



SECTION TWO

Externality Management:
Development from the
Outside-In



FAR BETTER TO SERVE IN HEAVEN THAN REIGN IN HELL: Malta's Logic of Relating to the European Union



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*...Here at least
We shall be free...
Here we may reign secure, and in my choice
To reign is worth ambition, though in hell:
Better to reign in hell than serve in heaven*

John Milton, *Paradise Lost* — Book I, lines 258–262.



SOVEREIGNTY IN THE MICROSTATE CONTEXT

Milton's Satan serves conveniently as a symbol of defiant nationalism. He is the prototype rebel against global hegemonic forces; he is bent on sovereignty, freedom, and delinking strategies, at any cost. Entrusted with economic planning in Chaos, he would no doubt have sought self-sustained growth and viability. But for all his superhuman flamboyance, Milton's cosmic villain is seeped in compassionate irony, a mock-heroism that results from the blindness of being ostracized from God Almighty. Independence is proudly claimed but nevertheless sounds hollow. It is a reckless initiative, an expression not of gain, but of loss of stature and in the quality of life.

This is particularly so for the world's smallest territories, all of which are islands or enclaves. The domestic political forces of Lilliput have been more fervently engaged at forestalling independence than clamouring for it (Payne, 1991; Hoefte and Öostindie, 1991). For them, cashing in



sovereignty is not only an extravagant proposition but an impoverishing one as well; when the Surinamese Premier Arran asked the Dutch Antillean Prime Minister Evartzs why the Antilles would not follow Surinam to independence, the reply was crude: "If you allow yourself to be hanged, it does not mean that I will do the same" (quoted in Hoefte and Öostindie, 1991: 75). Independence may conjure up illusions of autonomy and sovereignty, but the unwelcome predicament of marginalization, destabilization, and poverty, especially for resource-poor territories, may appear just as likely. There are today various examples of "upside down decolonization," the initiative towards independence due not so much to the efforts of the dependent territories but to the readiness of the colonizing powers to send their colonies on their way (Hoefte and Öostindie, 1991). And among those territories that achieved political independence, microstates have been either among the very last to do so (Doumenge, 1989), or they otherwise decolonized without any intention to disengage (Houbert, 1986). Sovereign statehood is no enviable goal, no absolute ideal; after all, small isolated island territories are already significantly self-governing units. Only when statehood is seen as the key to more and better resources is it then fervently pursued. But, even then, the case is often a rhetorical one.

The small territory's answer has been to politely refrain from satanic bravado; far better, they claim, to serve in heaven than to reign in hell. An island that rules itself may be proud of priming its own pump; but whether there is anything there to pump, and, preferably, whether there is more to pump, is the real issue. After all, the smallness of these places, their cosmopolitan character, and possibly their strategic location, seem to allow the world's smallest territories, the periphery of the periphery, the miraculous possibility of turning unequal exchange topsy-turvy, thriving on a net transfer of value from the core (Bayliss Smith et al., 1988; McKee and Tisdell, 1990; Minogue, 1983). In a sense, it seems as if these flotsam and jetsam of empire have always been meant to be attached to something larger (Naipaul, 1972). This goes against the grain of orthodox development policy, "which is likely to reduce their present economic dependence, that is one which is likely to make their economies less open and promote internally propelled development" (Bacchus, 1989).



For Sale or Rent

How is such economic survival worked out in practice? After all, small-country governments project their territories as ready-to-go productive enterprises, needing only the proverbial kiss of Prince Charming — alias foreign investment with associated foreign market outlets — to spring to life. Development Plans, representing the projected economic activity and expansion by the state over a three-to-five year period, often read as perpetual attempts at “taking off,” Rostow style, into self-sustained and vigorous economic growth, with export-oriented manufacturing as the “seductive option” (McKee and Tisdell, 1990).

Nevertheless, while this picture may assuage international sponsors and funding bodies, it rarely tells the true story. Firstly, the impression of control over economic expansion and the direction of that expansion that permeates development plans is hopelessly naive and false. It shows little understanding of the real world, with its erratic changes and shifts to which small territories with their open economies and mono-commodity orientations are particularly prone. The task of the planner becomes much like an exercise in tea leaf reading (Higginson, 1987; Seers, 1982). And the price to be paid for enticing export-oriented industries is typically very costly: Many of them end up being actually subsidized by tax concessions, repatriation facilities, cheap land and power (Ramsaran, 1989; McKee and Tisdell, 1990; Barry et al., 1984). A low-cost, yet trained, literate and docile labour force, and weak trade unions are often added, tacit conditionalities (McKee and Tisdell, 1990).

