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JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Macao Special Administrative Region: Annual Report 2012

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INTRODUCTION

Since the handover of Macao to mainland China 13 years ago, the European Union and its Member States have closely followed the political and economic developments in the Macao Special Administrative Region (SAR) within the framework of the 'one country, two systems' principle. To fulfil the 1999 commitment to the European Parliament, an annual report is issued on developments in Macao. This is the 11th such report, covering developments in 2012.

The European Union's relations with the Macao SAR are based on common values, a European heritage and shared interests in the economy, the environment, education and culture. During 2012, bilateral relations developed further within the framework of the Agreement for Trade and Cooperation. The Agreement signed in 1992 entered into force on 1 January 1993.

The EU acknowledges the satisfactory implementation of the 'one country, two systems' policy during 2012 in accordance with the Basic Law of the Macao SAR. The fundamental rights and freedoms of Macao's people were respected. Economic policy continued to follow market-led principles, guided by the rule of law. Promoting transparency and good governance remained a priority on which some progress was made. Macao's political governance system moved towards a greater degree of democracy. The EU hopes more progress will be made in this regard, eventually leading towards universal suffrage for the election of both the Chief Executive and the Legislative Assembly.

POLITICAL DEVELOPMENTS

2012 was the third year in office for Chui Sai On, Chief Executive of the Macao SAR. In his annual policy address, delivered on 15 November, he said that over the year the Macao Government had successfully maintained steady economic growth and enabled the necessary diversification of the economy, with the objective of becoming a world tourism and leisure centre. The Government continued to uphold the 'Putting people first' policy-making principle and was committed to enabling people from all walks of life to share the fruits of economic development and to raising their standard of living. The Chief Executive promised to fully exploit Macao's advantages in order to speed up adequate economic diversification.

Following public consultations and their approval by the National People's Congress Standing Committee and the Legislative Assembly, Annex II of the Basic Law was amended regarding the method for electing the Chief Executive and forming the Legislative Assembly of the Macao SAR. The number of Legislative Assembly members was increased from 29 to 33. There are two new geographical constituency seats and two new directly elected functional constituency seats. The amendment will be in force for the election of the Legislative Assembly in September 2013. It also increased the number of members of the committee that elects the Chief Executive from 300 to 400. It will be the basis for the next election of the

Chief Executive in 2014. All in all, it is a modest but positive step towards strengthening the democratic basis of Macao SAR's governance.

Freedom of expression is generally respected in Macao. The print and electronic media give voice to a broad range of views. There is nonetheless a growing sentiment that the media exercise self-censorship. Because the Macao media heavily depend on government subsidies, there were reports that decisions about employing journalists were made bearing in mind the (perceived) interests of the Government. There is freedom of assembly but there were reports that the law enforcement bodies were too restrictive. In accordance with its Basic Law, Macao respected and protected freedom of religion and beliefs. There were no reports of abuse or discrimination based on religious affiliation, belief or practice. The Government recognised that the problem of human trafficking was getting worse and sought cooperation with international partners, including the EU, to tackle this.

Promoting transparency and good governance remained a priority, as shown by several high-profile corruption cases. As of 2012, the Macao SAR no longer appears in Transparency International's (TI) corruption perception index. This is due to an internal change in the methodology that is unrelated to Macao. In 2011, Macao scored 5.1 on the TI index, 10 being the most transparent. In 2012, the Commission Against Corruption (CCAC) reported that, of the 804 cases handled in 2011, 350 were criminal cases, a big decrease from the 768 criminal cases prosecuted in 2009. This shows that transparency is steadily improving in Macao. The Legislative Assembly debated a government proposal on the Law on Declaration of Assets and Interests. It requires senior staff of the three branches of government to disclose all local and non-local assets. The law was passed on 4 January 2013.

ECONOMIC DEVELOPMENTS

The Macao economy slowed down noticeably in 2012, with GDP expanding by 9.9%¹ in real terms (compared to a steep growth of 21.9% in 2011). This was due to a less impressive growth in exports of gaming services and visitor spending associated with a relatively weaker growth of the Chinese economy. The total number of visitors to Macao was 28 million, growing marginally at 0.3% compared to the number in 2011. Mainland Chinese visitors made up 60% of visitor arrivals. Private consumption expenditure and investment held up reasonably well. Inflationary pressure was high at 6.1% during the year. Despite the slowdown in growth, Macao retained its position as the world's largest casino market in 2012, a position it has held since 2006. Annual gambling revenue rose by 13.5% to reach a record 304 billion patacas² (€29.6 billion).

