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## China and the Reversion of Macau: Background and Implications

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## **ABSTRACT**

This report examines factors which might be relevant for US policy towards Macau after it reverts to Chinese administration on December 20, 1999. It includes a brief background to the reunification, followed by the discussion of economic and social factors which make the case of Macau different for China than the case of Hong Kong, as well as Macau's economic relevance to the United States. It includes a brief examination of the political status of Macau as a Special Administrative Region of China and of possible areas where controversy might arise concerning Chinese administration. This CRS report also discusses some implications for U.S.-Macau relations. Information on Hong Kong's reversion can be found in CRS Issue Brief 95119, *Hong Kong after the Return to China: Implications for U.S. Interests*, by Kerry Dumbaugh. This report may be updated in the light of changed circumstances.

# China and the Reversion of Macau: Background and Implications

## Summary

On December 20, 1999, the Portuguese territory of Macau will revert to Chinese administration after four hundred and fifty years of colonial rule, to become a Special Administrative Region (SAR) of the People's Republic of China (PRC). Macau has technically been Chinese sovereign territory since 1979, when China and Portugal established formal diplomatic relations and the two countries decided that Macau was a Chinese territory under Portuguese administration. On December 20, the PRC takes over administration of the territory.

At present, policy-makers are examining the U.S. stance towards the future SAR. On the basis of the PRC's promise of autonomy for the SAR in all respects except foreign relations and defense granted by the Basic Law of the Macau SAR, Representative Bereuter and Senator Thomas have proposed the United States-Macau Policy Act of 1999 (**H.R. 825/S. 1430**) patterned after the model of the United States-Hong Kong Policy Act of 1992 (**S. 1731/P.L. 102-383**).

The two Basic Laws governing Hong Kong and Macau after their reversion to China are effectively very similar, granting largely the same degree of autonomy to the two SARs. Significant differences exist, however, particularly in the commercial and economic foundations of the two territories. The economy of Macau is based mainly on a large gambling industry, and other leisure sectors. A general weakness of this economy, as well as a significant crime problem in Macau, will present the Chinese government with problems very different from those which it faced with Hong Kong in 1997. In the reversion of Macau, China may well face economic and social problems.

The potential exists that China may act in such a way towards Macau that it could be judged as infringing on the autonomy of the SAR or as denying consular protection to foreign nationals, especially in the case of Macanese residents who have chosen Portuguese citizenship. Furthermore, the way the United States forms its policy towards Macau and Hong Kong as SARs may be judged by some observers as reflecting how it would relate to Taiwan if Taiwan were to reunify with China under a similar "one country-two systems" model.

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# China and the Reversion of Macau: Background and Implications

## Congressional Interest

The territory of Macau reverts—after 450 years of Portuguese rule—to Chinese control on December 20, 1999. In order to set forth U.S. policy with respect to Macau, provide statutory authority for Macau's treatment under U.S. law, and provide a framework for U.S.-Macau relations once Macau becomes a Special Administrative Region (SAR) of the People's Republic of China (PRC), the United States-Macau Policy Act of 1999 (**H.R. 825** [rep. Bereuter et al.] / **S. 1430** [Sen. Thomas et al.]) has been introduced in Congress. The act effectively proposes to continue to treat the Macau SAR as an entity in most respects independent of China. It is similar to the United States-Hong Kong Policy Act of 1992 (**P.L. 102-383**), which provided statutory authority for Hong Kong's treatment under U.S. law after its reversion to China.

This issue acquires additional, potentially greater, significance in the relation between the reversions of Hong Kong and Macau to Chinese administration, and the possibility of Taiwan's eventual reunification with China itself as an SAR. U.S. relations with both SARs are likely to be scrutinized as forecasting the United States' likely relationship with Taiwan if Taiwan were ever to reunite with China under the same "one country-two systems" model. The purpose of this report is, therefore, to outline the circumstances of Macau's reunification with China, raise issues with which the PRC must deal when it assumes control over Macau, and draw implications for U.S. policy towards Macau as an SAR and as a potential model for a similar situation involving China and Taiwan. This report provides background on Macau, an overview of its economy, the political situation there, some problems that may occur there, and some implications for the United States.

