

Study on the Problems and Countermeasures of Building an International Offshore Financial Center in Macau

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Abstract: The economic and social development has been unprecedented since the return of Macau 20 years ago. The state has clearly given Macau the economic development positioning of "one platform" and "one center", but Macau's economic development is still in the situation of "one industry dominant". There is still a certain distance from the development set by the country. The proposal of the Guangdong-Hong Kong-Macao Greater Bay Area strategy brings new opportunities for Macau's economy to build "one platform" and "one center" under the strategy of moderate diversification. In the context of the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, the concrete implementation of Macau's economic development in line with the national positioning is the key to determine the effective promotion of Macau's economic development based on the achievement of moderate diversification.

1. Introduction

On October 31, 1999, Macau enacted the Offshore Act, which was formally implemented in mid-2000, to develop offshore financial services (Yang Ying, 2019) (Guo Xiaojing, 2005). Macau's unique geographical location is an important channel for China to bring in foreign capital and encourage enterprises to go global, providing positive support and promoting the dual cycle of domestic and international economy. In 2019, the Guangdong-Macao Cross-border Financial Cooperation (Zhuhai) Demonstration Zone will be established, and Macau combined with Hengqin to bid for the establishment of the Macau Stock Exchange to start building an offshore RMB market.

2. Current Situation of Macau Financial Market

Since the return of Macau to China, the governance system has been increasingly improved, the society has remained stable and harmonious, the economy has achieved leapfrog development, the residents' life has continued to improve, and the per capita GDP has leaped to the second highest in the world. It reflects that the successful practice of "one country, two systems". The stable political and business environment has become a strong guarantee for the development of the RMB offshore financial market.

Macau is a typical micro-economy in a small area with a dense population. It is also one of the

most open economies that trade and invest in the world, and follows the economic rules of the free market. It maintains trade relations with more than 100 countries and regions around the world, and its business operation standards are in line with international standards, making it easy to do business and easy to invest (Chen and Li, 2019).

Although Macau is similar to Hong Kong in some respects, its successful model is difficult to be easily replicated in Macau. Both Hong Kong and Macau are located on the southern coast of Guangdong, and are now both Special Administrative Regions of China with autonomous legislative and judicial powers (Yuan Faqiang, 2009). However, Hong Kong is more strategically located, larger, and has a larger overall population and top talent, and is a quality deep-water seaport that has long been a shipping center, a processing and manufacturing re-export center, and a trade center linking mainland China to the world (Li, 2005). On the financial landscape, Hong Kong has seen the rise of local financial institutions such as HSBC in the mid-nineteenth century, and is now the world's largest offshore RMB center, handling over 75% of the world's RMB transactions. In these respects, Macau is hardly comparable to it. Therefore, it is difficult for the Macau Stock Exchange to follow the same path as the Hong Kong Stock Exchange.

In addition, due to the different background of the basic social system, Macau cannot follow the development experience of Shanghai and Shenzhen stock exchanges. If it were to go completely independent, the Macau Stock Exchange would not have a competitive advantage against competition from the Hong Kong Stock Exchange and the Shenzhen Stock Exchange. In recent years, the normalization of IPOs on the Shanghai and Shenzhen stock exchanges has meant that the "difficulty of listing" for mainland companies has been greatly eased, and the incentive for companies to seek financing in Macau is more limited.

In 2019, the "Outline of the Development Plan of Guangdong, Hong Kong and Macao Greater Bay Area" proposes to "study the establishment of a RMB-denominated securities market in Macao", which is indeed an important new idea. The so-called "offshore market" refers to the fact that the Macau Stock Exchange can allow companies to issue and trade in RMB instead of local currency. In this way, the Macau Stock Exchange will be able to explore a new path of development that is different from that of the HKEx and SZSE and achieve a staggered development. On February 26, 2018, Bank of China Macau Branch issued a RMB 4 billion "Lotus Bond", the first offshore RMB bond issued by the Macau SAR. On October 12, 2019, the construction plan of the Macau Stock Exchange was completed for submission, which indicates that the most substantial step has been taken to create an offshore RMB securities market in Macau.

