

Analysis Report: 18 Years After Macao's Handover

- Political operations are normal; the typhoon disaster impacts the governing authority of the Macao government
- The gaming industry steadily recovers and the economy continues to grow
- The judiciary remains independent, though judicial efficiency and quality need to be improved
- A typhoon disaster highlights the problems of governance and infrastructure deficiencies
- Integration of the Mainland and Macao continues to deepen, making preservation of local culture an issue of concern
- The international community affirms economic and cultural development in Macao, though remains concerned over issues on political rights, human rights and freedom of the press
- Taiwan-Macao maintain stable relations and close civilian exchanges

I. Overall Evaluation

The Macao government functioned normally over the past year. However, the government was criticized for its disaster relief response after Typhoon Hato battered Macao in August 2017, affecting its governing authority. Macao held its sixth Legislative Assembly election in September 2017. The share of the 14 directly-elected seats won by the pro-establishment and pro-democracy camps was unchanged from the previous election. However, the number of votes received by the pro-democracy camp rose. Victory of Sulu Sou Ka Hou, a young pro-democracy camp candidate, led analysts to anticipate this would mean greater public oversight. However, Sou was later suspended from office for "aggravated disobedience" due to his participation in a May 2016 protest march that deviated from its approved route. Analysts suspected that "political prosecution" and suppression of dissidents was involved in such a result.

Macao's economy had steadily recovered and grew by 9.3% in the first three quarters of 2017. The unemployment rate remained low and inflationary pressure abated. In March 2017, the Macao government established the Coordinating Committee for the

Management and Development of Maritime Jurisdiction Areas. In December, it announced the draft Maritime Areas Management Framework Law to strengthen economic diversification through maritime area management. Typhoon Hato brought Macao's infrastructural deficiencies and excessively low ratio of power self-sufficiency into the public spotlight. It remains to be seen if law and order will further improve as Macao's gaming industry continues to grow.

Macao signed the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area with mainland China and Hong Kong in July 2017. In addition, under the framework of mainland China-Macao Closer Economic Partnership Arrangement (CEPA), the two sides signed the Investment Agreement and the Economic and Technical Cooperation Agreement, along with other agreements on cooperation in intellectual property rights and civil aviation administration to comprehensively deepen integration of the Mainland and Macao.

The international community affirmed Macao's economic and cultural development and favorably rated its efforts to combat and clean up money laundering. The International Monetary Fund (IMF) raised its economic growth forecast for Macao. However, the world remained concerned over issues pertaining to political rights, human rights, and freedom of the press in Macao.

Taiwan-Macao relations steadily developed and the two sides maintained close exchanges in education, culture, tourism, youth, and other fields. In 2017, the government of the Republic of China (ROC) began allowing non-native permanent residents of Hong Kong and Macao to apply online for their first-time Taiwan Entry Permit. It also relaxed the requirements of passport validity for Hong Kong and Macao residents entering Taiwan, from at least six months down to three months, to further facilitate personnel exchanges between Taiwan and Macao.

1. Political operations are normal, yet the typhoon disaster undermines the governing authority of the Macao government

The Macao government functioned normally over the past year. However, in late August 2017, Typhoon Hato battered Macao, causing the worst natural disaster

experienced by the city since the handover. The Macao government implemented a number of relief measures and asked the People's Liberation Army (PLA) garrison stationed in the city for assistance in the relief work. The people of Macao were dissatisfied by the relief response and clamored for an investigation into the relief work. According to the results of the University of Hong Kong poll announced in December 2017, satisfaction with Macao Chief Executive Fernando Chui was 49.5 points, the lowest since his appointment, while satisfaction with the overall performance of the Macao government fell to 25%, down from 44% the year before. Moreover, 54.3% of the respondents expressed dissatisfaction with the Macao government's response to the typhoon disaster and felt it underscored the Macao government's insufficient governing authority. The Macao public felt that the typhoon revealed the ineptitude of the government's response and demanded prompt government reforms within its administrative system. Analysts also expressed concern over the Macao government's request for assistance from the PLA in the disaster relief work and questioned whether this would set a precedent for Macao to use the PLA during large social movements, jeopardizing the ability of Macao's residents to exercise their civil rights.

