

MACAU

BUSINESS GUIDE

2004

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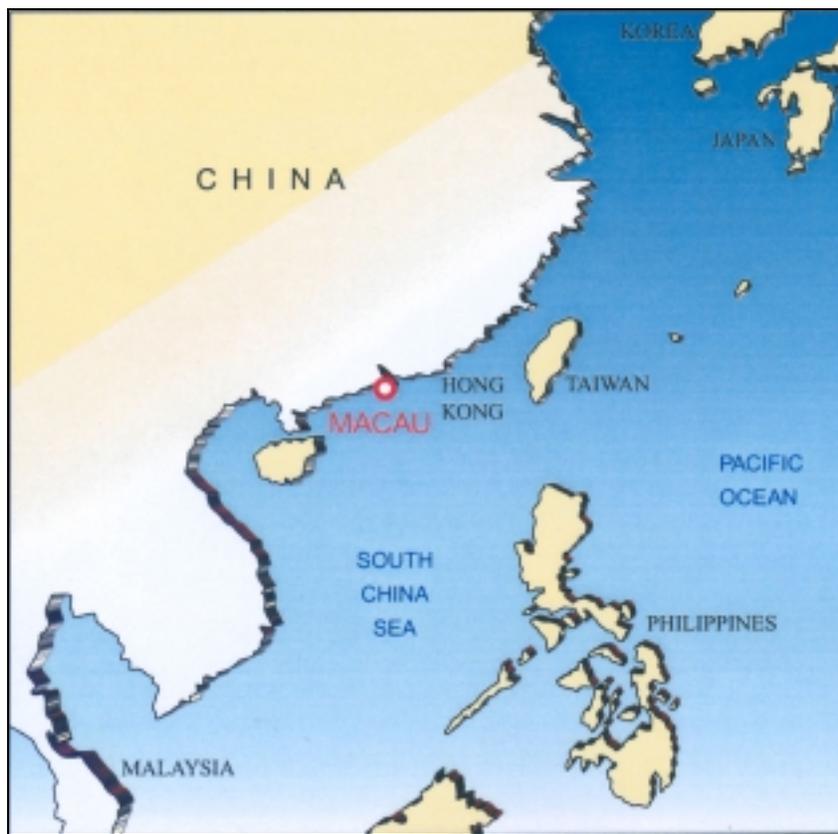
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A GLIMPSE OF MACAU

Location	Macau is located at the entrance of the Pearl River Delta Region in China. Hong Kong lies about 40 miles east from Macau and Guangzhou lies 90 miles northeast of Macau.
Climate	Subtropical climate. A long humid summer from June to September (can rise to over 30 degrees C) and a comparatively mild winter from November to February (can drop to below 10 degrees). Macau's weather is also influenced by tropical cyclones from the South Pacific Ocean during the Typhoon season.
Population	439,000
Languages	Chinese, Portuguese and English
Ethnic Groups	Ethnic Chinese 96%, Others 4%

