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

**Macao Special Administrative Region : Annual Report 2008**

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## **Macao Special Administrative Region : Annual Report 2008**

### **Executive Summary**

Nine years after the handover, implementation of the “one country/two systems” concept for Macao continues to be satisfactory, upholding its unique society, way of life, rule of law and fundamental freedoms. In 2008, co-operation with the EU, fostered by a pragmatic approach on both sides, continued to deepen .It will be further enhanced by the EU Business Information Program. The remarkable revival of Macao’s economy since 2002 which owed much to the liberalization and resulting boom in the casino sector and a privileged access to the mainland’s markets is now in jeopardy because of the global financial crisis. The government of the Macao SAR is well aware of the challenges it faces in the social, environmental and administrative sectors. These challenges shape the agenda for its involvement with its neighbours in the Pearl River Delta region as well as for its international links, in particular its cooperation with the EU .

### **Introduction**

Nine years have now passed since Macao became a Special Administrative Region of the People's Republic of China. The Commission made a commitment in 1999 to issue annual reports on developments in the Macao Special Administrative Region (SAR). This report covers the year 2008.

The reunification of Macao with Mainland China is based on the “one country, two systems” principle as established in the Basic Law of Macao, which was adopted by the National People's Congress of the People's Republic of China in 1993. The Basic Law guarantees that Macao's previous system, its business environment, rule of law and protection of fundamental rights and freedoms will remain unchanged for 50 years. This principle has continued to work well in the Macao SAR.

### **Political and economic developments**

2008 has been a difficult year for the Macao Special Administrative Region, despite the fact that it has enjoyed economic growth of more than 20% on average over the last five years, after the liberalisation of the gaming regime. The casino-driven economic boom in Macao has made it one of the richest places in Asia. For 2007, GDP per capita (US\$ 36.357) was more than double that of 2003 (US\$ 17.805).

Macao's economy grew by 33% in the first quarter of the 2008, based on strong gaming revenues, accounting for about two-thirds of GDP. However, growth slowed to 22% and 11% in the following two quarters respectively. Investment in construction and machinery also dropped particularly following the gradual completion of large-scale construction projects. Exports of goods continued to decline due to the shrinking textiles trade which still accounts for about 60% of Macao's total exports.

Macao’s economy reached full employment as a result of the jobs generated by the gaming sector (the unemployment rate was 3.1% in the third quarter of 2008). But its strong economic growth has put pressure on its labour market particularly in skilled categories. This has prompted businesses to look abroad to meet their staffing needs and has also resulted in an influx of non-resident workers. Inflation remained very high, around 8-9% for most of the

year. Property prices and rental costs rose much faster than salaries. Maintaining stable prices has become a challenge for the Macao SAR Government which introduced allowances and social programmes, including reforms in health and education, to ease the burden on lower-income groups.

Macao's casino industry has entered into a phase of adjustment after a period of rapid expansion. In April 2008, Macao's Chief Executive Edmund Ho announced a freeze on gaming licences and new land resources for casino development. The number of gaming licences in Macao now remains capped at six and Ho has stated that this restriction will be in place for "a long period of time". To lessen the intensity of competition among casino operators, the Macao Government legislated in August on capping commission levels for junket operators, who bring most of the VIP business, (estimated to account for about 70% of the total gaming revenue).

China continues to have a strong influence on Macao's economic development, as the Special Administrative Region relies heavily on Mainland Chinese tourists to support its gaming and tourism industries, the pillars of Macao's economy. But Beijing's concerns about Macao's rapid growth prompted the Central Government to gradually tighten, in June and again in September 2008, restrictions on visa issuance to Mainland residents to visit Macao.

The global financial crisis has affected the financing of new casinos and hotel developments in Macao. Some of Macao's biggest casino developers have suspended their new projects or delayed their investment plans because of financing difficulties. This has caused thousands of workers to lose their jobs, and is having an immediate impact on Macao's economy.

