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**REPORT FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**First Annual Report by the European Commission
on the Macao Special Administrative Region**

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MACAO: ANNUAL REPORT 2000

1. INTRODUCTION

In November 1999, prior to the reversion of Macao's administration to China, the European Commission presented to the Council a report entitled "The European Union and Macao: Beyond the Year 2000"¹. The report set out the European Commission's overall policy towards the Macao Special Administrative Region (MSAR) of the People's Republic of China. This is to develop further the existing relations between the European Union and Macao, in co-operation with the MSAR Government. The Council welcomed and endorsed this Communication in December 1999 and the European Parliament issued its own report on the Commission's Communication in early 2001.

The three principal institutions of the European Union, therefore, attach great importance to Macao's future. The long-standing historical links between Europe and Macao, shared values and similar approaches to progress and development will all help to ensure that Macao remains a privileged bridge for exchanges of all kinds between the European Union and the People's Republic of China.

To reflect its interest in Macao, the European Commission committed itself to drawing up an annual report on the development of the Macao SAR. This is the first such report.

2. THE IMPLEMENTATION OF THE "ONE COUNTRY, TWO SYSTEMS" PRINCIPLE

Since the creation of the Macao SAR on 20 December 1999, the "One Country, Two Systems" principle has been followed closely.

Internally, the Macao SAR Government endeavours to maintain Macao's specific characteristics in the institutional, economic and social fields. The Macao SAR's own institutions were set up in conformity with the provisions of the Basic Law and the establishment of the Court of Final Appeal, in particular, underlined Macao's autonomy.

From the economic point of view, Macao, as a free port, has maintained market economy principles, although the economy itself remains dominated by the tourism and gambling sectors. It is worth noting that, on his arrival in Macao to celebrate the first anniversary of the transfer of sovereignty, the President of China, Jiang Zemin, announced that Chinese companies would not be authorised to invest or otherwise be involved in Macao's gambling sector.

At the social and cultural level, Macao remains an open and multi-faceted city. Aware of the need to keep its specific mixture of characteristics from Chinese culture and Latin culture, the Macao SAR Government intends to make Macao "in economic and cultural exchanges, the bridge between the Chinese mainland and the European Union, as well as between other countries."

In the context of the "One Country, Two Systems" principle, and contrary to the continuing use of the death penalty in China, it is worth noting that Portugal was a pioneer in abolishing

¹ COM(1999) 484 final

capital punishment, and, as a result, no capital punishment has been carried out in Macao since 1867.

Internationally, the Macao SAR has been active in its own right, in conformity with the Basic Law. For example, Macao obtained its own radio frequencies from the International Telecommunications Union and participated in the activities of the Universal Postal Union. Macao concluded a legal co-operation agreement and an investments protection agreement with Portugal and a civil aviation agreement with Pakistan. Macao also submitted, through the appropriate authorities in Beijing, its report on the implementation of the "International Convention on the Removal of any Form of Racial Discrimination".

In addition, Mr Edmund Ho, Macao's Chief Executive has, since taking up his duties, paid official visits to Portugal, France, Singapore and Japan. He will pay an official visit to the Commission in 2001.

3. ESTABLISHMENT AND ADAPTATION OF ITS INSTITUTIONS

The Macao SAR's first year has been primarily a year of adaptation and putting its institutions into place. In spite of the departure of many Portuguese officials and the lack of senior governmental experience of a large number of senior officials, the Macao SAR Government put the required institutions into place in an orderly way.

The three main institutional branches: the Government, the Legislative Assembly and the Judiciary each had to make great efforts to adapt to the new situation with the creation of the Special Administrative Region.

- The Government

The Macao Government proved effective in setting up and adapting Macao's institutions to meet the needs of the Special Administrative Region.

At the time of the constitution of the Macao SAR Government, certain changes were made to the responsibilities of the five Secretaries in charge of the various Government departments: Administration and Justice, Economy and Finance, Security, Social and Cultural Affairs, and Transport and Public Works. In parallel to the changes in responsibilities, the Government had to carry out studies for the creation of new services such as the Customs Administration and the Court of Auditors. The Criminal Investigation Department and the Civil Police Force were put under a single command and the tasks of the anti-Corruption Office were expanded.

In addition, the Government committed itself to improving the effectiveness and the quality of the Administration and officials by stressing training (Macao signed a co-operation agreement with Singapore for this purpose) and the reporting system for officials (inspired by the Australian model). The Government also simplified administrative steps and procedures and created a system for citizens to petition the administration. Finally, the Government decided to undertake the reform of the Administration in the year 2001.

- The Legislative Assembly

The Macao SAR's first Legislative Assembly was created in 1999 for a two-year period. Since its creation, the Assembly has achieved, under the presidency of Mrs Susanna Chou, not only impressive legislative work, but has also adopted certain regulations governing its internal working procedures. During the past year, the Assembly also carried out political debates on

the presentation of the Government's work programmes in March, for the year 2000, and in November, for the year 2001. By the end of 2000, the Assembly had adopted 23 laws, including 3 presented by parliamentarians and 19 presented by the Government, including amending the Notary Code and the Commercial Register Code. In addition to legislation concerning setting up the Special Administration Region, the Assembly adopted the draft budgets for 2000 and 2001. It also adopted a law on electoral registration in preparation for the 2001 general election and began examining the draft electoral law submitted by the government.

