[translation]

Seven Years After Macao's Handover: An Analysis

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Seven Years After Macao's Handover: An Analysis

- Administrative operations of the Macao SAR government have been smooth, but alleged corruption of a senior official affected governance.
- The economy has continued to grow, but major issues remained.
- Judicial operations have remained normal.
- Individual visits and gaming industry have affected public order and security.
- China and Macao have continued close interaction with each other.
- The international community has remained positive on Macao's development.
- Exchanges between Taiwan and Macao have continued to prosper, but official relations have yet to be developed.

I Overview

Operations of the Macao SAR government have been generally smooth in 2006, but the alleged involvement of Secretary for Transport and Public Works Ao Man Long in corruption and his subsequent removal from office affected governance. Although Macao's economy, buoyed by the gaming and tourism industries, continued to grow, there were issues on the disproportionately large gaming industry, rising inflation, and widening gap between the rich and poor. Macao's judiciary operations basically remained normal. Due to the opening of individual visits to Macao by China, the increase in crime became a concern about public order and security in Macao. There was likewise an increase in crimes associated with competition resulting from increased foreign investments in the gaming industry. Disputes in ancillary benefits from casinos were starting to be affected by international factors.

China and Macao continued to have very frequent and close interaction. The Chinese authorities organized several exchanges on national condition education to assert Beijing's influence on Macao. China and Macao signed the CEPA4, and China opened individual visits to residents in another five cities in China. There was also progress in the Zhuhai-Macao Cross-Border Industrial

Zone and Guangdong-Macao joint-development of Hengqin Island. China and Macao also increased the number of flight destinations and transportation capacity between them. Apparently, China has continued to strategically support economic development in Macao.

Taiwan and Macao have maintained very close civilian interactions through cultural, educational, academic, transportation, and trade exchanges. Official relations between Taiwan and Macao, however, await further development because of the China factor. In the future, the Taiwanese government will continue to actively promote exchanges with various sectors in Macao, and hopes that the Macao SAR government will establish normal and systematic communication channels with Taiwan. Furthermore, due to the close relationship between Taiwan and Macao, the Taiwanese government hopes Macao will consider establishing a representative office in Taiwan to promote bilateral relations.

I. Administrative operations of the Macao SAR government have been smooth, but alleged corruption of a senior official affected governance.

Operations of the Macao SAR government have been smooth in 2006. In addition to improved administrative efficiency, the SAR government also increased the quality and expanded the scope of legal reforms. The task of renewing the Macao old districts started, but the administrative department was gradually experiencing challenges from the legislative and judicial branches.

In his 2007 policy address on Nov. 16, Chief Executive Edmund Ho Hau Wah promised to present a roadmap and timeframe for administrative and judicial reforms in the first half of 2007. He also announced the implementation of the accountability system for principal officials and the initiation of the reform of the civil service system. When the Legislative Council passed the Civil Service Provident Fund Scheme in August 2006, however, legislators walked out in protest. It was the first time that this had happened. Future confrontations with the Macao SAR government are likely to increase as Macao's legislators face pressure from their constituents when dealing with controversial issues.

In addition, since the start of 2005, there had been allegations of "collusion between officials and businessmen and the offering of special benefits." The Commission Against Corruption of Macao (CCAC) on Dec. 6, 2006, arrested Secretary for Transport and Public Works Ao Man Long for alleged bribery, corruption, and illegal financial activities. The Court of Final Appeal completed the pre-trial on Dec. 9, 2006, and Ao was immediately taken into custody pending trial. Based on the recommendation of Chief Executive Ho, the State Council of the PRC removed Ao from office on Dec. 7, 2006. Ao became the first secretary-level official in

Macao to be removed from office and arrested for alleged corruption, and it was the first time a Chinese-invested company was being investigated by the CCAC. The case, which elicited widespread concern from the public, not only affected the governance of the Macao SAR government, but also showed that the Macao SAR government must further improve its internal oversight mechanism, increase transparency in decision-making, and establish a sound legal system.

II. Democratic development will remain difficult within the short term.

According to media reports, many social organizations were established in Macao in 2006. In January alone, a total of 207 social organizations were established, while only 234 social organizations were established in the entire 2005. Because an organization has to be established for three years before it can take part in elections and be qualified for elections, these new organizations might have been established in preparation for the 2009 election.

On issues concerning Macao's democratic development, Chief Executive Ho said that he would not consider the establishment of district council-type bodies, and it would not be possible to hold general elections of the Chief Executive and the Legislative Council members in 2009. The Chief Executive only promised to start preparations for the elections of the 3rd Chief Executive and the 4th Legislative Council members in 2009.

III. The economy has continued to grow, but major issues remained.

Buoyed by the gaming and tourism industries, Macao's economy grew by 6.7 percent in 2005. Secretary for Economy and Finance Francis Tam Pak Yuen said that gaming revenues in the third quarter of 2006 increased significantly by 18.9 percent as compared with the same period in 2005. He was, therefore, positive that economic growth in 2006 could reach the 10 percent forecast target. Furthermore, unemployment rate was 3.6 percent from August to October 2006, a new low in the last nine years.

