

Anselmo L S Teng: The economic and financial development of Macao in the context of growth of China

Keynote speech by Mr Anselmo L S Teng, Chairman of the Monetary Authority of Macao, at the 19th “Meeting in Lisbon” of Delegations to the IMF/World Bank Annual Meetings 2009 from African Portuguese Speaking Countries and East Timor, Lisbon, 29 September 2009.

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Governor of the Bank of Portugal, Dr. Vitor Constâncio,
Governors of the Central Banks of African Portuguese Speaking Countries and East Timor
Dear delegates,
Ladies and gentlemen,

Introduction

I am honoured to have been invited by Governor Dr. Vitor Constâncio to talk about the economic and financial development of Macao against a backdrop of the growth of China. I am very pleased to be in Lisbon again and meet my friends. I met with some of them just 2 weeks ago in Macao in the 12th Conference of Central Banks of Lusophone Jurisdictions on Human Resources. It is great to see you in Lisbon again.

In this 19th meeting in Lisbon, the topic picked by the convener is a very timely one. When the world is talking about the emerging markets to be the first batch of economies to stand up after the devastating financial crisis, I feel good to tell everybody here how Macao is doing and the way forward.

The economy of China

Despite interruptions, sometimes inflicted by mother nature, the rise of China in the 21st century does not appear to be impeded. It is the general consensus that China may be the first economy where we find “green shoots” after the financial tsunami which devastated the world in late 2008 and early 2009. China was able to score double digit growth in the wake of the new millennium until last year. The rapid growth took a pause after the outbreak. However, China was one of the first economies to announce a huge stimulus package valued at RMB 4 trillion late last year. The stimulus started to take effect when we witnessed a growth of 6.1% in the first quarter of 2009 followed by 7.9% in the second quarter, making a growth rate of 7.1% for the first half year.

We have witnessed appreciable increases in manufacturing output, investment in fixed assets and private sector consumption. It has been made clear that the RMB 4 trillion stimulus package would be utilised to boost public investment which covers enhancement of social security, improvement in health care system and rural development. It is worth mentioning that the financial institutions of China have not been appreciably affected by toxic assets and hence suffered less from the financial tsunami. As a result, they are in a better position to extend more liberal credits to enterprises operating in China and finance construction of substantive infrastructures. In the first six months of 2009, new credits extended by financial institutions of China exceeded 7 trillion RMB. In international trade, China has also applied strenuous efforts in the hope that increased international trade can pull the overall economy out of its doldrums. One of the practical measures adopted by China in this respect is the currency swap agreements valued at 650 billion RMB concluded with trading partners like Korea, Hong Kong, Malaysia, Belarus, Indonesia and Argentina. In fact, China has been making all efforts to alleviate the world economy from the trough. Judging from 2008 performance, the China economy ranked third in the world.

Despite a drop in exports, other sectors are faring well. In fact power consumption has started to pick up recently. China has been stockpiling commodities for its recovery. As a result, world commodity prices have been buoyant which is reflected in the firming of currencies of commodities producing countries like Australian Dollar, Canadian Dollar, New Zealand Dollar, Brazilian Real and Russian Rouble. To the envy of car manufactures in the US, new cars are selling at a rate of more than one million monthly, making the China outlet the most profitable arm of the GM group. Share prices in China once advanced by 100% in 2009 from its trough in 2008. Many other economies suffering from housing property slump will be surprised to learn that China is trying to prevent a bubble which can possibly be formed in the buoyant property market. Ladies and gentlemen, it is highly likely that China will be the first one to stand up after the financial crisis which has been hurting the world since late 2008.

The economy of Macao

As we all know, Macao reverted to its Motherland in 1999 when the Macao Special Administrative Region (MSAR) was established. Under the principle of “one country two systems”, “Macao people governing Macao” and “high degree of autonomy”, Macao continues to have a free hand in managing its well beings. The tourism services industry is the biggest pillar of the Macao economy. The MSAR Government collects about 70% of its revenues from this industry. The opening-up of the industry in 2002 gave a forceful impetus to the Macao economy. Since then, the Macao economy has taken leaps and bounds. We have witnessed double digit growth for a number of years which culminated in 2008 when we achieved a per capita GDP of close to USD40,000. At one point, our unemployment rate was below 3%. Despite the financial tsunami, Macao still achieved an annual growth rate of 13.2%. However, we are not immune to the crisis, negative growth for 2009 appears inevitable. Nevertheless, we are still able to keep unemployment rate at bay. It is still an enviable figure of about 3.7%.