The main engine of economic growth in small territories has rather been a panoply of bewildering services. Most islands and other isolated communities have actually developed as centres where “cargo” could be stored and/or transhipped: fuel, merchandise, fish, finance, drugs, military, space and telecommunications equipment. Human cargo has included slaves, prisoners and, lately, tourists (Wace, 1980; Dommen, 1981; Bhadhuri et al., 1982; McKee and Tisdell, 1990). Incomes from such activities are not derived from value added but constitute rents: revenues that are disassociated from any directly productive activity on the part of the recipient (Bertram and Watters, 1985). The crucial assets here are not so much productivity, cheap labour, low transportation costs, and



economies of scale, as would be of paramount importance to a manufacturing industry. Small territories worldwide would be hard put to provide most of these competitively. On the contrary, the key variable is the flexible marketing of the desirability of location. "Geographical positioning" along with "manoeuvrability" provide the otherwise elusive comparative advantage (McKee and Tisdell, 1990; Craig, 1991).

Who will be our Master?

Small jurisdictions have apparently been more successful, meaning maximizing consumption, in preserving or, better still, enhancing, their status and desirability, even their vulnerability, as such rentier states, territories for sale or rent (Bertram and Watters, 1985; Connell, 1988; Kaplinsky, 1983). They can earn their way not so much on *what they do*, but on *what and where they are*, on the basis of the double accident of history and geography.

Part of this game involves cultivating privileged relationships with patrons. Benign paternalism, a long and servile colonial association, strategic importance, and, increasingly of late, environmental hazards, are common overtures. Are not the few, particularly poor, microstates those that have actually failed to establish, or have abrogated, sufficiently intimate relations with a prosperous protector? If the world's smallest jurisdictions are saddled today with chronic non-viability, they must, shamelessly but decorously, shop for willing dominants, ready to take them in tow (Baldacchino, 1994; Hoetjes, 1992; Hoogendonk, 1989). Patterns of autonomy and dependence seem best explored in the context of a prized "umbilical" association with a willing sponsor; the "management of slavery" (an analogy suggested by Schaffer, 1975).

Yet, once again, ample window dressing is in order: mendicancy is not a dignified strategy to pursue, both for the incumbent and its sponsors. A developmental façade and its accompanying rhetoric is a crucial component, providing the necessary political and economic collateral to justify inter-national transfers from abroad and electoral support at home. The microstate may also have to make a lot of noise threatening to usurp its servile, dependent status (Franda, 1982; Houbert, 1980; Bertram, 1986; Crush and Wellings, 1987). Enhancing vulnerability also reduces



further the extent of control over, and influence on, the processes and dynamics influencing the small territory's economic fortunes; but these are generally already beyond domestic control in any case.

This paper examines the changing fortunes of Malta's thirty-year experience in development planning (1959–1988) from the perspective afforded by such inductive microstate theorization. It appraises the economic success story of the resource-poor island state, while chasing the phantoms of viability and of self-directed economic management. Given that Malta is practically a “superpower” as far as small territories go, the predicament that is illustrated by this case study may be expected to be further intensified in smaller jurisdictions (Warrington, 1992: 230). The issue of membership in the European Union (EU) is presented as a logical, almost natural, *denouement*. It may yet consolidate further Malta's position as a (albeit undeclared) pampered periphery.



THE MALTESE EXPERIENCE

Malta has had to have a planned economy.... As independence was attained in 1964, the haphazardness of the past was abandoned and a scientific approach to economic management was introduced.... For the first time ... Malta was free to determine its fortunes. (Busuttil, 1988).

The Maltese Archipelago consists of a series of limestone blocks with a surface area of 312 square kilometres, the main island of Malta being the largest and supporting 94 per cent of the population. These command the centre of the Mediterranean Sea, between Italy and Libya. Such a strategic location, plus a series of sheltered and deep-water harbours, have made the islands prime targets for successive regional powers. These included the Arabs (870–1090); the Knights of St. John Hospitallers (a buffer state for Catholic Europe against the Turkish threat, 1530–1798); and the British (1800–1964). Being intrinsically resource-poor, bereft even of fertile soil or ample fresh water supplies, the islanders' mainstay has been the refurbishing of successive military establishments and associated administrative and infrastructural public works, financed ultimately from abroad.



Such an historical rentier “welfare economy” supported a growing population now numbering 370,000.