Yet behind Macao's prosperity were some unresolved issues. In addition to the issue on single-product economy resulting from the long-standing large proportion of the gaming industry, RMB exchange rate continued to increase, which also caused rising inflation. Composite Consumer Price Index rose from 0.98 percent in 2004 to 4.4 percent in 2005, which affected small and medium enterprises (SMEs) and expanded the gap between the rich and poor. According to studies reported by the media, the increase of the income median in Macao was lower than that of the increase in per capita GDP. This showed that while Macao has enjoyed significant economic growth, uneven distribution of income remained.

In recent years, foreign enterprises have continued to establish their presence in Macao, which led to an increase in local rental rates and operating cost for SMEs. The growing number of foreign employees has also threatened the employment opportunity of Macao residents.

On Labor Day 2006, eight labor organizations marched to the streets to express their dissatisfaction over the SAR government's large-scale importation of foreign workers and the proliferation of illegal workers. The street protest, which was the largest anti-government march in Macao in the past six years, resulted in violent confrontation between the police and marchers. This shows that, despite Macao's stability and prosperity, problems on the distribution of social benefits, if left unresolved over a long period, could gradually worsen.

IV. Judicial operations have remained normal.

Despite criticisms regarding issues such as slow legal reform and administrative regulations deemed unlawful by the court, Macao's judicial operations have in general been normal in 2006. Legislation on civil and commercial judgments and criminal judicial assistance were passed by the Legislative Council, which allowed Macao to play a role, albeit limited, in international mutual judicial assistance.

The Macao SAR government signed the Arrangement Between the Mainland and the Macao Special Administrative Region on the Mutual Recognition and Enforcement of Civil and Commercial Judgments with China on Feb. 28, 2006. The arrangement was the second piece of legislation on civil and commercial judgments between Macao and China, after the signing of the arrangement of mutual assistance on the mutual returns of legal documents and the investigation and evidence collection in civil and commercial cases in 2001. On July 13, 2006, the Macao legislature also passed the *Law of Mutual Legal Assistance in Criminal Matters*, which stipulates that Macao must report to the Chinese "Central Government" and obtain authorization before engaging in international judicial cooperation. The law is only applicable to international judicial cooperation, and does not cover regional cooperation between the Macao SAR and other areas of the PRC.

V. Individual visits and gaming industry have affected public order and security.

After Macao implemented the opening of the gambling concessions and some China's provinces and cities allowed individual visits to Hong Kong and Macao, the number of criminal cases involving the gaming industry has increased. The involvement of fraud and

money laundering organizations, including Chinese and international criminal syndicates, in criminal cases in Macao's casinos showed that, as foreign investors ventured into the gaming industry to develop new customer sources, disputes over ancillary benefits from casinos were also starting to be affected by international factors.

According to information published by the Office of the Secretary for Security, the overall crime rate in the first three quarters of 2006 increased to a total of 8,061 cases, up 3.7 percent as compared to the same period in 2005. There were 11,195 cases of illegal entry and overstaying in Macao during the first three quarters; 727 of these illegal entries were from China, more than double that of the same period in 2005. There were 7,293 incidents of overstaying by non-individual visitors from China, an increase of over 60 percent. There were 2,426 incidents of overstaying by individual visitors from China, and 749 foreigners were repatriated, an increase of over 40 percent as compared with the same period last year.

The Macao SAR government passed an anti-terrorism and anti-money laundering legislation on March 23, 2006, and established the Financial Intelligence Office on Aug. 7, 2006, to strengthen law enforcement in the fight against money laundering and financing of terrorism. Whether these measures would effectively curb crimes and improve public order and security remain to be seen.

VI. China and Macao have continued close interaction with each other.

In 2006, China and Macao continued to have very frequent and close interaction. The Chinese authorities organized several exchange activities to educate Macao's residents regarding China's national conditions to assert Beijing's influence on Macao. These included classes for Macao members of the Political Consultative Conference, training courses for high school teachers and students, training in China for civil servants of Macao, and youth tours of China. It is expected that special classes for Macao members of the Political Consultative Conference will be conducted in as usual Macao in 2007 to develop "patriotism and love for Macao" and expand Beijing's influence in Macao.

China and Macao signed the Supplement III to the Mainland and Macao Closer Economic Partnership Arrangement (CEPA4). China opened individual visits to Macao to residents in another five cities in China, bringing to 49 the total number of cities whose residents are allowed individual visits to Macao. There was also progress in the joint development of Hengqin Island by Guangdong and Macao at the end of November 2006. The Zhuhai-Macao Cross-Border Industrial Zone was officially inaugurated on Dec. 8, 2006. China and Macao also signed a new memorandum on Dec. 11, 2006, on the arrangement of aviation

transportation to increase the number of flight destinations and transportation capacity between them. These developments show that China strategically supports Macao's economic development, and there is closer interaction between them.

