

RESEARCH NOTE

Macau Recovers as Chinese Tourists Return, While Hong Kong Seeks to Win Back Lost Talent

MAY 1, 2023

Executive Summary

Macau's economy could approach pre-Covid levels by Q3, as Chinese mainland tourists return to the land of casinos and entertainment

Inbound travel to Macau is expected to peak during the first week of May, for China's Golden Week holiday

Hong Kong lost many of its expatriates due to political unrest and highly restrictive Covid policies

With Beijing's new administrative appointments and Hong Kong's own immigration measures, the region may see an influx of new talent from the mainland

The pandemic years and subsequent recovery policies will help Beijing tighten its grip on the two special administrative regions

Background and Context

China's two important special administrative regions (SARs), Hong Kong and Macau, suffered tremendously from the stringent Covid policies across East Asia. They differ in their paths to recovery due to distinct economic situations as well as historical affiliations with foreign investors and workers, and both regions are now building stronger ties with Beijing. Known as the Las Vegas of the East, Macau relies on the gambling and tourist industry. In the years before the pandemic, the territory had been increasingly relying on Chinese tourists for revenue. Macau's long-term security and prosperity thus depend on the Chinese government's continued policy of securing its monopoly on legal gambling, which helps attract flocks of visitors to its world-famous casinos. Since Macau was already economically reliant on the rest of China, it is also politically dependent upon Beijing's goodwill and preservation of the status quo.

Historically, Macau has had less de facto independence than Hong Kong, whose economic success was the result of foreign investment, becoming China's preferred point of global contact when the mainland was not yet fully open. Bridging China with the rest of the world, Hong Kong thrived on the financial resources and special attention that flowed from both China and the West. The city became the most important financial hub in East and Southeast Asia. Since 2019, however, Beijing's political crackdown has stripped Hong Kong of much of its autonomy, leaving a more subdued region firmly in the grip of the Chinese central government. Hong Kong's recent policies to further stimulate the post-pandemic recovery indicate that it will strengthen ties with the mainland, both politically and economically. To a large extent, the Covid years and the measures now being pursued will pro-

mote Beijing’s rule over the two SARs, which are ostensibly governed by the “one country, two systems” policy.

Key Issues

MACAU: THE CHALLENGE TO DIVERSIFY

A Portuguese territory until 1999, Macau developed into a full-fledged gambling haven by the mid-2000s. A major turning point was when China allowed investment by Western casinos in 2002, attracting foreign giants such as Las Vegas Sands and Wynn, which were keen to develop footholds in Asia. The landmark policy also conferred on Macau special status as the only territory in China where gambling is legal. In less than two decades, Macau grew to generate annual revenues nearly six times that of Las Vegas.¹ Prior to Covid, Macau had one of the world’s highest GDP per capita (adjusted for purchasing power parity), second to Qatar and ahead of Luxembourg and Switzerland.²

Gambling accounts for 80 percent of Macau’s tax revenue, and high-net-worth Chinese tourists bring in most of its income. China’s zero-Covid policy and travel restrictions had a devastating effect on the region’s economy. In 2019, The number of Chinese tourists coming to Macau declined by 85 percent, while GDP per capita in the following year shrank by more than half. In 2021, Macau’s gambling industry tumbled by 70 percent, and GDP per

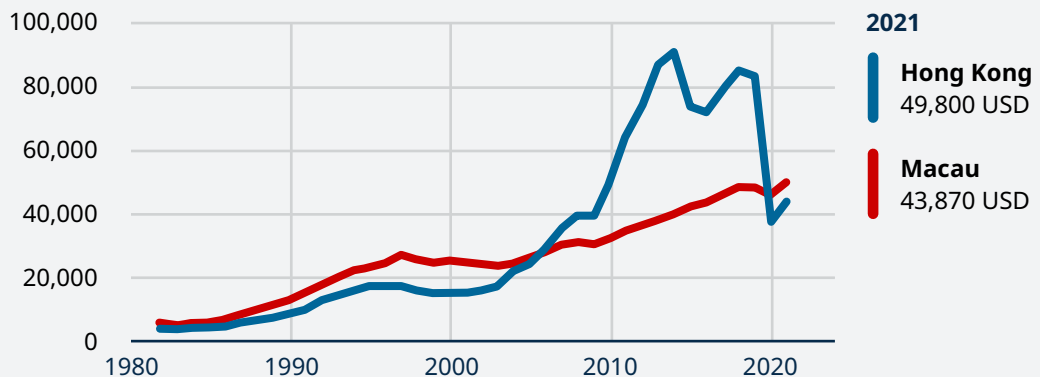
capita in Q3 fell by 63 percent, the sharpest drop in the world during that period.³