Malta's approach to development planning has been praised by international observers for being indicative, avoiding a pompous air of surety and rigidity that was bound to falter. All the same, the actual results achieved after each of Malta's six development plans had run its course never approximated the projections; indeed, they dramatically exceeded or failed to meet the hoped-for targets (e.g., Vella, 1994).

Thirty Years of Going Wrong

Malta's First Development Plan (1959–1964) followed hot on the heels of the British Government's decision to wind down its military facilities in many overseas bases, including its Mediterranean fortress colony of Malta. The island's economy was in for an unexpected radical shake-up. At that time, the British colonial establishment directly employed no less than 23,000 Maltese — more than a third of the labour force; most of the remaining 40,000 were employed directly by Government (4th Plan: 3; 1st Plan: 5).

British military personnel and associated expenditures were going to be drastically cut. While this was a stark and sombre reality, the securing of an alternative source of livelihood for the Maltese was another matter. Even eminent foreign advisors disagreed about the prospects of restructuring the Maltese economy: Woods (1945) had little faith in anything except mass emigration; Schuster (1950) was mildly more encouraging; Balogh and Seers (1955) could be best described as cautiously optimistic (Sant, 1984: 5–7). All in all, the small economy had some interesting potential — industry, tourism, commercial ship-repair — related to the island's natural assets of climate, human resources, and maritime facilities in a strategic location (1st Plan: 2). It was government's task to develop the policies and concomitant economic, social, and physical infrastructure in these departments.

Claiming that success will depend in the last resort on the enterprise, skill, and productivity of all sections of the community is one spirited way of putting it (1st Plan: 8; 2nd Plan: 16). Owning the problem is one technique for justifying remedial action. But whether investments, tourists,



and ship-owners would be actually attracted, and in sufficient and steady numbers to provide a relatively secure source of income and employment, was the all-important corollary. What the Plan could and did do was a statistical exercise in fortune-telling, hoping that, like a self-fulfilling prophecy, the desired dream would take flesh. The first Plan, seeking full employment yet acknowledging the difficulty of putting a precise figure on the decline in the services and Crown employment levels, foresaw the need to create 19,000 new jobs, 5,000 in a fledgling manufacturing industry. It was deemed reasonable to assume that 10,000 employables would emigrate over the five-year-plan period (1st Plan: 6). Possibly, the meticulous nature of this Plan was a necessary condition for the securing of the £29 million the British Government was providing to finance the Plan's capital spending requirements. In a sense, this Development Plan followed naturally as the expression by the Maltese Government of its undertaking to utilize this development loan effectively:

“In January 1959, the British Government announced its intention to contribute £28 million sterling over the next five years towards a development programme and this *resulted* in the launching of the first development plan for Malta” (Briguglio, 1981: 2; emphasis mine).

The anticipated results, however, did not materialize. Indeed, the Plan had to be reviewed in 1961 after an Anglo-Maltese study group, set up to examine the repercussions of the downsizing of the British military apparatus, concluded that Malta was in for a rough ride, rougher than had been envisaged, unless other measures were taken. A drop of 15 per cent in GDP and an unemployment figure of 29,000 (28 per cent of the labour force) by 1967 were expected (2nd Plan: 2). When the plan period expired, few of the promised goods had been delivered: “The Plan did not achieve the projected aims mainly due to the fact that it was overtaken by events ... the anticipated employment figures were not attained” (2nd Plan: 1). “Too much was expected of the private sector in too short a time and the employment objectives were not, in fact, met” (3rd Plan: 7).

The targets of the Second Development Plan (1964–69) were set with extreme caution. A report by a United Nations Mission (Stolper, 1964) confirmed a bleak future and advised a mass yearly emigration quota of 10,000 to maintain existing living standards. The cautious government functionaries were not carried away by the euphoria of political



independence, achieved in 1964. They envisaged this Second Plan as an instrument of containment: "little more was expected of it than that it should keep the economy ticking" (3rd Plan: 8).

The Plan envisaged the creation of 3,600 jobs in industry and tourism, a doubling of exports, and an annual emigration of 7,500 persons. An increase in the female participation rate was also hypothesized. The idea was to maintain the current level of unemployment with an absolute decrease in the labour supply (2nd Plan, Appendix II: 112).

