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Macau's Trade With the Portuguese Speaking World

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Abstract

Macau has boomed over the last decade as its gaming industry has provided the massive Chinese economy with the only legal casino gambling services in the nation. But, recent Chinese political changes have resulted in a sharp downturn in Macau's gambling revenues despite a major expansion of its gaming facilities. This may negatively impact efforts to promote a relationship between Macau and the Portuguese Speaking World. Portugal with its former Ultramar, to which Brazil has been added, is now termed "Lusophonia." Initiated by China in Macau in October 2003, the efforts to promote a Lusophone trade and economic relationship with China through Macau have not resulted in any significant trade or tourist links between Macau and Lusophonia. Despite China's trade with Brazil booming following China's entry into the World Trade Organization in 2001, its Brazilian trade is routed either through China itself or Hong Kong, not through Macau. Macau's significantly weak links to Lusophonia, which were predictable from international trade theory that included the Gravity Model and Ghemawat's CAGE analytical model, were not enhanced during Macau's 10 year boom from 2004 to 2014, and may be forced to take a back seat to the re-positioning of its gaming industry over the next several years.

Macau and Lusophonia

Two-pronged efforts to develop a community of nations that utilize the Portuguese language have been in evidence for the last 20 years, one effort undertaken through the Portuguese government sponsored Comunidade dos Países de Linguas Portugueses, which was founded in February 1994, and the other effort

through the China-sponsored “Macau Forum” (中葡论坛)¹ that was setup in the Macau Special Administrative Region (Macau SAR) by China’s central government in October 2003. Despite Macau’s population being well over 90% Chinese and with the Cantonese dialect dominating all commercial activities, Macau is considered to be a member of the Lusophone grouping due to its status as having both Chinese and Portuguese as official languages. The Macau Forum was established to strengthen economic and trade relationships, not cultural relations, between China (not solely Macau) and the Portuguese-speaking world, hence its name “Forum for Economic and Trade Cooperation between China and the Portuguese Language Countries” (中国与葡语国家经贸合作论坛).

Following the Macau’s return to China in December 1999 and coincidentally with the 40th anniversary of the U.S.-China Shanghai Communiqué, Macau’s first chief executive, Edmund Ho Hou-hua (何厚鏸), opened Macau’s gaming market to international casino operators in February 2002. The city’s economy then boomed on the back of a wave of gamblers from Macau’s neighboring Guangdong province who poured into the city subsequent to the opening of its first international casino in May 2004 (Las Vegas Sands). Macau’s traditional source of gamblers from Hong Kong dropped into second place. The combination of Macau being the only legal gambling jurisdiction in China and the spectacular rise of China’s purchasing power following China’s December 2001 entry into the World Trade Organization, attracted as much as US\$15-20 billion of investments into the city’s gaming facilities between 2004 and 2014. As Macau’s gaming revenues ballooned 15 times from 2002’s (Macau Pataca currency or MOP) 23.5 billion (US\$2.9b) to 2014’s MOP 352.7 billion (US\$ 44.1b), Macau’s GDP grew by a spectacular 850% from 2001’s MOP 52.3 billion (US\$ 6.5b) to 2014’s MOP 443.3 billion (US\$ 55b) (Macau Government, 2016). Macau surpassed Las Vegas as the world’s largest gaming center in 2007. Over the next several years, between 2014 and 2018 the casino industry is again doubling the size of its gaming infrastructure through the investment of US\$ 22 billion in new casino and hotels. Just as this was launched, however, Macau’s economy shrank 16.85% due to a crackdown on corruption in China that the new central government leadership of Xi Jin-ping (习近平) had begun in mid-2014.

How might Macau’s gaming-based economy interface with the remarkably diversified Lusophone markets? A recent study by Macau’s University of Saint Joseph attempted to make marketing sense of the collection of remarkably diverse Lusophone states. Six separate Lusophone sectors were identified: (i) Brazil, (ii) Portugal, (iii) Angola, (iv) Mozambique, (v) Timor-Goa, and (vi) Cabo Verde-Guineas Bissau-Sao Tome. The importance of Brazil was clear: Brazil’s GDP is six times larger than that of all the remaining Lusophone markets combined, making Brazil the prime target for any strategy which seeks to promote a “greater

¹ ‘Permanent Secretariat of the Forum for Economic and Trade Cooperation between China and the Portuguese Language Countries’; *Fórum para a Cooperação Económica e Comercial entre a China e os Países de Língua Portuguesa*.

Lusophone” commercial network. The table that follows identifies the six sectors, based on their diffuse economic, geographic, and demographic characteristics.

The data demonstrates that the priority relationship on which to build both China and Macau’s Lusophone economic interface is trade and investment with Brazil. Such trade relationship might be both an effective stimulant to the international Lusophone community and a way to diversify Macau’s heavy reliance upon Cantonese gamblers from South China.

Table 1: Lusophone Markets

Country	Pop (000s)	GDP-PPP Billion US\$	GDP US\$ Per Capita	To Status		% Catholic	1st Key City & Pop
				Hours	MPI: 87		
Brazil	202,656	US\$3,073.0	US\$15,200	-11	20 MPI	64.6%	20.8m: Sao Paulo
Portugal	10,813	US\$276.0	US\$26,300	-7	60 MPI	81.0%	2.8m: Lisbon
Macau (SAR)	660	US\$51.8	US\$88,700	0	-	6.7%	.66 Macau
Angola	19,088	US\$175.5	US\$8,200	-7	2.83-CP	38.0%	5.3m: Luanda
Mozambique	24,692	US\$29.8	US\$1,100	-6	3.67-CP	28.4%	1.2m: Maputo
Timor-Leste	1,201	US\$8.4	US\$6,800	1	2.83-CP	96.9%	0.2m: Dili
Goa	1,457	US\$7.7	US\$5,284	-1.5	-	26.6%	0.11m: Panaji
Cabo Verde	538	US\$3.3	US\$6,300	-9	3.83-CP	77.3%	0.14m: Praia
Guinea Bissau	1,693	US\$2.5	US\$1,400	-8	3.00-CP	22.1%	0.47m: Bissau
Sao Tome	190	US\$0.6	US\$3,100	-8	3.00-CP	55.7%	.071m: Sao Tome

The above data also shows that the development of Macau economic relationships with the Lusophone nations is significantly constrained by the recognition that the Lusophone markets are not only of great distance from Macau, but also, with the exception of Brazil, are not of a substantial size. Trade theorists have expressed the difficulty of developing trade between distant and relatively small GDPs via the Gravity Model of international trade (Krugman & Obstfeld, 2007). This model has empirically demonstrated that bilateral trade between two nations is negatively correlated to distance and positively correlated to GDP. Here lies the great problem for developing trade between Macau and its Lusophone partners. The only Lusophone areas in reasonable proximity to Macau are Timor-Leste and Goa. Time zone differences express the relationship. With Timor being one hour ahead of Macau time and Goa 1.5 hours behind, both are theoretically within the city’s manageable sphere. But, not only are their GDP’s and markets small, they are fraught with political problems. Within Goa there is ongoing tension between the Hindu and Catholic communities, while Timor is only just now recovering from a socially devastating separation from Indonesia. Time zone differences also show that Macau is remote from the rest of the Lusophone world, with Brazil being in a zone 11 hours distant and Portugal and Angola seven hours off. In the IMF trade statistics that follow, low trade levels

between Macau and the rest of Lusophonia, which the Gravity Model of trade predicts, are in evidence.

Further, in recent years Pankaj Ghemawat at Harvard Business School has expanded the two variable scope of the Gravity Model (distance and economic size) to include cultural and political variables in an effort to predict likelihood of cross-border investment success (Ghemawat, 2007). His CAGE model, which includes Cultural, Administrative-Political, Geographic, and Economic variables, clearly recommends that Macau's economic relations (and any investment strategy that its companies may wish to undertake) should be concentrated in the region of Greater China. Not only is China (the world's second largest economy) on Macau's doorstep, Macau is in fact an actual part of China. Gravity Theory predicts that Macau's trade will be in the close orbit of Macau's massive sovereign authority. The pull of Brazil, Portugal, and Angola will be only dimly felt. Ghemawat's CAGE model reinforces the reality that Macau's economic relationships will be inextricable from China. Macau is substantially a Chinese cultural entity, with only a residual Portuguese cultural linguistic influence, while its political and legal development is directly under Beijing's control. The CAGE Model recommends that Macau look for economic diversification and success in Greater China, and that Macau's theoretical Lusophone connection will not be a major determinant of the city's economic future. Trade data that follows supports the conclusions of both the Gravity Model and Ghemawat's CAGE methodology.

