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**JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Macao Special Administrative Region: 2014 Annual Report**

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## Macao Special Administrative Region: 2014 Annual Report

### SUMMARY

Since the handover of Macao to mainland China 15 years ago, the European Union and its Member States have closely followed political and economic developments in the Macao Special Administrative Region (SAR) in the framework of the ‘one country, two systems’ principle. To fulfil its 1999 commitment to the European Parliament, the Commission issues an annual report on developments in Macao.

The European Union adheres to its ‘one China’ policy and respects the implementation of the ‘one country, two systems’ principle in Macao.

2014 saw the 15th anniversary of Portugal’s handover of Macao to the People’s Republic of China. The anniversary was marked by a visit of Chinese President Xi Jinping to Macao to officiate at the inauguration of its new government.

The EU believes that in 2014, notwithstanding challenges, the ‘one country, two systems’ principle continued to work well, to the benefit of the Macao SAR, China as a whole and the international community. Chief Executive Chui Sai On was re-elected for a second term in office. The election campaign was managed in accordance with the provisions of the Basic Law, with votes being cast by members of the election committee. As was the case in the Chief Executive elections of 2009 and 2004, there was only one candidate. While Macao’s Basic Law does not provide for the introduction of universal suffrage for the election of the Chief Executive, there is a growing public debate about the issue and whether the authorities should consider arrangements to promote a higher degree of public involvement in the election and to ensure there is competition for the post.

The fundamental rights and freedoms of Macao citizens continued to be respected. Positive steps were made towards improving the position of migrant workers and on combating domestic violence and trafficking in human beings. Macao’s media continued to allow expression of a broad range of views. However, media freedom is at risk due to self-censorship, personnel policies and hindrances such as denial of access to press conferences. Academic freedom was brought into question by the decision not to renew the contracts of two professors with outspoken political views.

Macao’s market-based economy continued to function efficiently but economic growth suffered from a marked decline in gaming revenues, on which the SAR is over-reliant. A key priority is improving the lives of ordinary citizens, who face mounting living and housing costs. Macao’s economic cooperation and integration with mainland China, especially Guangdong Province, is advancing fast, helping to overcome Macao’s shortage of land and human resources. The relocation of the University of Macau to Hengqin Island was a landmark event in this respect: Hengqin is part of the territory of mainland China but the university is under the jurisdiction of Macao. The functioning of the Macao Government and

the judiciary needs to be modernised and made more efficient, including through better management of human resources.

EU-Macao relations continued to flourish, with fast-expanding trade relations and a growing cooperation portfolio based on economic, education and environment policy. Priorities for 2015 are cooperation on economic diversification, legal affairs and regulatory matters for the economy.

### **Political developments**

In 2014, Chui Sai On, Chief Executive of the Macao SAR, completed his first five-year term and was re-elected to serve a second term in office. The inauguration ceremony took place on 20 December and was officiated by Chinese President Xi Jinping.

This re-appointment followed the election procedure laid down in the Basic Law, which involved a nomination process within the 400-strong election committee, made up mainly of pro-government personalities and politicians, and subsequently a vote in the same committee. As the only candidate, the incumbent Chui Sai On was re-elected uncontested, with 95.96% support, or 380 of the 396 votes cast. His election in 2009 had also been uncontested, as was the election of the previous Chief Executive in 2004. As it stands, the electoral law of Macao is not conducive to a competitive nomination procedure. For it to be so, the Macao SAR authorities could consider modifying some provisions of the electoral system.

The election process prompted a debate about the introduction of universal suffrage in Macao. In response, during his election campaign, Chui Sai On said that he was ready to inform the Chinese Central Government of the views of Macao residents about democracy. Pro-democracy groups said that he made no attempt to include a roadmap to full democracy in his manifesto.

