

Macau and Europe: The Challenges of the Paradiplomacy Game

Miguel Santos Neves

MACAU entered a new phase of its history after its reunification with China under the "one country, two systems" model. The external dimension of this model is highly relevant for the future of Macau inasmuch as it relates to the preservation of its identity, to the domestic autonomy of the second system and how it faces the challenges of globalisation, Macau will have to become more outward-looking and strengthen its international ties.

Relations with Europe might be regarded as one of the priority axes of the SAR's external relations for different reasons. Although EU-Macau relations have experienced a decline in recent years, the SAR has relevant and strategic links with Europe, notably the human link—25% of Macau's population are European citizens with a right of abode in all EU countries—, and the legal link, as the SAR legal system belongs to the family of continental European law depending critically for its survival on a close co-operation with Europe. Moreover, the EU-Macau Agreement is presently the most important international agreement ever signed by Macau, signalling the recognition by an important international actor of the SAR's autonomy and specific identity.

On the European side there is a strong interest in the success of the "one country two systems" model for historic and political reasons, in particular because two member states are directly involved in the process, but also for pragmatic reasons, to use the SARs as special platforms to consolidate European interests in China in a context where the EU is lagging behind other major global competitors, in particular the United States. Macau might not be a central player in this process but it has a role to play which the EU tends sometimes to ignore.

Portugal introduced Macau to the EU in the early 1980s and for a long time nurtured and mediated the relationship between Brussels and Macau. After the handover there was a decline in Portugal's engagement and as a result, EU-Macau relations, still lacking autonomy and maturity, face a serious risk of collapse. In this context, the main hypothesis put forward is that in order to prevent this scenario Macau has to take the initiative and prove its capacity to contribute to the development of EU-China relations. The main purpose of this article is to discuss the obstacles and opportunities Macau faces in that context and the policy options it might consider to strengthen its ties with Europe, in order to pursue its specific interests but also to serve national and regional interests.

The first section deals with the current state of Macau-EU relations, and the main problems and trends. The second section addresses the question of the obstacles and opportunities Macau is likely to encounter in upgrading the quality and intensity of this bilateral relationship. The third section considers the nature of the MSAR as a non-sovereign actor in the international system, the implications of this for relations with Europe and the most adequate strategy for building effective paradiplomacy towards Europe. The last section analyses the challenges Macau has to address in order to play the paradiplomacy game with Europe, and the potential benefits the SAR can derive from it.

The current state of EU-Macau relations

EU-Macau relations have been consistently dominated by economics. Although some progress was registered in the cultural and academic fields, in particular in the final stages of the run up to the handover, political relations remain relatively marginal and contacts with European countries are few.

Economic relations

Economic relations are unbalanced not only because trade is by far the dominant dimension but also because there is a persistent trade deficit for the EU which amounted to 2,000 to 4,000 million patacas, or 539 million euros⁽¹⁾. Most striking is the clear decline of Macau's economic relations with Europe in recent years and the degradation of the EU position as a trading partner of Macau.

In 2000 among Macau's most important trading partners the EU as a whole accounted for 19.5% of Macau's total trade ranking third after the USA (27.6%) and Mainland China (24.6%). For the last two decades the EU has been Macau's second most important trading partner, after Hong Kong, until the mid-1990s, and since 1995 was after the US, but lost this position to mainland China in 1999. In terms of individual European countries, Germany has been consistently the most important European partner, accounting in 2000 for 1/4 of total trade with the EU and ranking fourth among Macau's trading partners, followed by the UK (sixth) and France (seventh). Interestingly enough, Macau's trade flows with Portugal are insignificant and lower than trade flows with Sweden.

In terms of exports the EU was for a long time Macau's first export market. However, in the mid-1980s lost its leading position and became since then second after the US. European countries absorbed in 2000 a total value of 5,790 million patacas, accounting for 28% of total exports, which compares to 9,837 million patacas of exports to the US, accounting for 48.2% of Macau's total exports. In 2001 exports to the EU market declined both in nominal terms to 4,915 million patacas and in relative terms accounting for 26.6% of total Macau's exports. Exports to Europe are mainly composed of labour-intensive products and highly concentrated in two main products, clothing/garment (70%) and footwear (7%), which together account for nearly 80% of Macau's exports to the EU market.

As far as imports are concerned the EU is the third largest import supplier to Macau after mainland China and Hong Kong. The evolution of Macau's imports from the EU has been erratic and marked in recent years by a tendency to decline both in absolute terms from 2 billion patacas in 1997 to 1.7 billion in 2000 to recover to 2.4 billion in 2001 and in relative terms. Its contribution to Macau's total imports was reduced from 14.7% in 1995 to 12.6% in 2001. Imports from the EU are highly concentrated in four countries—Germany, Britain, France and Italy which together accounted in 2001 for more than 80% of total imports from the EU—and are mainly composed of transport equipment, cars, electrical machinery and appliances, industrial machinery and

petroleum products, which together account for nearly 60% of Macau's total imports from the EU.

The most striking aspect is the weakening of EU-Macau trade ties since the beginning of the "open door policy" in China and the acceleration of Macau's industrialisation process in the early 1980s. As shown in Table 1, the share of exports to the EU in Macau's total exports has dropped from 54% in 1980 to 34.3% in 1990 and only 26.6% in 2001, the lowest level ever. In other words, the relative weight of the European market has halved in the last two decades. The trend is clear, Macau has diversified its exports away from Europe to become increasingly dependent on the US market. The causes of the decline of trade with Europe are related to problems of market access and the EU's increasing protectionism, the lack of diversification of Macau's exports highly concentrated in "sensitive products" and a less dynamic European demand resulting from low economic growth in the EU in contrast with more robust growth rates in the US.

As far as investment is concerned, EU investment in Macau is very limited with the exception of two sectors, infrastructure and banking. The EU is the most important investor in the infrastructure sector which is dominated by large European firms—Electricité de France and the Portuguese EDP in electricity as shareholders of CEM; Cable and Wireless and PT Portugal as shareholders of that telecommunications company; Lyonnaise des Eaux in water; and Siemens in airport structure—operating under monopoly conditions.