## The Background to Reunification

When Macau becomes an SAR of mainland China on December 20, 1999, it will do so under circumstances similar to the reversion of Hong Kong to Chinese sovereignty in 1997. The same "one country, two systems" formula is being followed; the Joint Declarations under which they revert are in many respects similar; and the Basic Laws under which they are to be governed are also similar in many key aspects.<sup>1</sup> Significant differences exist, however, both in terms of the history of Western

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<sup>1</sup>See David W. Chang and Richard Y. Chuang, *The Politics of Hong Kong's Reversion to China*, Macmillan, 1998, ch. 2.

sovereignty over the two territories and also in terms of their economic bases, such that the example of Hong Kong cannot simply be assumed to hold for the case of Macau as well.

Hong Kong came under foreign rule much later than Macau: The post-Opium War treaty of Nanking<sup>2</sup> in 1840 was followed shortly by the addition to Hong Kong of Kowloon and the New Territories, in 1860 and 1898, respectively; Macau, on the other hand, was first settled by Portuguese merchants, who began official trade with China in 1553. In 1557, the Portuguese acquired permission for permanent residency and then acquired the de facto rights to govern Macau beginning in 1573. In 1887, with China weakened by the Opium Wars, Portugal concluded a treaty granting it the right to perpetual jurisdiction over Macau.<sup>3</sup> For much of its history, until the British colony of Hong Kong gained significance in the mid 19<sup>th</sup> century and came to dominate trade in the area, Macau served as the principal entrepôt for trade between the West and China and Japan.

Thus, Macau's association with Portuguese government and culture significantly antedates Hong Kong's with Great Britain. Moreover, the prospect of the return of Macau to Chinese government was raised much earlier than was the case with Hong Kong. Twice Portugal offered to return Macau to China: In 1966-67, after the pro-China riots in Hong Kong and Macau, and subsequently in 1974, following the coup d'état in Portugal, during the period when Portugal relinquished its other colonies—such as Timor, Mozambique and Angola.<sup>4</sup> In 1974, China, in the midst of the Cultural Revolution, declined to undertake the administration of Macau. Technically, Macau became a Chinese sovereign territory in 1979, when Portugal established formal diplomatic relationships with the PRC. At that time, the two countries agreed that Macau was a Chinese territory, although the agreement provided for it to remain under Portuguese administration.<sup>5</sup>

In June 1986, after discussions concerning the return of Hong Kong had begun, China and Portugal began negotiations for the return of Macau to Chinese administration. This resulted in the Sino-Portuguese Joint Declaration of 1987. In many respects, the Sino-Portuguese Joint Declaration resembles the Sino-British Joint Declaration over the return of Hong Kong.<sup>6</sup> The most significant difference in the context under which the two Joint Declarations were conceived is that, while there was no question of which country ought to have sovereignty over Macau, Portugal having been willing to relinquish sovereignty in 1974, Sino-British negotiations had temporarily stalled over the possibility of Great Britain's retaining sovereignty over

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<sup>2</sup>See *Consolidated Treaty Series*, vol. 93.

<sup>3</sup>See John K. Fairbank, et al., *East Asia: The Modern Transformation*, Boston, Houghton Mifflin, 1965, p. 343.

<sup>4</sup>See CRS issue brief 98018, *China-U.S. Relations*, by Kerry Dumbaugh.

<sup>5</sup>For an excellent overview of this, as well as a general discussion of the issues involved in the reversion, see article by Beatrice Leung, in *Asian Affairs an American Review*, Washington, Spring 1999.

<sup>6</sup>For a detailed breakdown of differences between the two treaties, see Chang and Chuang, *The Politics of Hong Kong's Reversion to China*, ch. 2.

