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

Macao Special Administrative Region: Annual Report 2009

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Introduction

Since the handover of Macao to mainland China ten years ago, the European Commission has been closely monitoring economic and political developments in the Macao Special Administrative Region (SAR), in order to fulfil its 1999 commitment to the European Parliament to issue an annual report on developments. This report covers the year 2009.

2009 was an important year for the Macao SAR. It marked the 10th anniversary of its return to mainland China. A new Chief Executive replaced Edmund Ho. Elections for the Legislative Assembly took place in September 2009, ushering in a new legislature for a four-year term. Earlier in the year, Macao also witnessed the passage of national security legislation.

The European Commission acknowledges the satisfactory implementation of the "one country, two systems" policy since the handover in accordance with the Basic Law of Macao SAR. The Basic Law guarantees that Macao's way of life, rule of law and protection of fundamental rights and freedoms will remain unchanged. All in all, the implementation of the Basic Law has worked, in general, well for Macao since its return to mainland China and the fundamental rights and freedoms of Macao's people have been respected.

Political developments

2009 marked the first change of leadership since the colony was returned to China in 1999. On 26 July 2009, former Macao Secretary for Social Affairs and Culture Fernando Chui was named the **new Chief Executive** to take over from Edmund Ho, who had led the Macao government since its handover to mainland China. Dr Chui won the support of 282, or 94% of votes from the 300-member Chief Executive Election Committee. In remarks made after his election victory, Fernando Chui said that he would listen carefully to public concerns; lead a clean government and improve its transparency; and also ensure fair and healthy competition in the gaming sector, the backbone of Macao's economy.

European Commission President Barroso congratulated Fernando Chui and wished him success in his efforts in favour of Macao's stability and prosperity. He also thanked Edmund Ho for his contribution to Macao's development over the past 10 years and for the strengthening of Macao's links with the European Union.

Macao's **Legislative Assembly elections** were held on 20 September 2009. The elections attracted a voter turnout rate of 59.9% - the highest in Macao's electoral history. The legislature is composed of 29 seats, including 12 directly-elected seats and 17 indirectly elected seats, which represent ten functional constituencies and seven seats which are appointed by the Chief Executive. A total of 122 candidates from 16 groups contested the direct elections. Eight of the 12 candidates who won the direct elections were veteran lawmakers who have served terms in the legislature, while the other four were new faces in the Legislative Assembly. Macao's pro-democratic camp of legislators won another seat in the chamber, bringing their mandate up from two seats to three. The European Commission is of

the view that overall the elections were held in a fair and orderly manner. The record turnout was a positive indicator of Macao's political development and a sign of rising civil awareness in the territory. The European Commission welcomes this development and believes that the increasing political maturity of Macao's citizens provides a solid foundation for progress towards greater democracy in Macao.

The Macao SAR marked its 10th anniversary on 20 December 2009. Chinese President Hu Jintao was present at the celebrations. President Hu also took part in the ceremony to mark the inauguration of the third-term government. In his speech, President Hu lauded the SAR's achievements over the past decade and expressed confidence that the new Chief Executive and his officials would be able to unite and lead the people of Macao in building a better future for the SAR.

The passage of **national security legislation** was another important political development. Article 23 of the Basic Law commits the SAR government to introducing legislation covering treason, secession, sedition, subversion and theft of state secrets. Following a 40-day public consultation, the government's draft national security legislation was presented to the Legislative Assembly on 5 January 2009. It was passed by a large majority of the Legislative Assembly on 25 February 2009 (only the two pro-democracy legislators voted against) and came into effect on 3 March 2009. The national security legislation was praised by Chinese President Hu Jintao during the celebrations to mark the 10th anniversary of the handover. The EU takes note of the new national security bill and reiterates the importance of preserving fundamental rights and freedoms guaranteed in the Basic Law of Macao SAR.

In 2009 Macao was mentioned in the 75th session of the United Nation's Committee on the Elimination of Racial **Discrimination**. The Committee acknowledged Macao's adoption of the Law on the Fight Against Trafficking in Persons, as well as the law establishing the Legal Framework on the Recognition and Loss of Refugee Status. The Committee also expressed concerns that human trafficking is still a serious problem in the SAR, bearing in mind that victims were often women and children who were not citizens or who belonged to ethnic minorities. The Committee recommended the reinforcement of measures to adequately prevent, combat and punish human trafficking, especially of non-citizens. The committee also expressed concerns that migrant workers were excluded from the social welfare system in the SAR and recommended that relevant legislation be amended with a view to extending social welfare benefits to all workers. The European Commission also noted with concern the increasing number of incidents throughout the year in which Hong Kong journalists, academics and activists were denied entry by Macao immigration officers, on the grounds of public security.

Economic developments

Since the liberalisation of the **gaming** monopoly in 2002, Macao has become the world's biggest casino market. This expansion was sustained by mainland Chinese visitors), coupled with substantial investment injected into the SAR by new casino operators. Macao's GDP figures have almost tripled over the past decade. However, its economy experienced its first economic recession in 2009 as a result of the global financial crisis and government policies to contain the excessive growth of the gaming industry. Although Macao's economy managed to weather the crisis it remains over-reliant on the gambling industry and continues to see a widening wealth gap expand.

