A Success Story of Integration of an Island in a Regional Bloc? The Case of Malta

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Abstract:

Malta was one of the 10 new Member States acceding to the European Union on 1 May 2004. The scope of this paper, which is part of an ongoing research project which the Malta Business Bureau is undertaking over the first 24 months of EU accession, is to analyse the short-term impact effects of Malta's EU accession both from an administrative and economic perspective. The success or otherwise of operating in the EU is usually benchmarked by the degree of trade integration from fully exploiting the EU's Internal Market, enhanced foreign direct investment flows, a high absorption capacity of structural funds and the tapping of additional, competitive funding opportunities by employer bodies, unions and NGOs. Although only eight months have elapsed since Malta fully integrated itself into the EU, it is quite evident that Malta has been experiencing some difficulties to cope with the huge amount of work originating from the EU Institutions and there is clear scope for enhanced institution-building at both the public and private sector levels. It is only with enhanced coordination and co-operation amongst the social partners in Malta that the full economic and political benefits of Malta's EU membership can be exploited. Given the severe limitations to mobilize the high-quality human resources to operate at an EU level, it is recommended that Malta only focuses on those areas of major importance to its future socio-economic development process. These are the Euro-Mediterranean dimension, financial services, taxation and competition policy and the sustainability dimension of the agriculture and fisheries and tourism sectors. If over the first 2-3 years, Malta manages to absorb and make full use of the EU Structural and Cohesion Funds allocated for the period 2004-6 and the social partners work in unison to introduce the necessary structural reforms to meet the very challenging Lisbon agenda targets, then Malta's EU integration can be deemed as a major success story for other small islands to emulate in other regions in the world in their quest for enhanced regional co-operation.

1.0 Introduction:

Malta's relations with the then European Economic Community (EEC) date since 1970. The Association Agreement, which was an old generation trade agreement which eventually could have culminated in a customs union, came into force in 1971. However, the successive Socialist Administrations[2] of the 1970s until the mid-1980s adopted rather lukewarm relations with the EEC and the customs union path was never considered a viable option for Malta and hence was not pursued. Trade relations between the two sides were characterized by free trade in industrial products and some preferential treatment for Malta's exports of agricultural products, namely Spring potatoes, and various Financial Protocols. It was only in 1987 that there was a clear determination that a more intense type of relationship had to be pursued with the EU but Malta applied for EEC membership three years later. The Customs Union option was once again discarded but by then the Berlin Wall had collapsed and the EU's political focus switched towards Central and Eastern Europe. Some observers think that had Malta applied earlier on, i.e. pre-1990, there could have been the possibility that this Mediterranean island joins the EU fold in 1995 together with Finland, Sweden and Austria who will celebrate a decade since EU accession in 2005. This, on the other hand, is an over-simplistic analysis when one considers that in the late 1980s, major structural reforms still had to be embarked upon by Malta. The Commission's *avis* (opinion) in 1993, whilst being positive, highlighted that a lot still had to be done by Malta to align itself to the EU's structures. The "EFTANs" were already advanced on most fronts of EU legislation by the late 80s/early 90s.

To complicate matters for Malta, on the eve of the commencement of accession negotiations, there was a change in Government in 1996, when the MLP was elected to power and the EU application was frozen. It was only due to a crisis within the MLP and the MLP's meager parliamentary majority that an early Election in 1998 was called (rather than 2001) and the PN regained power. Malta managed to get back into negotiating mode, albeit two years later than was envisaged. Accession negotiations started in 2000 together with a group of Eastern and Central European countries, new states that were considered unprepared to start negotiations in 1998 (including Slovakia, Lithuania, Latvia). The accession negotiations were completed in two years and Malta organized an EU Referendum in 2003. The result was a very close one but was confirmed some weeks later at a General Election.

This paper seeks to assess the extent to which Malta's EU integration process can be considered as a success story or not, even though it is still very early days to extract any clear cut answers given the short timeframe that has elapsed since the formal date of accession. The analysis is divided into three main parts – the first summarises the main highlights of the 2000-2002 accession negotiations as it is on this basis that

[2] The Maltese political scene since the mid-1960s was dominated by two major political parties – the Malta Labour Party which was in power during the period 1971 until 1987 and the Nationalist, Christian Democratic Party (PN) which has been in power since 1987 except for a short spell in 1996-98. The next General Elections in Malta are due in 2008.

the outcome has to be judged. The second section will analyse the state of the Maltese economy in the period 2002-4 and the budget measures which have been announced in November 2004 for the Budget 2005, Malta's first budget as an EU member and the final section will outline some recommendations as to what the social partners need to do in 2005/6 so that Malta can really fully exploit its role within the EU for the benefit of employers and employees alike and Maltese citizens in general. The observations are based on the limited recent statistical evidence available to date (usually until September 2004) and the experiences accumulated over the past eight years from my dealings with Government officials, especially in recent months, with Malta's Permanent Representation to the EU, trade union representatives and NGOs. This is a very new experience for the smallest of the EU-25, not only in terms of the major socio-economic adjustments which have been necessary since the early 1990s but also in the mindset as well as in the gradual integration of Maltese nationals in the various EU institutions, in particular the European Parliament and the European Commission. Malta today has one Commissioner and five MEPs who, taken on a proportionate basis, is quite high when compared to larger countries[3].