China Lusophone's Trade

The first constraint on Macau trade with Lusophonia is the fact that these nations are not China's major export markets or suppliers. IMF data demonstrates that the Lusophone nations represented only 1.78% of China's exports in 2015, an amount that was reduced from the slightly larger, but still small 2.12% in 2014. The United States, with 18% of China's total exports in 2015, is China's most significant international partner.² Within Lusophonia, Brazil is by far the largest market for Chinese goods, having absorbed \$27.4 billion in 2015 or 1.2% of China's total exports. Four of the other Lusophone markets that included Macau, Angola, Portugal, and Mozambique accounted for only 0.5% of China's exports or US\$13.2 billion. The smaller Portuguese speaking nations of Cabo Verde, Guinea Bissau, Principe and Sao Tome, and Timor-Leste, have little status in China's external trade relations.³ As suppliers to China, IMF data for Lusophonia demonstrates that only Brazil and Angola are providing any significant level of resources. Of China's imports in 2015 Lusophonia held 3.9%. Brazil shipped

² Exports to the United States are larger than Hong Kong market which took 14.6% of China's exports. The European Union took 11.0%.

³ Trade statistics between China and Timor-Leste are not provided thru the IMF Direction of Trade data, but the Macau Forum intermittently provides data in articles and excerpts from China's own customs data. Appendix I presents China's trade with these countries for nine months of 2015, which amounted to Timor, US\$62.8m, Cabo Verde, US\$ 35.3m, Guinea Bissau, US\$ 30.1m, and Sao Tome, US\$ 4.5m.

2.77% and Angola just 1%. Portugal provided just 0.1%, while the remainder of Lusophonia barely registered in the statistics.

China-Brazil Trade

Trade between Brazil and China boomed following the fall 2001 U.S. agreement to allow China's entry into the World Trade Organization (WTO), shortly after the events of September 2001 took place. In 2013 China-Brazil trade hit a record of US\$ 83.3 billion, over 20 times the size of trade in 2001 (US\$4.0 billion), the year before China entered the WTO. Minimal trade between China and Brazil had existed as little as 16 years ago, with only US\$1.1 billion in 2000 (Could Macau be the Bridge, 2011), an extraordinary low level given the population, economies, and land area of the two states. After China's entry onto the WTO, trade radically expanded and paralleled the explosive growth of Macau's own economy. By 2009 China had become Brazil's largest trading partner and Macau the largest gaming market in the world. But, Macau-Brazil trade remained negligible (Sohn, 2012).

Table 2: China's Exports to Lusophonia (US\$ millions) (International Monetary Fund, Direction of Trade China, 2016)

Year	2014	%	2015	%	2015-2014 %
World	2,343,220.90	100.0%	2,280,539.58	100.0%	-15.1%
United States	397,099.31	16.9%	410,782.82	18.0%	3.4%
Hong Kong	363,222.84	15.5%	332,728.41	14.6%	-8.4%
Euro Area	266,887.70	11.4%	250,678.98	11.0%	-6.1%
Brazil	34,925.22	1.490%	27,428.47	1.203%	-21.5%
Angola	5,976.27	0.255%	3,722.32	0.163%	-37.7%
Portugal	3,137.25	0.134%	2,898.65	0.127%	-7.6%
Mozambique	1,969.90	0.084%	1,941.03	0.085%	-1.5%
Cabo Verde	51.22	0.002%	44.92	0.002%	-12.3%
Timor-Leste ⁴	n.d.	n.d.	n.d.	n.d.	n.d.
Guinea-Bissau	17.12	0.001%	19.45	0.001%	13.6%
São Tomé	5.73	0.000%	7.87	0.000%	37.4%
Macao	3,605.91	0.154%	4,614.75	0.202%	28.0%
TOTAL Lusofonia w/o Brazil	14,763.40	0.630%	13,249.00	0.581%	-10.3%
TOTAL Lusofonia	49,688.62	2.121%	40,677.47	1.784%	-18.135%

Despite a trade slowdown in 2015 that moderated economic growth in China and produced recession in Brazil, Brazil-China trade remained substantial and by far the largest of Lusophone nations. For 2015 the *Financial Times* reported

⁴ IMF does not break out data for Timor-Leste in its Direction of Trade statistics. China data shows a level near Cabo Verde.

Brazil's China trade slumping 20% to \$66.3b (Leahy, 2016), while Brazil government statistics show imports from China falling to US\$30.7 billion, down a sharp -17.74% over 2014. Brazilian exports to China also were down, but by a smaller -12.3%. These dropped from 2014's US\$ 40.6 billion to 2015's US\$35.6 billion. Brazil's exports to China have been highly concentrated (65% in 2015) in unprocessed iron ore and soybeans, with Brazil's major ore producer, Vale do Rio Doce, generating fully 33% of its sales through shipments to China (Hayashi & Lima, 2015). In a near classic colonial relationship, Brazil is source of raw materials to China, and a market for its manufactured goods: of the US\$35.6 billion in Brazilian exports in 2015, nearly 80% (US\$28.6b) were raw materials, while 97% of Brazil's imports from China were manufactured goods. Fortunately Brazil has enjoyed a positive trade balance with China, which in 2015 rose modestly, increasing from 2014's US\$3.3b in 2014 to 2015's US\$4.9b (Brazil Ministério, 2016). Despite Brazil's poor economic conditions, its overall trade balance swung sharply into the black, with a trade surplus of US\$19.7b versus a deficit of -US\$4.05 in 2014. Matching the same percentage drop in trade with China, Brazil's total 2015 trade volume was down -20.4%, with total trade standing at only US\$ 379.7 billion versus US\$477 billion in 2014 (International Monetary Fund, Direction of Trade, External Trade by Counterparts Brazil, 2016).

Table 3: China Imports from Lusophonia (US\$ millions) (International Monetary Fund, Direction of Trade China, 2016)

	2014	%	2015	%	2015-2014 %
World	1,963,105.18	100.0%	1,601,760.79	100.0%	-15.1%
Euro Area	197,659.68	10.1%	169,029.34	10.6%	-14.5%
United States	154,136.22	7.9%	144,867.08	9.0%	-6.0%
Hong Kong	12,920.24	0.7%	8,161.48	0.5%	-36.8%
Brazil	51,975.64	2.648%	44,380.37	2.771%	-14.6%
Angola	31,094.94	1.584%	15,983.16	0.998%	-48.6%
Portugal	1,664.86	0.085%	1,471.84	0.092%	-11.6%
Mozambique	1,653.01	0.084%	451.98	0.028%	-72.7%
Cabo Verde	0.00	0.000%	2.00	0.000%	0.0%
Timor-Leste	n.d	n.d	n.d.	n.d.	n.d
Guinea-Bissau	49.96	0.003%	17.81	0.001%	-64.3%
São Tomé	0.00	0.000%	0.03	0.000%	868.5%
Macao	210.30	0.011%	183.23	0.011%	-12.9%
TOTAL Lusofonia w/o Brazil	34,673.07	1.766%	18,110.05	1.131%	-47.8%
TOTAL Lusofonia	86,648.71	4.414%	62,490.42	3.901%	-27.881%

Trade Relationships: Brazil, China, Macau, and Hong Kong

A central issue for Macau in its relationships with the Lusophone world is the extent of its relationship with Brazil. Over the last 50 years there have been

sporadic attempts that were unsuccessful in developing the relationship. Brazil's largest bank, the Banco do Brasil, opened a branch office on June 23, 1980, four decades ago, on the Avenida Praia Grande while Brazil was still under military rule, and two decades ago on July 16, 1994, Brazil's Minister of Aeronautics signed Macau's first international air transport agreement in anticipation of Macau's new international airport that opened late that year. These initiatives did not produce significant results. The impact of the Second Oil Crisis on Brazil's domestic and international financial affairs forced Banco do Brasil to close its little used offices by the mid-1980s. And, the Asian Financial Crisis of 1997 made uneconomic the air transport links directly from Europe to Macau. Portugal's national carrier, TAP, abandoned its flights from Portugal to Macau 18 months later in November of 1998 (Sá, 1999, p. 105). Even as Asia recovered from its crisis, Brazil's major airline, Varig, faced its own difficulties and was forced into bankruptcy by 2005 (Varig Files, 2005).⁵

