



HIGH REPRESENTATIVE
OF THE UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 8.5.2019
JOIN(2019) 7 final

JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Macao Special Administrative Region: Annual Report 2018

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MACAO SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT 2018

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 adheres to 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 2018, 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.

The rule of law and the independence of the judiciary are upheld, as seen in the case of the judicial procedures against the opposition lawmaker Sulu Sou. Rights and fundamental freedoms are generally respected.

Although civil liberties are protected by Macao's Basic Law, the political opposition is weak and civil society is not very vocal. The Basic Law and other legislative acts do not provide for the introduction of universal suffrage. Nevertheless, the EU encourages the Macao authorities to provide for greater public involvement in the election of the SAR's Chief Executive and the Legislative Assembly. This would increase their legitimacy, increase public support and strengthen governance.

In 2018, Macao received two recommendations during the Universal Periodic Review of China, carried out in Geneva in November: one on the protection of migrant workers and one on discrimination against LGBTI people. Human trafficking remains an issue of concern.

In 2018, the Macao authorities undertook or announced several initiatives to strengthen national security, which brought the SAR's policy more into line with the views of the mainland: the Legislative Assembly passed an amendment preventing foreign judges from ruling on matters of national security, a national anthem law was passed, and plans to amend national security laws were announced.

Macao's media continued to express a broad range of views despite concerns about increasing self-censorship.

Macao's economy did well in 2018, showing strong growth driven by the gambling and tourism sectors, very low unemployment and a sound fiscal position. The government's stated aim of diversifying the economy is, however, far from being achieved. Only 6.8 % of the revenue of Macao's casinos came from non-gambling sources.

October 2018 saw the inauguration and opening to the public of the Hong Kong-Zhuhai-Macao Bridge. This major infrastructure project links the mainland city of Zhuhai with Hong Kong and Macao, stretching both over and under the sea for 42 kilometres (55 km if access

roads are included). The bridge forges better connections between the cities of the Greater Bay Area and will contribute to greater integration with the mainland, while presenting new opportunities and new challenges.

The EU and Macao continued to have solid trade relations and enjoy a good level of cooperation.

Political developments

In May 2018, pro-democracy opposition lawmaker Sulu Sou was convicted of unlawful assembly for his participation in a protest in 2016. He had been suspended from the Legislative Assembly since December 2017. The prosecution demanded prison terms for Sulu Sou and a fellow anti-establishment activist, Scott Chiang for aggravated disobedience, but the court decided that a prison sentence was not warranted as the protest had been non-violent and short. If Sulu Sou had received a jail sentence of more than 30 days, he would have been disqualified from the Legislative Assembly, which would have further weakened the already meagre opposition. After the court's decision, Sulu Sou was able to resume his duties as a lawmaker. The prosecution charges were criticised for being politically motivated, but the court's decision highlights the independence of the judiciary.

In March, the government announced its intention to amend its national security law 'to keep up to date with modern society'. Issues listed as needing urgent amendment were the procedures for collecting evidence in criminal investigations and the special rules for coercive measures in evidence collection.

On 3 July, the Legislative Assembly passed an amendment preventing foreign judges from ruling on matters of national security. The definition of national security is a broad one, and can thus be used to exclude foreign judges from many cases. The authorities said that the amendment was essential to protect the State's fundamental interests. This decision was a significant step back from its current mixed legal system which allows Macao to benefit from the expertise of foreign judges. According to official figures, 10 out of 49 magistrates in Macao hold foreign citizenship, mostly Portuguese.

Veteran legal advisers of Portuguese origin at the Legislative Assembly were dismissed in August 2018. They were on temporary contracts, but the sudden decision raised concerns in civil society about increasing efforts to sideline Portuguese/foreign expertise in favour of Chinese expertise.

On 14 August, Macao passed a national anthem law which includes a fine for individuals who disrespect the anthem. The law also includes teaching about the history of the anthem in school curricula.

In March 2018, the organisers of the Macao Literary Festival cancelled the participation of writers Jung Chang, Suki Kim and James Church after they were informally notified that they could not be guaranteed entry to Macao. PEN Hong Kong¹ issued a statement expressing dismay at this 'censoring and authoritative move'. This incident should be seen in the context of a string of bans in 2017 on foreign journalists and political activists from entering Macao. National security grounds were invoked as justification for the refusals to grant entry. Although Macao's immigration authorities have the power to refuse entry to the SAR's

¹ <http://www.penhongkong.org/about/>

territory, the lack of transparency in such cases suggests a worrying trend towards political censorship.

