

Analysis Report: 20 Years After Macao's Handover

- Political reforms remain slow; implementation of national security measures stirs controversy.
- Economic development is generally stable; gaming remains the top industry while industrial diversification shows initial results.
- Government governance is repeatedly challenged; problems including transportation and housing remain unimproved.
- "Executive dominance" could become a hidden future concern for judicial independence.
- Mainland and Macao continue to deepen integration through "equal treatment" and "subsidy measures," but related differences gradually emerge.
- The international community affirms Macao's economic performance, but remains concerned over restrictions on civic rights, press and academic freedom, and media self-censorship.
- Taiwan-Macao civil exchanges remain close, while the basis of Taiwan-Macao mutual trust is undermined by Macao government's self-limits

I. Overall Review and Analysis

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 20th in a series of regular reports, covering the period from December 2018 to late December 2019.

Since the handover of Macao, *weiwen* (i.e. maintaining stability) has been the primary focus of the Chinese Communist Party (CCP) and Macao government in their administration of the city. The CCP has also progressively established laws and organizations pertaining to national security to strengthen control over Macao. In 2012, the Macao government's first post-handover political reform was criticized as too limited in scale. In 2014, due to the impact of Hong Kong's Occupy Central Movement, civic organizations failed to secure an in-person civil referendum during the fourth chief executive election, and were only able to vote online. In 2019, the fifth chief executive election saw no more calls for universal suffrage. Observers believe that the greater submissiveness of Macao's traditional social forces and the obedience of the public to CCP governance make it harder for democracy and freedom related actions to strike a chord with the public. On a separate note, Macao's judicial system has maintained independence in principle, with no specific cases of infringement on the independent functioning of the judiciary; however, "executive dominance" could become a hidden concern for judicial independence in the future.

In terms of the economy and industry, Macao's economy has shown continuous growth except for the year of 1999, 2014, 2015, and 2016. This year, Macao had seen three consecutive quarters of negative growth due to weaker overall demand, insufficient growth momentum, international trade, and other internal and external factors. The gaming industry remained the top industry in Macao, but the Macao government has been promoting economic diversification measures in recent years to strengthen risk tolerance. The measures have led to growth in finance, MICE (meetings, incentives, conferences, and exhibitions), cultural and creative, and traditional Chinese medicine industries. In addition, mainland China issued its first-ever government bond in Macao this year for RMB\$2 billion. Follow-up developments of this move will be worth watching.

In the area of social development, the governance capacity of the Macao government was repeatedly disputed. In 2014, the bill on “Welfare Package for Designated, Incumbent and Former Chief Executives and Principle Officials” sparked a sharp public backlash and was ultimately withdrawn. In 2017, Typhoon Hato struck Macao, to which the government responded with low efficiency, insufficient relief, and a request for the People's Liberation Army to assist in restoring order. The above incidents all highlighted problems with Macao's infrastructure and governance ability. Moreover, the Macao government is committed to achieving the policy goal of turning Macao into a "livable city." However, according to polls on awareness (expectations) of government administration conducted over the years by civic organizations in Macao, demands for transportation, health care, housing, and education remain to be issues of concern to Macao youth, indicating that the government has not met the needs of the people. Furthermore, although law and order have long remained stable in Macao, the recent years have seen the Macao police progressively installing a Macao Citywide Electronic Surveillance System, raising questions over potential violations of personal privacy.

Since the handover, mainland China has strengthened bilateral economic and trade relations with Macao through the Closer Economic Partnership Arrangement (CEPA) and other preferential policies. Mainland provinces and cities have also successively cooperated with Macao on livelihood, youth, art and culture, and other issues. To facilitate Hong Kong and Macao residents to work, live, and study in the Mainland, mainland China has stepped up promotion of “equal treatment” in recent years. Relevant measures include the cancellation of work permit requirements for people from Hong Kong and Macao, and the implementation of the Measures on the Application and Issuance of Residence Permits for Hong Kong, Macao, and Taiwan Residents. In addition, the Mainland has continued to integrate with Macao based on the Guangdong-Hong Kong-Macao Greater Bay Area (GHMGBA) framework through infrastructure; exchanges and cooperation on economy, society, and culture; and personnel

exchanges. However, the public has been unenthusiastic about the plan due to concerns over social problems emerging from integration of the Mainland and Macao.