In banking there is also a visible presence of European firms. In 1999 there were 22 licensed banks in Macau of which nine were Europeans (40%) including six Portuguese and three from other European countries (Banque Nationale de Paris, HKSBC and Deutsche Bank) later reduced to eight as a consequence of the closure of Deutsche Bank's office. However, the relative weight of European banks in Macau's banking sector is far more limited than their share in the total number of banks suggests, accounting for 20% to 25% of the sector activity, behind the Bank of China group which has a dominant controlling 60% share of the banking sector⁽²⁾. In manufacturing European interests are by and large absent. The only exceptions are two medium-sized projects in pharmaceuticals (Hovione) and electrical equipment (EFACEC) belonging to non-traditional sectors and with no links with Macau's core industrial structure.

It should be noted that the large majority of European investments date from the 1980s. There were almost no fresh inflows in the 1990s. The small size of Macau's economy—GDP of US\$ 6.2 billion in 2001—the low level of regional integration of the Macau economy in the South China Growth Triangle (Hong Kong, Taiwan,

Table 1 ► Macau-EU trade (billion patacas, %)

Year	Exports	Share	Imports	Share
1980	1,487	54.2%	78	2.8%
		(19.6%)		(4.0%)
1984	2,483	34%	243	3.9%
		(32.4%)		(7.2%)
1990	4,679	34.3%	1,036	8.4%
		(36.2%)		(5.1%)
1995	5,047	31.7%	2,397	14.7%
		(42.0%)		(7.4%)
1999	5,304	30.2%	2,103	12.9%
		(46.9%)		(5.1%)
2000	5,789	28%	1,738	9.6%
		(48.2%)		(4.5%)
2001	4,916	26.6%	2,412	12.6%
		(48.2%)		(4.1%)

Data in brackets refer to share of Imp/Exp from/to the US
Exchange rate 1US\$ = MOP 8.034 (2001)

Macau, small Pearl River delta and Fujian SEZ), as demonstrated by the levels of cross trade and investment flows⁽³⁾, the lack of an effective policy to attract foreign investment, particularly directed to small and medium firms, together with excessive red tape and corruption, have all been limiting factors in the attraction of European investment.

The pattern of European investment reveals an interesting paradox. Although Macau is a small economy and its comparative advantages are mainly associated with SMEs, the European firms that have invested in Macau are big firms motivated by the opportunity to capture monopoly rents.

It is noteworthy that a new phenomenon has emerged since the mid-1990s: the growth of Macau's investment in Europe. This was mainly the consequence of STDM, Macau's largest economic group, new internationalisation strategy investing in Portugal and France in the tourism, shipping and gambling sectors.

The EU-Macau Agreement

Macau's visibility in Europe has been consistently low, despite a slight increase in the second half of the 1980s as a consequence of Portugal's accession to the EU and the signature of the 1987 Sino-Portuguese Joint Declaration. The lack of interest of individual member states and the absence of a pro-active strategy on the part of Macau were considerable obstacles

to the upgrade of its status in Europe.

The 1992 EU-Macau Trade and Co-operation Agreement has been, so far, the most important exception to the dominant picture of benign neglect. It was only possible because of the impetus given by Portugal during the Portuguese presidency of the EU in the first semester of 1992 (the agreement was signed in June during the last days of the presidency) and the fact Portugal was able to successfully mobilise the support and interest of the European Commission. The conclusion of the agreement was greatly facilitated by the existence at the time of a negative climate and tension in EU-China relations following the Tiananmen crisis and

the implementation of sanctions. The perception of Macau and Hong Kong coming under threat helped creating a consensus that the EU should do something to provide outside support to help Macau face new threats and re-establish confidence in the future. In this light it is not surprising that "a democracy and human rights clause" was incorporated in the agreement.

The Agreement, entered into force in January 1993, is a "third generation" comprehensive and multidimensional agreement. In theory it combines economic/technical dimensions—covering a great diversity of areas ranging from investment, tourism, trade, transportation, telecommunications, statistics, science and technology, mass media, cultural heritage and the fight against drugs—with a political dimension involving the promotion of democracy and the protection of human rights clearly identified in Article 1 as a fundamental basis of the agreement:

Co-operation between the Community and Macau and the implementation of this Agreement are based on respect for the democratic principles and human rights which inspire the policies of both the Community and Macau.

However, in contrast with the relevance attributed in the text, political co-operation or actions aimed at

promoting democracy and human rights were clearly neglected and marginalised in the practical implementation of the agreement. Technical co-operation became paramount.

Undoubtedly the EU-Macau Agreement constitutes an important signal of the EU recognition of Macau's autonomy and specific identity vis-à-vis mainland China and Hong Kong. This is already a very positive and relevant political result of this agreement which is by far the most significant international agreement ever signed by Macau.

However, the agreement was intended to be also an instrument to strengthen economic and political relations between Macau and the EU but in this respect the results were less positive and lagged behind expectations. In fact, so far the agreement has not been a catalyst for a major shift and qualitative structural change in the nature of bilateral relations and had no significant impact on fundamental aspects of EU-Macau relations. First, it did not contribute to stopping and reversing the decline in bilateral trade flows. On the contrary, the EU position as Macau's trading partner was further weakened during the nine years the agreement has been in operation suggesting that the problems of Macau's access to the EU market have not been eased.

Similarly, in the economic sphere there was no real progress in the area of investment promotion and no real contribution to the diversification of Macau's production base identified in 1992 as a priority (Article 6). The interesting idea of focusing on SMEs and attach priority to co-operation between European and Macau SMEs, as foreseen in Article 6, was not translated into reality and during the period the agreement has been in operation no significant fresh European FDI was registered.

Secondly, the agreement did not stimulate the development of political dialogue and co-operation between the EU and Macau which could have contributed to Macau's underdeveloped political system and to strengthen Macau's civil society. Thirdly, the agreement has not contributed so far to helping Macau reduce the deficit of visibility in Europe.

Nevertheless it should be also recognised that positive results have been achieved in specific areas. The most visible results have been obtained in the area of training, notably in tourism involving the co-operation for the development of Macau's Advanced Centre of Tourism Studies, intellectual property rights and the development of European Studies, although strategic areas for the future of Macau, such as the legal system and professions, Public Administration and international participation and negotiation did not receive the required attention. Another example is culture, namely

the co-operation related to the preservation of historical archives. However, these were piecemeal results which did not have a major impact in the development of bilateral relations.

