



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 10.7.2003  
COM(2003) 415 final

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

**Macao Special Administrative Region: third Annual Report - 2002**

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## 1. INTRODUCTION

The European Commission continues to monitor the implementation of the “One country, two systems” principle in Macao Special Administrative Region of the People’s Republic of China and has therefore followed the evolution of the Macao SAR with great interest. As in the Commission’s two previous annual reports, this report aims to assess the development of the Macao SAR and its relations with the European Union.

In year 2002, Macao enjoyed sustained economic growth. Consistently with its strategy of diversification of the Macao economy, the SAR Government launched some important reforms, in particular restructuring of Macao gambling industry. The implementation of the “one country, two systems” principle remained satisfactory, though in the long run the SAR authorities should be strengthened by upgrading the civil service. The adoption of an anti-subversion legislation might bear some incidence on the specific status of the SAR and will be closely followed by the EU.

## 2. IMPLEMENTATION OF THE “ONE COUNTRY, TWO SYSTEMS” PRINCIPLE.

### – Reaffirmation of the principle

The Central Government of Beijing again reiterated its adherence to the “one country, two systems” principle in its official statements. In a speech to the National People’s Congress (NPC) on 5 March 2002, Prime Minister Zhu Rongji reaffirmed:

“We should fully implement the principle of “one country, two systems” and the Basic Law of Hong Kong and Macao Special Administrative Regions. It is our firm and unswerving objective to maintain the long-term stability, prosperity and development there. The Central Government will continue to render full support to the efforts of the governments and Chief Executives of Hong Kong and Macao to govern the regions in accordance with the law, and it will further strengthen economic, trade, scientific, technological, cultural and education exchanges and co-operation between the Mainland and Hong Kong and Macao. We have full confidence in the futures of Hong Kong and Macao.”

### – Implementation of the principle

#### **Article 23 of the Basic Law**

The Secretary of Administration and Justice, Miss Florinda Chan announced on 1 October that the Government would prepare a national security bill, for the enactment of Article 23 of the Basic Law. The Government planned to draft the Article 23 legislation and submit the draft to the Legislative Assembly in early 2003 in order to start the legislative process. The Legislative Assembly is to be approached by the Government regarding the best way to consult Macao citizens about the proposed legislation.

Both the Secretary of Administration and Justice and the Chairwoman of the Legislative Assembly stated that the enactment of Article 23 is a constitutional duty for Macao SAR, thus the consultation will be limited to the draft bill and not on the necessity of such draft legislation. Although the text of the legislation had not been published yet, as at the end of 2002 the people of Macao seemed to face quietly this perspective.

Unlike Hong Kong SAR, where the draft legislation on Article 23 took up and updated some existing ordinances, the Macao Government insists that the Article 23 legislation will fill a loophole in the law. This is because Portuguese legislation on the subject became null and void when Macao reverted to Chinese administration in December 1999 and the existing Macao penal code covers only “issues against the territory” but not against the State.

### **Negotiation of an agreement to avoid double taxation between Macao and Mainland China**

The Macao SAR and Central Beijing Governments started negotiating an agreement for the avoidance of double taxation in 2002. The agreement will be based on the OECD and UN models. The Macao SAR Government hopes to finalise the agreement during 2003, and plans to negotiate more agreements later, with other trade partners.

### **3. LEGAL AND ADMINISTRATIVE DEVELOPMENT**

After the consolidation of various institutions established in 2000, the Macao SAR Government proceeded to gradually build up the legal capacity and improve the efficiency of the administration.

#### **– Legal capacity building**

Macao SAR suffers from not having sufficient legal experts capable of law drafting (both in Portuguese and in Chinese) and judicial work. This resulted in the delay of both the legislative work of the Legislative Assembly and the judicial work of the tribunals. The president of the Court of Final Appeal paid particular attention to these inadequacies in his speech at the opening ceremony of the judicial year at the end of October.

The government listed 179 laws and regulations subjected to short and medium-term plans of study, enactment or amendment. The SAR government plans to provide general legal knowledge to civil servants and to train specialists in law and regulation drafting. In this respect, it is worth noting that the implementation of EU-Macao legal co-operation project started at the end of 2002. One of the first activities of the project was in the field of laws and regulation drafting training.