Macao is therefore trying to diversify its economy from the gaming industry to conventions and exhibition-related activities. In order to help out the tourism and catering sectors, the Macao SAR Government abolished in August its consumption tax on wine and all alcoholic beverages. It also scrapped duties on fuel to alleviate inflationary pressure from energy prices.

Macao and Mainland China signed a framework agreement known as the "Closer Economic Partnership Arrangement" in 2003 (CEPA), which is similar to the arrangement between Hong Kong and Mainland China. Since its implementation in 2004 up until June 2008, 346 Macao service-sector companies have benefited from the CEPA. The logistics and transport sectors made the most use out of this arrangement, followed by the convention and exhibition, management consulting, construction and distribution services sectors. But the scope of the advantage for companies involved in the trading of goods has been limited.

Macao continues to play an important role as the platform for China's international relations with Portugal and the Portuguese-speaking world. In this context one notes a renewed interest in the language and legacy of Portugal. China's stronger links with Brazil and Portuguese speaking countries in Africa are a contributing factor.

There is also an increase in the number of students from Mainland China attending higher education institutions of Macao.

In his annual policy address delivered on 11 November 2008, Chief Executive Edmund Ho made clear that his priority for 2009 is to ensure Macao's economic stability amid the global financial crisis. He announced a MOP10.2 billion (€1 billion) investment plan in public infrastructure works, including improvements at heritage sites and public housing. He also offered a series of incentives to help residents and small and medium-sized enterprises, including subsidies for new homes and household bills, salary tax breaks and cash handouts of up to MOP 5,000 (approx €500) to residents.

On 22 October 2008, Chief Executive Edmund Ho presented his plan to enact national security laws in accordance with Article 23 of the Basic Law. Article 23 requires the Macao SAR to enact laws on its own to “prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of secrets, to prohibit foreign political organisations or bodies from conducting political activities in the Region, and to prohibit political organisations or bodies in the region from establishing ties with foreign political establishments or bodies.” Chief Executive Edmund Ho launched a 40-day public consultation period of 40 days on the national security bill lasting until 30 November 2008, with a view to securing its approval by the Legislative Assembly before his term ends on 19 December 2009. The national security bill covers seven offences, such as acts of treason, secession, sedition and subversion against the Central Government, and the theft of state secrets. The European Commission strongly hopes that the fundamental rights and freedoms enshrined in the Basic Law will not be reduced by the national security bill now going through the legislative procedure.

The judiciary and law enforcement services in Macao continue to have a good track record. That was demonstrated on 30 January 2008, when former transport and public works secretary Ao Man-long was found guilty of taking millions of MOP in bribes and abusing his power to help property developers win construction contracts. He was sentenced to 27 years in prison. The Chief Executive said the sentence was just and that "the court ruled according to the law".

2008 also saw a number of protests, albeit on a much smaller scale than the May Day protest in 2007 which turned violent after demonstrators clashed with police. These protests were peaceful and called for the Government to improve people's livelihoods and to give local residents priority with job opportunities, following an influx of non-Macao residents.

### **EU – Macao cooperation**

Macao continues to be a significant partner for the EU. It has an important European heritage and shares similar values in areas such as the economy, the environment, education and culture. The framework for developing EU-Macao relations is the Agreement for Trade and Cooperation signed in 1992 between the Commission and Macao. The 2008 Joint Committee meeting, held annually under this framework agreement, has been postponed to February 2009.

EU-Macao bilateral trade in goods continued to decrease as a result of dwindling imports of clothing from Macao following the phasing out of the Agreement of Textiles and Clothing Agreement. For the first nine months of 2008, imports from Macao fell by around 48% to €190 million. EU exports to Macao also declined by 10.2% to €131 million.

The European Commission's Communication, "The EU, Hong Kong and Macao: possibilities for cooperation 2007-2013", remains the guiding policy framework for the EU's cooperation activities with Macao. It sets a number of challenging objectives to move EU-Macao relations forward by deepening and broadening cooperation in seven key areas: trade and customs, finance, people to people links, transport, the environment, health and food safety.