2.0 EU-Malta Accession Negotiations – A synopsis:

The launch of the accession negotiations in 2000 needs to be considered within the following context. First of all, Malta was one of the few countries (with the possible exception of Turkey) that had to wait ten years from the date of application to the commencement of the negotiations proper. This is a very long time considering that Malta's economic background is not comparable to the former communist bloc. Although, as we will see in the next section, various parts of the Maltese economy were still somewhat protected pre-2000 – and continued to be until 2004, the extent of trade liberalization was quite advanced with the exception of the agri-food sector, and there were already the first privatisation ventures. The second important factor to consider is that given the political divisiveness dominating the country, the negotiated package had either to be a really good one or else it risked being shot down by the Maltese electorate. Malta's GDP per capita was comparably high; the country enjoyed a high standard of living with one of the highest home ownerships in the western world (70 per cent) as well as solid bank deposits in Malta, the Channel Islands and for some, Switzerland. The Nationalist Administration had to prove that the ***status quo*** was not sustainable and that Malta's eventual EU entry was a win-win situation for the various sectors of the economy from the farmers and fishermen, to employees in the ailing textile and clothing sector, to the problematic ship-repair and shipbuilding sector, to pensioners and self-employed operating in the craft/informal sector.

[3] The Maltese Commissioner is responsible for Fisheries (this portfolio was split from the previous agriculture and fisheries portfolio managed by the Austrian Franz Fischler. The five MEPs represent the two main EP political groupings – three representing the Socialist Group (PES) and two the EPP (Christian Democrats).

Malta had to negotiate, like any prospective Member State, 31 different Chapters/subject areas, ranging from the more straightforward small and medium-sized enterprises; industrial policy and research and development and education and training dossiers to the more problematic transport, budget, regional policy, agriculture, competition policy and state aids and taxation subject areas. It was immediately evident that Malta's potential problem areas could be as complex as that of the largest of the prospective candidates – Poland. Indeed, in retrospect, Malta and Poland have been considered as the toughest of the ten candidate countries during the negotiations (unlike for example, Cyprus which focused primarily on the political dimension rather than the economics due to the Turkish occupation of the northern part of the island, an issue which continues to dominate the international debate over recent weeks following the green light received by Turkey at the December 2004 Brussels European Council Summit to start accession negotiations in October 2005.

So, which were the most sensitive areas within which the Maltese Government had to secure a good deal in order to increase the chances of a yes vote in the Referendum and General Elections (given that the opposition MLP was never going to accept the result of a "consultative referendum"). Not necessarily in order of importance these were:

- **Free movement of capital** – This includes the purchase of property, a very delicate issue for any small island, especially one of the most densely populated places on Earth, with 1300 persons per sq km. Malta managed to secure a derogation on the purchase of secondary residences by non-residents;
- **Taxation** – Pre-EU membership, Malta did not levy any VAT on a number of essential items, incl. food. Malta managed to secure a transition period on the levying of VAT, even though recently the standard rate of VAT had to be increased from 15% to 18%. This model of VAT resembles a lot the Irish and UK regimes and if these two Member States manage to maintain their current VAT regime then Malta will also keep its system intact given that tax issues at an EU level still requires unanimity;
- **Competition Policy** – Malta secured a transition period for state aids for the ship repair and shipbuilding industry, a stronghold of MLP supporters. In the interim period, excess labour is being deployed, somewhat unsuccessfully into Government Departments as many are still not opting to be engaged in private industry;
- **Transport** – This is a crucial sector for any economy, but it becomes of prime importance to an island economy which cannot use land-based transport, inland waterways or railways. Maritime and air transport are the only forms of transport available for Maltese. The main problems were in the maritime sector, both due to maritime safety (post ERIKA) and port services – given the restrictive practices of the General Workers Union. Discussions about port services reforms will

be launched in 2005 whilst Malta has introduced the necessary measures to reduce the bad image as a flag of convenience it had pre-EU membership;