In 2009, China has continued to tighten the number of visits mainland residents can make to Macao to curb gambling trips. China contributed to 50.5% of Macao's visitor arrivals in 2009 and is also its largest source of tourism. These visa restrictions on mainland visitors have had a far greater impact on the local economy than the global financial crisis. To reduce the impact of economic downturn, the Macao SAR Government came up with various initiatives to help its industry and provide relief to its residents, such as a one-off cash handout to all citizens, increased investment in public works and infrastructure, a stimulus plan of 100 million Patacas (€9 million) to help tourism-related industries, and a small and medium enterprise (SME) loan guarantee scheme to support them in coping with a weaker business environment. The impact of the global financial crisis on the world's largest gaming market was most notable in the finances of US casino operators. Some of their casino expansion projects were slowed down or suspended.

Nonetheless, Macao's economy recovered through increased arrivals of visitors and robust gaming revenues in the last quarter of 2009. Total visitor arrivals rebounded by 5% in the fourth quarter after falling in the first three quarters. Gaming revenue rose by 9.4% to a record high of 119 billion Patacas for the whole year of 2009 (€10.7 billion). Due to the liquidity available in Asia despite the global financial crisis, Macao's casino operators were able to find new sources of funding by listing their casino businesses on the Hong Kong Stock Exchange, allowing them to pay off some of their debt and resume work on suspended projects. The number of casinos therefore increased from 31 in 2008 to 33 in 2009.

Macao's **GDP** registered a double-digit decline in the first half of 2009 but started to pick up towards the second half. GDP attained a mild growth of 1.3% in real terms in 2009. This growth momentum accelerated throughout the fourth quarter. The recovery was largely led by exports of gaming services. The unemployment rate was stable at 3.6% in 2009. Inflationary pressure eased off with the inflation rate falling rapidly to 1% in 2009 from 8.6% in 2008. On the external front, merchandise exports were very weak due to the sluggish demand in overseas markets. Exports of goods plummeted by 52%, and imports fell by 14%, yielding a widening trade deficit of over 29 billion Patacas (€2.6 billion).

Macao's official statistics show that the EU remains Macao's second largest importer after China, accounting for 21% of its imports. The EU was also the fourth largest export market for Macao, taking up 8.2% of Macao's total exports. According to Eurostat, EU imports from Macao plunged by 54% to €107 million in 2009, while exports to Macao dropped by 9% to reach €200 million, yielding a trade surplus of €93 million. Transport equipment, machinery and electrical equipment, and food products were the largest categories of EU exports to Macao.

Macao continued to progressively integrate its economy with mainland China in 2009, which is key to sustaining its long-term economic future. The sixth supplement of the Closer Economic Partnership Arrangement (CEPA) between Macao and China was signed in May 2009. CEPA has provided a platform to integrate the two economies and the arrangement provides wider opportunities for Macao companies to conduct business in China. Moreover, Macao has been keen to actively contribute to the long term development plan of the Pearl River Delta Region. The three governments of Macao, Guangdong and Hong Kong have launched studies and infrastructure projects to link up these major cities in the Delta, forming a 'one-hour intercity traffic circle' to allow transportation between any two places within it.

China also extended favourable measures to assist Macao's growth and development – as shown in the lease of a plot of land on an adjacent island (Hengqin) to Macao for the

expansion of Macau University and the endorsement of Macao's plan for land reclamation. China has rented out a plot of land in Hengqin to Macao for a total sum of 1.2 billion Patacas (€108 million) until 19 December 2049. Macao will exercise jurisdiction over this new area. The Macao SAR government expects that this extension of its geographical jurisdiction will help Macao diversify into other service sectors, such as education, cultural, recreational or sporting activities.

On the **regional** front, Macao faces increased competition from other Asian cities which aim to enter the casino business. The launch of direct cross-Strait passenger and cargo flights between Taiwan and mainland China poses some challenges to Macao's civil aviation sector, which for many years used to be a transit hub for flights between Taiwan and China. In this regard, in his inaugural speech on 22 December 2009, the new Chief Executive Fernando Chui proposed to strengthen exchanges and cooperation with Taiwan in order to reinforce Macao's role as a service hub. He also stated that Macao will continue to put effort into diversifying its economy into other sectors such as culture, education, and the Meetings, Incentives, Conventions and Exhibitions (MICE) industries, and to strengthen ties with Portuguese-speaking countries as well as the European Union. The Macao SAR government has also introduced a series of measures to support the operation and development of SMEs in non-gaming industries. The European Commission notes positively Macao's efforts to diversify its economy, which will be beneficial for its long term stability.

