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MESSAGE FROM THE CHAMBER PRESIDENCY

‘Smart, Sustainable Island: Setting the Pathway for Malta’s Future Economic Growth and Social Wealth’.

It is my pleasure, and honour, as President of the Malta Chamber of Commerce, Enterprise and Industry to write these few lines, to mark the objective of this landmark document.

Our Chamber, which this year is celebrating its 172 years since its establishment, has always taken it upon itself to be a responsible, ethical, proactive and forward-looking organisation. Proudly boasting among its ranks, Malta’s foremost powerhouses of industry, the Chamber has always ably and strongly represented the true and authentic opinions of the country’s economic operators.

This unrivalled wealth of knowledge and experience has historically enabled the Chamber to confidently speak on behalf of businesses with authority. This in turn has resulted in the Chamber being considered amongst the country’s most reliable and respected voices of truth and national values.

One such instance took place earlier this year, when the Chamber produced a detailed document featuring concrete proposals aimed at good governance of the highest order. The document was extremely well received by all and sundry, and several of its recommendations were taken on board by Government from the very first day.

It is once again time for our Chamber to leave yet another mark on this country’s socio-economic journey. It is The Malta Chamber’s ambition to direct and ambitiously lead our Nation towards a ‘Smart, Sustainable Island: Setting the Pathway for Malta’s Future Economic Growth and Social Wealth’.

The document you currently hold in your hands is the result of a long process of research, foresight and vision. With this new Economic Vision for Malta, which is envisaged to cover the years 2020–2025, we have decided to adopt a revolutionary approach and consider proposals beyond the traditional boundaries expected of a Chamber of Commerce.

In fact, our vision is driven by two main ambitions. On the one hand, our objectives aim at achieving smart economic growth. Moreover, and through an equally important trust, we seek to secure sustainable economic development. Both objectives are motivated by underlying national economic determinants.

The first ambition – that of achieving smart economic growth – derives from the importance of designing and building operating models around innovation and technological capabilities in knowledge-based enterprises, value-added manufacturing, and service sectors such as retail and tourism.

In second ambition emphasises the concept of a smart Malta economy, which brings with it a new perspective on economic growth – one that seeks constant improvement in the living conditions and the quality of people’s lives, including the surrounding environment and its sustainability.

The Chamber considers that these two seemingly contrasting views are actually complementary. A smart Malta economy must and cannot exclude integration of true sustainable economic development.

The state of the environment makes a significant contribution to every citizen’s quality of life and securing sustainable economic development is no less critical than the constant endeavour to achieve increased competitiveness. Economic growth must not neglect the environmental drivers but consider alignment as essential. The quality
"It is The Malta Chamber’s ambition to direct and ambitiously lead our Nation towards a ‘Smart, Sustainable Island: Setting the Pathway for Malta’s Future Economic Growth and Social Wealth’.”

of the preparedness of our youngsters to join the national economic operations cannot be taken lightly. It is clear that most youngsters today are being educated in preparation of an industry that probably does not exist today. Hence the prioritisation of skills and creative thinking must form part of this sustainable economic growth ambition.

At this juncture, I cannot but express my complete and unreserved recognition and appreciation of the work of the CEOs of Malta’s foremost businesses, who have contributed with their visions and ideas, to mould this document. The Malta Chamber, has once again found within its membership the excellent vision which has enabled it to aspire, and believe in an extraordinary future for this country. The Chamber and I are eternally indebted to these extraordinary business leaders that have contributed to this document, without whose tangible and visionary contributions, it would not have been able to become reality.

In conclusion, I wish to quote Judge Giovanni Bonello, who in his foreword to our publication ‘La Borsa: The People, The Building, The History’, describes The Chamber as ‘...a force impossible to ignore and difficult to challenge’. It is in moments like these, and with the sterling contribution of our members that we, continue to build this unrivalled reputation.

We are nothing but tireless to continue being a responsible and ethical national leader to be reckoned with in our country’s socio-economic journey of this great Country.

David Xuereb
President
The Malta Chamber of Commerce, Enterprise and Industry
SPECIAL THANKS & RECOGNITION

The Malta Chamber is grateful for the contribution of the individuals behind this document.

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INTRODUCTION

In 2013, the Malta Chamber of Commerce, Enterprise and Industry (Chamber) – through its mandate as established in its mission statement1 – took the strategic decision to assume a more proactive role in influencing Malta’s economic vision. A working group of 20 Chief Executive Officers from leading enterprises in the manufacturing, retail, financial, and services sectors, who were members of the Chamber, was established to draw up an Economic Vision for Malta for 2014–2020.

The Economic Vision was underpinned by five policy fundamentals: securing economic prosperity; fostering human development; supporting the further development of business and enterprise; building an innovation infrastructure; and, investing in infrastructure and the environment. Within the context of these five policy fundamentals, the Vision sought to identify the investment required during its period to secure targeted economic growth.

The 2014–2020 Vision was drawn up at a time when global and European economies were grappling with the aftershocks of the worst financial and economic crisis since the Great Depression. European Union (EU) member states (MS), such as Portugal, Ireland, and Italy, implemented austerity programmes to bring government debt under control. Within the context of these five policy fundamentals, the Vision sought to identify the investment required during its period to secure targeted economic growth.