Hong Kong after it returned to Chinese administration, which was subsequently rejected.

## The Future

### Macau's Economy

**The Scale and Basis of the Economy.** Compared to the economy of Hong Kong, that of Macau is relatively tiny. Moreover, where Hong Kong is established internationally both as a trading center of East Asia, and also as a financial center, Macau has become increasingly marginal in these respects since the mid 19<sup>th</sup> century. It is only in a very limited field, viz., gambling and leisure, that it is of major significance throughout the region. This small scale may be seen both from the Gross Domestic Product (GDP) of Macau, and also its volume of trade with the outside world, shown in **Table 1**. Its GDP of \$7.3 billion is roughly the same size as that of Angola, Jordan or Bolivia. Although on a per capita basis Macau's volume of trade and GDP are relatively high, this is tempered by the small population of the territory, which has approximately 450,000 inhabitants.

**Table 1. GDP and Volume of Trade for Macau**  
(Millions of U.S. Dollars)

Year	Imports	Exports	GDP
1995	2,033.4	1,989.2	7,410.2
1996	1,991.3	1,987.3	7,282.0
1997	2,075.4	2,141.2	7,309.0
1998	1,949.6	2,135.5	N.A..

**Source:** Direcção dos Serviços de Estatística e Censos de Macau (DSEC); converted from Macanese Patacas at the fixed rate of 8 MOP per U.S. dollar.

Macau's economy depends largely on gambling. A monopoly held by the *Sociedade de Turismo e Diversões de Macau* (STDM), the society for tourism and amusements in Macau, a company run by Hong Kong businessman Stanley Ho, controls the gambling industry of Macau. The relative importance of STDM within the context of Macau's economy is evidenced by the significant proportion of Macau's total public revenue which comes from the approximately 30% tax levied on gambling. In 1996, for example, Macau collected US\$ 630 million from STDM, more than 40% of government revenues.<sup>7</sup> In the same year, STDM had revenues of more than US\$ 2.1 billion, out of a reported GDP of US\$ 7.3 billion.<sup>8</sup> Furthermore, STDM

<sup>7</sup>ASIA, INC., August 1997. Statistics for other years available from the Autoridade Monetária e Cambial de Macau (AMCM).

<sup>8</sup>For comparison, the State of Nevada collected approximately 497 million dollars in percentage taxes on gambling for the fiscal year of 1998-1999, according to a press release (continued...)

employed about 10,000 workers, roughly 5% of Macau's total workforce.<sup>9</sup> In dealing with Macau after December 20, 1999, China will face the dilemma of how to preserve the profitability of the gambling industry, in order to retain this significant source of revenue.

**Gambling and Crime.** There exist three potential complications for China's handling of the economy, and of the gambling industry, in Macau after December 1999. First, the monopoly held by STDM over Macau's casinos expires in 2001. Second, extensive organized crime exists in Macau, both in various Macanese criminal organizations and also involving mainland Chinese gangs from Guangzhou province. These gangs are currently fighting largely to control the VIP rooms of Macau's casinos. Thirdly, there is the weakness of an economy based on tourism and gambling in the face of a volatile Asian economic environment, where fewer people currently have the disposable income to expend on gambling.

Concerning the issue of the expiration in 2001 of STDM's monopoly dating back to 1962, China has the basic options of renewing the monopoly, either under STDM (although the chairman, Stanley Ho is already 78 years old) or under another company, or of dispersing control of Macau's nine casinos among several companies. In 1997, when previously renewing STDM's monopoly, Stanley Ho argued to the Sino-Portuguese Joint Liaison Group that to preserve gambling as a monopoly would be in the government's best interest, on the grounds that, given Macau's relatively small population, overall casino profits and, hence, gaming tax revenues for the government, would be maximized.<sup>10</sup> This is likely to be relevant when the question of renewal comes up in 2001. It cannot be overstated how much gambling, under the auspices of STDM, contributes to the Macau economy. According to government statistics,<sup>11</sup> in 1996, tourism and gambling contributed 43% of the territory's GDP and, according to STDM officials, over three quarters of that year's 8.1 million visitors came primarily for gambling.<sup>12</sup> If China were to take measures to reduce gambling, Macau's economy would be severely weakened.