Macao Chief Executive Fernando Chui responded to the public's concerns in his annual Policy Address to the Legislative Assembly of Macao in November 2017. He committed to increasing housing supply, reiterated economic diversification goals, and promised to strengthen disaster prevention measures, all together, to improve the image of government ineffectiveness. However, public opinion in Macao found the report to lack a clear direction for administrative reforms and no specific targets were set for disaster prevention measures. It remains to be seen whether the report can restore public confidence.

Macao held its sixth Legislative Assembly election on September 17, 2017. New provisions required candidates to swear to uphold Macao's Basic Law and declare their loyalty to the Macao Special Administrative Region (SAR). The electoral process was considered smooth in general. A total of 174,000 ballots were cast for directly-elected seats. The turnout rate of 57.2% was higher than the previous election. Of the 14 directly-elected seats, pro-establishment and pro-democracy camp candidates won 10 seats and four seats, respectively, unchanged from the previous election. However, with

the increase of the percentage of votes received by pro-democracy camp candidates and the election of those young pro-democracy camp candidates and pro-establishment camp candidates emphasizing political supervision, some analysts suggested that government policy in Macao may be subject to greater public supervision.

Macao Legislative Assembly directly-elected legislator Sulu Sou Ka Hou was accused of "aggravated disobedience" due to his participation in a May 2016 protest march that deviated from its approved route. The Legislative Assembly of Macao, responding to a request by the Court of First Instance (TJB), passed a resolution on December 4, 2017, suspending Sou from office. This was the first suspension of a legislator since the 1999 handover. Some pro-democracy-camp legislators and public opinion in Hong Kong supported Mr. Sou. They suspected that "political prosecution" was involved and said that the case highlighted mainland China's suppression of dissidents in Hong Kong and Macao. It will be worth noting whether the court decision to disqualify Sou as an assembly member will cause political controversy.

2. The gaming industry steadily recovers and the economy continues to grow

Gaming, a pillar industry in Macao, continued to grow since reversing from decline in August 2016. In the first 11 months of 2017, gaming revenues totaled MOP\$243 billion, up 19.5% over the same period in 2016. Gaming revenue in October alone reached MOP\$26.63 billion, the highest monthly figure since October 2014. However, with business licenses in Macao's gaming industry set to expire in 2020 to 2022, the public will be watching related policy measures by the Macao government at that time and their impact on Macao's economy.

Growth in the gaming industry helped Macao's economy to grow by 9.3% in the first three quarters of 2017. In 2018, Macao is forecast to achieve 7% economic growth and maintain an unemployment rate at about 2%. Continued growth in the gaming industry has led to steady economic performance and is expected to keep the unemployment rate low. In the first 11 months of 2017, Macao's composite consumer price index increased by 1.15% year over year (YoY) as inflationary pressure remained muted. The IMF brought down its inflation forecast for Macao in 2017 from 2% to 1.5% and expected the inflation rate to be approximately 2.2% in 2018. The median income of

Macao's employed population was MOP\$15,000 in the first three quarters of 2017, on par with 2016.

The Macao government continued to focus on economic diversification. In 2016, it released the first Five-Year Development Plan of the Macao SAR (2016-2020). The plan aims to turn Macao into "a trade and economic cooperation services platform between mainland China and Portuguese-speaking countries" and a "world-class tourism and leisure center." Chief Executive Fernando Chui emphasized in his annual Policy Address that Macao would continue to develop non-gaming business and promote cross-industry cooperation in the areas of small and medium-sized enterprises (SMEs) or cultural and creative industries. He also announced that Macao would strengthen tourism promotion, and foster the growth of convention and exhibition industry, attract Chinese medicine companies, focus on financial leasing, and other emerging industries. In addition, the Macao government and the Alibaba Group signed a strategic partnership framework agreement to jointly transform Macao into a smart city.