Lastly, the Assembly adopted, in addition to its rules of procedure, regulations concerning question time, hearings and service to the public.

- **The Judiciary**

Since the creation of the Macao Special Administrative Region, the addition of the new Court of Final Appeal has meant that the Judiciary consists of the Court of First Instance, the Appeals Court and the Court of Final Appeal. A total of 28 magistrates' posts were provided for, but only 23 posts were filled at the end of 2000. The Public Prosecutor's Office has 23 Prosecutors. It consists of an Attorney General, 6 Deputy Attorney Generals and 16 Prosecutors. Following the departure of Portuguese magistrates, the Judiciary lacks experienced magistrates. The requirement to introduce the Chinese language into the courts has gradually created an additional task for the limited resources of the Judiciary. Despite this, the Courts were able to issue a large number of judgements last year and caught up with some of the backlog of previous years.

4. THE ECONOMIC AND SOCIAL SITUATIONS

- **Moderate Recovery Underway**

Contrary to other countries and territories in the region, Macao's economy experienced a downward adjustment well before the Asian financial crisis in 1997, as a result of the property market adjustment and weak domestic demand. From 1996-1999, Macao registered negative GDP growth consistently in four consecutive years. In 2000, a moderate recovery was underway, thanks to stronger external demand. Tourism and exports constituted two principal factors for Macao's economic improvement. The economic recovery of its surrounding region, Hong Kong and the Pearl River Delta as well as a marked reduction in crime also contributed to the revival. GDP is estimated to have grown 4.6% in real terms for 2000.

Macao has retained its status as a free port and is exempt from all taxes imposed by the central government of the PRC. The MSAR Government has maintained the approach of letting free and open markets determine the allocation of resources within the SAR, and consequently, Macao's economic development

- **Improved External Demand Underpinned Growth**

The improvement of the economic situation was mainly attributed to the revitalisation of the tourism sector and impressive trade performance. Tourism accounted for 40% of Macao's GDP in 1999, and employed about 30% of the labour force. It is also one of the key foreign exchange earners. In 2000, the number of visitors registered an increase of 23% compared with 1999, breaking a historical record of over 9 million visitors to Macao. This provided an impetus to growth to a wide range of tourism related economic activities and gambling.

Merchandise exports, including textiles and shoes, surged by 15.9% in 2000 to 20.38 billion patacas, compared with a mere 2.9% growth in 1999. On the other hand, merchandise imports rose by 11% to 18.1 billion patacas² in 2000. The trade surplus increased substantially by 78.4% to 2.28 billion patacas.

The European Union was the second largest market of Macao's exports, accounting for 28.4% of the total exports of goods amounting to 5.79 billion patacas, after the United States (48.3%), and followed by China (10.2%) and Hong Kong (6.5%). In terms of import suppliers, the European Union ranked third, contributing 9.6% of the import total, reaching 1.73 billion patacas in value terms in 2000. China, which accounted for 41% of the total imports, was the top supplier. Hong Kong (15.2%) was the second.

- **Liberalisation slowly sets in**

The Macao SAR Government is fully aware that the economy, because of its limited size, is very much influenced by the situation in the surrounding territories and regions. The Government has chosen, as its general policy, to consolidate the existing economic base to ensure stable development and fiscal discipline, as it does not have sufficient financial resources to launch major infrastructure projects. The MSAR Government also needs to accumulate reserves to prepare for future development.

In his speech on the Government's programme for the year 2001, the Chief Executive announced that the single-licence system for the gambling industry would be reviewed when it expired at the end of 2001. Under the existing arrangements the licence-holder (Sociedade de Turismo e Diversões de Macau, STDM) has been the only casino operator in Macau since 1962. The gambling industry contributed about one-third of Macao's GDP and accounted for about 55% of total government revenue during 1996-99. The importance of the gambling industry, either on its own or as a generator of further tourism receipts in Macao's economy, cannot be underestimated. For this reason the Government intends to proceed with great prudence on the reform of this sector. A study on licensing procedures and legal regulations of the gambling industry in other jurisdictions has been commissioned by the Government in order to consider what are the options available. A special Committee, chaired by the Chief Executive, has been set up to study future developments in the industry.

In addition to the proposed liberalisation of the gambling industry, the Government has already achieved some liberalisation in other economic sectors. For example, the Government granted two new licences for mobile telephone operators, to allow competition with the existing licence-holder. The Internet and satellite television services have also been liberalised. Nevertheless, the Government considers that the moment has not yet arrived to establish general legislation on competition.

