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## **Annual economic report: Macao 2008**

### **1. Appreciation of the economic problems and issues**

#### **1.1 General overview**

Macao is small in both size and population. Macao, consisting of Macao Peninsula, Taipa and Coloane, covers 29.2 sq. km with about 550,000 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 9 years. At the back of real GDP growth at 17% and 25% in 2006 and 2007 respectively, real GDP growth still recorded 33% and 22% in the first and second quarter of 2008. However, the economy was hit by the adverse impact of the global financial crisis and decrease of mainland visitors in the second half of 2008. The gaming and tourism sector started to slow down. Total investment continued to fall and the economy contracted. In fact, real GDP growth slowed down to 10% in the third quarter and even declined by 7.6% in the fourth quarter. For 2008 as a whole, GDP grew by 13%.

Retail sales rose to an all-time record of US\$ 2,368 million (+33%) whereas inflation rose to 8.6% in 2008. The unemployment rate was kept at 3% in 2008 but started to rise by 3.6% in Dec. 08–Feb. 09.

As far as merchandise trade is concerned, total exports dropped to US\$ 1,998 million (-22%) whilst total imports maintained at US\$ 5,367 million (insignificant variation) in 2008. On the other hand, exports of services reached US\$17.4 billion (+25%) and imports of services amounted to US\$3.5 billion (+21%) in 2008.

#### **1.2 Policy Address**

In his annual policy address delivered in November 2008, Chief Executive Edmund Ho made clear that his priority for 2009 was to ensure economic stability amid the global financial crisis.

The Macao SAR Government would invest about US\$ 1.3 billion in infrastructure projects, public housing and improvements at heritage sites. It also offered a series of incentives to help residents and small and medium-sized enterprises SMEs, including subsidy for new homes, electricity subsidy, increase of tax allowance, government guarantee for bank loans to SMEs and cash handouts to residents.

To tackle the fluctuations in the economic environment and the tourist market, and to facilitate the coordinated development of the local economy, Chief Executive Edmund Ho pledged to diversify the economy while consolidating the advantages of existing industries.

In addition to stabilize the existing tourist sources, the Macao SAR Government will make efforts to attract more visitors from the S.E. Asia. Their key strategy is to capitalise on the resources generated by the growth of the gaming industry to foster and feed the development of leisure, holidaymaking, cultural tourism and other related industries.

#### **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 19<sup>th</sup> 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 has brought huge investments in new casino and hotel projects. At present, there are 31 casinos operating by 6 concessionaires. Its gross gaming revenue<sup>1</sup> roared by 31% to US\$ 13.7 billion in 2008. On the other hand, the direct taxes from gaming generated US\$ 4.9 billion in 2008, representing 77% of the total revenue of the Macao SAR Government. Nevertheless, the gaming industry has entered into a phase of adjustment after a period of rapid expansion. The Macao SAR Government imposed a freeze on gaming licenses and new land resources for casino development in April 2008.

Macao relies heavily on Chinese tourists to support its gaming and tourism industries. When the Central Government was concerned about the over-heating of the Macao's economy, they tightened issues of visa to mainland residents and imposed travel curbs on private visits of civil servants, to visit Macao in June and September 2008. The gaming industry, in particular the VIP gambling businesses, felt the adverse effect immediately. Furthermore, the global financial crisis affected the financing of new casinos and hotel developments. A major casino group suspended construction of a US\$ 3.3 billion resort complex and thousands of workers were laid off.

A total of about 23 million visitors (-15% compared with 2007), or 42 times the size of local population, came to Macao in 2008. The majority of tourists came from Mainland China (51% of total), Hong Kong (31% of total) and Taiwan (5.7% of total). Excluding the spending in gaming, the spending per visitor was about US\$ 216. The tourists from Mainland China had the highest per-capita spending of about US\$ 445.

The Macao SAR Government has identified the MICE<sup>2</sup> industry as a key factor to help diversify the economy, increase yields and the average length of stay of visitors. They have therefore made strong efforts to support and promote the MICE industry.

Total number of the MICE participants grew from 57,089 in 2006 to 301,979 and 364,320 in 2007 and 2008 respectively. Total number of events including international events, regional events and national offshore events grew from 360 in 2006 to 1,177 and 1,240 in 2007 and 2008 respectively.

As affected by the global financial turmoil, visitor arrival dropped to 5.4 million in the first quarter of 2009 (-9.6% year-on-year). Visitors from Mainland China decreased by 14% whereas those from Japan registered an increase of 17%.

## **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..

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<sup>1</sup> Gross gaming revenue is the net win from gaming activities, which is the difference between gaming wins and losses before deducting costs and expenses

<sup>2</sup> MICE stands for meetings, incentives, conventions and exhibitions

## 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 II – V were signed during the period 2004-2008. 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".

