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Annual Economic report: Macao 2016

Executive Summary

The economy of Macao experienced an average real annual growth of 10.6% between 1999 - 2014 due to the liberalization of the gaming sector and the rapid rise in consumer spending power of Mainland Chinese visitors. The economic boom peaked in early 2014 and came to a steep contraction of 18% in 2015. It was due to a sharp fall in the high-end or “VIP” casino business and an anti-corruption campaign in Mainland China. Its economy has gradually stabilized and contracted by 1.2% in 2016. Despite the correction in the gaming industry in the last two years, its spill overs to the broader economy were limited. Full employment, reasonable increase of median real wages as well as around zero rate of non-performing loans in the financial sector showed the resilience of its economy.

Its economy has bottomed out due to a rebound in gaming industry. Between January and June 2017, gross gaming revenue rose by about 17%. The gaming industry is not only a major driving force for economy in Macao, but is also a main source of its government revenue. Tax revenue from the gaming industry accounted for 78% of total government revenue in 2016.

The Macao SAR Government is well aware of the fact that over reliance on the gaming industry is far from satisfactory. It is now placing more emphasis than before on the development of non-gaming tourism and economic diversification. The strong budgetary surplus and fiscal reserves provide the government a tool to improve its infrastructure, diversify its economies and accommodate economic downturns.

1. Economic problems and issues

1.1 General overview of Macao’s economy

The Special Administrative Region of Macao is small, both in size and population. Macao, consisting of Macao Peninsula, Taipa and Coloane, covers 30.5 sq. km with about 645,000 residents.

It averaged real annual GDP growth of 10.6% between 1999 and 2014 due to the liberalization of the gaming sector and the rapid rise in consumer spending power of Mainland Chinese visitors. The economic boom peaked in early 2014 and came to a steep contraction of 18% in 2015. It was due to a sharp fall in the high-end or “VIP” casino business and an anti-corruption campaign in China.

In 2016, both merchandise exports and imports dropped by 6% and 16% year-on-year respectively. Export of services decreased by 2.7% whereas import of services rose by 3.3%. Retail sales dropped to US\$ 7,189 million (-6.6%). Inflation rate was about 2.4% and unemployment rate was low at 1.9%. Its GDP recorded a negative growth by 1.2%. Despite the correction in the gaming industry in the last two years, its spillovers to the broader economy were limited. Full employment, reasonable increase of median real wages as well as around zero rate of non-performing loans in the financial sector showed the resilience of the economy.

1.2 Gaming Industry

The gaming industry is the major driving force for Macao's economy. Macao is the only city in China where gaming has been legalized. The sector is closely regulated with licenses granted to six operators who run 38 casinos at present.

The Gaming industry in Macao was first legalized in mid-19th century. Further liberalization in 2002 brought new momentum to the sector and the entire economy. Before the handover of the former Portuguese Colony to China in 1999, the gaming industry's maximum annual gross revenue amounted to US\$2.2 billion. It reached its peak at US\$ 45 billion in 2013. Owing to economic slowdown and anti-corruption measures in Mainland China, it has dropped to US\$ 44 billion, US\$ 29 billion and US\$ 28 billion respectively between 2014 and 2016. The revenue used to rely heavily on high-rollers gamblers or VIP gamblers from China. This segment accounted for about 66% and 60% of gross gaming revenue in 2013 and 2014 respectively. In 2015 and 2016, the high-end or VIP casino business dropped to US\$ 16 billion (54% of that in 2013) and US\$ 15 billion (50% of that in 2013) respectively.

Nevertheless, the gaming industry has been recovering quite well in both mass market and VIP casino business, as indicated by the recent figures. Between January and June 2017, gross gaming revenue rose by about 17%.

1.3 Tourism industry

The tourism industry, the mainstay of Macao's economy, relies heavily on tourists from Mainland China. A total of about 30,950,300 tourists (+0.8% year-on-year) or 48 times the size of local population visited Macao in 2016. Apart from tourist from Mainland China (66% of the total), tourists came from Hong Kong (21%) and Taiwan (3.5%). In 2016, a total of 1,276 MICE (meetings, incentives, conventions and exhibitions) were held.