GDP was 611 930 patacas per head (EUR 59 635³) in 2012, putting Macao in the world's top ten. At the same time, overall median monthly earnings amounted to 12 000 patacas (around EUR 1 169) in the 4th quarter of 2012. Many Macao citizens face difficulties finding affordable housing with the elderly often in a vulnerable position. To improve people's livelihood, in his November policy address the Chief Executive announced that the cash bonus scheme begun in 2008 would be continued, with an increased amount of 8,000 patacas (€780) for all permanent residents and more spending on social, educational and medical benefits. The benefit package included a 600 patacas (€58) medical voucher, reducing salary

¹ Source: Unless otherwise stated, all economic data are official figures released by the Census and Statistics Service of the Macao SAR Government.

² Source: Gaming Inspection and Coordination Bureau of the Macao SAR Government

³ The average 2012 exchange rate for euro/patacas is 10.2612.

income tax by 30%, tax rebates, stamp duty waivers, subsidy and monthly pension for the elderly, education subsidies, electrical bill allowances, assistance for low-income families and injecting funds into the central saving accounts. Ten billion patacas (€970 million) was allocated to healthcare to build a more effective medical system and a primary healthcare network to provide all residents with free health and specialist medical services by 2020.

Gaming has become more important than ever as the economic pillar of Macao, contributing to over 40% of GDP compared to less than 30% a decade ago. The gaming sector in the strict sense employed 23%⁴ of Macao's total workforce. If related sectors such as tourism services, retail or gaming-related construction are included, this number is believed to exceed 70%. Gaming tax contributed to 83% of fiscal revenues in 2012⁵.

Economic diversification beyond the gaming sector remains a stated goal of the Macao Government. It took some measures to develop non-gaming economic activities, such as the MICE (Meetings, Incentives, Conventions and Exhibitions), and creative and cultural industries. Only limited progress was made on diversification, however, due to infrastructure bottlenecks, the absence of ancillary business clusters and a shortage of human resources. The last factor was a key constraint, because the gaming sector and related sectors continued to outbid other sectors in attracting labour. The unemployment rate fell to 1.9% in the fourth quarter of 2012, the lowest rate in the last decade.

To temper the rapid growth of the casino industry, the SAR Government continued to implement various control measures, including capping the number of gambling tables at 5500 until 2013, and limiting the average yearly increase in the following ten years to 3%. By the end of 2012, there were 5 485 gaming tables in operation. To prevent young people from getting involved in gambling activities, the minimum age for entering casinos was raised from 18 to 21 as from November 2012.

To ease infrastructure bottlenecks and make the economy more sustainable, Macao agreed with the Central Government to lease a plot of land on Hengqin Island, in the neighbouring municipality of Zhuhai, in mainland China, which will be developed into a special economic zone. The Macao Government ruled out building casinos in this zone, focusing instead on non-gaming sectors, including technology services and creative industries. The zone will also accommodate the new campus of the University of Macao whose construction will be completed in 2013. This part leased by Macao for the University will be under Macao's jurisdiction until 2049.

On 12 October, the Macao Legislative Assembly passed measures to curb speculation in the property market. The measures extend the special stamp duty on residential property transactions, introduced in June 2011, to shops, offices and car parks. The latter had become the most recent objects of speculators, as hot money reached the market, partly as a result of financial easing in the US. The special stamp duty rates were fixed at 20% in the first year, dropping to 10% in the second year. Corporate and foreign buyers are charged with an extra 10% on top of that.

The 9th supplement to the China and Macao Closer Economic Partnership Arrangement (CEPA) was signed on 2 July 2012. On 1 January 2013, 48 new services liberalisation measures entered into force. Of the current 160 service sectors in mainland China, 149 are

⁴ Source: Employment Survey 4Q/2012, Census and Statistics Service of the Macao SAR Government.

⁵ Source: Financial Services Bureau of the Macao SAR Government. The 2012 figure covered the period from January to November 2012 only.

now open to Macao-based service providers. Trade in goods was fully liberalised in 2006 under Supplement II. The latest supplement focused on facilitating cross-border cooperation for the concessions of Macao establishments in Hengqin. European businesses continue to follow the developments related to CEPA and the Hengqin special economic zone with interest, given the investment opportunities these initiatives offer for business with mainland China.