There is clearly room for improvement and to use the Agreement to its full potential. Some suggestions for reform have been put forward pointing namely to a greater involvement of the private sector, a more adequate prioritisation and long-term focus on strategic areas for Macau's future and a greater exploration of the regional impact⁽⁴⁾. By late 1999 the Commission endorsed the proposal to appoint a resident programme co-ordinator to Macau which could make an important contribution to speed up the implementation of agreed programmes. Unfortunately, this plan has not been materialised so far and there are signs that it might be abandoned.

The accumulated experience clearly shows that the Agreement alone can not induce or be the catalyst of a major structural shift in EU-Macau relations likely to have an impact on EU-China relations. For that Macau has to explore also complementary channels and seek, through a pro-active policy, a greater diversification and decentralisation of its ties with Europe, namely with individual member states. From Macau's point of view the Agreement should cease to be regarded as the core element of the relationship but rather as one channel among others. The links with Europe have been excessively concentrated in the Commission and the EU as such, centred on the implementation of the 1992 EU-Macau Agreement. There is clearly a need to diversify and invest more in relations with selected individual European countries. The first challenge of the paradiplomacy game is then to cultivate more bilateral and decentralised relations with Europe while preserving the interest and commitment of the European Commission.

Political relations

Bilateral political relations are very limited. This was partly a legacy of Portuguese colonial rule as Europe saw Macau primarily as a Portuguese concern and a reserved area of influence rather than a EU concern. The resistance of Portugal to a more active stand of Europe in relation to the transition process led to a marginalisation of political issues, namely those related to human rights and nationality, and a tradition of limited engagement. In addition, the European concern to avoid any sensitive issue that might upset China, the absence of an organised and vocal political society in Macau and the underdevelopment of its political system (partly also a colonial legacy)⁽⁵⁾ worked as obstacles to the development of political relations.

In any case there has been some formal political contacts since the handover, namely the official visit of the Chief Executive to some European countries in early 2000 (Portugal, France and Brussels) and the visit to Macau in November 2000 of a European Parliament delegation led by Per Gharthorn which maintained contacts with the Legislative Assembly and the Chief Executive. In 2001 the level of political contacts intensified as the Chief Executive paid an official visit to the EU Commission in June. In Brussels he met the President of the Commission Romano Prodi and Commissioners Patten and Vitorino.

Clearly the most visible political manifestation on the part of Europe is the Commission attempt to monitor the evolution of the SAR, including aspects related to the development of the political system and progress of democratisation as well as the human rights situation. In this context the first evaluation Report on the MSAR was produced in July 2001 and the second annual Report has been recently issued in July 2002. Both reports contain a global positive assessment of the SAR evolution since the handover. However, there are some differences of emphasis between the two. The first Report puts more emphasis on economic issues, praising the SAR for the plans of liberalisation of the economy, and the improvement in the law and order situation at the same time it expresses concerns about the lack of experience of senior officials and magistrates and the weaknesses of the Judiciary and the legal system, a key dimension of the second system. In contrast the second Report puts more emphasis on the political dimension highlighting the importance of the September 2001 legislative elections which are assessed very positively as a clear progress towards more democracy, and on the international status and participation of Macau, an issue which was completely absent from the first Report⁽⁶⁾.

Challenges and opportunities for the Macau-EU relations

Besides the limited size of European interests in Macau and the declining underlying bilateral economic relations mentioned earlier, there are other obstacles to the future development of the relationship both from the Macau and the EU side.

On the Macau side there are specific factors which constrain the development of bilateral relations. First, the SAR nature as a non-state actor and its intrinsic limitations to engage in international affairs, an area directly controlled by the central government, in particular with sovereign states. It is true that the MSAR has, by international standards, a considerable sphere of formal autonomy to manage external affairs on its own in specific areas, but Macau's weak substantive

international status poses practical difficulties to use effectively this autonomy. Moreover, the absence of an institutional structure to manage external affairs and the deficit of qualified human resources in international affairs add to the problem.

Secondly, Macau's elite both from the public and private sectors, unlike in Hong Kong, has in general very limited international ties, namely with Europe. It has shown a tendency to be more inward-looking concentrating on relations with mainland China and attaches a lower priority to relations with the outside world, lacking a strong motivation to strengthen Macau's international status. Consequently, the domestic political impulse to develop relations with Europe is largely missing.

Thirdly, after the handover Macau lost its traditional sponsor inside the EU. In fact, partly as a consequence of the relative decline in Lisbon-Macau relations, Portugal ceased to play an advocacy role for Macau's interests in Brussels and the MSAR has not yet found another EU ally that could replace the former colonial power. The decline in Portugal's interest for Macau⁽⁷⁾ is primarily explained by the new priority attached to the East Timor independence process that has absorbed considerable attention and resources in Lisbon. In addition, the limited size of Portuguese economic interests in Macau, the low priority attached to the China market by Portuguese firms, which have concentrated their investments in the Mercosul countries and in Eastern Europe and the problems of lack of transparency, namely the Jorge Alvares Foundation affair, associated with the last Portuguese administration, account also for Portugal's relative disengagement.

On the EU side there are also specific factors which might constitute obstacles to the development of Macau-EU relations. First, the EU system is intrinsically complex and confusing for external partners given the complexity of the institutional architecture and the division of competencies between different levels of government (supranational, national, regional, local). This implies far too many interlocutors and uncertainties than Macau can reasonably expect to be able to handle. Second, the EU is going through an unprecedented process of structural transformation involving the construction of the Political Union and the creation of a Common Foreign Policy. This process of centralisation and federalisation of foreign policy will likely imply greater concentration in priority bilateral relations and key international questions and the risk of further marginalisation of non-priority relations.

However, I would argue that the development of a Common Foreign Policy will be characterised by a paradox insofar as the process of federalisation is likely to stimulate an opposite phenomenon of decentralisation



Qualified personnel lacking for a more international Macao

© Eric Sautedé

translated in the expansion and intensification of paradiplomacy initiatives on the part of European regions and sub-national units, seeking to avoid the complete dilution of their specific interests in the new supranational agenda. This will provide a "window of opportunity" for Macau.

Thirdly, the relationship with China is of paramount importance for the EU. China is clearly the EU's first priority in Asia, ahead of Japan, and one of the key relations at the global level. The EU approach initially dominated by short-term economic interests related to the China market factor, has changed and is increasingly determined by long-term political considerations based on a vision of China as an emerging global power. In this context, and especially after the handover, the relationship with Macau (and to some extent Hong Kong also) has tended to lose autonomy and to become increasingly diluted in the EU overall policy towards China. In addition, from the EU point of view the relations with Macau became more instrumental in the sense that they are relevant only if they can be useful to EU-China relations and help strengthen it.

