

Central Intelligence Agency



Washington, D.C. 20505

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file #2  
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China-Macao: Current Status and Prospects

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15 July 1985

Summary

China has announced that it wants negotiations on the future of Macao to begin early next year--sooner than expected. We believe China wants an agreement on Macao's future, following its success on Hong Kong, in order to keep the issue of China's reunification in the public eye and portray Taiwan as isolated and unreasonable. Beijing also wants ample time to ensure Macao's and Hong Kong's smooth transition to Chinese rule.

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With Portugal having ceded sovereignty to China in a secret 1979 agreement and the Honk Kong agreement as a model, the negotiations probably will proceed quickly. An agreement on Macao may be less generous than Hong Kong's because of Portugal's longstanding willingness to defer to China on important political, security, and social issues. We believe, however, that the Chinese will reassure more volatile Hong Kong audience that the results of the Macao negotiations do not imply a retreat from Beijing's commitments to London to maintain Hong Kong's social system after 1997.

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China's Role in Macao

China has been the dominant influence in Macao since riots

This memorandum was prepared by  China Foreign Affairs, Office of East Asian Analysis. Research was completed on 30 June 1985. Comments and questions are welcome and should be addressed to the Chief, China Division, OEA

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[redacted]

inspired by the Cultural Revolution in 1966 caused Lisbon and Beijing to begin regular, informal consultations in Macao. China, for its part, has been restrained and indirect in exercising its influence, allowing the Portuguese administrators to handle routine affairs. After Portugal's revolution in April 1974, the new military regime attempted without success to give Macao back to China. China's perception of Hong Kong's greater importance and its sensitivity to political stability there led Beijing to let Portugal retain Macao until "the time is ripe." Portugal formally recognized Chinese sovereignty over Macao in a written secret agreement signed when Lisbon and Beijing normalized relations in 1979. Only in the past year have both sides publicly referred to the existence of this 1979 agreement.

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### The Timetable Changes

We believe that favorable international reaction to the Hong Kong agreement is stimulating China's leaders to accelerate negotiations on Macao. From the Chinese view, an early agreement on Macao puts additional political pressure on Taiwan to discuss Deng's "one country, two systems" formula. It could help China portray Taiwan as isolated and unreasonable and keep the issue of China's reunification in the public eye. [redacted]

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Prior to the visit of Portugal's President Eanes this May, China had declined to include the question of Macao on the agenda for the visit. Deng Xiaoping surprised Eanes when he proposed setting the timetable for negotiations on Macao's future in front of reporters. The autumn before, Deng had said China could wait seven or eight years to resolve Macao's future. Although Eanes probably preferred delaying talks until later because of a brewing political crisis back home, Portugal and China agreed to start negotiations through diplomatic channels next year. [redacted]

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President Eanes has announced that preliminary talks would begin later this year and formal negotiations would start after the first half of next year. Events in Portugal could delay negotiations though. Portugal faces parliamentary elections in October and possibly presidential elections in December or January 1986, which could result in the appointment of a new governor for Macao who will need time to settle in. [redacted]

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### The Macao Special Administrative Region

China plans to establish Macao as a separate special administrative region (SAR), distinct from Hong Kong. Ji Pengfei, director of the Hong Kong and Macao affairs office, made the first formal statement to this effect in June. The Macao SAR would be set up under the "one country, two systems" formula

first used in Hong Kong, and frequently mentioned by Beijing as the key to the reunification of China and Taiwan. [redacted]

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To improve chances for a smooth Hong Kong transition, Beijing plans to time Macao's transition to political developments in Hong Kong. [redacted]

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[redacted] Ethnic Chinese in Macao would be invited to participate in the people's congresses of their respective native provinces in China at the same time as those in Hong Kong. The basic law of a Macao SAR would be approved by China's National Peoples' Congress at the same time as Hong Kong's. The organization of a Macao SAR would also be ready when Chinese officials are prepared to take their posts in Hong Kong. [redacted]

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#### Local Reaction

The quick Sino-Portuguese agreement to begin talks took both Chinese and Portuguese in Macao by surprise. In a report just before President Eanes's visit in late May, prominent Portuguese, Macanese, and Chinese including Ma Mankee, the highest-ranking "unofficial" Chinese representative in Macao, expressed hope that Macao's future would not be raised during Eanes visit. Ma Mankee said that Macao needed time to address economic issues such as Macao's status under GSP, GATT, quotas, continued MFN treatment, and access to technology before making the transition to Chinese administration. [redacted]

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Another problem is the need to develop a pool of ethnic Chinese able to administer Macao. Only 2 percent of Macao's civil service is ethnic Chinese and, unlike Hong Kong, very few hold positions in the upper levels of the civil service. Macao's legal profession lacks Chinese barristers or solicitors. [redacted]

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#### Beijing's Presence in Macao

