



HIGH REPRESENTATIVE
OF THE UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 22.7.2020
JOIN(2020) 12 final

JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
MACAO SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT FOR 2019

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Summary

Since the handover of Macao to the People's Republic of China in 1999, the European Union and its Member States have closely followed political and economic developments in the Macao Special Administrative Region (SAR) under the 'one country, two systems' principle. The European Union continues to abide by its 'one China' policy and supports the 'one country, two systems' principle and its implementation. This annual report on developments in Macao is issued in line with the commitment given to the European Parliament in 1997.

In 2019, the 'one country, two systems' principle continued to be implemented, to the benefit of the Macao SAR, China as a whole and the international community.

In December, a new Chief Executive, Ho Iat-Seng, took office. President Xi Jinping made a three-day visit to Macao to mark the appointment and the twentieth anniversary of Macao's handover.

The rights and fundamental freedoms of the people of Macao continued to be generally respected and the rule of law was upheld in 2019 under the 'one country, two systems' principle enshrined in the Basic Law of Macao. Macao's media continued to express a broad range of views, though there were concerns about increasing self-censorship.

Whilst the Basic Law and other legislative acts do not provide for the introduction of universal suffrage, the EU encourages the Macao authorities to foster greater public involvement in elections for the position of Chief Executive and for the Legislative Assembly.

On the economic front, Macao remains the world's largest casino centre, and gaming tourism drives the region's economic growth. The slowing down of the Chinese economy and the US-China trade war were the main factors behind a 3.5% contraction in Macao's GDP. This highlights the fact that its small and largely open economy is heavily dependent on economic, financial and policy developments in mainland China. Diversification efforts continue, with moderate success, as gaming activities still account for almost half of GDP.

Economic cooperation with mainland China was stepped up in 2019: new measures in the field of financial services were announced around the visit of President Xi, with a view to supporting Macao's diversification.

Political developments

There were major changes in the Macao Government at the end of the year with the election of the new Chief Executive, Ho Iat-Seng, and appointments to other senior positions.

The Election Committee selected Ho Iat-Seng as the new Chief Executive to replace Fernando Chui on 25 August, with 392 of the 400 ballots cast in his favour. As an alternative candidate would have required 66 nominations by the Election Committee, Ho Iat-Seng was elected to the position unopposed.

The new Government took office on 20 December. The incoming Chief Executive was sworn in during a three-day visit to Macao by President Xi Jinping. Two of the five secretaries, the Secretary for Security and the Secretary for Transport and Public Works, were retained from the previous administration. Three of the serving members of the 11-strong Executive Council were retained.

Several legislative initiatives received significant attention during the year.

A bill on cybersecurity became law on 22 December 2019. One of its requirements is mandatory real-name registration by telecom services users for services such as the purchase of pre-paid SIM cards. This will be implemented by telecom services providers. Internet service providers will retain their users' online activity logs for at least one year. Operators of key infrastructure (such as transport, telecommunications, electricity, and water supply) are mandated to enforce cybersecurity measures. A new Cybersecurity Incidents Alert and Response Centre (CARIC) will be established, under the coordination of the Judiciary Police, to serve as a receiving centre for all cyber incidents, and to monitor data transmission and data flow. Violations of the law could lead to a fine of MOP 50 000 to MOP 5 million.

The Secretary for Security, Wong Sio Chak, stressed that the authorities would not monitor individual online activities or restrict freedom of speech, as the Judiciary Police would only monitor data movements, but not analyse their contents. The Macao Civil Servants Association (ATFPM) sent a letter to the Secretary of Security voicing concerns about the compatibility of the new law with the Basic Law as regards personal freedoms and other issues.

A proposed new Civil Protection Law criminalises the spreading of rumours and fake information in emergency situations. The measure would apply only when the authorities' civil protection measures are fully activated, under circumstances such as typhoon emergencies. Revisions to the draft law have been welcomed, though civil society and press organisations have raised concerns about the measure's potential impact on freedom of expression and press freedom.

A proposal by a pro-democracy lawmaker to amend the Chief Executive Election Law so as to avoid a single final candidate for the top position in government was rejected on the grounds that only the Government could propose changes to Macao's political structure.

The police announced that the first 50 public surveillance cameras with facial recognition in Macao would be installed and tested until the end of the first quarter of 2020. Some 50 other traffic cameras for the recognition of vehicle licence plates will also be installed and tested. Local authorities plan to install 2,400 video surveillance cameras in six phases by 2023. The police said in a statement on 7 November 2019 that the facial recognition technology would be used only when the police are investigating criminal cases.

The Macao authorities continued to cite security concerns as the basis for refusing entry to Macao to journalists, civil society activists and public figures, including some from Hong Kong. Although Macao's immigration authorities have the power to refuse entry to its territory, there is a lack of transparency in such cases.

Rights, freedoms and equal opportunities

The rights and fundamental freedoms and the rule of law were generally respected to the extent guaranteed in the Basic Law of Macao and in conformity with the 'one country, two systems' principle."