Equal opportunities, rights and freedoms

The rights and fundamental freedoms of the people of Macao continued to be generally respected and the rule of law was upheld under the ‘one country, two systems’ principle enshrined in the Basic Law of Macao.

Macao has not established an independent human rights body despite the recommendation to do so issued by the UN Committee Against Torture in December 2015.

The November 2018 **Universal Periodic Review** of China included a section on Macao. Two countries, one of them an EU Member State, made recommendations for Macao: one calling for the ratification of the International Covenant on the Protection of the Rights of All Migrant Workers and Members of their Families, and another calling for the introduction of anti-discrimination legislation to protect all marginalised groups, including LGBTI people.

In previous reports, the EU has also voiced concerns about discrimination on the grounds of sexual orientation and gender identity. These concerns are particularly acute in employment, education and healthcare. Same-sex relationships are yet to be included in the law that makes domestic violence a criminal offence. The UN Committee on Economic, Social and Cultural Rights had also urged Macao to adopt comprehensive anti-discrimination legislation.

Press freedom is respected. There appears to be a degree of self-censorship, particularly in the Chinese-language media and when reporting on Chinese affairs. NGOs and media activists continue to raise concerns over self-censorship. Another obstacle to freedom of the press is the difficulty to access sources and obtain full information from the authorities.

Trafficking in human beings remains a problem in Macao. Macao has an anti-trafficking law but law enforcement needs to be more stringent. The number of prosecutions and convictions for trafficking remains low despite a large number of complaints. In 2018, Macao authorities sent a representative to the Seventh Bali Process Ministerial Conference and Senior Officials Meeting, signalling its willingness to further engage in international cooperation to combat trafficking in human beings. During the annual EU-Macao Joint Committee in March, Macao committed to cooperate with the EU on the fight against trafficking in human beings. The EU stands ready to renew exchanges and to cooperate with Macao to provide technical expertise on best practices to address this global challenge.

Macao citizens continue to enjoy **freedom of assembly** on a variety of issues ranging from the 4 June Tiananmen Square vigil to labour rights. In September, a new demonstration and assembly law was approved, requiring demonstrators to submit a demonstration notice to the police instead of the Civic and Municipal Affairs Bureau.

Macao has not effectively enforced **freedom of association and collective bargaining** as enshrined in International Labour Organisation (ILO) conventions. The EU encourages Macao to take the necessary steps to comply with ILO conventions. Macao does not have a minimum wage, except for cleaning and security workers. The government intends to introduce a universal minimum wage for all workers in 2019.

Economic and social inequality is of concern. There is no official poverty rate. The government claims that only 2.3 % of Macao's population lives in poverty, but civil society organisations estimate that the figure is close to 10 %. In September, the UN Committee on the Elimination of Racial Discrimination (CERD) stated that the need for poverty reduction was an area of concern. The Committee urged the government to take steps to eliminate ethnic economic disparities and to provide statistical indicators on economic, social and cultural rights and on the effectiveness of measures taken.

Macao is pursuing the fight against **corruption** and has not shied away from high-profile cases. Investigations of the President of the Macao Trade and Investment Promotion Institute and of the head of Pension Fund were launched in 2018, illustrating the government's resolve to show zero tolerance for corruption among public servants.

Economic developments

Macao's GDP grew by 4.7 %² year-on-year in 2018, compared with 9.7 % growth in 2017. The strong growth in 2017 came after a major downturn in the previous years when the gambling industry was affected by the anti-corruption campaign in mainland China. In 2018, the IMF ranked Macao the fourth- richest economy in the world in terms of GDP per capita.

The government is implementing a long-term strategy to diversify the economy, but Macao continues to rely heavily on gaming and tourism. The upturn in 2017 and 2018 was driven by the recovery of the gambling sector and sustained inflows of tourists. In 2018, 35.8 million visitors entered the territory, a 9.8 % increase on 2017. Gambling revenue grew by 14.0 % to reach MOP 303 billion (approx. € 33 billion).