Some Chinese scholars are worried that Macao's gambling industry has been overdependent on foreign capital; that the majority of the industry's customers have been tourists from China; that foreign investors have not only siphoned capital from China through Macao, but have also threatened Macao's economy as well as China's national security. Furthermore, the scholars are also concerned that future changes in Chinese policy toward Macao will adversely affect Macao's economy and society. Therefore, Macao should proactively improve relevant planning and supporting measures while developing the Guangdong-Hong Kong-Macao cross-border traffic infrastructure, so as to promote accretion of the movement of persons and goods and prevent Macao from being marginalized for being simply a transit passage route.

VII. The international community remained positive on Macao's development.

In 2006, the U.K. and the U.S. established business chambers in Macao to further their respective interests in the area. James Cunningham, the Consul General of the United States of America in Hong Kong and Macao, said that American enterprises will continue to invest billions of U.S. dollars in Macao over the next five years. The U.S. was also concerned about the alleged involvement of Banco Delta Asia in money laundering. The case is currently under investigation.

The international community has generally remained positive on Macao's development. In its annual report on Macao, the European Commission praised the Macao SAR government for passing legislation against money laundering and financing of terrorism; however, it urged the Macao SAR government to focus more on intellectual property rights protection. It also believed that the active participation of Macao residents in the 2005 Legislative Council election reflected the people's increasing political maturity. For this reason, the Macao SAR government should begin plans for democratic development to conduct direct election.

In its *2005 Country Reports on Human Rights Practices* released on March 8, 2006, the U.S. State Department pointed out that generally, the Macao SAR government respected the human rights of its residents, that the residents continued to enjoy basic freedom, and that all their rights were protected by law. The report did not find any incident where the government obstructed human rights, but did say that restriction has been imposed upon the Macao citizens to change their government.

[translation]

II Taiwan-Macao Relations

I. Civilian exchanges between Taiwan and Macao remained active.

Although parts of Asia were affected by the avian influenza in early 2006, civilian exchanges between Taiwan and Macao, such as personnel, cultural, educational, academic, transportation, and trade exchanges, remained frequent and were not significantly affected. Take Macao students studying in Taiwan, for instance. Although China provides many preferential conditions to Hong Kong and Macao students, the number of senior high school students from Macao who applied for admission into the colleges and universities in Taiwan was a record 1,478 in 2006, an increase of 15 percent compared with 2005. This shows that Taiwan's higher education is attractive to Macao students.

According to statistics provided by the National Immigration Agency, between January and November 2006, there were over 1,137,000 visits from Taiwan to Macao, while there were over 17,000 visits from Macao to Taiwan, an increase of 4.7 percent and 0.5 percent as compared with the same period in 2005, respectively. Moreover, figures from Macao's Statistics and Census Service show that, currently, Taiwanese tourists remain the third largest source of tourists to Macao, second only to Hong Kong and China. In 2005, per capita spending of Taiwanese tourists in Macao was MOP$1,336.

Furthermore, although the Macao International Airport has actively expanded its China and international routes, passengers on Taiwan-Macao flights accounted for more than 50 percent of the airport's passengers, the majority of whom were from Taiwan. According to Macao SAR government statistics, there were a total of 696,167 entries to Macao by Taiwanese tourists in 2005, accounting for 67.62 percent of all tourist entries to Macao. Between January to October 2006, there were 552,543 entries to Macao by Taiwanese tourists, accounting for 55.11 percent of all tourist entries to Macao.

With regard to the mutual investments between Taiwan and Macao, according to the information provided by the Investment Commission under the Ministry of Economic Affairs, approximately US$190,000 Taiwan-bound investments by Macao companies were approved by the Taiwanese government between January to October 2006, while Taiwanese investments in Macao totaled approximately US$2 million. According to statistics from the Ministry of Finance, trade between Taiwan and Macao was over US$260 million between January to November 2006; of these, export from Taiwan to Macao was approximately US$240 million,

and import from Macao was over US$20 million.

II. Official relations have yet to be developed.

To promote exchanges between Taiwan and Macao, the Taiwanese government in 2006 allowed children of Hong Kong and Macao residents working in Taiwan to study in schools for foreigners. To facilitate application of Hong Kong and Macao students into graduate schools in Taiwan, qualified applicants could file their applications directly with the representative offices set up in Hong Kong and Macao by the Mainland Affairs Council. Furthermore, the two-way charter flights between Kinmen and Macao started on Sept. 19, 2006, which should benefit tourism in both areas.

Official relations between Taiwan and Macao, however, await further development because of the China factor. To foster mutually beneficial relations, the Taiwanese government will actively promote exchanges in all sectors of Taiwan and Macao. Taking into account the intermediary role of Macao in cross-strait relations, Taiwan hopes that the Macao SAR government can adopt more open measures in official contacts to establish a normal and institutionalized communication framework, and further promote Taiwan-Macao relations. Opening a representative office in Taiwan should be one of the important tasks for both sides.