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signed by Mr Jordi AYET PUIGARNAU, Director

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HIGH REPRESENTATIVE
OF THE UNION FOR
FOREIGN AFFAIRS AND
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JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
MACAO SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT 2017

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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 its '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 2017, the 'one country, two systems' principle continued to be implemented, to the benefit of the Macao SAR, China as a whole and the international community.

In September, Macao elected a new Legislative Assembly. The political composition of the Legislative Assembly did not change after the elections. It continues to be dominated by pro-establishment lawmakers. High participation in the Legislative Assembly elections, where 14 out of 33 seats are elected directly, shows that Macao's citizens are eager to participate in political life and aspire to have a say in their future.

Macao's Basic Law and other legislative acts do not provide for the introduction of universal suffrage. Nevertheless, the EU encourages the Macao authorities to consider ways to promote greater public involvement in the election of the region's Chief Executive and the Legislative Assembly. This would increase their legitimacy, increase public support and strengthen governance.

The fundamental rights and freedoms of citizens continued to be generally respected in 2017. Macao's media continued to express a broad range of views despite concerns about increasing self-censorship.

Macao's economy grew significantly during the year, and further initiatives were announced to diversify economy.

The EU and Macao continued to have solid trade relations and to enjoy a good level of cooperation.

Political developments

On 17 September, Macao held elections for its Legislative Assembly. The turnout was the highest on record with 57.22 % of electors casting their votes. Only 14 seats of the 33-strong Legislative Assembly are directly elected. The remaining 19 seats are elected through

functional constituencies or appointed by the Chief Executive. The newly elected Legislative Assembly remains heavily dominated by the pro-establishment camp. It has only four pan-democratic lawmakers, and one lawmaker who advocates universal suffrage without subscribing to the pan-democratic platform. Welfare and livelihood issues were decisive in the election.

The elections were held in an orderly manner. However, pro-democracy party New Macau accused the authorities of applying political pressure to the party during the campaign, and brought its case to court. The Court of Final Appeal ruled on 11 September in favour of New Macau and criticised the Civic and Municipal Affairs Bureau for rejecting the party's request to hold an electoral campaign event. Pro-democracy activists complained that the central government had hacked their social media, e-mail and instant messaging services in order to monitor their election campaigns. At least 13 Hong Kong journalists were denied entry to Macao ahead of the election.

On 4 December pro-democracy lawmaker Sulo Sou was suspended from his seat in the Legislative Assembly. He was charged with civil disobedience in relation to a protest in 2016 against the Macao Chief Executive. Macao's Legislative Assembly suspended him, with 28 votes in favour of the suspension and 4 against. It is the first time since the handover in 1999 that the Legislative Assembly used its powers to suspend a lawmaker over a criminal charge. If Sou is found guilty and jailed for more than 30 days, he could be disqualified as a legislator.

In May, the chairman of the National People's Congress Zhang Dejiang came to Macao for a three-day visit. He praised Macao for the successful implementation of the 'one country, two systems' principle and urged the SAR to take further steps to integrate in China's national development.

In August, 10 people died and hundreds were injured after typhoon Hato hit Macao. The category-10 typhoon wreaked havoc in Macao, leaving the city without power for several hours, indicating the vulnerability of Macao to the effects of climate change. At the request of the Macao government, Chinese People's Liberation Army troops from the local garrison were mobilised to support the relief efforts.

In November, the National People's Congress Standing Committee voted to add the national anthem law to Annex III of Macao's Basic Law, which means that the law will apply in the Macao SAR.

Throughout 2017, over a dozen pro-democracy activists and several journalists were refused entry into Macao. Several Hong Kong politicians and lawmakers were told by the immigration services that they posed a threat to Macao's internal security and stability.

Equal opportunities, rights and freedoms

Under 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 generally respected and the rule of law was upheld. Civil liberties are upheld in Macao and there is a high level of respect for human rights. Nonetheless, in 2017 the government remained opposed to a recommendation by the UN Committee Against Torture (UN/CAT) to establish an independent human rights body. It argued that this recommendation was not applicable to Macao as a Special Administrative Region of the People’s Republic of China.

The **media** remained diverse and were able to express a variety of views without restriction. There appears to be a degree of self-censorship, particularly in Chinese-language media and when reporting on Chinese affairs. NGOs and media activists continue to raise concerns over self-censorship, which is due to the media’s reliance on government funding.

