

Analysis Report: 19 Years After Macao's Handover

- **Political operations are normal and the judiciary remains independent; the public worries that the Cybersecurity Law and changes to legislation could threaten freedom and rights.**
- **Economic growth trends down each quarter; industry diversification achieves early results.**
- **Social development is strengthened in response to public needs, though public security faces potential risks.**
- **The CCP continues to promote Mainland-Macao integration and equal treatment for Macao people, with emphasis on Macao's external linkages and roles.**
- **The international community affirms Macao's economic performance, but remains concerned over restrictions on political rights, freedom, and human rights.**
- **Taiwan and Macao deepen exchanges and mutual understanding as both sides continue to advance bilateral relations.**

I. Overall Evaluation

Macao was handed over to mainland China on December 20 1999. Premised on Macao maintaining its free economic system and autonomous status, the government of the Republic of China (ROC) treats Macao as a "special area," unique from the Mainland area, in order to maintain consistency and continuity in its Macao policy and the various direct interactions between the people of Taiwan and Macao. The government therefore annually reports on the overall developments in Macao and the status of Taiwan- Macao relations. This is the 19th in a series of regular reports, covering the period from December 2017 to late December 2018

During the time period covered by this report, Macao continued to function normally at the political, economic and social levels. Over the year, the Macao government continued to promote economic diversification where production value of MICE (meetings, incentives, conferences, and exhibitions), traditional Chinese medicine,

as well as cultural and creative industries all showed an increase. However, economic growth slowed markedly in the first three quarters of 2018 due to internal and external factors, including fluctuations in service exports and trade in goods, as well as lower investment. The Macao government's own assessment indicated that the gaming industry had yet to negatively impact the law and order of Macao at this stage. However, criminal activities by "money exchange gangs" at the hotels and casinos posed hidden dangers.

Significant political developments include the establishment of the Committee to Protect National Security which would coordinate works related to Macao's national security. The government also put forth amendments to the Judicial Organization Framework Law and the law on assemblies and demonstrations, along with the introduction of the Cybersecurity Law to strengthen national security management. However, public opinion showed some worried these moves would limit freedom and rights. In addition, the government's refusal to guarantee entry of some writers invited to the Macau Literary Festival – The Script Road – raised questions over political intervention by Beijing and self-censorship of the Macao government.

During the period covered in this report, mainland China continued to deepen integration with Macao through cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area (GHMGBA), upgrade agreements under the Closer Economic Partnership Arrangement (CEPA), and build major cross-border transportation infrastructure. Mainland China also proposed "residence permits", recommended school admission along with other preferential measures to attract Macao residents to seek career path in the Mainland. However, according to public opinion surveys on these issues, the response of the Macao people was not entirely positive.

To synthesize international reports' findings on the situation in Macao, international organization rated Macao as a "mostly free" economy for the tenth consecutive year and affirmed Macao's economic performance. Macao was also moved from European Union's (EU) "tax haven blacklist" to the "gray list for continued monitoring." However, observers in major countries remained concerned about Macao's lack of progress in universal suffrage, civil and political rights, limitations on press and

academic freedoms, human trafficking, and other issues.

Taiwan and Macao maintained official interaction through their respective representative offices throughout 2018. The Macao government reiterated in its annual policy address that it would continue to fully leverage the functions of its office in Taiwan, with emphasis on promoting joint fraud prevention. Taiwan and Macao maintained close exchanges in education, culture, tourism, youth, and other fields. Taiwan also relaxed rules to allow Hong Kong and Macao graduates to extend their residency in Taiwan by a maximum of one year, up from six months before. In addition, the introduction of the Regulations Governing Taiwan-Macao Double Taxation Avoidance Agreement on Aviation Industry and Mutual Exemption from Business Tax and Income Tax further created a healthy environment and institutional guarantees for developing positive and friendly exchanges between the two sides.

The following is an analysis of the overall developments in Macao 19 years on from its handover, covering the period from December 2017 to December 2018:

1. Political operations are normal and the judiciary remains independent; the public worries that the Cybersecurity Law and changes to legislation could threaten freedom and rights.