Britain's sudden decision to devalue the pound sterling in 1967 did not help matters. (The Malta pound was then pegged on a par with sterling.) Yet, the outcome went beyond expectations: "The second five year Plan has been an experience of rapid economic expansion in circumstances which did not initially bode well for Malta's future" (3rd Plan: 17). The main challenge had been to contain. The actual outcome was altogether more favourable. Gainful employment at the end of 1968 had been expected, as per Plan, to fall to 83,000 from the 1964 figure of 86,000. It was actually 95,800 in 1969. GNP in real terms had risen by some 38 per cent from 1964 to 1968 (*ibid.*). Optimism was suddenly riding high. A Joint Anglo-Maltese mission early in 1967 led by Lord Robens claimed that a target of 15,000 new jobs by 1972 was now achievable.

The Third Development Plan (1969–74) sought to maintain the same basic recipe for economic growth. The one major novel initiative was an Association Agreement with the European Communities. This meant "to provide an export market in Europe for Maltese output free from tariff barriers and quota restrictions" (3rd Plan: 56). An employment target of 106,400 was envisaged by 1973, which was a net increase of 4,700 in the labour force. The net increase would be primarily achieved by an increase of 5,500 jobs in manufacturing and 1,500 jobs in tourism, plus an annual exodus of 2,400 emigrants.

The actual state of affairs in 1974 was of a gainfully occupied population of 102,300 and of an unemployment rate of almost 6 per cent. However, the planners were this time spared the embarrassment of explaining what had gone wrong; exogenous reasons were not lacking. The 1973 energy price increase was one significant explanatory factor. The planners, and the Plan with them, had been changed.



The Fourth Development Plan (1973–80) cut short the life of its predecessor. The Labour Party had come to power in 1971 on a platform of neutrality and non-alignment, and it proposed a much stronger presence by the State in economic development. Yet, while the rhetoric was distinctly different, the Plan's growth leaders were the usual ones — manufacturing, ship-repair, ship-building, and tourism. It looks in retrospect much like a case of old wine in new bottles. After all, most politicians would have us believe that significant shifts in economic indicators can occur at the point where a change in government takes place; however, one can barely identify any significant causal connection (Scicluna, 1991: 2). What had definitely changed was the irreversible termination of the British base. The closure had been mercifully extended to March 31, 1979, and, following hard bargaining, the annual rent until that date had been tripled to US\$42 million. The bargaining exercise is a case study in itself and exemplifies the disproportionate potential lobbying power of microstates on the world stage. The year 1979 was therefore "the year of destiny," and the Plan sought to meet the challenge which the loss of the significant fortress rent and other multiplier effects would inevitably cause.

The Plan targeted GDP at factor cost to grow at 6 per cent per annum. It also assumed emigration levels of almost 3,000 persons per year. The projected labour supply was thus about 115,900. Therefore, provision had to be made for around 20,600 jobs; 13,500 of these were to be created in manufacturing to match the redundancies from the Military Base closure. An increase in the female participation rate to 35.5 per cent was also projected (4th Plan: 51–2, 59, 96–103.).

The Plan's targets were introduced with an indicative, cautionary note: "The Maltese islands are heavily dependent on international trade. Planning in Malta must therefore be particularly flexible. Flexibility means the creation and encouragement of attitudes and institutions that are capable of making good use quickly of a favourable turn of events in the world economy, and of adjusting speedily to unfavourable circumstances" (4th Plan: 51).

Yet, instead of a net population decline of 1 per cent, which the Plan had forecast, there was a net increase of 5.7 per cent over the period 1973 to 1979. This outcome was mainly due to unforeseen tighter immigration



controls by the traditional destination countries of Maltese emigrants. Nevertheless, the gainfully occupied had soared by 16,300, of which just over 8,000 were in manufacturing. This was still a shortfall on the Plan target; but, mercifully for the planners, the female participation rate had only increased marginally. Contrary to the projections, 14,000 women had *not* joined the labour force. Increases in productivity had been higher than envisaged, leading to a reduced demand for labour. GDP at factor cost had grown at the fantastic annual rate of 14.3 per cent.

And so, the planners could, for the second time, afford themselves the luxury of demonstrating publicly their good fortune, and their hopeless predictive powers! As in the case of the unexpected success of the Second Plan, the unexpected success of the Fourth Plan was meticulously documented and proudly paraded in the introduction of the subsequent planning instrument. The Fifth Development Plan (1981–85) exhibited the fortuitous discrepancy, for which some credit would spill over to the government of the day (5th Plan: Table II.1: 10).

Having overcome the “year of destiny” in apparently very good shape, the Fifth Plan could once again venture to look ahead with optimism. Reverting to the more conventional five-year planning period, this document had a target of 7,000 new jobs in manufacturing and 3,000 in market services, with a freeze on public sector employment which was then at a “low” of 20 per cent of the labour force. This was to balance a labour force increase of 10,000, reaching 133,100 (5th Plan, Table IV. 3: 92).

