Macao is a free port. Goods, capital and foreign exchange can flow freely in and out of Macao. Besides its natural ties with China and Hong Kong, the Macao SAR Government is keen to strengthen economic and trade cooperation with the Portuguese-speaking countries and intends to serve as a link between China and these countries.

Macao maintains a separate status under the name "Macao, China" in a few inter-governmental organisations such as the World Trade Organization (WTO), the World Customs Organisation, the World Tourism Organization and etc..

2.2 Closer Economic Partnership Arrangement (CEPA)

CEPA, a regional trade agreement, was signed between China and Macao in October 2003. It came to effect in January 2004 and its supplements were signed during the period 2004-2007. It covers 3 broad areas: a) trade in goods, b) trade in services and c) trade and investment facilitation.

a) Trade in goods

China has agreed to apply zero tariff to all goods of Macao origin except for goods that are prohibited from imports into the Mainland. To enjoy zero tariff treatment, goods of Macanese origin exported to the Mainland must fulfil the rules of origin stipulated under CEPA and must obtain the specific "Certificate of Origin".

Since the implementation of CEPA on 1st January 2004, 665 items classified as made-in-Macao products have been approved to be eligible to enjoy zero tariff when exported to the Mainland. In 2004-2007, goods exported to the Mainland under CEPA privileges amounted to USD 5.9 million.

b) Trade in services

China has progressively provided preferential treatment on market access for 27 service sectors⁴ to Macao companies. In compliance with the WTO principles and rules, CEPA provides the Macao service suppliers with an earlier access to the Chinese market, ahead of the timetable China has agreed with the WTO. In some sectors, such as audiovisual services, transport services as well as medical and dental services, the concessions are actually more favourable than those of China's WTO commitments. From 1st January 2008, the Mainland has committed to newly relaxed market access for Macao Service Suppliers in some more service sectors, namely, computer and the related services, market research, management consulting related services, public utility, building-cleaning, photographic, printing, translation and interpretation, environmental, social services, and sporting.

To be eligible as a Macanese service supplier, the company in question has to meet all the criteria: i) it is incorporated in Macao; ii) it has operated for 3-5 years (depending on sectors); iii) it should have paid tax in Macao and iv) it employs 50% of its staff locally.

⁴ It includes legal services, accounting, construction and real estate, medical and dental, advertising, management consulting, convention and exhibition, telecommunications, audiovisual, distribution, insurance, banking, securities and futures, tourism, transport, freight forwarding agency, storage and warehousing, logistics, air transport, information technology, professionals qualification examinations, cultural and recreational, trade mark agencies, patent agencies, job referral agencies, job intermediaries and individually owned stores.

The Macao Economic Services Bureau has approved 346 "Macao Service Supplier" certificates, which primarily engage in service sectors of transport and logistics, convention and exhibition, management consulting, construction, distribution, telecommunications, legal and advertising, etc.

c) Trade and investment facilitation

Both China and Macao have agreed on enhancing co-operation in trade and investment facilitation in seven areas including trade and investment promotion and customs clearance facilitation. According to the Macao Economic Services Bureau, the trade and investment facilitation measures have brought positive impacts in attracting foreign investment to Macao. China ranked the 3rd largest investor country and the stock of direct investment reached US\$588 million at the end of 2006.

Economic Benefits

Macao depends heavily on the gaming and tourism sectors. An individual visit scheme (IVS) under the framework of CEPA⁵ brings in a huge flow of Chinese tourists and hence boosts the economy in Macao markedly. In 2007, about 14.8 million Chinese tourists travelled to Macao and among them, 7.1 million visitors (48% of total Chinese tourists) travelled under the IVS.

2.3 Pan-Pearl River Delta (PPRD) Cooperation

The "Pan-Pearl River Delta (PPRD) Regional Co-operation Framework Agreement" was signed in 2004⁶. The PPRD regional governments agreed to strengthen cooperation in 10 areas – infrastructure, investment, business and trade, tourism, agriculture, labour, education and culture, information and technology, environmental protection, and health and prevention of infectious disease.