The second question concerns the rise of organized crime in Macau, both as it relates to the economy, and also as a problem in its own right. Crime levels in Macau have been extremely high since 1997,<sup>13</sup> with gang warfare between two rival Macau triad organizations, the "14K" and the "Sui Fong" escalating over control over VIP rooms in Macau's top casinos. These VIP rooms, according to STDM officials,

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<sup>8</sup>(...continued)

by the Tax and Licence Division of the Nevada Gaming Control Board

<sup>9</sup>*South China Morning Post*, March 3, 1999

<sup>10</sup>*South China Morning Post*, June 26, 1997.

<sup>11</sup>Cited, for example, in *South China Morning Post*, July 11, 1997.

<sup>12</sup>This is consistent with AMCM and DSEC tourism statistics, which indicate an extremely short (1.3 — 1.5 days) average stay for visitors in the territory.

<sup>13</sup>According to the *South China Morning Post*, August 19, 1999, there occurred 27 murders in Macau in 1998, and, at the time when the article was written, 28 murders had already taken place that year in the territory.

generate more than half of all gambling revenues.<sup>14</sup> Recently, criminal elements from Mainland China, particularly the so-called “Dai Huen” or “Big Circle” gangs from Guangzhou province, have also begun activities in Macau. The high level that organized crime has reached in Macau is evidenced not only by the recent period of violence, but also by the high profile of some of this violence. On November 26, 1996, the deputy head of the Gambling Inspectorate, Lieutenant-Colonel Manuel Antonio Apolinario, survived being shot twice in the head, while on March 24, 1998, the third in command of the Gambling Inspectorate, Francisco Xavier Pinto do Admiral, was shot dead near the Lisboa Hotel.<sup>15</sup> There are indications that this level of violence in Macau has had a very negative effect on tourism in the territory, including on casino attendance, which in turn impacts GDP and government revenue.<sup>16</sup> Since the upsurge of crime in 1996/7, in a city of some 430,000 inhabitants, nearly 100 murders have occurred, the majority Triad-related. At the same time, tourist arrivals fell to 6.9 million in 1998, down 16% from 1996.<sup>17</sup>

The PRC may therefore choose to take a tougher stance on crime. It has been widely anticipated within Macau that a return to Chinese authority will bring a greater level of law and order.<sup>18</sup> What remains to be seen is whether this can be done without a major negative effect on casino revenues, which could cripple Macau’s economy as it is currently structured. This might be the result of, for example, an all-out ban on gambling as an anti-crime measure. It must also be seen whether China can reduce Triad crime without incurring criticism for the use of improper measures. Some<sup>19</sup> have expressed the concern, for example, that PLA troops scheduled to be garrisoned in Macau after December 20 might be used in an improper law-enforcement role, infringing on the judicial autonomy granted Macau by the Basic Law.

The third problem is the effect of regional financial problems on an economy that depends so heavily on the leisure industry. The PRC may well encourage the diversification of Macau’s economy into industries less reliant on the disposable, leisure income of the region’s inhabitants.<sup>20</sup>

Although tourism and gaming comprise the major proportion of Macau’s GDP, nonetheless, foreign trade remains a second area in which Macau receives revenue. This income is currently waning in Macau’s economy: revenue from tourism has exceeded the value of exported goods since 1992, the average rate of growth of which dropped from 10%, between 1982 and 1987, to -2% in the following years. Furthermore, employment in the industrial sector has decreased as well. While half

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<sup>14</sup>See Cathy Hilborn, “Making a Killing”, in *Far Eastern Economic Review*, March 12, 1998.

