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

**Macao Special Administrative Region :
Annual Report 2006**

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Macao Special Administrative Region : Annual Report 2006

Before the handover of Macao to China in December 1999 the Commission made a commitment to "closely monitor and promote the implementation of the 'one country, two systems' principle in order fully to support Macao's political, economic and cultural autonomy."¹ In 2006 the Commission again promised to continue to issue annual reports on the constitutional, political, trade, economic and bilateral developments in Macao². This is the seventh such report since 2000.

Macao continues to be an important partner for the EU, sharing values and interests in the economic, regulatory, educational, social and cultural spheres. Since the handover relations between the EU and Macao have continued to deepen and widen across these areas, remaining practical and based on mutual interest. In 2006 EU-Macao co-operation and relations have been further reinforced.

1. Political developments

The political and constitutional situation within the Macao SAR in 2006 remained stable for another year although a major governmental incident marked the end of 2006—(see below). Proposals regarding Macao's future constitutional development were postponed until 2008 or later. Following the 2007 Policy Address made on 16th November 2006, the Macao Government Chief Executive, Edmund Ho, said that it would not be possible to introduce direct elections in 2009 or immediately after 2009 and the matter should be first carefully studied. It was stated that the draft bills on the electoral arrangements for Chief Executive and Legislative Assembly in 2009 would be submitted to the Legislative Assembly in 2008. The European Commission takes note of Mr. Ho's announcement and looks forward to the launch of the democracy development plan.

In Macao the government and people are facing increasing challenges arising from the remarkably accelerating economic and social changes since 2002. Several problems are resulting from Macao's own success: affluence for some, but declining real incomes for poorer people, stresses from rapid social change and externalities and costs resulting from all these developments. One quarter of the labour force is now imported labour. Local residents who have lost their jobs are expressing their discontent. Macao's boom is causing the rapid inflation of the costs of living, especially of property-related costs rising faster than the pay rises of some of the poorer groups, reducing thus their real level of income. Huge building projects are changing the character of Macao, engendering environmental stresses. Rapid expansion in the numbers of cars and motor cycles in the small streets of Macao have led to

¹ Communication from the Commission to the Council and the European Parliament "The EU and Macao: Beyond 2000" Brussels, 12.11.1999, COM (1999) 484 final.

² "The European Union, Hong Kong and Macao: possibilities for co-operation 2007-2013". Communication from the Commission to the Council and the European Parliament. COM(2006) 648 final of 26.10.2006.

congestion and pollution. The administration has the challenge to optimise the management of the social system to ensure that the government's generous benefits schemes are delivered to those in need of benefits, and to improve the regulation and conditions of imported labour.

On 1st May 2006, these pressures led to a significant public demonstration where grievance was expressed over government labour policy with claims that illegal workers were being tolerated and inadequately regulated in Macao. The disturbances that occurred at the demonstration indicated a ground-swell of serious discontent, albeit apparently limited to groups who are not benefiting from the booming economy and labour market.

There was a major governmental incident in December 2006 when one of Macao's top officials- the Secretary for Transport and Public Works, Mr. Ao Man-long - was arrested for alleged corruption. This was reportedly after a joint Hong Kong-Macao anti-corruption investigation. Ao is the most senior official arrested for alleged corruption since Macao returned to Chinese rule in 1999. Announcing the arrest, Macao Chief Executive Mr Edmund Ho said that there was evidence that Ao was involved in corruption and has abused his power for personal gains. Ao had been in charge of the Macao government's infrastructure, land disposal, transport and environment projects since the handover in 1999. The lack of transparency in Macao's land disposal system and public works contracts placement mechanisms have widely been criticised in the press.

The aforementioned issues raise some concern regarding their overall impact on Macao's socio-economic tissue. The Commission hopes that the SAR Government will take all the appropriate measures to tackle these pertinent problems.

On the external front Macao continued to play a role as a platform for China's international relations with Portugal and the Lusophone world through mechanisms managed in co-operation with the People's Republic of China Central Government. In September Macao hosted the second Ministerial Conference of the China and Portuguese-speaking Countries Economic Cooperation Forum. Macao also hosted the Lusophone Games in October 2006.