- **Agriculture** – This is a very small sector of the economy – less than 3 per cent of GDP in direct terms, a bit higher if indirect effects are included. However, operators in the agri-food chain are traditionally PN sympatisers. Pre-EU membership, Malta – as a net importer of food and agriculture products, had to eventually confront the restrictive Common Agriculture Policy mechanisms. The CAP largely benefits agricultural producers in Continental Europe and Ireland. Malta used to import its raw materials (all sugar, beef, skimmed milk powder and cereals) at competitive, international prices and the risk was that, without any compensating mechanisms, food prices would rise post 1 May. The Maltese Government managed to secure a transition period for state aids to cushion the impact effects of this switchover from international to internal pricing besides giving additional support to the agri-food sector via the Rural Development Pillar of the CAP (although most aid is destined towards farm units rather than processing plants).
- **Regional Policy –** Prior to EU membership, one of the main arguments the PN Government put forward to the electorate for EU membership was Malta's access to the EU Structural Funds. As an Objective 1 region – Malta's GDP per capita in PPP terms was lower than 75 per cent of the EU in 2004, Malta could benefit from substantial funding to solve its multitude of problems linked to its fragile environment, especially waste management. The EU funds were perceived as a permanent solution to Malta's environmental problems which had to be addressed if Malta had to aim at higher spending tourists (besides enhancing the quality of life of the Maltese). Indeed, Malta managed to secure a good package and has started to benefit from major EU (coupled with Italian) investments to address its infrastructural gap[4]. This was deemed a critical factor in the island's marketing campaign to attract the necessary foreign direct investment in the island.
- **And finally, the Environment –** Although the major problem was a solution to solid and liquid wastes (in an island which caters for over one million tourists per annum), a more politically sensitive issue was how to handle the problem of (bird) hunting and trapping during the accession negotiations. A strong pro-bird hunting lobby exists in Malta (similar to France and Italy), although the provisos in the Accession Treaty secured the necessary safeguards to balance the interests of hunters and NGOs.

It is a known fact that the EU Commission and the EU Member States demonstrated extreme flexibility with Malta during the negotiations and this enabled the negotiators to secure a pretty good deal across the different chapters. The opposition of the Malta Labour Party, which still campaigned against the package in early 2003, was that the final deal was still going to impact negatively the economy.

[4] The Italian Protocol is mainly funding the road network.

The MLP wanted stronger relations with the EU short of EU membership, with the EFTA/EEA model opted by Iceland and Norway or Switzerland[5] being considered as possible paths to consider.

The PN won the EU referendum by 54 per cent to 46 per cent against with a turnout of 91 per cent. This can be considered as a very close vote but, by Maltese standards, it was a landslide victory considering that General Elections are sometimes very tight – 51/49. The result of the General Elections, which was necessary in Malta's case, was very similar, a confirmation that despite the fact that the general population was somewhat tired with the PN administration, the Maltese wanted to become EU members and hence could not risk ousting the PN from Government and hence missing the opportunity to join this exclusive club. EU membership was often perceived by many in Malta as the solution to the prevailing economic problems, from the bleak state of the environment, to low standards in food safety, no grading in fruit and vegetables, lack of discipline in public budgeting, lack of enforcement, etc.

Will all this change post EU membership? Will Malta's problems just disappear in the short-medium term? To what extent can one speak of a successful integration process in the EU in order to start addressing the multitude of problems that successive PN administrations failed to address since the early 1990s when Malta was already on the path to EU membership?

3.0 The State of the Maltese Economy in 2000-4 – How is Malta faring?

It is not the purpose of this section to analyse the state of the economy over the past decade, although it is interesting to give a short synopsis of the evolution of the Maltese economy since the island gained independence exactly 40 years ago from the British. From an economy largely dependent on the UK military services (hence the traditional importance of the naval yard), the Maltese economy diversified and transformed itself a lot in recent decades. Today, the three pillars of the economy are tourism, manufacturing, especially the semiconductor/ICT sector, and financial services. Table 1 highlights the main economic indicators for the period 2000-2004.

[5] Switzerland is an EFTA but not EEA member and has been negotiating with the EU a series of bilateral agreements. The MLP in Malta wanted Malta to be a "Switzerland in the Mediterranean". The EU side had often pointed out to Malta that an *a la carte* model was non-negotiable, where a country can only pick and choose.

Table 1

Indicator	2000	2001	2002	2003	2004
GDP per capita in LM (Maltese liri)[6]	4305	4379	4448	4617	4714 estimate
Unemployment rate (%)	4.6	4.7	4.7	5.0	5.1
Inflation Rate	1996=100	2.2	2.8	1.95	2.75
Trade Gap as a % of GDP	-24.9	-19.9	-14.7	-20.1	-22.7
Deficit/GDP ratio	--	-6.4	-5.9	-9.6	-5.2
Debt/GDP ratio	--	62.2	62.7	70.4	>72 per cent

Source: Economic Survey, Malta (Economic Policy Division, 2004)

The best (and probably only) source of up-to-date information available in Malta on the state of the economy is the Economic Survey published by the Economic Planning Division in November 2004 on Budget Day as well as the Financial Estimates (Ministry of Finance, 2004). The introductory paragraph of this Survey states "the unfavourable global economic environment prevailing since 2001 has impinged significantly on domestic economic conditions, particularly in view of the high degree of openness of the Maltese economy. However, during 2004, some positive developments were recorded in the domestic sphere, even if, by historical growth rates, local economic activity remained relatively subdued".

One has to ask two questions within this context:

- What were Malta's historical growth rates, and
- To what extent is the unfavourable global economic environment impinging other open economies such as Iceland or Ireland?