In 2017, the Macao Portuguese and English Press Association released its first report on freedom of the press for non-Chinese media. The report said that freedom of the press was well respected, but that Chinese-language media faced more challenges, restraints and pressure than English- and Portuguese-language media. The report said that the main obstacle to freedom of the press was difficulty in accessing sources and a lack of transparency from the authorities.

There continue to be concerns about **discrimination** on the grounds of **sexual orientation** and gender identity. These concerns are particularly acute in employment, education and healthcare. Same-sex relationships are yet to be included in the law that makes domestic violence a criminal offence. The UN Committee on Economic, Social and Cultural Rights had urged Macao to adopt comprehensive anti-discrimination legislation.

Despite the Macao Government’s continued efforts to fight against it, **trafficking in human beings** remains an issue in Macao. The Macao authorities conducted many anti-trafficking training sessions and public awareness campaigns during the year. To combat this cross-border crime, Macao has increased cooperation with mainland Chinese and Hong Kong authorities through intelligence exchanges and joint operations. Macao’s anti-trafficking law is satisfactory, but law enforcement needs to be more stringent. The number of prosecutions and convictions for trafficking remains low despite a large number of complaints. The EU stands ready to renew exchanges and cooperation and to provide technical expertise on best ways to address this global challenge.

Macao has not effectively enforced **freedom of association and collective bargaining** as enshrined in International Labour Organisation (ILO) conventions. Employees are free to take part in union activities and industrial action but they are not protected from retaliation if they do so. 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. The EU encourages Macao to take the necessary steps to comply with ILO conventions.

The Macao authorities continued to crack down on corruption during the year, and the government opened several high-profile **anti-corruption** cases. Typhoon Hato raised questions about Macao's disaster preparedness and disaster relief coordination. In the aftermath of the typhoon, the Commission Against Corruption launched an investigation into the procedures of the Meteorological and Geophysical Bureau for its typhoon forecasting and controversial management by its former director. The Commission Against Corruption's report found no evidence of illegality or external influence.

Economic developments

Macao's economy rebounded in 2017 after experiencing a major downturn in the previous three years when the gambling industry was greatly affected by the anti-corruption campaign in mainland China. Macao's GDP surged by 9.1 %¹ in real terms in 2017, a significant improvement compared to 2016 when it declined by 0.9 %. The economic upturn was driven by a recovery of the gambling sector and sustained inflows of tourists. In 2017, visitor arrivals increased by 5.4 % to 32.6 million. Visitors also spent more. Gambling revenue registered double-digit growth in 2017, totalling MOP 266 billion, up 19.1 % compared to 2016. Domestic demand rose steadily, with both private consumer spending and government spending recording moderate growth. The weakest part of the economy was private investment, which dropped 10 % in real terms in 2017. Investment spending contracted because several large-scale tourism facilities and mega-resorts were nearing completion. Inflation eased from 2.3 % in 2016 to 1.2 % in 2017. The unemployment rate has been persistently below 2 % over the past five years, even during the economic slowdown, with the economy relying heavily on foreign workers and professionals. Over 40 % of Macao's workforce in 2017 was made up of foreign workers, with around two thirds of them from mainland China.

On 14 November, Macao's Chief Executive, Fernando Chui, presented his policy address for 2018. He reiterated the major policy directions set out in Macao's Five Year Plan (2016-2020) that was launched in 2016. The Chief Executive said his administration would aim to diversify the economy, and participate in China's 'Belt and Road' initiative and in the Guangdong-Hong Kong-Macao 'Greater Bay Area' initiative. The government pledged to continue to develop business-related tourism from Meetings, Incentives, Conventions and Exhibitions; cultural & creative industries; Chinese medicine; financial leasing services; and wealth management. He encouraged small and medium-sized businesses to cooperate with e-commerce operators in mainland China to explore markets in Portuguese-speaking countries. In keeping with past practice, the Chief Executive also announced a package of financial subsidies to local people. This was the 11th year in a row that such a package has been provided, and this year's package totals MOP 12.9 billion. In 2018, permanent residents will receive MOP 9 000 and non-permanent residents MOP 5 400.