The international community affirms Macao's economic performance. The Heritage Foundation has rated Macao as a "mostly free" economy for eleven consecutive years, but also expressed concern over the city's limits on civil and political rights, press and academic freedoms, human trafficking, and other issues.

Taiwan and Macao maintained close civic interactions and exchanges. Taiwan continued to promote the development of official relations between the two sides with goodwill, mutual benefit, and a pragmatic attitude to safeguard the rights, interests, and welfare of the people on both sides. However, the Macao government, due to the influence from Beijing, broadly imposed limits on Taiwan-Macao relations and frequently interfered with the operations and personnel of Taiwan's offices there. The government also restricted official exchange visits and oftentimes downgraded Taiwan, which have seriously damaged the foundation of mutual trust for Taiwan-Macao exchanges.

The following is an analysis of the overall developments in Macao 20 years on from its handover:

1. Political reforms remain slow; implementation of national security measures stirs controversy

Since Macao's handover, *weiwén* (i.e. maintaining stability) has been the primary governance focus of the CCP and Macao government. In 2012, the Macao government completed the first post-handover political reform, including adding two seats each to the direct and indirect elections of the Legislative Assembly, and expanding the number of chief executive election committee members from 300 to 400. However, the scale of such reform was criticized as too limited and triggered discontent in the democratic camp. In 2014, the Occupy Central Movement in Hong Kong spurred growing calls for democratic universal

suffrage in Macao. During the fourth Macao chief executive election that year, some private organizations conducted a civil referendum on "election of the chief executive." The Macao government sought to suppress the said referendum by arresting journalists who reported the referendum and removing workers at the polling stations, forcing the in-person civil referendum to go digital. The fifth Macao chief executive election was held on August 25 this year, which saw no more demands for a general election as in earlier times. The former president of the Legislative Assembly Ho Iat Seng was the sole candidate and easily won with 392 votes or 98% of the total. When Ho, joined by other newly elected officials, met with reporters, he claimed that public administrative reforms would be a future policy priority. He also emphasized the Macao government's position on protecting national security.

Macao's political culture has long been rooted in traditional societies, which have always worked in favor of the Macao government's *weiren* objective. In recent years, the government has actively strengthened related organizations and legal supports to enhance national security management. In 2009, the government completed the Macao National Security Law (commonly known as Article 23 of the Basic Law). In 2018, it formally established the Committee for Safeguarding National Security. Moreover, it also successively amended and approved rules on the "use and protection of the national flag, national emblem, and national anthem," the Law on Combating Computer Crime, Judiciary Police Law, and Basis of the Organization of the Judiciary. These rules and laws mandate penalties for harming the national anthem and grant the Judiciary Police functions and powers to investigate and handle cybercrime and crimes endangering national security. The rules also stipulate that national security cases must be tried by a Chinese judge. Related actions have raised questions over infringement of media and speech freedoms and judicial independence.

Since its handover, the Macao government has repeatedly refused entry to pan-democracy legislators, academics, and activists from Hong Kong. In May 2016, it prosecuted democracy-camp legislators who participated in peaceful

demonstrations for "aggravated disobedience," raising questions over the suppression of dissidents. This year, people in Macao originally intended to hold a "silent protest" against the Hong Kong police's use of violence against citizens in coordination with the anti-amendment demonstrations in Hong Kong. Such protests of support have been rare in Macao since the handover, but still faced opposition from major associations in Macao, including the Federation of Trade Unions, Women's General Association, Jiangmen Communal Society, and Youth Federation, who demanded that the Macao government refuse to allow the rally. The event was ultimately canceled, while the Macao police still stood ready on the day the assembly was to be held. The day ended with the police bringing in seven people for investigation, all of whom were subsequently released without charges. Commentators analyzed that the long-term submissiveness of Macao's traditional social forces and the obedience of the public to CCP governance make it difficult to win support for actions advocating democracy and freedom.