The government also plans to reinforce the consultation on legal works which will include: Article 23 of the Basic Law, establishment of a tribunal for limited debt issues and amendments to the tax system.

#### **– Progressive reform of the administration**

On the eve of the establishment of the Macao SAR at the end of December 1999, the majority of Portuguese civil servants of the Portuguese administration left Macao. Thus the Macao SAR administration is rather a young one which necessitates training and progressive reform. The Chief Executive has emphasized the need for an administration adapted to the new international and regional environment of Macao.

The Government launched a training programme with the help of the Civil Servant college of Singapore in 2001. Six hundred senior or middle-rank civil servants had already accomplished the management-training programme by the end of 2002.

The aim of the Government is to increase the efficiency, the service quality and the sense of responsibility of the civil service. After the training programme, civil servants are encouraged to propose ways to streamline the administration structure and simplify the administrative procedure.

However, the Government will proceed with reform of the administration in an orderly way. A Public Administration Observatory was created in 2002. It will submit suggestions to the SAR Government on three topics : how to rationalize the administrative structure, simplify the administrative procedure and increase the service quality of the administration.

#### **4. LIBERALISATION OF THE GAMBLING INDUSTRY**

The SAR Government pursues a more diversified strategy to develop Macao into a regional entertainment, exhibition and conference centre headed by the gambling industry. The Macao SAR Legislature adopted a new gaming industry regime in September 2001, under which the monopoly system was abolished and three new licences were issued based on public tendering. The casino monopoly of tycoon Stanley Ho's Sociedade de Turismo e Diversoes de Macao (STDM), which was granted in 1962, expired on 31 March 2002.

The three new concessionaires are:

- Galaxy Casino Company Limited
- Wynn Resorts (Macao) Limited
- Sociedade de Jogos de Macao, S.A. (SJM)

SJM is the subsidiary of STDM and takes up the casino business of the former monopoly. The other two licensees are US investors from Las Vegas, and their Hong Kong partners. Foreign ownership is allowed, but mainland investments in the gambling business remain strictly prohibited [The managing director of the concessionaire must be a Macao SAR permanent resident and holds at least 10% shares of the company.] The concession period ranges from 18 to 20 years. Investment from the three new concessionaires amounted to \$17.5 billion patacas (2.3 billion euro) in total. Construction of the new hotels started in 2002 and the first new hotel is expected to be operational by the end of 2003.

The move to end the monopoly is regarded as an attempt to enhance economic growth and boost fiscal revenue. To these ends, the Macao Government was highly successful in the first year of liberalization. Real GDP growth and gambling tax revenue rose sharply in 2002.

#### **5. THE ECONOMIC SITUATION**

Gambling and tourism have remained predominantly the economic pillars of Macao. In line with the liberalization of the gambling industry, the Macao SAR Government aims to diversify its economy into other sectors such as convention and exhibition businesses in the future. Real GDP registered a remarkable growth of 9.5% for 2002, following a mild growth in the previous two years. The vibrant growth was attributable to the robust tourist industry, coupled with the new impetus brought along by the liberalisation of the gambling industry.

Exports of goods achieved an overall growth of 6.4 in real terms% in 2002, thanks primarily to the exceptional performance of the Chinese mainland market. Nearly all major markets

recorded negative growth except the U.S. Textile and garments remained the main export category, occupying about 84% of the export total.

For exports of services, the number of visitor arrivals reached a record level of 11.5 million in 2002, up 12.2% from 2001. Over 90% of the tourists were from Hong Kong, Mainland China and Taiwan. The fastest growing source of visitors came from Mainland China, 40% higher than 2001 and taking up close to 40% of the total arrivals. Though Hong Kong remained the largest source of visitors, the number of visitor arrivals dropped slightly by 1.8%.

Fiscal position of the Macao SAR Government was sound. The SAR Government recorded a fiscal surplus of \$1.7 billion patacas (244 million Euro) for the fiscal year of 2002 or over 3% of its nominal GDP. Gambling tax revenue rose sharply by 24.6% to reach a record level of \$7.6 billion patacas (1 billion Euro) in 2002, partly because of the increase of gambling tax rate from 31.8% to 35% in 2002. It is notable that gambling tax accounted for over two-thirds of the fiscal income, significantly higher than its share of 46%-60% in the past few years.