The 2014–2020 Vision was drawn up at a time when global and European economies were grappling with the aftershocks of the worst financial and economic crisis since the Great Depression. European Union (EU) member states (MS), such as Portugal, Ireland, and Italy, implemented austerity programmes to bring government debt under control. Furthermore, Greece was enmeshed in a sovereign debt crisis, and southern Mediterranean MS experienced high youth unemployment.

Malta emerged relatively unscathed from the turmoil that beset the Eurozone. By early 2013, Malta’s economy had stabilised, and the future economic outlook was, on balance, positive. However, what was of particular concern to the Economic Vision was that while at national and business levels Malta saw through the crisis with relatively minimal retrenchment, other MS and businesses were forced to retrench to survive the crisis. Such firms emerged leaner, more efficient and, hence, more competitive than Maltese enterprise. It was, therefore, speculated that this state of play could affect Malta’s economic growth.

This concern did not materialise. The ripple effects of the 2008 crisis continued well into the 2010s in several MS, thereby limiting the overall economic growth of the Eurozone. However, Malta – together with a small number of other MS – bucked this trend. Over the past six years, Malta has experienced an unprecedented rate of economic growth. It is an economic performance that has seen the country reduce its debt structures, achieve budget surpluses, and reach a quasi-zero natural rate of unemployment. The latter has even led to the importation of foreign talent to continue to sustain the pace of economic growth.

Within this background of growth and financial stability, Malta’s credit ratings were strengthened. For example, in July 2019, Moody’s declared that Malta’s credit profile (issuer rating A2, stable) is supported by the country’s “economic strength, reflecting its recent strong economic performance and elevated wealth levels that in turn support the ability of Malta’s very open economy to absorb external shocks; [...] fiscal strength balances the government’s high debt affordability and declining debt burden with the country’s exposure to contingent liabilities from state-owned enterprises.”2

This 2020–2025 Economic Vision, however, has been drawn up within a different global, European and national context than its previous edition. On an international level, the world is grappling with a United States of America (US)-China trade war and a revival of protectionist trade policies, which create the potential for short-term and medium to long-term threats to the global economic system. Europe is unlikely to emerge unharmed. In May 2019, the Organisation for Economic Cooperation and Development (OECD) warned that uncertainties associated with trade disputes between the US and its partner countries are negatively affecting growth and global business investment, which is projected to rise by only 1.7 per cent in 2019 and 2020, down by half (3.5 per cent) from the 2017–2018 period.3

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1 The Chamber’s mission is to vigorously influence the formation of policy at national and European levels towards the development of a culture of enterprise and the creation of favourable conditions to the advantage of Members and the interests of the wider community.
Malta in 2020 is similar to Malta in 1990: it is at a crossroads where decisions taken today will shape Malta’s medium to long-term future.

At the time of writing, the EU is facing the real prospect of a no-deal BREXIT. With the United Kingdom (UK) being the world’s fifth-largest and Europe’s second-largest economy, economic uncertainty will prevail even if an agreement is reached with the EU on exit because there is no roadmap to follow or analogy to invoke as a guide or a pattern for how a BREXIT will reverberate over the coming months and years. Furthermore, the EU has also seen a rise in populist parties – an increase resulting from a failure to resolve the whiplashes of the 2008 crisis, such as high youth unemployment, austerity, social malaise, and disagreement about fundamental nationalistic responses to immigration and multiculturalism. In addition, Italy’s ‘perma-recession’ risks a financial crisis in the form of a Greek-style collapse that may threaten the Eurozone itself.

Despite this state of play, Malta continues to prosper. Indeed, there is a danger that Malta’s economy is overheating. One indicator that is flashing ‘red’ is the construction sector. Construction reflects the underlying condition of the economy. Maltese developers, as well as individuals, are investing their money into new buildings – primarily bringing larger levels of residential and commercial supply on stream.

As reported by KPMG, as long as the price increases are generated by stable and growing demand, then this should not present a threat to the health of the property market and prices. It is nevertheless important that the key stakeholders in the market exercise prudence and moderation in order to allow for the rest of the economy to adjust to the current construction boom and reduce any risks related to market overheating.

Malta also faces other challenges. The European Commission (EC) 2019 Country Report identifies that while Malta’s economy continues to grow strongly, the main challenge is ensuring that its development is sustainable in the long term. The EC singles out the fact that while the banking sector remains sound, shortcomings in anti-money laundering enforcement have resulted in reputational risks. It emphasises the need to focus investment on skills development, innovation, infrastructure, and natural resource management to strengthen the sustainability of Malta’s economic growth. It also underlines that the outcomes of poor education may limit growth prospects, and it adds that pressure on infrastructure is creating further burdens on sustainability.

The 2020–2025 Vision seeks to present an economic pathway that will ensure prosperity for the Maltese in the long term. The Chamber considers 2020 to be a pivotal year. The right choices will enable Malta to evolve in a fast-changing world increasingly driven by disruptive innovation, technology, and increasing concerns about sustainability and the impacts of climate change. Malta in 2020 is similar to Malta in 1990: it is at a crossroads where decisions taken today will shape Malta’s medium to long-term future.

