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Macao Special Administrative Region: Annual Report 2004

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1. POLITICAL DEVELOPMENTS AND THE IMPLEMENTATION OF THE “ONE COUNTRY, TWO SYSTEMS” PRINCIPLE

Governance

The constitutional and political situation within the Macao SAR remained very stable. Macao’s transition from colony to Special Administrative Region of the People’s Republic of China proceeded smoothly. There were no major unforeseen events and constitutional and political development continued to evolve very slowly, remaining within the parameters already laid down in the Basic Law.

In February, the Macao Government submitted draft legislation on the election of the new Chief Executive (after consultation with the Central Government and the Executive Council of Macao). This was to cover the second term of the Macao SAR government, beginning on 20 December 2004.

During the general discussion of the draft legislation, the two opposition legislators in the Legislative Assembly criticized the draft. They said that individual members of all associations representing the different sectors should be allowed to participate in designating the members on the Election Committee. According to one estimate, this would mean that a total of 80,000 people would be able to take part in designating 254 of the 300 members of the Election Committee.

However, the legislation which was eventually approved did not take these comments into account. It was adopted in general terms by the Legislative Assembly on 21 February and became law in April, with the majority of Legislative Assembly members voting in favour of the government proposal.

The most important provision of the legislation concerns the practical arrangements for selecting the 300 members of the Election Committee. The Election Committee is composed of electors from four sectors: Industrial, commercial and financial sectors (100); cultural and educational sectors, and other professions and sports (80); labour, social services, religious sector (80); and representatives of members of the Legislative Council, Macao deputies to the National People’s Congress and representatives from Macao members of the National Committee of the Chinese People’s Political Consultation Conference (40). Apart from the 40 members in the last category and six members who must be from religious groups, the other 254 members of the Election Committee are all elected indirectly by representatives of the various sectors. Only leading members of associations can participate in designating the electors on the Election Committee. According to one estimate, a total of around 2 000 members take part in designating 254 of the 300 members of the Election Committee.

The incumbent Chief Executive of Macao SAR, Mr Edmund Ho Hauhua, was the sole candidate for election as Chief Executive. At the end of August 2004, Mr. Ho was elected by an overwhelming majority of the Election Committee (by 296 votes out of 300) to take office on 20 December 2004 to head the second government of the Macao SAR for a further five-year term.

On 20 December 2004 President Hu Jintao of the People’s Republic of China visited Macao and inaugurated the second government of Macao with Mr. Ho as its Chief Executive. All of the existing principal members of the first government of Macao were also sworn in at the

same time for the second five-year term until 2009. During this inauguration ceremony both President Hu and Chief Executive Ho reaffirmed their commitment to the Basic Law, “Macao people administering Macao” and to the principle of “one country, two systems”.

Legal administration and the rule of law

The Chief Executive of Macao affirmed in his Policy Address in November 2004 that the government is still striving “to raise the operational efficiency” of the legal system. As the Commission’s previous report noted, five years after the establishment of the Macao SAR, legal and judicial development is still hindered by the lack of qualified bilingual legal experts both in the administration and in the courts. This continues to create delays in the Government’s legislative work and in the work of the Legislative Assembly and the courts. The fact that most laws and regulations exist in Portuguese only has also caused inconvenience to many ordinary Chinese-speaking residents, who make up more than 97% of Macao’s population. Thus, not only an increasing number of ordinary citizens but also some members of the Legislative Assembly are of the view that the Chinese language should be used more often for the drafting of laws and regulations and for judgments at all three levels of law courts. The lack of bilingual qualified judges and other staff involved in judicial administration continues to cause delays and difficulties for the people of Macao.

The President of the Court of Final Appeal has acknowledged that there is still room for improvement by learning from experience and by upgrading quality. He has listed four issues that need to be addressed in the work of the Macao courts, namely: to improve programming and reduce delays in court judgments; to strike the right balance between civil cases and criminal cases; to actively promote the use of the Chinese language in the courts; and to study ways and means of handling litigation other than through the courts.

2. ARTICLE 23 OF THE BASIC LAW

Portuguese legislation on national security became null and void when Macao reverted to Chinese administration in December 1999. Since then Macao has had no laws on national security, and the legal framework of the present penal code is limited to internal security. A general intention to enact legislation is set out in Article 23 of the Basic Law.

Originally, Macao’s SAR Government intended to introduce draft legislation in the autumn of 2003, but decided to postpone the move following the shelving of similar legislation in Hong Kong. However, unlike in Hong Kong, legislation on Article 23 does not seem to be controversial in Macao.

In November 2004, the Secretary for Justice, Florinda Chan, announced that the SAR Government will launch a public consultation in 2005 on national security legislation. The announcement was made at the Legislative Assembly during the session on the government’s policy guidelines for 2005.

The Chief Executive of the Macao SAR continues to reaffirm his government’s intention to propose and gain approval for legislation based on Article 23 of the Basic Law before the end of this government’s second term in 2009. The European Commission will closely monitor developments on this issue.