2. Economic developments

In 2006 Macao was one of the fastest growing economies in the world. GDP leapt by 16.6% in real terms in 2006, following a moderate increase of 6.9% in 2005. The growth was driven by gambling revenues, an investment and construction boom, strong consumption, and buoyant exports of goods and services. Economic expansion gathered pace with the construction and opening of new casinos, other gaming-related facilities and hotel and residential property developments. Visitor arrivals have continued to reach new record highs year after year since the 2002 liberalisation of the gaming regime and mainland China's liberalisation and extension of Mainland Visitor schemes. It is estimated that around 500.000 visitors arrive in Macao per week, which equals Macao's total population. By the end of 2006 the unemployment rate fell to the lowest level (3.5%) since the handover, while inflationary pressure became increasingly acute - especially in the property-related items. Per capita income in Macao reportedly surpassed that in Hong Kong for the first time in 2006. The Macao SAR however is characterised by a steep and widening inequality of incomes.

In 2006 Macao's total gaming revenue surpassed that of Las Vegas, making Macao the largest gaming market in the world. Macao is taking initiatives to diversify into non-casino business such as conventions and exhibitions, resort-type vacation business, sports and cultural

tourism. However the huge growth in casino revenues means that it has continued to account for an increasing proportion of the economy.

The private sector took on a number of property development projects during the year. Total hotel rooms are expected to triple upon realisation of these projects in the next few years. More new casinos are coming on stream, expanding the gaming facilities and capacity. There is, however, a concern of possible oversupply in the future. Merchandise exports recovered in 2006 from the sharp fall in 2005 when global textile quotas were lifted. Domestic exports, comprising mainly the formerly restricted textile and garment items, surged by more than 50% in the first half of 2006. Imports continued to increase along with robust investment and consumption, resulting in an enlarged merchandise trade deficit. Manufacturing accounted for only 5% of Macao's GDP in 2006.

Fiscal revenue continued to record very high growth from substantial increases in gambling tax revenues. The large and growing fiscal surplus position allowed the Macao SAR Government to invest in long term programmes for economic, infrastructural and educational development. Major long term projects include the light rail rapid mass transit system, urban re-development and land reclamations. As a result of the strong economy the labour supply became very tight – especially as regards skilled construction and service sector workers. During 2006, labour import increased significantly by over 60% to more than 50,000 workers. Most of the imported workers are employed in the construction, services, and gaming sectors. The main sources of imported labour are Mainland China, and more recently Hong Kong. The unemployment rate continues to decline to the very low level (3.5 % in the last quarter of 2006).

Signs are that the coming years will see the Macao economy and government facing increased challenges to achieve sustainable development; to cope with the rising costs and externalities (environmental, congestion, social differences) from the booming economy; to expand its capacity in terms of infrastructure and manpower to meet demand; and to widen the narrow-base of the economy to a more diversified one.

3. Trade and Sectoral Issues

Intellectual Property Rights. While recognising the continued efforts of Macao in upgrading its legislative framework and enforcement structure for the protection of intellectual property rights, the European Commission remains concerned about IPR infringements in some sectors. Most notable case is the one of antenna companies that have been providing for years pirated TV signals of European and American programmes and infringing the rights of the licensed broadcasting company, Macau Cable TV. Following prolonged litigation, government intervention and repeated diplomatic efforts by the EU and host countries of right holders, the IPR dispute has probably come to a possible solution with the acquisition of Macau Cable TV by a Macao antenna company. The Commission hopes that the new ownership structure will lead to a remedy of the previous IPR abuses of broadcasting content, and will continue to monitor the situation.

Anti-money laundering. The European Commission welcomes Macao's efforts in enhancing its legal framework on anti-money laundering and anti-terrorism. Legislation on anti-money laundering and anti-terrorism were enacted in April 2006. The Financial Intelligence Office, a new government office dedicated to anti-money laundering and anti-terrorist financing, was set up during the year to strengthen surveillance. Given the huge and burgeoning volumes of

cash passing through Macao's casinos, the matter will continue to need attention from the Macao authorities.