The 2020–2025 Vision is two-pronged – on the one hand, it aims to achieve smart economic growth whilst, on the other, securing sustainable economic development. Both elements of the Vision are underpinned by a number of strategic principles and are based on the presence of national economic determinants which need to be in place. The document lists over 50 recommendations for the achievement of the required national economic determinants and the attainment of both strategic thrusts. This time round, the Chamber shall be following the uptake of its recommendations by identifying a number of indicators that will tangibly assist in the measurement of progress throughout the time period covered by the Vision.

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THE 2014–2020 ECONOMIC VISION AND ITS IMPACTS

The Chamber presented its 2014–2020 Economic Vision to the Government and the Opposition in early 2014. The response from both was overwhelmingly positive. Indeed, the Prime Minister’s Office took the lead – through individual Ministries and entities – to regularly meet with the Chamber to follow up on the implementation of the recommendations presented in the Vision. A key recommendation was the need for the Government and public service to become partners with business and enterprise. The Chamber states that this is a recommendation that Government openly embraced. In this regard, the Chamber found a partner in Government, one with a ‘can-do’ approach to handling business-related issues. Always ready to listen, Government is, invariably, ready to act and creatively find solutions.

The Government also adopted recommendations relating to the formal establishment of partner institutions with the Chamber – that is, public-private partnerships (PPPs) – directed to promote Malta’s credentials as a worthy business player in the global landscape of trade, tech, and education. These PPPs were also set up to strengthen the business ecosystem for overseas growth.

The commissioning of the 144MW power plant, which is more efficient and economical, resulted in the lowering of energy tariffs for businesses – though not to the extent demanded by the Chamber. The introduction of the new LPG plant saw a significant reduction in the CO2, NOx, SOx and greenhouse gases (GHG) emitted through the generation of electricity. The Chamber also recognises that, for the first time, a concentrated effort is underway to reconstruct Malta’s roads and to build new roads and flyovers to remove transport bottlenecks, which negatively impact productivity. At the same time, the Chamber questions the focus on the widening of roads and the limited short-term benefits of this approach relative to the rate of growth in new vehicle registrations. The Chamber has consistently called for longer-term direction and solutions in the area of multi-modal transport.

The Chamber lauds Government on its strategy of fiscal prudence, which has resulted in budget surpluses for the first time in years and a commensurate lowering of the Debt-to-GDP ratio to more manageable levels. It positively notes that the Government has adopted its recommendation to set up a post-doctoral research capacity. Furthermore, the decision to establish the National Development Bank, which provides the country with a policy instrument directed to address market failures, has been a positive one.

The Chamber regrets that several core recommendations that it presented in its 2014–2020 Vision were not adopted. The Vision underlined the importance of positioning Malta as a premium global brand, but the events that unfolded ever since the mishandling of the Panama Papers revelations in 2016 have all but ruined Malta’s brand and reputation on the global scale. Through its members and interactions with foreign business organisations, the Chamber has clearer visibility than most of the huge unquantifiable damage incurred.

The Chamber stated that Malta’s continued economic success and social development depended on its ability to achieve bipartisanship, constancy of purpose, and a culture of cooperation within society, as well as an ability to recognise and establish national priorities. This has not been achieved. Partisanship in policy design and implementation is at the highest it has been since the 1980s. Bipartisanship is openly not sought, and where bipartisanship previously existed, this has broken down.
“The Chamber lauds Government on its strategy of fiscal prudence, which has resulted in budget surpluses for the first time in years and a commensurate lowering of the Debt-to-GDP ratio to more manageable levels.”

The Chamber further recommended that the Government should undertake economic and social measures that are both remedial and proactive, and that require time and a national, concerted effort to come to fruition. There are policy areas where the desired results are not being achieved. Of significant concern are the poor results in education and the nature of engagement in this area. Despite investment in education and reforms to create student-centric learning and applied education pathways in the curriculum, the fact is that the outcomes are poor on practically all education performance indicators. In the OECD’s Programme for International Student Assessment (PISA) 2015, the proportion of low achievers in science, reading, and mathematics among Maltese 15-year-olds was significantly higher than the EU average. Results from the 2016 Progress in International Reading Study (PIRLS) ranked Malta in 40th place out of 50 participating countries in terms of overall performance. Moreover, the proportion of early leavers from education and training, while continuing to decrease slowly, is still the highest in the EU.

The Chamber underlined the importance of balancing economic growth with a sustainable environment and in reversing the uglification of Malta. During the term of the vision, Government opted for a contrary policy position. Government has favoured a policy of low enforcement and fragmented regulation towards construction resulting in over development, land abuse, and sanctioning of development in Outside Development Zones (ODZ). Very limited value is being given to qualitative development with aesthetics that is in keeping with a maturing and educated society.

In terms of sustainable development, the Chamber strongly believes in the concept of resilient communities which considers the pivotal role that businesses could play in complementing ongoing and new local efforts towards establishing a more equitable, inclusive and sustainable society. However, in order to do so, a transformative change is needed, one which sees companies integrating environmental, social and good governance approaches into their business models, in tandem with strengthened partnerships between business, local government and civil society.

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At this juncture, the Chamber recognises that Malta is at a crossroads. The decisions that are taken during the term of the 2020–2025 Vision are ones that will define Malta’s future over the coming 20 years. For this purpose, the Chamber presents a Vision that has a shorter timeframe – a six-year horizon rather the seven-year term of the previous Vision. It is the Chamber’s judgement that the fast-moving global, regional, and local challenges – coupled with the rapidly changing landscape of disruptive technologies and innovation – place constraints on the time required to make important decisions. These are decisions that lay foundations or build on existing policies that will determine Malta’s future economic growth and social well-being. The Chamber establishes the following as the Vision that guides Malta over the 2020–2025 period:

This Vision is two-pronged. On the one hand, it aims at achieving smart economic growth and, on the other hand, securing sustainable economic development. Both prongs are based on the presence of underlying national economic determinants.