According to the Statistics and Census Service of the Macao SAR Government, per-capita spending of visitors increased by 2.2% year-on-year to US\$ 213 while total spending of visitors rose to about US\$ 6.6 billion (+3%). As regards to the type of spending, visitors spent mainly on shopping (44% of total) focusing on local food products, cosmetics & perfume, clothing, watches & jewelry as well as handbags & shoes.

To facilitate a more diversified development (non-gaming business) and integrate various elements into tourism, the Macao SAR Government has been working towards the major objective of turning Macao into a premium tourist destination and a leisure, entertainment, exhibition and convention hub. The sharp downward adjustments in the gaming industry in 2014/2015 even underlined the need and importance to move to a more diversified economic model.

1.4 Public Finance

The Macao SAR Government has recorded large budgetary surplus since the casino boom started in 2002. In 2016, total government revenue was about US\$ 12.8 billion (-6.7% year-on-year) whereas total government expenditure was about US\$ 10 billion (+0.3% year-on-year). The budgetary surplus was about US\$ 2.7 billion (-26%) in 2016. The surplus was much fewer than US\$ 15.6 billion in 2013 and US\$ 11.8 billion in 2014.

Despite the fact that the government received less tax revenue from the gaming sector (due to downward adjustment in the gaming industry), it still accounted for 78% of total government revenue in 2016¹.

The foreign exchange reserve balance was very strong and it reached to US\$ 19.5 billion in 2016. It offers a significant buffer against the recent economic downturn and possible external shocks.

¹ Tax revenue from gaming sector accounted for 81-83% of total government revenue in 2013 and 2014.

Furthermore, it provides abundant resources for the government to invest in human capital and infrastructure projects.

2. International and regional economic agreements

2.1 Macao's policy and priorities

The Special Administrative Region Macao is a free port. Goods, capital and foreign exchange can flow freely in and out of Macao. Besides its natural ties with Mainland 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. Macao is a founding member of the World Trade Organization as well as an associate member of United Nations Economic and Social Commission for Asia and the Pacific. Since 2001 the Macao SAR has been granted 'Guest Economy' status in several Asia-Pacific Economic Cooperation Working Groups. The Agreement for Trade and Cooperation between the European Economic Community and Macao, which was concluded in December 1992 and effective from 1 January 1993, aimed primarily to further strengthen the relationship between the EU and Macao. This Agreement covers co-operation with respect to trade, economy, science and technology. The EU-Macao Joint Committee meets annually to review the implementation of the Agreement as well as to establish trade development and co-operation program.

Macao has signed agreements of avoiding double taxation and agreements for the exchange of information on tax matters with Argentine, the United Kingdom, Guernsey, Japan, Greenland, India, Australia, Denmark, the Faroes, Iceland, Norway, Finland, Sweden, Portugal, Republic of Mozambique and Republic of Cape Verde. Regarding automatic exchange of financial account information (AEOI), Macao will work under the framework of the OECD's Multilateral Competent Authority Agreement.

Furthermore, Macao has arranged with Mainland China for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

2.2 Closer Economic Partnership Arrangement (CEPA)

CEPA is an FTA-like arrangement concluded between two separate customs territories of a single sovereign state, in conformity with the World Trade Organization rules, with the objective of promoting joint economic prosperity and development of the Mainland and Macao SAR.

The first phase of CEPA was signed on 17 October 2003 and came into effect on 1 January 2004. Similar to CEPA between China and Hong Kong, it covered 3 broad areas: a) trade in goods, b) trade in services and c) trade and investment facilitation. As a living agreement, the two sides have broadened and enriched the content of CEPA between 2004 and 2015.

From 1 January 2004 to 31 May 2017, Macao Economic Services has issued 4,350 CEPA certificates of origin, in which, 3,837 certificates have been exercised, involving products of total export value of US\$ 100 million with an estimate tariff saving amounting to US\$ 7.3 million. With respect of trade in services, Macao Economic Services has approved 622 "Macao Service Supplier" certificates, which engage in various service sectors.

