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

**MACAO SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT 2015**

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## **MACAO SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT 2015**

### **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 a '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 2015, the 'one country, two systems' principle continued to work well, to the benefit of the Macao SAR, China as a whole, and the international community. 2015 was the first full year in office of the new Government of Macao, headed by Chief Executive Chui Sai On. The process of the government taking office went smoothly and was in accordance with the Basic Law. The Chief Executive announced that the government would place particular emphasis on communicating with the Macao population.

The Chief Executive was elected in 2014, in an election in which he ran uncontested. This was the third time in a row that only one candidate stood for election to the Chief Executive post. While Macao's Basic Law and other legislative acts do not provide for the possibility of universal suffrage, the EU encourages the Macao authorities to consider ways to promote greater public involvement in the election of the Chief Executive, thereby enhancing the legitimacy of the position and contributing to good governance.

The fundamental rights and freedoms of citizens continued to be respected. Positive steps were taken towards improving the wages of low-paid workers and combating domestic violence and trafficking in human beings. Macao's media continued to express a broad range of views despite some concerns about increasing self-censorship.

Macao's market-based economy continued to function efficiently but economic growth suffered from a marked decline in gaming revenues, on which the SAR is over-reliant. Improving the lives of ordinary citizens, who face mounting living and housing costs, is a key priority. Macao's economic cooperation and integration with mainland China advanced at a fast pace, especially with Guangdong Province, helping to overcome Macao's shortage of land and human resources. The functioning of the Macao Government needs to be modernised and made more efficient; in this connection, administrative reforms have been announced.

EU-Macao relations continued to flourish, with a growing cooperation portfolio and solid trade relations. Notwithstanding the sharp contraction in Macao's economy, EU-Macao trade grew significantly in 2015, thanks to an increase in exports of machinery and transport

equipment. Priorities for 2016 are cooperation on economic diversification, the fight against human trafficking, legal affairs, regulatory matters, and research and innovation.

## **Political developments**

2015 was the first full year for the new Macao SAR Government, which took office on 20 December 2014 in a ceremony presided over by President Xi Jinping that coincided with the 15<sup>th</sup> anniversary of the SAR. The new government is again headed by Chief Executive Chui Sai On; all other members of the government are new. For the third time in a row, the Chief Executive was elected uncontested as the only candidate standing for election to the Chief Executive post. While Macao's Basic Law and other legislative acts do not provide for the possibility of universal suffrage, the EU encourages the Macao authorities to consider ways to promote greater public involvement in the election of the Chief Executive, thereby enhancing the legitimacy of the post, increasing public support, and strengthening governance.

In his address on the occasion of the SAR Government taking office, President Xi Jinping set four priorities for the new government: improve Macao's law-based governance, diversify the economy to make it sustainable, solve problems relating to the population's living standards and reduce social disparity, and educate young people so that they understand the 'one country, two systems' principle.

The government incorporated these four priorities into its work programme during 2015. The Chief Executive presented his policy address in November. Set against the backdrop of a steep decline in GDP as a result of the slump in Macao's gaming sector, the policy address placed a strong emphasis on livelihood matters, announcing an increase in various subsidies, raising of the minimum subsistence index, a review of labour law, and an increase in government-built housing. Infrastructure development focused on transport. The policy address mentioned administrative reform, but set out only a few concrete measures regarding institutional development and the judiciary, and anti-corruption measures.

Some steps were taken to improve social welfare. In July, the Legislative Assembly adopted legislation establishing a minimum wage for local cleaners and security guards hired by property management service suppliers or working in residential buildings. The law, which came into effect on 1 January 2016, sets the minimum salary at MOP 30 hourly, MOP 240 daily or MOP 6 240 monthly, to be revised annually. The government pledged to gradually introduce a minimum wage in all sectors of the economy within three years. In 2015, over 500 people were hired to work in public hospitals and to provide other healthcare services, which allowed some services and working hours of public hospitals to be extended.