In spite of these constraints there are also opportunities which, if adequately explored, might contribute to a more positive scenario and to bringing EU-Macau bilateral relations back on track. These opportunities are

mainly related to two strategic options. On the one hand to play a functional role in EU-China relations⁽⁵⁾ contributing to their development. On the other, the adoption of a decentralised approach to relations with the EU and concentrate efforts in building ties with the European regions and sub-national governments thus responding to the expanding European paradiplomacy. These are two complementary aspects of the paradiplomacy game Macau will have to play.

The first aspect critically depends on the capacity of Macau to prove its practical utility in fostering EU-China relations. This requires the identification of specific and realistic functions that can provide added value to that relationship. Taking into account the nature of EU-China common interests and the future trends in this major relationship, it is possible to suggest Macau could play three major functional roles: (i) facilitator of investment and business relations for SMEs developing as a platform for the entry of EU small and medium-sized enterprises into the Chinese market; (ii) a "multicultural centre" as the living memory of the historical interactions and mutual influence between the Chinese and European cultures; (iii) a "training centre" to serve the Chinese economy and the expansion of human links and knowledge flows between China and Europe, in particular in the areas of the legal system and legal profes-

sions, Public Administration and regional policies and regional development.

It should be stressed that in order to play a bridge role between EU and China, Macau has to put much more emphasis on a more detailed and intense co-ordination with Peking in order to guarantee the relevance and effectiveness of its interventions by securing complementarity with other central government initiatives and coherence with China's European policy. The second strategic option will be analysed in more detail in the following chapters.

Paradiplomacy and the MSAR nature as a non-sovereign actor

Paradiplomacy: an overview

In the era of globalisation one of the most interesting new trends in the international system has been the phenomenon of "localisation"⁽⁹⁾ of foreign policy, associated with the increasing participation of non-central governments and other sub-national units in foreign relations. This poses an apparent paradox as this segmentation contrasts with the centralisation which marked the evolution of the world economy in recent years.

The origins date back to the 1970s, as a response to the negative economic impact of the oil shocks. The causes of this process are complex and combine internal and external factors. Increasing economic interdependence associated with globalisation led to growing concerns of non-central governments (NCGs) about an increasing vulnerability and exposure to international threats requiring a more active presence at the international level in order to overcome the inefficiency and lack of agility of central bureaucracies in responding to these threats.

Secondly, internal political factors related to the deficiencies of democratic systems and the search for compensatory measures have also played a role. Hocking⁽¹⁰⁾ stresses the role of "social activism" reflecting the fact that civil society groups tend to cultivate international links to overcome a sense of frustration resulting from the deficit of participation in modern representative democracies. Others have pointed out that, given the deficit of control of parliaments over foreign policy and the relative marginalisation of opposition parties, these seek to enhance their domestic profile and counterbalance foreign policy priorities of the ruling party by acting through local governments under their control.

Thirdly, internal economic factors related to the need to increase international competitiveness of local businesses, particularly of SMEs, as a condition for survival and maintenance of employment and growth, for which NCGs have been increasingly held responsible, also play a role⁽¹¹⁾.

Paradiplomacy is then an emerging phenomenon which, given the predominance of essentially structural rather than conjunctural causes, is likely to be a long-lasting process rather than a short-term fashion. Its main features are related to its restriction to "low politics" areas, the predominance of informal channels and the diversity of forms and degrees of intensity.

The implications of paradiplomacy are still unclear and there has been some debate centred on the consequences of NCGs' international participation for national foreign policy. On this question two different and contrasting positions emerged. The negative view considers the activities of sub-national units as a dangerous derogation of state power and a threat to the unity and coherence of foreign policy and NCGs as actors with a deviant behaviour. The positive view sees the phenomenon as a contribution to advance democratisation of foreign policy and to rationalise foreign policy in the context of an ever-growing complex world as NCGs can clearly promote their interests but in accordance with global national interests, share costs and pool resources with central governments and complement foreign policy.

This seems to be a useful framework to analyse the MSAR's external relations in particular in what concerns its links with Europe. In spite of the fact that paradiplomacy has been developed mostly in Federal States (US, Germany, Australia, Canada), it is also relevant to unitary states with autonomous sub-national entities. Macau should be regarded as a NCG and a non-state actor, and its external relations analysed taking into account the specific constraints and opportunities these entities tend to face in the international system.

Macau's external relations framework

The relations between NCGs and central governments in the sphere of external relations are in general ambiguous and confused as a result of the lack of definition of NCGs' powers and constitutional uncertainties regarding the division of competencies between the centre and the regions. It is a domain where grey areas prevail and *de facto* foreign policy actions are developed in order to create conditions for a subsequent *de jure* legitimisation following the logic of external expansion of domestic competencies. This deficit of regulation is likely to lead to tensions and misunderstandings and fuel suspicion on the part of central bureaucracies.

Unlike many other NCGs, the MSAR status is less ambiguous and presents two main advantages. First, there is a clear and detailed framework that defines with relative precision the specific powers of the SAR in external affairs, its limits and the position of the central government. Second, Macau benefits in formal terms from a higher degree of external autonomy, mainly in

economic and technical matters, than that enjoyed by the majority of other NCGs, namely federated states, not only in terms of sectors but also in terms of the instruments it is allowed to use.

The new framework for the MSAR external relations, based on the dispositions of the Joint Declaration (Section 7 and ch. VIII of annex I) and the Basic Law (Articles 135 to 142), is a positive basis to promote the development and diversification of Macau's external relations and to enhance its international status.

The explicit recognition of areas where the SAR can conduct external relations on its own (exactly the same list as the HKSAR, involving economic matters, trade, finance, shipping, telecommunications, tourism, culture, science and technology and sport, all of them belonging to the sphere of "low politics"), represents a step forward in clarifying the competencies of Macau and strengthening its capacity to cultivate external relations. The new status is however more complex than generally believed.