We have to go back into the 1990s to identify growth rates of over 3 per cent. Since 2001, Malta has been experiencing negative growth rates (2001 and 2003) or very fragile growth of 2.6 per cent in 2002, or worse still 0.6 per cent in 2004. The forecast for 2005 is not exceptional either for a new Member State – 1.5 per cent, which is a far cry from a sustained recovery. This rate of real GDP growth is very close to what the laggards of the EU-25 are experiencing rather than what most new Member States are expecting. Secondly, the argument of the impact of the global economy is not a robust one if one looks at the Icelandic

[6] The Maltese lira is based on a trade weighted basket of currencies within which the euro has a 70% weight. In December 2004, the Lm-Euro rate was 2.32 euros per Lm.

and Irish economies. Iceland, for example, is experiencing growth rates of 4-5 per cent which should be the norm for Malta's economy. There is something fundamentally wrong structurally in the Maltese economy and the root problem is not the bleak international economic situation. We will discuss these in more detail later on. The problem in Iceland is high inflation (above 3 per cent) as unemployment is well below 3 per cent. Growth prospects in Ireland are above the 5 per cent mark and unemployment will fall to below 4.5 per cent. Consumer price inflation forecasts are in the region of 2.3 per cent. In addition, the Irish Government continues to run a budget surplus and the debt to GDP ratio is less than 30 per cent. I will not venture into the other new Member States as the situation is generally similar across the board.

The main problem with the Maltese economy is that since the 1980s, successive Administrations failed to implement long awaited structural reforms. Whilst a lot of progress was realized on the trade liberalisation front, this was not matched by sustained efforts to privatize most state enterprises (with some exceptions), increase employment rates, reduce the role of the State from the economy and control public expenditure. If one looks at the benchmarks of the Lisbon agenda[7], Malta performs pretty badly on most fronts – high budget deficit and debt levels (necessitating an Excessive Deficit Procedure and a postponement on euro entry to 2008, at the earliest), low research and development expenditure, low employment rates, especially female employment (34 per cent – this is amongst the lowest in the Western World), low active ageing, high illiteracy and exit rate from secondary/post secondary education and high per capita emission rates. Moreover, Malta entered the EU with a large burden to carry – a bloated public sector, a non-restructured ship-repair and shipbuilding sector and a weak but highly protected agri-food sector which had to start confronting tough competition post 1 May 2004.

On the eve of the Budget 2005, there were high hopes that a solution would be found amongst the social partners to finalise a Social Pact for the coming 2-3 years. This was perceived as the potential basis for the introduction of tough but necessary reforms which could no longer be postponed. It has been a known fact that Malta urgently needs to tackle its competitiveness gap, particularly now that Malta joined the EU and has a number of commitments, not least its pre-membership commitments relating to the ***acquis communautaire*** (the entire body of EU legislation) but also commitments relating to macroeconomic management as delineated in the Convergence Programme submitted to the Commission in May 2004 and updated in December 2004, although only the May version is publicly accessible. Discussions on the Social Pact had been ongoing on an intensive basis since summer 2004 but collapsed a few days before Budget Day. There are no indications that talks will continue in the near future. Malta, indeed, remains one of the few countries in the EU where it was not possible to reach some form of consensus on the way forward how to generate wealth in the economy and how to operate successfully in the enlarged EU Market. It is

[7] The Lisbon strategy was launched in the Portuguese capital in March 2000 with the aim of making the EU the most competitive, knowledge based economy in the world – overtaking the US by 2010. The Wim Kok Report issued in November 2004 recommends what needs to be done to revitalize this Strategy as the preliminary indications show that the EU has been slipping down even more in the competitiveness table.

clear that the macroeconomic approach adopted in the 80s and 90s is no longer sustainable and this is why the Prime Minister, who is also Minister of Finance in Malta, has sought to introduce more discipline in the macroeconomic management a few months after Malta's EU accession.

Will the proposed measures steer Malta into a new era of sustainable finances and a new economic growth path? Or, is it simply *déjà vu*, given the strong opposition from the union movement – already evident after the proposals of some Budget 2005 measures related to vacation leave, and the MLP opposition which has been making inroads in political support since the June 2004 European Parliament elections?

The three priorities for 2005 are:

- Fiscal consolidation, by cutting down public expenditure;
- Undertaking structural reforms to stimulate competitiveness, and
- Increase productivity, consolidate infrastructure and create jobs.

The public sector in Malta still engages a very high 34 per cent of the total gainfully occupied. Besides a general freeze in employment except in technical areas, the Government is committed towards the gradual privatisation of Seamalta, public broadcasting, the continuation of the restructuring of the ship repair and shipbuilding industry, the restructuring of Enemalta (power generation company) and various other agencies, not least the Malta Tourism Authority which has been absorbing Lm8 million per annum with no evident returns in both numbers and quality of tourists coming to Malta. The aim is to make these government funded agencies more accountable so that they will no longer be a drain on the country's resources. There will also be a fight against abuse, especially on social security/unemployment benefits. In the area of structural reforms, 2005 should be the year for pensions reform as well as the reform in the health sector.