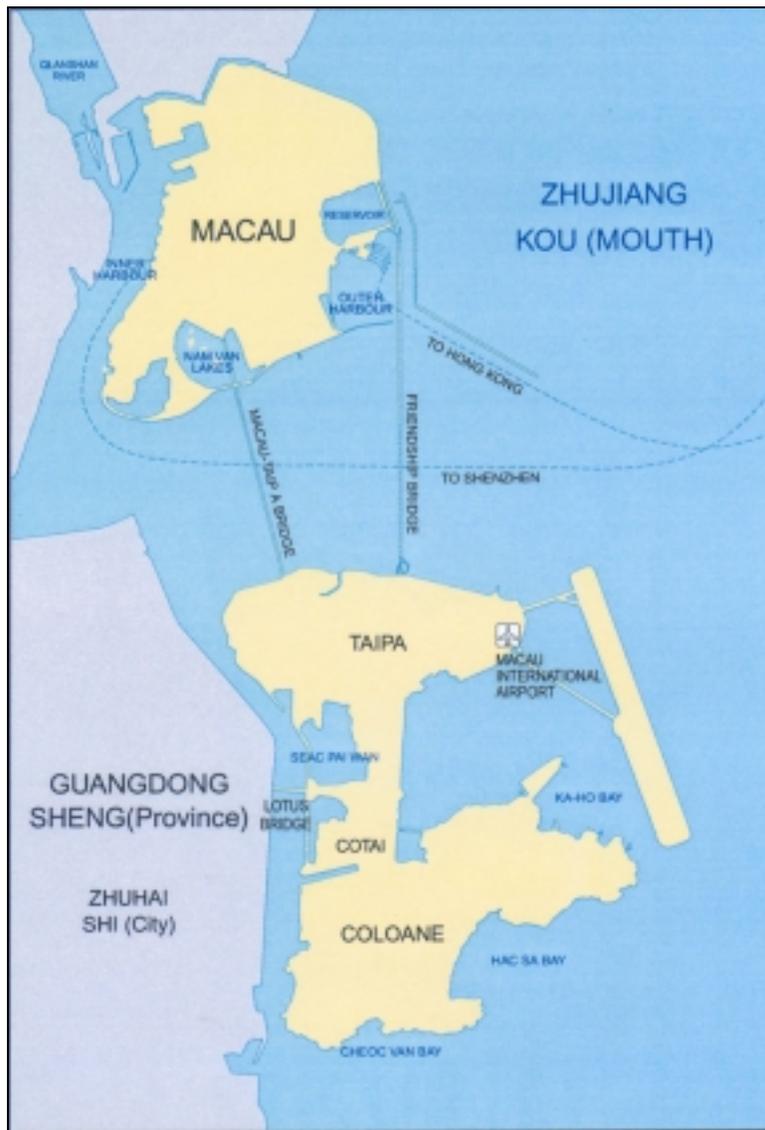
MACAU MAP



Geography

Macau covers a total area of 23.8 square kilometers, consisting of a mainland peninsula and two islands, Taipa and Coloane, linked by two modern bridges and a causeway.

MACAU MAP



PROFILE OF MACAU

GOVERNMENT

FORMERLY A PORTUGUESE COLONY FOR 442 YEARS. MACAU BECAME A SPECIAL ADMINISTRATIVE REGION (SAR) OF CHINA ON DEC 20, 1999 WITH ITS OWN CONSTITUTION.

THE BASIC LAW ENSURES THAT MACAU RETAINS ITS ECONOMIC, POLITICAL AND SOCIAL STRUCTURES FOR 50 YEARS, WHILE ENJOYING THE ADVANTAGE OF FREE PORT STATUS AS A SEPARATE CUSTOMS DUTY.

CHIEF EXECUTIVE

THE HONORABLE EDMUND HO

SECRETARIES

ADMINISTRATION & JUSTICE
ECONOMY & FINANCE
SECURITY
SOCIAL AFFAIRS & CULTURE
TRANSPORT & PUBLIC WORKS

FLORINDA DA ROSE SILVA CHAN
FRANCIS TAM
CHEONG KUOC VA
FERNANDO CHUI
AO MAN LONG

GROSS DOMESTIC PRODUCT
(AT CURRENT PRICES)

U.S. \$ 6.9 BILLION (2002)

GDP PER CAPITA
(AT CURRENT PRICES)

U.S. \$ 15821 (2002)

GDP REAL GROWTH RATE

9.5 % (2002)

CCPI
(COMPOSITE CONSUMER
PRICE INDEX)

-1.8% (2002 Q4 YEAR -ON-YEAR % CHANGE)

EXCHANGE RATE

U.S. \$ 1 = PATACA 7.79

UNITED STATES INTERESTS IN MACAU

U.S. interests in Macau include enlisting Macau's support in the fight against terrorism; protecting American citizens; supporting the maintenance of Macau's free market economy and unique way of life, including respect for civil liberties; protecting U.S. commercial interests; and working with Macau to combat IPR piracy, illegal textile transshipment, money laundering, and other transnational crimes. The extent of Macau's high degree of autonomy also serves as an important indicator of China's respect for its international commitments.

There are nearly 600 American citizens resident in Macau, engaged in activities ranging from business to academia to missionary work. Approximately 86,000 Americans traveled to Macau in 2002 as tourists. U.S. investment in Macau, while small in the past, is expected to increase in coming years as the result of the 2002 awarding of two gaming concessions to consortia with U.S. interests. Though trade with Macau represents a small portion of U.S. trade, the United States was Macau's second largest trading partner after China. U.S. exports to and imports from Macau in 2002 were USD 79 million and USD 1.2 billion, respectively.