2.4 Co-operation with Portuguese-speaking countries

Given a unique position as a former Portuguese colony which adopts Chinese and Portuguese as official languages, Macao wants to position itself as a co-operation platform between China and Portuguese-speaking countries and enhance collaboration in areas such as trade, commerce, education, culture and tourism.

3. Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

According to the Macao Statistics and Census Bureau, total exports reached US\$ 2,542 million (-0.2%) in 2007. They consisted of domestic exports (US\$ 1,682 million) and re-exports (US\$ 860 million). Major export markets were the US (41% of total exports), China (15%), Hong Kong (13%), Germany (6.4%), UK (4%) and France (3%). Major export products were textile and garments (66%), machines and apparatus (11%) as well as footwear (2%).

Imports rose remarkably to US\$ 5,365 million (+18%) in 2007. Major supplier countries or regions were China (43%), Hong Kong (10%), Japan (9%), the US (5.6%), Germany (4.4%), France (4.2%) and Taiwan (3.5%). Major import products were consumer goods (41%), raw materials (27%), capital goods (22%) and fuels and lubricants (11%).

3.1.2 Trade in services

Exports of services reached US\$14.5 billion (+38%) in 2007, thanks to the contribution of non-resident expenditure in the domestic market, accounting for about 94% of the total. The breakdown of expenditure of non-residents in the domestic market was as follows: gaming (US\$ 10 billion, grew by 46%), accommodation (US\$ 364 million, grew by 57%), and others (US\$ 3.1 billion, grew by 20%).

⁵ Before introduction of CEPA, Chinese tourists visiting Macao had to be organised in tour groups. Under "Trade in Services – Tourism Services" of CEPA, Chinese tourists from major cities can visit Macao individually.

⁶ The PPRD region, also known as "9+2", comprises nine provinces/regions including Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou and Yunnan, as well as Hong Kong and Macao Special Administrative Regions.

Imports of services amounted to US\$2.6 billion (+37%) in 2007. It consisted of household consumption expenditure abroad (15% of total imports of services), transport services (11% of total), industrial services (8% of total), financial and insurance services (6% of total), government expenditure abroad (2% of total), postal and telecom services (2% of total) and other services (56% of total).

3.2 Bilateral trade

3.2.1 Trade in goods

According to the Swiss Federal Customs Administration, Swiss exports to Macao totalled CHF 48 million (+143%) in 2007. Major Swiss exports included jewellery and precious metal (51% of total), agricultural products (16%), textile and garments (8.1%), watches and clocks (7.9%) and machinery (7%).

According to the Macao Statistics and Census Bureau, products of Swiss origin imported to Macao increased to USD 119 million (+68%) in 2007. Major Swiss products included watches and clocks US\$ 90 million (75%), tobacco products US\$ 8 million (6.7%), electrical and non-electrical machinery US\$ 6 million (5%) and chemical and pharmaceutical products US\$ 6 million (5%).

There is a huge discrepancy between these two sets of trade figures. According to the Macao Statistics and Census Bureau, their external trade statistics are compiled in accordance with "Country of Origin". Therefore, their import figures include commodities imported directly from Switzerland as well as those imported via a third region or country. On the other hand, the Swiss statistics list a "recipient country" but it may not be a place of final destination. Take for an instance, Swiss products are exported to Hong Kong which are then re-exported to Macao, the Swiss statistics will list Hong Kong, instead of Macao, as a recipient country.

According to the Hong Kong Census and Statistics Department, Swiss goods worth US\$ 50 million (grew by 49%) were re-exported to Macao via Hong Kong in 2007. Major products were watches and clocks (57%), medicaments (9.1%), non-electrical machinery (8.4%), tobacco products (4.8%) and cosmetics (4%).