The level of interaction between Brazil and Macau remains surprisingly minimal given the size of the Brazilian economy and the increasing prosperity of Macau. In July 1989 the Brazilian "Casa de Macau" began operations in São Paulo, with another house opening in Rio de Janeiro two years later. The Casa de Macau in São Paulo, however, is relatively small, despite it being the largest organization of the Macanese Diaspora. By the 1980s it consisted of approximately 300 individuals. The Japanese-Brazilian Community of São Paulo and Paraná, which totaled 1.5 million (Duffy, 2008), vastly dwarfed the Macau's Casa. Importantly, in Asia, the Japanese Brazilians residents in Japan number over 300k (Spacey, 2009) and represent approximately 50% of the entire population of Macau. Brazil's ethnic and cultural relationships with Japan undoubtedly carry far greater influence than Macau's small expatriate community. As demonstrated in the graph below, Macau's total population, which has grown from 490,000 in 2006 to 640,000 in 2016, is little larger than Japanese Brazilians resident in Japan (Macau Population, 2016).

Brazilians have also been prominent in some of Macau's most important sporting events, including the Macau Grand Prix and International Women's Volleyball, but these participations appear not to have been part of a wider Macau-Brazil organizational development. The acclaimed Brazilian driver Ayrton Senna da Silva won Macau's inaugural Formula 3 Grand Prix in November of 1983, and Maurício Gugelmin won two years later in 1985. Two decades later in 2005, Lucas di Grass was the champion of the 52nd Macau Grand Prix, while in 2013's 60th year-Diamond Jubilee Anniversary race "Pipo" Derani finished third. The globally top-ranked Brazilian Women's Volleyball Team has also regularly played in major tournaments in Macau against China, Russia, and the United States, including the 2011 International Federation of Volley Ball (FIVB) Championship, and again in the recently completed June 2016 Grand Prix that

⁵ The SARS crisis hit Asia in the spring-summer of 2003, while by June 2005, due to intensive competition domestically, VARIG declared bankruptcy.

featured Brazil and the winning Chinese women's team (FIVB Past Events Info, 2016).

Figure 1: Macau Population



The squeeze in Brazil's 2015 total trade would not have been helpful to Macau-Brazil trade relations had Macau in fact been playing any role in this exchange. Brazil's exports to China do not involve Macau, which has no capability of handling the large shipments of iron ore and soybeans. These are processed exclusively in Mainland China. Brazil's trade with China has been of strategic significance for China and has not involved Macau as illustrated by trade milestones that include (i) supplying of iron ore from summer 1973, (ii) aircraft manufacture from 2001, and (iii) the launching of earth satellites from 2013. Despite Brazil generating trade surpluses with China of US\$50.38 billion over the 12 years between 2001 and 2013 (including a surplus of US\$11.2 billion in 2014) (Brasil Ministério, 2014), no entity has sought to expand Macau's role. Because the injection of a trade surplus into the Brazilian economy has been a source of its continuing growth and stability, it might have encouraged Brazilian authorities to consider widening Brazil's operating base in China. Complementing the Japanese-Brazilian community in Japan might have been a Brazilian cultural and economic base in Macau.

Such a position in Macau should not have been difficult to achieve because trade between Brazil and China dwarfed Macau's total economy, while Brazil was generating strong surpluses from its China trade. In 2010 Macau's GDP of US\$ 28.36 (World Bank, Data, 2016) was only just over half of the volume of Brazil-China trade that had hit approximately US\$ 56.73 billion (Brazil Ministério, 2016). But, closer Macau and Brazil relationships did not develop. Only one small advance in Brazil-Macau relations became evident with the 2009 opening of the low-impact "Casa de Brasil em Macau." Brazil's strategically significant trade markers with China had occurred without any involvement of Macau or any effort

to insert Macau in the China-Brazil link, by either widening Brazil's base in Asia or by Brazil building a larger Lusophone trade and political polity.

Trade Relationships: Brazil and Lusophonia

The lack of significant relationship between Brazil and Macau is not altogether unique from Brazil's relationships with the other key Lusophone nations that include Portugal, Angola, and Mozambique. Brazil's trade with the "Lusophone community" is remarkably low, given the size of the Brazilian economy and its leading theoretical position in a "Lusophonia." This is not surprising. Apart from Brazil, "Lusophonia" is actually the Portuguese Empire pre-1974, of which the non-Portuguese portion was known as the "Ultramar." The economic relationships that existed pre-1974 in the Ultramar were based on Portugal's support of expatriate Portuguese settlement in Angola and Mozambique combined with the needs of companies engaged in raw material extraction in Africa. Brazil had not been involved in these efforts, while the military conflicts in the Ultramar that arose post-independence shattered the Angolan and Mozambique economies and drove the Portuguese ex-pat communities from the countries. When Angola began to build its trade links to China in the late 1990s, Brazil was dealing with its own precarious financial situation. Trade data shows Brazil had little interest in building economic links to the former Portuguese Ultramar.

Table 4: Brazil Exports to Lusophonia (US\$ millions) (International Monetary Fund, Direction of Trade Brazil, 2016)

Year	2014	%	2015	%	2015-2014 %
World	225,099.61	100.0%	191,134.06	100.0%	-15.1%
China, P.R.: Mainland	40,616.11	18.0%	35,607.52	18.6%	-12.3%
United States	27,144.93	12.1%	24,215.98	12.7%	-10.8%
Hong Kong	3,322.87	1.5%	2,108.00	1.1%	-36.6%
Angola	1,261.72	0.561%	647.99	0.339%	-48.6%
Portugal	1,060.26	0.471%	822.20	0.430%	-22.5%
Mozambique	63.86	0.028%	69.10	0.036%	8.2%
Cabo Verde	21.27	0.009%	21.37	0.011%	0.5%
Timor-Leste	4.94	0.002%	6.23	0.003%	26.1%
Guinea-Bissau	2.56	0.001%	2.89	0.002%	12.6%
São Tomé	0.67	0.000%	0.88	0.000%	31.3%
Macao	0.52	0.000%	0.50	0.000%	-4.5%
TOTAL Lusofonia	2,415.81	1.073%	1,571.15	0.822%	-34.964%

As the IMF data below displays, Brazilian trade with Lusophonia remains extraordinarily weak. In 2015, the entire Lusophone market represented only 0.82% of Brazil's total exports (less than 1%). Hong Kong alone took more of Brazil's exports than the entire Lusophone area. Stunningly, Brazil reported

negligible exports to Macau of only US\$500,000 and the lowest to any Lusophone region. Brazilian exports to the Macau SAR are likely to be routed through Hong Kong and are not shown directly in trade statistics. Additionally, no Lusophone country was ranked as one of Brazil's top 10 export markets or import suppliers. Despite being the second highest GDP of Lusophone GDP, in 2014 even Portugal only ranked as Brazil's 41st largest export market with US\$1.06 billion in revenues. Angola, though ranked above Portugal, stood in only 37th place with its Brazilian imports as reported by Brazil (not the IMF) totaling just US\$1.26 billion (Brazil Ministério, 2015). By 2015 Angola's imports from Brazil had dropped -48.6%, and it was receiving just 0.34% of Brazil's exports (Table 4.0).

The 2015 trade situation for Brazil's imports reflected an even worse position for the Lusophonia grouping. Brazil's imports from the region represented only 0.5% of its total imports, with Angola and Portugal being the only significant suppliers. Nothing was exported to Brazil from four of the poorest Lusophonia states, while Macau only sent US\$5.4m of goods, just 0.003% of Brazil's total imports.

