

Malta's Post-Independence Policy-Making: An International Political Economy Perspective

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Following formal independence in 1964, and substituting the earlier disputes of the 'language Question' between the 'pro-Italian' and 'pro-English political camps – that were also divided on constitutional matters and on the ties which were to be taken with Britain – came the position of the Maltese government on economic development, external trade and foreign relations which formed the major issue of contention.¹ With the 'Small Islands' or 'Micro-States' paradigm in mind, strategies of socio-economic development have been assessed by authors employing conventional economic models in terms of internal factors specific to this 'particular' kind of geography.² Research has focused on the relationship with, and the impact of, the changes in the local demographic, social and political environment.³ Economists have sought to conceptualize and measure local economic resilience – for example – solely in terms of 'appropriate policy interventions':⁴ referring to 'inherent vulnerability' of small states while discussing 'resilience' and 'resilience building' as a 'result of some deliberate policy.'⁵

There is a dearth of research that provides adequate attention –in both descriptive and normative senses – to the bearing of the 'structure' on the 'internal economic sovereignty,' defined in International Political Economy [IPE] terms as the 'room or space to manoeuvre in interactions with large international actors,'⁶ or the interaction between the 'unit' or 'nation-state' level-of-analysis, and the systemic or 'international' level-of-analysis – a cornerstone in International Relations [IR] and various IPE theories. Thus, what appears as 'under-development' is actually the 'agent-structure' problem, viewed from a holistic approach, understood as part of a complex system (rather than the sum of its parts), in a standard IPE approach – which constitutes the central problematic in this paper.

This paper does not claim to capture all the important readings available in IPE on economic autonomy, economic independence or state capacity to pursue goals that are 'not simply reflective of the demands or interests of the overlying external factors.'⁷ IPE draws on several distinct schools of thought that include history, political science, economics, sociology and cultural studies, with acceptable epistemologies but flexible boundaries that are debatable.⁸ It shall limit itself to shedding

¹ Cf. G. Hull, *The Malta Language Question A Case Study in Cultural Imperialism* (Malta, 1993); R. A. Pace, 'Small State and the European Union: Malta's EU Accession Experience,' *South European Society & Politics* (2002), Vol.7 (1), 24-42, and S.C. Smith, Dependence and independence: Malta and the End of Empire, *Journal of Maltese History*, 2008 (vol.1), 33-47.

² G., Baldacchino and R., Greenwood, eds., *Competing Strategies of Socio-economic Development for Small Islands* (Charlottetown, 1998).

³ E.P. Delia, *Papers on Malta's Political Economy* (Malta, 2006).

⁴ L. Briguglio, G. Cordina, N. Farrugia and S. Vella, 'Conceptualising and measuring economic resilience,' in L. Briguglio, G. Cordina, and E. Kisanga, eds., *Building the Economic Resilience of Small States* (Malta, 2006), 265-288; and L. Briguglio, G. Cordina, N.Farrugia & C. Vigilnace, *Small States and the Pillars of Economic Resilience of Small States* (Malta, 2008).

⁵ L. Briguglio, 'Economic Vulnerability and Resilience: Concepts and Measurements,' in E. Kisanga and S. J. Danchie eds., *Commonwealth Small States: Issues and Prospects* (London, 2007), 105.

⁶ Cf. R. Reich, *The Work of Nations*, 1st edn. (New York, 1991); M. Bienefeld, 'Is a Strong National Economy a Utopian Goal at the End of the Twentieth Century?', in R. Boyer and D. Drache, eds., *States Against the Market: The limits of globalization* (London, 1996), 415-40, and S. Dalby, 'Geopolitics, Knowledge and Power at the End of the Century,' in G. O'Tuathail, S. Dalby & P. Routledge eds., *The Geopolitical Reader* (London, 1998), 305-12), P. Dicken, *Global Shift: Transforming the World Economy*, 3rd edn (London, 1998), and J. Bryson, N. Henry, D.E. Keeble and R.L. Martin eds., *The Economic Geography Reader* (Chichester, 1999).

⁷ J. Dunning, *Multinational Enterprises and the Global Economy* (Reading, 1993), 528-43.

⁸ R. Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton, 2001), 3-24.

in some meaningful way more light on the rationale in IPE for the configuration of some of the key economic and foreign policies of the Maltese governments, by means of two interpretative case studies. It relies on information from relevant literature, available primary documents, diplomatic communiqués, and semi-structured interviews with the elite conducted by the author in Valletta.