**Equal opportunities, rights and freedoms.** Within the framework of the 'one country, two systems' principle, enshrined in the Basic Law of Macao, the rights and fundamental freedoms of the people of Macao continued to be respected and the rule of law was upheld. Macao enjoys a high level of civil liberties and respect of human rights and fundamental

freedoms. Nonetheless, the government remained opposed to a suggestion by the UN Committee Against Torture (UN CAT) to establish an independent human rights body, arguing that this recommendation was not applicable to Macao as a Special Administrative Region of the People's Republic of China (PRC).

The **media** remained diverse and were able to express a variety of views without restriction. There is growing self-censorship, however, particularly in Chinese-language media and when reporting on Chinese affairs. The international media operate freely.

There are continuing concerns about **discrimination** on the grounds of **sexual orientation** and gender identity, particularly in employment, education, and healthcare. A positive step was taken in January 2015, when the Legislative Assembly adopted an act making domestic violence a criminal offence. However, same-sex relationships are not covered under the Act. The UN CAT questioned this decision and urged the government to extend the protection to all individuals in an intimate relationship regardless of sexual orientation. Proponents pointed out that the UN Committee on Economic, Social and Cultural Rights had urged Macao to adopt comprehensive anti-discrimination legislation for lesbian, gay, bisexual and transgender persons.

Progress was made in promoting **gender equality**. In May 2015, the Labour Affairs Bureau introduced a draft amendment to the Labour Relations Law. It contained a proposal to extend paid maternity leave by 14 days and to introduce paternity leave. The legislative proposals have not yet been adopted. More legislation is needed to promote gender equality, for example in the area of sexual harassment.

The Macao Government made further substantial efforts to combat cross-border crime, in particular **human trafficking**. The Human Trafficking Deterrent Measures Concern Committee, an interdepartmental body comprising government, law enforcement, justice and social affairs representatives, continued to tackle human trafficking and to implement measures aiming at prevention and victim protection. Activities included training of judges, magistrates, lawyers and other professionals. Nevertheless, in December 2015, the UN CAT expressed concerns about the very low number of prosecutions and convictions for trafficking despite a large number of complaints. It urged Macao to step up investigation and prosecution of suspected offenders and to provide further training to officials. The government expressed its willingness to tackle the issue and welcomed cooperation with international partners, including the EU.

Macao has not effectively enforced freedom of association and collective bargaining as enshrined in International Labour Organization Conventions. Proposed private bills on trade unions and collective bargaining have been turned down repeatedly in the Legislative Assembly. Employees are free to take part in union activities and industrial action but they are not protected from retaliation. Article 70 of the Labour Relations Law allows the employer to terminate an employee's service without just cause by giving a modest amount of compensation.

**Anti-corruption.** On 1 January, a new law against corruption in foreign trade took effect, prohibiting the offering of bribes to officials serving outside the SAR. This measure is in line with the requirements of the United Nations Convention Against Corruption.

In March, the Commission Against Corruption (CCAC) submitted its annual report for 2014. It showed a slight drop in total complaints and a large decrease in the number of criminal reports compared to 2013. The CCAC said it would investigate the cause of the decrease. The report also highlighted the importance of citizens' participation, with 96 % of investigations having been initiated through individual complaints. The main violations reported were crimes committed by public servants, such as forgery of documents, abuse of power, fraud, and embezzlement. No complaints were lodged about the 2014 election of the Chief Executive. In 2015, Macao cooperated in an ongoing investigation of two UN officials accused of accepting bribes from a Macao developer.

### **Economic developments**

Macao slipped into a deep recession in 2015. GDP shrank by 20.3 %<sup>1</sup> in real terms in 2015, following a 0.9 % decrease in 2014. The contraction was due to the dramatic slowdown in Macao's gaming sector, which had its worst year since the liberalisation of the gaming regime in 2002. Revenues fell by 34.3 % to MOP 231 billion in 2015, the lowest in five years, as China's corruption crackdown scared off high-stake players and a slowing economy adversely affected mass-market gambling. Despite the revenue slump, Macao continued to rank as the world's largest gaming market. However, the fall in revenue meant that Macao's size relative to Las Vegas, its nearest competitor, dropped from a factor of 7 in 2014 to 4.6 in 2015. Tourism was lacklustre, with visitor arrivals decreasing by 2.6 % to 30.7 million in 2015.