The financial foundation is good. Although the foundation of Macau's financial industry is not very strong, it has some accumulation include a high degree of internationalization and a large proportion of international business. There are 18 offshore institutions among the 31 registered banks in Macau. As of the end of June 2019, the total international assets of Macau's banking system amounted to MOP 1,663.9 billion (US\$206.7 billion). As of the end of 2021, the non-performing loan ratio of the Macau banking sector remained at a low level of 0.4%. The capital adequacy ratio reached 14.6% over the same period, significantly higher than the Basel requirement of 8% (Jin Chan, 2015). The government of Macau follows a policy of "active non-intervention" in the management of the financial sector, and the government does not directly supervise the financial sector, thus the existing regulatory bodies are not integrated into the government structure (Zeng Xianpei; Chen Peng, 2003). In contrast, the Singaporean government is known for its strict regulation of finance, and some of the financial procedures in Hong Kong are more cumbersome. Macau's business practices are in line with international practices, and according to the Heritage Foundation's 2019 Global Economic Freedom Index, Macau has been ranked as a "freer" economy for 11 consecutive years, ranking 34th out of 180 economies worldwide and 9th out of 43 economies in the Asia-e region. It is one of the most open economies in the world for trade and investment (Xu, Li, 2013).

The low cost of financing. Macau's corporate income tax is only 15%, which is lower than that of Singapore and Hong Kong (17% and 16.5%, respectively); personal income tax is capped at 12%, which is also lower than that of Hong Kong and the Mainland (15% in Hong Kong and 17.1% on average in the Mainland) (Zhao, Jinping, 2020). A common form for financial institutions in Guangdong, Hong Kong and Macau to engage in indirect financing business is to set up local institutions to provide loan services to local enterprises. For local financing business, excluding tax incentives and tax treatment of loan risk matters, financial institutions have the highest after-tax net income in Macau and the lowest in the Mainland under the same pre-tax income scenario. In order to promote financial development, the Macau government has also introduced a policy of discounted interest rates and tax breaks to reduce investment transaction costs and attract more investors. At present, Chinese central enterprises issuing bonds in Macau are exempt from all taxes and fees generated in Macau, which is a significant concession.

International recognition is abundant. As of 2020, Macau has established stable economic and trade relations with more than 120 countries and regions (Zhang Qian, 2000), is a member of 30 international economic organizations, and more than 106 international conventions or multilateral treaties are applicable to Macau. In accordance with the regulatory principles and requirements advocated by the Basel Committee on Banking Supervision, the Legal Framework for the Financial System (Wong Wai Kan, 2006), developed under the recommendations of the Financial Action Task Force on Money Laundering (FATF), and a series of other regulatory guidelines, Macau's financial sector is regulated in line with international standards (Wong Jue, 2014) and has the regulatory foundation to become an international financial center. Macau is a member of the International Monetary Fund, the International Organization of Financial Centre Supervisors, the Financial Stability Forum, and the Irving Fisher Central Bank Statistics Committee of the Bank for International Settlements, and its status as a global offshore financial center has been jointly recognized by these international bodies.

3. Difficulties Facing the Construction of Macao's RMB Offshore Financial Center

Macau offshore companies have existed for a long time. Since the Macau SAR Government enacted the Offshore Act in 1999 to allow investors to set up and operate Macau offshore companies in Macau, companies from Mainland China and Hong Kong have been attracted to set up offshore companies in Macau, with a peak of over 600 companies, which has now been reduced to over 360.

The Macau Special Administrative Region officially joined the organization for economic cooperation and development's inclusive framework on base erosion and profit shifting in November 2016, and Macau is obliged to cooperate with and undergo reviews of various efforts to eliminate base erosion and profit shifting. According to the OECD's 2018 review, "Macau's offshore business regime is a potentially damaging tax regime and must be abolished by 30 June 2021 at the latest." In the meantime, Macau companies have been banned from participating in all projects funded by the EU Sustainable Development Fund due to Macau's inclusion in the list of "non-cooperative tax jurisdictions" by the EU. The International Monetary Fund and the Financial Stability Forum have also assessed that the actual performance of Macau's offshore market is below international standards and has much room for improvement.

In the face of pressure from international financial regulatory organizations, Macau, as the most promising offshore RMB market, faces the following difficulties in building itself into a highly regulated offshore financial center of international standards.