2.3 Guangdong-Macao Co-operation Framework Agreement

Witnessed by Xi Jinping, then Vice President of PRC, Fernando Chui, Chief Executive of Macao SAR and Huang Huahua, Governor of Guangdong signed the Guangdong-Macao Co-operation Framework Agreement in March 2011.

Its content covers the cooperation between Guangdong and Macao in areas of economy, society, livelihood and culture, defines the positioning and objectives of the cooperation of Guangdong and Macao in new circumstances, identifies the joint development of Hengqin, synergistic industrial development, infrastructure and facilitation of customs clearance, public and social services, regional cooperation plans, proposes a series of specific and operational reinforcement measures, and stipulates safeguard mechanisms.

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 rose to US\$ 1,256 million (-6%) in 2016. Re-exports accounted for about 80% whereas domestic exports were confined to 20%. Major export markets were Hong Kong (55% of total exports), Mainland China (17%), Japan (3.1%), the Philippines (2.9%) and the United States (1.6%). Major export products were electronic components (11%), clocks & watches (9.8%) as well as machines and apparatus (8.2%).

Imports dropped to US\$ 8,919 million (-16%) in 2016. Major supplier countries or regions were Mainland China (36%), Hong Kong (8.7%), France (7.9%), Italy (7.8%), Switzerland (7.4%) and Japan (6.3%). Major import products were consumer goods (63%), capital goods (18%), raw materials (11%) as well as fuels and lubricants (8%). For details refer to appendix 3.

3.1.2 Trade in services

Exports of services dropped to US\$ 32.4 billion (-2.7%) while imports of services rose to US\$ 4.1 billion (+3.3%) in 2016. Gaming and other tourism services accounted for 69% and 24% of total exports of services respectively in 2016. Gaming fell to US\$ 22 billion (-2.1%) and other tourism services dropped to US\$ 7.6 billion (-5.2%)

3.2 Bilateral trade

3.2.1 Trade in goods

There is a huge discrepancy between the two sets of trade figures provided by the Swiss Federal Customs Administration and the Macao Statistics and Census Bureau. 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 Swiss Federal Customs Administration, Swiss exports to Macao totaled CHF 33 million (-34%) in 2016. Major Swiss exports included jewellery, precious metal and stones (42% of total), watches and clocks (23%), electrical and non-electrical machinery (13%) as well as leather goods (4.9%). Macao's total exports to Switzerland dropped to CHF 6.4 million (-17%). Major total exports included watches and clocks (54%), textile and garments (25%), electrical and non-electrical machinery (13%) as well as jewellery, precious metal and stones (5.1%).

The Macao Statistics and Census Bureau revealed that Swiss exports to Macao amounted to US\$ 661 million (-18%) in 2016. Switzerland was Macao's 5th largest supplier. Major Swiss products included watches and clocks (88%), jewellery, precious metal and stones (6%), pharmaceutical products (1.6%) and perfumery/cosmetic products (1.5%). Macao's total exports to Switzerland decreased to US\$ 0.6 million (-33%). Major products were watches and clocks.

As indicated by the Hong Kong Census and Statistics Department, Swiss goods worth about US\$ 660 million were re-exported to Macao via Hong Kong in 2016. Major products were watches and clocks (82%), jewellery, precious metal and stones (14%) and perfumery/cosmetic products (2%). It fully reflects that Hong Kong serves as a trade hub and a logistic centre in this region.

Outlook for Swiss exports to Macao

Swiss exports to Macao grew remarkably in the last decade and reached record high to US\$ 1,015 million in 2014 and then slowed down to US\$ 802 million in 2015 and US\$ 661 million in 2016. Major products were watches and clocks, accounting for 88% to 90% of total Swiss exports to Macao between 2011 and 2016. It is noteworthy that sales of luxury items such as watches, jewellery, fashion and leather goods concentrate in shopping malls at upscale hotels. Owing to economic slowdown and anti-corruption measures in Mainland China, sales of luxury items suffered severely in Macao. Consequently Swiss exports to Macao dropped consecutively in 2015 and 2016. Nevertheless, the economy of Macao has bottomed out due to a rebound in gaming industry. According to the Macao Statistics and Census Bureau, Swiss exports to Macao increased to US\$ 226 million (+34% year-on-year) between January and April 2017. Swiss exports of watches and clocks, which accounted for 89% of total Swiss exports to Macao, rose to US\$ 202 million (+35% year-on-year) in the first four months of 2017.