- **Unemployment Remains High**

In spite of the improved economic situation, unemployment remains a cause for concern both from the economic and social points of view. For a working population of approximately 217,000 persons, 14,300 persons are without jobs. The unemployment rate reached 6.6% in the three months to December 2000. This rate represented only a very slight improvement compared to a rate of 6.7% at the start of the year. The situation was particularly acute in the construction industry, which had an unemployment rate of 17%. The return to Macao of many

² Average RoE for 2000: 1 Euro = 7.4183 patacas

Macao-based construction workers, who had sought work in Taiwan, only served to exacerbate the situation, in the absence of any new public works in Macao.

The high rate of unemployment in the construction sector was the root of protest demonstrations in May and July. As a result, the Government, at the request of domestic construction workers, agreed to reduce the number of non-resident workers from 28,000 to 20,000. However, this agreement will be very difficult to implement.

- **Improvements in Law and Order**

Thanks to the efforts of the Macao SAR Police Force and also because of better co-ordination and co-operation with the Hong Kong and South China police authorities, law and order in the Macao SAR has shown a clear improvement recently. By the end of 2000, the total number of crimes and offences had fallen by 3.64% in relation to 1999. The number of murders committed fell from 40 in 1999 to 11 in 2000. The number of kidnappings went down from 20 cases in 1999 to 8 cases in 2000, and the number of cases of arson fell from 164 to 82 cases.

The improvement in law and order was also made possible thanks to the strengthening of discipline in the police force. A citizens' complaint system was set up to deal with complaints made against the police force and the prison authorities. The MSAR Government is aware that the improvement in law and order is a long-term process. It intends to continue to improve the quality and effectiveness of the police force by training and the gradual creation of an "esprit de corps". Improved facilities and equipment are also priorities for the future.

5. EU-MACAO RELATIONS

The good relations between the EU and Macao that existed before the hand-over have continued and developed since the hand-over.

The European Commission submitted a proposal in January 2000 to the Council of Ministers in favour of visa-free access³ to the EU for Macao SAR passport holders. The EU took the political decision last December to approve the principle of granting Macao SAR passport holders visa-free access to the territories of 13 Member States. The Macao SAR Government welcomed this decision. Once agreed by the Parliament and the Council, visa-free access will facilitate the exchange of visits between Macao and the EU considerably.

The European Parliament's delegation for relations with China, led by Per Gahrton MEP, paid an official visit to the Macao SAR at the beginning of November 2000. The Chief Executive, Mr Edmund Ho, received the delegation, as did Mrs Susana Chou, President of the Legislative Assembly. The delegation also met most of the Legislative Assembly's members and a discussion took place on the implementation of the "One Country, Two Systems" principle.

The seventh meeting of the Joint Committee of the EU-Macau Co-operation Agreement was held in Brussels on 30 June 2000. This enabled both sides to examine the monitoring of the recommendations of the Commission's Communication "The European Union and Macao:

³ In early 2001, the Parliament and the Council of Ministers approved a European Commission proposal in favour of visa-free access to the EU for Macao SAR passport holders. This came into effect on 10 April 2001 and was welcomed by the Macao SAR authorities.

Beyond the Year 2000", to exchange information on the implementation of the Macao SAR's transition arrangements, and provided a means for promoting and improving bilateral relations in commercial, economic and co-operation matters. The two sides also reviewed the implementation of existing co-operation projects and the new legal co-operation project.

As far as EU-Macao trade relations are concerned, the Commission appreciates Macao's long-standing free trade tradition. The Commission also welcomes Macao's continued commitment to WTO principles and support for the multilateral trading system.

In the field of intellectual property protection, the Commission very much welcomes Macao's effort to develop intellectual property legislation. It considers however that the enforcement of IPR legislation remains a crucial issue in Macao, and urges the Macao authorities to pursue its efforts in this field.

6. CONCLUSION

The Macao SAR has, on the whole, got off to a good start.

These are early days. But thus far, political life continues to be led, as in the past, in a consensual way and the people of Macao are increasingly interested in the political and public management of the Special Administrative Region.

Some slight progress had been made on the economic front, where the Government is fully aware of Macao's limited economic base and dependence on regional neighbours. In view of this and the requirement in the Basic Law to achieve fiscal balance, the Government has adopted policies of consolidation for the moment and gradual liberalisation when the circumstances are right. Macao's trade and investment regime remains among the most open in the world.

The MSAR Government has succeeded in sharply reducing crime, which has had a beneficial knock-on effect by boosting tourism.

Since Macao's return to China, the life-style that characterises Macao remains deeply rooted and diversified. It is clear that Macao is coming to terms with its new status in a calm and business-like way. However, as with the Hong Kong SAR, the foundation for Macao's secure development and future prosperity will be adherence to the "One Country, Two Systems" principle and to the tenets of the Basic Law.

The Commission remains committed to assisting Macao wherever possible, and to helping Macao develop and realise its full potential. The Commission will continue to maintain a close watch on events in Macao, paying particular attention to the full implementation of the Joint Declaration and the principle of "one country, two systems".