3.1 Macau relies heavily on the gaming industry and has a single industrial structure, which is not attractive enough to international capital and poses resistance to the formation of a digital financial market

Macau's economy has been largely dependent on the development of the gaming industry since the handover, and for many years the industry has been homogeneous. The epidemic has caused heavy losses in the gaming industry, which has hit the entire Macau economy. The problem derived from a single industry is on the one hand a direct dilution of the enthusiasm of international capital flows, and there is a positive feedback link between the profit-seeking nature of capital and financial and innovative industries. High-value industries are the best choice for capital injection. As entrepreneurs and investors come together and industries continue to innovate and move toward diversification, capital will continue to pool and drive each other to a rapid concentration. Macau lacks a good industrial ecosystem to guide it. The cornerstones of the industrial circle are talents and enterprises, and investment banking capital is the helper to accelerate and guide the growth of this ecosystem. As of 2020, there are 31 banking institutions managed by the Macau Superintendency (6 banks headquartered locally, 6 banks affiliated with foreign banks, and 19 branches of foreign banks). Macau's local investment banks include Goldman Sachs, Morgan Stanley, Citigroup, Wells Fargo and Société Générale, etc. Compared with Hong Kong and Singapore, which are also Asian financial centers, there is still a big gap in terms of the total number of investment banks and the scale of capital operation.

On the other hand, the dominance of Macau's gaming industry will also hinder the financial market's move to digitalization. The traceability of digital RMB will help to protect customers' private transactions as well as trace the root of criminal activities such as corruption and money laundering through data mining. It will have a greater impact on existing gambling customers as well as practitioners. Digital RMB is an important part of the RMB internationalization process, and the current state of Macau's industrial structure needs to be urgently reversed both in terms of traditional financial market development and the promotion of digital financial market development.

3.2 Unlike other international financial centers, Macau is unable to improve the financial market ecosystem in a short period of time due to the slow introduction of financial legislation research and the lack of professional financial talents

The development of a financial center is not a solitary ecology, but a complete financial market ecology. Macau's talent pool and legal system are not currently seen as meeting the conditions of an international financial market, and have not reached the standards of the ecosystem that should be built for the development of an international financial center.

Macau's legal system is a civil law system, unlike the common law system currently used in the world's mainstream offshore financial centers such as New York and London (Shao Ying, 2008). The latter is dominated by the capital market, which encourages the free flow of capital and the protection of private property due to the reference of established cases, and can well hedge the investment risks. Civil law countries, on the other hand, have a bank-dominated financial market and no precedent of becoming an international financial center. The difference in legal systems may pose some limitations to the formation of Macau's trading market, but the lack of necessary financial laws is the biggest obstacle for Macau. For example, tax law, fund law and trust law are currently in a state of absence. If a sound law is necessary to support Macau as a financial center or financial development city, Macau needs to accelerate the improvement of legislation in finance.

3.3 The shortage of financial talents in Macau is another difficulty in the development of Macau as an offshore financial center

In the past, there were more talents in banking, insurance and pawnbroking in Macau. At present, the development of special finance requires financial technology talents in emerging industries such as financial leasing, virtual banking and digital currency, but Macau's current labor policy is conservative and cannot attract and retain talents. Macau's immigration policy is very strict, and it is difficult for non-local graduates trained by local universities to stay and work in Macau. On the contrary, those who have graduated from local universities in Hong Kong and obtained a degree, found a suitable solid place and met the relevant policy conditions can settle in Macau. Moreover, the Hong Kong SAR government has introduced many special policies to attract talents from the emerging economy.

The development of special finance is not only the innovation of financial products, but also requires related professionals, without which it is difficult to do special finance. Based on the consideration of social and political stability, the Macau SAR government's current policies for the benefit of the people have a tendency to protect local residents and control the population. In a sense, there is a certain contradiction between this and the development of the financial industry. In the long run, if Macau wants to develop special finance, the talent policy needs to be open. The financial industry is highly specialized and most financial products have been digitized. Setting up a business does not require much geographical space, and the world's financial centers, such as Abu Dhabi and Wall Street in New York, do not have much geographical space, but what is important is that the financial talents recruited by the business need to have a livable living environment.