Three activist groups conducted an unofficial poll on the Chief Executive's election on 30 August; 95% of the 8688 respondents were in favour of universal suffrage for the 2019 election. The Macao SAR Government and the Liaison Office of the Chinese Central Government condemned the civil referendum as illegal. The authorities did not permit the organisers to use public places to promote the poll and the Court of Final Appeal declined to rule on the appeal against the authorities' decision. Some legal experts considered participation in and promotion of the unofficial referendum as coming under freedom of expression as protected under the Basic Law. During a Legislative Assembly plenary meeting on 18 November, lawmakers voted down a proposal by pro-democracy legislators to hold a debate on the introduction of universal suffrage in Macao.

Macao differs from Hong Kong in that its Basic Law and other legislative acts do not provide for the possibility of universal suffrage. Nevertheless, in March 2013, the UN's Committee on Civil and Political Rights (CCPR) invited the Macao SAR Government to submit a plan for transition to equal and universal suffrage. In response, the Government reiterated its reservations with regard Article 25 of the International Covenant on Civil and Political Rights. Nevertheless, the authorities should still consider how to promote a higher degree of

public involvement in the election of the Chief Executive, thereby enhancing the legitimacy of and public support for the post and strengthening good governance.

## **Policies**

In his policy address of 11 November, the last in his first term of office, Chief Executive Chui Sai On presented a review of the government's work in 2014 and set out the policies and budget planned for 2015. Looking back at the previous five years, he noted that the government had established long-term mechanisms in five domains that were closely related to people's everyday lives: social security, healthcare, education, housing and cultivating talent. Expenditure on the five domains and on public security and economic services had increased every year, from 53.9% of the overall budget in 2010 to 67.6% in 2013.

While livelihood issues have always been quite prominent in government policy, they took on fresh urgency after an unprecedented demonstration by an estimated 20 000 people in May. This was prompted by a draft bill that would have granted retirement packages to top officials and immunity against prosecution for criminal charges relating to activity while in office. The demonstrators also brought up issues such as the rising cost of living, healthcare, housing, public transportation and pollution. Following the demonstration, the Chief Executive said that the government had to be more open to society and step up consultation with citizens.

On 20 December, President Xi Jinping delivered a speech on the occasion of the 15th anniversary of Macao's return to China and the inauguration of the Macao SAR's new government. He mentioned that over the past 15 years, with the support of the central government, Macao had been successful in implementing the principle of 'one country, two systems.' He noted the need to consolidate Macao's economic and social development and strive for still greater progress. President Xi set four priorities for the new government: improve Macao's law-based governance, diversify the economy to make it sustainable, solve problems relating to the population's living standards and reduce social disparity, and finally educate the young so that they understand the 'one country, two systems' principle.

Macao's economic cooperation and integration with mainland China continued, emphasising particularly with Guangdong Province under the Framework Agreement on cooperation between the regions. In addition to participating in development and construction on Hengqin Island and Nansha in Guangdong Province, the Macao Government was involved in developing the new districts of Zhongshan and Cuiheng. Guangdong, Hong Kong and Macao jointly organised the 10th Pan-Pearl River Delta (PPRD) Regional Cooperation and Development Forum.

A major specific development was the relocation, in September, of the University of Macau to a new campus on Hengqin Island, Zhuhai, Guangdong Province. Although Hengqin is part of the mainland, the university campus is under Macao SAR jurisdiction and administration. University Rector Wei Zhao described the development as a successful embodiment of the 'one country, two systems' principle.

On external policy, the government focused on boosting Macao's role as a service platform for trade and economic cooperation between China and Portuguese-speaking countries. It

organised two ministerial meetings, supported the operations of the Sino-Portuguese Cooperation Development Fund, and promoted Macao as a bridge for trade and investment between China and the Portuguese-speaking countries. In September, the government hosted the Eighth Asia-Pacific Economic Cooperation (APEC) ministerial meeting on tourism, which set up a fund for the development of cultural and creative industries.