From January 2004 to March 2009, made-in-Macao products exported to the Mainland under CEPA privileges amounted to USD 8.1 million.

### b) Trade in services

China has progressively provided preferential treatment on market access for 40 service sectors<sup>3</sup> 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.

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.

The Macao Economic Services Bureau has approved 349 "Macao Service Supplier" certificates, which primarily engage in service sectors of transport and logistics, convention and exhibition, management consulting, construction, distribution, telecommunications and advertising.

### 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 3<sup>rd</sup> largest investor country and the stock of direct investment reached US\$829 million at the end of 2007.

## Economic Benefits

Macao depends heavily on the gaming and tourism sectors. An individual visit scheme (IVS) under the framework of CEPA<sup>4</sup> brings in a huge flow of Chinese tourists and hence boosts the economy in Macao markedly. In 2008, about 17.5 million Chinese tourists travelled to Macao and among them, 6.7 million visitors (39% of total Chinese tourists) travelled under the IVS.

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<sup>3</sup> 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, individually owned stores, computer and the related services, market research, management consulting services, public utility, building-cleaning, photographic, printing, translation, environmental, social services, sporting, mining services and scientific and technical consulting.

<sup>4</sup> 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.

## **2.3 Pan-Pearl River Delta (PPRD) Cooperation**

The "Pan-Pearl River Delta (PPRD) Regional Co-operation Framework Agreement" was signed in 2004<sup>5</sup>. 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.

The 5<sup>th</sup> PPRD Regional Co-operation and Development Forum, supposedly to take place in June 2008, was postponed due to the earthquake in Sichuan.

## **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\$ 1,998 million (-22%) in 2008. Major export markets were the US (40% of total exports), Hong Kong (20%), China (12%), Germany (4%) and UK (2%). Major export products were textile and garments (57%), machines and apparatus (7.5%) as well as footwear (1%).

Imports reached US\$ 5,367 million (insignificant variation when compared with 2007) in 2008. Major supplier countries or regions were China (39%), Hong Kong (10%), Japan (8.5%), the US (5.5%) and France (5.3%). Major import products were consumer goods (46%), raw materials (22%), capital goods (19%) and fuels and lubricants (13%).

#### **3.1.2 Trade in services**

Exports of services reached US\$17.4 billion (+25%) in 2008, thanks to the contribution of non-resident expenditure in the domestic market, accounting for about 96% of the total. The breakdown of expenditure of non-residents in the domestic market was as follows: gaming (US\$ 13.3 billion, grew by 31%), accommodation (US\$ 476 million, grew by 31%) and others (US\$ 2.8 billion, grew by 13%).

Imports of services amounted to US\$3.5 billion (+22%) in 2008. It consisted of household consumption expenditure abroad (14% of total imports of services), transport services (7% of total), industrial services (7% of total), financial and insurance services (4% of total), government expenditure abroad (2% of total), postal and telecom services (1% of total) and other services (65% 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 (+0.6%) in 2008. Major Swiss exports included jewellery and precious metal (54% of total), watches and clocks (14%), agricultural products (11%), textile and garments (8.7%) and machinery (6.2%).

According to the Macao Statistics and Census Bureau, products of Swiss origin imported to Macao increased to USD 249 million (+109%) in 2008. Major Swiss products included watches and clocks US\$ 183 million (73%), jewellery and precious metal US\$ 24 million (9.8%) and tobacco products US\$ 19 million (7.8%).

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<sup>5</sup> 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.

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\$ 133 million (grew by 167%) were re-exported to Macao via Hong Kong in 2008. Major products were watches and clocks (69%), tobacco products (11%), machinery (6.3%) and medicaments (4.3%).

Macao's total exports to Switzerland increased to CHF 55 million (+839%) in 2008. Major total exports included jewellery and precious metal (87%), optical and medical instruments (7.8%) and textile and garments (2.3%).

According to the Macao Statistics and Census Bureau, Switzerland was Macao's 6<sup>th</sup> largest supplier and 30<sup>th</sup> largest export market in 2008.

### **Outlook**

There were 54 hotels and 30 guest-houses in Macao with 17,490 rooms (+8%) in 2008. Owing to the global financial turmoil, some hotel projects have been postponed. Demand for hotel supplies, equipment, building products and premium food is expected to decrease.

Macao intends to develop itself as a centre that integrates gaming, shopping, conference and exhibition services, as well as entertainment and leisure industries.

According to a survey released by the Macao Statistics and Census Bureau, the structure of visitors' spending in shopping in 2008 was as follows: local food products (29% of total shopping spending), clothing (19%), watches/jewellery (13%), cellular phones/electrical appliances (7%), perfume/cosmetics (10%), shoes/handbags (12%) and others (10%). Among visitors from all over the world, visitors from Mainland China had the highest per-capita shopping spending of about US\$270.