The Plan went totally wrong. The targets set out by the Plan for exports, employment, and investment were not reached. A “containment strategy” had to be introduced to stave off the effects of a damaging international recession, coupled with an overvalued local currency and declining standards in a tourist industry that had grown too fast. Manufacturing employment actually declined from 33 per cent of the labour force in 1979 to 28 per cent in 1985; unemployment reached a record 8 per cent over 1983 and 1984 (Baldacchino, 1988).

The euphoria of planning was again replaced by disillusionment. The sixth, latest, and possible last, Development Plan covered only a three-year period: 1986 to 1988. It appears that the dangers of bold projection had been learned, and the confession appears quite sincere:



The Development Plan for Malta 1986–1988 is unlike previous Plan documents ... the time span has been shortened to three years in view of the various unpredictable external forces that are expected to continue to weigh heavily upon Malta's development (6th Plan: 94).

Recent experience has shown even more sharply the exposure of the Maltese economy to international economic developments and their impact on the country's overall growth process. In these unsettled conditions, planning has been rendered more hazardous and it has become less meaningful to formulate development plans, spell out broad sectoral targets and draw up projections for future years, when outside shocks can be so frequent and unpredictable and prove so disruptive (6th Plan: 2).

This time, there is no elaborate review of the achievements of the previous Plan; no comparison of past projections with achieved results.

The Sixth Plan seemed mainly consumed by the need to exculpate the Government of the failure of the previous plan targets. In this exercise of exoneration, it is, however, unique because the bitter lesson is extrapolated forward. The numerical exposition of targets — investment finance, labour force participation rates, demographic figures, import and export values — are noticeable by their low profile. There is indeed only one table in the document. The Plan limits itself basically to a description and discussion of projects and incentive schemes which the Government felt, by and large, in a position to accomplish. Nevertheless, the Plan's only target of 5,400 jobs, "which should be provided in the directly productive and market service sectors," was not reached. The increase in labour supply, augmented by further shedding from the private sector, was handled by "workfare" employment in the public, paramilitary, and parastatal sectors.

If "it has become less meaningful to formulate development plans" (*ibid.*), why have them at all? Interestingly, the Maltese government opted in February 1990 to ditch the ceremony of development plans and switch to "planning," particularly in areas and policies where local planners have wider spans of control and where a stronger degree of predictability can be assumed.



The change could be merely academic; yet it did not fail to generate strident criticism. A senior economic consultant, and now the Labour Prime Minister, criticized the sudden demise of formal development planning as “a failure of nerve,” a repudiation of the Government’s responsibility to provide an overall and long-term coordinating framework for total economic management and the disowning of a tool of accountability of government’s economic policies (Sant, 1990). Possibly, the political discretion suggested by the latter criticism may be one important consideration which led to abandoning the plan concept. There are now no glorified targets about which one can be criticized if they are not met. One must not fail to add here, however, the stark realization of the unenviable predicament in which local policy makers are likely to find themselves, of having to justify plans and planning which always go wrong, one way or the other. A senior financier and ardent government sympathizer has nevertheless argued that, with such a shift in policy, economic management is changing to a hidden agenda or (perhaps worse) *ad hocism* (Consiglio, 1990). Perhaps this is a shocking insight into what dare not be admitted.

In the Prime Minister’s own words, a development plan, indicative though it may be, makes for rigidity, as the experience of past Plans has shown that they have “gone totally wrong, and what they forecast had nothing to do with what actually happened” (Sant, 1990). The advisory National Economic Development Council has counselled that “a formal (development) Plan could serve as an obstacle and rigidity if it is implemented and, if not implemented, then it would become no more than an irrelevancy” (*The Times*, 1990).

The Spinoffs of the Planning Form

The admission of ceremonial formalism and deceptive rhetoric is a bold statement indeed, but one which is supported by the evidence. Development planning, as with other institutions of a microterritory, may flourish but not function. Yet, the symbolism is effective and indicates that governments govern (Brewster, 1973: 93–4). Malta’s six development plans were, to a considerable extent, intended as public relations exercises, with one eye on the reaction of investors and another on that of the



electorate. Projected growth rates may often have been based on dubious and unrealistic assumptions (Brincat, 1989: 5). Nevertheless, they were laced with a pseudo-scientific calculability designed to carry along the reader and imbue an atmosphere of confidence in the singer of the tune. Planning may boil down to a token activity which is nevertheless carried out because it reaps political, economic, and diplomatic spinoffs. If public opinion and potential foreign sponsors and investors thrive on planning exercises and the discipline and control that they inspire, then such target audiences ought to be thus appeased: the baby will not be thrown out with the bath water. If anything, they may be even better appeased by sectoral specific planning.