3.4 Macau's existing financial infrastructure and financial structure is weak in covering a variety of different capital financing channels, such as banks, stocks and bonds, and has not yet met the requirements of international financial services

The government's supervision of financial market facilities assists in promoting monetary or financial stability and plays an important role in building Macau as an international center. The Monetary Authority oversees the clearing and settlement system and provides statutory support for transactions conducted through the designated system, safeguarding legality from compromise.

While the MOP RTGS (Macao Pataca Real-time Payment and Settlement System) (Liu Junjun, 2007), the RMB RTGS (RMB Real-time Payment and Settlement System), and the HKD RTGS (Hong Kong Dollar Real-time Payment and Settlement System) have solidified Macao's financial infrastructure and, while upgrading Macao's financial modernization, have provided Macao with access to the CNAPS (China National Advanced Payment System) (Jiao Jinpu, 2000) to lay the technical foundation and access institutional basis. However, as an internationalized RMB offshore financial center, Macau still needs to strengthen its financial infrastructure in the areas of payment system, bond settlement system, simultaneous settlement of foreign exchange transactions between local and foreign countries, and Delivery versus Payment (DVP) services.

Macau lacks financial infrastructures such as the Centralized Debt Instrument Settlement System (CDIS) and the Automated RMB Settlement Transfer System (ATS) (Liu, 2007). The accompanying laws and regulations governing the financial infrastructure are also not available for discussion.

In addition, Macau only has a credit market, and only through the bank credit simple medium and short-term capital deposit and lending business, Macau needs to actively develop financial services products, including interbank interest rate market, foreign exchange market, gold market, securities market, financial derivatives market and other capital markets, to change the current relatively single financial market structure (Zeng Xianpei; Chen Peng, 2003).

3.5 The weak currency status of the MOP, which has been pegged to the Hong Kong dollar for a long time, has created a major obstacle to the implementation of the monetary policy of the financial center and hindered the development and growth of its secondary market

Macau has always had a strong financial dependence on and a high degree of integration with Hong Kong (Zhangxi Chen, 2011). The MOP jointly issued by the Banco Atlántico and the Bank of China Macau (Li Fei Yu, 2009), has been pegged to the Hong Kong dollar since 1977 and has played a positive role in the Macau economy. Nowadays, Macau's economy has grown strongly and its dependence on Hong Kong has been significantly reduced. The Macau dollar still adopts a pegged exchange rate policy with the Hong Kong dollar, which in turn is pegged to the US dollar and adopts a linked exchange rate, basically maintained between 7.7 and 7.8, so that the Macau dollar's status is equivalent to that of a sub-tier currency of the Hong Kong dollar, and the Macau financial market has developed into a derivative market of the Hong Kong dollar in disguise. The proximity of Macau to Hong Kong means that investors will give priority to the secondary market over the tertiary market.

Although the MOP's main role will be weakened after the peg, its monetary main position cannot be underestimated. Monetary policy is an important financial market regulation tool, especially for the bond market. A more active monetary policy can alleviate the lack of funds, and if the funding surface remains stable, the bond market will see more valuable transactions and products with higher relative value.

3.6 Macau has no significant advantage over other Asian financial centers in terms of economic volume, size of quality capital and number of listed companies

In 2020, due to the impact of the new crown epidemic, Macau's regional GDP was US\$24.3 billion, while Hong Kong's GDP was US\$370.74 billion and Singapore's GDP was US\$340.1 billion in the same year, a decrease of 6.1% and 5.4%, respectively, compared to 2019.

Singapore was once the "gateway" to the markets of the emerging economies of East Asia, and was on par with Hong Kong as the "financial center of Asia" many years ago. In the past 5 years, Chinese companies listed on the SGX and known as "dragon chips", and even Singaporean companies have been delisted from the SGX and switched to the Hong Kong and A-share markets. There are various reasons behind this, but the most important one is that the valuation of the Singapore stock market is too low, and companies' expectations are not well met, and they want to invest in a more liquid capital market with higher share prices.

The affluence and stability of the city is, in one way, an important basis for creating a financial center, but it is the quality of the world's capital and the expectations of companies that make the financial market attractive. Compared to markets like Singapore and Hong Kong, Macau's economic output is not dominant, and using this criterion to judge its ability to develop as a financial center is not central.