The Macao government functioned normally over the past year. The government also established organizations and revised laws to strengthen national security management. In terms of organizational structure, the Macao government established the Committee to Protect National Security in October 2018. The committee is responsible for coordinating works in safeguarding national sovereignty, security and development interests, assessing national security and social stability in Macao, assisting in formulating relevant policies and providing policy advices. The Chief Executive of Macao and Secretary for Security would serve as the chairman and vice chairman of the committee, respectively. An office for the Committee would be set up with the Secretary for Security as the director and Director of the Judiciary Police served as the deputy. However, some pro-democracy camp legislators believed there was no urgency for Macao to set up such committee and worried that the basic rights of Macao residents would be limited. Relevant analysis has stated that, by this move, the Macao

government was following the footsteps of the Chinese Communist Party (CCP) on national security policy and this was used to pressure Hong Kong to enact Article 23 of the Basic Law.

In the area of justice and the rule of law, Macao's judicial system maintained its independence in principle. There were no specific cases of infringement on the independent functioning of the judiciary. However, the Macao government proposed an amendment to the Judicial Organization Framework Law to bar foreign judges from presiding at court hearings involving national security issues. This move raised concerns in Macao's legal community and among the general public. Debates over such issue suggested that national security was difficult to define and the current judges were appointed according to the Basic Law and other statutory procedures, therefore, distinguishing the scope of trials by nationality could be in violation of the Basic Law.

The Macao government continued to promote the legislation of a Cybersecurity Law into 2018. The public, however, was concerned that cybersecurity monitoring mechanisms and other inspection measures would hinder freedom of speech, communication confidentiality, and other freedoms and rights conferred by the Basic Law. The Macao government also proposed amendments to law on assemblies demonstrations. The amendment would require groups and individuals who plan to hold an assembly or demonstration to inform the Commissioner of the Public Security Police in advance, instead of the Civic and Municipal Affairs Bureau. Opposing voices said by linking demonstrations and assemblies with criminal acts, the government tried to achieve a deterrent effect and limit the space for public expression.

In addition, the organizer of the Macau Literary Festival – The Script Road – said that it had been informally notified by the Macao government that it was 'ill-timed' for invited writers Jung Chang, Suki Kim, and James Church to visit Macao and that their entry would not be guaranteed. In order to avoid putting the writers in a difficult position, the organizer decided to cancel their invitation. The event was scheduled to take place in March 2018. It was rumored that the notification came from the Liaison Office of the Central People's Government in the Macao Special Administrative Region and not the Macao government, though both authorities denied. The writers mentioned above had

either written critically of the CCP or about North Korea. Observers claimed that this incident reflected Beijing's deepening interference in Macao's affairs. They also criticized relevant government departments in Macao for repeatedly denying entry to members of foreign political parties, journalists, and scholars on grounds of "internal security", which in turn was harmful to Macao's international image.

2. Economic growth trends down each quarter; industry diversification achieves early results

Macao's gross domestic product (GDP) markedly slowed from 9.2% in the first quarter of 2018 to 6% and 1.6% in the second and third quarters, respectively. This was mainly due to internal and external factors, such as slower growth in service exports, fluctuations in trade in goods, and subpar investment performance. Inflationary pressure increased slightly, with inflation rate set at 2.5%, 3%, and 3.4%, respectively, in the first three quarters. The median monthly income of employed persons in the third quarter was MOP\$16,000, up 6.7% from the same period in 2017.

Gaming, the pillar industry in Macao, continued to grow since reversing from decline in August 2016. Gaming revenues totaled MOP\$276.3 billion in the first 11 months of 2018, up 13.7% over the same period in 2017. Gaming revenue in October alone reached MOP\$27.32 billion, the highest monthly figure since October 2014. However, the business licenses of the six casino operators in Macao would expire between 2020 and 2022. Macao Chief Executive Fernando Chui said that the government would put casino business licenses up for tender in 2022 and was currently considering how to handle the two licenses scheduled to expire in 2020. Public viewed Chui's statement as a signal indicated the government would extend the licenses expiring in 2020. The Macao government's next move will be closely watched given the far-reaching impact the gaming industry has on economic development in Macao and the industry's connection with the power wrestling between the US and China.