There are good prospects for Swiss luxury items and branded products in Macao. According to the Macao Statistics and Census Bureau, Swiss products imported to Macao totalled US\$ 71 million in 2006 and rose to US\$ 119 million and US\$ 249 million in 2007 and 2008 respectively. It was a remarkable growth and above the trend. Among Swiss products imported to Macao, watches roared to reach US\$ 183 million in 2008. 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.

It is noteworthy that sales of luxury items such as watches, jewellery, fashion and leather goods concentrate in shopping malls at upscale hotels.

According to the Macao Statistics and Census Bureau, total imports of goods to Macao amounted to US\$ 1 billion in the first quarter of 2009 (-21% year-on-year). Although Swiss products imported to Macao still recorded a growth of 4.9% during this period, it will be very difficult to maintain the robust growth achieved in the recent years due to the present economic climate.

### **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 21% to US\$ 7,858 million at the end of 2007. Major investor countries were Hong Kong (US\$ 4,645 million or 59% of total, grew by 22%), the USA (US\$ 1,584 million or 20% of total, grew by

33%), China (US\$ 829 million or 11% of total, grew by 41%) and the EU (US\$ 580 million or 7.4% of total, grew by 22%).

In terms of industry, the stock of foreign direct investment to Macao was mainly composed of gaming sector (US\$ 4.7 billion), financial sector (US\$ 1.6 billion), construction (US\$ 430 million), industrial production (US\$ 349 million) and others (US\$ 726 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
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## Appendix 1

### Structure of Economy

	1995	2006	2007
<b>Spreading GDP (%)</b>			
Primary Sector	0%	0%	0%
Secondary Sector	16.3%	18.7%	17.7%
Tertiary Sector	87.8%	85.1%	86.0%
Less FISIM*	4.2%	3.8%	3.7%
<b>Spreading Employment</b>			
Primary Sector	0.2%	0.2%	0.1%
Secondary Sector	32.0%	23.2%	21.3%
Tertiary Sector	67.6%	76.6%	78.6%

\*FISIM (Financial Intermediation Services Indirectly Measured)

Source: Statistics & Census Bureau, Macao SAR Government

## Appendix 2

### Essential Economic Data

	<b>2006</b>	<b>2007</b>	<b>2008</b>
GDP (USD billion)	14.2	18.6	21.4
GDP per capita (USD)	28,463	35,374	39,036
GDP growth (%)	+16.5	+25.3	+13.2
Inflation (%)	5.2	5.6	8.6
Unemployment rate (%)	3.8	3.1	3
Fiscal balance (% of GDP)	8.7	17.8	14.6
Current account balance (% of GDP)	20.6	31.5	Not available
Total external debt (% of GDP)	N.A*	N.A*	N.A*
Debt-service ratio (% of exports)	N.A*	N.A*	N.A*
Reserves (in months of imports)	24	29.6	35.5

\*N.A Not Applicable

Source: Statistics & Census Bureau, Macao SAR Government



## Appendix 3

### Trading Partners 2008

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	USA	798	40	-23
2	Hong Kong	394	20	18
3	China	245	12	-35
4	Germany	81	4	-50
5	UK	40	2	-61
6	Taiwan	27	1.3	-16
7	France	27	1.3	-65
8	Japan	27	1.3	-6.9
9	Mexico	22	1.1	27
10	Vietnam	21	1.1	27
	EU	198	9.9	-57
<b>30</b>	<b>Switzerland</b>	<b>1.5</b>	<b>0.08</b>	<b>-43</b>
	Total	1,998	100	-22
	Imports from country/region	Imports (USD millions)	Share (%)	Growth* (%)
1	China	2,110	39	-7.7
2	Hong Kong	544	10	--
3	Japan	454	8.5	5.8
4	USA	297	5.5	-1.7
5	France	283	5.3	26
<b>6</b>	<b>Switzerland</b>	<b>249</b>	<b>4.6</b>	<b>109</b>
7	Singapore	203	3.8	21
8	Taiwan	178	3.3	-4.8
9	Italy	153	2.9	79
10	Germany	141	2.6	-41
	EU	885	16	5.2
	Total	5,367	100	--

\* year-on-year basis

-- insignificant variation

Source: Statistics & Census Bureau, Macao SAR Government

## Appendix 4

### Major investor countries/regions 2007

Rank	Country/Region	Direct investments (USD million)	Share (%)	Growth (%)	Change of inflow (USD million)
1	Hong Kong	4,645	59%	22%	159
2	USA	1,584	20%	33%	7.1
3	China	829	11%	41%	327
4	EU	580	7.4%	22%	37
5	Cayman Islands	161	2%	-42%	N.A.
	Total	7,858	100 %	21%	41

\*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