

GOZO IN EUROPE: WHAT FUTURE ?

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Next year, the citizens of the Maltese Islands will be called upon to decide their future in the European Union by way of a referendum on whether or not Malta should be annexed to the E.U. as full member. This presentation will deal with the potential impact of an eventual Maltese accession to the E.U. on the island region of Gozo.

For much too long has the island of Gozo received lip-service to its justified call for a tailor-made plan of action which addresses our island region's specific weaknesses and which exhibits the required strategic vision to build upon the island's inherent strengths. Furthermore, in the context of the present administration's efforts to finalise its work on a National Plan for the Adoption of the *Acquis*, the subject matter of this paper is indeed of topical and timely significance for the Gozitan community.

In this paper I will argue that:

- (i) Malta's eventual accession to the European Union as a full member will restrict Malta's ability to foster an adequately differentiated economic base where business can thrive by successfully targeting and exploiting niche markets. This will directly undermine the ability of Gozo-based manufacturing activity to compete both in the international market and in the increasingly competitive domestic market.
- (ii) Even if, contrary to Malta Labour Party's insistence, the present administration presses on with its drive to achieve full accession to the E.U., a more determined effort than that evident so far is necessary to

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cater for Gozo's distinct needs. An eventual recognition by the European Union that Malta and Gozo stand on an equal footing as one region does not only take away from Gozo what is due to it by right, but it can also reasonably be expected to limit the discretion exercised liberally so far by legislators in the Maltese Islands to grant preferential treatment to Gozo-based businesses. Such preferential treatment has not only reduced transportation costs for a host of Gozo-based entrepreneurial activities, but it has also facilitated the execution of critical managerial functions by Gozo-based industrial concerns. Putting Malta and Gozo on the same footing will gradually but consistently shift manufacturing and services-oriented activities to the mainland leaving behind an underdeveloped Gozitan economy, overly-dependent upon central government expenditure.

The Need for Differentiating our Economy

The Malta Labour Party has for the past years emphasised that a clear critical mind is necessary if Malta is to forge the most beneficial relationship with the countries with which it trades most heavily. Acknowledging Malta's economic dependence on the fortunes of its most significant trading partners, the position put forward by the political party to which I belong has consistently harped on the belief that the successful integration of the Maltese economy with the rest of the international economy must rest on our ability to differentiate our economic set-up from those of our neighbours. The practical ramifications of this policy are obvious and will invariably affect our ability to thrive and prosper as an island nation whose population is less than half million people.

Thus the larger North and Central European neighbouring countries can rely upon an infrastructure which supports a wide array of industrial setups which are organised specifically to cater for mass-produced goods. The organization of production activities to cater for large batch production cycles permits these countries to compete with less mechanised production activities operating from countries with lower wage rates.

In the context of this widely acknowledged shortcoming, inherent to our domestic industrial setup, successive governments in Malta have asserted their willingness to enhance the attractiveness of establishing and operat-

ing business concerns in and from Malta. Governments have and still are striving to attain similar objectives by granting preferential treatment to business concerns whose operations address the most serious stumbling blocks for the domestic economy's drive towards greater prosperity. Thus, fiscal incentives are currently being granted to corporations which are heavily dependent upon overseas markets. It is reasonable to expect that the discretion which Maltese legislators have so far exercised over the design and implementation of similar industrial policy measures, will be curtailed by an eventual accession to the E.U. by Malta.

Other concerns relate more closely to fundamental macroeconomic issues. It is undeniable that the adoption of E.U. rules to regulate the conduct of economic, financial and social affairs will help consolidate separate national economies into one entity. In the macroeconomic management field strict adherence to centrally determined rules of acceptable conduct will be invariably expected. Thus Malta's eventual accession to the E.U. invariably implies that our economy must adhere fully to the European Monetary Union.