¹ Source: Unless otherwise stated, all macro-economic indicators were sourced from the Statistics and Census Service of the Macao SAR Government.

Macao's fiscal position in 2017 remained sound, and the region has deep reserves. Its fiscal account has consistently recorded surpluses for years, despite the significant drop in revenues from gambling taxes in 2015-2016. Prudent fiscal policy during the boom years ensured zero public sector debt and fiscal reserves in excess of 130 % of GDP². At the end of 2017, total fiscal reserves stood at MOP 490 billion³, exceptionally high for a territory of less than half a million people (excluding the working population who were not born in Macao). The government has announced in 2016 that it will set up a sovereign development fund by 2019 to manage the fiscal reserves.

While diversification of Macao's economy remains a long-term, ongoing target, diversification of the gambling sector gained some ground over the last year. The share of 'VIP' gambling (high-stakes gambling by wealthy people) in total gambling revenue decreased from 70 % to 56 %⁴ in 2017. To accommodate mass-gambling and non-gambling tourists, Macao is building more tourism facilities and improving the city's infrastructure. Gambling operators have committed to invest in very large luxury resorts to attract large conventions. They have also committed to invest in broader types of entertainment that are appropriate for families, business travellers and holidaymakers. Five new multi-billion-dollar resorts are due to open in 2018. In total, Macao is due to add 9 000 new hotel rooms, on top of the 37 000 available now. The government has stressed that the ability to develop non-gambling tourism will be one of the key criteria for the renewal of gambling concessions. At present there are six companies with gambling concessions, and their licences will expire between 2020 and 2022.

On regional cooperation, Macao and China signed two new agreements in December under the framework of the Mainland and Macao Closer Economic Partnership Arrangement (CEPA). These two agreements were the 'Investment Agreement' and the 'Agreement on Economic and Technical Cooperation'. The Investment Agreement provides a mechanism to settle investment disputes and a framework for legal proceedings. Earlier in October, Macao and Hong Kong signed an agreement intended to simplify the free movement of goods, facilitate customs procedures and trade, open trade in services and establish bilateral cooperation in the field of intellectual property under the CEPA framework. Macao and Hong Kong have each entered into a separate CEPA with the Mainland. It is expected that the three administrations will build upon their CEPAs to draw up a new, common platform to advance further liberalisation and facilitation of trade and investment in the Greater Bay Area.

Macao plays a role as an economic bridge between China and the Portuguese-speaking countries. To strengthen this role, a flagship fund promoting cooperation between China and the Portuguese-speaking countries moved its headquarters to Macao from Beijing in June 2017. The fund was founded in 2013 by China Development Bank and the Macao Industrial and Commercial Development Fund. It is managed by the China-Africa Development Fund.

² Source: 2016 Article IV Consultation Staff Report of Macao SAR, IMF.

³ Source: Monetary Authority of Macao, press release of 1 March 2018.

⁴ Source: The Gaming Inspection and Coordination Bureau, Macao SAR Government.

The fund has pledged to include more small and medium-sized businesses from Macao in its future projects.

Macao continued its work to fight money laundering and terrorist financing during the year. These efforts were acknowledged in the 2017 Mutual Evaluation Report, conducted jointly by the Asia Pacific Group and the Group of International Finance Supervisors, according to the evaluation methods stipulated by the Financial Action Task Force. In November, Macao also implemented a cash declaration system for visitors carrying cash in excess of MOP 120 000 (or equivalent).

EU-Macao bilateral relations

In 2017, the EU was Macao's second largest source of imports after mainland China, contributing to 25% of Macao's total imports. However, the EU was the destination of less than 2% of Macao's export of goods. These trade imbalances have generated long-standing trade surpluses in favour of the EU, as Macao's import demand has continued over the years while its manufacturing sector has been shrinking to less than 1% of GDP.

Bilateral trade in goods rose by 8% to EUR 744 million in 2017. EU exports to Macao reached EUR 626 million, a 4% increase year-on-year, resulting in a trade surplus of EUR 508 million in 2017. Macao is a growing market for European luxury goods. The business opportunities in the gambling and tourism industry are central to EU-Macao trade relations. Major EU export products included high-end leather goods, clothing, watches and jewellery, food and beverages, and automobiles.