### **Equal opportunities, rights and freedoms**

At a meeting of the United Nations Committee on Economic, Social and Cultural Rights (UNESCR) on 8 May 2014, Macao stated that it had made considerable progress since the Committee's previous review. To cater for the needs of the increasing number of migrant workers coming to Macao (almost 80 000 of whom, or 60% of the total, were from the mainland), the Macao Government and the Chinese Central Government signed a joint protocol on pensions and other provisions, including support for migrant workers when they arrive, in order to help integration into local communities. The Law on the employment of non-resident workers further guaranteed labour rights.

Measures to improve social welfare included the establishment of a basic social protection system, construction of public housing, medical allowances, and 15 years of free education and subsidies to encourage students to continue their education. The UN Committee's recommendations on human rights education and raising awareness about human rights protection amongst the public, civil servants and law enforcement officers were also implemented.

On 23 October, the United Nations Committee on the Elimination of Discrimination against Women (CEDAW) reiterated its recommendation that Macao should consider establishing an independent human rights institution. The Committee welcomed the draft Domestic Violence Prevention and Correction Act and recommended that domestic violence be made a criminal offence subject to automatic prosecution. On 13 January 2015, the Act making domestic violence a criminal offence was adopted by the Legislative Assembly. However, in less serious cases the victim can decide whether or not to press charges. As announced by the Legal Affairs Bureau of the Macao SAR Government in November 2014, same-sex relationships are not covered under the Act. Proponents recalled that the UNESCR had urged Macao to adopt comprehensive anti-discrimination legislation for lesbian, gay, bisexual and transgender persons.

Macao's media continued to give voice to a variety of views and opinions. However, there was an increase in reports of self-censorship. In March, a series of anonymous open letters was published containing details of self-censorship. Reportedly, some journalists were denied access to press conferences and recruitment in media organisations appeared to be influenced by political considerations. The International Federation of Journalists 2014 annual report expressed concern about self-censorship, the diminishing political neutrality of the police and unequal treatment of journalists for political reasons.

Non-local journalists were denied admission to press conferences with high-profile officials from Macao and the mainland. In August, journalists from a Hong Kong opposition media outlet were not allowed to attend a press conference given by the Chief Executive. In

December, journalists from the same media outlet were prevented from covering a seminar with a high-level central government official; other Hong Kong journalists were admitted to the event. On 19 December, 14 Hong Kong opposition figures and four opposition newspaper reporters were denied entry into Macao, on the grounds that they would undermine public order.

As regards freedom of assembly, leaders of the Forefront of Macau Gambling trade union were arrested in connection with a minor clash with police over the route of a demonstration; they were subsequently released pending criminal proceedings.

Academic freedom appeared jeopardised when the contracts of two university professors, who were well-known for critical statements about the government, were not renewed; a third professor was demoted. It was reported that some other scholars had been asked by the university management to refrain from critical political statements. The EU holds academic freedom to be a cornerstone of a vibrant academic sector able to meet the needs of the economy and of society as a whole.

The Macao Government continued to devote substantive efforts to combating cross-border crime, in particular human trafficking. The Human Trafficking Deterrent Measures Concern Committee, an interdepartmental body comprising government, law enforcement, justice and social affairs representatives, continued to combat human trafficking and to implement measures on prevention and victim protection. A number of activities were undertaken, including training of judges, magistrates, lawyers and other professionals. The government's Social Welfare Bureau organised three courses in October on protecting human trafficking victims and the Legal Affairs Bureau held three seminars in December on preventing human trafficking.

Macao and Hong Kong started negotiations on a treaty for the extradition of criminal fugitives. Under the treaty, fugitives who take refuge in one SAR to avoid punishment in the other will be sent back. The future treaty may apply retroactively.

### **Anti-corruption**

In March, Macao's Commission against Corruption (CCAC) reported in its annual report to the Chief Executive that 2013 had seen a heavy workload. This was not caused by a greater number of cases but by their increased complexity. Macao's citizens continued to express the view that CCAC needs to act more effectively.