Macao enjoys full employment and relies heavily on foreign workers and professionals³. The unemployment rate has been persistently below 2 % over the past 7 years (including during the 2014-2016 downturn), and 2018 was no exception. Inflation rose to 3.0 % in the 2018 from 1.2 % in 2017.

While 2018 growth numbers are good overall, the economy was decelerating during the year, from 7.6 % in the first half to 2.0% in the second half. The slowdown was due to a decline in investment (particularly construction investment) and to a slowdown in the growth of exports of services (particularly gaming exports).

On 15 November, Chief Executive Mr Fernando Chui Sai On delivered his last **policy address** as Chief Executive. The primary aim remains to consolidate tourism and gaming, Macao's main industries. The priorities are regulation, fiscalisation and promoting competitiveness. Macao is to pursue economic diversification based on its existing main industries, using existing infrastructure to grow its convention and exhibition industry, foster creative industries and develop specialised financial businesses. The government has also vowed to facilitate innovation and support SMEs by offering incentives to business and by reducing taxes. For the 12th year in a row, the government is implementing a package of financial subsidies, including cash handouts, to improve people's livelihoods.

Macao's fiscal position in 2018 remained sound. The SAR has deep reserves, and its fiscal account has consistently recorded surpluses. At the end of September 2018, the government's financial reserves stood at about MOP 554.9 billion (€ 60.4 billion).

² Source: unless otherwise stated, all macroeconomic indicators were sourced from the Statistics and Census Service of the Macao SAR Government.

³ Over 40 % of Macao's workforce in 2017 was made up of foreign workers, with around two thirds of them from mainland China.

Diversifying Macao's economy remains a long-term goal. One of the targets set by the authorities 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. This goal is, however, looking increasingly unachievable according to a report from the Statistics and Census Bureau on economic diversification released at the end of December 2018. Indeed, 2017 was a disappointing year for economic diversification as only 6.8 % of the casinos' revenue came from non-gambling sources, down from 7.4 % in 2016.

On **environmental protection**, in this year's policy address Macao's Chief Executive proposed to build a facility to pre-process paper, plastic and metal wastes before they are exported, and to build a centralised food-waste processing facility. The Chief Executive also announced targets to install 200 electric vehicle-chargers, introduce plastic-bottle recycling machines and complete legislation restricting the use of plastic bags.

Regional cooperation

On 12 December, Macao and the Chinese Ministry of Commerce signed an agreement on trade in goods under the Mainland and Macao **Closer Economic Partnership Arrangement (CEPA)**. The new agreement, which is to be implemented as of 1 January 2019, establishes rules of origin and more flexible methods for determining origin for all products classified under the mainland tariff codes. It also further enhances the level of customs clearance facilitation for trade in goods. A special chapter is dedicated to the Guangdong-Hong Kong-Macao Bay Area, the aim being to implement measures for customs clearance of goods within the Bay Area on a pilot basis.

The **Hong Kong-Zhuhai-Macao Bridge** — the world's longest sea bridge — opened in October. The bridge cuts travel time between Macao and Hong Kong and will play an important role in the integration of the Greater Bay Area (GBA).

Macao serves as an economic bridge between China and the Portuguese-speaking countries. In this regard, the 2019 policy address proposes setting up a monetary services platform between China and Portuguese-speaking countries and developing Macao as a renminbi clearing centre for Portuguese-speaking countries.

In the GBA Blueprint published in February, Macao was designated as one of the four core cities (together with Hong Kong, Shenzhen and Guangzhou) to play a key role in the development of the region. According to the plan, while continuing to diversify its economy, Macao is to strengthen its position as a world-class tourism and leisure centre and as a commerce and trade cooperation service platform between China and Lusophone countries.

EU-Macao bilateral relations

In 2018, the EU was Macao's second-largest source of imports after mainland China, accounting for 25 % of Macao's total imports. However, the EU was the destination of less than 1.7 % of Macao's exports of goods. These trade imbalances have generated long-standing trade surpluses in favour of the EU, as Macao's import demand has continued to grow over the years, while its manufacturing sector has shrunk to less than 1 % of GDP.