The problem remains that there is no real reduction in recurrent expenditure as the spiraling increases in certain budget lines continue – rural affairs and environment, social security/social security benefits and health-related costs. Social security and social security benefits absorb 37 per cent of total recurrent expenditure. There should have been a radical overhaul in non-productive expenditure and a channeling of this expenditure to productive investment, in particular education and training and SME development, including measures to stimulate research and innovation amongst SMEs and entrepreneurship schemes. The cutbacks could have been carried out in the students' maintenance grants (Lm8 million) and more value for money initiatives in the public sector. Wages and salaries in the public sector account for almost a quarter of total recurrent expenditure. Is Malta Inc. getting value for money from this wage bill despite the various public sector reforms embarked since the early 90s? Probably a lot more needs to be done in this area. Then there are fixed costs which are difficult to reduce – the so-called "sacred cows", where it is far from clear whether a real return on investment is ever possible – Malta Shipyards (Lm7.7 million), Agriculture

Support Scheme (Lm5.7 million), as well as costs related to early retirement schemes and restructuring of all parastatal companies/quangos. It is far from clear that this money is being well spent or whether this is a cost which has to be necessarily borne in the short-term due to political reasons. To our knowledge, there have been no detailed studies or independent impact assessments proving whether the money spent on agriculture and fisheries, education and training, and health care is achieving the desired targets in terms of quality outputs and anticipated deliverables.

Overall, the Budget is a rather weak attempt to stimulate competitiveness and this is evident from the non-ambitious Government forecast for 2005 on GDP growth. If Malta is to be a success story in an enlarged EU, it needs bolder and tougher political decisions (given that the next Elections are only due in four years' time) in order to steer very limited resources away from unproductive investments towards those policy areas where Malta is lagging behind in the Lisbon strategy. This also requires a major commitment from all the social partners in Malta. It is useless citing the Irish or Baltic States success stories, if Malta cannot engage itself in real social partnership to introduce the necessary structural reforms which have been pending for a number of years.

One of the crudest approaches to analyse the short-term impact effects of Malta's EU membership is to look at some statistical data for the pre and post May 2004 period. It has to be said that the available published data is not sufficient to extract any detailed conclusions of what the economic impact effects of Malta's EU membership are. Table 2 indicates that, in general, the post EU membership economic situation is not exceptional whether one looks at manufacturing output, inflation or trade data, although one cannot attribute direct causality to Malta's EU membership in such a short timescale. For example, the impact of high oil prices in 2004 has nothing to do with Malta's EU membership. But, it is also clear that the transmission effect in the food sector is not that efficient as Government had stated pre-EU membership, namely that with the dismantling of levies on all food products, food prices will decline. This is not the case if one looks at the composite food price index as at September 2004 (121.4 in 2004 compared to 119.7 a year earlier). Moreover, whereas exports to the EU increased marginally, imports rose significantly especially for consumer and capital goods.

Table 2 Some statistical highlights pre and post EU Membership (Data is usually for Jan-Sept 2003 compared to Jan-Sept 2004).

Indicator	Jan-Sept 2003	Jan-Sept 2004
Unemployed (number)	7233	7382
Manufacturing Sales in Lm million	765.8	764.5
Net Investment in Lm million	36.3	40.0
Local Sales – Manufacturing (Lm million)	172.2	163.7
Tourism per capita earnings (Lm)	219	221
Inflation	1.9 (Nov 2003)	2.8 (Nov 2004)
Weighted average weekly wage (Lm)	93.7	95.2
Trade Gap in Lm million, of which with EU ()	275.8 (326.3)	318.9 (370.8)
Balance on current account in Lm million	-61	-144.4

Source: Economic Survey

On a sectoral level, even less detailed information is available. In the case of ***agriculture and fisheries***, the main difference between pre and post 1 May 2004 is that now there is a lot of money available from Exchequer and EU sources to compensate for any income losses arising from the dismantling of border taxes. The EU's Statistical Office – Eurostat- shows that real agricultural income per worker in Malta rose by 3.1 per cent over 2003/4 which is around the EU-25 average. However, there are also indications of structural changes in agricultural production with a contraction in animal production and an increase in fruit production, with marginal changes in vegetable production. This reflects better Malta's long-run competitive advantage. In the processing sector, total turnover contracted until September 2004, with a high reduction in local sales rather than exports. This sector is confronting high compliance costs related to food safety and the transition to full competition was too sudden. The solution of just pumping in money is not a sustainable one if the infrastructure remains weak, even at an organizational level, to absorb the funds in long-term feasible projects (R&D, food quality and food safety, export campaigns, etc). This is a sector which is expected to continue to shrink even more over the coming years, with the main casualties being small operators in the meat and sugar-processing sectors.