On corruption in the public sector, the number of reports received and cases investigated was at the same level as in 2012. Judging from the cases disclosed, the main violations continue to be accepting bribes for illegal acts, abuse of power and forgery of documents; breaches of the obligations of public servants and poor management harming public interests were also quite common. The head of CCAC reported that this showed that there was still room for public servants to improve their awareness, ethical standards and impartiality in law enforcement.

In May, the Executive Council of Macao announced a draft bill against corruption in foreign trade, prohibiting the offering of bribes to officials serving outside the SAR. This would fulfil Macao's commitment to the UN Convention against Corruption.

## Economic developments

The liberalisation and modernisation of the gaming sector has propelled Macao into the league of the richest economies in the world<sup>1</sup>. Macao has been the largest gaming market in the world since 2006. Gaming forms the backbone of Macao's economy, contributing 46% of its GDP<sup>2</sup>. Around one fifth of Macao's labour force works in the gaming sector<sup>3</sup>. The gaming tax (35% of gross gaming revenues) contributes 80%<sup>4</sup> of the SAR's fiscal revenues. The gaming market thrives on continuous flows of visitors from the mainland who make up about two thirds of Macao's tourists.

After double-digit growth in 2013, Macao's economy slowed in 2014 due to a fall in gaming revenues as the gaming industry experienced its worst year since it was liberalised in 2002. Gaming revenues plummeted by 30% in December 2014, which was the seventh consecutive month of decline. Over the year, however, the drop was by only 2.6%, to MOP351.5 billion, thanks to stronger growth in the first few months. Gaming operators struggled as the central government's anti-corruption drive kept wealthy mainland gamblers away (the 'VIP segment' accounts for up to 70% of the gaming revenue). The slowdown in economic growth also reduced demand from mass market gamblers.

As a result of the significant decline in gross gaming revenue and shrinking visitor spending, GDP for the whole year of 2014 contracted by 0.4%<sup>5</sup> in real terms, as the strong GDP growth in the first half of the year was offset by a decline in the second half. Domestic demand, however, remained strong. Private consumption and government expenditure held up well. Private investment continued to surge as new hotels and resorts continued to be built. Six new mega-resorts are planned. Inflationary pressure remained at the relatively high level of 6% in 2014, due to robust economic activity. The unemployment rate has been persistently at or below 2% in the past three years, standing at 1.7% in 2014. In spite of the weakening gaming sector, tourism fared well, with visitor arrivals reaching 31.5 million, up 7.5% year-on-year.

Macao continues to suffer from an acute labour shortage and its economy relies heavily on workers and professionals from elsewhere. The number of non-resident workers grew 24% to reach 170 346 in 2014, representing 42% of the working population. Businesses have complained about the lack of adequate professional staff to handle their expanding operations.

A bill establishing a statutory minimum wage underwent its first reading in the Legislative Assembly in July. The government has proposed that the statutory minimum wage for Macao's security guards and janitors employed by property management companies be set at MOP 30 per hour.

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<sup>1</sup> Macao's GDP per capita in nominal terms reached MOP697 502 (US\$91 376) in 2013, placing it in the top six in the world (World Bank data).

<sup>2</sup> Industrial Structure of Macao 2013, Statistics and Census Service of the Macao SAR Government.

<sup>3</sup> According to the Statistics and Census Service of the Macao SAR Government, a total of 87 000 employees, or 21.5% of the total workforce, were employed by the gaming sector as of the fourth quarter of 2014.

<sup>4</sup> According to provisional figures released by the Financial Services Bureau of the Macao SAR Government, direct taxes from gaming amounted to MOP 128.9 billion, or 82.5% of the fiscal revenue in 2014.

<sup>5</sup> Unless otherwise stated, economic indicators pertaining to the Macao economy were sourced from the Statistics and Census Service of the Macao SAR Government.