One crucial facet of a similar policy move consists in the irreversible locking of the external value of the domestic currency with the euro. The merits of a conservative, sustainable macroeconomic policy partly engineered by respectable European central bankers are hard to deny. At the same time, it is valid to reiterate that the Maltese can manage to steer their own economy along a sustainable route without being unduly shackled by the priorities of much larger economies which at the moment hardly bear any resemblance to the emerging Maltese economy. World renowned economists already expressed their reservation about the ability of the European monetary system to withstand asymmetric economic shocks mainly due to the economic differences prevalent within the current group of sixteen member states. Similar reservations, however, acquire glaring significance if one bears in mind the fundamentally different economic structures if the E.U. block on the one hand and the Maltese economy on the other.

Differences between Malta and Gozo

Even the most superficial glance at the structure of the Gozitan economy would reveal the significant differences which exist between Malta and

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Gozo. Our island region seems to be dependent upon very small, micro enterprises to a larger extent than our sister island. The culture of working for larger corporations seems to be less widely diffused than in mainland Malta. This may have been the result of the less stable performance our industrial estate may have been registering when compared to the much larger industrial estates operating in Malta. In many theoretical and academic discussions, Gozo has very often been attributed with a number of comparative advantages which should have continuously attracted business concerns away from Malta towards our smaller island. It was repeatedly asserted, over and over again, that Gozo does not have as tight a Labour market as that in Malta. Since the labour market conditions were not so tight, employers were expected to pay lower wages than those paid in comparable plants operating from Malta. Besides, Gozitan workers were described as hard-working, to such an extent that subsidiaries of multinational corporations, which at some point in time operated subsidiaries from Gozo, registered above-average productivity rates per worker employed in the Xewkija industrial estate

In spite of all these advantages which, at least theoretically, were expected to give our island a competitive edge over Malta, the number of manufacturing firms operating from our industrial estate did not increase in line with expectations generated by similar overly-optimistic and incomplete comparative assessments with the Malta situation. In the absence of official, publicly available figures, it is not easy to monitor the performance of Gozo-based manufacturing concerns both in terms of profitability and of employment creation potential.

Nonetheless, one cannot objectively argue that there is no feeling of uncertainty and lack of security with which Gozo based manufacturing concerns are being increasingly perceived by both entrepreneurs and workers alike. This feeling of uncertainty is not conducive to further growth and is the tangible result of the daunting array of difficulties and stumbling blocks which must be continuously overcome by business concerns operating from our island. I acknowledged this sober assessment is not easy to prove, much less quantify, in the absence of statistical indicators published separately for Gozo. I also fully acknowledge that policy makers in Malta might be tempted to shrug off my assessment of the difficulties facing whoever is doing business from the island as amounting to irresponsible scare-mongering which hits potential Gozo-based business

ventures hardest. However, I have always sustained that an unbiased, clinical assessment of the situation at hand must form the bedrock of any successful, workable proposal for Gozo.

Drawbacks Faced by Gozitan Entrepreneurs

The crude reality, I am tempted to maintain, is that theoretical advantages very often hastily heaped upon Gozo, ignore the more significant drawbacks which inevitably weigh upon entrepreneurs operating from the island. Thus, practitioners highlight employers' complaints about a host of characteristics embedded within the Gozitan economic structure which seriously hinder their successful operations. Very often these include a restricted array of skills mastered by the extremely small Gozitan labour force, unacceptably low inter-industry linkages to such an extent that Gozo business ventures remain overly-dependent on Malta for the provision of critical raw materials industrial supplies and business-related services. At the same time' employees argue that the low possibility of moving from one manufacturing concern to another seriously erodes the attractiveness of embarking upon a career within the Gozo manufacturing sector with considerable peace of mind. The effects of a similar outlook has resulted in considerable skill drain of some of the better-trained Gozitan employees to Malta.