3. INTERNATIONAL ROLE OF MACAO

The Macao SAR Government has been actively building its ties with China and the Portuguese-speaking countries, hoping to take on a role as the bridge between China - especially Western Guangdong province - and foreign investors, and to develop Macao into a hub for regional business services. Some developments were noted in 2004.

The Framework Agreement on Regional Cooperation in the Pan Pearl River Delta was signed by nine Chinese provinces/autonomous regions and two Special Administrative Regions (SAR), including Macao and Hong Kong, in June 2004. According to the agreement, the PPRD members will cooperate fully in fields such as energy-sharing, infrastructure development, cross-province investment, business and trade, tourism, agriculture, labour services, environmental protection and health. The 11 members agreed to establish a mechanism for regular joint meetings, while governors and chief executives will meet annually.

A secretariat was set up in Macao to follow up on the action plan put forward at the first forum for economic and trade cooperation between China and Portuguese-speaking countries held in 2003.

Macao is also keen to play a liaison role in promoting collaboration between international ethnic Chinese entrepreneurs. The Conference of World Chinese Entrepreneurs Organisations was held in Macao in July.

The Commission welcomes the fact that the Central Government continues to support these developments in Macao's international role. During the inauguration of the Second Macao government on 20 December 2004, President Hu Jintao of the People's Republic of China affirmed that: "Macao's international relations, particularly with Portuguese-speaking countries and the European Union, have been further expanded, thus maintaining Macao's status as an international city."

4. THE ECONOMY

Macao's economy flourished in 2004 on the back of a brisk tourism sector and an investment boom brought about by the liberalisation of the regulations on gaming. GDP posted record growth of 28% in real terms for 2004, following a 14.2% increase in 2003. This spectacular growth was broad-based, covering the traditional economic pillars - gaming and tourism - and also consumption and investment. Other non-traditional sectors, including business services, property, industry and aviation also performed well. The deflationary cycle that had lasted for more than five years finally ended in 2004. The labour market improved substantially.

Thanks to the relaxation measures under the Individual Visitor Scheme for individual travellers in Mainland China, the total number of visitor arrivals leapt by 40% in 2004 to reach a record level of 16.7 million. Mainland China was the largest source of tourists, accounting for 57% of the total, an increase of 66% over 2003. The continuing influx of visitors has provided a strong impetus to growth in various sectors of the economy and hence a strong confidence boost to foreign investors in Macao.

The gaming sector directly benefited from the buoyant tourism growth. Gambling revenue reached 42.3 billion patacas (4.2 billion euros) for 2004, a level comparable to the gaming

revenue of the Las Vegas Strip. Direct taxes from gambling rose sharply by 44.8% to 14.7 billion patacas in 2004, accounting for about three quarters of the total fiscal income. A record level of fiscal surplus was registered for the year, amounting to 6.1 billion patacas or 7.4% of its GDP. The Macao SAR government thus enjoyed a comfortable fiscal position and was able to introduce a 5% pay rise for civil servants, after seven years of pay freeze.

The liberalisation of the casino regime in 2002 has unleashed the vast growth potential of Macao. The gaming facilities of the three new concessionaires started to take shape in 2004. The new gambling concessionaire, the Venetian Macao, officially opened its first casino in May 2004, ending the 42-year gambling monopoly held by Sociedade de Turismo e Diversões de Macau (STDm). The launch attracted thousands of Mainland Chinese visitors to Macao. A second new gambling concessionaire, Wynn Resorts (Macao), S.A., also commenced work on the construction of its new casino hotel in June 2004. It was reported that another Las Vegas player, MGM Mirage, has entered into a joint venture with the third licence holder, SJM (a subsidiary of STDm), to run a new casino resort in Macao.

Along with the strong performance of the tourism industry, the air traffic sector recorded impressive growth in 2004. Growth in air passenger traffic has recovered from the aftermath of SARS in 2003. Macao successfully introduced a low-cost carrier in July 2004. The airfreight sector was also robust.

The trade sector fared well as external demand remained strong in 2004. Exports of goods increased by 9% in 2004, while imports rose sharply by 26.3%, resulting in a trade deficit of 5.3 billion patacas (530 million euro). The hefty increase in imports was largely due to the demand for consumer goods for the tourist industry and the imports of capital goods related to the many ongoing construction projects. It is noted that textiles and clothing still accounted for 80% of its exports in 2004, though slightly lower than the 83% share in 2003. The need to diversify its industrial base remains a pressing issue as textile quota restrictions were lifted in January 2005.

The sharp rebound in the property market, which had begun in the second half of 2003, continued its upward trend throughout 2004. Both the number of transactions and property value rose distinctly last year, reflecting the renewed confidence in the property market and the new economic environment, after years of depression in the late 1990's.

It is noted that a growing number of foreign companies, especially from Hong Kong, came to register in Macao for its offshore services. Macao's Offshore Law was enacted in November 1999. The number of offshore companies grew substantially from fewer than 10 in 1999 to over 400 as at the end of 2004.