The implementation of the agreed policy and regulatory cooperation measures in these seven sectors has been boosted by the launch in 2008 of the "European Union Business Information Programme" for Hong Kong and Macao (EUBIP), which will run a programme of content-driven events until 2011. The EUBIP will serve as a vehicle to promote better understanding and share knowledge and best practices between Macao and the European Union with a range of bilateral cooperation activities in areas such as trade and investment, standards, intellectual property, the environment, transport and logistics, health, food and product safety. A call for

proposals was launched in August 2008 and the contract was awarded to a consortium led by the European Chamber of Commerce in Hong Kong, and with strong Macao participation, namely the Macao Trade and Investment Promotion Institute (IPIM), and the Institute of European Studies of Macao. The EUBIP was signed in Macao in December 2008 and it is expected to be fully operational in early 2009.

The environment is an important concern for the Macao SAR Government and will be the focus of one of the cooperation activities within the EUBIP. The Macao authorities are concentrating their efforts on tackling problems regarding water salinity, promoting energy efficiency and raising public awareness of environmental protection. In addition, Macao is trying to enhance its role as a platform for exchanges on environmental issues between the Pan-Pearl River Delta Region and the EU. The Commission noted that the Macao SAR Government has put substantial resources into leading the organisation of an international environmental cooperation forum and exhibition to promote international awareness of environmental protection and society development in Macao. The Macao International Environmental and Cooperation Forum and Exhibition (MIECF) took place in April 2008, with the participation of the European Commission alongside Member States. A second forum is planned for 2009.

EU-Macao cooperation has progressed in a number of sectors. Macao has proposed to the Commission that the EU-Macao cooperation programme in the legal field enter a second phase, following the successful completion of the first phase in 2007, in order to enhance public administration, legal and judicial expertise. Contacts were initiated in January 2008 between senior Commission officials and Macao's Secretary for Finance, Francis Tam, to explore possible means of cooperation in the area of taxation of savings. The Commission has also contributed to the EU's joint participation, along with Member States, in the Macao International Fair (MIF) in October 2008 with a prominent EU pavilion. It has also supported the Jean Monnet chair at the University of Macao by participating in the successful Jean Monnet Conference held in May.

### **Outlook for the future**

2009 will be an important year for the Macao SAR. It will be celebrating the tenth anniversary of the handover of Macao to the People's Republic of China.

Elections to the Legislative Assembly and the Chief Executive elections are also scheduled in 2009. This will be a significant step in Macao's electoral process. The issue of universal suffrage is not a controversial issue in Macao (as it has been in Hong Kong). 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. However it does provide for the possibility of amending the method of selecting the Chief Executive and members of the Legislative Assembly. In February 2008, the Secretary for Administration and Justice, Florinda Chan, proposed changes to Macao's electoral laws. These changes focus on optimising voter registration procedures and combating corruption. There was no mention either of universal suffrage or of increasing the number of directly-elected seats in the Legislative Assembly. Chan said that these changes will help facilitate the election process and emphasised that democratic development does not necessarily mean introducing more elected seats in the legislature. These changes are in line with statements made by Chief Executive Ho in his annual policy address for 2008 (delivered in November 2007), where he stressed that it would be impossible to introduce direct elections in 2009 or immediately after 2009. The Commission encourages the Macao SAR to introduce measures that would lead to a more representative electoral process.

Edmund Ho, the first and only Chief Executive of the Macao SAR since the handover, will be leaving office at the end of 2009. Before this, he will face a testing challenge in preserving Macao's economic stability in a global financial crisis and maintaining Macao's position as a tourist centre in Asia.

Tackling environmental challenges such as water problems, air pollution and waste management, reinforcing the administrative and legal framework, increasing people-to-people exchanges and promoting Macao's cultural heritage are areas in which EU cooperation with Macao could be extended in 2009.

The Commission will continue to monitor closely institutional, economic and societal developments in Macao and support the implementation of the "one country two systems" principle.