On the other hand, private consumption and government expenditure increased respectively by 2.4 % and 4.2 % in real terms in 2015, mitigating the economic downturn. The unemployment rate stayed below 2 % throughout the year. The labour market thus continued to be tight while the number of imported workers reached a high level of 181,646 at the end of 2015. Inflationary pressure moderated from 6 % in 2014 to 4.6 % in 2015.

Total investment continued to grow on account of the construction of new gaming resorts and hotels and infrastructure facilities. Three of the six mega-sized casino hotels under construction opened in 2015. To promote economic diversification and to contain excessive gaming growth, the government vowed to cap the number of new gaming tables at 3 % annually up to 2023. The allocation of new tables thus became the subject of hard negotiations and/or mediation between the government and gaming operators. In 2015, the Macao Government licensed 350 new gaming tables.

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<sup>1</sup> Unless otherwise stated, economic indicators pertaining to the Macao economy were sourced from the Statistics and Census Service of the Macao SAR Government.

Macao's six casino concessions will expire between 2020 and 2022. The government said it would conduct a public consultation on the concession renewal process and an in-depth study on the way forward for Macao's gaming industry. Gaming operators are urged to develop more non-gaming facilities as part of integrated resorts, and this will be one of the key elements for consideration of new gaming table allotment and eventual renewal of licences.

As the gaming tax generates the bulk of overall fiscal revenues,<sup>2</sup> the substantial decline of the gaming sector resulted in a corresponding drop of fiscal revenue in 2015. In the first ten months of 2015, total fiscal revenue fell by 29.7% to MOP 109.8 billion. Against this backdrop, for the first time in years the SAR Government rolled out mild austerity measures to tighten spending. It gave reassurances that budgets allocated for livelihood, social welfare and public investment projects would not be affected. The SAR Government spent less than half of the fiscal revenue over the preceding five years (2010-2014), thereby accumulating comfortable reserves of MOP 345 billion<sup>3</sup> (as of the end of 2015) to cope with economic fluctuations. The fiscal surplus for 2015, however, was substantially reduced and stood at MOP 29.3 billion, compared to over MOP 90 billion in the previous two years. In his policy address for 2016, Chief Executive Chui Sai On warned that gaming revenue would continue to drop, but confirmed that it would not affect livelihoods. He also said that various subsidies for residents would be increased and that the cash handout policy that has been in place since 2008 would be continued. Permanent residents would receive MOP 9 000 and non-permanent residents MOP 5 400 in 2016, similar to the amounts they received in 2015.

The Chief Executive's policy address also charted a roadmap to strengthen the economy. Among the key initiatives were measures to promote healthy development of the gaming industry; to intensify the development of the 'Centre and Platform' policy; to create a favourable environment for emerging industries and support local small and medium-sized enterprises (SMEs); to protect the employment rights of local residents; and to strengthen regional cooperation. 'Centre and Platform' has to do with transforming Macao into a world centre for tourism and leisure and a commercial and trade cooperation service platform between China and Portuguese-speaking countries.

In keeping with the efforts to diversify the economy through cross-border cooperation with the mainland, the governments of Zhuhai and Macao launched the Hengqin Pilot Free Trade Zone (FTZ) in April. A total of 33 projects were selected for Hengqin and 875 Macao companies registered their commercial operations in order to conduct business in the FTZ. Both sides also explored easier access to the FTZ for Macao-licensed vehicles. The Macao authorities encouraged SMEs and young entrepreneurs to cooperate with the mainland on Hengqin projects.

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<sup>2</sup> According to figures released by the Financial Services Bureau of the Macao SAR Government, direct taxes from gaming contributed to 82.5% of the fiscal revenue in 2014 and 77% in 2015.