<sup>15</sup>*South China Morning Post*, March 25, 1998

<sup>16</sup>*Far Eastern Economic Review*, Mar 12, 1998

<sup>17</sup>Dow Jones newswire, July 11, 1999

<sup>18</sup>For example, Stanley Ho, cited in the *South China Morning Post*, February 1, 1997

<sup>19</sup>For example Macau legislator Antonio Ng, cited in a Dow Jones newswire, July 11, 1999.

<sup>20</sup>E.g., Stanley Ho, in *Far Eastern Economic Review*, September 26, 1996

the working population was employed in the industrial sector at the beginning of the 1980's, only a third was registered as in the industrial sector as of 1998.<sup>21</sup>

In order to provide some boost to the economy, major infrastructure projects have been undertaken in recent years in which STDM has also played a major role. These include the new Ka-Ho container port, the "Lotus Flower" bridge being built to link Taipa and Coloane, two of Macau's outlying island's, with Mountain Island in China (scheduled to be finished in November 1999), and the new Macau International Airport. This is of course significant as an aid to increasing tourism in Macau (including tourism not strictly relating to gambling), especially given the rise in visitors from mainland China.<sup>22</sup> Projects like the Ka-Ho container port, however, can only be explained in the context of a desire to boost an export-based economic sector, which is clearly consistent with the desire to reduce dependency on gambling as a source of revenue.

It is unclear, however, whether Macau's location at the mouth of the Pearl River delta, and its proximity to the PRC's Zhuhai Special Economic Zone will ultimately prove to be beneficial to Macau's export sector. For example, garment manufacturing, once a major industry in Macau, has shifted to China and other regions of Asia where labor costs are lower.<sup>23</sup> What seems evident, however, is that the current situation is not ideal: government revenues from gambling fell 15.4%, to five billion patacas (630 million dollars) in 1998, from their 1997 level of 5.97 billion patacas (750 million dollars).<sup>24</sup> After December 1999 the PRC may well take steps to increase revenues from gambling, probably by attempting to reduce crime in the colony and thus make Macau a safer place for tourist-gamblers to visit, and also to diversify the economy of Macau, perhaps by increasing the emphasis on the manufacturing and export sector.

## The Political Future of Macau

**"One country, two systems".** The principle of "one country, two systems" is to be applied to Macau after reversion. This will allow Macau to retain its current lifestyle and legal, social and economic systems for at least fifty years. It was also the basis for the reversion of Hong Kong. This is presumably the approach through which PRC leaders would contemplate reunification with Taiwan. The political future of Macau depends on how this principle is in fact implemented. Moreover, Taiwan's willingness to unify with China may depend in part on the successful implementation of unification in Hong Kong and Macau. Were either of these two reunifications to prove unsuccessful, Taiwan may be less willing to unite with China, both under the "one country two systems" model in effect in the cases of Hong Kong and Macau, or

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<sup>21</sup>From DSEC statistics

<sup>22</sup>Macau's visitors come primarily from Hong Kong and China; DSEC tourism statistics indicate a decrease in visitors to Macau by sea (mainly from Hong Kong) and an increase in visitors to Macau by land (clearly from the PRC).

<sup>23</sup>*Far Eastern Economic Review*, March 12, 1998.

<sup>24</sup>AMCM statistics, cited by the *South China Morning Post*, March 3, 1999.

under other systems as well. The following discussion examines how this principle might be implemented in Macau and some difficulties that might arise.

The principle of “one country, two systems” which determines the government of SARs in China is provided for by Article 31 of the PRC constitution, which states that:

The state may establish special administrative regions where necessary. The systems to be instituted in special administrative regions shall be prescribed by law enacted by the National People’s Congress in the light of specific conditions.<sup>25</sup>

On the face of it, and given the Basic Law of 1993 established for Macau on the basis of the Sino-Portuguese Joint Declaration of 1987, this allows for the Macau SAR to remain largely unchanged for fifty years after its reversion to China.<sup>26</sup> Some China watchers have, however, expressed reservations as to whether the Basic Law, in conjunction with Article 31, would be likely to provide any protection for the status quo, and the autonomy of Macau, were China not to wish it as a matter of policy.