Brazil and the Asian Financial Crisis (AFC), 1997

There are historical roots to the low level of Macau interface with Brazil. The Asian Financial Crisis (AFC) that hit Thailand, Malaysia, Indonesia, the Philippines, and Korea through the summer and fall of 1997 massively and negatively impacted an Asian economic arena to which Brazil was not significantly tied. The AFC not only popped the regional real estate bubble, but it reinforced the specific downturn in the Macau market that the city had already been experiencing in the aftermath of the opening of Macau's new airport in November 1995. Macau's economic profile sunk as the Hong Kong Stock Market collapsed 30% in late October 1997, and the profits of Macau's key commercial entity, the non-publicly traded, Sociedade de Turismo e Diversões de Macau, SA; (STDM; 澳門旅遊娛樂股份有限公司) dropped 50% (Gunn, 2005, p. 136). By November 1997 Portugal's national flag carrier had stopped flying to the newly opened Macau airport. The AFC ended Macau's boom and forestalled any development of Macau-Brazil trade relations that the Brazil-Macau Air Transport Agreement of July 1994 might have supported.

The AFC also impacted Brazil, deflecting the country's leadership (Henrique Cardoso) from any effort to expand the economic interface with Asia. International fund managers suggested that Brazil's finance structure resembled that of the stricken Asian nations and issued warnings that Brazil was a possible new problem (Skidmore, 1999, p. 233). With strong pressure against its currency, Brazil heightened its interest rates to a crushing 43%. This drastically shrank domestic demand. The following August of 1998, after the AFC tsunami hit Russia with debt defaults and Ruble devaluation, Brazil again was struck by a massive drop in its currency reserves and the need to arrange for a bailout package from the IMF and the US treasury. Brazil's currency reserves shrank from US\$73 billion to US\$47 billion while the International Monetary Fund (IMF) was forced

to extend a US\$41.5b rescue package (Gordon, 2001, pp. 190-191). In Brazil no attention could be spared on the minor issue of Macau's coming handover to China.

The year 1999 provided no relief. Having dodged the disastrous economic situations in Thailand, Korea, Indonesia, and Russia, Brazil still had to deal with a rising inflation rate near 9%, fiscal budget deficits, and heavy debt service. Confronted by a major current account deficit of (US\$24.4 billion) that generated and even greater external debt, Brazilian monetary authorities pushed domestic interest rates to 49% p.a., which reduced the trade deficit to a (US\$1.2 billion), but precluded any growth based on domestic consumer or business demand. For the three years from 1997 through 1999, Brazil's first priority had been to stabilize its own economy. No residual resources or time was available to deal with the tiny economy and city of Macau.

Table 5: Brazil Imports from Lusophonia (US\$ millions) (International Monetary Fund, Direction of Trade Brazil, 2016)

Year	2014	%	2015	%	2015-2014 %
World	251,966.03	100.0%	188,601.9	100.0%	-15.1%
China, P.R.: Mainland	41,074.67	18.2%	33,790.98	17.7%	-17.7%
United States	38,829.05	17.2%	29,435.74	15.4%	-24.2%
Hong Kong	976.56	0.4%	679.76	0.4%	-30.4%
Angola	1,220.80	0.542%	35.03	0.018%	-97.1%
Portugal	1,205.89	0.536%	890.36	0.466%	-26.2%
Mozambique	11.23	0.005%	20.83	0.011%	85.5%
Cabo Verde	0.09	0.000%	0.03	0.000%	-62.8%
Timor-Leste	0.00	0.000%	0.00	0.000%	0.0%
Guinea-Bissau	0.08	0.000%	0.55	0.000%	571.3%
São Tomé	0.00	0.000%	0.00	0.000%	-35.8%
Macao	16.19	0.007%	5.36	0.003%	-66.9%
TOTAL Lusofonia	2,454.28	1.090%	952.18	0.498%	-61.203%

Macau's Return to China

Macau's return to China in late December 1999 theoretically might have removed the city from the constraints of it having been under the limited Portuguese economic network, opening it to playing a larger role in an expanded Lusophone commercial world. But, the realities of Brazil's financial struggles and the need for China to smoothly integrate Macau into its newly minted policy of "One Country, Two Systems," kept the two countries of Brazil and China firmly focused on their own domestic priorities. China only established its "Macau Forum" (Fórum para a Cooperação Económica entre a China e os Países de Língua Portuguesa), in October 2003, four years after the city's handover to China. And, there was some ambiguity in its mission: was its major function to

enhance China's relationship with Lusophonia, or to build the Macau's interface? In any event, Macau was preoccupied with creating its new international casino economy that had a profitability which dwarfed all other possible economic or political initiatives of the city, and transfixed its leadership. In these first years, neither Macau nor China realistically gave any significant priority to building Macau's economic links to those non-Brazilian Lusophone nations who were struggling out of post-colonial conflicts and whose economies were minute, with the exception of Angola.

From China's perspective, links to Brazil had been handled successfully from Beijing since the two countries had established diplomatic relations in August of 1974, 25 years before. Macau could add nothing to these strategic links, which were already in place. In Macau the opening of its gaming industry to international investors in February 2002 targeted three top American gaming companies Las Vegas Sands, Wynn Resorts, and MGM. Also coming to the city was a new Hong Kong-Australian firm (Melco Entertainment) that had its primary listing in New York City, and one Hong Kong-based real estate and construction materials firm (Galaxy Entertainment). The Lusophone world, which included Brazil and the former Portuguese Ultramar, had no relationship to this effort.

Massive earnings from gaming industry investments hypnotized attention and monopolized resources, with activities that included building links to Brazil and the old Ultramar relegated to low-budget public relations activities. The only significant visit to the Macau SAR from Brazil since the handover, were the uneventful visits by Brazil's vice president Michel Temer in the fall of 2013 for the 10th anniversary of the Macau Forum and the cameo appearance almost a decade earlier in the fall of 2004 of Brazil's Minister of Culture and one of the country's greatest musical artists, Gilberto Gil. His visit was incidental to his main purpose of visiting Hong Kong, not Macau, during the Hong Kong music festival. Up until Michel Temer in 2013, Gil was highest ranking Brazilian official ever to have visited Macau. Clearly Brazil has not had Macau high on its list of priorities for Asia.

Table 6: Balance of Payments Macao SAR (10 million MOP)

	2002	2010	2011	2012	2013	2014
Current Account	18,712.8	96,766.7	126,978.0	143,467.8	175,265.2	168,383.0
Goods	-7,364.5	-43,706.6	-62,491.1	-70,641.1	-85,440.2	-98,190.6
Services	26,417.7	171,070.8	234,023.5	270,844.3	333,420.5	339,399.3
Primary income	-92.6	-24,352.9	-39,984.5	-51,163.2	-64,867.1	-63,070.3
Secondary income	-247.7	-6,244.5	-4,569.9	-5,572.2	-7,848.1	-9,755.3

Macau's Major Trading Partners: Hong Kong and China

Macau's structure of trade reflects the domination of its gaming industry over traditional import and export trade. As below, the latest figures provided by the Macau government (Macau Government, Direcção dos Serviços de Estatística e Censos, 2016) show that in 2014 Net Services generated positive revenues of MOP 339.4 billion (US\$42.4b) versus a loss of MOP 98.1 billion (US\$12.2b) on the merchandise account. Also displayed is the remarkable jump in revenues that has occurred since the opening of the gaming industry to international operators in 2002. Gaming revenues are up MOP 313 billion (US\$ 39b), 12.8 times the level of 2002:

Detailed reporting on the structure of services presented in the chart that follows also reveals that the "Travel Sector," which incorporates gaming revenues is the overwhelming source of Macau's Service revenue. Of total 2014 exports of services of MOP 424 billion, fully 96% (MOP 407 billion) were generated by the Travel Sector. The lack of importance of Macau's merchandise exports is also demonstrated by the fact that 2014 exports of goods stood at just MOP 15.2 billion, only 3.6% of the volume of services exports.

China (64.3%), Hong Kong (21.7%), and Taiwan (4.1%) generated 90.1% of all gaming tourists as of June 2016, with other close-in components of Greater China that included Philippines, Malaysia, Thailand, and Indonesia pulling in another 3.1%. There were no gaming tourists to any significant degree generated from the Lusophone world, including Brazil, Portugal, and Angola (Macau Government Tourist Office, 2016).