The first prong – that of achieving smart economic growth – derives from the importance of designing and building operating models around innovation and technological capabilities in knowledge-based enterprises, value-added manufacturing, and service sectors such as retail and tourism. Examples include the use of AI in financial services, 3D printing in value-added manufacturing, big data analysis in retail, and the Internet of Things (IoT) for improved quality for tourists and Maltese alike through the use of smart bins. Regardless of method, this is important in order to improve flexibility and efficiency and extend sectorial reach beyond the domestic market.

The achievement of smart economic growth is also secured through the value-added utilisation of human capital – that is, the knowledge, skills, and creativity of people in their ability to effectively translate ideas into innovation and smart business models, processes, products, and resources.

The concept of a smart Malta economy brings with it a new perspective on economic growth: one that seeks constant improvement in the living conditions and the quality of people’s lives, including the surrounding environment and its sustainability. Importantly, the two are not mutually exclusive. On the contrary, a smart Malta economy departs from the traditional economic development approach. It is one that integrates within it sustainable economic development. The state of the environment makes a significant contribution to every citizen’s quality of life. And securing sustainable economic development is no less critical than the constant endeavour to achieve increased competitiveness. Driving economic growth while neglecting the environment is short-sighted and counterproductive. An important economic sector that may pay the cost of such an approach is tourism.

“Smart, Sustainable Island: Setting the Pathway for Malta’s Future Economic Growth and Social Wealth.”
THIS 2020–2025 ECONOMIC VISION IS UNDERPINNED BY A NUMBER OF STRATEGIC PRINCIPLES AS PRESENTED BELOW.

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<th>Principle</th>
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<td>Quality</td>
<td>The Government, business leaders, educational institutions, and civil society must instil quality as an inherent characteristic of Maltese business and society at large.</td>
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<tr>
<td>Innovation &amp; Technology</td>
<td>The Government, business leaders, and educational institutions must place innovation and technology at the heart of sustainable economic growth.</td>
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<td>Global Reach</td>
<td>Malta must integrate further into the global economy by facilitating the global trade of services and value-added products of enterprises (through local as well as foreign investment) – and, in doing so, linking with branded anchor investment and innovation that can be exported.</td>
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<td>Human Capital</td>
<td>Malta’s vibrant economic growth into the future demands that citizens have a high level of competencies and skills relevant to the dynamic businesses of today and the future – and, where necessary, it attracts to Maltese shores the best and brightest of foreign talent.</td>
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<tr>
<td>Productivity</td>
<td>Productivity is the cornerstone of economic growth. Businesses as well the Government must optimise technology, innovation, and human capital to achieve increases in productivity.</td>
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<tr>
<td>Governance</td>
<td>Strong institutions are needed to secure the rule of law, transparency, equity, accountability, effectiveness, and efficiency.</td>
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<tr>
<td>Social Cohesion</td>
<td>In a relatively short period, Malta has become a multicultural society calling for increased national prosperity and social harmony.</td>
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National economic determinants envelop critical economic fundamentals – the absence of which will at best limit and at worst impair economic and social growth and well-being.
NATIONAL ECONOMIC DETERMINANTS

The Vision identifies four national economic determinants:

(a) Long-term Macro-economic Stability

The Chamber is cognizant of the sound fiscal management approach adopted by the Government, which has had a major contribution to on-going economic expansion and higher standards of living. The Chamber, however, agrees with the EC’s 2019 Country Report that the main challenge to Malta’s economic and social prosperity is achieving sustainability over the long term. The Chamber identifies three sectors, the management of which is key to Malta’s long-term economic and social well-being.

Reforms in the pension system have been underway since 2004. Much has been achieved in terms of stabilising the system through increasing active labour participation in the economy, which includes increased female labour force participation, increased over 61-year-old participation, and increased number of years worked. The active labour force participation rate has also been boosted by the significant number of EU and Third Country Nationals (TCNs) employed in the economy. Migrant labour participation has improved the Government’s fiscal position as general revenue has benefitted from increased contributions. However, these contributions are not ring-fenced in a pension fund and invested for the benefit of its members. Revenue from contributions is spent today, in the here and now. In the future, a significant figure will have to be paid to EU citizens who worked in Malta and TCNs who qualify for a pension.

In the light of the strains which state pensions pose on our public finances, our Chamber has supported optional second pillar pensions for the past few years. Under similar occupational pension schemes, employers’ contributions are entirely voluntary and employees can opt to pay a percentage of their salary through a payroll deduction that entitles them to a fiscal incentive. The legislation that paved the way for the introduction of Voluntary Occupational Pension Schemes in Malta was indeed a welcome step in the right direction. The improved tax incentives announced in the 2019 Budget contributed to increased interest by employers in these schemes. Clarity is still required on aspects of the legislation which is hindering further take-up. The Chamber recommends further consultation with providers of these schemes for their feedback and advice.