First, contradictions have been noted between the Basic Law, especially articles 2<sup>27</sup> and 5<sup>28</sup> and Article 31 of the PRC constitution, and other articles of the PRC’s 1982 constitution, especially article 5<sup>29</sup>, establishing the uniformity of the socialist legal system, and article 6<sup>30</sup>, establishing the uniformity of the socialist economic system. Thus, it is not clear whether the autonomy granted the SARs under Article 31 would be legally defensible were the PRC to wish, for any reason, to revoke the judicial or economic autonomy of the Macau SAR. Moreover, Article 18 of the Basic Law of Macau, while allowing the SAR to be largely exempted from Chinese national laws, also provides for the Central People’s Government to apply national laws to Macau in case of the declaration of a state of war, or if turmoil should arise within the

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<sup>25</sup>*The Laws of the People’s Republic of China 1979-1982*, Beijing, Foreign Languages Press, 1987.

<sup>26</sup>See Articles 2 and 5 of the Basic Law of the Macau SAR.

<sup>27</sup>Article 2 of Macau Basic Law:

“The National People’s Congress authorizes the Macau Special Administrative Region to exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication.”

<sup>28</sup>Article 5 of Macau Basic Law:

“The socialist system and policies shall not be practised in the Macau Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years.”

<sup>29</sup>Article 5 of PRC constitution:

“The state upholds the uniformity and dignity of the socialist legal system. No law or administrative or local rules and regulations shall contravene the constitution...”

<sup>30</sup>Article 6 of PRC constitution:

“The basis of the socialist economic system of the People’s Republic of China is socialist public ownership of the means of production, namely, ownership by the whole people and collective ownership by the whole people...”

SAR “which endangers national unity or security and is beyond the control of the government of the region”.<sup>31</sup>

The case of how the Basic Law has been followed in Hong Kong since 1997 may be enlightening, especially in the role played by China in Hong Kong judicial matters. According to Article 19 of the Hong Kong basic law, the supreme judicial authority in Hong Kong is to be held by the Hong Kong judiciary, and China is not to intervene. In fact, several cases have arisen which some observers have noted as instances where China has intervened in Hong Kong autonomy. These include the trial and execution of the kidnapper Cheung Tze-keung in mainland courts,<sup>32</sup> and the trial of Li Yuhai on the mainland for crimes committed in the Hong Kong SAR. More controversial was the recent reinterpretation of an immigration ruling made by Hong Kong’s highest court by China’s parliament.<sup>33</sup> Since theoretical judicial autonomy is granted to the Macau SAR, were China similarly to intervene in Macau’s judicial matters, as might be the case in dealing with Triad crime in Macau, similar controversy might arise after December 20.<sup>34</sup>

A further possible source of contention lies in the issue of citizenship and consular protection for Macanese residents. Unlike the British, who only conferred on Hong Kong residents the status of British National (Overseas) or British Dependent Territories Citizen (BTDC), which passport serves only as a travel document and does not confer the right of abode in the United Kingdom on its bearer, Portuguese authorities have offered full Portuguese citizenship to residents of Macau. China does not however recognize Portugal’s right to grant consular protection to what it perceives as “Chinese” residents of Macau. Thus, to Chinese authorities, a Portuguese passport held by an ethnic Chinese resident of the Macau SAR constitutes only a travel document held by someone who is in fact a Chinese national, and does not grant its bearer the consular rights of a genuine Portuguese citizen.<sup>35</sup> After Macau’s reversion, Chinese authorities could attempt to try a resident holding a Portuguese passport and deny him or her access to consular protection.

Refusal by the PRC to recognize foreign citizenship has already been seen in several cases not directly related to a resident of an SAR. Harry Honda Wu, a naturalized American citizen who entered China from Kazakhstan with a valid visa on

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<sup>31</sup>For a much more detailed account of the issues discussed in this paragraph, see Chang and Chuang, 1998.