3.7 Macau is challenged by the international financial evaluation system, which has a significant impact on Macau's tax incentives and offshore company system

In 2000, Macau introduced offshore tax incentives to encourage foreign investors to set up offshore service businesses, so as to attract foreign investment and promote the development of tertiary industries. For companies that meet the relevant conditions and are licensed by the Trade Promotion Bureau to engage in offshore services in Macau, all profits are tax exempt. They are also exempted from income supplement tax, business tax and stamp duty. In addition, heads of offshore agencies and professional technicians (non-residents of Macau) assigned to Macau are exempted from occupational tax for the first three years of employment in the offshore agency (Li Bing Hong, 2004).

According to a survey of 42 legal markets worldwide with significant offshore behavior, published by the IMF Statistics Department and the Financial Stability Forum, Macau is recognized as an offshore financial center with regulatory and cooperative procedures. But in the second tier, there is still much room for improvement. The OECD's 2018 review of Macau's offshore markets concluded that Macau's offshore regime is a potentially damaging tax regime and must be abolished by June 30, 2021 at the latest. At the same time, Macau has been included in the list of "non-cooperative tax jurisdictions" by the European Union. In the face of successive negative comments from international organizations, the Macau government announced that the legal regime for offshore business and its related regulations will be repealed and the permit to engage in offshore business will expire on January 1, 2021. Macau offshore companies no longer enjoy tax exemption benefits.

In recent years, the OECD has increased the regulation of substantive economic operations of offshore companies and established the system of automatic cross-border exchange of tax-related information on financial accounts (CRS), and more than 100 countries around the world have signed the multilateral international legal guidelines regarding the implementation of CRS, the Multilateral Competent Authority Agreement (MCAA) (Jun Huo, 2016), and although Hong Kong and Macau cannot sign this agreement as government subjects, they can enjoy the effects of the conventions signed by the Chinese government. For Macau, it is key to become an international financial center by complying with the regulatory rules of international organizations, avoiding taxes legally and reasonably and raising the standard of financial services.

3.8 The current company establishment process in Macau has a long lead time and more requirements for shareholders, which may not match the needs of the mature development of the financial market

The simplicity of the company incorporation process is a sign of the maturity and development of the offshore financial market. The incorporation of a company in Macau can be completed in twelve to fifteen working days from the day after the signing of the documents and requires the shareholders to come to Macau to sign the incorporation documents. Incorporation in Hong Kong, on the other hand, is very convenient and fast. Applicants can complete and submit the incorporation application electronically at the Companies Registry's website. Applicants can usually obtain an approval of incorporation within one hour of submitting the application.

To improve the efficiency of company registration and to protect the security of shareholders' information, the formation and operation of offshore companies require both modern technology and strict legal scrutiny, and there is still much room for improvement in the balance between the two in Macau.

4. Suggestions to promote the realization of the financial center on the ground construction

The 2020 Newcastle pneumonia epidemic swept the world, dealing a severe blow to the U.S. economy and accelerating the evolution of the international pattern of "East rising, West falling". The U.S. financial markets showed signs of cycle failure and the country's credit was greatly weakened. The Chinese economy bucked the trend, not only with high growth rates in technology, internet, and healthcare, but also with significant improvements in the quality of growth, which has attracted much attention from major global economies, causing investors around the world to take a fresh look at the RMB and RMB assets, and increasing confidence in the RMB as a reserve hedge currency (E Zhihuan, 2020).

With the promulgation of Hong Kong's national security law and the adoption of the Hong Kong electoral system bill at the fifth session of the 13th National People's Congress in 2020, Hong Kong society will gradually restore political stability and social stability. In the context of the integration of

Hong Kong and Macao, the Central Government will certainly increase its support for the economy of Macao, which has been hard hit by the epidemic, and will usher in an important strategic opportunity period by accelerating the construction of Macao's RMB offshore financial center and establishing the ASX.