The critical question to ask here is why should it have proved so difficult to plan successfully in the Maltese context. The blame could be placed fully on the incompetence and shortsightedness of planners, or on those entrusted with plan implementation. However, a comprehensive evaluation must perforce consider the impact of external events over which Maltese development planners, for all their lip service to economic management, have very little control. Put differently, much of the aim of the development trajectory has probably been precisely to move away from this embarrassingly volatile situation (Baker, 1992: 213; Fairbairn, 1971: 102).

Modelling the Character of Vulnerability

It appears that the small open economy is particularly vulnerable to external events in three distinct yet related ways: *in suddenness of impact, in the intensity of effect, and in the speed of penetration.*

The first concerns the unpredictable and haphazard way in which external events impinge on the microterritory, defying prognostication and advance warning. Even where such advance warnings may be obtained, the small developing territory may lack the finances, personnel, networks, or technology to obtain the information (see, for example, Reid, 1974: 22; East, 1973).

The second deals with the extensive nature of the spread effect and the high responsiveness of the microeconomy to these external events. This results from the open dependence of the economy on exogenous variables;



its fragile organization around very few export commodities or services; and its small insular or enclave status, which staves off or postpones certain influxes, but renders it even more prone to those infiltrations that manage to overcome its physical isolation.

The third relates to the difficulty of containing the effects of external infiltration. The complex interlinkages of the microeconomy, with its foreign-oriented activity, renders it helpless in resisting and preventing itself from being rapidly overtaken and infused by it. The multiplier effect of such impacts not only spares little in its path, but acts rapidly and violently, with immediate short-term repercussions.

Hence the microeconomy is characterized by the sudden, rapid, and total consequences of booms and busts, peaks and troughs, each of which may thus be considered as assuming crisis proportions. "Approach to a single isolated problem leads extraordinarily rapidly to all parts of the complex, more quickly and completely than we have observed elsewhere" (Bowen-Jones, 1972: 59).

Interestingly, a discussion on epidemics is highly illustrative, and serves to capture the three dynamics outlined above (Dommen, 1980: 926). Epidemics in island communities are postulated to occur less frequently than elsewhere, but to affect a greater proportion of the population and with a faster speed, when they occur. In larger-scale societies, such as continents, the epidemic would move from group to group and finally back to the first in a more relaxed, wave-like pattern. All things being equal, the character of this motion is expected to become more jerky and spasmodic with increasing smallness of territory (Figure 1).

FIGURE 1 ■ EPIDEMICS IN ISLANDS & CONTINENTAL COMMUNITIES

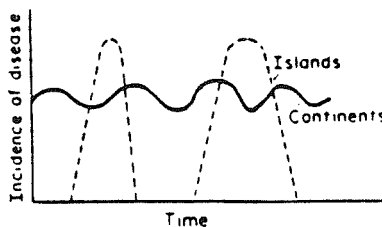
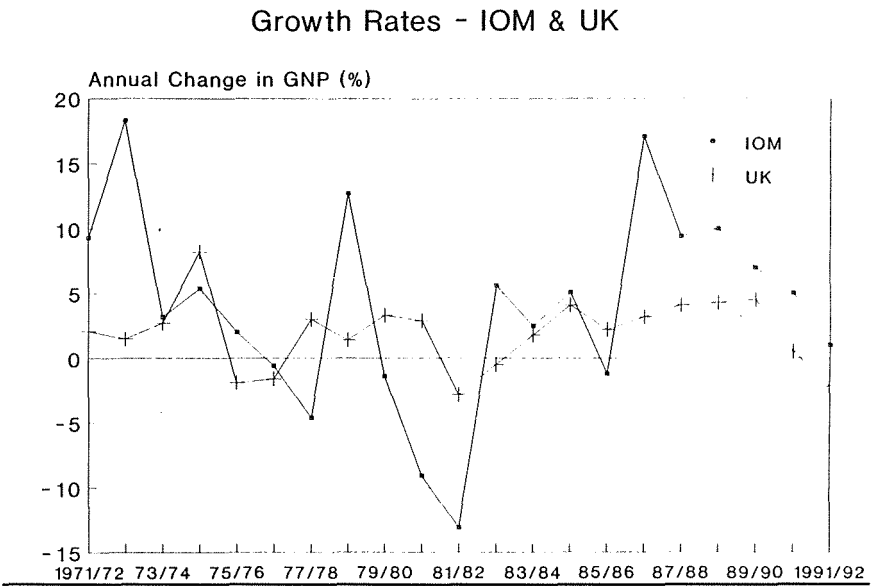


Figure 1. *Epidemics in islands and continental communities*



The theorization and graphic representation of such a relative volatility is elegantly displayed in practice. Carse (this volume, Diagram 3) demonstrates this for the Isle of Man, a small and open economy, in relation to the United Kingdom, of which it is a dependency (Figure 2).