2. Economic development is generally stable; gaming remains the top industry while industrial diversification shows initial results

Since its handover, Macao has seen economic growth each year except for that of 1999, 2014, 2015, and 2016, owing to the decline in the gaming industry caused by the financial crisis and the CCP's crackdown on corruption. Macao's gross domestic product (GDP) growth peaked in 2004 with a record 26.8%, followed by a 25.3% GDP gain in 2010. The year of 2019 was marked by a downturn. The first quarter decline of 2019 ended ten consecutive quarters of growth, and the following three quarters continued to shrink by 3.2%, 1.8%, and 4.5%, respectively. The recession was attributed mainly to weaker overall demand, insufficient growth momentum, and a significant drop in fixed asset investment. Macao government officials claimed that the economy would continue to fluctuate over the short term due to factors such as international trade and depreciation of the renminbi.

Gaming, the pillar industry in Macao, continued to grow since reversing from decline in August 2016. Gaming revenues totaled MOP\$ 302.8 billion in 2018, up 14% from the year before. However, in 2019, the extent of gaming revenue decline had surpassed that of growth each month. The cumulative revenue from January to November totaled about MOP\$ 269.61 billion, down 2.4% from the same period in 2018, affecting economic growth in Macao this year. Furthermore, six Macao gaming licenses will expire between 2020 and 2022. On March 15 this year, the Macao government allowed two gaming concessionaires, SJM and MGM, to extend their licenses to 2022 for a one-time payment of MOP\$ 200 million. The Macao government said that the move will unify the expiry dates for all gaming licenses and facilitate bidding preparation work.

Although the gaming industry generates significant revenue for Macao, the city's dependence on a single industry overly exposes its economy to high volatility and greater risk. In recent years, the government has steadily diversified Macao's economy to strengthen risk tolerance. In 2016, it announced the first long-term plan since the handover: The Five-Year Development Plan of the Macao Special Administrative Region (2016-2020) (hereinafter referred to as the "Five-Year Plan"). The plan aims to turn Macao into "a commercial and trade cooperation service platform between China and the Portuguese-speaking countries" and "world center of tourism and leisure." In the annex to the plan issued this year, the government made Macao's participation in the GHMGBA a part of the five-year development plan. In addition, mainland China's State Council agreed in 2015 for Macao to self-administer the development of its 85 square kilometers of sea area. The Macao government established in 2017 the Coordinating Committee for Management and Development of Maritime Jurisdiction Areas, and announced in December that year the draft of Maritime Areas Management Framework Law. Stakeholders in Macao hope to advance economic diversification through maritime area management.

According to the latest Analysis Report of Statistical Indicator System for Moderate Economic Diversification of Macao released by the Macao government, the moderate economic diversification of Macao has basically taken form. The gaming industry continues to account for the bulk of Macao's economy, but its share fell from 63.1% in 2013 to 50.5% in 2018. Gaming employment as a share of the total working population also slightly fell from 23.1% to 21.8% in the same period. Non-gaming industries have grown to account for nearly 50% of the economy, contributing to greater economic resilience. Among the non-gaming industries, finance, MICE, cultural and creative, Chinese medicine, and other new diversified industries grew 36.5% overall. The financial industry is now the biggest of the new sectors, with a 6.61% economic share.

This year, mainland China issued its first-ever government bond in Macao for RMB\$2 billion. The public generally believes this will help Macao develop its bond market infrastructure. Experts believe that the issuance means that Macao will join Hong Kong as another site for offshore issuance of RMB government bonds, or even compete with Hong Kong in a few years, especially in the offshore RMB bond field. It remains to be seen whether Macao's economic center of gravity will continue to shift from gaming to a financial center with intentional guidance from mainland China.