In fact it involves a four-tier structure⁽¹²⁾ which goes beyond the simple dichotomy of positive areas of autonomy and negative areas of no intervention. First, there is the level of policy formulation, involving the long-term definition of objectives and priorities for Macau's external relations and some articulation with China's foreign policy, where the competencies of the central government predominate. Second, there is a sphere of "conditioned autonomy" in specific areas defined *ratione materiae* where Macau can act on its own (Art. 136 BL) concentrating on economic and technical matters to be exercised on the basis of a general authorisation of the central government. Thirdly, the area of "restrictive autonomy" involves a lower degree of autonomy and refers mainly to visa abolition matters where a specific authorisation is requested (in the HK case civil aviation and extradition agreements are subject to this regime). Fourthly, there is a "negative sphere" where Macau cannot act and Peking has exclusive competencies, above all "high politics" domains related to defence and security, and international politics.

The provisions regarding the instruments the MSAR can use contribute also to strengthen its formal autonomy status. It is noteworthy that the MSAR is formally granted the possibility to use the range of fundamental instruments, namely setting up representative offices in foreign countries ("jus legationis"), negotiate and sign international agreements with states and other NCGs ("jus tractum"), in general denied to NCGs or tolerated with many restrictions and, most importantly, the separate membership and participation in international multilateral organisations, which constitutes an exception in the panorama of NCGs.

Relations between Macau and the EU and individual member states have been regarded as one of the potential priorities for the SAR's external relations⁽¹³⁾. This view has been supported by the central government in Peking which welcomes the perspective of Macau becoming a special link with Europe thus adding value to China's foreign relations⁽¹⁴⁾. In this context the relationship with the EU has to be equated at two different but complementary levels: Macau-EU direct relations, determined by Macau's specific interests; and Macau's role as a facilitator of EU-China relations where Macau has to consider and adapt to the interests of the other two players.

As a consequence of the interplay between these two levels, the development of relations with Europe will be a complex task for Macau. In addition, it is likely to face specific obstacles that require a pro-active and structured strategy on the part of the SAR in order to overcome them. The next sections will briefly analyse these two issues.

Dimensions of an effective paradiplomacy towards Europe

In order to turn potential advantages into reality Macau will have to organise better internally for external action and adapt its strategy to the characteristics and conditions prevailing in European countries. The implementation of an effective strategy towards Europe requires the implementation of a pro-active transnational paradiplomacy structured around five main components, as explored below.

Institutional structure for external affairs

The first dimension, taking into account the experience of other NCGs, is the existence of an institutional structure within the SAR Government, directly under the Chief Executive's supervision, to deal exclusively with external relations, responsible for long-term planning but also for co-ordination of external actions and initiatives between different departments within the Administration as well as between the public and private sectors. This is a better solution, already adopted by some NCGs like Catalunya⁽¹⁵⁾ and the Québec, and to some extent by the HKSAR (through the Constitutional Affairs Bureau although the HK system is a mixed one) than the model of dispersed management by different departments dealing only with sectoral specific issues.

This seems particularly adequate to deal effectively with the EU taking into account the complexity of the EU machinery and the need to combine relations with individual European states and supranational institutions mentioned earlier. For Macau having a restricted number of experts who can develop an integrated view

of relations with Europe across different sectors and combining bilateral and supranational levels is an important step forward likely to facilitate closer relations with European bureaucracies. In this respect the definition of a clear channel, instead of multiple confusing channels, and the fact that European bureaucrats become accustomed to deal on a regular basis with a small and stable group of qualified interlocutors who, as a result of frequent contacts, they get to know personally and trust, can only be beneficial to strengthen relations. Last, but not least, in a situation where the SAR has a deficit of qualified human resources to deal with international economic issues and negotiations, it is more rational to concentrate the few available in a "core group" which can support horizontally the government's action rather than disperse them.

Personalisation of external affairs

The second component of a strategy to deal with Europe is a high international exposure of the Chief Executive whose personal intervention in external affairs becomes a fundamental asset for an entity with a limited international profile insofar as it becomes the international face of Macau and the symbol of its autonomy. The "personalisation" of external affairs is an effective way to promote externally the image and interests of Macau and therefore it is not surprising that the organisation of frequent visits abroad, well promoted and well publicised, by the leaders of NCGs became one of the fundamental instruments of paradiplomacy. Macau should not be an exception to this and therefore the active and frequent presence of the SAR Chief Executive in Europe in official visits or in important non-official events, will be an important instrument to foster the relationship.

Decentralisation

Thirdly, in order to be effective in relations with Europe, Macau's strategic option should go in the direction of decentralisation of relations implying the need to move away from the tendency to focus on building ties with European states at the level of central governments.

I would argue that, given the current deficit of visibility of Macau in Europe, the fragility of its substantive international status and the nature of the areas in which Macau has comparative advantages, the priority should be attached to relations with non-central governments, and even other non-state actors, in Europe, politically less visible but probably more productive. This is based on four fundamental arguments:

- 1) It is the option more consistent with the priority issue areas where Macau could play a role in EU-China relations, because non-central governments in

Europe have increasing competencies and know-how in areas such as education, training, culture or support to small businesses.

- 2) Considering that one of the strong trends in the European integration process is the consolidation of the "Europe of the regions" which already play a very important economic role and will play an increasingly important political one, this option will enable Macau to better adapt to this structural change in Europe and anticipate opportunities to strengthen relations in the future.
- 3) NCGs have a similar nature to the SAR and share similar experiences and problems, which is likely to facilitate the relationship by ensuring not only greater interest in developing relations with Macau than the one prevailing at the level of capitals but also a better adequacy of the scale of projects to the size of Macau's economy.
- 4) This is what brings value-added to China and its foreign policy, limited to centre-to-centre contacts and likely to regard as somehow problematic direct contacts with sub-national units. This clearly opens new and less conventional opportunities for business and to upgrade Macau's know-how about European diversity.

I would emphasise in particular that a clear understanding of the profound phenomenon of affirmation of European regions, cutting across national borders and involving a limited number of regions from different member states, is of fundamental importance for Macau. Although less visible and more informal than the process of supranational integration, the emergence of organised transborder regions and cross-border co-operation is also taking place on the ground and is part and parcel of the EU construction process. These regional arrangements although primarily driven by economic objectives and complementarity are not limited to economic matters (namely investment promotion and attraction of FDI, co-operation between chambers of commerce) but involve a much wider co-operation and co-ordination in very diversified areas such as infra-structure, environment, higher education, labour issues and culture.