There have been no moves to date to establish an independent human rights body in accordance with the recommendation issued by the UN Committee against Torture in December 2015.

Press freedom were generally respected, though self-censorship was increasingly practised. The Macao Journalists Association (AJM) issued statements during the year drawing attention

to issues relating to the freedom of the press for instance regarding pressure ahead of a visit by Xi Jinping.

Freedom of assembly was generally respected in Macao. However, the police have declined to permit public gatherings intended to demonstrate solidarity with protesters in Hong Kong. On 30 September 2019, the Court of Final Appeal rejected an appeal against a ban on a protest against police brutality in Hong Kong, ruling that such a protest would be illegal for reasons, including the consideration on the grounds that ‘it would interfere in Hong Kong’s internal affairs’. The 30th anniversary of Tiananmen Square was marked by a candlelight vigil.

On 8 July, the Legislative Assembly approved the draft of the government-initiated bill for a statutory **minimum wage** for all workers except domestic helpers and employees with disabilities. Macao has not effectively enforced **freedom of association and collective bargaining** as enshrined in International Labour Organisation (ILO) conventions. The EU continues to encourage Macao to do so.

Marked efforts are being made to address **trafficking in human beings**, through measures including anti-trafficking training for government officials and the investigation of suspected cases of forced labour. The EU stands ready to intensify cooperation in order to address this global challenge.

Discrimination on the grounds of sexual orientation and gender identity continues to cause concern, notably in the fields of employment, education and healthcare. Same-sex relationships are yet to be included in the law that makes domestic violence a criminal offence. In June 2014, the UN Committee on Economic, Social and Cultural Rights urged Macao to adopt comprehensive anti-discrimination legislation.

Macao has continued to robustly address **corruption**, through measures including the work of the Commission Against Corruption (CCAC). A new Commissioner Against Corruption was appointed in December 2019. The CCAC annual report, released in March, highlighted key concerns and continuing efforts to tackle corruption amongst public officials.

Economic developments

In 2019, Macao remained one of the world’s richest economies in terms of GDP per capita, with the **largest gaming industry in the world**.

Over the year, **Macao’s economy contracted by 4.7%**, essentially because of a decrease in exports of services and in investment. Investment dropped by 20.1% year-on-year (y-o-y), largely owing to lower investment in construction. Exports of gaming decreased by 4% y-o-y, while tourism services declined by 5.7% y-o-y. The drop in exports of services was largely the result of an 8% decrease y-o-y in spending by visitors to Macao. Although tourist arrivals rose by 10% during the year (to a total of 39.4 million visitors, 70% of whom were from mainland China), per capita spending decreased by 16.5%, offsetting the increase in tourist numbers.

Despite the downturn, **Macao still enjoys full employment**. The unemployment rate has been persistently below 2% over the past eight years (including the 2014-2016 downturn), and 2019 was no exception. In such a context, the SAR relies heavily on foreign workers, who account for roughly 40% of the total labour force. Inflation was under control, at 2.75% in 2019.

Macao's fiscal position remained sound in 2019. The SAR has deep reserves (MOP 580 billion or €67 billion), and its fiscal account has consistently recorded surpluses.

In terms of **economic policies**, besides consolidating tourism and gaming (Macao's main industries), it continued its long-standing efforts to pursue economic diversification. These priorities were restated by Macao's new Chief Executive Ho Iat-Seng in his inauguration speech and New Year message in December, in which he outlined a political platform including a focus on the economy and livelihood issues. The following areas for diversification remain:

- developing the convention and exhibition industry and the creative industries;
- fostering the development of Macao as a hub for traditional Chinese medicine (TCM);
- promoting specialised financial services such as financial leasing services; and
- developing Macao as a commercial and trade cooperation service platform between China and Portuguese-speaking countries.

Despite diversification efforts, **Macao continues to rely heavily on gaming and tourism, and the gaming sector alone still accounts for half of GDP.** A target in Macao's 2016-2020 Five-Year Development Plan is to increase the share of casino operators' revenue from non-gambling sources to 9% by 2020. According to a December report on economic diversification by the Statistics and Census Bureau, non-gaming accounted for 9.97% of casino operators' revenue in 2018. As regards diversification beyond gaming and tourism, including developing the financial sector, the lack of a suitably qualified labour force is a challenge for Macao.

Environmental protection and climate policy remain substantial challenges. The only significant developments in 2019 were the long-awaited introduction of a charging scheme for plastic bags, improving the pre-processing of waste before export and setting up more electric vehicle chargers, plastic bottle recycling machines and water dispensers across the SAR. During the year, the long-delayed Taipa line of Macao's Light Rapid Transit was opened.

Regional cooperation

The long awaited **Guangdong-Hong Kong-Macao Greater Bay Area (GBA)** blueprint was released in February 2019. Macao was designated as one of the four core cities (together with Hong Kong, Shenzhen and Guangzhou) to play a key role in the region's development. The plan states that Macao - while continuing to diversify its economy - is to consolidate its position as a world-class tourism and leisure centre and as a commerce and trade cooperation service platform between China and Portuguese-speaking countries. Four months after the release of the blueprint, the Macao Government released an annex to its Five-Year Development Plan (2016-2020), covering its part in constructing the GBA. During the year, a patchwork of measures were announced. These include stepping up customs cooperation and making it easier for people from Macao to live, study and work elsewhere within the GBA.