In the ***other manufacturing industries***, i.e. excluding food and drinks, no major changes were expected post 1 May 2004 as all sub-sectors were fully liberalized and integrated in the world economy pre EU membership. A contraction in the furniture sub-sector was fully compensated by increases in output in the IT and medical devices sub-sectors. In general, manufacturing exports registered strong growth despite the strong euro, although the real impact of the exchange rate will be experienced in the latter part of 2004/early 2005.

Finally, in the case of ***services***, no major changes are expected in the short-run, especially in the tourism industry as this is not highly affected by EU membership. Of more importance in the longer term is Malta's transition into the euro zone as this is expected to ensue in a fundamental structural change in arrivals – with a gradual switch away from the UK market (which continues to account for over 40 per cent of arrivals) to continental Europe if the UK continues to opt out from the euro[8]. No information is available as yet about the impact of EU membership on the Financial Services Industry in Malta. This is an area which necessitates more focus given its growth potential.

Moreover, no information is, as yet, published about investment flows into Malta after April 2004 and which sectors have benefited and what is the origin of the investment. Press releases issued by Government seem to indicate that the ICT and pharma sectors are the main growth sectors attracting most interest by foreign companies. This issue needs to be analysed in more detail in a year's time when detailed data becomes available.

One of the main policies to enable regions which are below a certain threshold (75 per cent of the EU) to converge gradually with the most prosperous ones is regional and cohesion policy. Malta is a net beneficiary from EU funds, which have often been used by politicians as a major reason for Malta's EU membership. The role of EU and Italian Protocol funds in the Maltese economy cannot be under-estimated. From Lm2.5 million in 2003, the actual revenue stream increased to LM51.2 million in 2004 and will rise to Lm74.6 million in 2005. Malta is increasingly over-dependent and too much exposed to these funds. It is still early days to ascertain the absorptive capacity of the Maltese Government (most funding is destined towards institution building and capital projects in the environment and road infrastructure), but this will be the first test on whether Malta will be granted a similar magnitude of funding post 2006. This decision will be taken in the course of 2005 when the first political decisions would need to be taken by the EU-25 of the Financial Perspectives 2007-2013. Malta's per capita GDP stands at exactly 75 per cent of the EU average and risks to be considered as a region in transition and hence falling under regions affected by the statistical effect. This would penalize Malta given its structural handicaps as an island state and the double insularity of Gozo, Malta's sister island. At this stage, Malta's access to EU funds has not been very high in the

[8] Although the transition to the euro needs to be factored in Malta's future tourism marketing strategy, of more urgency in the short term is how to upgrade Malta's tourism product and enhance the value for money concept. Due to its micro size, Malta needs to move away from the low-spending end to high quality tourism by diversifying into cultural tourism, conference and incentive travel and specialized tourism services.

media given that the spillover effects are usually medium-long term. There has just been reporting that so many millions of liri will be allocated to agriculture, border controls (due to the major immigration problems being confronted by Malta given its location in the Central Mediterranean), road infrastructure or the environment but as the projects are not completed yet, then it is difficult to extract any direct impact (productivity enhancing) effects at this stage.

In order to manage this massive process of change, there needs to be a small army of highly competent technicians (and the political will) to make things happen – a Let's Go for it/Let's Do it attitude. This is, in my opinion still lacking. On an administrative side, it was only in recent weeks that the Permanent Representation in Brussels was nearing full capacity and this is eight months since we have been in cruising speed within the EU Institutions. Malta has also not equipped itself with the right number of translators and interpreters after having successfully secured that the Maltese language – a semitic language – becomes one of the EU's official languages. It seems that Malta focused a lot, in a usually reactive manner, on the accession negotiations until end-2002 but, since then, not much emphasis was given to the "what next" and the delivery of its commitments. From discussions we have as Malta Business Bureau on a weekly basis with various Government Departments, it is very clear that some of them can barely manage the process and remain under-staffed. The information and communication diffusion process of the various EU Directors in the Ministries remains non-existent, with some exceptions. The agencies which are the most active are the Malta Council for Science and Technology (on the RTD Framework Programmes) and more recently, Malta Enterprise, although even this new umbrella agency supporting FDI and SME development is understaffed in the area of EU policy and EU funding. A lot more is expected from agencies dealing with energy, transport and tourism as well as agriculture, fisheries and agri-food.

On a representation level, at the Commission, the European Parliament, Economic and Social Committee and the other EU Institutions and Agencies, it is still very early days to extract any preliminary conclusions. At Commission level, in the first few months' post 1 May the Maltese Commissioner was shadowing the Development and Humanitarian Aid Commissioner and in summer he was assigned the role of Fisheries Commissioner. In the opinion of the MBB, this is one of the portfolios having least profile at EU level, both because of the minor role of the fisheries sector in the EU's GDP, except in certain defined areas (which excludes Malta) and the fact that the additional task given to Dr. Borg on Maritime Policy excludes the transport and maritime safety pillars which are of greater relevance to Malta. At the time of writing no Maltese has been selected to perform the role of Director General or Deputy DG or Director within the Commission. On the other hand, the success rate of Maltese officials at the lower levels of the hierarchy is encouraging and one of the main reasons for the success is the fact that Maltese master English extremely well (a highly valued talent by the Commission) as well as the rigorous training Maltese usually undergo at University and post graduate levels.

