Regulation: Malta’s economic bedrock

A small island state characterised by inherent vulnerabilities, Malta has managed to carve its economic success on the basis of an economic vision based on the power of regulation.

Malta’s jurisdictional innovation has allowed it to build a thriving economy, generating quality jobs and sustaining a generous welfare state. One can define it as an economic miracle but at its core lies the belief that regulation can provide opportunities.

It started way back in the 1960s when the third item on the agenda of the first meeting of the Borg Olivier government in 1962 was the possibility of turning an independent Malta into an international financial centre. The Cabinet Memorandum that was presented on the day also highlighted the advantages of creating a national maritime flag.

Today, Malta’s economy thrives on so-called regulated industries and on the innovative way the Maltese jurisdiction was used to attract investments and economic sectors.

The financial services sector is the most obvious example. Today we have a robust financial jurisdiction that has attracted a diversity of players in sectors such as banking, insurance, trusts, funds and pension schemes. The sector remains a key contributor to economic activity.

Asset registration such as the ship register, aviation and yachts are also prime examples of jurisdictional innovation. Today Malta continues to have one of the largest ship registers in the world and its aircraft register has already attracted some of the world’s largest players.

Remote gaming is yet another successful sector which was built on Malta’s use of regulation. Today the sector continues to grow and represents 12 per cent of gross value added. As the first EU country to license online gaming, Malta can now look back at almost two decades of uninterrupted growth in this sector with a fast-developing gaming ecosystem. The proposed regulatory changes will continue to reinvent the sector attracting additional industry players to the island.

Even if we look at manufacturing, primarily the pharmaceutical industry, it is Malta’s regulatory structure that has given birth to this important sector. In fact, pharmaceutical companies set up shop here to take advantage of the country’s legal framework that allows the development of generic drugs in advanced patent-expiry, known as the Bolar Exemption. The jurisdictional innovation allowed firms in Malta to conduct research and trials on drugs before the patent expired.

These are all success stories of economic sectors that are primarily based on regulatory frameworks. One therefore welcomes the government’s announcement of the world’s first legal framework for blockchain, artificial intelligence and Internet of Things devices. These technologies are disrupting many other industries and are seen to be the catalysts of the next industrial revolution.

It is important that any regulation and legal framework satisfies all anti-money laundering and KYC regulations without stifling technology innovation. To this end, regulatory sandboxes should be created to allow innovation to thrive in restricted environments.

Malta’s economy is built on regulation and jurisdictional innovation. Yet, in order to remain relevant as an attractive investment location Malta must continue to nurture its regulatory framework and to realign it with the demands of the future today. Government’s announcement on regulating services in blockchain is a step in the right direction.

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