With respect to merchandise trade as of 1Q 2016 as exhibited in the chart below, Macau's major merchandise export market is Hong Kong with 60.3% of its total exports, followed by China with 16.4%. Its major suppliers are also China with 36.1% and Hong Kong with 9.2% (Macau Government, Direcção dos Serviços de Estatística e Censos, 2016). Importantly, as in the official Macau graphic below, no Lusophone nation appears in its summary trade statistics, including that from the largest two Lusophone economies, Brazil and Portugal, and the two largest countries of Portugal's former Ultramar, Angola, and Mozambique. Significantly, the Macau government does not report any significant import or export merchandise trade with Brazil on its main statistics site (Macau Government, Direcção dos Serviços de Estatística e Censos, 2016).

Macau is primarily an importer of goods, as its export earnings come from gaming services not from product export. Trade numbers reported to the IMF by Macau showed that in 2015 Brazil provided only 0.38% of Macau's total imports. The IMF data (Table 8.0) also demonstrated that while Macau is a relatively large market with imports of goods of US\$11.3 billion in 2014 and US\$10.6 billion in 2015, Brazil plays no role there. On the export side, Macau is a much smaller exporter of product as displayed in Table 9.0.

Of note is the issue that while the IMF provides comprehensive data on mutual trade, there are differences between what countries report for their

respective mutual imports and exports. The IMF data from Brazil, Macau, and Hong Kong for trade between Brazil-Macau and for Hong Kong-Macau shows large discrepancies. The IMF claims privately that this results from Hong Kong being a transit shipment point for Macau's merchandise trade. Any product that touches Hong Kong shore in transit is apparently claimed by Hong Kong to be a Hong Kong export. The size of the discrepancy between Hong Kong and Macau data is startling and points to inconsistent data collection between the two SARs. Macau reports to the IMF as in Table 8.0 that Hong Kong supplies 10.3% of Macau's total imports, or US\$1.156. Hong Kong on the other hand reports that its exports to Macau are in the order of US\$6 billion. This problem in the IMF-Macau-Hong Kong statistical system should be resolved.

Table 7 : Balance of Payments Components: Current Account (10 million MOP)

Standard Component	2002	2010	2011	2012	2013	2014
Current account	18,712.8	96,766.7	126,978.0	143,467.8	175,265.2	168,383.0
Credit	63,123.9	249,679.8	342,196.4	393,410.0	464,566.1	475,316.2
Debit	44,411.1	152,913.1	215,218.4	249,942.2	289,300.9	306,933.2
Goods	-7,364.5	-43,706.6	-62,491.1	-70,641.1	-85,440.2	-98,190.6
Exports	18,925.4	8,324.0	9,024.9	11,839.1	12,694.6	15,197.4
Imports	26,289.9	52,030.6	71,516.0	82,480.2	98,134.8	113,388.0
Services	26,417.7	171,070.8	234,023.5	270,844.3	333,420.5	339,399.3
Exports	39,707.5	232,118.0	319,479.6	362,451.1	428,377.3	424,390.8
Transport	2,366.3	4,004.0	4,792.2	4,668.1	4,957.3	5,100.5
Travel	35,431.4	222,475.8	308,391.8	350,433.4	414,296.9	407,414.6
Financial	694.7	3,210.6	3,013.0	4,429.8	6,415.3	8,793.1
Insurance / pension	128.6	244.2	293.1	405.5	514.0	735.4
Other	1,086.5	2,183.6	2,989.5	2,514.4	2,193.9	2,347.1
Imports	13,289.8	61,047.2	85,456.2	91,606.8	94,956.8	84,991.5
Transport	940.7	2,405.8	3,052.6	3,052.8	3,537.2	3,869.8
Travel	3,953.1	9,236.5	11,020.7	12,760.3	13,602.7	14,622.7
Financial	639.6	1,824.5	2,288.1	2,837.7	2,501.6	2,751.3
Insurance / pension	553.4	745.5	850.5	1,083.1	1,292.3	1,331.8
Other	7,203.0	46,834.8	68,244.3	71,873.0	74,023.0	62,416.0

Brazil in the data shown in Table 4.0 reported in 2014 and 2015 that its exports to Macau were stunningly low, said to be only US\$500,000 in 2015 and even smaller amount than the 2014 level: a mere US\$520,000. This ranked Macau as Brazil's 171st export market out of 181 countries. However, Macau reported per Table 8.0 below that Brazil's exports to the Macau SAR stood at US\$41.38m in 2014 and US\$40.38 in 2015. An explanation from the IMF and the customs

authorities of these countries is needed over these significant differences. Nevertheless, even the higher numbers from Macau demonstrate that Brazil, the largest Lusophone economy, is not playing a significant role in Macau.

Table 8: Macau Imports from Lusophonia and the World (US\$ millions) (International Monetary Fund Direction of Trade Macau, 2016)

Year	2014	%	2015	%	2015-2014 %
World	11,262.14	100.0%	10,627.18	100.0%	-15.1%
China	3,735.63	33.2%	3,590.35	33.8%	-3.9%
Hong Kong	1,156.16	10.3%	934.01	8.8%	-19.2%
United States	733.18	6.5%	712.18	6.7%	-2.9%
Euro Area	2,445.12	21.7%	2,116.17	19.9%	-13.5%
Brazil	41.38	0.367%	40.38	0.380%	-2.4%
Angola	0.00	0.000%	0.00	0.000%	0.0%
Portugal	31.00	0.275%	34.88	0.328%	12.5%
Mozambique	0.01	0.000%	0.00	0.000%	-100.0%
Cabo Verde	0.00	0.000%	2.00	0.019%	0.0%
Timor-Leste (n.d)	n.d	n.d	n.d.	n.d.	n.d
Guinea-Bissau	0.00	0.000%	0.00	0.000%	0.0%
São Tomé	0.00	0.000%	0.00	0.000%	-100.0%
TOTAL Lusofonia w/o Brazil	31.01	0.275%	36.88	0.347%	18.9%
TOTAL Lusofonia	72.39	0.643%	77.26	0.727%	6.716%

Additionally, apart from the second largest Lusophone economy of Portugal, the remaining members of Lusophonia have virtually no role in Macau's international trade relations. Given Portugal's five century long relationship with the city Portugal's level of exports to Macau is disappointing. Portugal sold the city just US\$31m 2015. This was just 0.275% of Macau's total imports of US\$10.627 billion.

Because Macau is predominantly a provider of gaming services, its export of product ranks considerably below its imports. Year 2015 shows that Macau exported only US\$1.25b worth of product while importing US\$10.6b, for a net trade deficit of US\$9.35b. Gaming receipts covered the gap. Nevertheless, as reported by Brazil to the IMF, Brazil's imports from Macau again demonstrate that Brazil, the largest Lusophone economy, and Macau, the rising Lusophone city, have an extremely low level of economic interface. Brazil's imports from Macau in 2015 (Table 5.0) had dropped to only US\$5.36 million versus the small US\$16.2 million of 2014. These had already ranked Macau 94th out of Brazil's total suppliers (International Monetary Fund, External Trade by Counterparts, 2016). For the remainder of Lusophonia, as reported by Macau, the situation was

worse. Macau’s 2015 data (Table 9.0) clarified that the city was exporting a minimal amount to Portugal of US\$100,000, and nothing to Brazil. For Macau, there apparently were no exports to any other Lusophone nation in 2015. As in a prior assessment of 2014 (Spooner, 2016), despite the stunningly successful growth of the Brazilian, Chinese, and Macau economies since China’s entry into the World Trade Organization in 2001,

. . . direct trade relations between Macau and Brazil are minimal. The two economies, to date, operate in completely distinct arenas: while Brazil provides resources to China’s expanding economy, Macau provides entertainment via its casino economy. Macau and Brazil have not yet developed a direct mechanism through which trade and social interaction can grow naturally and commensurate with each other’s booming economies. (p. 331)