At EP level, Malta's five MEPs are still trying to be effective in this heterogeneous and somewhat complex 732 strong Institution, although two MEPs in particular are clearly assuming a more pro-active role and have the potential to be of value added at a pan-European level. It is a pity that Maltese MEPs are not present on some of the most important EP Committees of interest to MBB's members – Agriculture, Employment and Social Affairs and International Trade.

Finally, at ESC level, Malta's five representatives still have to be effective links between Brussels and organized civil society. Whilst employers and employee representatives are well integrated in the Brussels maze, Group 3 – which represents diverse interests (ranging from farmers to environmental and consumer NGOs to other diverse interests) is not well represented.

4.0 Recommendations and Conclusions:

As a representative of the Maltese business community in Brussels for the past eight years, there are a number of key recommendations which can be highlighted so that Maltese civil society really starts benefiting from EU membership. I have tried to give a perspective of how the EU experience is being perceived from Brussels and on the basis of the Brussels networks and the contacts we, as an office, have with government, private sector and unions, can extract the following:

1. From the reviews we carry out on the major EU Council meetings, it seems that Malta is a follower rather than a leader in the debate. We often align our position to the UK or Ireland but very often do not seem to project well in advance a specific position. Common positions are not always clear and are not taking always into account the inputs of grassroots/stakeholders. ***This needs to change by acting fast and being more transparent in the consultation process, especially with organisations which matter and which can provide value added to Malta's common position***;
2. Certain Government Departments are not handling the process well. Some key officials are more often than not in missions abroad and there is no network of contacts across Ministries and beyond the Ministerial clusters to have a clear position which could then be elaborated with the social partners at an early consultation level. ***The Malta Council for Economic and Social Development is largely excluded from the EU process. This needs to be addressed by creating a National Forum for European analysis. We will have to wait and see how the proposed Forum on Europe, allocated Lm0.4 million for 2005, will operate as Malta lacks an effective and all encompassing think tank on EU policy. One hopes that this structure will complement rather than "crowd out" existing information diffusion structures, especially those existing in the private sector***;

3. The Maltese Parliament is active in the EU policy elaboration process via the Standing Committee on European and Foreign Affairs. The register of EU pipeline *acquis* is a step in the right direction but certain key positions – of interest at a national level – are still unknown or are not in the public domain as in other Member States. I am referring, in this specific instance, to the implications of the EU Constitution (even though in Malta there will not be a Referendum and hence no major debate is envisaged), the Future Financial Perspectives or the proposed Services Directive of major importance to the Maltese business community. There is also no debate on the Lisbon strategy even though the European Parliament wants National Parliaments to be involved in the loop. It seems that neither the Maltese Government nor the Parliament have a focal point on this important strategy. ***There should be more ownership of the National Parliament about what is happening at an EU level***.
4. The social partners are still not pro-active enough on EU affairs. Whilst the employers and unions have their own structures in place (which need to be enhanced even more), these are not linked at a national level. ***MCESD should be the forum which mobilises all expertise to the attention of the main political leaders as well as the leaders of business and union representatives. There is a lot of expertise out there which needs to be tapped effectively***. ***On their part, employers and unions need to be more pro-active amongst their grassroots and be real links between EU and their members;***
5. The obsession in certain quarters of business remains the access to additional EU funding. The MBB knows that this is a legacy of the political debate pre-accession but there should be more attention to the access to the Internal Market and integration in the world economy. Few resources are available to enable individuals or organizations to elaborate detailed project proposals within which Maltese can be lead partners or even normal participants. There is also a perceptional problem which needs to be quashed about eligibility of funding. This is a process which the MBB is trying to address. Maltese tend to shy away from the more outward looking projects in R&D or those involving far away regions like Japan and Central and Latin America. ***It is important to understand that we cannot focus solely or primarily on Libya and the neighbouring countries***. ***We also need to look at Asia, including India and China, and other high growth regions in Central and Eastern Europe and the Americas. There should be the full mobilization of resources amongst the five employer bodies in Malta to unleash the full potential of the EU's external trade policy.***
6. MEPs have a critical role to play in the information and communication diffusion process. ***They should be more visible at a local level of what they are doing in Brussels. They should also be pro-active within their respective political groupings and be seen to excel by Brussels insiders.***
7. ***A network should be established as soon as possible, possibly co-ordinated by the Permanent Representation and the MBB Brussels office, of all Maltese officials engaged in the EU Institutions. There should be a database available about who is located where and which***

dossiers he/she is dealing with. This could be easily done and exploited to Malta's advantage given our small size. If the Irish can do it with a network of over 4000 people in Brussels (public and private sector), I cannot see why the Maltese cannot do it with a network of less than 100 active officials;