China exerts its influence in Macao through key local personalities and organizations. Ma Mankee, as president of Macao's Chinese General Chamber of Commerce, is a member of the 17-man Macao assembly and also has been selected by Beijing as a delegate to both the Chinese National Peoples' Congress and the Chinese Peoples' Political Consultative Conference. The Nam Kwong (Nan Guang) Trading Company, headed by Ke Zhenping, serves as China's representative organization, issuing visas and carrying out other official functions. Like the New China News Agency in Hong Kong, Nam Kwong recently divided itself in half, with one part concentrating more formally on representational duties and the other on trade. Nam Kwong has announced that it

will set up a department to collect the views of Macao residents when negotiations begin with China. Also linked to China, the Macao Federation of Trade Unions includes the vast majority of Macao's workers as members of its unions. [redacted]

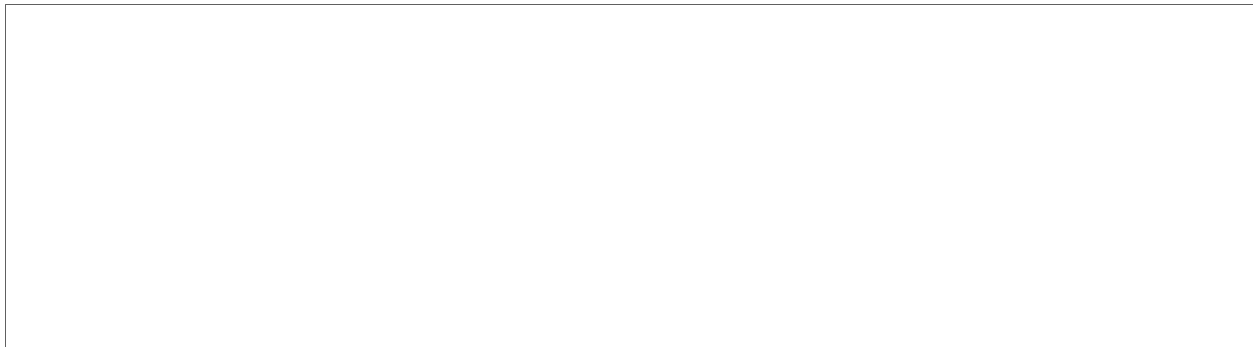
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Secondary unofficial figures include He Houhua, son of Ho Yin (the previous president of the Chamber of Commerce, who died in December 1983) and general manager of the Banco Tai Fung, a bank owned in part by the Bank of China; and Liao Zeyun, chairman of the Macao management speciality association. [redacted]

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Local elections in Macao late last year for the first time gave Macao's Chinese a majority in the legislative assembly, reducing the former influence of the mixed-blood Macanese, 3 percent of Macao's population. Since the election, both the Portuguese and Macanese have sought China's support before undertaking any new legislative initiatives. In turn, China has used the ethnic Chinese majority through Nam Kwong to firmly support Macao's governor. [redacted]

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Macao provides an important outlet for Zhuhai, one of China's special economic zones (SEZ). Trade between Macao and Zhuhai is booming, mostly in consumer goods purchased in Macao and sold in China through middlemen in Zhuhai. Much of this trade is not reported to Macao authorities and therefore not reflected in official trade statistics. This fast and loose trade is encouraged by the lax control of borders on both sides. The Portuguese often do not man their side of the Macao-Zhuhai border or stamp the documents of incoming travelers. China has not established effective customs control on the Zhuhai-Zhongshan county border. [redacted]

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### Outlook

Because of the extent of Beijing's influence in Macao and

[redacted]

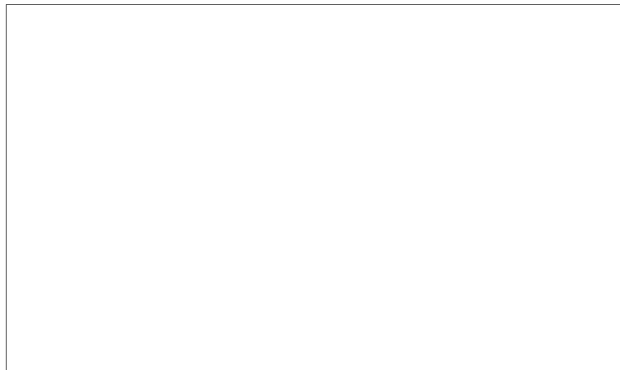
demonstrated Portuguese acquiescence, the terms of a future Macao agreement could be less generous than Hong Kong's. Ji Pengfei has already stated that the Hong Kong agreement cannot be copied. The administrative institutions of the Macao SAR and the language of its basic law may differ. The Macao agreement might incorporate less concrete language concerning local autonomy in administration, finances, and education. The Portuguese may be less concerned about preserving an independent judiciary than the British were. [redacted]

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Local activists in Macao are not likely to be allowed as much scope as those in Hong Kong. The Portuguese governor in consultation with pro-Beijing ethnic Chinese representatives will be able to pass any legislative initiatives associated with a Macao agreement without significant opposition. [redacted]

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