ECONOMIC AND COMMERCIAL DEVELOPMENTS

Macau's economy grew strongly in 2002, with real GDP up more than 8 percent in the first three quarters, compared to only 2.1 percent growth in 2001. Rising activity in its two main sectors, gaming and tourism, drove this performance. Tourism benefited by a surge in tourists from China. Public finances remained sound, with a budget surplus, and foreign exchange reserves rose 7.7%. Unemployment remained high by historical standards, at 6.3% toward year-end, owing to the relocation of labor-intensive industrial processing to neighboring China and an inflow of migrant mainland China laborers willing to accept low-wage jobs. The pataca, Macau's currency, remained linked to the U.S. dollar through a currency board system.

In his November 2002 Policy Address, Chief Executive Edmund Ho announced a continuation of tax cuts and job creation measures. These included a 25% income tax reduction, a modest property tax cut, and tax exemptions for manufacturers and restaurants. The government plans USD 225 million in infrastructure investment in 2003, and hopes that this will create 8,000 new jobs. The Chief Executive also called for civil service reform.

After the government ended the 40-year-old gaming monopoly of the STDM Company in February 2002, the government awarded concessions to three consortia, including two with significant U.S. investment. The restructuring of the gaming industry remains the centerpiece of Macau's efforts to improve its international reputation and become a Las Vegas-like gaming, convention, and family-oriented holiday destination. The possible new investment of USD 1.5-2.5 billion in the medium term (a sizable percentage of Macau's GDP) will increase jobs and income and dramatically raise the U.S. business profile in Macau.

Macau-origin textiles and apparel continued to enter the United States under quotas separate from those of China. Under the terms of a September 2000 bilateral Memorandum of Understanding,

our two governments cooperate in enforcing textile quotas and preventing illegal transshipment. The United States continued periodic visits by U.S. Customs Textile Production Verification Teams to ensure compliance with Macau's bilateral textile commitments.

The protection of intellectual property rights remains a priority issue on the U.S.-Macau bilateral economic agenda. Macau's progress since 1999 in strengthening IPR laws, tightening controls over DVD and VCD manufacturing, and stepping up street-level IPR enforcement resulted in Macau being removed from USTR's 301 list in 2002. Macau's new Customs Service worked with U.S. industry associations and maintained high tempo operations to combat piracy; for 2002, the government stepped up enforcement with 141 raids, during which it seized 86,718 pirated discs, 223 stampers, three optical disc production lines and two production lines for stampers. As a result, almost all optical disc manufacturers in Macau have been shut down or moved their operations to other jurisdictions.

MACAU SERVICES SECTOR

Since the 1980's, Macau has undergone a transformation from a manufacturing center to a predominantly service-oriented economy. The gradual improvement of the investment environment in China fueled the shift of Macau's low value-added manufacturing industries to the neighboring West Bank of the Pearl River Delta Region in China. This relocation of the manufacturing base, combined with the expected phase-out of the US and European textile quota systems in 2005, have led to the shift of the economy to the services sector. In 2002, the services sector (including tourism and gaming) generated approximately 90 percent of Macau's GDP.

The following will focus on two sub-sectors of Macau's services industry, namely telecommunication services (among the fastest growing group) and the gaming industry (the largest sub-sector of the services industry). Macau's telecommunications services market was approximately US\$200 million in 2002. Industry experts expect mobile communications and Internet related services to be among the best performing segments in the near future due to the recent partial liberalization in Macau's telecommunication services market. Regarding the gaming industry, the Macau government liberalized the market last year. The market size of Macau's gaming industry can be gauged by gross proceeds of Sociedade de Turismo e Diversoes de Macau (STDM I Macau Tourism and Amusement Company), which holds the casino monopoly franchise until the end of this year. STDM recorded gross proceeds (most coming from its 10 casinos) of approximately US\$2 billion in 2002.

An Overview of the Macau Services Sector

In 1989, the services sector (comprising four main groups: i - public administration, other community, social and personal services, gambling; ii - financial intermediation, real estate, rentals; iii - wholesale, retail, repair, hotels and restaurants, and iv - transport, storage and communication) accounted for 75.4 percent of the territory's GDP. This ODP figure refers to production-based GDP at current prices.

Public administration, other community, social and personal services including gambling was the largest group among the services sector, accounting for approximately 48 percent of GDP in 2002. The fastest growing group over the corresponding period was transport, storage and communications.