The public sector has traditionally acted as a safety valve which tended to pay comparatively lower wage rates but which offered security and peace of mind. However, there was a natural limit for the maximum number of employees which could be recruited to provide public sector services on the island of Gozo. Employment within the emerging tourism and hospitality industry has registered noticeable improvements thanks to the vision to which some entrepreneurs subscribed, but still remains underdeveloped in relation to that existing in Malta. Most notably, the Gozitan tourism industry remains overly exposed to undesirable sharp seasonal fluctuations in tourist arrivals such that the potential of the industry to develop into a leading direct employer in Gozo remains untapped to a significant extent. Employment in agriculture and fisheries within Gozo had and still has to face the hurdles which also hindered its development in the larger sister island.

Business characteristics inherent to the Gozitan economy have given rise

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to a relatively high number of self-employed persons and of those who worked for extremely small family-owned concerns. Again, official figures for sectoral employment in Gozo are so far not published. But it is an everyday fact that a whole array of bakers, confectioners, construction workers, plasterers, transport-services providers, hairdressers, fishermen and farmers have set up their own small business. Advocates of full Maltese membership within the E.U. must still convince us that the unconditional opening up of the Gozitan economy will not threaten such a fragile economic set-up.

Now that government is just about to finalise the National Plan for the Adoption of the *Acquis* and thereupon start negotiations with the European Union Commission, the present administration must go beyond the mere repetition of clichés and void propaganda must instead present its own objective and scientific studies about the impact which the adoption of the *Acquis* will have on the fragile Gozitan economic set-up we have briefly described. One may ask here whether the task of objectively determining the impact of E.U. membership on the Gozitan economy has actually started now that we are about to start formal negotiations. Up to now, one cannot even come across separate sets of economic, financial and social set of statistics for the island of Gozo, let alone objectively determining and pragmatically tackling the challenging set of difficulties which beset business ventures in Gozo.

If separate social and economy indicators for Gozo are available to whichever bureaucrat in Malta is responsible to spell out Gozo's share in the cake following Malta's eventual E.U. accession, why is it that these figures are not yet rendered public? Could this be the case that the separate concerns of Gozo do not feature high in the priority list of Maltese bureaucrats? Is it the case that the complex set of problems that Gozo has got enmeshed in are being reduced simply to the improvement of transport facilities between the islands? If so, this would be highly objectionable, since it would amount to a gross over-simplification of the challenges Gozo is facing. The government is still duty bound to convince us the E.U. programmes for small and medium sized concerns provide the right solutions for Gozo. Government must elaborate the economic logic upon which small and medium-sized man concerns in Gozo are thought not to be threatened by huge corporations which, through their financial muscle and savvy mass marketing skills, have penetrated in markets world-wide

Supporters of Malta's full accession to the E.U. must elaborate, in a more pragmatic fashion, the way they intend to deal with the disruptions in the social and economic fabric of Gozo following the opening up of the Gozitan market to foreign competition along time schedules which we consider not to be in the best interest of Malta. Accepting that competition and the opening of markets might produce economic gains does not justify subscribing to time schedules which can only be met at huge costs for the local business.

Malta and Gozo as One Region?

This brings me to my second major preoccupation. According to preliminary feedback provided by government agencies, Malta is expected to follow Ireland's example and negotiate its position with the E.U. as one whole region. It is undeniable that Malta is a tiny country with a population which is much below officially-recognised regions within the E.U. member States. But it is equally undeniable that the Gozitan economy has many peculiar characteristics which differentiate it from the more evolved Maltese economic structure.

These fundamental differences have been acknowledged by successive Nationalist and Labour-led administrations and specific pieces of legislation have been enacted to facilitate and even discriminate in favour of setting up business in Gozo. An eventual official confirmation of government's intention to put the island of Malta on the same footing as Gozo would dilute the current discrepancies in average per capita income between Gozo and the E.U., thereby depriving Gozo of a proportion of shares in funds allocated by the E.U. towards disadvantaged regions.