Both the Macao SAR Government and gaming operators are aware of the fact that over reliance on gaming industry is far from satisfactory. They are now placing more emphasis than before on development of non-gaming tourism. In other words, they are tapping into different source markets such as middle class and families. Swiss products appealing to these market segments will have good potential growth.

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 unavailable as they do not collect trade in services data by country.

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 5% to US\$ 28,975 million in 2015 (latest available information). Major investor countries were the Cayman Island (US\$ 8,223 million or 28% of total, dropped by 9.1%), Hong Kong (US\$ 7,394 million or 26% of total, grew by 8%), the British Virgin Islands BVI (US\$ 6,799 million or 23% of total, grew by 4.8%), Mainland China (US\$ 4,341 million or 15% of total, grew by 32%) and Portugal (US\$ 1,085 million or 3.7% of total, grew by 5.9%). For details refer to appendix 5.

The importance of offshore financial centres such as the Cayman Island, the BVI and Bermuda to Macao's foreign direct investments was due to their popularity for local and foreign enterprises in setting up non-operating companies to channel direct investment funds back to Macao.

4.2 Bilateral investment flows

As informed by the Macao Statistics and Census Bureau, the amount of Swiss investments in Macao was about US\$ 26.5 million in 2015. There are 5 Swiss companies operating in Macao.

5. Trade, economic and tourist promotion

The Consulate General of Switzerland, Switzerland Tourism and the Federation of the Swiss Watch Industry are the organizations to promote Swiss interests in Macao through their offices in Hong Kong. The interests of Macao enterprises to invest in Switzerland remain very little.

6. Conclusion

Thanks to the gaming industry, the Special Administrative Region Macao is now among one of the most developed regions in the world's economy. The most significant positive impact of the gaming industry includes: rapid GDP growth, increased fiscal reserves, improved social welfare, foreign investment at record high, increased labour productivity, low unemployment rate, creation of favorable conditions to drive the development of other old or new industries, such as hotel, luxury retail, catering, convention and exhibition, performance and entertainment etc. However, economy, employment and public revenue has become too dependent on gaming industry.

While the economy has now bottomed out due to a rebound in the gaming industry in the last few months, the Macao SAR Government is well aware of the need to develop non-gaming tourism and diversify its economies. Better still, their strong budgetary surplus and fiscal reserves during the boom years provide them the tools to improve its infrastructure, diversify its economies and accommodate economic downturns.

Appendices

1. Structure of the economy
2. Essential economic data
3. Trading partners
4. Bilateral trade between Switzerland and Macao
5. Main investor countries

Appendix 1

Structure of Economy (latest available information*)

	2012	2013	2014	2015
Distribution of GDP				
Primary Sector	0%	0%	0%	0%
Secondary Sector	4.1%	3.7%	5.2%	7.8%
Services	95.9%	96.3%	94.8%	92.2%
of which public administration, education, health, social and personal services	7.6%	7%	7.4%	7.3%
	2013	2014	2015	2016
Distribution of Employment				
Primary Sector	0%	0%	0%	0%
Secondary Sector (manufacturing and construction)	12.3%	15.4%	15.5%	13.4%
Tertiary Sector	87.7%	84.6%	84.5%	86.6%
-of which public administration, education, health, social and personal services	13.6%	13%	14.4%	14.5%

Source: Macao Statistics and Census Bureau (Statistics and Census Service)

Appendix 2

Essential Economic Data

	2015	2016	2017*
GDP (USD billion)	45.3	44.8	46
GDP per capita (USD)	70,795	69,327	71,310
GDP growth (%)	-18	-1.2	2.8
Inflation (%)	4.6	2.4	2
Unemployment rate (%)	1.8	1.9	2
Fiscal balance (% of GDP)	13.7	5.1	7.5
Current account balance (% of GDP)	25	27	29
Total external debt (% of GDP)	0	0	0
Fiscal reserve fund (% of GDP)	95	125	129

