

Foreign Direct Investment and Economic Development Policy in Macau

Report
East Asia

Has the Asian Economic Miracle bypassed Macau? Some observers came to this conclusion by the mid-1990s. After its rapid industrialization and equally rapid growth in prosperity in the 1970s and early 1980s, it gradually became clear that Macau was not going to follow the development model of Japan, Taiwan, South Korea, Hong Kong, and Singapore. These had all benefited from foreign technology during their economic take-off. The main carrier of foreign technology is foreign direct investment (FDI), but in Macau's case FDI did not have a lasting effect on industrial or economic development.

By Frans-Paul van der Putten

From the early 1970s, FDI from Hong Kong provided the main stimulus for the growth of Macau's light industry, which was export oriented and labour intensive. However, this was not followed by a second phase of industrialization in heavy industry or high-tech manufacturing, nor did it stimulate the development of an advanced trade and services sector. From the late 1980s, Macau 'de-industrialized' as factories moved across the border to Zhuhai, the Chinese Special Economic Zone where production costs are lower. By the mid-1990s, FDI and industrial development had largely evaporated, and apart from its gambling industry the Macau economy did not have much on which to base further growth. Economists have long been urging the Macau government to broaden its economic base by developing new sectors. This process may gain considerable support from foreign capital and technology, brought into Macau by foreign companies. But so far, the more traditional industry of gambling remains all-important and little FDI is entering Macau.

It is generally known that, as massive foreign investment has been pouring into neighbouring Hong Kong and Guangdong,

Macau has not managed to attract significant FDI. It has also frequently been pointed out that Macau has little to offer to foreign investors: it constitutes a very small market with only some 400,000 inhabitants and lacks natural resources, production costs are higher than in Zhuhai, and its services sector is small and underdeveloped in comparison to Hong Kong's. Still, being located in the economically dynamic Pearl River delta and being administratively and historically separated from surrounding territories, would it not be possible for Macau to attract more than just tourists for its casinos?

This research focuses on Macau's ability to attract effective FDI: foreign investments with a stimulating effect on economic development and diversification. An important question to be answered in this context is what Macau's colonial past – a Portuguese governor administered Macau until late 1999 – implies for its economic future. How did Portuguese rule affect the size and nature of inward FDI and economic development in Macau and what changes may be expected from its recent transition to a China-controlled Special Administrative Region? In order to address these questions, a one-month research visit was made to Portugal. Although no data younger than thirty years is accessible in Portuguese government archives, Lisbon does have a number of institutes specialized in collecting published data on Macau's history and its current economic and political status.

The data collected in Lisbon indicate that the Portuguese colonial system has had a negative effect on Macau's ability to attract and use FDI for economic development. During the final decades of the colonial era, three main parties had direct or indi-

rect access to political power in Macau: the Portuguese government, the Macau Chinese, and the Chinese government. However, because no single group was strong enough to dominate the political scene, a system of compromises came into being, in which long-term economic aims had to be surrendered to short-term ones. Consequently a policy to attract and utilize types of FDI that generate structural economic development did not materialize prior to the withdrawal of Portuguese colonial influence in 1999. The interests of the new administration of Macau and of the PRC government are sufficiently compatible to result in a constructive and coherent policy. Of course, it may take considerable time before the legacy of the pre-1999 era has been left behind. In practice, this means that for the time being Macau and China tend to favour the dominant role of the gambling industry – which brings certain benefits but also a dependency on a single source of economic growth – rather than embark on the more difficult path towards diversification and integration into technology-based economic networks in East Asia. Consequently, it is unlikely that incoming FDI will contribute in a structural way to sectors other than gambling or tourism in the near future.

Studies on contemporary Macau do not have a high profile in the field of Asian Studies and take up only a very minor place in China-related research. But as a result of its colonial past, Portugal has the capacity to continue to play a central role in European Macau Studies, and can thus ensure that researchers working on Macau have a place where they can meet each other and find most relevant publications and pre-1999 documents in a single place. <

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