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**JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**ANNUAL REPORT MACAO 2010**

# MACAO SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT 2010

## INTRODUCTION

Since the handover of Macao to Mainland China 11 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 2010.

The European Union's relations with Macao are based on common values, a European heritage and shared interests in areas such as economy, environment, education and culture. During 2010, bilateral relations have developed on a positive track under 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 2010 in accordance with the Basic Law of the Macao SAR; the fundamental rights and freedoms of Macao's people have in general been respected. The EU hopes to see progress towards greater democracy in Macao in the framework of its Basic Law.

## POLITICAL DEVELOPMENTS

2010 has been the first year in office for Fernando Chui, Macao's new Chief Executive. In his policy address delivered on 16 March, Chui stressed that improving people's livelihood, social stability, economic diversification, upgrading Macao's industry and consolidating the casino industry would be his government's main priorities. Macao would also intensify its cooperation with the Pearl River Delta region and Taiwan and serve as a platform for exchanges and cooperation with Portuguese speaking countries around the world.

2010 saw an increase in contacts with Taiwan. Chui met with Wu Poh-hsiung, the honorary chairman of Taiwan's ruling Kuomintang (KMT) party, during Wu's visit to Macao. Cheong U, Macao's Secretary for Social Affairs and Culture, followed up with a visit to Taiwan in September to strengthen mutual understanding and promote cultural exchanges.

Macao has stepped up efforts to promote itself as the gateway to China for Portuguese-speaking countries and a platform for sino-lusophone cooperation. In November it hosted the 3<sup>rd</sup> Ministerial Conference of the Forum for Economic and Trade Cooperation between China and the Portuguese-speaking countries, a forum set up in 2003 to deepen ties between its members. Chinese Prime Minister Wen Jiabao attended the Forum.

One year after the adoption of national security legislation, concerns have been voiced by pro-democratic legislators and human rights organisations in Macao that potentially it could be misused to undermine the fundamental rights and civil liberties of the Macao people. The EU notes with concern that in 2010, like in 2009, several Hong Kong-based journalists and NGO members have been denied entry in Macao. The EU reiterates the importance of preserving the fundamental rights and freedoms guaranteed in the Basic Law of the Macao SAR.

## ECONOMIC DEVELOPMENTS<sup>1</sup>

Macao made a strong recovery from the financial crisis in 2010, with only a minimal impact on the economy. GDP growth in the third quarter of 2010 was up by 27.1% on the same quarter of 2009. The expansion was led by the tourism and gaming sectors, with Mainland Chinese visitors becoming the largest source (53%) of Macao's tourist base. Gross gaming revenue soared to record highs, up 58% to 188.3 billion patacas in 2010. Macao has maintained its position as the world's biggest casino market with a size now significantly exceeding its nearest competitors.

The recovery was not fully fledged however. Investment continued to contract over the year. Merchandise exports remained sluggish due to weak external demand and a shrinking manufacturing base. The inflation rate for 2010 stood at 2.81%. The labour market was very tight with rapid expansion of the service industries. The unemployment rate fell to 2.8% in 2010, the lowest in the last decade. Limited human resources became a bottleneck to sustainable economic development. At the end of 2010, non-resident workers amounted to a total of 75,000, accounting for 22% of the total workforce.

The Macao SAR Government continued its efforts to diversify the economy. The government vowed to tame excessive casino growth by limiting the number of casinos, gaming tables and slot machines. The goal is to establish Macao as an international conference hub, further developing the MICE (Meetings, Incentives, Conventions and Exhibitions) industry, as well as creative and cultural industries. Dedicated industry committees have been set up to formulate policy actions and identify partners for cooperation.

Macao's economic integration with China continued to intensify through closer links in trade and economic cooperation with the governments of Zhuhai municipality and the Guangdong province. Supplement VII to the Closer Economic Partnership Arrangement (CEPA) between China and Macao was signed on 28 May 2010. Under the latest supplement, China granted wider access for Macao companies to conduct business in a total of 43 services sectors. On trade and investment facilitation, both governments pledged to strengthen cooperation in education, culture, innovation, environmental, and convention and exhibition industries. The measures were aimed at boosting Macao's economic development and integration with Mainland China. Trade in goods has been fully liberalised since 1 January 2006.

