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

Macao Special Administrative Region: Second Annual Report 2001

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1. INTRODUCTION

The European Union attaches great importance to the effective and full implementation of the Basic Law and the “one country, two systems” principle in the Macao Special Administrative Region of the People’s Republic of China, and has therefore closely followed the evolution of the Macao SAR with friendly interest. As in the Commission’s first annual report, this report aims to assess the development of the Macao SAR and to comment on EU-Macao relations.

2. IMPLEMENTATION OF THE “ONE COUNTRY, TWO SYSTEMS” PRINCIPLE.

Two years after the hand-over of Macao to China, it is reassuring to note that both the Central Government in Beijing and the Macao SAR Government continue to attach great importance to the “one country, two systems” principle. In his report to the National People’s Congress on 5 March, Prime Minister Zhu Ronghi declared: “We will continue to adhere to the principle of “one country, two systems” and the Basic Laws of Hong Kong and Macao Special Administrative Regions. We will render full support to the Chief Executives and governments of Hong Kong and Macao in their efforts to govern the regions in accordance with the law, and defend the long term prosperity and stability of Hong Kong and Macao”.

The Macao Government continues to administer the Special Administrative Region both on the internal and international levels in an autonomous way as prescribed by the Basic Law. An important and interesting concrete example is the gambling industry. In the framework of liberalisation of this sector, the central government of Beijing reiterated several times that companies with mainland capital are strictly forbidden to participate in the tender for gambling licenses.

– *Article 23 of the Basic Law*¹.

During a ceremony commemorating the eighth anniversary of the publication of the Macao Basic Law, Mr Qiao Xiao Yang, the deputy chairman of the Legal Affairs Committee of the National People’s Congress, reminded the Macao SAR authorities that they needed to introduce, according to Article 23 of the Basic Law, anti-sedition legislation but added that the timing for this was a decision for the Macao SAR authorities to take.

– *Notification system between the Mainland and Macao.*

In Beijing on 6 June, the Mainland and Macao authorities signed an “Arrangement on a mutual notification system between public security organisations and the Macao Security Bureau”. The notification system applies to criminal and customs infringement issues, and became operational on 1 September.

¹ Article 23: The Macao Special Administrative Region shall enact laws, on its own, to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets, to prohibit foreign political organizations or bodies from conducting political activities in the Region, and to prohibit political organizations or bodies of the Region from establishing ties with foreign political organisations or bodies.

3. INSTITUTIONAL DEVELOPMENT.

The second year of the Macao SAR's existence saw a consolidation of the various institutions established in 2000. The first legislative elections confirmed the progressive evolution towards more democracy. The government completed its organisation by merging some branches within the police and within the customs administration. In order to improve quality and efficiency, the government set up a programme to train senior and mid-ranking civil servants. The government also plans to train more lawyers to improve law-drafting capacity and to provide more qualified judges for the courts.

– *Election of the Legislative Assembly.*

The first legislative elections after the hand-over were held smoothly on 23 September, with a respectable turnout of 52.33 %. In conformity with the Basic Law, the number of legislators elected both by direct universal suffrage and indirect suffrage by functional constituencies were each increased from eight to ten seats.

There were a total of 15 lists for the election of the ten legislators elected by direct universal suffrage, including one from the Portuguese community in Macao. Ten legislators from the four functional constituencies were automatically elected in the absence of any competing list. The Chief Executive appointed seven more legislators on 10 October as prescribed by the Basic Law. The two-seat increase in seats elected by direct universal suffrage in 2001 is the first step in the process of progressive democratisation, and the number will be further increased by two in the next legislative elections in 2005.

– *Reorganisation of certain branches of the administration.*

To improve co-ordination between public security policy and the judicial police, the government unified command of the police under the control of the Secretary for Security. This will improve police efficiency and thus improve the security situation in Macao.

Up to the end of October 2001, customs functions were carried out by several government departments, namely the marine police and customs, the Macao Economic Services, the Macao Post Office, and the Statistics and Census offices. The Legislative Assembly adopted on 15 May a bill establishing a unified Customs service incorporating all customs functions in a single administrative department led by the Commissioner for Customs. The new department became operational on 1 November last year.

The Macao SAR Government organised training sessions for senior and mid-ranking administration officials to improve the efficiency and quality of civil servants and the services provided to the general public. The insufficient number of experienced lawyers needed to allow it to implement legal reforms during 2002 particularly concerns the government. The signing of a financing agreement on the legal co-operation project between the EU and Macao is particularly welcome in this respect.

– *Abolishment of two provisional municipal governments.*

Following a government proposal, the Legislative Assembly adopted in December a bill creating a General Office of Civil Affairs from 1 January 2002. This office will take over the tasks previous carried out by the two provisional municipal governments, which have now been abolished.