Securing an adequate pension by means of the state pension alone will negatively impact the pension deficit as a percentage of GDP unless this is coupled with increases in the social security contributions and/or income tax – or unless Government considers alternative options.

Demand for healthcare provision is sizeable and growing, the potential benefits of which are high. However, these benefits come at a substantial cost. The Chamber recognises the efforts made by this and previous administrations in investing in preventive healthcare and innovative interventions and medicines. An ageing population, however, poses a risk to the sustainability of healthcare financing. Increased longevity leads to an increased demand for services over an extended period of time, thus increasing total lifetime healthcare expenditures. This is spurring significant growth in the demand for elderly-related health and long-term care services. Additionally, population ageing has significant effects on the consumption structure of the national economy as elderly households may not have the necessary spending power that they enjoyed while in employment.
As the share of financing of long-term care increases as a percentage of GDP, the result is that other strategic policy areas, such as pensions, health, and education, have to compete for financing; that is, unless there are countervailing reductions through efficiency, effectiveness, and economic reforms that roll back the cost of some services provided today. The Chamber emphasises that the Government should embark on a national discussion resulting in a bipartisan agreement on the reforms required in pensions, health, and long-term care so that these are rendered sustainable and adequate for current as well as future generations.

**RECOMMENDATIONS**

01. **Government should embark on further consultation process with 2nd pillar pension products providers to seek ways to improve the take-up of these schemes by employers and employees.**

02. **There is a need for Government to embark on a national discussion resulting in a bipartisan agreement on the reforms required in pensions, health, and long-term care so that these are rendered sustainable and adequate for current as well as future generations.**

“The legislation that paved the way for the introduction of Voluntary Occupational Pension Schemes in Malta was indeed a welcome step in the right direction.”
(b) Digitalisation

Malta has been at the forefront of leveraging the advantages of the Internet as an instrument for economic and social reform. Indeed, through foresight supported by significant investment in information and communications technology (ICT) – both hard and soft infrastructure – Malta has transformed from a closed economy dependent on heavy industry, low-cost manufacturing, and tourism to an open economy reliant on knowledge services, value-added manufacturing, and e-tourism. The economic and societal changes brought about via the Internet have also revolutionised ‘traditional’ sectors: local tourism is now primarily driven by e-tourists who are connected online at all times; through integrated supply systems, industry enables just-in-time (JIT) production; and, retail uses big data–driven personalised marketing campaigns. The actions taken over the past 25 years have enabled Malta to flourish by optimising the opportunities afforded by the Internet.

5G – the next generation of mobile wireless network technology – is expected to commence rollout in 2020. It will improve consumer experiences and business utility through faster data transmission and more reliable connectivity. A critical determinant of 5G’s economic impact will be the extent to which it is more than an incremental advance on previous mobile technology, or even a more radical shift to a ‘general-purpose technology’ (GPT) – one typically associated with industrial revolutions.

The 5G–based, new digital economy (NDE) brings three new dimensions that are likely to impact business. Firstly, there are new sources of data from smartphones to sensors resulting in vast quantities of data in the cloud, thereby creating information pools that can be used for new products and services. Secondly, business models based on technology and product platforms are found in a range of manufacturing and service sectors, radically altering business structure and the terms of competition. And thirdly, there are likely to be positive productivity effects across different economic sectors as scaling up is not deemed to be expensive.

As with the digital economy, in the NDE, businesses (and future emerging disruptors) will undoubtedly be at an advantage in countries that are quick to introduce the necessary supporting frameworks for businesses to be able to take advantage of new technologies and mitigate the risks. They will be more efficient, reach and serve customers more effectively, speed up new product development, and invent entirely new products and services without the need for deep pockets or deep system–level expertise.

The Chamber is aware of the work undertaken by the Government to position Malta at the edge of the NDE. Nevertheless, the Chamber is concerned that the Government’s primary focus seems to be technology itself. As important as this is, Malta can only be in a position to leverage the NDE if it adopts a focused, systematic, and sustained approach across the NDE’s entire ecosystem. The Chamber recommends that a Prime Ministerial–led task force, which will include the Chamber and other important stakeholders, should be set up to lead the design and implementation of the fundamental elements that allow Malta to be a ‘winner’ in the 5G–based NDE – as it was in the Internet information economy.

Successive governments have applied ICT to secure better service delivery to businesses (G2B) and citizens (G2C). This administration has orientated such services towards mobile government. The Chamber recognises that the Government has resolved the e–ID issue, which had become an inhibitor to the uptake of the e–/m–government services. However, despite the massive investment in e–/m–government, there is little evidence of economic savings gained. While it is understood that face-to-face interaction remains a service channel, it is expected that the number of front offices and employees will be reduced significantly after 20 years of e–/m–government implementation, as people will have opted to use the more convenient 24/7 e–service. The Chamber recommends that the Government undertake an extensive review of the use of e–/m–government services to identify bottlenecks that have prohibited their use or uptake. And subsequently, the Chamber recommends the Government undertake the requisite actions to actually deliver the expected economies that were to be delivered.