At the provincial level, Macao and the neighbouring Guangdong Province initiated the preparatory work for a framework cooperation agreement aiming to enhance the socio-economic integration of the two localities. The agreement would also facilitate the diversification of Macao's economy and improve implementation of CEPA.

The extension of Macao's geographical jurisdiction on Hengqin Island is a pilot project between Macao, Guangdong and Zhuhai. Macao has rented a plot of 5km<sup>2</sup> on Hengqin Island from Zhuhai until 2049. The Macau University will use 1km<sup>2</sup>, and will be under Macao's jurisdiction. The planning for the rest of the plot to be used as an industrial park is underway. The governments of Guangdong, Zhuhai and Macao have shown great interest in the joint development of Hengqin. EU Heads of Mission visited the site in September.

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<sup>1</sup> Economic data of Macao are official statistics released by the Statistics and Census Service of the Macao SAR Government.

Following the enactment of Law 20/2009 on 11 August 2009 relating to the exchange of information between the Macao SAR and other tax jurisdictions, Macao signed or updated (as relevant) its double taxation agreements in 2010, in accordance with the OECD model with Cape Verde, Mozambique, Belgium, Portugal and China.

## **EU – MACAO COOPERATION**

Bilateral relations between the EU and Macao have continued to develop on a positive track during 2010. Enhancing cooperation between the EU and Macao is a key goal, as well as the focal point of discussions at the annual EU-Macao Joint Committee Meeting, held on 9 July 2010 in Brussels.

During the Joint Committee meeting, both sides reviewed the latest developments in their relationship and took stock of cooperation between the two sides, including the recent launch of the EU-Macao Legal Cooperation Project in March 2010, which is aimed at strengthening Macao's legal system and enhancing public administration, legal and judicial expertise, following the successful completion of a similar project in 2007.

Both sides expressed their willingness to explore new areas of cooperation such as environmental protection, academic and cultural exchanges as well as other trade and economic issues. The European Commission used this year's annual meeting to also express its wish to see progress on other matters such as civil aviation and taxation of savings. The European Commission highlighted the importance of good governance in the tax area and welcomed Macao's efforts to implement the OECD standard of transparency and exchange of information, whilst encouraging Macao to make further steps towards establishing equivalence with the measures adopted within the EU under the Savings Directive to ensure taxation of EU investors on income from savings in accordance with the rules of their Member State of residence.

The "European Union Business Information Programme" for Hong Kong and Macao (EUBIP) has proved to be a useful instrument in promoting knowledge-sharing and a better understanding between Macao and the EU. In particular for Macao, the participation of the EU alongside Member States and European businesses with a joint EU pavilion and speakers has given more visibility to the EU. It has also served as a good network for the Macao and EU business communities. A more active participation of Macao-based industry in the business councils supported under the EUBIP for various industry sectors would contribute to a better understanding of business concerns and interests.

Expanded people-to-people contacts between Europe and Macao have also contributed to enhance EU-Macao relations. Macao universities and students are actively involved in the Erasmus Mundus Programme and have been awarded a 2010 Erasmus project to extend exchanges and mobility between universities and students of Europe and Macao to deepen the understanding between us. The EU has continued to support the Jean Monnet chair at the University of Macao and many successful Jean Monnet Conferences held throughout the year. EU training of interpreters from Macao for conferences has also continued throughout 2010.

2010 saw enhanced contacts between senior officials from Macao and the European Commission, both in Brussels with the visit of Florinda Chan, Secretary for Administration and Justice, in July and, in Macao, with Commissioner Semeta's visit in August to discuss customs cooperation and good governance in taxation and to confirm the strong EU interest for the establishment of specific cooperation with Macao on income from savings.

All these exchanges and dialogues should continue in 2011. In particular, the European Commission would expect the negotiations on a horizontal agreement in the area of civil aviation to include the principle of EU designation concluded without any further delay. More people-to-people activities should be developed to enhance a better knowledge and understanding of the policies and cultures of both Europe and Macao.

The European Commission will continue to support the implementation in Macao SAR of the “one country, two systems” principle and therefore, to monitor closely political, institutional, economic and social developments in the Macao SAR.