The Conceptual Framework

The Nationalist Party [PN] and the Labour Party [PL] that governed Malta during the past decades in a system of alternating political power have apparently become associated with different forms of economic management.⁹ During the 1960s, when independence from Britain was the main issue, the Nationalist government was perceived as a ‘conservative administration.’¹⁰ When the same PN returned to government in 1987, emphasis was put on the implementation of policy reforms towards market economy, primacy of division of labour, and price system for values set by supply and demand. In between, during the period of 1971-1987 under a Labour government, planning for resource allocation was put at the top of the agenda – over and above the market. Labour had come to power with an electoral campaign on a ‘platform of non-alignment, government leadership in the economy, and social reform.’¹¹

The Nationalist Party was committed to further the island’s Western European values and interests, ‘emphasised’ the continuity of Malta’s links with Britain, and pursued ‘a closer relationship with the EEC’ (later succeeded by the EU).¹² With emphasis on Socialist, Mediterranean and non-aligned policies, the PL promoted national sovereignty with active negotiations that led to agreement on the total withdrawal of British forces by 1979, and forged ‘special friendship ties’ with China and Libya that were regarded by the West as pro-Libyan, pro-Eastern (and anti-West).¹³ While alignment with the West was important for the PN, the PL was against any formal alliance with or opposed to any major power bloc, upholding the importance of the island’s neutrality.¹⁴ The Nationalist government joined the Partnership for Peace [PfP] in April 1995, but the Labour party withdrew Malta from it in October 1996 (during its stay in power from 1996 to 1998) before the Nationalist government reactivating it in March 2008 (this being accepted by NATO a month later at the Bucharest Summit).¹⁵

With one of the highest non-compulsory general election voting turn-out in the world, these two dominant political parties are seen to have ‘strongly influenced the economic and social structure of Maltese society’¹⁶ amid a ‘hardening polarization.’¹⁷ What is prominent in the conventional/received wisdom on policy orientation and re-orientation is the role of ‘individuals who occupied the same high office as that of Prime Minister, and [their] characteristics and abilities.’¹⁸ With a high level of political determinism, caused by excessive politicisation, not countered by local economists, the state emerges as the source of explanation or the independent variable.¹⁹

⁹ G.A. Pirotta, ‘Malta’s Foreign Policy after Mintoff,’ *Political Quarterly*, Vol. 56, No. 2, 1985, 82-86, and G.A. Pirotta, ‘Politics and public service reform in small states: Malta,’ *Public Administration and Development*, Vol. 17, Issue 1, 1997, 197-207.

¹⁰ J. Dowdall, ‘The Political Economy of Malta,’ *The Round Table*, Vol. 62, Issue 248, 1972, 465.

¹¹ R. Findlay and S. Wellisz, ‘Malta’, in R. Findlay and S. Wellisz eds., *The Political Economy of Poverty, Equity, and Growth: Five Small Open Economies* (New York, 1993), 271.

¹² Dowdall, 465 and Findlay and Wellisz, 256-92.

¹³ Dowdall, 465.

¹⁴ Pirotta, 1985, 182-86, and Pirotta, 1997, 107-207.

¹⁵ Pace, 2002, 24-42, and *CIA World Factbook* (various years).

¹⁶ Findlay and Wellisz, 13, 262.

¹⁷ L. Briguglio, ‘Malta,’ *Encyclopædia Britannica* (2009), 1-2: retrieved: <http://www.britannica.com/EBchecked/topic/360532/Malta/279565/Modern-history>

¹⁸ E. Mizzi, *Malta in the Making 1962 - 1987: An Eyewitness Account* (Malta, 1995), 3.

¹⁹ What could be striking in a country with a land area of just over 300 sq km (120 sq mi), with no natural resources, inhabited by 420,000, noticeably ‘homogenous people’, in ethnicity, language, religion and tradition, is the extent of the politicised divide across various sectors of the civil society, where nearly all forms of social organisation have been for decades operating in a rather highly polarised political environment that can at times be stifling.

Without adducing external factors as well as economic ones, what is missing in the above is how political choices for the management of the economy and the conduct of foreign diplomatic relations have interacted with major forces and trends to shape the nature of the international economy – this being a central preoccupation in IPE.²⁰ Politics and economics in IPE, unlike the traditional study of international relations, are inherently interrelated in a complex manner and hence the two fields of study are intertwined.²¹ IPE's main focus that attracted notable attention after the end of the Cold War is on how markets and states affect one another, when they should be seen 'embedded together in the wider social whole', as an 'ensemble' or *condominium*, even if there is still a 'case for maintaining the analytical distinction for the sake of a better understanding.'²² IPE – as a sub-field of IR – rapidly developing to a challenging inter-disciplinary domain on its own right, has become widely appreciated in the theoretical debate/research and in policy application.²³

For the government in Malta, though the Island's geographical location seems to have implied that it could only activate a regional foreign policy, 'harness[ing the island's] geopolitical relevance' as the first 'strategic objective' was 'directed both to countries in Malta's vicinity, as well as towards those more distant countries that are increasingly active in the markets of the EU.'²⁴ Decisions about how to act in line with Rational-Choice theory are made by comparing the costs and benefits of different courses of action; the patterns of the behaviour of the government would reflect choices made in trying to maximise the internal advantages and minimise the internal disadvantages of the international market.²⁵ The articulation of domestic policies has become the subject of much debate in the context of economic and technological interdependence across borders, more recently under the rubric of globalisation.²⁶ However, in International Political Economy, regarded as a Neo-Marxist theory, the 'idea of the autonomy of the political' – where the singular state is dismissed as a unit of analysis, remains a deeply uncomfortable one, in reviews that do not 'escape an economistic logic.'²⁷