Despite the strong economic growth in 2002, Macao still suffered from prolonged deflation with prices falling by 9% on an accumulative basis since 1999. The consumer price index dropped 2.6% in 2002

Unemployment was fairly stable at the 6% level throughout the year. Yet social discontent seemed to have subsided along with government relief measures. In particular, a retraining fund of \$400 million patacas (52.6 million Euro) has been set up, providing training opportunities and direct financial aid to the unemployed. Tax cuts and concessions for tax payers and businesses introduced for 2002 will also be maintained for 2003.

In an attempt to prevent manufacturing activities to leave Macao, especially with the elimination of textile quota in 2005, the Macao SAR Government has initiated talks with Zhuhai, the neighbouring mainland city, to build a cross-boundary industrial zone. Governments on both sides have agreed in principle to develop an industrial zone on a reclaimed area. Difficult details would have to be worked out especially on compliance with country of origin rules, jurisdictions, customs clearances, taxation, and proportion of Macao and Chinese mainland workers.

## **6. EU – MACAO RELATIONS**

### **– Economic relations**

The EU is one of the most important trading partners of Macao. In 2002, the EU was the second largest export market after the U.S., and the third largest supplier of goods after Mainland China and Hong Kong. Total bilateral trade between the EU and Macao reached 1.04 billion Euro (imports : 711 million Euro ; exports : 328 million Euro).

### **– Intellectual Property Rights**

Macao has undeniably made important progress in the field of intellectual property protection, notably by bringing its legislation in line with the international standards of the WTO TRIPs Agreement and by improving the enforcement structure through setting up of a new customs department devoted to this issue. The European Commission remains nonetheless concerned regarding some activities linked to piracy and counterfeiting in macao, especially on issues concerning the protection of copyrights.

- Visa free access and re-admission agreement

Following the Council Regulation (EC) n°539/2001 of 15 March 2001 by which 13 of the 15 EU member states granted visa free access to Macao SAR passport holders as from 10 April 2001, the UK and Ireland also granted the same with effect from 17 and 29 April 2002 respectively. The negotiations for a re-admission agreement between EU and Macao were finalized in June 2002. The re-admission agreement was initialed in October as one of the sidelines of the meeting of the EU-Macao Joint Committee.

- Joint Committee

The ninth meeting of the Joint Committee established under the EC – Macao Co-operation Agreement was held in Brussels on 18 October 2002. Both sides reviewed domestic development and examined the state of their bilateral relations. The Joint Committee welcomed the successful completion of three EC-Macao funded co-operation projects, as well as the start up of a new project on legal co-operation.

- Asia Enterprise

The second edition of the EU – China business meeting was held in Macao from 3 to 5 June 2002. The meeting was co-financed by the European Commission and the Macao SAR Government. Over 300 companies from the EU and from China participated in the meeting which focused on six sectors (textile and clothing, metal and machinery, IT and electronics, construction material, environment technology and food processing).

- Visit of the European Economic and Social Committee

A delegation from the Economic and Social Committee, led by the president of the study group on the relations between EU and China, Mr. Sukhdev Sharma, visited Macao in July. It had meetings with the Macao General Chamber of Commerce, the Federation of Trade Unions, the Catholic Church and university professors. The visit focused on economic and social issues.

## **7. CONCLUSION**

Three years after the handover, the Macao SAR Government benefits from a relatively thriving economic situation. The authorities' strategy of diversification of the economy stems from a clear vision of the territory's economic assets and weaknesses. The liberalization of the gambling industry already bore its first fruit and will bring in more or less 2 billion Euro investments in the coming years. This success has contributed to the creation of an optimistic social atmosphere for the mid term perspective and to the Chief executive's current popularity.

Yet, many important tasks are still to come: diversification of export structure, reform of the legal system, upgrading of the administration and the hospital system, improvement of the social welfare, adaptation of the labor force etc. It is very encouraging that the Macao SAR Government remains aware of these challenges and committed to undertake relevant reforms.