The application of G2B was never architected as it was with G2C. The result is that there is no single portal – like that found in, among others, Singapore and Dubai – that brings together the portfolio of e–services that relate to business. Other than services that relate to core business administration functions, such as customs, income tax, VAT, and employment, the use of e–/m–government business services is a ‘hit-and–miss’ approach. The Chamber recommends that the Government task the Malta Information Technology Agency with building a Business e–Portal that is underpinned by virtual processes and functional alignment to create efficient, effective, and economic triggered processes, and directed to reduce the cost of administration to business.
“The Chamber recommends that a Prime Ministerial-led task force, which will include the Chamber and other important stakeholders, should be set up to lead the design and implementation of the fundamental elements that allow Malta to be a ‘winner’ in the 5G-based NDE – as it was in the Internet information economy.”

03. A Prime Ministerial-led task force, which includes the Chamber and other important stakeholders, should be set up to lead the design and implementation of the fundamental elements that allow Malta to be at the forefront of the 5G-based new digital economy, just as it was in the Internet information economy.

04. There should be an extensive review of the use of e-/m-government services to identify bottlenecks hindering the uptake and use of these services. And subsequently, the Government should undertake the requisite actions to actually deliver the expected economies that were to be delivered previously.

05. The Malta Information Technology Agency should be tasked with building a Business e-Portal that is underpinned by virtual processes and functional alignment to create efficient, effective, and economic triggered processes, and directed to reduce the cost of administration to businesses.
(c) Governance, Government, and Judiciary

The events that unfolded ever since the mishandling of the Panama Papers revelations in 2016 and culminating in the outcome of investigations of the Daphne Caruana Galizia murder have all but ruined Malta’s brand and reputation on the global scale. Through its members and interactions with foreign business organisations, the Chamber has clearer visibility than most of the huge unquantifiable damage incurred.

There are no easy answers here. In November 2019, the Chamber went on record to demand a systematic and sustained clean-up of the whole system in the shortest period of time. Ethical businesses of the kind represented by the Chamber, expect to operate in an environment where checks and balances function properly, the rule of law reigns supreme and everyone plays on a level playing field.

The previous Vision promoted the notion of partnership between the private and public sector as two sides of the same coin which is economic growth and development. To this end, the Chamber was satisfied to note the establishment of new Private Public Partnerships in the area of the promotion of international business and inward investment. It also noted positively the Government’s willingness to legislate to open new economic sectors, such as in the NDE. Together with the Chamber and its members, it is a recognisable fact that the Government was pro-active in supporting growth and co-operated in securing solutions to problems. This is a legitimate, pro-active government-to-business relationship that the Chamber will continue to promote, develop and work towards during the term of this Vision.

The Chamber reaffirms its unremitting belief in the three main pillars of good governance, namely (1) Accountability, (2) Transparency and (3) The Rule of Law. They hence commit to providing their active input and support to the reforms that must be undertaken to ensure that these three pillars are restored and upheld in the Chamber’s Economic Vision for Malta.

To this end, it therefore demands a systematic clean-up of all structures and offices that have been implicated in facilitating corruption, whether actively or through their inaction, and a thorough review of all public procurement contracts that have been negotiated by implicated persons, to ensure that the national interest is safeguarded.

On the positive side, the public service, which is at the centre of the country’s social and economic well-being, has moved forward with great strides as a result of on-going reforms over the years. The quality of service in certain areas, such as health, is world-class. Despite significant constraints within the policy, strategy, and technical layer of expertise, Malta has managed to excel in the management of new and expanded responsibilities that have come its way as a result of Malta’s membership in the EU. Processes must be clear and transparent and if and when allegations of corruption and malpractice arise, the response must be clear and unequivocal. The Chamber underlines that the Government must have a zero-tolerance policy towards all levels of corruption, whether administrative or financial.

It is not always clear whether government departments and agencies are held to account for their performance. In part, this stems from the fact that the Government continues to operate on an input rather than output and outcome-based budgeting process. The Chamber advocates that the Government should embark on output and outcome-based budgeting reforms that are underpinned by performance metrics and transparent public reporting.

Moreover, politicians and Politically Exposed Persons (PEPs), whether elected or appointed, must lead by example and must set the tone at the top. They must take the indisputable moral ground against dubious practices and must not allow actions that may be perceived to be unethical.

It is important to ensure the full independence of public entities from any direct or indirect political intrusion and interference. Likewise, it is essential to guarantee full transparency and accountability in the public sector and Government agencies.

At the time of writing, the Party in Government had just selected their new Leader, the Honourable Dr Robert Abela, who has taken on the Prime Ministerial responsibilities and appointed a new cabinet. The Chamber deems it crucial that under his stewardship, the party in Government carries out the necessary institutional reforms in a timely manner to further strengthen governance as a matter of priority.

During its work, the Chamber enters into policy discussions with ministries and government departments. There have been instances when the impression garnered is that policy design is not informed by evidence-based policy. All governmental activity is today supported by ICT, so it is of concern that to this day evidence-based policymaking is marked by its absence. It seems to the Chamber that government departments are yet to inculcate a culture of information resource management and strategic management of information. The Chamber recommends that, here too, the Government should adopt an extensive review of the use of information management as a strategic resource to identify bottlenecks and take corrective action.