While Macao is one of the world's richest economies in income per capita terms, income distribution is very unequal. The government is working to spread wealth by way of a cash-sharing scheme, which was started in 2008. In 2014, each permanent resident received MOP 9000 and each non-permanent resident MOP 5400. In November, Chief Executive Chui announced the same amount for 2015 and additional subsidies to eligible provident fund account holders, together with a series of tax concessions for businesses and individuals. A 2014 government survey indicated that the wealth gap is narrowing<sup>6</sup>.

Macao's large gaming sector makes the region vulnerable to money laundering because it provides a conduit for illegal money flows out of the mainland. In 2014, the authorities made several attempts to combat this, including by increasing scrutiny of junket operators<sup>7</sup>. Several top junket representatives were arrested or are being investigated. The Macao Government also restricted the use of mobile payment cards in casinos to curb circumvention of currency controls. During his visit to Macao in December, President Xi Jinping stated that Macao's casino-fuelled growth had led to 'deep-seated problems' and 'development risks.' Macao had to improve regulation and supervision over the gaming industry and should diversify its economy through better use of local resources, especially through cooperation with the PPRD region. On the same occasion, Li Fei, Chair of the Macao Basic Law Committee and Deputy Secretary-General of the National People's Congress Standing Committee, remarked that the 'overwhelming dominance' of the gaming industry worked against the interests not only of the SAR but of the whole nation.

To help Macao to diversify its economy through cross-border cooperation with Guangdong Province, the Hengqin New Area<sup>8</sup> was established in 2009 with the approval of the State Council of China, with the aim of exploring a new mode of cooperation between Guangdong, Hong Kong and Macao. By 2014, the Macao Government had received a total of 89 applications from Macao companies to establish themselves in Hengqin, 33 of which were referred to the Hengqin authorities for approval. However, small and medium enterprises representatives in Macao said that the entry thresholds were set too high for SMEs and that they saw little potential in setting up in the New Area. Macao has started looking into collaboration with Zhongshan, a neighbouring city of Zhuhai, over the potential acquisition or lease of sites for Macao's industrial development. To facilitate the flow of goods and people between Macao and the Hengqin New Area, the State Council of China agreed to extend the opening hours of the three boundary checkpoints between Macao and Zhuhai with effect from 18 December. The checkpoints now provide a 24-hour service, which facilitates commuting. The arrangement is convenient for those who cannot afford to live in Macao and have to look for alternative housing across the border, and thus eases the pressure on the housing sector in Macao.

The development of transport links connecting Macao, Zhuhai and Hong Kong is well on track. The construction of the Hong Kong-Zhuhai-Macao Bridge is expected to be completed

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<sup>6</sup> According to the *Household Budget Survey* released by the Statistics and Census Service of the Macao SAR Government in April 2014, the Gini coefficient of Macao was 0.35 on a scale of 0 to 1 in 2012/13, as compared with 0.38 in 2007/08.

<sup>7</sup> Junkets are intermediaries who bring high-spending customers to the casino, issue them with credit and collect debt in exchange for a commission.

<sup>8</sup> Hengqin New Area is located on Hengqin Island in the south of Zhuhai City, Guangdong Province. It is connected to Macao by a bridge.

in late 2016. The extension line of the Guangzhou-Zhuhai high-speed rail is expected to reach Macao by 2015 through a sea tunnel. These infrastructure projects will cut the travel times between the mainland, Macao and Hong Kong very significantly.

In December, the mainland and Macao signed a subsidiary agreement on achieving basic liberalisation of trade in services in Guangdong Province in the framework of the closer economic partnership arrangement between mainland China and the Macao SAR (CEPA). The subsidiary agreement was on top of the ten supplements signed so far under the CEPA. It is expected to be a model for basic liberalisation of trade in services to cover the whole of China in 2015. China has committed itself to basic liberalisation of trade in services with Macao by the end of the 12th National Five-Year Plan in 2015.