The region has also struggled to shift its existing development path. In terms of land mass, Macau could fit into Shanghai’s international airport, making economic diversification difficult. Hoping to use the Covid-induced crisis as an opportunity, both Beijing and Macau’s government attempted to broaden the region’s income sources. In September 2021, Beijing granted Macau over 100 square kilometers of land and hoped to introduce other sources of investment. But Macau’s economy is deeply reliant on the casino business and Chinese mainland tourists. Although 40.2 percent of Macau’s population have college-level education, nearly half of its residents are employed by casinos or work in tourism-related, low-skill service jobs.⁴ Macau has introduced a fast-track policy to attract more diverse and foreign talent, so far with little success. Furthermore, small- and medium-sized enterprises are siloed from the mainstream gambling industry and typically offer low pay, making them unattractive to many workers. While tourism is expected to reach nearly pre-Covid levels during China upcoming Golden Week holiday, reviving the casino industry is only a temporary solution to Macau’s long-term economic problems.

HONG KONG: ATTRACTING HIGH-SKILLED WORKERS

Hong Kong, on the other hand, was Asia’s crown jewel of financial services before the pandemic. It is the only truly free economy

GDP per capita



with non-constrained capital flow in China's vast territory, and has been an initial public offering destination for companies seeking to establish themselves in the Indo-Pacific. However, Hong Kong faces a situation analogous to Macau's, with its economy heavily dependent on the logistics and financial service sectors. While 80 percent of tax revenue in Macau comes from gambling, 93.4 percent of Hong Kong's GDP comes from its service industry, of which financial services is the main contributor.⁵ At one time, a high share of Hong Kong's population were expatriates (10 percent), a majority of whom were employed by the financial services sector. In 2021, it was reported that some 113,200 of residents, or 1.6 percent of the population, had left Hong Kong in the preceding year.⁶ These emigrants included highly-skilled expats concerned about a mix of factors, including continued Covid restrictions, the city's diminishing autonomy, and an increasingly precarious business environment due to U.S.-China decoupling.

In the meantime, Singapore has taken advantage of the world's fading confidence in Hong Kong's future. Not only has Singapore attracted emigrants from the Chinese SAR, but it has also challenged Hong Kong's role as Asia's top financial hub in numerous global rankings. Hong Kong has responded with several measures. The Hong Kong Monetary Authority held a high-profile summit in November 2022, targeting over 30 Wall Street executives in a bid

to revive their confidence in the region, with limited success. In 2021, the Top Talent Pass Scheme was introduced to attract high-income and highly-skilled workers. However, a year after its launch, only 2,004 visas had been granted, with 93 percent going to mainland Chinese despite the intention to lure a more global talent profile.⁷ Hong Kong is still striving to encourage workers and investors to stay, with the latter taking time to gauge what doing business will look like under Beijing's control.

What's Next

The available paths to recovery offer good opportunities for the two SARs in the short term. Macau is likely to regain its gambling revenue, with tourists flocking back to casinos as early as Q3 of 2023. For a fuller, long-term recovery and a more diversified economy, Macau does not necessarily need to wean off its gambling sector, but it will need to stimulate other industries and create attractive job opportunities beyond gambling and tourism. Hong Kong faces the complex challenge of persuading foreign money and talent to stay, as its policy efforts seem to merely attract mainland workers. Based on the feedback of foreign executives at the recent China Development Forum (see our April 24 research note, "Walking the Tightrope"), the target audience holds a pragmatic but hesitant view of the prospect of a less free Hong Kong.

1 <https://time.com/6227922/macau-gambling-capital-casino-china/>

2 <https://www.worldometers.info/gdp/gdp-per-capita/>

3 https://www.dsec.gov.mo/getAttachment/537b9fce-e91a-48ab-bdcb-2f45d3a6d218/C_PIB_FR_2020_Q4.aspx

4 <https://www.indexmundi.com/facts/indicators/SE.TER.ENRR/rankings>

https://www.dsec.gov.mo/getAttachment/ed8fa696-8050-44fc-94d2-74f35f6ef354/C_SIED_PUB_2021_Y.aspx

5 <https://research.hktdc.com/sc/article/MzJwNjkzNTY5>

6 <https://www.scmp.com/news/hong-kong/society/article/3188536/113200-residents-leave-hong-kong-12-months-contributing-16>

7 https://www.immd.gov.hk/pdf/qmas_annual_report_2021_tc.pdf