In addition to economic integration with the Pearl River Delta region, Macao continued to strengthen its position as a bridge between mainland China and the Portuguese-speaking countries under the Macao Forum for Economic and Trade Cooperation. The Central Government pledged to support Macao in its bid to become an international tourism and leisure hub and a platform for business and trade between China and the Portuguese-speaking countries.

EU – MACAO COOPERATION

The highlight of EU-Macao cooperation was Macao Chief Executive Chui Sai On's visit to the EU on 10 January 2012, during which he was received by President Barroso. 2012 also marked the 20th anniversary of the signature of the Agreement for trade and cooperation between the European Economic Community and Macao.

EU-Macao bilateral trade grew steadily during 2012. In the first nine months of the year, EU exports to Macao rose by 17% to €282 million⁶ as Macao's import demand increased with its robust economy. It is a growing market for EU luxury goods, gourmet food, wine and vehicles. This is because casino operators are developing non-gaming income streams such as luxury shopping. The EU has recorded trade surpluses with Macao since 2009 (€192 million in the first nine months of 2012), and was its second largest import supplier after China, accounting for 23%⁷ of its imports in 2012.

More cooperation between the EU and Macao, including cooperation in new areas of common interest such as culture and environmental protection, remains a key goal for both parties. This was confirmed by the constructive discussions at the annual EU-Macao Joint Committee Meeting, held in Brussels on 4 December 2012.

During the Joint Committee meeting, both sides reviewed the latest developments in their relationship, including developments in trade and investment. Both sides took stock of cooperation activities, including the Legal Cooperation Programme, the training programme for Macao interpreters and the activities in Macao under the EU Business Information Programme for Hong Kong and Macao (EUBIP). They also discussed cooperation on tax matters and shared views on possibilities of cooperation in the area of taxation of savings, taking into account recent international developments in the field of exchange of information between tax authorities and the need for international level playing field.

The Horizontal Agreement between Macao and the European Union on Certain Aspects of Air Services was initialed in the margins of the 2011 Joint Committee Meeting. The procedures for its formal signature were on track, after the text was translated into Chinese and Portuguese.

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Source: Eurostat.

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Source: Statistics and Census Service of Macao SAR Government.

The EUBIP activities, co-funded by the European Commission and managed by the European Chamber of Commerce (ECC) in Hong Kong continued. EUBIP has been a successful in increasing business-to-business links between the EU and Macao. During the year, it organised events on the protection of intellectual property, CEPA and trade relations between the EU and Greater China, including Macao. It also encouraged EU participation in Macao's two annual major events, the Macao Investment Forum and the Macao International Environmental Cooperation Forum and Exhibition. The participation of the EU, alongside the EU Member States and European businesses, with a joint EU pavilion at these two events, ensured significant visibility for the EU. It also provided a good networking platform for Macao and mainland Chinese visitors, and an opportunity to showcase EU businesses. The EUBIP programme ended in November 2012; a successor programme will be launched in 2013.

On 1 September 2012, the Macao EU Academic Programme began. It is implemented by a consortium comprising the University of Macao and the Macao Institute of European Studies, as well as EU partners. The aim of the programme is to promote academic research, develop outreach activities to enhance the visibility of the EU and strengthen academic cooperation with EU higher education institutions.

The EU and Macao renewed their cooperation on training bilingual Chinese-Portuguese interpreters. On 21 November 2012 the Director-General of the EU's Common Service for Interpretation and Conferences and Macao's Secretary for Administration and Justice signed a Memorandum of Understanding to that effect, aimed at increasing the number of qualified interpreters to meet the needs of the Macao administration's Chinese-Portuguese language regime. Under the programme, interpreters will be trained in Macao and Brussels over a five-month period.

On 4 December 2012, a photo exhibition on Macao, entitled 'Bridging Time', was opened at the European Commission headquarters in Brussels.

The EU will continue to nurture its relationship with the Macao SAR, increase economic and trade links, improve cooperation with business and civil society, and promote mobility and exchanges with the people of Macao. The various exchanges and dialogues between the EU and Macao are set to continue in 2013. In particular, the EU expects an increase in activities related to cultural exchanges, academic cooperation, environmental and legal cooperation and cooperation related to Macao's goal of economic diversification.