The economy of Macao is expected to remain stable and sturdy in the next few years. Macao has a tiny and open economy which is affected by international economic fluctuations. In view of its structure and its proximity to China, the economy is more geared to the well beings of the China economy. As a matter of fact, Macao has benefited from a number of policies from the Central Government of China. Policies such as “individual traveller scheme”, “closer economic partnership arrangement (CEPA)” have rendered an effective lift to our economy. Amid the tremendous growth achieved in the past, Macao has taken the liberty to think about its future positioning and sustainable development. Macao has realized long time ago that it should diversify from an over reliance on gaming. The concept of MICE has been adopted. MICE stands for meeting, incentive, conference and exhibition. Parcels of land have been deployed in constructing hardwares for the MICE concept instead of devoting to pure gaming. There has been tremendous progress in this respect. It goes without saying that there is still plenty of room for improvement and hence expansion as our softwares in this respect are gradually building up. Another area for diversification is the financial sector which I am going to mention in the latter part of my speech.

Macao came 21st worldwide and 6th in Asia Pacific in the rank of global free economies, according to the Index of Economic Freedom by Heritage Foundation of the United States.

The outline of the plan for the reform and development of the Pearl River Delta

The National Development and Reform Commission of the State Council of the People's Republic of China released “The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020) (the “Outline”)” in December 2008. The Outline, which also covers Macao, will be brought to broader national strategy and long-term development level of the nation. The gist of the Outline is to turn the Pearl River Delta into one of the world's

most competitive conurbations with a high quality of life. The Outline defines Macao as an international leisure and tourism destination committed to further diversify its tourism sector. Based on Macao's UNESCO world-heritage status, the MSAR Government will further develop "culture tourism" and reinforce tourism-related cooperation with Guangdong Province of China. Ultimately, Macao will become part of the Pearl River Delta conurbation which will be a green area providing a high quality of life.

To achieve all these, the Central Government has approved and got going with the construction of the Hong Kong-Zhuhai-Macao Bridge. Once completed, together with the comprehensive highway network, one can go from any one township in the conurbation, which accommodates a population of 50 million, to another in a matter of a couple of hours by land transport. The Central Government has also noted the constraint on land resource of Macao which has a total land area of about 30 sq. km. As a start, Macao is authorized to relocate the University of Macao to an area of about 1 sq. km on the Hengqin Island of neighbouring Zhuhai city. Ultimately, Macao will extend its area to cover 5 sq. km. of Hengqin Island. Meanwhile, internal reconstructions keep on going. One of the notable issues is that all essential spots of Macao will be connected by light rail in a few years. The positioning of Macao has become clear. By 2020, Macao will be part of a conurbation with an area of about 30,000 sq. km. and a GDP equivalent to that of a medium sized sovereign country.

The financial sector of Macao

In the process of diversification, we have not forgotten the financial sector which accounts for 10% of our GDP. As per the end of June 2009, banks operating in Macao numbered 27 with aggregate assets of MOP402.8 billion and total deposits of MOP283.1 billion. At the same time, there were 24 insurance companies earning annual gross premiums of MOP3.46 billion in 2008. There was a mild downward adjustment in the first half of 2009, in the aftermath of financial meltdown. In addition, there were 23 financial institutions of other nature. In the past few years, the financial sector has burgeoned in an unprecedented manner in tandem with the rapid growth of the Macao economy. All business indicators of the financial institutions continue to improve; raised profitability, enhanced asset quality, ample liquidity, adequate capital and highly strengthened resistance to risks. In the process of globalization and its integration into the Pearl River Delta economy, apart from meeting the demand locally, the Macao financial sector follows the trend, upgrades itself by servicing the regional economy. One of the more significant achievements is that there has been a marked increase in RMB business in Macao while the Macao legal tender, the Pataca, has gained wider circulation and recognition in the Pearl River Delta. To put it in a nutshell, the Outline has defined that, under the framework of environmental friendly economic development, each major city in the region should make full use of its own competitive edge to construct a new economic development scenario for the region via complementary cooperation and positive interaction. In this connection, Macao has identified its own positioning in the big picture. The Macao economy, particularly its financial sector, will certainly emerge with flying colours in the course and after the implementation of the Outline which is scheduled to be finalized by 2020.