The Chamber is concerned that, over the past years, employment with the Government has again increased. While the Chamber understands that parts of the Government need to be strengthened to meet existing demands (such as strengthening technical and professional competencies), as well as new demands (such as increases in service provision to meet increases in population), it has no doubt that part of
this increase in employment with the Government results from government patronage. It is not correct to burden the economy through unproductive labour with the Government in a scenario where businesses need to import labour, at a cost, to fill vacancies. This contributes to a crowding-out effect of private initiative. The Chamber reiterates its position that a comprehensive survey in the public sector is needed in order to enhance the effectiveness and efficiency of public sector services. And where surplus manpower is in place, such resources should be redistributed within and outside the Government. The Chamber emphasises that the Government should establish efficiency as central to creating value. And it should expand Malta’s productive base by releasing surplus staff into the private sector to enable further economic growth and ensure the most effective productive utilisation of human capital.

In the 2014–2020 Vision, the Chamber underlined that the inefficiencies in the judicial system were such that it had become a liability to Malta’s continued economic growth. The Chamber notes that the Government has embarked on reforms of the judicial system. However, five years since the submission of the Vision, the judicial system still fails to perform to the expected level. Business requires the certainty of prompt and expeditious resolution when disputes occur. A judicial system that performs poorly inhibits the attraction of premium foreign investment to Malta. The Chamber reiterates the position stated in the 2014–2020 Vision that it will support the Government in reforms to the judicial system to ensure a judicial process that is swift, fair, accountable, and transparent.

**RECOMMENDATIONS**

06. The Chamber is ready to work with the Government on continued, systematic and sustained reforms of the supervisory capacity over the financial services sector, which is a ‘must’ to mitigate Malta’s reputational loss.

07. The Chamber is ready to work with the Government to draw up and actively participate in a European and international communications campaign that explains and positions the facts regarding Malta’s governing institutions and the reforms currently underway to strengthen these institutions.

08. It is imperative that the Government adopts a zero-tolerance policy towards all levels of corruption, whether administrative or financial.

09. There is an immediate need for output and outcome-based budgeting reforms in the Government that are underpinned by performance metrics and transparent public reporting.

10. Government should undertake an extensive review of its use of information management as a strategic resource to identify bottlenecks and take corrective action. It should also undertake renewed investment in the utilisation of information management as a strategic resource within public service and policymaking in general.

11. Government should establish efficiency as central to creating value. It should expand Malta’s productive base by releasing surplus staff into the private sector to enable further economic growth and ensure the most effective and productive utilisation of human capital.

12. The Chamber reiterates its position stated in the 2014–2020 Economic Vision that it will support the Government in reforms of the judicial system to ensure a judicial process that is swift, fair, accountable, and transparent.
(d) Infrastructure Bottlenecks

Addressing infrastructure bottlenecks reduces costs for businesses and increases competitiveness. Major capital investment also stimulates economic activity and provides employment. The Chamber posits three major physical and technological infrastructure initiatives that should be started during the term of the 2020–2025 Vision.

GHG emissions from the generation of electricity have been significantly reduced by means of a mix of policy technologies, including the introduction of the 144MW LPG-fired plant, the energy submarine interconnector, the incentivisation and uptake by businesses and citizens of photovoltaic panels for solar–power generation, and the introduction of end–use energy measures. The Climate Change and Mitigation strategy carried out in 2009 identified that the major GHG problem that Malta would face in the future was that of transport–related pollutants. It identified that this sector would grow exponentially and that it would exceed the 2020 target of 5 per cent above the 2005 transport-sector emissions level set for Malta.9

The situation today is evident to all. Malta is in traffic gridlock. A recent release from the National Statistics Office (NSO) showed that the number of licensed motor vehicles in Malta stood at 394,955 – a 3.2 per cent increase on the same quarter in 2018 and increasing by an average of 33 newly licensed vehicles daily.8 The Chamber does not agree with the policy measure adopted by the Government to address the transportation bottleneck by means of widening roads to increase car flow. The science is clear. Research shows that increasing road capacity has an induced demand effect that results in increased traffic.9

The Chamber recommends that future transport policy centres around people as a guiding principle. Therefore, investment in infrastructure should put people first, and not the car. There should be no compromise on pavements, crossings, and other infrastructure required for people to move around. Public Transport should be at the heart of any transport project and given priority where possible, so as to make it more efficient in terms of journey times so as to encourage more people to make use of it instead of their cars. Space that is currently occupied by cars that are parked for most of the day, should be freed up and used for people to move around, whether it is by bicycles, kick scooters, buses, or anything other than a private car. Public Private Partnerships should therefore be considered by which on–road parking spaces could be re–allocated to new multi–storey underground parking spaces, therefore freeing up the space on the road for people and putting the cars underground. This can be integrated with park and ride services where necessary or adequate walking and cycling infrastructure including sharing platforms, for people to move around.

More effective and visible enforcement of existing transport regulations should take place as this will lead to less road accidents and less delays on Malta’s roads therefore contributing positively toward the economy.

All in all, public transport systems in the country need to evolve. Technical and financial feasibility studies should therefore take place on rapid transit solutions that can be implemented in reasonable time frames. In this context, Government should reconsider the investment in the tunnel between Malta and Gozo, and instead direct the investment towards the building of a multi–modal transportation backbone with metro connectivity to Gozo. The introduction of a fourth ferry between Malta and Gozo has decisively shown, as evidenced by Gozitan civil society and citizen feedback, that most of the connectivity issues are now resolved. A fourth ferry that operates on a 24/7 basis – or even a fifth ferry that connects Mgarr to Valletta – would provide improved service connectivity for Gozitans working in the Valletta–Cottonera–Sliema area also by means of the inter–modality links with the Valletta–Cottonera and Valletta–Sliema ferries. This will remove traffic congestion that results from GHG emitting heavy–goods vehicles. A fast ferry connection between Mgarr, Bugibba, Sliema, Valletta, and Cottonera would potentially attract knowledge–based industries to Gozo as it would provide employees with easy access to entertainment areas, assuming that these are industries that are mainly resourced by young people who are generally known for their ‘work hard, play hard’ attitude.