FIGURE 2 ■ GROWTH RATES — IOM & UK



Such a state of vulnerability has long been endured in the Maltese islands. It is not merely a recent historical phenomenon, even though the gap between the rhetoric of planning and the unfolding of economic fortunes following independence has highlighted the pattern even more starkly. The fortress economy had meant an almost total dependence upon military expenditures. This “offered no stable means of livelihood but brought fluctuations according to the prevailing international situation and the strategic decisions taken by the Colonial and War Offices in London” (Zammit, 1984: 12). “The economy of the Maltese Islands under Britain took the form of an artificial cycle determined not by the vicissitudes of the



market, but by the exigencies of military security. War marked the upswing of the Maltese economic cycle; the return of peace was the harbinger of a downswing" (Busuttil, 1973: 1). "A pattern of affluence and poverty established itself" (Baldacchino, 1988: 64).

The prospect of independence must have impressed on the Maltese policy-makers the importance of breaking out of this chaotic and stagnant predicament and to strive for a more noble state of viability: an economic growth pattern in which Malta would be as sovereign as its independence implied. In this, expert advice from abroad was not lacking. It is best spelled out in the introduction to the Second Development Plan. This had stated that development planning in Malta was required in the context of a long-term objective, "to create a competitive economic structure largely oriented towards the export market U.N. experts estimate that it would take Malta between 15 and 25 years before ultimate viability can be achieved.... During this period, Malta will require outside help, in terms of know-how, grants and loans to achieve the required economic transformation. This outside help will be essential until the economy reaches the "take off" stage of development, when endogenous forces will be expected to support growth and lead the economy to eventual maturity" (2nd Plan: 1).

Certain observers point out that the hoped for "take off" would seem to have occurred in the late 1960s (Metwally, 1977: 51; Zammit, 1984: 19). The illusion of self-induced growth was established and cultivated. This imbued with confidence the planners of the day, created an incentive for providing aid and investment from abroad, and attracted political support at home. Whether any such take off has actually occurred is debatable. A wry observation — whether a tourist influx and a building boom could be justified as a "take off" in the proper meaning of the term, and whether this was actually the result of conscious development strategy or of unforeseen forces of outside demand (Jones, 1971: 130) — was allowed to pass by discreetly.

The mirage of "ultimate viability" and "eventual maturity" has persisted stubbornly on the distant horizon. Today, almost 30 years after that statement was boldly pronounced, Malta is still perhaps just as far from any notion of indigenously led, self-generated development. Nevertheless, the irony is that the process of chasing the viability phantom



has proved productive. Malta can today boast of a success story that reads as a lesson in incorporation and even stronger dependency on exogenous forces. This may not be a palatable conclusion from a nationalistic perspective; and it also carries high economic stakes. However, this may be disregarded or camouflaged as long as the incorporation delivers the economic goods.

It appears only natural to assume that Malta's bid to join the EU is mainly intended to cement institutionally this incorporation and to guarantee even more solidly the transfer of largesse from the core to the small Maltese periphery. Interestingly, Malta's first development strategy, even prior to development planning in the 1950s, was actually to seek integration with Britain. The Maltese were quick to point out that their smallness was a factor that militated in favour of such an integration (Malta Round Table Conference, September 22, 1955, quoted in Pirotta, 1991: 79).



MALTA'S RELATIONSHIP WITH THE EU

Malta's economy is very heavily dependent on trade with, and tourism from, the EU: 75 per cent of imports and 87 per cent of tourist arrivals are of EU provenance, while 77 per cent of domestic exports are bound for EU destinations. In this respect, Malta is already much more integrated within the EU than certain EU member states. Employment is also largely dependent on investment in Malta by EU undertakings. Such linkage has markedly increased since the coming into force of the Association Agreement between Malta and the then European Communities (EC) in April 1971.