Macao successfully passed the Phase I and Phase II Peer Reviews conducted in 2011 and 2013 respectively by the Organisation for Economic Cooperation and Development (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes, confirming that both its legal framework and actual operations with regard to exchange of tax information on request meet the internationally agreed standards. As of 2014, Macao had concluded tax treaties with 20 jurisdictions, of which five are double-tax agreements and 15 are tax information exchange agreements.

Macao has also responded positively to the global call for action against tax evasion. In September 2014, the Macao SAR government announced that Macao would adopt the Global Standard for automatic exchange of financial account information sponsored by the G20 and developed by the OECD. The authorities stated that Macao would amend its laws with a view to ensuring timely compliance with the new standard.

### **EU-Macao bilateral relations**

EU-Macao bilateral trade dropped by 11% to reach EUR 613 million in 2014. EU exports to Macao fell by 5.9% to EUR 540 million, as Macao's import demand moderated along with its slowing economy. EU exports were dominated by luxury goods, food and beverages, and automobiles. EU imports from Macao decreased notably by 37% to EUR 72 million in 2014 as Macao's industrial base continued to contract. The EU thus recorded a trade surplus with Macao of EUR 468 million. It remained Macao's second largest supplier after China, accounting for 24% of its imports in 2014. The EU and its business community are keen to work with the Macao Government in its efforts to diversify its economy, enhance the sustainability of its economic development and promote bilateral trade and investment flows.

Bilateral relations between the EU and Macao continued to develop positively. The 19th meeting of the Joint Committee under the EU-Macao Trade and Cooperation Agreement was held in Brussels on 15 July. The meeting reviewed the positive trends in economic, trade and education cooperation. Special attention was paid to Macao's economic cooperation with the mainland under the CEPA and in the PPRD framework, including the Hengqin New Area. To strengthen business ties, the EU and Macao agreed to set up a regular EU-Macao business dialogue to facilitate direct exchanges between EU businesses operating in Macao and the authorities, and to contribute to medium-term goals such as economic diversification.

The Macao European Chamber of Commerce (MECC), inaugurated in 2013<sup>9</sup>, gained momentum with an expanding agenda of activities. In cooperation with the European Chamber of Commerce in Hong Kong, the MECC coordinated European participation in the Macao International Environmental Cooperation Forum & Exhibition (MIECF) in March (with 38 European exhibitors from 12 EU Member States) and in the Macao International Trade and Investment Fair (MIF) in October, with participants from 11 Member States. The MECC's role will grow as part of the future EU-Macao business dialogue.

The European Union Academic Programme (EUAP) in Macao hosted many new activities. Managed by a consortium led by the University of Macau, the EUAP hosted visiting speakers, seminars and its first international conference on EU-China relations, which brought together 12 universities from seven countries. The EUAP also expanded its outreach activities, with the first EU summer school for local young students, and the EU 'short-film challenge', which produced nine short films on EU-Macao relations. The EUAP also hosted the second edition of the popular 'model EU' simulation of a European Council meeting; the winners took part in a study visit to Brussels. For Europe Day celebrations, the EUAP organised an EU Week filled with seminars and activities for young people.

The European Commission continued its cooperation with Macau Polytechnic Institute on training for Chinese-Portuguese interpreters and translators, thereby supporting Macao's role as a platform between China and Portuguese-speaking countries.

Key priorities for 2015 include cooperation on the diversification of Macao's economy, maximising the potential benefits of the CEPA for both local and European companies established in Macao, and exploring regulatory convergence in areas such as competition policy, government procurement and intellectual property rights.

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<sup>9</sup> The MECC is a hybrid chamber with membership consisting of EU Member States' national chambers of commerce (British Business Association of Macao, France-Macao Business Association, German-Macao Business Association, the Irish Chamber of Commerce in Macao, the Macao-Romania Chamber of Commerce and the Portuguese-Chinese Chamber of Commerce and Industry) and individual companies.