The gaming industry generated considerable income for Macao government and the people, but it also exposed Macao to volatility for being highly dependent on a single industry for economic growth. Over the past year, the Macao government sought to further diversify the economy to strengthen risk tolerance. Macao's Secretary for

Economy and Finance Lionel Leong said that Macao has made initial headway in efforts to appropriately diversify the economy with the production value of the MICE, traditional Chinese medicine, as well as cultural and creative industries all grown, and especially with the rapid gains in the MICE sector. In addition, Macao Chief Executive Fernando Chui reiterated in his annual policy address the goal of promoting economic diversification. He proposed to create an innovation network for education, research, and industry linkages to foster the growth of emerging industries, optimize the business environment, and assist small and medium-sized enterprises (SMEs) in upgrading and transformation. The government will also seek to attract powerful overseas financial leasing companies so as to build Macao into a financial service platform and renminbi clearing center for Portuguese-speaking countries.

3. Social development is strengthened in response to public needs, though public security faces potential risks

The Macao government's priorities in social governance, in year 2018, were emphasizing patriotic education, strengthening pension protection mechanisms and improving health care quality. It had also successively implemented laws and supporting measures for the "non-mandatory central provident fund system", the "Tertiary Education System Law" and the "Law on the Protection of the Rights and Interests of the Elderly". The government also introduced amendments to the Economic Housing Law and held public consultations on the legal framework for provision of interim housing and replacement housing under the urban renewal scheme to achieve the policy objective of building Macao into a "livable city." However, according to a poll on awareness of government governance conducted by a civic organization in Macao in November 2018, the top three issues of great concern to Macao youth were transportation, health care, and housing. This showed that how to respond to the public's demands in areas such as public transportation and housing continued to be an important issue faced by the Macao government.

In terms of public security, a total of 10,559 criminal reports were filed and investigated in the first three quarters of 2018. The incidence of violent crime fell by 24% compared with the same period of last year. Murder and other serious crime rates remained low. According to statistics released by police authorities, there were 1,338

gambling-related crimes in the first three quarters of 2018, up by 1.1% from the same period in 2017. Macao Secretary for Security Wong Sio Chak said that the gaming industry had yet to negatively impact the law and order in Macao at this stage. However, robbery, fraud, and stealing of casino winnings, assault, and other incidents related to "money exchange gangs" activities at various hotels and casinos posed direct hidden risks.

In terms of important social trends, the Macao University of Science and Technology (MUST) released the results of the 2018 Survey of New Media Usage Habits by Macao Residents on December 13, 2018, showing that 94.5% of respondents frequently use WeChat. Nearly 70% of the respondents used WeChat for social networking, making it the main new media information channel among the people of Macao. Most Macao residents engaged in new media through likes, comments, and forwarding, their participation was therefore largely shallow and lacked in original content. In addition, respondents paid the highest attention to Mainland news (92.8 percent), followed by world news and local news. The percentages of Macao residents interested in Hong Kong and Taiwan news reached nearly 80% and 67%, respectively.

4. The CCP continues to promote Mainland-Macao integration and equal treatment for Macao people, with emphasis on Macao's external linkages and roles

The integration of Macao and Mainland China continued to deepen under the GHMGBA framework. The two sides also advanced cooperation in economic, trade, and civil aviation. Mainland China established the Leading Group for Development of the GHMGBA. The group is led by People's Republic of China (PRC) Vice Premier Han Zheng (concurrently head of the Central Coordination Group for Hong Kong and Macao Affairs) and the Chief Executives of Hong Kong and Macao both are members. The group convened its first meeting in August 2018. This was the first time that the Chief Executives of Hong Kong and Macao participated in "small leading groups," highlighted the CCP's integration strategy and attempts to further legitimize policy decisions.

Furthermore, throughout 2018, Macao successively signed agreements or memoranda of understanding (MOUs) on protection of consumer rights, civil aviation and air transport management, sports, youth, tourism, MICE, finance, customs

cooperation, and other areas with relevant departments in mainland China, provinces and cities of the GHMGBA, and other major cities.