3. Government governance is repeatedly challenged; problems including transportation and housing remain unimproved

The Macao government continued to dedicate efforts to strengthening social development in response to public demands. However, its administrative ability was repeatedly challenged. In May 2014, the Macao government proposed the "Welfare Package for Designated, Incumbent and Former Chief Executives and Principal Officials" bill that evoked a public backlash over stipulations granting generous subsidies to outgoing principal officials. The people of Macao pressured the government into withdrawing the bill through holding the largest

rally since the handover (about 20,000 people) and surrounding the Legislative Assembly. Additionally, in 2017, Typhoon Hato struck Macao and caused major damage. The government encountered a public backlash over its ineffective response and insufficient relief, which left it with no choice but to seek assistance from the People's Liberation Army. The said incidents underscore Macao's inadequate infrastructure and deficient governance.

Under the previously released "Five-Year Plan," the Macao government is committed to strengthening social security, bolstering patriotic education, improving the medical system, and enhancing the people's livelihood and well-being. It also revised the Social Housing Legal Regime, improved Macao's power and water supply lines and facilities, and opened the Light Rapid Transit Taipa Line to achieve its "livable city" policy objective. Over the past decade, the Macao government has more than doubled its funding for education, health care, and social security. However, according to polls on awareness (expectations) of government governance conducted over the years by civic organizations in Macao, demands for transportation, health care, housing, and education remain to be issues of concern to Macao youth, indicating that the government has not met the needs of the people.

Macao has long maintained stable public security. In the first three quarters of 2019, the number of crimes remained unchanged from the same period in 2018. The incidence of serious violent crime also remained low. To further strengthen public security, the Macao police have progressively installed a Macao Citywide Electronic Surveillance System (commonly known as the "Sky Eye system") with facial recognition ability in recent years. A full installation of the cameras for the system is expected to complete by the first quarter next year. However, some legislators were concerned about the personal privacy implications of facial recognition, and pressed the Macao government to propose a sounder legal basis and relief methods. The public also believes that the government has responsibility over the use, storage, and related oversight of

personal information collected, and thus should provide a full explanation to the public.

4. Executive dominance could become a hidden future concern for judicial independence

Since the handover, Macao's judicial system has remained independent in principle, with no specific cases of infringement on the independent functioning of the judiciary. However, during a 2017 visit to Macao, then chairman of the Standing Committee of the National People's Congress Zhang Dejiang referred to his visit to a judicial agency in Macao as an "inspection" instead of a "meeting," breaking past convention by the CCP leadership. He also announced his position on the principle of executive dominance (i.e. the judiciary must coordinate with executive leadership). His comments were criticized by the public for undermining checks and balances on power. There were also concerns over potential breach of people's interests and justice.

Additionally, mainland China has actively promoted the GHMGBA and related integration measures involving regional cooperation between different judicial systems, particularly on mutual legal assistance in criminal matters. In 2015, Macao actively promoted mutual assistance and cooperation in criminal justice with mainland China and Hong Kong, and submitted to the Legislative Assembly a draft Law on Inter-Regional Mutual Legal Assistance in Criminal Matters. However, to retain flexibility, the Macao government withdrew the bill in June 2016, citing overly-large differences among the legal systems of the three areas and the time-consuming negotiations involved. The bill has not been further promoted in the more than three years since. This year, President of the Macao Court of Final Appeal Sam Hou Fai noted a need to facilitate regional and international mutual legal assistance in criminal matters. It is worth observing whether the Mainland, Hong Kong, and Macao will accelerate the process of criminal judicial cooperation in the future.

5. Mainland and Macao continue to deepen integration through "equal treatment" and "subsidy measures," but related differences gradually emerge

Since the handover, Mainland China has introduced a number of policy incentive measures to strengthen economic and trade relations with Macao, including the Mainland and Macao CEPA and the upgrading of related agreements. Mainland provinces and cities have successively cooperated with Macao on consumer rights protections, civil aviation and air transport management, youth, finance, recognition of academic qualifications, customs, and other issues. The GHMGBA is also a key strategy of mainland China's push for integration, which not only listed the chief executives of Hong Kong and Macao on the leadership team for the first time, but strengthened living sphere links among the Mainland, Hong Kong, and Macao through the Hong Kong-Zhuhai-Macao Bridge and other infrastructure projects.