In 2015 mainland China's State Council approved a new draft of demarcation, extended a 85-square-kilometer sea area under Macao's administrative domain. In March 2017, the Macao government established the Coordinating Committee for the Management and Development of Maritime Jurisdiction Areas, led by the chief executive, to promote follow-up works. Later in December, it announced the draft Maritime Areas Management Framework Law. Various sectors in Macao expect that through maritime area management will help to promote economic diversification and note that the key will be whether relevant government actions can achieve concrete results.

3. The judiciary remains independent, though judicial efficiency and quality need to be improved

Over the past year, Macao's judicial system was able to maintain its independence in principle. There were no specific cases of infringement on the independent functioning of the judiciary. Related officials of the Macao government also emphasized the respect for and guarantees of judicial independence. However, in May 2017, Zhang Dejiang, Chairman of the National People's Congress Standing Committee (NPCSC) of mainland China, stated during an inspection visit to the Court of Final

Appeal of Macao that judicial officers should help ensure an administratively-led government model under the "one country, two systems," and support the law-based governance of the chief executive and Macao SAR government. Zhang's statement sparked controversy over whether this will undermine the power of checks and balances and impede judicial independence.

Macao once actively promoted consultations on mutual legal assistance in criminal matters with mainland China and Hong Kong. In December 2015, the government submitted the draft "Inter-regional Legal Assistance in Criminal Matters Act" to the Legislative Assembly. However, the government withdrew the bill in June 2016 and stated that more time was needed for negotiations in order to address the questions of the significant differences between the legal systems of the three jurisdictions, and to make the bill more functional. Although the three sides continued to discuss mutual legal assistance in criminal matters in 2017, the Macao government did not explain whether there had been any concrete progress in this area. In the area of civil and commercial cooperation, the governments of Macao and Hong Kong signed the Arrangement for Mutual Service of Judicial Documents in Civil and Commercial Cases in December 2017. This was the third of such mutual legal assistance pacts signed between Hong Kong and Macao, which would facilitate judicial proceedings for both sides.

Regarding the widespread expectations for greater judicial efficiency and quality, the President of the Macao Court of Final Appeal Sam Hou Fai announced in October 2017 that future judicial reform would target on striking a balance between judicial fairness and efficiency and seek the establishment of an innovative, convenient, and low-cost judicial process. This would involve a specific focus on simplifying judicial proceedings, fully utilizing existing court resources and the establishment of mediation systems.

4. The typhoon disaster highlights the problem of governance and infrastructure deficiencies

In August 2017, Typhoon Hato caused large-scale water shortages and power outages in Macao, seriously affecting the economy and people's livelihood. The disaster also highlighted Macao's infrastructure deficiencies and excessive low ratio of power

self-sufficiency. Some Legislative Assembly members noted that the large-scale power outages caused by the typhoon were directly related to Macao's over-reliance on power supply from mainland China. They therefore proposed that Macao increase power self-sufficiency to prevent a recurrence of similar disasters.

In a November 2017 poll conducted by a civic organization on the government's overall performance, Macao residents ranked housing, transportation, and medical care among their top issues of concern. The housing problem continued to attract widespread attention in Macao and was the focal issue in recent years' Labor Day demonstrations. To respond to people's demands, the Legislative Assembly amended the legal regime for real estate rentals under the Civil Code in August 2017 to strengthen protections for renters. On the other hand, in the area of cultural heritage protection, the Macao government decided to demolish parts of the Lai Chi Vun shipyard area in March 2017 on grounds of public safety. Yet protests by cultural groups attracted public attention and prompted the government to temporarily suspend the demolition work and promise to conduct a cultural heritage assessment.

The performance of the gaming industry is closely related to law and order in Macao and thus has been an issue of broad concern in Macao. Macao's gaming industry steadily recovered last year. According to Macao police statistics, there were 1,323 gambling-related crimes in the first nine months of 2017, up by 1.9% from 1,298 of such incidents in the same period of 2016. It remains to be seen if law and order can be maintained and improved as Macao's gaming industry continues to grow.