Figures 2 and 3: Merchandise Exports and Imports

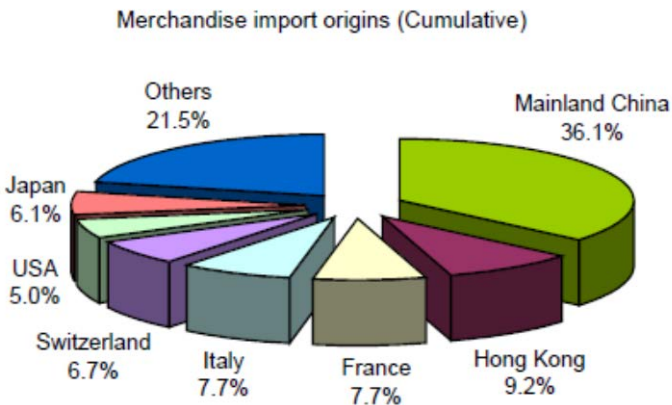
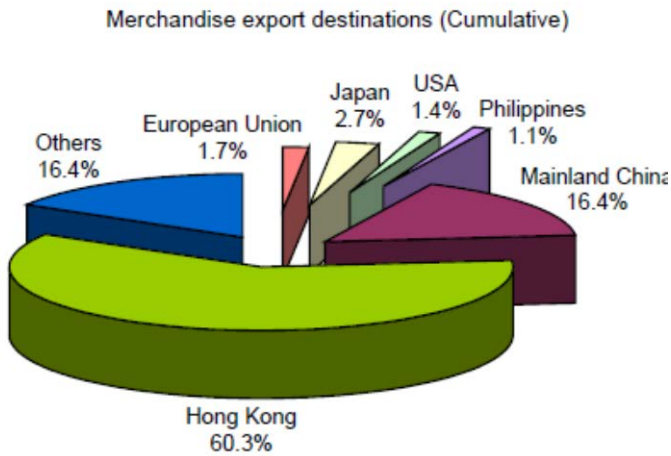


Table 9: Macau Exports to Lusophonia & World (US\$ millions) (International Monetary Fund, 2016)

Year	2014	%	2015	%	2015-2014 %
World	1,241.33	100.0%	1,249.77	100.0%	-15.1%
China	194.58	15.7%	228.01	18.2%	17.2%
Hong Kong	727.69	58.6%	792.39	63.4%	8.9%
United States	36.71	3.0%	24.60	2.0%	-33.0%
Euro Area	34.67	2.8%	25.34	2.0%	-26.9%
Brazil	0.06	0.005%	0.00	0.000%	-100.0%
Angola	0.00	0.000%	0.00	0.000%	0.0%
Portugal	0.30	0.000%	0.10	0.008%	-65.6%
Mozambique	0.00	0.000%	0.00	0.000%	0.0%
Cabo Verde	0.00	0.000%	0.00	0.000%	0.0%
Timor-Leste (n.d)	n.d.	n.d.	n.d.	n.d.	n.d.
Guinea-Bissau	0.04	0.000%	0.00	0.000%	-100.0%
São Tomé	0.00	0.000%	0.00	0.000%	0.0%
TOTAL Lusofonia w/o Brazil	0.34	0.000%	0.10	0.008%	-69.7%
TOTAL Lusofonia	0.40	0.032%	0.10	0.008%	-74.232%

Hong Kong's Trade with Brazil and Lusophonia

The level of trade between Hong Kong and Brazil is massive when compared to Macau. It assuredly is based upon Hong Kong's commercial infrastructure that included its major bank (HSBC) having been one of Brazil's largest Banks up until August 2015. Hong Kong reports that its level of trade with Brazil, which was US\$3.4b in 2015, is far in excess of anything Macau might contemplate for a considerable period into the future. Hong Kong's 2015 exports to Brazil of US\$ 1.375b (Table 10.0), despite being -26.6% lower than 2014's US\$1.874b, overwhelmed Macau's virtual absence of any exports (Table 9.0). Hong Kong's 2015 imports from Brazil of US\$2.11b also were substantially higher than its exports, despite a 28.5% reduction from 2014's US\$2.954 (Table 11.0).

However, comparing Brazil's trade to China with its trade with Hong Kong shows that even Hong Kong plays a relatively minor role in Brazil's interface with China. In 2015 Brazilian exports to Hong Kong of US\$ 2.11 billion were only 5.9% of Brazil's exports to China of US\$ 35.6 billion (Table 4.0). For Brazil though, its Hong Kong trade generates attractive returns. Brazilian data (Table 5.0) shows imports from Hong Kong in 2015 were US\$ 680m (versus US\$ 977m the year before), netting Brazil an attractive US\$ 1.42 billion from its Hong Kong commerce. Nevertheless with total 2015 Brazil-Hong Kong trade of US\$2.78 billion representing only 4.2% of the Brazil-China trade of US\$ 66.1 billion, Brazil's main focus will be on the China mainland, not Hong Kong. Macau is not likely to be even an afterthought.

Table 10: HK Exports to Lusophonia (US\$ millions) (International Monetary Fund Direction of Trade HK, 2016)

Year	2014	%	2015	%	2015-2014 %
World	473,964.50	100.0%	465,483.27	100.0%	-15.1%
China	255,337.23	53.9%	249,945.55	53.7%	-2.1%
United States	44,149.88	9.3%	44,281.58	9.5%	0.3%
Euro Area	31,925.72	6.7%	30,658.72	6.6%	-4.0%
Brazil	1,874.00	0.395%	1,375.65	0.296%	-26.6%
Angola	155.41	0.033%	96.93	0.021%	-37.6%
Portugal	282.39	0.060%	253.36	0.054%	-10.3%
Mozambique	76.79	0.016%	52.46	0.002%	-31.7%
Cabo Verde	5.94	0.001%	2.05	0.000%	-65.5%
Timor-Leste (n.d.)	n.d	n.d	n.d.	n.d.	n.d
Guinea-Bissau	1.00	0.000%	2.05	0.000%	104.6%
São Tomé	2.15	0.000%	1.94	0.000%	-9.7%
TOTAL Lusofonia w/o Macau & Brazil	523.67	0.110%	408.78	0.078%	-21.9%
Macao	6,296.77	1.329%	6,021.02	0.264%	-4.4%
TOTAL Lusofonia w/o Brazil	6,820.44	1.439%	6,429.80	0.342%	-5.7%
TOTAL Lusofonia	8,694.44	1.834%	7,805.45	1.677%	-10.2%

With respect to Lusophonia outside of Brazil, Hong Kong's trade is not of critical size for Hong Kong, but it is far larger than that of Macau's negligible levels. Concentrated in Angola, Portugal, and Mozambique this commerce generates for Hong Kong over half a billion U.S. dollars annually, which in 2015 included US\$408m of exports and US\$155m of imports. As with Brazil and China, the four small Lusophone nations of Cabo Verde, Timor-Leste, Guinea-Bissau, and Principe-Sao Tome seem to have virtually no significant trade with Hong Kong.

As demonstrated in the data Hong Kong provides to the IMF, competition between Macau and Hong Kong might be observable through the levels of trade that the two SARs report into the IMF. Hong Kong's data shows that its exports to Macau, which stood at US\$6 billion in 2015 (Table 8.0), are massively larger than the figures reported by the Macau government. According to Macau its 2015 imports from Hong Kong stood at only US\$934 (Table 6.0), creating a reporting gap between Macau and Hong Kong of US\$5 billion dollars. IMF puts this problematic issue on the back of the Hong Kong government, reporting that all goods transhipped thru Hong Kong are claimed as Hong Kong exports. Other explanations for the discrepancy may be: (i) a flaw in the IMF trade statistics collection system, (ii) the Macau government wishing to minimize general knowledge of the level of influence that Hong Kong maintains over the Macau economy, or (iii) the Hong Kong government being not sufficiently rigorous in its

export categorization. Given that both SARs are under the sovereignty of Beijing, this unsettling discrepancy should be rectified with the IMF assisting in its resolution.