The Monetary Authority of Macao and the People's Bank of China signed a memorandum of cooperation for developing personal Renminbi business in Macao. Following the Hong Kong model, the State Council of the PRC approved the conducting of personal renminbi business by Macao local banks as from November 2004.

In tandem with the robust economic growth, the unemployment situation steadily improved. The unemployment rate showed a marked fall from 6% in 2003 to 4.1% in the last quarter of 2004. It was actually necessary to import skilled workers and professionals to cope with the manpower requirements of the booming economy.

The deflation that had lasted for five years finally subsided in 2004 as a result of robust economic activities, and higher import and commodity prices. Annual composite CPI rose by 0.98% in 2004 over 2003. Mild inflation was recorded in the latter half of 2004.

A number of important economic developments took place in 2004:

– **The Macao-Zhuhai Cross Boundary Industrial Zone**

Endorsed by the State Council of the PRC Government in December 2003, the Macao-Zhuhai Cross Boundary Industrial Zone is acclaimed as an innovative experiment of regional cooperation within the Pearl River Delta. The Macao government hopes that the industrial zone could diversify the industrial base of Macao, attract higher-end industries into the SAR and create more jobs.

The zone is divided into the Zhuhai Park and the Macao Park, managed respectively by the Zhuhai municipal government and the Macao Industrial Park Development Co. Ltd. It is noted that the industrial park received a favourable response from the industry in terms of the number of applications for land or factory space. A total of 68 applications were received on the Macao side. A vetting process was necessary in order to select the most appropriate projects.

According to the Macao SAR Government, there will be no special arrangement for companies in the Macao Park to bring in labour from Mainland China. Import of labour will comply with the current labour legislation. No other preferential treatment will be given to the tenants. In addition, rules of origin have been defined. For products made in the Macao Park and exported to Mainland China, the CEPA rules of origin would apply. For products exported elsewhere, the certificate of Macao origin would be issued according to the current rules of origin.

The European Commission will monitor how the two jurisdictions are able to manage the cross-boundary zone especially with regard to compliance with specific country rules of origin, customs clearance, immigration controls and taxation regulations.

– **CEPA**

The first phase of the Closer Economic Partnership Arrangement (CEPA) between Mainland China and Macao came into effect on 1 January 2004. CEPA I covers tariff-free treatment of goods of Macao origin in 311 Chinese 2004 tariff codes and liberalised market access to 18 service sectors in Mainland China. The second phase of the free trade arrangement (CEPA II) was signed on 29 October 2004, and took effect on 1 January 2005. CEPA II covers tariff free treatment of 190 additional products in the Chinese 2004 tariff codes, and eight additional service sectors. A total of 501 Macao-origin products and 26 service sectors enjoy liberalised access to the Chinese market.

It is noted that, in the first year of implementation of CEPA, the service industry made greater use of the opportunities offered by the free trade arrangement than the manufacturing sector. The transport and logistics industries were the most active service sectors in applying for CEPA certification to expand their business in Mainland China. Manufacturing industry, on the other hand, was slow in making use of the scheme. Since CEPA was introduced only very small quantities of goods have been exported to China under the arrangement. Regarding

trade facilitation, working groups have been set up to develop measures to simplify trade procedures in various areas.

5. EU-MACAO RELATIONS

The 10th meeting of the EC-Macao Joint Committee - the fourth since the handover of Macao to the People's Republic of China on 19 December 1999 - was held in Macao on 3 March 2004. Both sides reviewed their respective domestic developments. The EC side reiterated the importance it attaches to the full implementation of the Macao SAR's Basic Law. The EC also noted with satisfaction the resumption of strong economic growth in the Macao SAR, which had been unaffected by the SARS outbreak, and hailed Macao's efforts to diversify its economy. For its part, Macao showed interest in the EU's historic enlargement and the institutional reform process that was underway.

European Commissioner for Trade, Pascal Lamy, paid an official visit to the Macao SAR on 13 March 2004, where he met Macao's Chief Executive, Edmund Ho. This was the first visit of an EU Commissioner to Macao. Messrs Lamy and Ho examined the state of EU-Macao bilateral relations and underlined their commitment to cooperate closely on issues of mutual interest. In the field of trade they endeavoured to work towards a successful re-launching of the negotiations on the Doha Development Agenda, within the framework of the WTO.

. "On 21 September 2004 the first meeting of the Joint EC-Macao Readmission Committee took place in Brussels. Annual meetings of this Committee are convened to discuss the implementation of the agreement between the European Community and the Macao Special Administrative Region of the People's Republic of China on the readmission of persons residing without authorisation. The Agreement was signed in October 2003 and entered into force on 1 June 2004."

– IPR

Macao has continued to upgrade its legislative framework and enforcement structures for the protection of intellectual property especially after the handover. While approving the continued efforts being made by Macao, the European Commission is still concerned about the current levels of piracy. It is noted that Macao has further strengthened its co-operation on intellectual property with its neighbouring countries and with Mainland China.