Bilateral trade in goods rose by 29.5 % to EUR 963 million in 2018. EU exports to Macao reached EUR 852 million, a 36.1 % increase year-on-year, resulting in a trade surplus of EUR741 million in 2018. Macao is a growing market for European luxury goods. The

business opportunities in the gambling and tourism industry are central to EU-Macao trade relations. Major EU export products included high-end leather goods, clothing, watches and jewellery, food and beverages, and automobiles.

Procurement in the transportation, energy and construction sectors is also potentially of interest to EU companies since Macao is engaged in an increasing number of infrastructure projects. However, compared to other major investors (Hong Kong, China and the US), direct investment by EU companies in Macao remains modest. Portugal was the most notable EU investor in Macao, accounting for 3.7 % (MOP 9 billion) of total direct investment stock in 2017.

The Chief Executive's 2019 policy address explicitly highlights interest in strengthening economic relations with the EU, using Portugal as the entry point.

The **22nd EU-Macao Joint Committee** meeting was held on 23 March in Macao. In particular, the parties took stock of the monitoring by the EU in 2018 of the commitments on tax good governance taken by Macao. Macao had been included in the EU list of 17 non-cooperative tax jurisdictions of December 2017, but was removed in January 2018 in response to commitments made by the Government of Macao to comply with EU requirements by the end of 2018. During the monitoring process, the EU welcomed the extension of the Convention on Mutual Administrative Assistance in Tax Matters to Macao SAR by the People's Republic of China and the activation of the necessary agreements for exchange of information by Macao SAR. The EU also endorsed the assessment of the OECD concerning a tax regime giving benefits to offshore companies, following amendments to this regime by Macao SAR in December 2018 to comply with OECD requirements. On this basis, the Council of the European Union agreed in March 2019 that Macao had fulfilled its current commitments on tax good governance. The dialogue with Macao SAR on the implementation of the G20 minimum standards against Base Erosion and Profit Shifting will continue in 2019.

The EU took note of Macao SAR's ambition to become a traditional Chinese medicine hub. The EU and Macao agreed to organise an information exchange at expert level on the EU regulatory regime with regard to traditional herbal medicinal products. The two sides also agreed to continue exploring cooperation on the environment and on green technology, particularly in the Macao International Environmental Cooperation Forum and Exhibition. On tourism, the two sides discussed how to boost tourist flows and exchanges.

As they do every year, in 2018 the **Macao European Chamber of Commerce (MECC⁴)** and **the European Chamber of Commerce in Hong Kong** jointly coordinated European participation in the Macao International Environment Cooperation Forum & Exhibition in March, and in the Macao International Trade and Investment Fair in October.

Tourism was particularly important for the bilateral relationship in 2018 as it was the **EU-China Year of Tourism**. The iconic Macao tower was dressed in the blue of the EU flag on Europe Day. On 23 October, Macao hosted the **7th Global Tourism Economy Forum** with the European Union as its partner region and Guangdong as its featured partner province. The EU had a pavilion represented at the event, organised a business matchmaking event, and participated prominently in the forum.

⁴ The Macao European Chamber of Commerce is a hybrid organisation that has both direct company members and members from the national chambers of EU countries.

The EU and Macao have two flagship projects that continue to work well: one in the field of legal affairs and one on the training of interpreters. First, the **Third Macao-EU Cooperation Programme in the Legal Field** contributes to the modernisation and development of the Macao SAR's legal system. Second, the **training programme in conference interpretation in Chinese and Portuguese** between the European Commission and the Public Administration and Civil Service Bureau of Macao has been running since 2006 and, addresses the demand for qualified interpreters in both languages. Up to now 97 Macanese interpreters have been trained and most of them are presently working in the public administration. Since 2010, the Macao Polytechnic Institute (MPI) also runs a training programme, in cooperation with the European Commission, aimed at university teachers and professional interpreters from Macao and Mainland China. The **European Union Academic Programme in Macao** has been succeeded by activities under the Jean Monnet Project. These continue to contribute to better understanding of the EU in Macao.

A co-funding mechanism under the **Horizon 2020** programme was established following the EU-Macao Joint Committee meeting in 2015, and the EU delivered a briefing session in 2018 to encourage participation. Funding is provided unilaterally by the Macao Science and Technology Development Fund to successful Horizon 2020 project participants from Macao. Over the last 2 years, however, the Fund has received only one application, which was not selected. By the end of 2018, no entities from Macao had participated in Horizon 2020.