Banco Delta Asia. In 2006 the Macao Government continued its "administrative" management of Banco Delta Asia, which had been accused of money laundering on behalf of DPRK/North Korea by the US Treasury department in 2005. The Macao government has reportedly continued to be in close and co-operative relations with its key international partners in this regard - especially the USA and mainland China - on this matter of international importance.

The EU Savings Taxation Directive. In 2006, the Commission expressed its interest in starting exploratory talks with the Macao SAR Government with a view to promoting the introduction of measures equivalent to the EC Directive on taxation of savings. In line with its stated tax policy of promoting internationally accepted good governance principles as widely as possible, the Commission proposes to work with Macao to improve transparency and the exchange of information, strengthening enforcement measures to prevent the avoidance or evasion of taxes, and in particular promoting application of measures equivalent to those applied within the EU on taxation of income from savings. The Commission would welcome the SAR Government's formal agreement to working-level exploratory dialogue on this issue.

The Closer Economic Partnership Arrangement (CEPA) between Mainland China and Macao entered its fourth phase in 2006. Under the Supplement III to CEPA (CEPA IV), which was signed in June 2006, 13 new liberalisation measures in trade in services were introduced, opening up altogether 26 service sectors for Macao businesses in Mainland China. For trade and investment facilitation, new cooperation areas were introduced, including IPR, exhibition services and Chinese medicine. All measures became effective on 1 January 2007.

Environment. The priority the EU attaches to addressing climate change, air and water pollution is well known. The Commission believes that international cross-border co-operation in this regard is essential and to global benefit. The Commission stands ready to co-operate with Macao to assist and encourage the implementation of such measures, and to explore scope for trilateral co-operation with mainland China as appropriate.

4. EU-Macao relations and co-operation

On 26th October 2006 to map out its proposals for future EU-Macao relations, the Commission adopted a Communication entitled "The European Union, Hong Kong and Macao: possibilities for cooperation 2007-2013"³, which was endorsed by Council Conclusions on 12th December. The Communication identified key sectors for moving forward cooperation: trade and customs; finance; people-to-people links (including academia); transport; the environment; health; and food safety. It also proposed that there should be continued dialogue between the Commission and the Macao SAR on matters under their respective competences.

On 21st December 2006 the Council adopted a financing instrument for co-operation with industrialized countries and other high income countries and territories, including Macao. The

³ "The European Union, Hong Kong and Macao: possibilities for co-operation 2007-2013". Communication from the Commission to the Council and the European Parliament. COM(2006) 648 final of 26.10.2006.

Commission will discuss and agree with Macao the elements of a co-operation programme, to be funded by this instrument, which should begin in late 2007.

On 19th June 2006 President Barroso received Macao Chief Executive Edmund Ho in Brussels. The two leaders agreed that Macao and the European Union should continue to develop, broaden and deepen cooperation in areas of common interest. They agreed to maintain close contacts at all levels and ensure relations develop positively, recognising and responding to any challenges and opportunities quickly and effectively. Macao Chief Executive Edmund HO also met with leaders of the European Parliament in Brussels.

EU-Macao co-operation in the fields of customs co-operation, in interpretation co-operation and training continued in 2006. An EU financing under the AENEAS programme – for MIGRAMACAU - was approved for the training of Macao immigration officers. The EC-Macao Readmission Committee met in January 2006 and reviewed implementation of the EC-Macao Readmission Agreement and other ongoing immigration co-operation.

The European Commission has observed that the traditionally well established presence of EU companies in Macao has been fading; the European Commission hopes that level playing field would be respected for all stakeholders that are seeking business opportunities within the Macao SAR.

The European Commission Office accredited to Macao (based in Hong Kong) continued to maintain extensive relations and regular visits and contacts with Macao. Throughout the year, it undertook an active and expanded information and public diplomacy programme projecting through Macao media and society the EU's values and policies in the economic, regulatory, social, educational and cultural spheres. The Commission also renewed its contract with the University of Macao which provides an EU i – European Information Centre.