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

**Macao Special Administrative Region:
Annual Report 2007**

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Executive Summary

Eight years after the handover, implementation of the 'one country/two systems' concept for Macao continues to be satisfactory, upholding Macao's unique society, its way of life, the rule of law and fundamental freedoms. In 2007, fostered by a pragmatic approach on both sides, cooperation with the EU continued to deepen and make good progress. After stagnating in the late 1990's, Macao's economy has revived remarkably since 2002, essentially thanks to the liberalisation and resulting boom in the casino sector - with China providing a boost to the casino and local tourism industry (through the Mainland Visitors Scheme) and to the wider economy by giving Macao privileged access to the mainland's markets. However, the lack of institutional and administrative reforms that would ensure greater transparency and more direct accountability is a cause of concern. The Macao government recognises and intends to address the challenges in the social, environmental and administrative sectors resulting from Macao's extraordinarily rapid economic growth.

Introduction

2007 marked the eighth anniversary of the handover of Macao to China in 1999. The handover established the territory as a Special Administrative Region of the People's Republic of China. The reunification of Macao with the mainland is based on the 'one country / two systems' concept and the Basic Law of Macao adopted by the National People's Congress of the People's Republic of China. The Basic Law guarantees that Macao's previous system and way of life shall remain unchanged for 50 years. Preservation of the business environment, the rule of law and fundamental rights in the territory was, and continues to be, the objective of the EU's support of China's 'one country / two systems' concept, and this principle has generally worked well.

1. EU-Macao cooperation in 2007

In 2007, Macao continued to be a significant partner for the EU, sharing values and interests in the economic, regulatory, social, educational and cultural domains. Two Joint Cooperation Committee meetings were held between the European Commission and the Macao SAR government in 2007 – the 12th EC-Macao Joint Committee (JC) in Macao on 6 February and the 13th EC-Macao Joint Committee in Brussels on 10 December 2007. Both meetings addressed ongoing EC-Macao cooperation and explored future orientations as a follow-up to the Commission's 2006 Communication entitled "The European Union, Hong Kong and Macao: possibilities for co-operation 2007-2013".¹ The legal basis for this EU-Macao dialogue and cooperation is the Trade and Cooperation Agreement signed in 1992 between

¹ "The European Union, Hong Kong and Macao: possibilities for co-operation 2007-2013". Communication from the Commission to the Council and the European Parliament. COM(2006) 648 final of 26.10.2006.

the EEC and Macao. The next EC-Macao JC meeting is scheduled for the second half of 2008 in Macao.

The successful EC-Macao Legal Cooperation programme concluded in early 2007 with a major conference in Macao on the theme "One Country, Two Systems, Three Legal Orders – Perspectives for Evolution" 5-7 February 2007, which was attended by many leading constitutional law experts from Macao, Hong Kong and mainland China, as well as from many Member States of the European Union.

EU-Macao immigration cooperation progressed during 2007 with the effective implementation of the EU-Macao Re-Admission Agreement and the successful MIGRAMACAO training programme for Macao immigration officers.

Macao-EU trade and economic cooperation was reinforced in 2007 through several specific European events in the framework of the Macao International Trade Fair on 18-21 October 2007.

The European Commission welcomed the significant efforts by the Macao SAR Government during 2007 to prevent and combat money laundering and financing of terrorism. Following the indictment of Banco Delta Asia (BDA) by the U.S. Treasury Department for money laundering, the Macao Monetary Authorities took management control of BDA, introducing a number of reforms before returning it to its original shareholders in September 2007.

The European Commission notes the enhancement of procedures for public procurement to improve transparency and to strengthen the regulatory framework in order to ensure fair and open competition, and encourages Macao to pursue and develop this policy of administrative reform and prevention of corruption.

Lastly, the European Commission started exploratory talks with Macao with a view to promoting the introduction of measures equivalent to the EC Directive on taxation of savings. The objective of the EU Savings Taxation Directive is to enable Member States, through an exchange of information, to exercise effectively their rights to tax interest received by EU resident individuals on savings income earned outside the country of residence. The Directive does not interfere with domestic tax legislation and does not impose on any country the compulsory introduction of withholding taxes.

EU-Macao bilateral trade in goods continued to shrink as a result of dwindling imports of clothing from Macao following the phasing out of the Agreement on Textiles and Clothing. For the first nine months of 2007, imports from Macao fell by about 12% to €366 million. EU exports to Macao, on the other hand, recorded a sharp growth of 28% to €146 million due to the strong demand for capital goods and fine consumer products, in tandem with Macao's rapid economic growth.

On the external front, Macao continued to play a role as a platform for China's international relations with the Portuguese-speaking world through mechanisms managed in co-operation with the Central Government of the People's Republic of China's.