IPE's qualitative analyses and positivist assumptions replicate the methods of the natural sciences on the primacy of material forces as the over-riding features of the system (even if these were criticized as prone to generalisations, lacking adequate quantitative data and failing to present falsifiable propositions).²⁸ Malta, strategically located at the centre of the Mediterranean Sea had historically been 'remote from the centres of European prosperity,'²⁹ and 'always had a history closely [linked] with that of great powerful nations.'³⁰ It is one of those countries where the sum of exports and imports – measured as a share of gross domestic product (trade as a percentage of GDP) is high, as the historical data charts, news and forecasts clearly show.³¹ It is also one of those economies that 'tend to be inherently prone to exogenous shocks over which they can exercise very little control, if any.'³² Similarly to other countries, in an economic development model that has been mixed, the state had to incorporate – in distributing inputs and outputs – varying measures and elements of planned and market economies.³³

At any level, although geography would put a country like Russia outside the immediate point of reference and interest of the Maltese government, such bilateral relations have 'deep historical roots' and both the Nationalist Party and the Labour Party, although seemingly ideologically-opposed,

²⁰ H. Milner, 'International Political Economy: Beyond Hegemonic Stability,' *Foreign Policy* (110), 1998, 112-123.

²¹ J. Frieden and D. Lake, 'Introduction: International Politics and International Economics,' in J. Frieden and D. Lake, eds., *International Political Economy*, 3rd edn. (London, 1995), 1-16.

²² G. Underhill, *States, Markets and Governance* (Amsterdam, 2001), 7.

²³ Gilpin, 2001, 3-24.

²⁴ <http://www.foreign.gov.mt> (accessed June 2013).

²⁵ M. Allingham, M., *Choice Theory: A Very Short Introduction* (Oxford, 2002), 1-10.

²⁶ Cf. I. Goldin, *Global Economic Implications* (Paris, 1993) and L.N. White, *The Clash of Economic Ideas: The Great Policy Debates and Experiments of the Last Hundred Years* (Cambridge, 2012).

²⁷ L. Weiss and J. Hobson, *States and Economic Development* (Cambridge, 1995), 2.

²⁸ Underhill, 2001, 7.

²⁹ Dowdall, 1972, 467.

³⁰ M. M. Metwally, *Structure and Performance of the Maltese Economy* (Malta, 1977), ix.

³¹ *National Statistics Office, National Accounts of the Maltese Islands* (various years).

³² L. Briguglio et al, 2008, 11.

³³ *CIA Word Factbook* (various editions) and *UNCTAD reports* (various editions).

shared a common stance on their foreign policy towards the Soviet Union, and its successor, the Russian Federation. The 'bilateral agenda' of both parties remained focussed on 'trade and economic ties' as the 'most promising areas of cooperation.'³⁴ On the international stage, in the world system and the European continent, the former was a powerful actor during the Cold War, and the latter is increasingly seen determined to impose and restore its self-defined rightful place in the 'balance of power' and often assertively seeking to mould the CIS into a counterweight to NATO and the EU.³⁵

There is no scope to ignore the significance of the internal political scenario in any analysis of the basic meaning of sovereignty in the economic realm, or the capability of state to act on its own, interpreted among others as capacity,³⁶ autonomy,³⁷ or ability to initiate action.³⁸ For the economic and foreign policy of the government of Malta, there is however a need for better awareness of the implications of the world system dynamics in any IPE perspective on the linear cause-effect relationship. In the following sections, mainly focused on the 'change' in the degree of rationalisation or interventionism – and the 'continuity' in the diplomatic approach towards Russia, the objective is to highlight in two complementary directions, the inherent links between case-specific variables and the details of the individual case being studied, with the larger context, without plain boundaries.

The 'change' in economic policy

After independence, the Maltese government faced the challenge of an extremely rigid economic structure, with very few alternative activities to counteract the effects of fluctuations in British defence spending which came as a result of a long history of dependence on the colonial military/defence sector. Historically, as far back as the 16th century, with the island being transformed as the fortress of the Knights of St. John and then later by the 19th century as it developed into a key strategic naval-military station in the British imperial system – and hence 'supporting a large garrison' – 'foreign military expenditure has been the major element.'³⁹ By 1958, for example, this 'British military expenditure' directly accounted to one-fifth of the GNP, and where 25 per cent of the Maltese labour force was employed.⁴⁰ It has been described as an 'example par excellence' of a 'weak and penetrated state' that 'ride[s] on the coat tails of larger states,' belonging to the category of 'dependent states.'⁴¹