<sup>32</sup>Martin Lee, *Washington Post*, January 13, 1999.

<sup>33</sup>Cited for example in a Reuters newswire, July 4, 1999. There is evidence of resentment of the role played by China in the Hong Kong Judiciary amongst Hong Kong legal professionals. See *South China Morning Post*, August 16, 1999. Additionally, on June 30, 1999, 600 Hong Kong lawyers marched in opposition to Beijing’s reinterpretation of the Basic Law in the Right of Abode case. See *South China Morning Post*, July 1, 1999.

<sup>34</sup>Addendum: The recent refusal by China to admit the Pope into Hong Kong, on the grounds that the Vatican has relations with Taiwan, announced on August 9, 1999, might similarly be classed as a case of China making decisions which might be considered in some respects to violate Hong Kong’s statutory autonomy.

<sup>35</sup>See *Economist*, March 27, 1999, pp. 43-44.

June 19, 1995, was arrested by Chinese authorities and denied American consular protection.<sup>36</sup> Similarly, James Jiandong Peng, an Australian national, was taken on October 13, 1993 from his hotel room in Macau and delivered without extradition proceedings across the border to China, where he was tried and sentenced to 17 years in a mainland prison.<sup>37</sup> It is clear then that Chinese authorities take very seriously their claim that ethnic Chinese holding foreign passports are subject to Chinese law without foreign consular protection, and we may speculate that similar cases might arise in the case of Macanese residents who hold Portuguese passports.

Another potential issue is the role of the PLA troops to be stationed in Macau after the handover. The last Portuguese military garrison was removed from Macau in late 1975. In September 1998, Chinese Vice-Premier Qian Qichen announced that a small PLA garrison would be stationed in Macau after the handover, a unilateral decision made without the consent of Lisbon.<sup>38</sup> This seems largely to have been welcomed by residents, on the grounds that it would lead to decreased crime in the territory.<sup>39</sup> Worries have, however, been raised on two counts. Firstly, by passing a law to accommodate the garrison in Macau, something not discussed in the Basic Law, Beijing is seen as setting a precedent for future constitutional amendments. Second, since the new law states that the PLA troops will “exercise the same powers as relevant law-enforcement officials when requested by the governor”, it has been argued that the military garrison might become a de facto auxiliary police force.<sup>40</sup>

Such objections notwithstanding, the structure of the Basic Law and of the post-1999 government of the Macau SAR allows for the theoretical autonomy of the SAR in a great number of respects. Section II of Annex II of the Sino-Portuguese Joint Declaration states that the Chief Executive of the SAR is to be selected by “elections or consultations to be held in Macau,” and appointed by the Central People’s Government. The candidate selected in this case, Edmund Ho, is a man with significant business experience, who has held positions of authority under the present administration of Macau. Edmund Ho was selected in preference over rival Stanley Au, in a ballot held by a China-selected committee.

According to Section III of Annex I, the majority of the members of the legislature of the Macau SAR are to be elected.<sup>41</sup> According to Section IV of the same annex, the power of final adjudication is to be exercised by the court of final appeal of the Macau SAR. Thus, if the framework established by the basic law is followed, as has largely been the case with Hong Kong, then the Macau SAR may

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<sup>36</sup>See *The Economist*, London, July 8, 1995

<sup>37</sup>*South China Morning Post*, Hong Kong, July 27, 1996. See also Martin Lee in the *Washington Post*, January 13, 1999.