In addition, the Macao government and mainland China's National Development and Reform Commission signed the Arrangement for Advancing Macao's Full Participation in and Contribution to the Belt and Road Initiative in December 2018. The arrangement would turn Macao into a service platform for commercial and trade cooperation between China and Portuguese-speaking countries to further complemented the "Belt and Road Initiative." Macao and mainland China also continued consultations on upgrading the Mainland and Macao CEPA. In December 2018, the two sides signed the Agreement on Trade in Goods under the CEPA to enhance the transparency of criterion of origin and established a special chapter to facilitate measures for customs clearance of goods within the GHMGBA.

The Hong Kong-Zhuhai-Macao Bridge, an important transportation infrastructure linking the Mainland and Macao, was officially launched on October 24, 2018. Mainland China, Hong Kong, and Macao authorities all stressed that the bridge in operation would facilitate further integration of the three sides. However, the bridge opening also created severe traffic congestion at Macao's checkpoint and therefore raised public concerns.

Mainland China continued to increase the number of enrolled high school graduates from Macao in its higher education institutions, and in principle, opened for Macao students to study in all majors. In 2018, a total of 951 Macao students were recommended for admission at Mainland colleges and universities. In 2019, there would be a total of 88 Mainland colleges and universities open to admit recommended Macao students, 14 more than in 2018. However, the number of recommended Macao students remained unchanged from the 2018 level of 1,110. Analysis and assessments showed that the number of Macao students enrolling in Mainland was likely to continue rising.

To facilitate the work and life of Hong Kong and Macao residents in mainland China, the Mainland announced on August 3, 2018, that Hong Kong and Macao residents would no longer need to obtain a permit to work in the Mainland. Moreover, on September 1, the Mainland issued the Measures for the Application and Issuance of

Residence Permits for Hong Kong, Macao, and Taiwan Residents, as part of the larger promotion scheme of "equal treatment." Some in Macao believed that this would make it easier for Macao residents to study, work, and live in the Mainland. However, in August, mainland China also passed the amendment to the Individual Income Tax Law, with stricter definition for "resident taxpayers." Some expressed concern that residence permit holders would be subject to double taxation. Despite clarifications from officials, the follow-up effects of the measure remained an issue of concern.

Mainland China has vigorously promoted cooperation in the GHMGBA and integration of the Mainland and Macao. However, the reaction from the people of Macao has not been all positive. In the 2018 Survey Report on Thought Trends among Macao Youth released by the Macau University of Science and Technology (MUST) in late July of 2018, 71.5% of the respondents agreed that mainland China has a promising future, but only 36.7% expressed a willingness to work there. Another survey conducted by civic organization in Macao and released in mid-July showed that nearly 50% of respondents took a wait-and-see attitude towards urban employment and life in the Greater Bay Area and were concerned about food safety, health care, and welfare systems in mainland China.

5. The international community affirms Macao's economic performance, though remains concerned over restrictions on political rights, freedom, and human rights

The international community affirmed the overall economic performance of Macao in the past year, but remained concerned about civil and political rights in Macao, limits on press and academic freedoms, human trafficking, and other issues.

The 2018 Index of Economic Freedom report released by the Heritage Foundation in February 2018 ranked Macao's level of economic freedom 34th among the 180 economies worldwide and ninth in Asia. Macao fell in ranking compared to the 2017 report, but continued to be rated as a "mostly free" economy for the tenth consecutive year. In December 2017, the European Union (EU) placed Macao on its "tax haven blacklist." In January 2018, the EU member state finance ministers meeting agreed to move Macao to the "gray list for continued monitoring." The Macao

government reiterated that it would cooperate with the international community to jointly fight cross-border tax evasion.

According to the three major reports released by the US Department of State in 2018, namely the *2017 Country Reports on Human Rights Practices*, the *2017 International Religious Freedom Report* (China section, which includes Tibet, Hong Kong and Macao) and the *2018 Trafficking in Persons Report*, the Macao government respected freedom of religion in principle. Falun Gong members were allowed to protest to officials from mainland China despite still facing difficulties in renting venues for events among other matters. However, press and academic freedoms were limited in Macao and room for improvement existed on issues such as human rights protection for same-sex couples. Macao also remained a destination or transit point for the sexual trafficking and forced labor of women and children, and has failed to meet the minimum standards for combating human trafficking.