Macau Telecommunications Services

The market for telecommunications services in Macau expanded by four percent from approximately US\$192 million in 1998 to US\$200 million in 2002. This expansion was mainly driven by the robust growth of mobile service communication from US\$65million to US\$77 million in 2002, representing a 19 percent increase.

While growth of the Macau telecommunications services market is assured, sector analysts expect mobile communications and Internet related services to be among the best performing segments in the near future due to the recent partial liberalization of Macau's telecommunication services market. Until the provisional mobile service licenses were granted, this sector was not open to competition, due to the monopoly agreement held by Macau Telecommunications Company or Companhia de Telecomunicacoes (CTM). A new contract between the government and CTM signed in 1999, permits gradual and partial liberalization of the market (mobiles, Internet and other value-added services) to take place.

The first step in the liberalization of Macau's telecommunication services market falls in the area of mobile services. The Office for the Development of Telecommunications and Information Technology (GDTTI), established in June 2000, issued one-year provisional mobile services licenses that can be extended to a period of eight years. The licenses allow owners to provide and operate mobile networks based on the current second generation, or 2G, and the transitional 2.5G technology platforms. There is currently no immediate plan for 3G licensing. Two licenses were granted on a merit basis and bidders were judged on various criteria such as planned capital investment, network coverage, service quality and prices. Licenses issued to Hutchison Telephone Company Limited (Hutchison's bid includes Motorola of the U.S. and NTT DoCoMo of Japan) and SmarTone Mobile Communications (Macau) Limited encompass three systems of mobile communication, CDMA, GSM900 and GSM 1800.

Currently, CTM operates a GSM digital mobile service with automatic roaming to more than 70 countries. This service includes caller line identification, short message services and data. CTM has recently completed an additional GSM 1800 (PCS) network to provide dual band access and a separate 1800 service. Despite the expansion of the mobile phone network, Macau lags behind some Asian countries in terms of mobile phone penetration. Of the 437,600 residents of Macau, 144,048 are mobile phone subscribers (including pre-paid SIM service). Hence, the mobile penetration rate (percentage of mobile phones per 1,000 populations) was 32.9 percent. Industry analysts believe the rate of mobile penetration in Macau will continue to grow with the opening of

the mobile service market and the corresponding price adjustments.

Similar to the mobile service market, the opening of the Internet service provider (ISP) market in Macau last year is likely to boost the rate of Internet penetration in Macau. There were 26,910 Internet users in Macau, a rise of 61 percent from the number of 16,708 registered users in 1999. Given the growth trend in recent years and the liberalization of this segment, expansion of the Internet service market should gain further momentum.

Five ISP licenses have been granted as of the end of March 2001 since the GDTTI invited applications for the provisional one-year ISP license in October 2000. There was no fixed limit on the number of ISP government licenses, and those companies that can prove their commercial and technical viability, will have the licenses extended for renewable five-year periods. The first broadband Internet Service for Macau was launched in July 2000. It should be noted that in line with current regulations, the ISP licensees will not be allowed to operate Internet gambling businesses.

General overviews of telecommunications infrastructure and mobile services are provided below.

Telecommunications Infrastructure

Macau operates two satellite earth stations connected through an Intelsat satellite with high capacity fiber optic links to Hong Kong and Mainland China through Zhuhai in Guangdong province. The system has advanced synchronous Digital Hierarchy transmission. An analog mobile telephone service, Telemovel, was launched in 1988, and an FTNS network was fully digitalized in 1992. International OSM roaming services and automatic roaming businesses for mobile communication were launched in Macau in the 1990s. CTM operates an ISDN service at present.

Macau Tower also contributes to Macau's overall telecommunication facilities. An aerial, over 90 meters high has been installed for sending out telecommunication, telephone, TV and radio signals.

Internet Service

Macau's first Internet service was launched in 1995 and provides direct access connecting Macau with various destinations. In July 2000, a broadband Internet access service was launched. This service currently uses Asymmetrical Digital Subscriber Line (ADSL), which is the broadband technology bought from U.S. Internet networking products provider Cisco Systems. This system enables subscribers to access the Internet 30 times faster than through the dial-up service. It features entertainment and educational content, interactive games, news, music, sports and e-commerce. It is also worth noting that Cisco has established its first Regional Networking Academy in Macau in February this year.