Cooperation in the field of financial services advanced in 2019. In February, the GBA blueprint tasked Macao with carrying out a feasibility study on establishing a renminbi-denominated securities market. In October, the Macao Monetary Authority submitted an application to the central government in this direction. In July, China issued the first two billion renminbi (US\$286 million) of offshore government bonds in Macao.

Around President Xi Jinping's visit to Macao in December 2019, a raft of measures to support economic diversification was announced, with a particular focus on the financial sector. The most publicised was an announcement by the People's Bank of China (PBOC) that the daily limit on renminbi remittances from Macao would be increased from 50,000 to 80,000

renminbi, bringing it to the same level as Hong Kong. Since these remittances, however, refer to transfers by individuals, not companies, the announcement was largely symbolic. In addition, there were reports that plans to set up a new renminbi -dominated stock exchange and a renminbi settlement centre would be accelerated. Policies were also revealed to encourage mainland banks and insurance companies to set up operations in Macao, and to provide support to mainland finance firms for expanding into Macao.

As regards **its role as a bridge between China and Portuguese-speaking countries (PSC)**, Macao aims at being a renminbi clearing centre and a commercial and trade service hub for PSC and China, a trading hub for products from PSC, and a convention and exhibition centre for economic and trade cooperation.

Together with Zhuhai, Macao is co-developing the island of **Hengqin**, located east of Macao in Guangdong province. Hengqin hosts infrastructure including a ‘Youth Entrepreneurship Valley’, the Guangdong-Macao TCM Science and Technology Industrial Park, the Guangdong-Macao Cooperation Industrial Park, and the campus of the University of Macao. During his visit to Macao, President Xi announced that Macao would be allocated further land on the island to support its further development in areas such as education and healthcare.

EU-Macao bilateral relations

In 2019, **the EU remained Macao’s second-largest source of imports after mainland China**, accounting for 27.6% of Macao’s total imports. On the other hand, only 1.5% of the SAR’s exports of goods went to Europe. The EU continues to maintain long-standing trade surpluses with Macao. An explanation for that is that Macao’s import demand has grown steadily over the years, in tandem with the growth of its gaming and tourism sectors, while its manufacturing sector has shrunk to roughly 1% of GDP.

Bilateral **trade in goods** rose by 27.1% to €1.2 billion in 2019. EU exports to Macao reached €1.1 billion, a 33.2% increase y-o-y, resulting in a trade surplus of €1 billion. Macao is a growing market for European luxury goods. Major EU export products included high-end leather goods, clothing, watches and jewellery, food and beverages, and automobiles.

The EU is Macao’s third-largest foreign **investor** after Hong Kong and mainland China (excluding offshore centres). According to Macao statistics, the EU accounted for 5.3% (MOP 15.6 billion) of total FDI stock in 2018. Portugal alone accounts for 60% of EU investment in Macao, or MOP 9.2 billion.

The **23rd EU-Macao Joint Committee meeting** was held in Brussels on 11 June 2019. It dealt with a broad range of subjects, including trade and investment, multilateral cooperation, taxation, government procurement, combating money laundering and the financing of terrorism, environmental matters, and trafficking of human beings.

A co-funding mechanism under the EU’s **Horizon 2020** programme was established following the EU-Macao Joint Committee meeting in 2015. In November 2019, the EU and the Science and Technology Development Fund of Macao (FDCT) jointly organised a conference in Macao to present opportunities for cooperation with Europe and discuss ways to improve Macao’s participation in Horizon 2020, since no entity from Macao had been selected for funding under that programme.

As is the case every year, in 2019 the **Macao European Chamber of Commerce (MECC¹)** and **the European Chamber of Commerce in Hong Kong** jointly coordinated European participation in the Macao International Environment Cooperation Forum and Exhibition (MIECF) in March and in the Macao International Trade and Investment Fair (MIF) in October.

The **Macao-EU Cooperation Programme in the Legal Field** contributes to the modernisation and development of Macao's legal system. Possibilities for extending cooperation in this field are being explored. The EU and Macao continued their longstanding collaboration on conference interpretation in 2019. Training courses for interpreters from Macao have been organised with trainers from the European Commission's Directorate-General for Interpretation since 2006. Since 2010, annual seminars have been held in the Macao Polytechnic Institute (MPI), bringing together EU trainers and interpreters from various Chinese ministries, as well as course leaders from universities in Macao and mainland China. The new International Portuguese Training Centre for Conference Interpreting, inaugurated in December 2019 at the MPI, has benefited the academic strand of EU-Macao cooperation in this field.

¹ The Macao European Chamber of Commerce is a hybrid organisation with both direct members (representing companies) and members from the national chambers of commerce of EU countries.