Amnesty International Report 2017/2018: The State of the World's Human Rights, released in February 2018, and the *2018 Annual Report* issued by the US Congressional-Executive Commission on China in October 2018 pointed out the lack of progress towards universal suffrage in Macao, the denied entry of invited writers for the Macao Literary Festival and certain journalists and the suspension of duties of a pro-democracy legislator by the Legislative Assembly as issues of concern. The reports also raised concerns that amendments to Macao's Judicial Organization Framework Law, which prevented foreign judges from presiding at hearings on national security-related cases, would undermine judicial independence. Furthermore, some worried that the expanded interpretation of the Cybersecurity Law by the executive branch could affect online freedom.

II. Taiwan and Macao deepen exchanges and mutual understanding as both sides continue to advance bilateral relations

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, with emphasis on promoting joint fraud prevention.

Taiwan and Macao maintained close exchanges in education, culture, tourism, youth, and other fields. In 2018, Taiwan continued to hold college and university student recruitment activities in Macao and received enthusiastic responses from all parties. During the 2017 academic year, 5,116 Macao students enrolled in Taiwan, making Macao the third largest source of overseas students in Taiwan. In April 2018, Taiwan's Kwang Hwa Information and Culture Center in Hong Kong held the fourth "Taiwan Week" activity in Macao under the theme "Taiwan Wind" to promote Taiwan's high-quality and diverse culture and art.

In 2018, the government assisted with the holding of theme park, hot spring, and other themed tourism promotion activities tours in Macao to help increase Macao people's understanding the diversity of Taiwan's tourism industry. According to statistics from the Tourism Bureau of the Ministry of Transportation and Communications, Taiwan received about 118,000 visitors from Macao between January and October of 2018. According to Macao's official statistics, Macao received more than 880,000 visitors from Taiwan during the same period, making Taiwan Macao's third largest source of inbound visitors, trailing only mainland China and Hong Kong.

Taiwan also held the "2018 Hong Kong and Macao Youth Educational Tour to Taiwan" and the "2018 Macao Middle School Student Study Trip in Taiwan" along with other numerous youth exchange activities to enhance awareness of Taiwanese culture and society among young people of Macao and deepen positive interaction between the two sides. Visits to Taiwan by young entrepreneurs, journalists, and other groups from Macao also helped to strengthen the development of substantive relations between Taiwan and Macao.

To facilitate Hong Kong and Macao graduates to find work in Taiwan after graduation, Taiwan's National Immigration Agency relaxed rules on December 5, 2018, to allow Hong Kong and Macao graduates to extend their residency in Taiwan by a maximum of one year, up from six months before. In addition, the Taiwan-Macao Double Taxation Avoidance Agreement on Aviation Industry, signed in 2015, came into effect on January 1, 2018. On June 21, the Ministry of Finance drafted and announced the

Regulations Governing Taiwan-Macao Double Taxation Avoidance Agreement on Aviation Industry and Mutual Exemption from Business Tax and Income Tax to put this agreement into practice and provide a healthy business environment and secure long-term institutional guarantees for airlines on both sides.

III. Appendix: Controversial Events since Macao's Handover

One controversial case happened from December 2017 to late December 2018; there were 34 cumulative cases from December 1999 to December 2018

No.	Date	Event	Source
1	2018.3.7	<ul style="list-style-type: none"> ■ The organizer of the 2018 Macau Literary Festival – The Script Road – announced stated on March 7 that writers Jung Chang, Suki Kim, and James Church will not be able to attend this year’s event, which is scheduled to take place from March 10 to Mach 25. The Festival organizer said to be informally notified by the Macao government that the writers’ presence in Macao was ‘ill-timed’ and their entry would not be guaranteed. The public criticized this, stating that such development was detrimental to Macao’s freedom of speech and expression and hurt Macao’s image. 	Central News Agency, 2018.3.7, Oriental Daily News, 2018.3.8