Macao's total exports to Switzerland increased to CHF 5.9 million (+113%) in 2007. Major total exports included optical and medical instruments (35%), textile and garments (31%), electrical and non-electrical machinery (24%) and footwear (3.4%).

According to the Macao Statistics and Census Bureau, Switzerland was Macao's 9th largest supplier and 30th largest export market in 2007.

Outlook

There were 85 hotels and similar establishments in Macao with over 17,000 rooms (+31%) in 2007. The opening of the gambling sector since 2002 has led to significant new investments in casinos, hotels and related facilities. An industry resource revealed that there would be a few new hotel projects in the next 10 years. Many of them will cater to the luxury tourist market. There will be a substantial demand for hotel supplies, equipment, building products and premium food.

Overtaking Las Vegas as the world's number one gaming destination, Macao intends to develop itself as a centre that integrates gaming, shopping, conference and exhibition services, as well as entertainment and leisure industries. In fact, non-gaming revenue makes up only 5% of casino resort revenue in Macao whereas it accounts for over 50% in Las Vegas.

According to a survey released by the Macao Statistics and Census Bureau, the structure of visitors' spending in shopping in 2007 was as follows: local food products (29% of total shopping spending), clothing (16%), watches/jewellery (16%), cellular phones/electrical appliances (10%), perfume/cosmetics (9%), shoes/handbags (8%) and others (12%).

There are good prospects in Macao for Swiss luxury items and branded products. As mentioned earlier, 2007 saw a substantial increase (+68%) of Swiss products imported to Macao, following an increase of 135% in the previous year. Among them, watches roared by 87% to reach about US\$ 90

million. Although mainland visitors have keen interests on watches, most of them will only buy brands with a long history and high recognition that are already known in China.

Being pushed by both domestic consumption and visitors' spending, retail sales in the first quarter of 2008 rose to USD 567 million (+46% year-on-year basis). It is noteworthy that retail sales of watches, clock and jewellery reached USD 105 million which took the largest share of total retail sales (19% of total) and grew by 99% and 17% on year-on-year basis and quarter-to-quarter basis respectively.

3.2.2 Trade in services

According to the Macao Statistics and Census Bureau, information on bilateral trade in services between Switzerland and Macao is not available.

4. Direct Investments

4.1 Development and general outlook

According to the Macao Statistics and Census Bureau, the stock of Macao's inward direct investment increased by 29% to US\$ 6,492 million at the end of 2006. Major investor countries were Hong Kong (US\$ 3,711 million or 57% of total, grew by 16%), the USA (US\$ 1,201 million or 18% of total, grew by 50%), China (US\$ 588 million or 9% of total, grew by 21%) and the EU (US\$ 478 million or 7.4% of total, grew by 15%).

In terms of industry, the stock of foreign direct investment to Macao was mainly composed of gaming sector (US\$ 4.1 billion); followed by the financial sector (US\$ 1.3 billion), industrial production (US\$ 366 million), and hotels & restaurants (US\$ 324 million).

4.2 Bilateral investment flows

According to the Macao Statistics and Census Bureau, the amounts of Swiss investments in Macao are minimal and such information is therefore unavailable.

5. Useful internet links

Macao Government agencies:

Macao SAR Government Portal (<http://www.gov.mo/egi/Portal/index.jsp>)

Macao SAR Government Information Bureau (<http://www.gcs.gov.mo/>)

Macao Economic Services Bureau (<http://www.economia.gov.mo/>)

Financial Services Bureau (<http://www.dsf.gov.mo/>)

Statistics and Census Bureau (<http://www.dsec.gov.mo/>)

Labour Affairs Bureau (<http://www.dsal.gov.mo/>)

Macao Trade and Investment Promotion Institute (<http://www.ipim.gov.mo/>)

Macao Customs (<http://www.customs.gov.mo/>)