<sup>3</sup> Source: Monetary Authority of Macao

In December, the State Council of the PRC decreed that Macao's coastal waters covering an area of 85 square kilometres (and part of the Duck Channel as well as the plot of land where the Barrier Gate checkpoint is located) would fall under the SAR's jurisdiction. As a result, the size of Macao's demarcated coastal waters is three times that of its land area. Macao has never previously had jurisdiction over its coastal waters. Furthermore, in early 2016 Macao and the respective Chinese authorities are due to sign three agreements to enhance cooperation in the areas of water affairs, maritime traffic and sea use. The agreements will stipulate that proposals for land reclamation are to be submitted to the State Council and no commercial gaming is to be permitted in new land reclamations.

Macao's integration with the mainland continued apace under their bilateral free trade agreement, the Closer Economic Partnership Arrangement (CEPA). In November, Macao and China signed an agreement on trade in services under which China is to fully or partially open up to the Macao services industry in 153 sectors as from 1 June 2016. China pledged to fully liberalise trade in services with Macao by the end of 2015.

Macao remains vulnerable to money laundering as its massive gaming sector provides avenues for illegal money flowing out of the mainland. To counter this, in August, Macao and China signed a landmark agreement to significantly increase cooperation and improve the implementation of suggestions by the Financial Action Task Force. The new cooperation agreement took the form of a memorandum of understanding between the Macao Monetary Authority (AMCM) and the People's Bank of China. Observers criticised the agreement for its lack of clarity and detail and questioned the legitimacy of the handing over of sensitive personal information by the AMCM to the Chinese Central Bank. In parallel, Macao's Financial Intelligence Office (the government office responsible for combating money laundering) signed anti-money laundering cooperation protocols with the U.S. Financial Crimes Enforcement Network, the Russian Federal Financial Monitoring Service, and the Financial Intelligence Unit of the UK. Macao has previously signed protocols of cooperation with Portugal, Hong Kong, South Korea, Indonesia, the Philippines, Thailand, Japan, Malaysia, Singapore, Fiji Islands and Australia.

Macao has responded to the global call for action against tax evasion. In September 2014, the Macao SAR government announced that Macao will adopt the Global Standard for Automatic Exchange of Financial Account Information sponsored by the G20 and developed by the OECD. The authorities stated that Macao will amend its laws with a view to ensuring timely compliance with the new standard, which means that Financial Institutions in Macao will have to launch the Customer Due Diligence procedures as from 1 January 2017 in order to collect the information to be exchanged starting from the following year. Unlike Mainland China, Macao has not however yet confirmed its preparedness to be committed to the comprehensive OECD/Council of Europe Multilateral Convention on Mutual Administrative Assistance in Tax Matters and, as a consequence, has not adhered to the related Common Reporting Standard Multilateral Competent Authority Agreement (CRS – MCAA), to which all the EU Member States are parties. The CRS-MCAA, subject to a rather straightforward procedure of bilateral activation, provides a suitable legal basis for the actual and effective

implementation of international cooperation under the OECD standard for Automatic Exchange of Financial Account Information between all its partners, avoiding the need for lengthy bilateral negotiations.

In the environmental field, in 2015 the SAR Government launched a feasibility study for a recycling network. The SAR authorities see regional cooperation as the key to a better environment. Macao has limited space to accommodate recycling network facilities and may have to rely on the mainland to provide land resources.

On **external policy**, the government continued to boost Macao's role as a service platform for trade and economic cooperation between China and Portuguese-speaking countries. It supported the operations of the Sino-Portuguese Cooperation Development Fund, and promoted Macao as a bridge for trade and investment between China and Portuguese-speaking countries.

### **EU-Macao bilateral relations**

Notwithstanding the sharp contraction in Macao's economy, EU-Macao bilateral trade increased significantly in 2015. Total trade in goods between the EU and Macao surged by 39.3% and amounted to EUR 851 million. Thanks to the hefty increase of exports of machinery and transport equipment, EU exports to Macao increased by 39.7% to EUR 756 million. Other key export items included luxury goods, food and beverages. EU imports from Macao increased by 36.5% to EUR 96 million in 2015. The EU thus recorded a trade surplus with Macao of EUR 660 million. It remained Macao's second largest supplier after China, accounting for 22% of its imports in 2015.<sup>4</sup>

The continued slowing of Macao's economy in 2015 had an impact on the EU's trade and investment interests and on the profits of European ventures. The EU and its business community are keen to work with the Macao Government in seeking to diversify its economy, improve the sustainability of its economic development and promote bilateral trade and investment flows.