To facilitate the work, life, and education of Hong Kong and Macao people in the Mainland, mainland China has been promoting "equal treatment" in recent years. Relevant measures include the cancellation of work permit requirements for Hong Kong and Macao personnel in the Mainland, and the implementation of the Measures on the Application and Issuance of Residence Permits for Hong Kong, Macao, and Taiwan Residents. This year, the mainland further announced related tax incentives in the Greater Bay Area (GBA) to narrow the tax gap with subsidies in hopes of increasing the appeal of mainland Chinese cities in the GBA.

However, related "equal treatment" measures have had some negative effects. For example, mainland China's amended Individual Income Tax Law presents a stricter definition for "resident taxpayers." People in Macao worry that they might be double-taxed after applying for Mainland residence permits. In addition, a measure to mutually recognize driver's licenses issued in the

Mainland and Macao has been criticized by people in Macao over concerns that it would further overload the transportation system in Macao and entail security issues. Moreover, the opening of the Hong Kong-Zhuhai-Macao Bridge has led to serious traffic congestion in the exit area on Macao's side, making it a new problem in the Macao society.

Mainland China has vigorously promoted the prospects of the GHMGBA. However, a May 2019 survey showed that nearly 60% of Macao youth do not understand the specifics of the plan. Moreover, public opinion surveys released by a civic organizations in Macao from 2018 to 2019 showed that 50% to 60% of the respondents were unwilling to work or live in mainland Chinese cities in the GBA due to lifestyle and cultural differences, the lack of personal connections, and concerns that they will be unable to adapt to mainland China's food safety, health care, and welfare systems.

6. The international community affirms Macao's economic performance, but remains concerned over restrictions on civic rights and press and academic freedom

Since its handover, Macao has always been internationally praised for its economic performance. US-based Heritage Foundation has rated Macao as a "mostly free" economy for eleven consecutive years. Although Macao was once placed on the European Union (EU) "tax haven blacklist," it was later moved to the "gray list for continued monitoring." In October this year, Macao became the first member in the world to achieve legal and technical compliance with international anti-money laundering standards.

However, the international community has long been concerned about Macao's limits on civil and political rights, press and academic freedoms, human trafficking, and other issues. The US Department of State's annual Country Reports on Human Rights Practices, International Religious Freedom Report (China section, which includes Tibet, Hong Kong, and Macao), Trafficking in

Persons Report, and related reports by the Congressional-Executive Commission on China and international organizations noted that the Macao government respects freedom of religion in principle, but limits press and academic freedom and the ability of citizens to change the government. They also noted the phenomenon of self-censorship in the media.

Related reports in the international community also expressed concern over the progress of universal suffrage in Macao, Macao's continued refusal to allow entry to journalists and persons endangering "public security," the Legislative Assembly's suspension of the duties of a pro-democracy legislator, and other issues. The reports have questioned whether Macao's judicial independence is at risk due to the amendment of the Basis of the Organization of the Judiciary and prohibition of foreign judges in trials on national security cases. The reports have also expressed concern over the potential compromise of internet freedom from an expanded interpretation of the Cybersecurity Law.

II. Civil exchanges remain close, while the basis of Taiwan-Macao mutual trust is undermined by Macao government's self-limits

Taiwan and Macao maintained close cultural, educational, and person-to-person exchanges. In 2018, Taiwan received more than 140,000 visitors from Macao, fourfold higher than the number in 1999. In 2019, the number of visitors from Macao between January and October totaled nearly 130,000 people; during the same period, Macao received more than one million visitors from Taiwan, making Taiwan Macao's third largest visitor source market. The number of Macao students studying in Taiwan increased by nearly 50% over the last decade to 4,684, placing Macao among the top-ten source region of overseas students for Taiwan colleges and universities. However, in recent years, the Macao government has frequently resorted to political force and abused the pretext of "public security" to prevent Taiwan scholars and activists from entering Macao. This has harmed civil interaction and exchanges between the two sides.