Swiss Government agencies and export promotion bodies

State Secretariat for Economic Affairs (<http://www.seco.admin.ch/>)

OSEC Business Network Switzerland (<http://www.osec.ch/>)

Chambers and Associations:

Industrial Association of Macao (<http://www.madeinmacau.net>)

Chinese-Portuguese Trade and Industry Chamber (<http://www.ccilc.org.mo>)

Macao Lawyers Association (<http://www.aam.org.mo>)

Macao Chamber of Commerce (<http://www.acm.org.mo/>)

Appendices

1. Structure of economy
2. Main economic data table
3. Trade partners table
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Appendix 1

Structure of Economy

	1995	2006	Variation
Spreading GDP (%)			
Primary Sector	0%	0%	0%
Secondary Sector	16%	19%	+19%
Tertiary Sector	84%	81%	-3.6%
- Part of Public Services	N.A.*	N.A.*	N.A.*
Spreading Employment			
Primary Sector	0%	0%	0%
Secondary Sector	32%	23%	-28%
Tertiary Sector	68%	77%	+13%
- Part of Public Services	N.A.*	N.A.*	N.A.*

*N.A. Not available

Source: Statistics and Census Bureau, Macao SAR Government

Appendix 2

Principales données économiques

	2005	2006	2007
PIB (USD billion)	11.6	14.4	19.1
PIB/habitant (USD)	24,369	28,857	36,357
Taux de croissance (% du PIB)	+6.9	+17	+27
Taux d'inflation (%)	4.4	5.2	5.6
Taux de chômage (%)	4.1	3.7	3.1
Solde budgétaire (% du PIB)	7.5	8.5	14
Solde des transactions courantes (% du PIB)	29	20	N.A*
Dette extérieure totale (% du PIB)	N.A*	N.A*	N.A*
Service de la dette (% des exportations)	N.A*	N.A*	N.A*
Réserves (mois d'importations)	N.A*	24	30

*N.A Not available

Source: Statistics & Census Bureau, Macao SAR Government

Appendix 3

Partenaires économiques 2007

	Pays	Exportations (USD millions) par le pays de résidence	Part (%)	Var.* (%)
1	USA	1,032	41	-8.5
2	China	378	15	-0.3
3	Hong Kong	333	13	16
4	Germany	162	6.4	13
5	UK	102	4	-2.9
6	France	77	3	-9.4
7	Taiwan	32	1.3	88
8	Italy	30	1.2	7
9	Japan	29	1.1	45
10	Netherlands	27	1.1	-16
	EU	463	18	-7.4
30	Switzerland	2.7	0.1	86
	Total	2,542	100	-0.2
	Pays	Importations (USD millions) par le pays de résidence	Part (%)	Var.* (%)
1	China	2,287	43	11
2	Hong Kong	542	10	17
3	Japan	482	9	27
4	USA	302	5.6	21
5	Germany	238	4.4	62
6	France	224	4.2	22
7	Taiwan	187	3.5	27
8	Singapore	168	3.1	-12
9	Switzerland	119	2.2	68
10	UK	97	1.8	13
	EU	841	16	40
	Total	5,365	100	18

*Variation par rapport à l'année précédente

Source: Statistics & Census Bureau, Macao SAR Government

Appendix 4

Principaux investisseurs 2006

Rang	Pays	Investissements directs (USD million) (stock)	Part	Variation (stock)	Variation (USD million) (flux)
1	Hong Kong	3,711	57%	16%	103
2	USA	1,201	18%	50%	-33
3	China	588	9%	21%	39
4	EU	478	7.4%	15%	90
5	Cayman Islands	278	4.3%	N.A.	N.A.
	Total	6,492	100 %	29%	378

*N.A. Not available

** Information on Swiss direct investments in Macao is not available, according to the Statistics & Census Bureau, Macao SAR Government.

Source: Statistics & Census Bureau, Macao SAR Government