More importantly such a negotiation stance will amount to a blatant negation of efforts by past governments to neutralise the disadvantages which are increasingly siphoning business opportunities away from Gozo into Malta. This negotiation strategy would be objectionable since it will fossilise the current disparities between the two islands and will even accentuate them.

As already highlighted, Gozo does not seem to be keeping pace with the structural transformations registered in mainland Malta during the past

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years. In this sense, its level of integration with the Maltese economy has not improved. The development which immediately springs to mind relates to the significant increase in economic activity registered by Malta within the financial services sector, an economic development which both leading political parties have been supporting during the past years. The amount of economic activity currently being generated by the financial services sector in Malta is indeed noteworthy. Both leading political parties have during the past years acted in perfect unison to spearhead Malta into this rapidly expanding sphere of economic activity.

It is widely acknowledged that these developments are not only generating handsome profit levels, but are also widening the career prospects for a pool of highly trained young recruits in Malta. Unfortunately, however, Gozo is living in almost perfect isolation from these radical developments which are significantly increasing the standard of living of the Maltese. No matter to what extent Gozo can aspire to improve transportation facilities between the two islands, it can never reasonably expect to share in similar high value-added, high-skill economic activities, simply because Malta enjoys a significantly more evolved human, physical and institutional infrastructure. We assert this at the peril of being unjustly accused of nourishing a degrading perspective of the resourcefulness of Gozitans. On the contrary, we believe that a frank assessment of Gozo's strengths and weaknesses should constitute the basis for the strategic choices ahead of us. And the present government's attempt to put Malta and Gozo on the same level playing field amounts to a negation of what is obvious for all of us.

Conclusion

The European Union is a leading economic power block in the international setting, but more importantly for us, it constitutes by far Malta's main trading partner. So Malta should seek to consolidate further its trade relations with the Union. But as every run-of-the-mill strategic management practitioner would acknowledge, smaller organisations can thrive along much bigger ones only in so far as they manage to differentiate the way they organise their business and their end products from those of their much larger competitors. However, an irreversible locking in of our economic and social fabric with that of the E.U. will largely neutralise the factors which permit us to differentiate Malta's economic institutional and

organisational set-ups from those prevalent in the E.U. This will undermine our ability to integrate further within the increasingly competitive international economic scenario.

In addition, even if the present government persists along the route to push Malta towards full E.U. membership, one cannot but oppose vehemently government's intentions to put Malta and Gozo on the same footing in the negotiation phase with the Union. The structural characteristics which currently differentiate Gozo from Malta would be accentuated. The Malta Labour Party argues that the current legislative set-up which aims to neutralise some of the daunting drawbacks undermining Gozo's competitiveness needs to be strengthened further because the evidence at hand indicates persistence of an unacceptably low degree of economic integration between Malta and Gozo. An official recognition that the Maltese islands constitute one single region within the E.U. would deal a major blow to Gozo's ability to keep up with the larger sister island that will definitely not be mended by patchy *ad hoc* programmes offering limited financial assistance to Gozo.

On the basis of these considerations, the political party to which I belong advocates the further consolidation of trade relations and of other forms of cooperative arrangements with the E.U. in so far as they strengthen the underpinnings of our competitive edge in the international scenario. At the same time, Gozo should have a carefully-crafted strategic plan whose ambitious aim would not fall short of achieving what so far has proved to be elusive for successive administrations, namely the attainment of an acceptably high and sustainable level of economic integration of the Gozitan economy not only with that of our larger sister island but also with the international economy. Equally important, the implementation of this strategic plan for the island region of Gozo should be considered of utmost importance and should proceed ahead even if it does not feature high in the priority list of our trading partners. This is the way forward we consider appropriate for the advancement of Gozo, a vision which occupies a central and pivotal role in our political agenda, which we are not willing to dilute to fit it into some prefabricated one-size-fits-all policy for economic, social and political advancement.