Macau Gaming Industry

Macau's gaming industry consists of casino gambling, gambling on riverboats, cruises, lotteries, sports betting pools, legal sports betting, wagering on horses or greyhound races and wagering over the Internet. This analysis on Macau's gaming industry will focus on the first two types of gaming. Last year, Macau's Chief Executive Edmund Ho announced plans to liberalize the gaming sector when the current casino monopoly expires at the end of 2001. His plans were supported by President Jiang Zemin who noted that the Macau SAR government was capable of managing the issue of liberalization of the gaming industry. Currently, the Macau government, with the assistance of an international consulting company, is conducting research to determine how best to open Macau's gaming industry. The Macau government liberalized the gaming industry last year.

Casino monopoly taxation generated 60.6 percent of the Government's total recurrent revenue last year. The tax payment corresponds to 31.8 percent of the casino monopoly's gross proceeds. Gaming businesses and the tourism industry generated approximately 40 percent of Macau's GDP last year.

The current casino monopoly was granted to Dr. Stanley Ho's Sociedade de Turismo e Diversoes de Macau by Macau's pre-handover Portuguese administration in 1962. STDM, which employs over 10,000 people (corresponding to about five percent of Macau's workforce), operates 10 casinos in Macau. Companies associated with STDM run greyhound and thoroughbred races, as well as a host of lotteries, soccer and basketball betting pools.

Even if STDM loses its casino monopoly, it is likely to continue to be a 'main player' in Macau's gaming sector due to its long-term presence in Macau, its gaming expertise and its involvement in the Entertainment Wharf project (which will include gambling venues). STDM and a local property developer jointly planned this US \$100 million project, titled Fisherman's Wharf.

The Macau Government has approved this project and construction will start later in the year. According to preliminary plans, the project will occupy 100,000 square meters and will include gambling venues, a man-made volcano that will spew artificial lava, theme restaurants and bars, a souvenirs shopping center, a disco, a mock medieval castle and a Chinese fishing village.

Market Profile

The market size of Macau's gaming industry can be gauged by gross proceeds of STDM, which holds the casino monopoly franchise until the end of this year. STDM recorded gross proceeds (most coming from the 10 casinos) of US\$2.1 billion in 2000, an increase of 21 percent over 1999. The rise can be attributed to the 23.2 percent increase in visitor arrivals in 2000 compared to 1999, which was driven by the rebound in the regional economy and a reduction of violent gang activity after Macau's handover. Of the 9.2 million visitor arrivals, about three-quarters of all visitor arrivals, as estimated by casino executives, came primarily for casino gambling and betting. It is also worth noting that STDM launched an online casino earlier this year. The DrHo.com Web site is a real-time gaming site on which gamblers can lay bets on roulette, and be dealt cards by

cyber-croupiers for blackjack, baccarat and Caribbean poker.

Industry experts believe that the future growth of Macau's gaming industry will be driven by Mainland Chinese tourists. Following are observations gleaned from industry experts:

- China prohibits casino gambling and mainland Chinese tourists are more frequently visiting Macau's casinos. The Shanghai Fengcai Lottery went online in June 2000, with approximately 1,500 terminals installed initially. Automated Wagering International (Atlanta, Georgia) supplied the central system for the lottery.
- Mainland Chinese comprised 24.8 percent of the 9.2 million visitors to Macau in 2000, while Hong Kong visitors represented 54 percent of total visitors. The Macau Tourism Office noted the possibility of setting up representative offices in major Chinese cities to promote Macau.

Macau's Tourism Industry

It is interesting to note that with only 439,000 residents, Macau recorded 11.53 million visitor arrivals in 2002. This represents an increase of 12.2 percent over 2001. Visitors from Asia composed about 97 percent of all arrivals, with 44 percent from Hong Kong, 37 percent from the Mainland and 13 percent from Taiwan. The surge in tourist arrivals to Macau can be attributed to the reduction in violent crime, the pick-up in the regional as well as Hong Kong's economies. The hotel occupancy rate is 60.7 percent in 2002 while the average length of stay for visitors to Macau is only 1.3 days.

Two tourism projects, Macau's Fisherman's Wharf and Macau Tower, should further boost the number of visitor arrivals. Macau's Fisherman's Wharf is scheduled to be completed in 2003, two years before Hong Kong's Disneyland. This multi-purpose theme park is aimed at providing family entertainment, although it includes the existing floating casino and some slot machine arcades.

USEFUL CONTACTS

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