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JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Macao Special Administrative Region: Annual Report 2011

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INTRODUCTION

Since the handover of Macao to Mainland China 12 years ago, the European Union and its Member States have closely followed political and economic developments in the Macao Special Administrative Region (SAR). In order to fulfil the 1999 commitment to the European Parliament an annual report is issued on developments in Macao. This is the tenth report, covering developments in 2011.

The European Union's relations with Macao are based on common values, a European heritage and shared interests in economy, environment, education and culture. During 2011, bilateral relations have developed further within the framework of the Agreement for Trade and Cooperation signed in 1992.

The EU acknowledges the satisfactory implementation of the "one country, two systems" policy during 2011 in accordance with the Basic Law of the Macao SAR. The fundamental rights and freedoms of Macao's people have been respected. The EU hopes to see further progress towards greater democracy in Macao in the framework of its Basic Law and the wishes of the people of Macao.

POLITICAL DEVELOPMENTS

2011 has been the second year in office for Fernando Chui, Macao's Chief Executive. In his annual policy address, delivered on 15 November, Fernando Chui reiterated that improving people's livelihoods remains his administration's first priority. He also highlighted policy measures to diversify Macao's economy. For the first time, he unveiled plans for political reform which would be introduced in a steady and orderly manner.

On 17 November the Macao SAR government asked the National People's Congress Standing Committee to interpret the Basic Law to allow modifications to the method of formulation of the fifth Legislative Assembly in 2013 and the method of selection of the Chief Executive in 2014. Following procedural clarifications received in late 2011, the Secretary for Administration and Justice, Florinda Chan began the process of public consultation to solicit public opinion's views in order to amend Macao's political system.

In 2011, the Macao Economic and Cultural Office was opened in Taiwan. In Macao, Taiwan opened a Taipei Economic and cultural Office. The Offices aim to enhance Taiwan-Macao cooperation and exchanges in economy, trade, tourism, and culture.

ECONOMIC DEVELOPMENTS

In 2011, Macao's economy experienced a substantial growth. GDP increased by 21.8%¹ in real terms for the first three quarters, driven by the booming tourism and gaming sectors as well as a revival of investment spending. Along with continuous inflows of tourists, gaming revenues rose to a new record level of 269 billion patacas² in 2011, an increase of 42% from 2010. Visitor arrivals grew by 12% to reach 28 million in 2011 with Mainland Chinese visitors accounting for 58% of Macao's tourism base, providing the major impetus to the rapid growth of Macao's economy. Macao has continued to be the world's largest casino market with a size far exceeding its nearest competitors.

To benefit from this tourism boom, developers have planned to construct more resort-casinos in Macao. As of the third quarter of 2011, there were altogether 32 new hotel projects under construction and/or going through approval procedures by the relevant authorities³. Once completed, more than 24,000 rooms will be added to the current capacity of 22,356 rooms. To curb excessive casino growth, the Macao SAR government has stated that the number of gaming tables would be capped at 5,500 by 2013, and then limited to 3% growth annually.

As a result of the rapid expansion of the service industries, the problem of labour shortages has become more acute than before. The unemployment rate fell to 2.1% in the fourth quarter of 2011, the lowest in the last decade. Macao increasingly relied on imported workers and professionals to meet the needs of its growing economy. By the end of 2011, the number of non-resident workers rose to 94,028 from 75,000 in 2010, accounting for 28% of the total workforce. The corporate sector is calling for a more dynamic and flexible labour import regime to ease the shortages of both unskilled workers and professional staff.

The inflation rate rose rapidly from 2.8% in 2010 to 5.8% in 2011. To improve people's livelihood and help combat inflation, the Macao SAR government continued to provide various relief subsidies and direct cash handouts to all residents. This measure has been in place since 2008.

Diversification of the economy remains a key challenge.. Gaming continued to expand rapidly and remained the largest sector of employment, employing 21% of Macao's total workforce. Gaming tax contributed to 83.5% of fiscal revenues in 2011, compared to 72% in 2007⁴. Some improvements were made in other non-gaming sectors such as the MICE (Meetings, Incentives, Conventions and Exhibitions), creative and cultural industries. Most efforts to diversify Macao's economy were government-led, including the organisation of several large-scaled trade fairs and forums. Hotels, restaurants and the retail sectors also performed well last year.

Regional integration is a top priority for Macao. Macao continues to foster further integration with the Pearl River Delta region and is carving out a niche position as a bridge between China and the Portuguese Speaking Countries under the Macao Forum for Economic and Trade Cooperation. Macao's role was underlined in a dedicated chapter of China's 12th Five-Year Plan. China pledges to support Macao to be an international tourism and leisure hub, a

¹ Unless otherwise stated, all economic data pertaining to Macao are official statistics released by the Statistics and Census Service of the Macao SAR Government.

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

³ Source: Land, Public Works and Transport Bureau, of the Macao SAR Government.

⁴ Source: Financial Services Bureau of the Macao SAR Government.

platform for business and trade between China and the Lusophone countries. China also supports moderate diversification of Macao's economy. The Guangdong-Macao Cooperation Framework Agreement was signed immediately after the unveiling of the 12th Five-Year Plan in March 2011. The Agreement seeks to strengthen the socio-economic integration of Macao and Guangdong, facilitate diversification of Macao's economy and improve implementation of the Closer Economic Partnership Arrangement (CEPA) with China. CEPA Supplement VIII was signed on 14 December 2011.