Procurement in the transportation, energy and construction sectors is also potentially of interest to EU companies since Macao is engaged in an increasing number of infrastructure projects. However, compared to other major investors (Hong Kong, China and the US), direct investment by EU companies in Macao remains modest. Portugal was the most notable EU investor in Macao, accounting for 3.7% (MOP 9 billion) of total direct investment stock in 2017.

As part of its agenda for fair taxation at global level, on 5 December the EU unveiled a list of 17 non-cooperative tax jurisdictions (Annex I to the relevant Council Conclusions), including Macao. During the screening phase, three issues were identified in the Macao tax system. First, concerning the exchange of information, Macao had committed to apply the OECD Automatic Exchange of Information Standard on the basis of the bilateral approach but does not have a network of agreements covering all EU Member States. Second, Macao does not yet participate in the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC). Third, concerning the standards of fair taxation, Macao has one fiscal regime, the "Offshore companies" regime, that has been identified as being harmful. On the basis of this assessment, Macao had been invited to commit to address these deficiencies by the end of 2018. The commitment taken at the end of 2017 was not assessed as sufficient by

the Member States and Macao was therefore placed on the list of non-cooperative jurisdictions. On 23 January 2018, following a new commitment to remedy EU concerns on Macao's participation to the OECD Multilateral Convention on Mutual Administrative Assistance (MAC), Macao was removed from the list of non-cooperative jurisdictions. The EU will now monitor the effective implementation of the commitments made by Macao.

Macao's annual Global Economic Tourism Forum was held in October. At this event, it was announced that the EU would be the Forum's 2018 'Official Partner'. This announcement fits well with the EU-China Tourism Year 2018 initiative, which was announced in June 2017 by European Commission President Jean-Claude Juncker and Chinese premier Li Keqiang. The EU looks forward to working with Macao to make the Global Economic Tourism Forum a success, in Macao and beyond.

The EU-Macao Joint Committee meeting — usually held annually — was not held in 2017. A meeting is expected to take place in 2018, and cooperation continues on the priorities agreed earlier. For the future, the EU and its businesses are keen to work with the Macao government to diversify its economy, improve the sustainability of its economic development, and promote bilateral trade and investment flows. EU businesses could play an important role by providing expertise and services in the many ongoing infrastructure projects and in the expansion plans of private investors. Because Macao suffers from acute shortages of labour and skilled managers, European companies operating there rely heavily on expatriate staff and foreign workers. Obtaining work permits for them has proven difficult. The EU is willing to work with the Macao authorities and with European businesses to help identify areas of economic activity where the situation is particularly acute. Giving qualified professionals easier access to Macao's labour market would help boost its competitiveness. The EU and Macao will continue cooperation on legal and regulatory affairs.

As they do every year, the Macao European Chamber of Commerce⁵ and the European Chamber of Commerce in Hong Kong jointly coordinated the large European participation in the Macao International Environmental Cooperation Forum & Exhibition in March and the Macao International Trade and Investment Fair in October.

Legal affairs and interpreters' training programmes continue to be the flagship projects of EU-Macao cooperation. Since the establishment of EU-Macao cooperation in the field of interpreter training in 2006, 90 Portuguese-Chinese interpreters have been trained. The Macao Polytechnic Institute (MPI) runs, in cooperation with the European Commission, a training program addressed to university teachers of interpretation and professional interpreters from Macao and mainland China. An international conference organised on 10-11 October 2017 at MPI marked the 10th anniversary of the EU-Macao cooperation in the field of interpreter training, whose importance is gaining in strength since Macao has been designated "the

⁵ The Macao European Chamber of Commerce is a hybrid organisation that has both direct company members and members from the national chambers of EU countries. It currently includes the British Business Association of Macao, the France Macau Business Association, the 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.

commercial and training platform" between mainland China and Portuguese speaking countries.

Following the 20th EU-Macao Joint Committee meeting, the Macau Science and Technology Development Fund (FDCT) set up a co-funding mechanism to encourage Macao researchers in participating in the EU's Framework Programme Horizon 2020. Under the scheme, FDCT will provide financial support for Macao participants in selected Horizon 2020 proposals.

The European Union Academic Programme, managed by a consortium led by the University of Macao, organised many new activities such as hosting visiting speakers, seminars, research, academic exchanges, the EU-themed short film challenge, a regular radio show on EU-related topics, and a 'Model EU' competition.