On the other hand, the financial system of Macao is timely and appropriately regulated. The IMF conducted an assessment of the financial sector supervision and regulation in 2008 of the Macao SAR. The result was positive and one of the conclusions of the assessment team was that there is a high level of compliance with Basel core principles. The detailed report is expected to be published in due course.

Macao as the service platform between China and Portuguese speaking countries

Last, but not the least, I would like to mention how Macao can make the best use of the legacy arising from its historical connections with Portuguese speaking countries in its

economic and financial development. Macao started to become acquainted with Portuguese speaking countries more than 400 years ago. Since its return to China in 1999, its tie with Portuguese speaking countries has further been strengthened. China is the world's factory and has a population of 1.3 billion. To maintain its functioning, it requires and consumes huge amount of natural resources. After an endeavour of 30 years, it has built up colossal foreign exchange reserves of more than USD2.1 trillion. On the other side, the Portuguese speaking countries are a market of more than 200 million consumers and are endowed with abundant natural resources. They are in need of consumer products of reasonable price and capital for further development. All the aforementioned criteria make economic cooperation between China and Portuguese speaking countries a perfect match. In this connection, Macao is both capable and willing to be the middleman. Being a special administrative region of China and having a close tie with Portugal, Macao acts as a platform for trade and economic services for China and Portuguese speaking countries. Macao is familiar with the legal system of the Portuguese world while Portuguese is one of its official languages. Macao can render excellent services to Portuguese speaking countries which are willing to develop more ramified economic and trading relationship with China.

In 2003, the first Economic and Commercial Cooperation Forum of China and Portuguese Speaking Countries was held in Macao. In 2006, a ministerial meeting of that Forum held in Macao delineated fresh plans for new economic and commercial cooperation. The plans take into consideration the economic development disparities of all participating countries and emphasize that enhanced cooperation and development should be based on a principle which will ensure equity and mutual benefit. Macao is endowed with a unique advantage in this respect arising from its geographical position and historical heritage. All along, it has always played the leading role of a liaison platform serving the economic and commercial cooperation between China and Portuguese speaking countries. In fact, the standing secretariat for the Forum is domiciled in Macao, which has always been endeavouring in the realization of the various targets set by the Forum.

The Macao financial sector has always been a forerunner in facilitating the economic and commercial development between China and Portuguese speaking countries. The Macao financial industry is highly internationalized and open; more than 80% of its assets are classified as international. The Macao financial sector is equipped with a mature financial market system, the stability and competitiveness are safeguarded by timely and regulated financial supervision. Financial institutions of Macao always consider themselves a business partner of their counterparts in Portuguese speaking countries. In fact, individual Macao banks have concluded cooperation agreements with banks in Portuguese speaking countries.

As the regulator, the Monetary Authority of Macao (AMCM) has been playing a leading role in this respect. In the past, the AMCM has concluded memoranda of understanding with central banks and insurance regulatory authorities of a number of Portuguese speaking countries. In 2007 and 2008, the AMCM organized representatives of local financial institutions to visit Portuguese speaking countries in Africa, Europe and South America to study the financial industry and explore fresh business opportunities. The AMCM has also played host to representatives of various financial conferences. In April this year, the Conference of Central Banks of Portuguese Speaking Countries was held in Macao with the theme "Establishing a Platform for Financial Co-operation and Promotion of Economic and Commercial Interaction" and, as I mentioned earlier on, the Conference on Human Resources was held only two weeks ago.

Future opportunities

Ladies and gentlemen, it is highly expected that China will be the first economy to see "green shoots" after the devastating financial tsunami. As a special administrative region of China,

Macao will much benefit. I do hope entrepreneurs around the world will grasp the opportunity to create a situation whereby mutual benefit can be achieved.

Thank you!