8. The role of the media in Malta remains very limited in linking what is happening in Brussels with real issues of interest to Maltese citizens, although this lacuna has been partly solved following the attachment of the *Times of Malta* Brussels correspondent in 2004. However, there remain deficiencies as regards public broadcasting and coverage in the Maltese language. The MBB is still meeting organizations/individuals in Malta and Brussels who continue inferring that they are dis-connected with what is happening in Brussels and that this process can only be comprehended by elites. ***A major "Communicating Europe" exercise, led by a professional PR agency, is timely involving all the major players in the equation – MEPs, Commission/Cabinet of Joe Borg, business and union representatives and NGOs. Basically, an assessment around April-May 2005 is necessary of what were the first experiences with EU membership and whether Malta is doing things differently now than before which are clearly benefiting business and non-business operators. The MBB will be organizing its own information seminar on this topic in May 2005***;
9. ***There should be a clear strategy by all interested parties – maybe structured around a newly set-up, independent think tank, which continuously monitors and benchmarks Malta's performance in the EU. To date, it is unfortunate that the Maltese academic community has been largely excluded from Malta's EU integration process. The terms of reference of this think tank would be to link itself to internationally recognized think tanks like the Centre for European Reform and the Centre for European Policy Studies or the European Policy Centre but focusing primarily on the Malta and Mediterranean region and highlighting Malta's real value added as an EU members in the EU's Neighbourhood Policy – Mediterranean countries' Action Plans***. ***The MBB feels that the domestic debate on Malta-EU relations has to be taken at a higher, non populist level***;
10. Malta needs to prove its credibility that it means business and that the reforms it is proposing are going to be implemented. Malta cannot afford to lag behind in the Lisbon strategy but in order to move up the Premier League a lot needs to be done across sectors and horizontally. ***The Social Partners need to reconvene as soon as possible to discuss and agree a "win win" socio-economic strategy for the Maltese Islands for the period 2006-2010 within which clear targets are set and timeframes as well as policy measures to reach them are accepted by everyone. The Budget 2005 measures are too timid to have any major impact in the short term and at this stage Malta Inc. needs to be placed in "intensive care"***. ***Malta Inc. needs to focus on value added activities only and cannot continue trying to solve problems of all the sectors, draining very limited resources.***

11. ***There is an urgent need for a strategy on the transition to the euro. There have been too many mixed signals in the past years. The locking in rate has to be right if the Maltese economy is to remain competitive on the world markets. Speaking about a devaluation is very risky, but speaking about the right locking in rate to ERM II is not given a weakened dollar and a very high euro. Malta cannot afford losses in exports.***
12. ***Malta's active role in the EuroMed region is undisputed. But, from rhetoric, the country needs to move into action mode to exploit its locational advantages for the EU and non-EU countries wishing to use Malta as the platform to carry out business activities in the region. Malta should exploit more the fact that English is a working language, especially in the financial services industry.***

Malta is the smallest of the EU-25 and will remain the smallest country if Iceland never joins the European Union. The process towards EU membership has been a very lengthy one and usually complicated by a lot of internal political disputes about what should and should not be pursued. Malta has missed a number of opportunities in the past which it cannot continue to afford in today's tough economic realities.

The new Prime Minister – Lawrence Gonzi, is trying to get to grips with the situation by controlling public expenditure and tackle the problems which were set aside for a number of years in order to guarantee a yes vote at the crucial EU Referendum and 2003 General Elections. The tactic of the *status quo* and very incremental structural reforms was a success only up to a certain extent. This is because Malta confronts delivery time now in a not-so-healthy economic position and still struggling to register high growth rates which should be the norm for a country in its stage of development. Only very fragile signs of recovery are noticeable and 2005 will not only be the mid-point of the Lisbon process (and hence Malta would need to assess its performance within this context) but also a crucial timeframe when the Administration would need to gauge whether its measures are bearing the desired fruit or not.

From the developments taking place around us, especially when one sees the threats of China and India and the exceptional performance of some EU Member States, the challenges that Malta Inc. confronts are quite significant. EU membership *per se* has undoubtedly disciplined the political elites not to continue postponing the inevitable. Through the various Plans that Malta needs to communicate to Brussels, sometimes on an annual basis, Economic Convergence, National Employment Plan and National Development Plans, the Maltese Government has to deliver on its commitments. We will see whether it is possible to deliver on somewhat shaky foundations.

A pre-condition for success – and it is possible to be successful within the EU as the experience of other small states within the EU clearly demonstrates, is that there is a common vision amongst the social partners to deliver an agenda of change and growth. It is only with a holistic reform process at the level of the labour markets, a stable industrial relations climate, a solid R&D capacity and world class manufacturing and services based on high education/skills, that Malta can be amongst the best of the class in the EU-25. All social partners need to be ambitious that this is a project which can give many positive returns. Malta can excel but a lot still needs to be done to reach that stage and major sacrifices are necessary at this first stage. The Malta Business Bureau will continue contributing to an independent analysis of what should be done so that Malta's success story can be emulated by other microstates/islands in other parts of the world opting for a more intense relationship within a geographically-defined regional bloc.

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