Many examples can be mentioned. The Euroregion of the Saar-Lor-Lux, developed on the basis of the 1980 trilateral agreement, involves specific regions of Germany (Saarland and Renania), France (Lorraine) and Luxembourg and a mixture of Intergovernmental structures, transborder parliamentary co-operation and civil society to civil society co-operation (trade unions, universities). The Oberrhein Euroregion, started in 1975 involves Germany (the Lander Baden-Wurttemberg and Rheinland-Pfalz), France (Alsace) and Switzerland

(Jura, Basel-Stadt, Solothurn) and a total of 4.8 million people, and concentrates in industrial investment promotion, tourism and education. The Rhein-Maas-Nord Euroregion, founded in 1978 includes some regions in Germany (Regierungsbezirk Dusseldorf) and Netherlands (parts of the Limburg Province) involving a total of 1.8 million people. The Catalunya-Languedoc Roussillon-Pyrenées involving specific regions in Spain (Catalunya) and France (Languedoc-Roussillon). Since the early 1990s the EU has started to grant financial support to specific projects of cross-border co-operation through the INTERREG Programme recognising the growing relevance of regional dynamics.

There is a clear tendency for these Euroregions to become more active internationally in areas that match Macau's sphere of autonomy. For Macau this might constitute an interesting opportunity to build a new type of relations with Europe dealing not only with individual European NCGs (in particular the most active ones internationally like Catalunya or Badden-Wurttemberg) but also with collectively organised sub-national units, depending on the issue-areas. In addition, in exploring this channel Macau could also seek to contribute, taking into account its condition as a member economy of the South China Triangle (SCT), to build ties between its own region and European regions, as European transborder co-operation experience might prove relevant for the current challenges the SCT has to face, thus playing a useful role for regional partners.

As far as the SCT is concerned it should be also stressed that Macau can learn a great deal from the international experience of other two members of the SCT: Hong Kong which has developed since the early 1960s a robust international status and is today the most active and strong non-sovereign actor in the international system; and Taiwan, which has an extremely active economic diplomacy and has pursued a consistent strategy to strengthen its international legitimacy seeking diplomatic recognition and to be treated as a separate state⁽¹⁶⁾. Indeed the dynamism and effectiveness of the paradiplomatic activity developed by Hong Kong and Taiwan has been an important ingredient for the economic success of the SCT and will be crucial to maintain its competitiveness in the future, requiring a higher level of co-ordination in external relations between the different members, including Macau.

Government-private sector co-operation

The fourth requirement for Macau to play the paradiplomacy game is an intense, regular and creative co-operation between the SAR government and the Macau busi-



Tourism apart, little contact with EU

© Eric Sautedé

ness sector in the area of external relations in order to coordinate actions and jointly promote Macau's interests abroad. The development of a real symbiosis between the public and private sectors for international participation is a fundamental condition for an effective paradiplomacy which differs from the relative monopoly of governments in the foreign policy process of sovereign states. In the context of paradiplomacy businessmen become more active players in the definition and implementation of the policy for external relations, working closely with governments in a very flexible way. Sometimes they develop parallel actions that complement government actions, sometimes firms and governments set up joint actions to combine resources and enhance the impact of initiatives. Similarly, sometimes the business sector takes the lead and gets the support and political coverage of the government, sometimes they simply follow the government which lead the action.

In the case of Macau this requires not only that firms get more organised internally and participate in rele-

vant business associations but also that these associations (Industrial Association, Commercial Association, Association of Small and Medium Firms) become more outward-looking and invest in cultivating international ties with their counterparts in Europe. On the other hand, co-operation between government and the private sector has to be reinvented and strengthened, both in planning and practical implementation, in order to explore synergies⁽¹⁷⁾.

Operational instruments

Finally, the fifth dimension Macau would have to consider concerns the selection and articulation of instruments. The main question here is the need to balance the use of formal instruments, such as bilateral agreements, trade offices and participation in international organisations, with a more intensive use of more informal instruments exploring the complementarities between the two.

Formal instruments have to be used more intensively than in the past and probably with different priorities. Macau should seek to use more its "treaty-making powers" and sign bilateral agreements⁽¹⁸⁾ with interested and strong non-central governments including city governments, or regional governments or federated states in the more regionalised European states where NCGs enjoy more autonomy (Spain, Italy, Germany, Belgium). These agreements, either with a general scope or restricted to a specific sector, help define a framework for more long-term relations and eventually protect Macau's interests through a legally binding instrument. In addition, the use of this kind of formal instrument is particularly adequate to European standards where a strong legalistic tradition prevails.

However, one should bear in mind that this is an instrument which presupposes the previous existence of some level of interaction and therefore it can be helpful to consolidate and deepen an ongoing relationship but not so much to start off a new one. On the other hand, formal instruments imply high costs that might pose some constraints on small NCGs. This is where informal instruments come in as a preparatory stage for a more formal process to develop.

External representation can be a very useful instrument and is clearly a priority for an entity with a low international status. The MSAR will have to invest more in order to expand and upgrade the current network of Macau trade offices abroad which consists only of two offices, one in Lisbon and another one in Brussels, with a third one having just been created in Geneva to deal with the participation in WTO. This should be not only a quantitative process but above all a qualitative one carried out on the basis of a new philosophy which

should consider three aspects. First, the majority of these offices should be located not in European capitals but preferably in economic centres under the jurisdiction of NCGs where Macau has or might develop economic interests.

Second, experience has shown this kind of economic offices to be more useful if staffed with local people, who know well the local market and culture and acquire some knowledge about Macau's interests and conditions, rather than with officials from Macau. One interesting possibility for Macau is the use of members of the Macanese diaspora, a major asset for the MSAR's external relations, living in the concerned countries who can combine reasonable knowledge about the country and about Macau's specific needs (some of them lived in Macau for many years and studied abroad with the support of the Macau government). Third, a joint and integrated management between government and business associations should be implemented ensuring these instruments follow a pragmatic and business-like orientation and respond to the SAR needs.

On the other hand, Macau, particularly when dealing with other NCGs, has clear advantages in using more intensively informal instruments. They are not only more flexible and quicker to operate but also less costly. The participation in, or joint organisation of trade, investment or cultural shows is a particularly effective instrument as well as the organisation of fact-finding missions abroad involving government officials and civil society representatives. Other instruments, such as the promotion of joint research projects involving the participation of universities on both sides; programmes of short-term training for human resources; civil society to civil society co-operation involving professional groups (lawyers, architects, engineers, doctors) are also effective mechanisms to strengthen ties.