Table 11: HK Imports from Lusophonia (US\$ millions) (International Monetary Fund, Direction of Trade HK, 2016)

Year	2014	%	2015	%	2015-2014 %
World	544,937.20	100.0%	522,599.87	100.0%	-15.1%
China	256,544.84	47.1%	256,158.59	49.0%	-0.2%
United States	28,413.61	5.2%	27,305.36	5.2%	-3.9%
Euro Area	30,859.72	5.7%	27,389.90	5.2%	-11.2%
Brazil	2,954.65	0.542%	2,112.16	0.404%	-28.5%
Angola	18.23	0.003%	24.12	0.005%	32.3%
Portugal	145.00	0.027%	125.26	0.024%	-13.6%
Mozambique	2.91	0.001%	5.59	0.001%	92.0%
Cabo Verde	0.07	0.000%	0.05	0.000%	-32.2%
Timor-Leste (n.d.)	n.d.	n.d.	n.d.	n.d.	n.d.
Guinea-Bissau	0.00	0.000%	0.00	0.000%	0.0%
São Tomé	0.01	0.000%	0.06	0.000%	905.9%
TOTAL Lusofonia w/o Macau & Brazil	166.21	0.031%	155.08	0.030%	-6.7%
Macao	814.66	0.149%	922.12	0.176%	13.2%
TOTAL Lusofonia w/o Brazil	980.87	0.180%	1,077.21	0.206%	9.8%
TOTAL Lusofonia	3,935.51	0.722%	3,189.36	0.610%	-19.0%

Institutional Change in China's Macau Forum

Given the low level of progress in expanding trade relations between Macau and Lusophonia since the opening of China's Macau Forum over a decade ago in 2003, despite its mandate to focus on trade and economic relationships, one should not be surprised to observe significant management change in the organization. To that effect, in late June of 2016 the Macau based *O Clarim* newspaper reported (O Clarim, 2016) that the new Secretary General and head of the Macau Forum was to be Ms. Xu Yingzhen (徐迎真), presently Deputy Director of the Department of American and Oceania Affairs of China's Ministry of Commerce (MOFCOM) under Director Jiang Shan江山. Additionally, on July 1, 2016, Wang Zhimin (王志民), one of three deputy directors of the State Council's Hong Kong and Macau Office (港澳辦) replaced Li Gang (李剛), who since late 2012 had been the Director of the China's Liaison Office in Macau (中央人民政府駐澳門特別行政區聯絡辦公室). No specific reason was given for

the change other than health issues, while Li Gang has not been criticized for actions during his Macau tenure.

The expected arrival of Ms. Xu in November 2016 would seem to signal China's new emphasis on Brazil, for which she has had extensive responsibility at a senior level in MOFCOM. She will replace Chang Hexi (常和喜), a Portuguese-speaking Chinese diplomat with experience in Lisbon who had been appointed to the position seven years ago in September 2009 following the death in office in July 2008 of Zhao Chuang (趙闢). Also leaving the Macau Forum will be the head of administration (Coordenadora do Gabinete de Administração do Secretariado Permanente), Ms. Zhang Jie (張杰) for whom a replacement has not been announced. In 2008 it took almost a year and half to find a replacement for the deceased Zhao Chuang, leading some to speculate that China was downgrading the Forum. Zhao had only been in office four months when he died, having been elected in March 2008 to replace Wang Chengan (王成安), a long-time African specialist familiar with the African liberation movements. Wang had been Secretary General since its 2003 founding.

In addition to changes on the PRC side, three significant changes recently materialized on the Macau side. Long-term Macau representative Rita Santos Rosario (Secretária-Geral Adjunta do Secretariado Permanente do Fórum de Macau), who had been with the organization since its inception, was replaced in March 2015 by Echo Chan, the Executive Director for Macau's Trade and Investment Promotion Institute (IPIM). Ms. Chan remained just half a year until October 2015 when she resigned for personal reasons to take up residence in Brazil. Her replacement is Cristina Morais, the former head of External Economic Relations of the Macau Economic Services Department. The Macau Forum's new officers from China and Macau will be confronting significant challenges.

Macau After 2015

Macau's pre-occupation with its own development and gaming industry has been heightened since mid-2014, as a downturn in gaming revenues has focused Macau's leaders on the future of their own key industry. Initiatives with Lusophonia will not take a priority over restructuring Macau's gaming business. Macau's reliance on the gaming industry was heightened between 2008 and 2014 when three new mega-casinos were added to its casino inventory. During the period Macau's gaming revenues tripled, rising from MOP 109.8 billion to MOP 352.8 billion.

The gaming industry, however, expected an even greater growth. US\$22 billion is being invested in new facilities. Macau gaming concession holders have launched plans for six new casinos on the Cotai Strip to be opened 2015 -2017. These include (i) the Galaxy Casino Project Phase II of US\$ 5.5 billion that opened in May 2015 (GGRAsia, 2015b), (ii) Melco Crown's Studio City of US\$ 3.2 billion that opened in October 2015 (Studio City Macau, 2015), (iii) The Parisian of LVS of US\$ 2.5 billion scheduled in second half of 2016 (Parisian Macau, 2015), (iv) Wynn Resorts Casino of US\$ 4 billion scheduled for August

2016 (Stynes, 2016), (v) MGM-Macau's of US\$ 2.9 billion casino scheduled for first part of 2017 (Stutz, 2016), and (vi) SJM's colossus of US\$ 3.9 billion, the Lisboa Palace, scheduled to open in 4Q 2017 (GGRAsia, 2015a).

Just as implementation of these plans began, China's new leadership launched an anti-corruption campaign on Mainland China that caused a sharp drop in Macau's gaming revenues. From a high point of MOP 102 billion that was reached in 1Q 2014, gaming revenues shrank a dramatic 46.7% to MOP 54.6 billion 18 months later (by 3Q 2015). Macau government reported that quarterly levels stopped falling in late 2015 and rose 3.27% to MOP 56.3 billion by the end of 1Q 2016, but the hoped for bottoming out has not materialized.

Just released reports for June 2016 indicate a continuing contraction. In June casino gross gaming revenue declined by 8.5% over the previous June and stood at MOP15.9b (US\$1.99 billion). This is the lowest monthly figure since September 2010, when revenues were MOP15.30b. Revenues of MOP107.79b for the first six months of 2016 also showed a drop of 11.4% over 2015 despite the up-tick in 1Q (GGRAsia, 2016).

Despite the downturn, the Macau gaming industry has not collapsed: 1Q 2016 revenues were 203.2% over those of the base year of 1Q 2007 (Macau Government, Direcção dos Serviços de Estatística e Censos, 2016). Nevertheless, the unexpected fall of revenues, which directly impact the funds flowing to the Macau government, cannot help but affect Macau's new large-scale casino projects as well as nature of the facilities that each will offer. One can expect delays in casino openings, smaller casino operators being forced from the market, and new policies from Beijing to address the transition in Macau's gaming industry.

Conclusion

Present trade data for Macau demonstrates the significance of the Gravity Model of international trade that predicts that Macau's trade will remain in the close orbit of China, Macau's massive sovereign authority. The pull of Brazil, Portugal, and Angola will only be weakly felt. Ghemawat's CAGE model reinforces the reality that Macau's economic relationships will be inextricably linked with China: Macau is overwhelmingly a Chinese community, with only residual Portuguese cultural and linguistic influence, while its political and legal development is directly under Beijing's control. Macau's present merchandise trade pattern exhibits a tight relationship with Hong Kong and China, with a much lesser role being played by the European Union, the United States, and Japan. There is virtually no trade with the Lusophone world, including a relatively weak relationship with Portugal. In the critical services sector, 91% of Macau's clients are coming directly from Greater China. No Lusophone nations are listed as client sources.