As British influence and interest in the Mediterranean diminished, after the publication of the 1957 British defence White Paper that announced the beginning of a series of reductions in Britain's defence commitments, the economic consequences were seen as alarming, with estimates that the defence budget cuts could represent a fall in the national income of one-third, and a drop in employment of some 19,000.⁴² The performance of the dockyard in Malta, which employed nearly 7 per cent of the island's labour force, was severely affected by the closure of the Suez Canal, registering a loss of nearly £3.5 million on a gross turnover of only £2.7 million, as outlined in the 1971 annual report.⁴³ The dockyard establishment – with its first dry dock opened in 1848 – under the control of the British Admiralty, became an important supply base, notably in time of war as during the Crimean war (1854-56) and of course during the two World Wars, in different measures and functions.⁴⁴ For a small colony as Malta this establishment became the cradle of a measure of industrialization, providing employment to a large proportion of a wage-earning labouring class, but

³⁴ *The Malta Independent*, 31 July 2011.

³⁵ A.P. Tsygankov, *Russia and the West from Alexander to Putin: Honor in International Relations* (Cambridge, 2012), 1-10.

³⁶ T. Hughes, *Pro Patria Per Orbis Concordiam* (Washington DC., 18 Nov. 1990).

³⁷ J. Mittelman, ed., *Globalization* (London, 1996).

³⁸ R.Cox, *Production, Power, and World Orders* (New York, 1987).

³⁹ Dowdall, 1972, 466.

⁴⁰ *National Statistics Office, National Accounts of the Maltese Islands* (various years).

⁴¹ I. Calleja, *Malta in International Relations* (University of Malta, unpublished papers, 2006), 1.

⁴² J. Dowdall, 1972, 467.

⁴³ *National Statistics Office, National Accounts of the Maltese Islands* (various years).

⁴⁴ 'Malta Harbour' (accessed October 2013)

lost viability after the closure as a naval base when the Royal Navy completely withdrew in 1979, incurring debts that started to accumulate.⁴⁵

The Labour government – during the nineteen seventies and most of the eighties – acquired additional external finance, but the weakness of the local commercial and industrial base, and the scarcity of domestic investment opportunities hindered economic growth.⁴⁶ The government needed to assume major responsibility to decide what should be produced and to direct small low-level enterprises to produce in accordance to the national ‘development strategy’. Like in many other countries in early stages of development, the government was expected to set itself the goal of economic independence, exercise control on economic operations and make major decisions regarding the production and distribution of wealth, using a fixed price system. In most developing countries, ‘National Development Plans’ that were essentially based on ‘central planning,’⁴⁷ demonstrated that the role of the government becomes more important as the economy grows, and becomes more complex and more integrated into the world market.⁴⁸ In view of the challenges of economic and technological changes, as I. Harik examined in Egypt, governments had to ‘continue even more strenuously to mediate in the international economic arena on behalf of its entrepreneurs and traders.’⁴⁹

For the government in Malta, a higher degree of ownership of the means of production, protection of domestic industries and markets and setting of trade barriers became important objectives. From a historical perspective – from the early 20th century and in all countries – there was a considerable expansion in the role of the government in the economy. A large increase in public spending was observed in industrial countries.⁵⁰ Moreover, from the early 1970s onwards – according the state theory and IR – a serious attempt was made to drive Realism back into a ‘central theoretical position’⁵¹ and for the state to ‘be brought back as an independent force and actor in historical development.’⁵² There was a remarkable resurgence of interest in the state in an outpouring of studies, in cultural anthropology, sociology, modern social history, economic history and political economy, in what Skocpol called a ‘rediscovery of the state.’⁵³ With the rise of the ‘comparative institutional approach,’ the state re-emerged as a historically rooted institution, not simply a collection of self-interested individuals,⁵⁴ regarded as ‘vital to the constitution, maintenance and transformation of the modern market economy.’⁵⁵

There was more to be uncovered in connection to the main functions of the state in regulating markets and ameliorating market failures during the first stages of economic development,⁵⁶ as the prime policy maker, regulator of the national economy and mover of the development process. The state not only planned economic strategy but also mobilised the necessary resources for the building of the social and physical infrastructure needed.⁵⁷ It became even more evident that the state instituted

⁴⁵ *Times of Malta* (8 September 2008).

⁴⁶ J. Dowdall, 1972, 466-67.

⁴⁷ H.W. Arndt, ‘Economic Development: A Semantic History,’ *Economic Development and Cultural Change*, 29 (3), 1981, 457–66.

⁴⁸ R. Sobhan, *Rethinking the Role of the State in Development* (Dhaka, 1993), 4-65.

⁴⁹ I. Harik, *Economic Policy Reform in Egypt* (Florida, 1997), 200.