STRENGTHENING Macau's international status is a fundamental condition for the success of the "one country, two systems" model and to enable Macau to face the challenges of globalisation. If Macau becomes excessively inward-looking and closed to the outside world this would not only weaken the second system but also turn the SAR into a less interesting asset for the first system.

Relations with Europe constitute a priority for Macau's external relations and a factor of differentiation, taking into account not only historical and cultural ties which contribute to Macau's identity but also present links, in particular the human link, the legal system and trade flows. However, bilateral relations are well below their potential and economic ties, so far the dominant dimension of the relationship, have been declining.

The main argument of this paper is that the current strategy of almost exclusive relations with the Commission around the implementation of the EU-Macau Agreement seems exhausted and unable to bring about the revival of EU-Macau relations. In order to sustain the decline in bilateral economic and political relations, Macau needs a new approach in its relations with the EU, a pro-active "transnational paradiplomacy" paradigm. This implies a strategic option in the direction of more decentralised relations with Europe attaching priority to relations with other European non-central governments and non-state actors, a focus on issue areas where these entities have a comparative advantage.

Furthermore, in order to guarantee the sustainability of the new strategy Macau cannot think exclusively of its specific interests as an isolated player but has to see its relationship with Europe in a broader context, both regionally and nationally. Its ties with Europe are the more relevant the more they can make a contribution to the region where the MSAR is integrated, the SCT, and add value to China's foreign policy.

This paradiplomacy game involves some complexity because we are not talking about Macau's relationships with a single interlocutor, but the intervention of a multiplicity of actors which include different European NCGs, European central bureaucracies, the Commission, China and even some other NCGs from the SCT. The complexity of the game is also increased by the fragile boundaries between the low politics areas, where the MSAR can act, and high politics areas where it has no autonomy, which requires a careful handling of sensitive issues.

This clearly poses several challenges to Macau. First, at the level of relations with Peking it requires a delicate balance between autonomy and co-ordination with the central government not only to ensure the central government that the MSAR does not cross the boundaries, but also to ensure that initiatives fit well in the dynamics of EU-China relations. Second, at the domestic level, it requires a better internal organisation for external action implying a symbiosis between the public and private sectors and a combination between personalisation of external relations, based on the action of the Chief Executive, and institutionalisation of external affairs so that both elements are mutually reinforcing. Third, it requires a careful selection of strategic partners among different NCGs and Euroregions in the EU, with priority attached to those more active externally and integrated in dynamic economic, social and cultural poles, in order to ensure a balance between the promotion of Macau's specific and autonomous interests and the capacity to play a functional role in EU-China relations.

In conclusion, Macau's transnational paradiplomacy towards Europe is a viable strategy not only to rebuild EU-Macau relations on a more durable and sustainable basis, but also to strengthen Macau's international status. More adapted to Macau's condition as a non-sovereign actor it provides an opportunity for the SAR to add value to China's foreign policy and to the evolution of the SCT. ☉

1. The exchange rate of the pataca to the euro was 1 Euro = MOP 7.418 in 2000 and 1 Euro = MOP 7.196 in 2001. With respect to the US dollar the exchange rate was 1 US\$ = MOP 8.026 in 2000 and 1 US\$ = MOP 8.034 in 2001 (Serviços de Economia de Macau "Principais indicadores actividade económica e financeira", Macau SAR Government, June 2002). In recent years while the exchange rate with the US dollar has remained stable because of the pataca link with the HK dollar which in turn has a fixed peg with the US dollar, there has been a significant appreciation of Macau's currency in relation to the euro reducing the competitiveness of Macau's exports in the European market. This is a relevant factor in understanding the stagnation of Macau's exports to the EU market in recent years.
2. IEEI-INESC Report, Joint research project PRAXIS XXI (project nº 2/2.1/CSH/794/95) "Macau in the context of EU-China relations: integration in the South China Triangle, 2001.
3. The results of the research project on Macau's and the South China Triangle, conducted by the IEEI and INESC shows that Macau is the least integrated of all economies in terms of the weight of intra-regional exports in total exports with 14.5% when compared with 32% for HK, 27.6% for Taiwan, and 88% for Guangdong in 1998. The share of intra-regional exports for Macau has declined sharply from 34.7% in 1990 to 14.5% in 1998. The research project has been financed by PRAXIS XXI (project nº 2/2.1/CSH/794/95), Miguel Neves and Annette Bongardt, and its results are now under publication.
4. The suggestions were presented in the Eminent Persons Group (EPG) Report of March 1999 entitled "Macau in the context of EU-China relations", elaborated by a group of European personalities, chaired by Peter Sutherland.
5. On Macau's political system see Lo Shui-hing, "The Political System of the Macau SAR: Colonial Legacy and Reform Alternatives", paper presented at the Conference "Macau on the Eve of the Handover", Hong Kong University, October 29th-30th 1999; Herbert Yee, "Mass political culture in Macau: continuity and change" in *Issues and Studies*, Vol. 35, No. 2 March-April 1999, pp. 174-197.
6. See European Commission, *Report from the Commission to the Council and the European Parliament, First Annual Report by the European Commission on the Macau Special Administrative Region*, July 25th 2001, COM(2001) 432 final. Second annual Report by the European Commission on the Macau Special Administrative Region, July 31st 2002, COM (2002) 445 final, p. 8.
7. The decline in Portugal's interest for Macau can be illustrated by the fact there has not been a single high-level visit to Macau by a member of the Portuguese government since the handover, by the lack of commitment to pressing the EU to upgrade the level of EU representation in Macau and also by the absence of any public initiative on the part of the Government or the Parliament, either through an official report or a parliamentary debate, to monitor the SAR situation in the post-handover period.
8. On the EU-China relations see Michael Yahuda, "China and Europe: The Significance of a Secondary Relationship" in Robinson and

Shambaugh eds., *Chinese Foreign Policy—Theory and Practice*, Clarendon Press, Oxford 1994, pp. 266-282. On the EU member states bilateral policies towards China, in a comparative perspective, see Miguel Neves and Brian Bridges eds., *Europe, China and the two SARs—Towards a new era*, London, Macmillan, 2000.