5. Integration of mainland China and Macao continues to deepen, making preservation of local culture an issue of concern

Macao and mainland China continued to promote cooperation in economic, trade, aviation, education, culture, and intellectual property rights to comprehensively deepen integration. In July 2017, Guangdong, Hong Kong, and Macao signed the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area with mainland China's National Development Council. The Macao government also proposed to participate in the Guangdong-Hong Kong-Macao Greater Bay Area Urban Agglomeration Development Plan. In 2017,

Macao signed agreements with relevant mainland Chinese departments and nine provinces of the Pan Pearl River Delta region for cooperation in intellectual property rights, civil aviation management, and cultural heritage protection. It also promoted mutual exchange and recognition of driver's licenses between the two sides. In addition, Macao and mainland China held consultations on upgrading arrangements under the mainland China-Macao CEPA framework. The two sides later signed the CEPA Investment Agreement and CEPA Economic and Technical Cooperation Agreement in December.

During an inspection tour to Macao from May 8 to 10, 2017, NPCSC Chairman Zhang Dejiang affirmed Macao's successes in practicing the "one country, two systems" and achievements in implementing the central government's "comprehensive jurisdiction." He also hoped that Macao youth would "love their country and love Macao." However, he demanded that Macao's judiciary cooperate with executive leadership to ensure an administratively-led government model. His statement nonetheless raised public concerns over the possibility of undermining the rule of law.

The NPCSC included the National Anthem Law of the People's Republic of China in the Annex III of the Macao Basic Law in November, thereby allowed such a national law of mainland China to be applied in Macao. The Macao government, in response, stated that it would enact legislation to ensure the implementation of the National Anthem Law.

Mainland China continued to expand the number of admission seats as well as colleges and universities open to enrollment of high school graduates from Macao. Macao students were not only allotted more admission spaces and allowed, they were also allowed, in principal, to apply for any major at these schools. In 2018, mainland China will allow 958 Macao graduates to enroll directly as recommended students at 67 of its colleges and universities, up from 930 students and 57 institutions in 2017. The number of Macao students studying in mainland China is expected to continue rising.

According to a poll conducted by the civic organization in Macao in June 2017, there was an increase in numbers among young people in Macao who identified with

mainland China, with 72% of high school students affirming that they are "Chinese," up 17% from 2014. Researchers believe that the survey result has to do with the sound political and economic developments in mainland China. In recent years, mainland China has stepped up efforts to attract Macao students to study in mainland China. The Macao government has also been very active in encouraging young people and students to travel to mainland China for exchanges. There is considerable attention on whether these moves will continue to increase the numbers of young people in Macao to identify with mainland China. In June 2017, the Macao government stated that it would further promote Mandarin Chinese education. Yet some analysts describe this as an "gesture of loyalty" to mainland China and worry that such policy will stifle traditional Cantonese without actually improving the students' Chinese skills.

6. The international community affirms economic and cultural development in Macao, though remains concerned over political and human rights and freedom of the press

The international community affirmed Macao's overall economic and cultural development over the past year. However, it continued to express concern over restrictions on political rights, press and academic freedom, and human trafficking in Macao.

The 2017 Index of Economic Freedom released by the US Heritage Foundation in February 2017 ranked Macao's level of economic freedom 32nd among the 180 economies ranked and eighth in Asia, up one place from the previous report. In the report, Macao was rated as a "mostly free" economy for the ninth consecutive year. In addition, Macao had obtained largely compliant ratings in the Asia/Pacific Group on Money Laundering (APG) report published in December last year. Furthermore, the 2016 Report on International Religious Freedom, issued by the US Department of State on August 15, 2017, under the China section, which includes Tibet, Hong Kong, and Macao, noted that the Macao government respects freedom of religious belief and all religious denominations are treated equally before the law.

In November 2017, Macao was designated by the UNESCO as a Creative City of Gastronomy. This distinction represented further international recognition of the city's

cultural attainments following the inclusion of the Historic Centre of Macao on UNESCO's World Heritage List in 2005. This is generally considered beneficial to raising Macao's international reputation and tourism development.