⁵⁰ V. Tanzi, *The Changing Role of the State in the Economy: A Historical Perspective* (IMF. working paper no. 97/114 (September, 1997), 1-2.

⁵¹ M. Kahler, ‘Inventing International Relations,’ in M. Doyle and G. Ikenberry eds., *New Thinking in International Relations Theory* (Oxford, 1997), 35.

⁵² P. Evans and J. Stephens, ‘Studying Development since the sixties,’ *Theory and Society*, 17, 1988, 722.

⁵³ T. Skocpol, ‘Bringing the State Back In,’ in P. Evans, D. Rueschemeyer & T. Skocpol, eds., *Bringing the State Back In* (Cambridge, 1985), 3-37.

⁵⁴ P. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, 1995), 21.

⁵⁵ Weiss and Hobson, 1995, 2. The seminal work on the institutionalist view of development, and on the role of institutions in serving the national interest, is Polanyi’s (1957) writings on nineteenth century industrialization in Britain. See also I. Lauridsen, ed., *Bringing Institutions Back In* (Roskilde, 1993).

⁵⁶ J. Stiglitz, *The Economic Role of the State* (Oxford, 1989).

⁵⁷ R. Sobhan, 1993, 4-65.

political reforms, formulated integral plans of national economic development, and played an active role in dealing with foreign capital.⁵⁸

However, intellectual developments, starting in the late 1970s, have brought about a reaction to the extensive role that the state came to play in the economy.⁵⁹ Numerous neoclassical economists in most universities (notably American and British), policy institutes, and leading international organisations launched, as Sanchez Anchoea pointed out: ‘a virulent attack on the state, holding it responsible for the economic crises the entire world was experiencing.’⁶⁰ Fiscal policies came to be regarded as creating major disincentives; attempts at macroeconomic management as de-stabilising or doomed to impotence; efforts to plan, regulate and control as distorting the economy and spawning parallel markets; and publicly-owned enterprise as inefficient, incapable of adequate self-improvement. All claims that the state was an economic agent, as Killick noted, were followed by ‘major disillusionment’.⁶¹ What has become ‘uppermost in the consideration’ of many development theorists with neo-liberal persuasion was the question of ‘whether the state should even try to be an active economic agent.’⁶²

In Malta, from the early 1980s – still under a Labour government – central planning was somewhat relaxed, with signs of an opening in the economy.⁶³ There was more of a mixed-economic planning, where the price system was not entirely free (under some government control or heavily regulated), combined with state-led planning that however was not extensive enough to constitute a planned economy. When the Nationalist Party took office in 1987, there was only an acceleration of its process towards a more manifestly market economy, with cautious liberalisation and privatisation in the restructuring of the industrial and financial sectors.⁶⁴

At the same time, the idea that higher integration in the world markets opened a wide potential for greater growth (with unparalleled opportunity for developing countries to raise their standards of living) clearly became prevalent in what has become known as globalization, seen as the ‘leitmotif of our age’⁶⁵ and ‘a key concept in the social sciences.’⁶⁶ Governments were advised (and encouraged) to ‘abandon the inward-looking nationalist, populist, and socialist policies of the past,’ after what has been categorised as the failure in the practice of ‘heavily-interventionist’ models of economic development – and to ‘embrace outward-looking approaches in their trade and development strategies.’⁶⁷ The worldwide trend became ‘globally oriented economic policies’⁶⁸ with more openness to trade, finance and technology.⁶⁹ The policies of both political parties in Malta, during the eighties, were conditioned by Neo-Liberal ideas on the advantages inherent in a process of increasing integration of the domestic economy into the global market. This was expected to inject a new driving force into national economic development, and to create new market opportunities, which gained noticeable popularity. The large majority of governments presiding over planned economies began deregulating with more space for the private sector to make pricing, production and distribution

⁵⁸ There was an ‘explicit normative opposition to both liberal pluralism and Marxism’ (Stepan, 1978, 5), to the range of ‘societal’ approaches (Evans *et al*, eds., 1985) and to the perceived ‘creeping sociologization’ (Leaver, 1994, 132), together with a definite reaction (and a correction) at the policy level to the ‘reduced faith in the efficiency of policy interventions, the assertion of the superiority of market solutions, and the disillusionment with the state as an economic agent’ (T. Killick, *A Reaction Too Far: Economic theory and the role of the state in developing countries* (London, 1989), 8.

⁵⁹ Tanzi, 1997, 1-2.

⁶⁰ D. Sanchez Anchoea, *The Role of the State in Structural Change* (New York, 1999), 4.

⁶¹ Killick, 1989, 9.

⁶² P. Evans, ‘The State as Problem and Solution,’ in S. Haggard and R. Kaufmann, eds., *The Politics of Economic Adjustment* (Princeton, 1992), 140, and Harik, 1997, 1.

⁶³ Findlay, R. and Wellisz, S., 1993, 256–92.

⁶⁴ Delia (various publications); Briguglio, (various publications).