The aim of this association agreement was to consolidate and extend the economic and commercial relations existing between the two parties. It provided for the progressive elimination of obstacles to trade and the eventual establishment of a customs union. The customs union, however, never came into force, due to the reluctance of the Maltese Government to dismantle customs import duties that still constitute a considerable proportion of its annual revenue:



The formation of a customs union on its own is not sufficiently attractive for the Maltese Government to proceed to its achievement both because the customs union on its own would not give to Malta the other economic advantages which membership brings along with it . . . and because the political dimension of forming part of a Europe in the process of unification would be completely missing." (EC Directorate, 1990)

The suspension of customs duty and tariffs on Maltese textiles and clothing exports has been particularly beneficial. Malta has also benefitted from three financial protocols (1976, 1986, and 1989), which provided a total of 28 million ecus as grants and 65.5 million ecus as loans; while the Indicative programme of a Fourth Financial Protocol (1995–1998) is under review.

The two main political parties in Malta have taken pains to accentuate their different positions on the small country's relationship to the world's largest trading bloc. The Nationalist Party, which formed the government between 1987 and 1996, is keen to project Malta as having a clear and unequivocal European destiny. The Malta Labour Party, re-elected in 1996, has argued that accession is tantamount to neo-colonialism and harmful to Malta's economy, particularly its indigenous manufacturing, ship-repair, and agricultural sectors. For a time, it also investigated the possibility of promoting an alternative, Mediterranean common market, but without success. The differences between the two party platforms could be merely academic and both are essentially in favour of a stronger relationship between Malta and the EU (Bartholy, 1989).

Malta formally applied to join the three European Communities (ECSC, EURATOM, and EEC) in July 1990. There has been much talk of a democratic tradition and a European destiny and, therefore of a legitimate partaking in the unification and integration of Europe by Maltese sympathetic to the accession of Malta. However, the outcome is likely to be determined by sound economics rather than glib political statements.

Those Maltese industries that would be most severely affected by eventual accession would be those firms currently producing for the local



market and still operating in relatively sheltered conditions (Coopers & Lybrand Europe, 1991). These would also include the small full-time farming community, which represents 2 per cent of the total labour force and 4 per cent of total GDP.

The Nationalist Government of 1987–1996 opted to emphasize the net fiscal benefits that would accrue to Malta in the outcome of full accession: Malta would easily qualify as an Objective 1 Region and therefore a depository for various structural funds, resulting in a minimum calculated annual net balance of 40–50 million ecus, no small sum for a population just over a third of a million. Avenues for cultural exchanges, education, and employment abroad for socially mobile Maltese would also be wide open.

However, issues relating to the net specific impact on industry and local production were underplayed while the EU dragged its feet with Malta's application. The long-awaited opinion (*avis*) on Malta published by the European Commission in June 1993 suggests that the EU had reluctantly agreed to Malta's eventual accession (European Commission, 1993). This dilly-dallying and the information vacuum on industrial repercussions may have contributed to the Nationalist Party's defeat at the polls of October 1996.

The New Labour Government opted to freeze the EU application process and requested instead that existing relations with the Union should be strengthened short of full membership. As a consequence, Malta is no longer participating in the pre-accession strategy. In February 1998, the European Commission adopted a Communication about the development of closer relations between Malta and the EU. This includes specific proposals designed to establish the future relationship and strengthen political and economic links. It also vindicates the relative disinterest by the EU in Malta's accession bid:

Instead of hanging about the doorstep of an indifferent EU for years and years till somebody notices that we are there, all the government has to do is decide to go for a long term contractual agreement, leading to an industrial free trade zone. This option is the only viable and reasonable one for Malta. (Sant, 1995: 40)



The policy U-turn has sparked off an emotionally charged debate. The Labour Government has argued that the Malta-EU liaison had been savagely reduced to a simple, do-or-die matter of being either in or out of membership, when alternative diplomatic avenues could reap better economic benefits for Malta. The Nationalist Opposition accuses the Government of having effectively transposed Malta back 27 years, to the signing of the Association Agreement with the EU in 1970. It furthermore criticizes what appears to be the setting up of a free-trade agreement primarily dealing with industrial goods, in which Malta does not benefit from any EU Structure Funds.

What will be the definitive character of Malta's status in relation to the purported EU heaven? Will dependent development suddenly give way to a mock heroic attempt at self-reliance, a posture which discounts all but liberal economic recipes for sustainable growth? Irrespective of whether accession is secured or not, it is likely that Maltese negotiators shall continue to seek, and, one would hope, extract precious concessions on the basis of arguments associated with the condition of smallness.



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