Taiwan's Kwang Hwa Information and Culture Center in Hong Kong has held the "Taiwan Week" cultural events in Macao since 2015. These events have effectively enhanced the Macao public's understanding of Taiwan and promoted Taiwan's high-quality and diverse culture and art. Furthermore, to create a friendly environment for Macao students to study in Taiwan, the government has expanded the recognition of academic qualifications from Macao. It has also relaxed recognition of the studentship for overseas Chinese students in Hong Kong and Macao, granting them the preferential treatment enjoyed by Hong Kong and Macao students studying in Taiwan. Moreover, the government has further successively streamlined entry and exit procedures for students from Hong Kong and Macao on top of relaxing conditions and rules for them to work, stay, and apply for residency in Taiwan after graduation.

As for official relations between Taiwan and Macao, Taiwan's representative office in Macao was renamed as the Taipei Economic and Cultural Office in 2011. In December that year, the Macao Economic and Cultural Office in Taiwan officially opened. In 2013, then minister of the Mainland Affairs Council Wang Yu-chi met with Chief Executive Fernando Chui during a visit to Macao. In 2014 and 2015, representatives of the overseas offices of the two sides signed the Taiwan-Macao Air Transport Agreement and Taiwan-Macao Double Taxation Avoidance Agreement on Aviation Businesses respectively.

In recent years, Taiwan officials have continued to promote development of relations between the two sides with goodwill, reciprocity, and pragmatism to safeguard the rights, interests, and welfare of the people on both sides. However, the Macao government, influenced by Beijing, has broadly self-limited Taiwan-Macao relations and frequently interfered with the operations and personnel of Taiwan's overseas offices. Restrictions have been imposed on senior Taiwan officials visiting Macao and, more recently, have been expanded to working-level personnel exchanges. Moreover, the Macao officials are becoming increasingly conservative about official visits to Taiwan. Some of its units have taken actions belittling Taiwan, including omitting the word "national" when referring to

Taiwan's national universities. The said incidents have seriously damaged the foundation of mutual trust for Taiwan-Macao exchanges.

III. Appendix: Controversial Events since Macao's Handover

One controversial case occurred from December 2018 to late December 2019; there were 35 cumulative cases from December 1999 to late December 2019.

No.	Date	Event	Source
35	2019.8.16-20	<ul style="list-style-type: none"> <li data-bbox="487 861 1112 1165">■ Macao citizens planned to hold a "silent protest" on August 19 opposing the Hong Kong police's use of violence against citizens. However, the Macao government's Public Security Police Force did not approve the activity. <li data-bbox="487 1207 1112 1869">■ During the police review, demands of the activity aroused controversy in Macao. Major associations (such as the Macao Federation of Trade Unions, General Union of Neighborhood Associations of Macao, Women's General Association of Macao, Chinese Educators Association of Macao, Macao Jiangmen Communal Society, and Macao Youth Federation) clearly opposed the rally through online platforms and asked the Macao government to deny a permit for the 	<p data-bbox="1128 861 1312 1533">Journal Cheng, August 16-17, 2019; Journal San Wa Ou, August 20, 2019; Central News Agency, August 20, 2019</p>

No.	Date	Event	Source
		<p data-bbox="548 296 634 323">event.</p> <ul data-bbox="487 373 1123 856" style="list-style-type: none"><li data-bbox="487 373 1123 562">■ The Macao police stood ready on the day of the planned rally. Seven people were brought in for investigation and later released without charges.<li data-bbox="487 613 1123 856">■ Macao Legislative Assembly Member Antonio Ng questioned why the police did not explain how the rally violated the law and suspected that the decision to oppose the event was purely political.	