⁶⁵ D. Held and A. McGrew, ‘The Great Globalization Debate: An Introduction,’ in D. Held and A. McGrew, eds., *The Global Transformations Reader* (Oxford, 2000), 1.

⁶⁶ R. Kiely, ‘Globalisation and poverty and the poverty of globalisation theory,’ *Current Sociology*, Vol. 53(6), 2005, 895.

⁶⁷ Weiss and Hobson, 1995, 3.

⁶⁸ Dunning, 1993, 611.

⁶⁹ UNCTAD, 2000, 3.

decisions in market-oriented economies. With the collapse of the state command economic system in the Soviet Union and Eastern Europe, most governments led their economies towards market solutions or partially-planned, mixed economies, leaving very few as factual state-planned economies.⁷⁰

In what Gilpin called the ‘New Global Economic Order,’ the sharp rise in foreign direct investment (FDI) and the considerable expansion of multinational firms, began to have a profound impact on national economies that became more integrated.⁷¹ Globalization, said to capture many important environmental, sociological, political and economic trends, had at the heart the ‘question of the state.’⁷² In a large array of state-withering predictions offered by the ‘globalization thesis,’ many of its proponents – regardless of their view on the effects of global change – speak of a ‘global political system’ of a ‘poly-centric nature,’ characterised by the ‘permeability of the nation-state.’⁷³ They find a ‘global political economy’ as being characterised by the ‘political and economic linkages that perforate the pretentious control of the state.’⁷⁴ The prevailing argument, as Scott noted, was that ‘human, technological, communicative, political, economic and financial networks’ have ‘liberated’ themselves from the territorial limitation’ and ‘replaced’ the state.⁷⁵ The state, from the functionalist point of view, was no longer a significant actor, a meaningful economic unit,⁷⁶ or an ‘appropriate agency for the solution of global problems.’⁷⁷ Globalization constrained states’ governance of economic activities,⁷⁸ were ‘no longer closed units’ and ‘cannot control their economies.’⁷⁹ The economic, or the objective aspect of globalization, had an ‘even more dramatic impact’ on the societies of developing nations, in view of their particular ‘political and economic fabric.’⁸⁰

The ‘continuity’ in foreign policy

When it comes to Malta’s relations with Russia, it is worthy to note that geography, for both countries, has heavily impinged upon history, psychologies, culture and traditions. It shaped their respective perspective on world politics. Malta, at the centre of a Sea that has historically been turbulent, with huge political and military conflicts, has found itself on the frontier between Europe and the Arab-Turkish empires, at the centre of rivalry between Christianity and Islam for dominance of the Mediterranean. Russia, a massive land mass in the north – bordering on the Arctic and sweeping across the whole of Northern Asia and rolling down to the Black and Caspian seas – became known for its geopolitical hallmark as a front line between the Europeans and the peoples of the large Asian continent.

In both countries, the coming of Christianity (in Malta in 60 AD and in Kievan Russia in the 9th century) was of outmost importance. Both played important roles, though of course in different measures, in the course and eventual outcome of the II World War, suffered from destruction, famine and loss of life, reaching their peak period of trial in 1942 with the implacable bombing of Malta and

⁷⁰ Dunning, 1993, chapters 1 and 2, and *UNCTAD*, 2000, 3-5.

⁷¹ Gilpin, 2001, 3-24.

⁷² D. Balam and M. Veseth, *Introduction to International Political Economy*, 2nd edn. (New Jersey, 2001).

⁷³ A. McGrew, ‘Conceptualizing Global Politics,’ in A. McGrew and P.G. Lewis, eds., *Global Politics: Globalization and the Nation-State* (Cambridge, 1992), 13.

⁷⁴ R. Isaak, *Managing World Economic Change*, 2nd edn. (New Jersey, 1995), 193.

⁷⁵ A. Scott, ‘Introduction – Globalization: Social Process or Political Rhetoric?’, in A. Scott, ed., *The Limits of Globalization* (London, 1997), 4. See also J.N.Behrman, ‘The Emerging World Order and the Criteria of Acceptability,’ in M. Svetlicic and H. Singer eds., *The World Economy* (New York, 1996), 41-54, and F. Adams and S. Gupta, ‘The Political Economy of Globalization: An Introduction,’ in S. D. Gupta, ed., *The Political Economy of Globalization* (London, 1997), 1-12.

⁷⁶ Dicken, 1998, 3.

⁷⁷ B. Hocking and M. Smith, *World Politics*, 2nd edn. (London, 1995), 8.

⁷⁸ D. Potter, ‘The Autonomy of Third World States within the Global Economy,’ in A. McGrew and P.G. Lewis, eds., *Global Politics: Globalization and the Nation-State* (Cambridge, 1992), 219-20.

⁷⁹ J. Baylis and S. Smith, *The Globalization of World Politics* (Oxford, 1997), 9.