Macau's minimal level of trade with the Lusophone World in either goods or services has not been reversed by the decade-long attempt to build China's

Table 12: Macau Gaming 2007-2016 Quarterly (Macau Government, Direcção dos Serviços de Estatística e Censos, July 2016)

		Gross Revenue		% Change Base Yr	Tax from Casino gaming		Gaming table	Slot machine
		Total (million MOP)	% Change Q to Q		million MOP	No.	No.	No.
2007	Qtr.1	18,598	100.0%	100.0%	7,023	25	2,970	7,349
	Qtr.2	19,772	6.3%	6.3%	7,655	26	3,102	8,234
	Qtr.3	20,535	3.9%	10.4%	7,223	27	3,992	11,510
	Qtr.4	24,942	21.5%	34.1%	9,048	28	4,375	13,267
2008	Qtr.1	30,085	20.6%	61.8%	10,777	29	4,311	13,552
	Qtr.2	29,179	-3.0%	56.9%	11,076	30	4,277	12,956
	Qtr.3	26,204	-10.2%	40.9%	11,024	31	4,312	12,835
	Qtr.4	24,358	-7.0%	31.0%	9,020	31	4,017	11,856
2009	Qtr.1	26,252	7.8%	41.2%	9,392	31	3,998	11,971
	Qtr.2	25,619	-2.4%	37.8%	10,191	32	4,390	13,509
	Qtr.3	32,036	25.0%	72.3%	11,116	33	4,610	14,175
	Qtr.4	36,476	13.9%	96.1%	13,610	33	4,770	14,363
2010	Qtr.1	41,248	13.1%	121.8%	14,900	33	4,811	14,503
	Qtr.2	45,219	9.6%	143.1%	16,997	33	4,828	14,659
	Qtr.3	47,723	5.5%	156.6%	17,362	33	4,838	14,316
	Qtr.4	55,398	16.1%	197.9%	19,517	33	4,791	14,050
2011	Qtr.1	58,835	6.2%	216.4%	21,864	33	4,853	13,787
	Qtr.2	65,900	12.0%	254.3%	24,519	34	5,237	15,098
	Qtr.3	70,521	7.0%	279.2%	26,371	34	5,379	15,900
	Qtr.4	73,802	4.7%	296.8%	26,902	34	5,302	16,056
2012	Qtr.1	74,596	1.1%	301.1%	27,748	34	5,242	16,102
	Qtr.2	74,670	0.1%	301.5%	28,747	35	5,498	17,035
	Qtr.3	74,854	0.2%	302.5%	28,000	35	5,497	17,029
	Qtr.4	81,115	8.4%	336.1%	28,883	35	5,485	16,585
2013	Qtr.1	85,600	5.5%	360.3%	31,217	35	5,749	16,406
	Qtr.2	86,419	1.0%	364.7%	33,688	35	5,746	15,310
	Qtr.3	89,447	3.5%	380.9%	33,406	35	5,748	14,775
	Qtr.4	100,401	12.2%	439.8%	36,071	35	5,750	13,106
2014	Qtr.1	102,491	2.1%	451.1%	37,976	35	5,700	13,232
	Qtr.2	91,236	-11.0%	390.6%	37,377	35	5,710	12,895
	Qtr.3	83,143	-8.9%	347.1%	31,925	35	5,697	12,584
	Qtr.4	75,844	-8.8%	307.8%	29,432	35	5,711	13,018
2015	Qtr.1	65,033	-14.3%	249.7%	25,383	35	5,704	12,688
	Qtr.2	57,115	-12.2%	207.1%	23,112	35	5,814	14,192
	Qtr.3	54,602	-4.4%	193.6%	25,383	35	5,704	12,688
	Qtr.4	55,061	0.8%	196.1%	23,112	35	5,814	14,192
2016	Qtr.1	56,389	2.4%	203.2%	25,383	35	5,704	12,688

relations to Lusophonia via the Macau Forum. Its new leadership in coordination with the China's Ministry of Commerce (MOFCOM) has a formidable task ahead.

In the meantime, the major expansion of Macau's gaming infrastructure that is taking place in the face of a significant downturn in gaming revenue will preoccupy Macau's key economic leadership over the next several years. The restructure is likely to bump up against the negotiations over gaming concession extensions that begin to expire in 2020. Key drivers of Macau gaming have been major American gaming operators, who would approach the potential Brazil gaming market from offices with responsibility for the Americas. There are no indications that Macau-Hong Kong based Galaxy, SJM, or Melco Crown, along with local junket operators, are playing any role in attempting to build a gaming industry in Brazil. The most significant non-Asian initiative of the locally based firms has been Galaxy's investment in Monaco's gaming monopoly, Société des Bains de Mer.

With respect to Macau's relationship with Lusophonia, the potential of a larger relationship might be gauged through the barometer of Macau's trade with Brazil, which has an economy that dwarfs all other Lusophone GDPs combined. While both jurisdictions are theoretically part of the "Lusophone world," Macau and Brazil have historically been in isolation from one another despite booming economies in Brazil, China, and Macau since China's 2001 entry into the World Trade Organization. The IMF reports that Macau-Brazil trade was extraordinarily low in 2015 and even smaller than the minute level in 2014. Brazil's primary economic relationships are with China and the United States, and that trade will not be rerouted through Macau any time soon. Additionally, Hong Kong, whose Brazilian trade represents approximately 4.2% of the volume of Brazil-China trade but generates \$1.2 billion in surpluses for Brazil, will not be easily displaced from its present entrenched and superior position with Lusophonia.

Providing a major stumbling block for Macau's Lusophone efforts is the fact that Brazil's relationships with China, which parallel its relationships with Angola and Mozambique, have had little to do directly with Portugal or Macau. Brazil-China relationships developed bilaterally based upon the geo-political alignments that were in place and evolving between 1974 and 1999 and were not intermediated either through Macau, Portugal, or the former Portuguese Ultramar. Decades ago attempts were made to launch a Macau-Brazil economic relationship via the opening of a Banco do Brasil branch in Macau in June 1980 and the signing of Macau's first international air treaty in July 1994, but these initiatives were insufficient to overcome the reality that the economic development of both Brazil and Macau was taking place in separate economic and political regions. Without Macau building an economic interface to Brazil, it is difficult to see how Macau might build a separate significant relationship with the much smaller, less developed, and politically more problematic nations that constitute the remaining portion of the Lusophone grouping.

Part of the mandate of the incoming Secretary General of the Macau Forum, Ms. Xu Yingzhen (徐迎真), must certainly be to tackle the lack of success in building any trade between Macau and the Lusophone world over the last 12 years

despite the organization's objectives. Ms. Xu will also need to address the strategic quandary of how to build relationships with Brazil in the face of its present difficult economic difficulties and Macau's preoccupation with reconfiguring its gaming industry.

The Fifth Ministerial Conference of the Macau Forum scheduled for November 2016 will need to handle concretely the policy expressions by China and other Lusophonia countries to build and strengthen an operating global Lusophone network from China and Macau in the face of Macau's weak merchandise trade with these nations. The city's less-than-competitive international trade infrastructure will obstruct the effort, while the need to rebuild Macau's gaming revenues and renegotiate gaming concessions will have priority.

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APPENDIX I: China's Lusophone Trade 3Q 2015

Chinese trade data from the Macau Forum for the first three quarters of 2015 reinforces the reality that Brazil dominates the Chinese relationship with Lusophonia: Virtually all of China's trade with Lusophonia (99.9%) was carried on with the four states of Brazil (72.7%), Angola (20.4%), Portugal (4.4%), and Mozambique (2.3%) (Macau Forum, 2015). The four smaller states of Timor-Leste, Cabo Verde, Guine-Bissau, and Sao Tome-Principe play very little role in China's international trade.

Table 13: China Trade with Lusophonia, 2015 January-September vs. 2014 (US\$000)

Country	Total Trade 2015	% Trade	China Exports 2015	China Imports 2015	Total Trade 2014	% Change 2014-15
Brazil	\$55,608,303.5	72.7%	\$21,968,685.4	\$33,639,618.0	\$68,237,721.2	-18.5%
Angola	\$15,564,352.5	20.4%	\$2,938,217.0	\$12,626,135.6	\$28,262,101.5	-44.9%
Portugal	\$3,382,366.6	4.4%	\$2,195,249.9	\$1,187,116.7	\$3,613,305.5	-6.4%
Mozambique	\$1,789,339.9	2.3%	\$1,450,747.7	\$338,592.2	\$2,329,132.3	-23.2%
Timor-Leste	\$62,858.1	0.1%	\$62,179.4	\$678.7	\$41,324.3	52.1%
Cabo Verde	\$35,326.2	0.0%	\$35,309.7	\$16.5	\$40,333.7	-12.4%
Guine-Bissau	\$30,628.3	0.0%	\$12,907.7	\$17,720.6	\$60,609.7	-49.5%
Sao Tome-Principe	\$4,530.5	0.0%	\$4,520.8	\$9.6	\$2,824.5	60.4%
Total	\$76,477,705.6	100.0%	\$28,667,817.6	\$47,809,887.9	\$102,587,352.7	-25.5%