<sup>38</sup>Dow Jones newswire, July 11, 1999

<sup>39</sup>*Ibid.*; see also *South China Morning Post*, February 1, 1997

<sup>40</sup>*Ibid.*

<sup>41</sup>According to Annex II of the Macau SAR Basic Law, the legislative body is to be selected on the basis of a combination of direct election, indirect election, and appointment by the PRC.

have significant autonomy. If, however, some of the circumstances discussed above come to be realized in the Macau SAR, then it is possible that the autonomy of the Macau SAR may be viewed as curtailed by Chinese influence in key respects.<sup>42</sup>

## Implications for U.S.-Macau Relations

Macau is less likely to be an issue for U.S. policy than Hong Kong was in 1997. First, Macau's reversion to China, and its associated legislation, the United States-Macau Policy Act of 1999 has a precedent in the case of Hong Kong and the United States-Hong Kong Policy Act of 1992. Secondly, Macau is of less commercial relevance to the United States than Hong Kong, given the latter economy's greater emphasis on trade and international finance. Although the United States receives a large proportion of Macau's exports, the total volume of U.S. trade with Macau remains low, as **Table 3** indicates, and Macau is not among the United States' major export markets.<sup>43</sup>

**Table 2. Trade Relations between the United States and Macau**  
(US\$ million)

Year	U.S. percentage of Macau export markets	U.S. Imports from Macau	U.S. Exports to Macau
1996	40.3	801.4	29.8
1997	45.2	968.4	67.4
1998	47.7	1017.6	40.8

**Sources:** Macau DSEC; U.S. Census Bureau

The cases in which Macau has been considered of trade significance to the United States has been with respect to trade regulations. Representative Cox has alleged<sup>44</sup> that Hong Kong has been used as a transshipment point for strategic goods by the PRC. Given the easier (overland) access to Macau from the PRC, this may become of greater significance in the case of the Macau SAR. Furthermore, there are

<sup>42</sup>Leung, in *Asian Affairs, An American Review*, Spring 1999 also mentions possible difficulties for China over the relationship between Macau and its islands of Taipa and Colonne, as well as the establishment of an anticorruption organization as suggested in Article 60 of the Macau Basic Law. Additionally, she anticipates potential difficulties stemming from the failure until now to strengthen the independence of the Macau civil service and judiciary, which had grown reliant on Portuguese expertise and guidance.

<sup>43</sup>By comparison, in 1998 U.S. exports to Hong Kong were valued at 12,923.5 million dollars, while imports from Hong Kong came to 10,538.4 million dollars. The major export of Macau is textiles; according to statistics from the Macau AMCM, between 1991 and 1996 approximately 75 percent of Macau's exports were textiles.

<sup>44</sup>Cited, for example, in the *South China Morning Post*, July 28, 1999.

also allegations that textile transshipments have been made by the PRC through Macau, evading U.S. import quotas. According to a Reuters newswire of July 29, 1999, the U.S. Commerce Department has determined to deny imports of textiles and clothes from 77 firms in Macau, on the grounds that they are being used to transship textiles manufactured within the PRC.<sup>45</sup>

Even if the nature of U.S. relations with Macau is unlikely to have significant implications for the U.S. economy, it may still be relevant to consider how the policy on which Congress decides will be viewed in the context of the case of Taiwan. As has already been discussed, it seems likely that, if Taiwan were ever to consider uniting with China under article 31, its assessment of U.S. relations with other SARs within China would be a factor in its decision.

Finally, given the commitment made by the United States-Macau Policy act of 1999 to the preservation of the autonomy of, and of civil rights within, Macau<sup>46</sup>, such potential breaches of civil liberties and autonomy as have been discussed, were they to occur in Macau, would become directly relevant to U.S. foreign policy. This might be particularly pertinent if China were to use the PLA to crack down on crime in such a way as might be viewed as a breach of human rights. Additionally, were the PRC to deny consular protection to an ethnic Chinese Portuguese national in Macau, this might be seen as a breach of human rights relevant to the United States-Macau Policy act of 1999

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<sup>45</sup>For more information, consult McGraw-Hill Companies' "Tower Group" bulletin for July 40, 1999, on [www.towergroupintl.com](http://www.towergroupintl.com). See also: *Inside US Trade*, March 26, 1999.

<sup>46</sup>Sections 2 and 101 of H.R. 825.