⁸⁰ B.V. Yarbrough and R.M. Yarbrough, ‘The Globalization of Trade: what’s Changed and Why?’, in S. D. Gupta, ed., *The Political Economy of Globalization* (London, 1997), 90.

the infernal siege of Stalingrad. Malta as a British colony was, like the Soviet Union, on the same side in the stand against Nazism in Europe. As an independent state, during the 'Iron Curtain' in Malta did not find itself under the hegemony of the Soviet Union, unlike other small countries in much of Eastern Europe and part of Central Europe.⁸¹

Diplomatic relations between Malta and the USSR were officially established under the Nationalist administration in 1967, when USSR Ambassador to London presented his credentials as the Soviet Ambassador to Malta. In February 1968, the Maltese Ambassador in Washington presented his credentials as Ambassador of Malta to the USSR. The Labour Party in government, between 1971 and 1987, moved to a certain degree closer towards the USSR – coming to open up an Embassy in Moscow in 1982, after the conclusion of an important agreement (1981) on the taking of common positions in cases of threats to peace and security, or violations of international peace.⁸²

The Nationalist administration that took Office in 1987, hosted the US-Russia Summit in December 1989, just a few weeks after the fall of the Berlin Wall. Malta, where East meets West and North connects with South (at least from a European perspective), with a long history of foreign domination, was symbolically chosen for the meetings between Bush and Gorbachev who proclaimed the end of the Cold War, in one of the principal highlights of the island's standing on the world stage.⁸³

Following the disintegration of the Soviet Union, the Nationalist government extended official recognition to the Russian Federation as an independent and sovereign state in December 1991, after a Russian cultural centre was inaugurated in Valletta in November 1990. It continued on the previous (Labour) government's policy of pursuing close cooperation with Russia, with the signing of agreements across a number of sectors, including tourism (1995), cooperation between the ministries of Justice (2001), programme of cultural and youth exchanges (2003-2005), and a wide-ranging exchange programme between the University of Malta and the State University of Saint Petersburg in 2004.⁸⁴ The exchange of high-ranking government officials continued, notably of the deputy Foreign Minister of Russia to Malta in 2003, and Malta's Prime Ministers to Saint Petersburg in 2003 and to Moscow in 2005 to participate in the EU-Russia Summits.⁸⁵

The Nationalist government within the European Union showed reluctance to confront Russia on politically sensitive issues, which was acknowledged by the Russian government.⁸⁶ The government in Russia looked 'favourably towards Malta's EU membership'⁸⁷ and was 'highly interested in strengthening its political dialogue with Malta as a neutral European nation and a new member of the EU.'⁸⁸ The Russian Ministry of Finance announced in late 2003 its resolution to settle the debt issue of Malta, namely \$70.7 million for timber carriers ordered by the Soviet Union in 1989.⁸⁹ Russia in July 2004 participated for the first time in the Malta International Trade fair.⁹⁰

For the Nationalist government, in whichever way it looked at the world, a re-emerging power like Russia constituted a prominent factor in the equation of international stability and prosperity. It was interested in taking advantage of the business opportunities offered by Russia's economic growth, and finding ways to attract a growing number of Russian tourists and language students. In talks with the Russian deputy Foreign Minister in 2003, the Maltese delegation declared Malta's intention to 'ensure that the adoption of the Schengen agreement does not thwart incoming tourism in any manner.'⁹¹ The Minister of Foreign Affairs in 2004, during a meeting of EU Foreign Ministers in Brussels, encouraged the European Commission to step up its efforts to conclude discussions with

⁸¹ Cf. E. Gerada-Azzopardi, *Malta Revisited: An Appointment with History* (Malta, 1979); B. Blouet, *The Story of Malta* (Malta, 2004).

⁸² *The Malta Independent*, 31 July 2011.

⁸³ Pirota, 1997, 107-207.

⁸⁴ (<http://www.foreign.gov.mt>).

⁸⁵ *The Malta Independent*, 31 July 2011.

⁸⁶ *The Sunday Times of Malta*, 8 October 2006.

⁸⁷ *The Malta Independent*, 31 July 2002.

⁸⁸ *The Sunday Times of Malta*, 5 March 2006.

⁸⁹ *The Times of Malta*, 5 November 2003.

⁹⁰ <http://www.foreign.gov.mt>.

⁹¹ *The Times of Malta*, 19 December 2003.