4. THE ECONOMIC SITUATION

Following a moderate recovery in 2000, Macao's economy recorded a slower pace in 2001 in tandem with the global downturn. Real GDP growth slowed to 2.1% for 2001 from 4.6% in the previous year. The slowdown was mainly caused by a contraction of external demand for merchandise exports in major overseas markets. Yet, thanks to a buoyant tourism sector, the economy still managed to achieve a mild growth in 2001. But unemployment continued to be an issue of concern (see below).

The liberalisation of the gambling industry was regarded as the most important development of Macao in 2001. The casino monopoly that granted to Sociedade de Turismo e Diversões de Macau (STDM) in 1962 expired on 31 December 2001, but was extended for 3 months pending the decision for granting new licences. The Macao Legislative Assembly adopted a new gambling industry regime in September, abolishing the monopoly system and introducing three new licences to be issued by public tender. Local, Hong Kong and multi-national corporations submitted a total of 22 bids, reflecting the attractiveness of Macao's gambling industry. The new system is generally well regarded, and an anti-competitive behaviour mechanism is built-in. STDM had to apply for a new licence in line with the new procedures.

The Macao SAR Government depends heavily on gambling taxes as its fiscal income. In the first eleven months of 2001, direct tax from gambling amounted to 5.96 billion patacas² (828 million euro), accounting for about 60% of fiscal revenues. By liberalising the gambling regime, the Government hopes that overall industry competitiveness will be enhanced, and more foreign investment will be generated, boosting public revenue and economic growth.

The tourism industry performed favourably in 2001 with the total number of visitors hitting a record level of over 10 million, an increase of more than 12% from 2000. Over 90% of the visitors were from the Greater China region - about half of these from Hong Kong, over one quarter from Mainland China and the rest from Taiwan. Last year's growth was mainly underpinned by the growth of Mainland Chinese visitors and, to a lesser extent, visitors from Taiwan.

Unemployment remained high at 6.4% in the three months to December 2001 - slightly improved from 6.8% in 2000. The unemployment situation was particularly acute in the manufacturing and construction sectors. The number of non-resident workers fell slightly to 25,925 in 2001 from 27,221 in 2000.

Another issue of concern was the planned phasing out of the textile quota by 2005. The textiles and clothing sectors account for over 80% of Macao's exports, and employ over 22% of the total working population. The industry has been lobbying for a well-defined policy to deal with the situation, and this has not yet appeared.

In his third Policy Address released in November 2001, the Chief Executive outlined a series of relief measures to help the needy and businesses to cope with the economic downturn. The package included generous tax cuts, financial aid and spending on infrastructure development that would create 6,000 jobs. The budget also allocated 400 million patacas for retraining of 4,000 unemployed persons to upgrade their skills.

² Average RoE for 2001: 1 Euro = 7.1962 Patacas.

Merchandise exports fell by 9.4% in 2001 to 18,473 million patacas as a result of a slackening global demand. On the other hand, imports increased by 5.9% to 19,170 million patacas. A trade deficit of 697 million patacas was recorded.

In 2001, bilateral trade between the EU and Macao declined slightly by 3.7% to €996 million. The EU was Macao's second largest export market, taking up 26.6% of the total exports. The EU was also the third largest import supplier to Macao, contributing 12.6% of total imports.

5. THE MACAO SAR AS AN INTERNATIONAL PARTNER

As provided for under the Basic Law, the Macao SAR conducts its own trade policy for which it has full competence as a separate customs territory. Macao is an independent member of the WTO and of a number of international organisations.

The four-yearly WTO Trade Policy Review of Macao, held in Geneva in March 2001, discussed Macao's trade and economic policies extensively on the basis of reports from the Macao SAR Government and the WTO Secretariat. The Secretary for Economy and Finance, Mr Francis P Y Tam, led the Macao delegation, and the European Community participated actively in the discussions. The positive outcome recognised Macao's free trade and open market policies.

Macao participated in, and expressed satisfaction with the outcome of, the landmark Ministerial Conference at Doha in November.

The accession of the People's Republic of China to the WTO, agreed at the Ministerial Conference in Doha, was a milestone in the history of the multilateral trading system. The Macao SAR and the EU expressed their satisfaction at the completion of the negotiating process leading to accession.

Macao is also a member of the World Customs Organisation.

- *Financial Action Task Force*

Macao had been an observer of the Asia Pacific Group of Money Laundering of the Financial Action Task Force (FATF) since 1999 and became a full member in 2001. The FATF was set up by the G7 in 1989 and, at present, it has 29 members and 2 observers. Its main purpose is to promote policies to combat money laundering. Macao has endeavoured to combat money laundering by improving co-ordination of the different bodies and agencies active in that area. The Macao SAR Government announced in August 2001 that an anti-money laundering task force would be set up at the end of the year.