4.1 Accelerate the construction of financial rule of law

Common law systems focus on the protection of individual property rights, while civil law systems focus on the protection of state rights (Wang Gang, 2014). However, products traded in financial markets (e.g., securities) are a new property right for countries using any legal system, and as a property right, the basic principles of property law rooted in both common law and civil law systems apply to these traded products. The differences between civil law and common law legislation are not as pronounced today as they were in the past (Tianlei Pi, 2008). Moreover, financial regulators have played a significant role. As international financial regulatory standards are adopted by more and more national legislation and regulatory practices, the financial laws of civil law and common law countries have become more and more convergent. Macau should study and learn from Luxembourg's development and transformation experience. Luxembourg is also a low-tax liberal economy with a similar population size to Macau, also a civil law system, and an economy centered on the steel industry in the 1960s. After decades of transformation, the financial sector has become the backbone of Luxembourg, and now Luxembourg is an important global financial center (Yang Dong, 2018). Thus, it can be seen that the different legal systems are not a resistance to the construction of a stock exchange or even the development of offshore finance in Macau.

At this stage, Macao should focus on the improvement of the financial legal system, promote the comprehensive modernization of commercial and financial laws, and accelerate the study and formulation of laws on the classification of financial markets such as the Fund Law, the Bond Law and the Trust Law (Wang Jianmin, 2005) to build a comprehensive financial legal system. With the digitization of RMB, we should prospectively intervene in the legislation of digital finance and digital securities.

4.2 Increase the introduction of talent training

The lack of high-end financial talents is an important constraint to the development of Macau's financial industry. An effective talent introduction mechanism is the basis for the sustainable development of Macau's financial industry. Only by vigorously tapping, nurturing and utilizing financial talents and creating a high-quality financial talent pipeline can we provide continuous intellectual support and human capital for the development of the financial industry.

Macau needs to closely combine its strategic positioning and mission in the construction of Guangdong-Hong Kong-Macao Greater Bay Area, clearly define the key industries for the future development of Macau, solidly track and research the current situation, shortage and demand trends of talents, and on this basis, formulate a long-term plan for the development of talents in Macau in a comprehensive, systematic and forward-looking manner in terms of cultivation, introduction and return. On the one hand, a quota system for the introduction of professionals and a fair and transparent scoring system will be set up to gradually and steadily introduce high-end and scarce talents from abroad in phases and by fields. Seek the support of local labor rights protection associations to promote the conservative and prudent talent introduction policy to a more positive and open direction. On the other hand, build a talent sharing mechanism in the Greater Bay Area. Under the framework of cooperation in the Greater Bay Area, promote the establishment of talent alliances between Guangzhou, Shenzhen and other mainland central cities and Macau to form a regional talent sharing mechanism, so as to provide sufficient and stable, institutionalized talent guarantee for Macau's

sustainable prosperity and development. Support Macau universities to strengthen and innovate cooperation in talent training with Guangdong universities, explore joint training of doctoral students and joint construction of post-doctoral workstations between the two sides, and train high-level professional talents for Macau.

4.3 Strengthen the construction of financial facilities

The successful completion of financial products needs to rely on financial infrastructures such as international bond trading, custodian and settlement institutions with global coverage. As a major international reserve currency, the key to RMB's integration into the international financial system lies in the establishment of a financial infrastructure that conforms to international norms and practices and provides professional support for RMB-denominated financial assets and cross-border transactions of Chinese financial institutions across time zones and asset classes in the post-trade chain. For a long time, Chinese financial institutions have relied on the European and American markets to complete cross-border settlement custody. In order to enhance the security and low cost of RMB transactions worldwide, the establishment of the ASX as an exchange for various assets digitization and data capitalization should be encouraged to establish a trusted transaction mechanism and risk control through blockchain technology; use blockchain technology to provide low-cost data security, trustworthiness and privacy protection issues solutions to make multilateral collaboration increasingly active.

It is necessary for Macau to build a safe and reliable cross-border trading, clearing, settlement and custody system in the Asian time zone to better meet the overseas investment and trading needs of RMB assets, and to further provide financial infrastructure and trading technology in line with international norms for the development of the RMB offshore market.

4.4 Plus pushing the currency equivalent peg

The Hong Kong element has been an important influence in the financial development of Macau and is also reflected in the close financial cooperation between Macau and Hong Kong (Zhangxi Chen, 2011).