In the 2016 Country Reports on Human Rights Practices issued by the US Department of State in March 2017, prominent human rights problems in Macao included limits on citizens' ability to change their government, constraints on press and academic freedom and trafficking in persons remained unresolved. The 2016 Trafficking in Persons Report issued by the US Department of State in June 2016 placed Macao on the Tier 2 watch list and concluded that the government of Macao does not fully meet the minimum standards for the elimination of trafficking. The report recommended that the Macao government to increase efforts to investigate and prosecute human trafficking crimes.

The 2017 Annual Report issued by the Congressional-Executive Commission on China in October 2017 stated that Macao made no progress towards an electoral system based on universal suffrage and was not in line with the International Covenant on Civil and Political Rights. The Macao government was criticized for repeatedly denying, on internal security grounds, entry to some pro-democracy politicians and activists from Hong Kong. The report also pointed out that the Macao government had prevented some Hong Kong journalists from entering Macao to cover the aftermath of Typhoon Hato. Last but not least, it noted that the government failed to define how the persons denied entry would pose a threat to Macao's internal security.

II. Taiwan-Macao relations remain stable and exchanges among civil societies continue to flourish

Taiwan and Macao maintained official interaction through their respective representative offices over the past year. The Macao government stated in its annual policy address that it would continue to fully leverage the functions of its office in Taiwan.

Taiwan and Macao maintained close exchange in education, culture, tourism, youth, and other fields. In 2017, Taiwan continued to hold college and university enrollment promotion activities in Macao and received an enthusiastic response. During

the 2016 academic year, 5,259 Macao students studied in Taiwan, reaching a record high. In April 2017, Taiwan's Kwang Hwa Information and Culture Center in Hong Kong organized the third "Taiwan Week" activity in Macao. A number of events under the theme "Colorful Youth" were held to heighten awareness of Taiwanese culture among the people of Macao. Taiwan–Hong Kong Economic and Cultural Co-operation Council (THEC) Chairperson Lu Ping and THEC Cultural Committee Convener Huang Ming-chuan hosted a screening of the documentary "They Create Their Lives: The Beauty of Taiwan's East Coast" and follow-up workshop at Sun Yat Sen Memorial House in May 2017. The event helped heighten the Macao public's awareness of the multi-ethnic culture and artistic creativity on Taiwan's east coast.

In 2017, the government helped Taiwanese B&Bs, theme parks, and hotel operators to arrange promotion and marketing activities in Macao. It also continued to promote measures to facilitate personnel exchanges between Taiwan and Macao. In 2017, the National Immigration Agency (NIA) under the Ministry of the Interior began allowing non-native permanent residents of Hong Kong and Macao to apply online for their first-time Taiwan Entry Permit. The NIA also provided a 24-hour online service to greatly facilitate the application process. It also relaxed the requirements of passport validity, from at least six months to three months, for Hong Kong and Macao visors entering Taiwan to further facilitate personnel exchanges between Taiwan and Macao. According to statistics from the Tourism Bureau of the Ministry of Transportation and Communications, Taiwan received approximately 131,000 inbound visitors from Macao in the first eleven months of 2017, up 7.7% over the same period of the previous year. During the same period, Macao government's official statistics showed that more than 970,000 inbound visitors were from Taiwan, making Taiwan Macao's third largest source of visitors after mainland China and Hong Kong.

Taiwan also held the "2017 Hong Kong and Macao Youth Educational Tour," "Hong Kong and Macao Journalism and Communication Major Taiwan Internship Delegation," and a number of other exchange activities for Hong Kong and Macao youth in Taiwan. These events sought to increase understanding of Taiwanese society and culture among Macao youth and enhance positive interaction between young people on

both sides. In addition, Macao business and media delegations also visited Taiwan for exchanges, effectively enhancing relations between the two sides.