Hengqin (situated in Zhuhai, Mainland China) is a key development project between Macao, Zhuhai municipality and Guangdong province under the Guangdong-Macao Cooperation Framework Agreement. It is regarded as an exemplary zone for a new mode of cooperation between the provincial authorities and the Macao SAR. 1km² of the plot Macao rented in Hengqin will be used by the Macao University while the remaining 4km² will be used for developing new industries. European business has expressed a strong interest in this latter part of Hengqin. The leased area will be run under Macao's jurisdiction, and more detailed planning is underway. The Macao SAR government has ruled out building more casinos on this geographical extension of the SAR.

Macao has made notable progress in extending its network of agreements on exchange of information for tax purposes. In 2011, Macao concluded eight tax information agreements and one double taxation agreement protocol providing for exchange of information with its trading partners. Previously Macao had already concluded five double taxation agreements, thus it has now exceeded the threshold of 12 relevant tax agreements required by the G-20 (6 with the EU Member States). Macao's efforts to establish agreements to the internationally agreed standard were duly recognised by the OECD Global Forum on Transparency and Exchange of Information in its Phase I Peer Review Report.

Regarding EU-Macao trade, bilateral merchandise trade flows have reversed since 2008, with EU exporting more to Macao than vice versa. This trend resulted from Macao's shrinking manufacturing base and a robust demand for imported goods. In the first nine months of 2011, EU exports to Macao surged by 68% to €247 million while EU imports from Macao amounted to €60 million⁵. The EU was Macao's second largest imports supplier after China, accounting for 24% of its total imports in 2011⁶. Regarding investment, there were 54 companies of EU origin established in Macao⁷; over half of them were in the wholesale and retail business, the rest were by financial institutions, transport, communications, and industrial production companies. EU business chambers in Macao are also becoming increasingly active.

EU – MACAO COOPERATION

During 2011 bilateral relations and cooperation between the EU and Macao continued to develop building on the solid basis already established. Strengthened cooperation between the EU and Macao, including cooperation in new substantive areas of common interest, remains a key goal for both parties. This was reconfirmed by the constructive discussions at the annual EU-Macao Joint Committee Meeting, held on 29 June 2011 in Macao.

⁵ Source: Eurostat, as at 12 Jan 2012.

⁶ Source: External merchandise trade statistics, Statistics and Census Service of the Macao SAR Government.

⁷ Source: Direct Investment Statistics 2010, Statistics and Census Service of the Macao SAR Government.

During the Joint Committee meeting, both sides reviewed the latest developments in their relationship, including in the area of trade and investment. Both sides took stock of existing cooperation activities, including the Legal Cooperation Programme and the ongoing training programme for Macao interpreters, as well as the various activities in Macao under the EU Business Information Programme for Hong Kong and Macao (EUBIP). Both parties updated each other on the state of cooperation in tax matters and on their respective positions regarding possibilities for enhanced cooperation in the area of taxation of savings.

There was also a fruitful exchange on other substantive issues of common interest, including education, cultural exchanges and environmental protection and the willingness to explore these areas as possible areas for future cooperation. The EU encouraged Macao to sign up to the WTO Government Procurement Agreement. The progress made in these new areas illustrates the widening bilateral relationship between the EU and Macao.

On 29 June in the margins of the Joint Committee meeting, the Horizontal Agreement between Macao and the European Union on Certain Aspects of Air Services was initialed. This marked a strengthening in bilateral relations in the field of air transport.

The activities of the EUBIP in Macao, co-funded by the European Commission and under the management of the European Chamber of Commerce (ECC) in Hong Kong, have continued to increase in number and have become more diverse. EUBIP continues to be a successful channel for an increased understanding between the business communities of the EU and Macao. During 2011, priority was given to the sovereign debt crisis in Europe, CEPA and trade relations between the EU and Greater China, as well as the participation in the two major annual events in Macao (MIF and MIECF). The participation of the EU alongside EU Member States and European businesses with a joint EU pavilion at these two events has resulted in significantly increased visibility for the EU, and has also provided a good networking platform for Macao and Mainland Chinese visitors, and exhibiting EU businesses. EUBIP has attracted strong support and participation from the EU Member State business chambers for its activities in Macao. However, a more direct participation of Macao-based industry in the EUBIP business councils for various industry sectors could contribute to a better identification and understanding of business' specific concerns and interests.

The EU and EU Member States accredited to the territory increased public diplomacy efforts, with the aim to further intensify ties with Macao, enhance people to people contacts and promote educational exchanges between faculties and students including through the Erasmus Mundus programme. The EU continued to support the Jean Monnet chair at the University of Macao, which continued to organise many successful Jean Monnet conferences throughout the year. Inter-cultural dialogue was further deepened with the joint European UNESCO heritage sites photo exhibition.

In late 2011, the EU launched a call for proposals for an EU Academic Programme in Macao which will run from 2012-2015. The main objective is to develop outreach activities to enhance the visibility of the EU and strengthen academic cooperation with EU higher education institutions, including encouraging more scholars and students to undertake research and studies on EU related issues.

2011 witnessed further cooperation to increase the number of qualified interpreters available to the Macao authorities to meet the needs of their bilingual Chinese-Portuguese administration. Under the programme, training of interpreters takes place in Macao and Brussels over a five month period.

The EU will continue to nurture its relationship with Macao SAR, increase economic and trade links, enhance cooperation with business and civil society and promote mobility and exchanges with the Macao people. The various exchanges and dialogues between the EU and Macao are set to continue in 2012. In particular, the EU expects an increase in activities related to cultural exchanges and academic issues.