The pegging of the Macau dollar to the Hong Kong dollar, which began in 1977, has had a positive effect on the Macau economy. Nowadays, Macau's strong economic development has tilted its center of gravity towards the mainland far beyond that of Hong Kong. Together with the increasing investment of US capital in Macau and the greatly improved clearing capacity of RMB, the pegging of the Macau dollar to the RMB equivalent will not only prevent Macau residents' deposits, foreign exchange reserves and assets from shrinking, but also maintain stable consumer prices, increase foreign investment and prevent capital withdrawal, which has become an imperative.

Macau should also focus on the local characteristics of the financial sector, independently introduce foreign banks and financial institutions, and expand the proportion of local people employed in the banking sector.

4.5 Broaden the dimension of financial market

As a future offshore center, Macau needs to actively develop its financial services industry, including interbank interest rate market, foreign exchange market, gold market, securities market, financial derivatives market and other capital markets, to change the current relatively single financial market structure.

First, the development of the bond market can be the cut-off point for the diversification of Macau's financial market. Macau's stock of capital, as well as investor preferences, are more concerned about

the bond market. Macau institutions' overseas investments are mainly in bonds, of which long-term and short-term bonds exceed 67% of the overall total investment, and most of them are invested in bonds issued by mainland issuers in offshore. Second, the issuance and operation system of digital RMB can deepen the chain reform of the traditional banking system. It is easy to grasp the real business and performance of enterprises, and facilitate the development of SME inclusive credit loan business.

In addition, after the issuance of digital RMB, Macau can consider developing cross-border trade and service trade settled in digital RMB, and promote the landing of digital RMB payments in Southeast Asian countries; Macau can develop commercial banking and investment banking based on digital RMB, engage in digital RMB deposit and loan business, and trust business; Macau can take advantage of the opportunity of digital RMB issuance to take the lead in Macau can use the opportunity of digital RMB issuance to become a global digital asset trading center and digital financial center. Take the lead in practicing digital securities trading based on digital RMB to become a global capital market center and financial center in the era of digital economy.

4.6 Accelerate the pace of integration of Macao and Hengqin

For local financing business, taking into account the tax benefits and the treatment of risky loan matters, Macau has the advantage of low tax rate, and the net income obtained by the lender of funds may be similar to that of Hong Kong if there are no significant risky loan matters, while the net income of the Mainland is more affected by taxation due to the tax rate and the limitation of risky matter deduction. For cross-border business, from the perspective of the lender of funds, due to the existence of income tax and VAT in the Mainland, the tax burden of direct loans from Hong Kong and Macau financial institutions to Mainland borrowers at the same interest rate level is significantly higher than their loans to Hong Kong and Macau enterprises. The net return can be higher if the financial institutions in the Mainland want to expand their business.

Macau has the capital advantage, but also faces the shortage of land. Macau can fully rely on the Greater Bay Area to make a breakthrough, make up for the shortage with the regional cooperation formed in the Greater Bay Area, give full play to its capital advantage, and connect Hengqin to jointly develop the RMB offshore market. Against the background of the launch of the construction of Hengqin Guangdong-Macao Deep Cooperation Zone, Macau's banking industry is encouraged to cooperate with domestic and foreign institutions to set up joint venture securities, funds and futures legal entities in Hengqin; and to promote the pilot work of Macau -funded banking institutions to set up joint venture brokerage firms and obtain securities licenses in Hengqin. The establishment of institutions in the Mainland is subject to the process of opening up the financial industry in the Mainland, and also requires consideration of corresponding regulatory requirements, differences in legal systems between the three places and the Group's business focus.

4.7 Adding to the reputation of international institutions

The Macau SAR has a good reputation among the International Monetary Fund, the WTO and the Asia Pacific Anti-Money Laundering Organization. In the Moody's rating, the Macau SAR received the fourth highest rating, even exceeding the sovereign ratings of some developed countries. This is a high recognition of Macau's stable financial system and social environment.

The SAR government needs to maintain good interaction with the world's authoritative financial regulators and evaluation agencies, and make corresponding improvements according to their guidelines, in order to strive for greater participation and membership in international institutions. For example, the World Bank, the Bank for International Settlements (BIS), and the Financial Stability Forum (FSF) have guided evaluations of the financial markets of various countries and

regions, which can, to a certain extent, support the sustainable and healthy development of Macau's offshore finance (Ho Qi, 2011) and guide the direction of international investment, while also allowing Macau's financial regulation to converge with international standards.

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