Bilateral relations between the EU and Macao remained very positive. The 20<sup>th</sup> meeting of the Joint Committee under the EU-Macao Trade and Cooperation Agreement was held in Macao on 27 November 2015. The two sides reviewed the latest developments in their relationship, took stock of ongoing bilateral cooperation activities and explored new areas for further cooperation. Both sides welcomed the continued cooperation between the Public Administration and Civil Service Bureau of the Macao SAR and the Directorate-General for

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<sup>4</sup> Source: Statistics and Census Service of Macao



Interpretation of the European Commission for the training of qualified interpreters for the Macao SAR.<sup>5</sup>

During the Joint Committee meeting both sides adopted the third Macao SAR-EU cooperation programme in the legal field. The programme aims to strengthen the Macao SAR's legal system and improve training for its legal practitioners.<sup>6</sup> Both sides agreed that legal cooperation was an important element of Macao-EU bilateral relations.

To promote the participation of the Macao SAR's research institutions and researchers in the EU's large-scale Horizon 2020 programme, Macao announced the setting-up of a matching fund to meet the costs of Macao's researchers participating in the Horizon 2020 programme. This will mark a new phase in Macao-EU cooperation in research and innovation. Finally, Macao and the EU expressed their intention to continue cooperating and exchanging know-how to combat human trafficking.

The European Union Academic Programme (EUAP), managed by a consortium led by the University of Macau, organised many new activities, such as the hosting of visiting speakers, seminars, and research and academic exchanges. The EUAP's outreach activities included its first 'EU photography challenge', a photo exhibition, the second edition of its EU 'short-film challenge', the 'European Film Cycle', and a regular radio programme on the European Union. An expanded third edition of the popular 'Model European Union' simulation of a European Council meeting took place with the participation of the University of Saint Joseph. For Europe Day, the EUAP organised a series of EU Week events and launched its new booklet on EU-Macao relations.

The Macao European Chamber of Commerce (MECC)<sup>7</sup> and the European Chamber of Commerce in Hong Kong together coordinated European participation in the Macao International Environmental Cooperation Forum & Exhibition in March and the Macao International Trade and Investment Fair in October.

In March 2015, the EU and its Member States supported the 'Business Leadership to end Human Trafficking and Modern Day Slavery' conference in Macao. The conference brought together representatives of government, the gaming business and civil society. It raised awareness and explored ways in which businesses can contribute to fighting human trafficking and modern-day slavery.

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<sup>5</sup> A memorandum for a new phase of the five-year training programme for interpretation was signed on 5 November 2015. The interpreter training programme meets the mutual needs of the Macao SAR and the EU for qualified Chinese and Portuguese interpreters.

<sup>6</sup> The first and second legal cooperation programmes were successfully completed in 2007 and 2013 respectively.

<sup>7</sup> The MECC is a hybrid chamber that has both direct company members and members from the national chambers of EU Member States, presently including the British Business Association of Macao, France Macau Business Association, German Macau Business Association, the Irish Chamber of Commerce in Macau, the Macao-Romania Chamber of Commerce and the Portuguese-Chinese Chamber of Commerce and Industry.

The EU will continue to work towards deepening its relationship with the Macao SAR, increasing economic and trade links, improving cooperation with business and civil society, and promoting mobility and exchanges with the people of Macao. Priorities include greater cooperation to diversify Macao's economy; maximising the potential benefits of the Mainland China-Macao Closer Economic Partnership Arrangement (CEPA) for both local and European companies established in Macao; cooperation on legal and regulatory affairs, research and innovation, as well as continued cooperation on the fight against human trafficking.

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