EU – Macao cooperation

The European Union's relations with Macao are based on common values, a European heritage and a shared interest in areas such as the economy, the environment, education and culture. Relations have developed under the framework of the Agreement for Trade and Cooperation signed in 1992 between the EU and Macao. The 2009 EU-Macao Joint Committee meeting, held annually under this framework agreement, took place in Macao in February 2009 and highlighted the fact that Macao continues to be a significant partner for the EU.

At this meeting, views were shared on the effects of the global financial crisis, the rise of protectionism and climate change strategies. Agreement was also reached on working together to keep the EU and the Macao economies open and to enhance cooperation. Strengthening the multilateral trade system, improving intellectual property rights protection, upgrading Macao's public procurement tendering procedures, acknowledging bilateral co-operation on anti-dumping investigations, and the satisfactory implementation of the EU-Macao Readmission Agreement were also covered in bilateral discussions.

This bilateral cooperation is guided by the European Commission's Communication, "The EU, Hong Kong and Macao: possibilities for cooperation 2007-2013". It sets a number of challenging objectives to move EU-Macao relations forward by broadening cooperation. The launching of the "European Union Business Information Programme" for Hong Kong and Macao (EUBIP) in Macao in February has proved to be a very useful instrument in promoting knowledge-sharing and a better understanding between Macao and the European Union.

The consortium formed by the European Chamber of Commerce in Hong Kong, the Macao Trade and Investment Promotion Institute, and the Institute of European Studies of Macau, has successfully implemented through EUBIP a series of activities in close partnership with national chambers of EU Member States and ad hoc relevant business and industry associations. In particular for Macao, the participation of the EU alongside Member States

and European businesses with a joint European Union pavilion and speakers has given more visibility to the European Union in Macao and has substantially contributed to forums such as the Macao International Environment Cooperation Forum (MIECF) in April and the Macao International Fair (MIF) in October 2009. A seminar on the European Union's chemical regulation (REACH), with expertise from the European Chemicals Agency and supported by the Macao Trade and Investment Promotion Institute, was a case in point.

The environment is an important issue of concern for the Macao SAR Government and continues to be an area for close cooperation. The European Commission welcomes the Macao SAR Government's efforts to lead the organisation of international environmental cooperation forums and exhibitions to promote international awareness of environmental protection in Macao, such as the MIECF. The SAR has been very active in promoting governmental and civil society exchanges and has also stepped up efforts to raise awareness about environmental protection as well as encouraged businesses to use energy-efficient green products.

Cooperation between the EU and Macao expanded in 2009 in a number of sectors. In December, the European Commission and Macao signed an EU-Macao cooperation agreement in the legal field to strengthen Macao's legal system and enhance public administration, legal and judicial expertise, following the successful completion of a similar project in 2007. The rule of law, good governance, and respect for fundamental rights and freedoms are inseparable from a high level of awareness of the legal system by Macao residents and the existence of well trained judges and legal practitioners.

Contacts between senior European and Macao officials continued in 2009 to explore means of cooperation in the area of civil aviation. Macao has confirmed that it will opt for a horizontal air services agreement that will update all 15 existing bilateral agreements with EU Member States to include the principle of Community designation. As it has no air space of its own, Macao confirmed that it had already obtained the agreement of China to conclude a horizontal agreement with the European Union. The European Commission will appreciate further progress with a view to concluding discussions for a horizontal agreement within 2010.

Talks between European Commission and Macao's senior officials continued in 2009 to explore means of cooperation in the area of taxation of savings. As a first, partial step in this direction, Macao's commitment to the implementation of the OECD Standard in respect of exchanges of tax information between jurisdictions is certainly welcome by the European Commission. To this end Macao adopted a law on information exchange in tax matters that came into force on 15 September 2009. The dialogue on possible further measures which could be genuinely equivalent to those of the Savings Directive will be continued in 2010.

2009 has also seen an expansion of people-to-people contacts between Europe and Macao. Macao has actively participated in the 2009 Erasmus Mundus Programme extending contacts between universities and students of Europe and Macao and deepening the understanding between us. The EU has also supported the Jean Monnet chair at the University of Macao by participating in the successful Jean Monnet Conferences held throughout the year. Further strengthening of cooperation is foreseen after the signing in January of a protocol with the Macao government to organise a series of courses for the training of around 100 interpreters from Macao for conferences in the next four years.

Outlook for the future

2010 will be a new era for Macao, under a new leadership and a new Legislative Assembly, based on the legacy successfully built since the handover. Macao shares with Europe a valuable heritage and the same values of openness and tolerance. The EU will continue to maintain close ties with Macao's government and its people in this new phase to strengthen the existing relationship. The European Commission will continue to support the implementation of the "one country, two systems" in Macao SAR and for this purpose to monitor closely political, institutional, economic and social developments in the SAR.

The European Commission is keen to see progress in bilateral dialogue in matters such as civil aviation and taxation of savings. The European Commission would also like to enhance academic and cultural exchanges, as well as encourage Macao to participate in worldwide EU-funded programmes, such as the Erasmus Mundus which will call particularly on small countries and territories such as Macao in 2010.