The Legislative Yuan deliberated and approved the Taiwan-Macao Double Taxation Avoidance Agreement on Aviation Businesses, signed between representatives of the governments of Taiwan and Macao on December 10, 2015, and the supporting provisions under Article 29-1 of the Act Governing Relations with Hong Kong and Macao, on November 7 and 28, 2017, respectively. Taiwan and Macao completed the written notification procedures on December 29 to bring the agreement into effect. After the agreement comes into force, Taiwan and Macao will establish an institutionalized mechanism for mutual tax exemption to enhance the international competitiveness of the aviation industries.

III. Appendix: Controversial Events since Macao's Handover

Two Controversial events broke out between December 2016 and late December 2017. There were a cumulative of 33 incidents from December 1999 to late December 2017.

No.	Date	Event	Source
1	2017.8.23- 2017.11.22	<p>■ Typhoon Hato battered Macao, causing 10 deaths and more than 200 injuries along with widespread water shortages and power outages. It was viewed as the most destructive typhoon Macao has experienced since the 1999 handover. The Macao government's response and disaster relief efforts were criticized. During the post-disaster period, the government provided emergency subsidies and suspended group travel to Macao. It also requested the assistance from the PLA stationed in the city for disaster relief work and held related officials accountable.</p> <p>■ The Macao government requested disaster relief assistance from the PLA help to quickly restore the city to normal. This was positively viewed by the public. However, some legislators</p>	<p>Macao government press release, 2017.8.25, 2017.8.30; <u>Ming Pao</u>, 2017.8.25; Liberty Times, 2017.8.25</p> <p><u>Journal San Wa Ou</u>, 2017.8.26; <u>Hong Kong's Apple Daily</u>, 2017.8.26</p>

No.	Date	Event	Source
		<p>believed that asking the PLA for assistance with the disaster relief was making a mountain out of a molehill. In addition to highlighting the incompetence of the Macao government in disaster relief work, such action also sparked concerns over whether this would set a precedent for the government to use the PLA during large social movements, jeopardizing the Macao people's ability to exercise their civil rights.</p> <p>■ During the post-disaster recovery period, the Macao government denied entry to some Hong Kong journalists. Several media channels both in Hong Kong and Macao expressed regret over such decision and condemned the Macao government for trampling on freedom of the press. The Hong Kong media also claimed that the local media in Macao received instructions to focus on harmonious vibe and to just mention the good news in their reporting on the typhoon. This</p>	<p>Hong Kong Economic Journal, 2017.8.28; All About Macao Media, 2017.8.26; HK01, 2017.8.29</p>

No.	Date	Event	Source
		<p>had raised controversies among the society.</p> <ul style="list-style-type: none"> ■ The Macao government established a special investigation committee after the typhoon. The investigation resulted only in recommendations for disciplinary measures against the director and deputy director of the Meteorological and Geophysical Bureau. Some members of the Legislative Assembly believed that the level of accountability was insufficient and expressed regret. 	<p>Macao government press release, 2017.8.21; <u>Macao Daily News</u>, 2017.8.22</p>
2	2017.12.4	<ul style="list-style-type: none"> ■ Macao Legislative Assembly legislator Sulu Sou Ka Hou was charged for "aggravated disobedience" due to his participation in a May 2016 protest march that deviated from its approved route, on December 4. The Legislative Assembly of Macao approved the resolution to "suspend" Sou from his duties in a vote with 28 in favor and four opposed. Sou will be able to resume his duties as a legislator if he is acquitted or 	<p><u>Legislative Assembly of Macao Plenary Meeting Resolution No. 21/2017</u>, 2017.12.4; <u>Ming Pao</u>, 2017.12.5</p>

No.	Date	Event	Source
		<p>sentenced to less than 30 days in prison but would be disqualified from office if sentenced to more than 30 days in prison.</p> <ul style="list-style-type: none"> ■ Several pro-democracy camp legislators in Macao and public opinion in Hong Kong voiced support for Sou. They saw the case as a fight for the public interests and suspected the prosecution involved "political prosecution." The Hong Kong media indicated that this case highlights the suppression by the Chinese Communist Party (CCP) on dissidents in Hong Kong and Macao. 	<p>United Daily News, 2017.12.4; Hong Kong's Apple Daily, 2017.12.5; Hou Kong Daily, 2017.12.5</p>