9. This expression was used by Brian Hocking, *Localizing Foreign Policy—Non-Central Governments and Multilayered Diplomacy*, London, St. Martin's Press, 1993.
10. Hocking, *op. cit.*, pp. 15-16
11. NCGs should not be regarded as an homogeneous category. Their nature is very diverse ranging from federated states integrated in federal systems, to regional governments in unitary states or simply city governments. The manifestations of paradiplomacy are also very diverse, varying in form, intensity and frequency, but there have been attempts to compare different experiences and to identify common features. The contribution of Duchacek in this respect seems particularly interesting, identifying three different types of paradiplomacy according to its contents and regional scope: (i) transborder regional diplomacy (or micro-regional), referring to transborder relations between geographically contiguous NCGs which was initially the dominant form; (ii) transregional paradiplomacy (or macro-regional) between NCGs which are not contiguous; and (iii) global paradiplomacy, involving distant players, including sovereign states and touching all issues in the international system, including security, international trade etc. Whereas transborder regional paradiplomacy does not raise much controversy and is accepted and even promoted by central governments, transregional and, above all, global paradiplomacy give rise to tensions and are sometimes regarded with suspicion by central governments. However, there are other variables which condition the degree of tension namely the pattern of relations which develop in practice between NCGs and Central Governments which can vary, as noted by Soldatos from co-operative patterns of action (co-ordinated or joint action) to parallel actions (in harmony or in disharmony). One can then expect that the more parallel actions tend to predominate the higher the level of conflict and the more co-ordinated actions predominate the lower the level of conflict. See Michelmann in Hans Michelmann and Soldatos eds., *Federalism and International Relations—The Role of Subnational Units*, Clarendon Press, 1990 pp. 299-312, and Duchacek, "Perforated Sovereignities: Towards a Typology of New Actors in International Relations" in Michelmann ed., *Federalism and International Relations*, *op. cit.*, pp. 1-33.
12. Miguel Neves, "The external relations of the HKSAR" in Bob Ash, Peter Ferdinand and Robin Porter eds., *Hong Kong in Transition: The Handover Years*, London, Macmillan Press, 2000, pp. 271-294.
13. The priority attached to Europe by the SAR government in terms of the MSAR's external relations has been mentioned in several statements of the Chief Executive Edmund Ho. See for example the statement of 19.6.2001 in the context of the meeting with the President of the European Commission Romano Prodi in which the Chief Executive stressed the role of Macau as a bridge between Europe and Asia, namely through strengthening Macau's status as the centre for European studies in Asia. In his June 22nd 2001 statement, Edmund Ho stressed the role of Macau as a gateway between China and Europe: "Macau has conditions to link Europe and China, especially the Pearl River Delta, and the SAR Government has taken much effort in this direction". Later on in his October 18th 2001 speech at the APEC summit in Shanghai he stated: "Macau must position itself in order to strengthen its role as an international entrepôt on the west bank of the Pearl River Delta toward the Latin world and the European Union" emphasising also the potential role of Macau as a hub for European SMEs willing to invest in China. More recently, on May 10th 2002, the Chief Executive recognised "Macau has always enjoyed a special relationship with Europe and we are confident that we will build a new relationship based on this strong foundation" (see internet page of the MSAR Government <http://www.macau.gov.mo/news.phtml>).
14. This idea of Macau being in a good position to play the role of a special bridge between China and Europe has been expressed by several high officials and members of the Chinese government, in particular by the then vice-minister of foreign affairs Wang Yingfan and the vice-director of the HKMAO, Chen Ziyang, in the context of the interviews conducted in January 1999 by the members of the Eminent Persons Group on Macau, chaired by Peter Sutherland, with a view to produce a Report "Macau in the context of EU-China relations" published in April 1999.
15. One interesting example is provided by Catalunya which set up la "Direcció General de Relacions Exteriors" in 1997 directly under the President of the Generalitat with a budget of around US\$ 5 million in 1999. This proved to be a successful experience. The specific budget for external relations is an important instrument not only to signal a political priority but also to prevent resources for external relations from being regularly subject to cuts when dispersed by several sectoral budgets (interview carried out by the author with the Directorate for External Relations of the Generalitat of Catalunya in January 2000).
16. Taiwan possesses a sui generis international legal status because while it is a de facto separate government which exercises independent foreign relations, it has a relatively weak formal legal status and faces many limitations in terms of its participation in multilateral fora reserved for sovereign states. On Taiwan's international status see Michael Yahuda, "The International Standing of the Republic of China on Taiwan", *The China Quarterly*, No. 148, December 1996, pp. 1319-1339; Samuel Kim, "Taiwan and the International System: The Challenge of Legitimation" in Robert Sutter and William Johnson eds., *Taiwan in World Affairs*, Boulder, Westview Press, 1994, pp. 157-166; and Hungdah Chiu, *The International Legal Status of the Republic of China*, Baltimore Maryland, Occasional paper, reprint series in contemporary Asian studies, No. 5, 1992, pp. 3-14. Hong Kong robust international status has been described by Tang as a "quasi-state"—J.T.H. Tang, "Hong Kong's international status", *The Pacific Review* 6(3), 1993—although it has a more special nature as a non-sovereign actor. The SAR has been traditionally a very active player in the international system, both at the bilateral and multilateral levels, mainly in economic and trade areas. Since the late 1980s this has expanded into political areas, involving human rights and refugee matters. See Miguel Neves, "The external relations of the SAR" in Robert Ash, Peter Ferdinand et. al eds., *Hong Kong in Transition...*, *op. cit.*, 2000, pp. 271-294.
17. Here again the experience of Catalunya provides an interesting and successful example. It involved the creation of a consortium COPCA (Consorci de Promoció Comercial de Catalunya) participated in by the Catalunya Government, Chambers of Commerce, industry sectoral associations and export associations which jointly created and manage the network of 33 external trade offices (CPN) around the world. At the same time it supports directly firms at home through training and assistance for the development of their international/export departments (interview with the Directorate for external relations January 2000).
18. For instance, the majority of the international agreements signed by Catalunya have been with other non-central governments (more than 44 agreements) either regional governments or federated states belonging to various states, including several US states (Florida, California and Illinois) the Canadian provinces of Québec and Ontario, the Baden-Wurttemberg Land in Germany, the state of Rio de Janeiro and the province of Buenos Aires.