Russia over a new visa arrangement with the member states, stressing Malta's need 'to have a visa-free arrangement with Russia as soon as possible.'⁹²

The Labour party (now in opposition) remained engaged with its policy of promoting commercial interests, tourism, construction and financial services, and sent a delegation to Saint Petersburg in 2002.⁹³ With the Soviet Union, the Labour party had been seeking to create a balance vis-à-vis other encroaching powers, and acquire Soviet support for high-priority national goals, notably before 1964 for independence, in 1974 (within CSCE, to consolidate security in the Mediterranean) and in 1981 (to secure neutrality), but also gave priority to strengthening commercial ties through bilateral agreements on merchant shipping, air services and trade protocols.⁹⁴

With the turn of the century, increase in wealth in many regions in Russia, and its potential benefits to Malta made a friendly vision, criteria and mechanisms advantageous and of national interest. The Ambassador of the Russian Federation to Malta, in an exhibition at the Ministry of Foreign Affairs of Malta, which culminated a week-long celebration of Russian-Maltese friendship in October 2010,⁹⁵ declared : that the 'political and diplomatic interaction, trade and economic cooperation, cultural ties, and people-to-people contracts' have 'grown from strength to strength.' He explained how Malta was among the 10 most popular summer destinations, according to list published in 2003 by Russian website TravelOnline.⁹⁶ Tourist arrivals from Russia in 2008 reached 23,412, an increase of almost 7,000 since 2005, and the total expenditure of Russian tourists was more than EUR 22 millions in 2009. Trends for the high season for the year 2011 were, according to the Malta Tourism Authority expected to reach the level of pre-crisis years, in the region of 22,000, but the actual number of Russians visiting Malta counts more than these figures suggest as the consulate in Moscow is increasingly issuing multiple entry permits.⁹⁷

In Malta's numerous international language schools, a variety of English language courses are taken by an increasing number of Russians, which is important for a country that promotes itself as a centre for teaching English language to foreigners. Russian students following courses in thirty seven English schools in Malta offering education to foreigners during 2010 were on place five among the number of students from other countries, with the top five countries accounting for almost seventy five percent of all students. The RBSM – Russian Boarding School in Malta, founded in 1997, remains the first and largest school in the world that follows the Russian curriculum.⁹⁸ In 2010, there were three hundred and seven companies registered in Malta under Russian ownership, and exports to the Russian market amount to two million euro a year, with pharmaceutical and plastic related products taking a major portion. Trading and holding are the most common type of activity of companies registered in Malta, with popularity of internet casinos on the increase, especially among Russian customers after recently-introduced restrictions on gaming activities in Russia.⁹⁹

Conclusion

On policy-making in Malta, decision-makers very often feature at the very centre of perceptions, experiences and analyses of the goals, type of management and administration, and results achieved. On the part played by the government in the market, industry, business and investment, as well as in the international competitiveness and foreign policy of the country, what persists as under-emphasized or underestimated, is the impact of critical developments, events and happenings in other countries and regions.

This paper takes issue with the strong attachment to the primacy of politics. It reviews the extent to which policy preferences and measures available (and possible) for the government in Malta, as a rational actor, were shaped by the impact of system-level variables, rather than by local ideology,

⁹² *The Times of Malta*, 3 November 2004.

⁹³ *L-Orizzont*, 17 September 2002.

⁹⁴ Pirrotta (1985), 182-86, and (1997) 107-207.

⁹⁵ *The Malta Independent*, 31 July 2011.

⁹⁶ *The Malta Business Weekly*, 1-17 December 2003.

⁹⁷ <http://www.foreign.gov.mt>.

⁹⁸ 'Russian Boarding School in Malta' (<http://en.rbsm.ru>)

⁹⁹ *National Statistics Office, National Accounts of the Maltese Islands* (various years).

leader or party. The aim was to demonstrate, beyond the rhetoric of local politics, how historical, geo-political conditions, and international dependence of the local economy, in which the government of a country like Malta finds itself, determine sovereignty – this by showing the economic *changes* the Island experienced as well as the *continuity* it managed to hold in bilateral relations with Russia.

Regardless of the political party in power in Malta, irrespective of the leadership's ideologies, the effects of international processes and structures have frequently been crucial. Any 'change' in national economic policy-making reflected the impact of systemic developments beyond the shores of this archipelago that appear as fairly transcending the reach and control of the government. Domestic macroeconomic policies came under the impact of the changes in economic theory, together with the extraordinary growth rates of cross-border trade and investment over the past thirty years, which affected most countries.

The 'continuity' in Malta's relations with the Soviet Union and (later) the Russian Federation, with little, if any, significant difference between the positions of the two dominant, local political forces, shows that what matters is that these two countries share a history of burden of size, with a contrast between the largest and one of the smallest in the world. The government of Malta, unlike that of other small countries in much of Eastern Europe and part of Central Europe, moving away from the Soviet Union as former communist-period 'Imperial Master' and joining the EU and NATO (in order to contain the short-term danger of any historical bad remake) was not a concern. The thrust and nature of Maltese diplomacy put a higher premium on safeguarding neutrality, persuasion and consensus building – rather than on power play – and on developing good economic relations with all countries.

The main point in this study, which underlines the relevance of the interplay between the external and the internal in economic and foreign policy formulations, should not be viewed outside the twin contexts of small economy and state identity and the wider European and international political-economic dynamics.