During 2001, Macao concluded two further air services agreements with third jurisdictions, bringing the total number of concluded agreements to 33, and initialled three others. These agreements are intended to promote air transport and the use of Macao International Airport. The Macao SAR Government reported at the end of the year that both cargo volume and the number of passengers using Macao International Airport had grown substantially during the year.

6. EU-MACAO RELATIONS

– *Exchange of visits.*

2001 was an intense year in EU-Macao relations, highlighted by the visit of Chief Executive Ho Hau Wah to the European Commission and by the European Union granting visa free access to Macao passport holders to the territory of the EU (except, for the moment, the United Kingdom and the Republic of Ireland).

The Chief Executive of the Macao SAR, Mr Ho Hau Wah, paid an official visit to the European Union on 19 and 20 June 2001. He led a high-ranking delegation that included the President of the Legislative Assembly, Mrs Susana Chou, and the Secretary for Administration and Justice, Mrs Florinda Chan. The Chief Executive met the President of the Commission, Mr Romano Prodi, and Commissioners Patten and Vitorino. The transition of Macao and the political and economic situation were discussed and views were exchanged on how to promote further links and co-operation between the EU and Macao. Commission President Prodi congratulated the Chief Executive on the good start made by the Macao Special Administrative Region. The Macao delegation also visited the European Parliament and met Vice President Mr Colom i Naval.

In December 2001, European Central Bank Executive Board Member Mr Domingo Solans paid a visit to Macao where he was received by the Chief Executive.

– *Visa free access to the EU*

On 15 March 2001, the Council of Ministers of the European Union adopted a regulation establishing the list of third countries or territories whose citizens must or must not be in possession of visas when entering EU territory. This regulation granted visa free access to passport holders of the two Chinese SARs, Macao and Hong Kong, with the exception of the territory of the United Kingdom and the Republic of Ireland³. The regulation came into force on 10 April and has since been implemented without any difficulties. The Commission is pleased to note that the Council accepted the Commission proposal and adopted it in a very short period.

In addition to those of the EU, fourteen other countries granted visa free access to Macao SAR passport holders in the course of 2001.

– *Readmission agreement*

Delegations from the Macao SAR Government and the Commission held talks in October to negotiate a readmission agreement. Considerable progress was made at the negotiations and further work is expected in the course of 2002 to finalise an agreement.

– *Joint Committee*

The eighth meeting of the Joint Committee established under the EU-Macao Co-operation Agreement was held in Macao on 22 October 2001. The meeting enabled both sides to review

³ It is worth noting that, in the meantime (as of May 2002), the UK and Ireland followed suit and, by means of autonomous decisions taken under their respective national immigration legislation, also lifted their visa requirements for Macao SAR passport holders.

developments over the past year and to consider the Commission's first Annual Report on Macao. Co-operation activities including the implementation of the current projects were discussed. The launching of a new co-operation project dealing with legal co-operation is expected to take place in the first part of 2002.

– ***Asia-Enterprise***

With the financial support of the European Commission through its Asia-Invest programme, a business-to-business metal sector meeting was held in Macao in September 2001. Over 100 companies from the EU and from China participated in the meeting.

– ***Intellectual Property Rights***

The Commission continued to monitor developments on intellectual property rights protection in Macao. The WTO TRIPS Council in Geneva examined Macao's legislation on Intellectual Property Rights, and found that, in general terms, Macao's legislation was consistent with its WTO obligations. The setting up of a unified Customs Service is a welcome development, which should continue to improve intellectual property rights enforcement in the SAR. A seminar on intellectual property rights bringing together the intellectual property agencies including enforcement bodies from Mainland China and the Macao and Hong Kong SARs was held in Macao in December 2001. The EU welcomes this co-operation which will help contribute to better IPR enforcement.

Macao was recently removed from the US Special 301 Watch List (the list of countries and economies with serious intellectual property rights problems), which indicates that Macao has made substantial progress its IPR legislation. Nevertheless, like elsewhere in the region, copyright piracy and trademark counterfeiting remain key concerns for EU industry. The Macao SAR should sustain its efforts to enforce intellectual property rights.

7. CONCLUSION

The Macao SAR has pursued its good start in consolidating the institutions established since its creation. The free Legislative Assembly elections held in September showed the commitment of Macao citizens to the exercise of their basic political rights. The increased number of legislators elected through direct universal suffrage marked progress towards more democracy. The participation of the Portuguese community in the direct legislative elections reflected their confidence in the Macao SAR.

Two years after the hand-over, the Macao SAR is shaping up reasonably well for the future, despite the economic downturn. The Commission will endeavour to work and co-operate with the Macao authorities to help the SAR's stable development, in line with the 'one country, two systems' principle.