2. Political and economic developments

During 2007 the Commission continued to monitor institutional, economic and societal developments in Macao, based on its formal commitment entered into in 1999 to "closely

monitor and promote the implementation of the 'one country, two systems' principle in order fully to support Macao's political, economic and cultural autonomy."²

The relations between the S.A.R. and the mainland are relatively serene. Even before the resumption of China's exercise of sovereignty, the influence of the Chinese government and some of its agencies, such as the Public Security Bureau, was felt in Macao. Crime linked to the gambling industry (money laundering, gang warfare, corruption etc.) is a cause for concern and Macao is under pressure from the mainland as well as from others, such as the US, to align its legislation and law enforcement with international practices.

The National People's Congress has so far not been asked to interpret Macao's Basic Law, and Macao's judicial independence has not been questioned. Progress towards democracy is not a big issue as, unlike Hong Kong's Basic Law, the Basic Law of Macao does not state that the introduction of universal suffrage is the ultimate goal of constitutional development, although it does provide for the possibility of amending the method of selecting the Chief Executive and the Legislators.

In his 2008 Policy Address on 13 November 2007, Chief Executive, Edmund Ho, said that it would not be possible to introduce direct elections in 2009 or immediately after 2009 and that the matter should first be carefully studied. The European Commission takes note of this announcement and looks forward to the launch of a democracy development plan. Mr Ho also announced that he intended to complete the legal procedures in his term - i.e. by 2009 - for legislation regarding Article 23 of the Macao Basic Law, which states that Macao should enact laws that "prohibit any act of treason, secession, sedition (and) subversion against the Central People's Government, or theft of state secrets, to prohibit foreign political organisations or bodies from conducting political activities in the Region, ...".

The judiciary and law enforcement services in Macao continue to have a good track record. The effective protection of freedoms and fundamental rights through competent and independent law courts is an essential backbone of Macao's way of life. The trial in the Macao courts of the former Macao government Secretary for Transport and Public Works, Mr. Ao Man-long, one of Macao's top government officials accused of bribery and money laundering, captured public attention during 2007.

Reflecting public opinion, Macao's press criticised Macao's public administration for overspending by municipal councils, alleged collusion between government and business over land sales and labour import, and generally for increasing social disparity.

Several public demonstrations took place during 2007 (on 1 May, 1 October and 20 December) expressing the concerns of small - but very vocal - sections of Macao society. The side-effects of Macao's remarkable economic success since 2002 are declining real incomes for some poorer people or those on fixed incomes, and the inevitable stresses, environmental and physical externalities and costs resulting from rapid urbanisation, congestion, economic development and social change.

During 2007 the Macao government began to acknowledge and address these economic, environmental and social pressures. Chief Executive, Edmund Ho, announced measures to meet and alleviate these concerns: income tax cuts for the lower paid; lower property taxes for

² Communication from the Commission to the Council and the European Parliament "The EU and Macao: Beyond 2000" Brussels, 12.11.1999, COM (1999) 484 final.

the less expensive properties; pay increases for civil servants; 19 000 new public housing units to be built; more powers for the Commission Against Corruption and various other subsidy and assistance initiatives in the social and cultural spheres.

The economic growth of Macao in 2007 continued its remarkable course. When the casino monopoly was liberalised in 2002, the number of casino licence holders increased to six, and gaming revenue more than tripled in five years, taking the leading position over Las Vegas. The pillars of Macao's economy were tourism and gaming, underpinned by an expanding pool of enthusiastic visitors from mainland China and from around the world. Huge foreign investment projects have changed the city's landscape, putting Macao firmly in the international spotlight for tourism and investment. Following double-digit growth in 2006, real GDP growth accelerated to nearly 30% for the first three quarters of 2007. Fiscal revenue rose by about 50% in 2007, generating a substantial surplus for the government. Macao's GDP per capita has now overtaken Hong Kong's.

3. Prospects for the future

The Commission recognises that, in general, the “one country, two systems” principle has been respected and is working well for the people of Macao. It is important that the SAR government continues to enjoy a high degree of autonomy in economic, trade, fiscal, financial and regulatory matters, and that the people of Macao continue to have their own legal system, an independent judiciary, individual property rights, freedom of speech and market economy system.

Macao also faces a whole range of challenges concerning the quality of its environment, most notably in maintaining and managing the architectural and cultural heritage, air quality, water quality, energy efficiency, waste treatment and low emission standards for vehicles.

In this context, Macao will need closer links and cooperation with the mainland, in particular Guangdong province, Shenzhen, Zhuhai, and with Hong Kong. Such cooperation is essential to deal with trade and immigration flows as well as for law enforcement, for administrative strengthening and for tackling environmental challenges. The potential for relevant input from sciences through the collaborative opportunities on offer in the EU's 7th Research Framework Programme should be also considered. The Commission believes that the EU can, and is willing to make a relevant contribution by offering experience.