* IMF forecast

Sources: Macao Statistics and Census Bureau (Statistics and Census Service), IMF

Appendix 3

Trading Partners 2016

Rank	Country/region	Exports from Macao (USD millions)	Share (%)	Growth* (%)
1	Hong Kong	695	55	-12
2	China	219	17	-4.8
3	Japan	39	3.1	30
4	Philippines	36	2.9	612
5	USA	20	1.6	-20
	Switzerland	0.6	0.05	-33
	European Union	22	1.7	-21
	Total	1,256	100	-6
Rank	Country/region	Imports to Macao (USD millions)	Share (%)	Growth* (%)
1	China	3,230	36	-19
2	Hong Kong	776	8.7	-18
3	France	703	7.9	-1
4	Italy	696	7.8	-2
5	Switzerland	661	7.4	-18
6	Japan	565	6.3	-13
7	USA	429	4.8	-29
	European Union	2,129	24	-9.6
	Total	8,919	100	-16

* year-on-year basis

Source : Macao Statistics and Census Bureau (Statistics and Census Service)

Appendix 4 Bilateral Trade Table

Bilateral Trade Switzerland – Macao

	Exports (CHF mio.)	Change %	Imports (CHF mio.)	Change %	Trade Balance	Volume (CHF mio)
2010	29.4	32%	1.3	-9.2%	28.1	30.7
2011	49.5	68%	2.4	86%	47.1	51.9
2012 (total 2)**	63.6	*	8.5	*	55.1	72.1
2012 (total 1)***	63.4	*	8.5	*	54.9	71.9
2013 (total 2)**	40.6	-36%	11.3	33%	29.3	51.9
2013 (total 1)***	40.6	-36%	11.3	33%	29.3	51.9
2014 (total 2)**	44.4	9.4%	8.4	-26%	36	52.8
2014 (total 1)***	44	8.4%	8.4	-26%	35.6	52.4
2015 (total 2)**	50	12.5%	7.7	-8.8%	42.4	57.6
2015 (total 1)***	48.6	10.4%	7.7	-8.8%	41	56.2
2016 (total 2)	33.2	-34%	6.4	-17%	26.6	39.4
2016 (total 1)	33	-32%	6.3	-17%	26.7	39.3

* The Swiss Customs Administration made changes to the way it calculates imports and exports as of 1 January 2012. Since then, comparisons between 2012 and the previous years have no longer been possible. Data on Switzerland's foreign trade in gold, silver and coins are contained in the general total (total 2) starting in the data for 2012.

** General total (total 2) includes gold bars and other precious metals, coins, precious stones and gems, work of art and antiques.

*** Economic total (total 1) does not include gold bars and other precious metals, coins, precious stones and gems, work of art and antiques.

Major Products (general total, total 2)

Exports	2015 (% of total)	2016 (% of total)
Jewellery, precious stones and precious metals	52	42
Watches and clocks	24	23
Machinery (electrical and non electrical)	10	13
Leather goods	1.5	4.9

Imports	2015 (% of total)	2016 (% of total)
Watches and clocks	55	54
Textiles and garments	28	25
Machinery (electrical and non electrical)	3.9	13
Jewellery, precious stones and precious metals	8.1	5.1

Source : Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2015 (latest available information*)

Rank	Country/Region	Direct investments (USD mio.)	Share (%)	Growth (%)	Direct investment inflows (USD mio.)
1	Cayman Islands	8,223	28%	-9.1%	-807
2	Hong Kong	7,394	26%	8%	397
3	British Virgin Islands	6,799	23%	4.8%	347
4	China	4,341	15%	32%	923
5	Portugal	1,085	3.7%	5.9%	66
6	Bermuda	521	1.8%	-1.6%	-8.3
7	USA	355	1.2%	22%	64
8	UK	340	1.2%	-14%	-56
9	Singapore	59	0.2%	21%	11
10	France	58	0.2%	76%	25
	European Union	1,633	5.6%	5.4%	78
15	Switzerland	26.5	0.09%	54%	14
	Total	28,975	100 %	5%	1138

* Investment figures for 2016 will only be available in October 2017.

Source: Macao Statistics and Census Bureau (Statistics and Census Service).