Malta has long discussed that its strategic location positions it as an ideal regional and international strategic hub for warehousing and logistics. Among the Chamber’s members are entrepreneurs who have leveraged Malta’s strategic position and successfully established themselves as a warehousing and logistics hub for the transport of goods into different parts of Africa. The Chamber supports the Government in setting up a holistic warehousing and logistics

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9 Here, the Chamber references a paper published by the Transportation Research Record, 2017, by Ronald Milam et al, which reviewed the various studies documenting the induced demand effect. They found that for every 1 per cent increase in highway capacity, traffic increases 0.29 to 1.1 per cent in the long term (about five years out), and up to 0.68 per cent in the short term (one or two years).
The Chamber does not agree with the policy measure adopted by the Government to address the transportation bottleneck by means of widening roads to increase car flow. The science is clear. Research shows that increasing road capacity has an induced demand effect that results in increased traffic."

sector that includes the creation of additional warehousing space and logistics centres; connects inbound road traffic and sea and air transport through a physical and virtual Free Zone; and, includes an advanced ICT system that integrates the supply chain process, as well as investment directed towards the deepening of skills and competencies. Such a strategy needs to address the bottlenecks in the port area, including the lack of marshalling space for heavy-goods vehicles.

With a population of nearly 500,000 people and a tourism industry that, in 2018, saw over 2.3 million tourists enter the country, Malta has a major waste-management challenge. However, of the total waste generated, municipal waste only accounts for 14 per cent. Of the remaining waste, 70.34 per cent is landfilled, and the remaining waste goes into recycling facilities or the Mechanical Biological Treatment Plant. The building boom has resulted in a state of play where, at the time of writing, there are only two quarries serving the construction industry. This creates a bottleneck in the disposal of construction waste and, given the high tariffs, it also increases the cost of construction. The Chamber is aware that the Government has mandated the new Resource, Recovery, and Recycling Agency to identify different waste streams. The Chamber recommends that the Government invites the private sector by means of the Private Financing Instrument (PFI) to identify, build, finance, operate, and maintain a waste-management technology that enhances recycling and, in doing so, spurs forward the circular economy. For example, gasification technology converts municipal waste into syngas, which can be turned into energy (where one tonne of municipal waste generates approximately 550kW of electricity) and higher value commercial products (such as transportation fuels, chemicals, fertilisers, and even substitute natural gas).


RECOMMENDATIONS

13. Future transport policy should centre around people rather than the car. There should be no compromise on any infrastructure required for people to move around.

14. Public Transport should be given more priority where possible and rendered more efficient in terms of journey times so as to encourage more people to make use of it instead of private cars.

15. More effective and visible enforcement of existing transport regulations should take place as this will lead to less road accidents and less delays on Malta’s roads therefore contributing positively toward the economy.

16. Public Private Partnerships should be considered by which on-road parking spaces could be re-allocated to new multi-storey underground parking spaces, therefore freeing up the space on the road for people and putting the cars underground. This can be integrated with Park and Ride services where necessary or adequate walking and cycling infrastructure including sharing platforms, for people to move around.

17. Public transport systems in the country need to evolve. Technical and financial feasibility studies should therefore take place on rapid transit solutions that can be implemented in reasonable time frames. In this context, The Government should reconsider the investment in the tunnel between Malta and Gozo, and direct the investment towards: building a multi-modal transportation backbone with metro connectivity to Gozo, and a widened ferry network between Gozo and areas in Malta such as Valletta, Bugibba, Sliema, and Cottonera.

18. The Chamber supports the Government in setting up a holistic warehousing and logistics sector that includes the creation of additional warehousing space and logistics centres; connects inbound road traffic and sea and air transport through a physical and virtual Free Zone; and, includes an advanced ICT system that integrates the supply chain process, as well as investment directed towards the deepening of skills and competencies.

19. The Government should invite the private sector by means of the Private Financing Instrument to identify, build, finance, operate, and maintain a waste-management technology that enhances recycling and, in doing so, spurs forward the circular economy.
ACHIEVING SMART ECONOMIC GROWTH

The Economic Vision identifies four core thrusts that should be addressed to achieve smart economic growth, as discussed in this section.

(a) Smart Innovation Economy

Malta is living in an era of rapid technological change. Innovation cycles have shortened. New disruptive technologies can supplant and displace entire industries, even as they create new opportunities. Today, Malta’s local and foreign companies compete in an environment where advantage comes from a heightened capacity for new value and innovation creation.

In this new environment, Malta must become an innovation-driven economy. To achieve this, it must establish a strong and robust ecosystem for innovation. At the macro level, the appropriate innovation-based infrastructure must be built. For the past 30 years, different administrations have viewed a national innovation-based infrastructure as a cost rather than an investment. As a result, innovation and research-based funding and financing vehicles are currently limited. Furthermore, they are too bureaucratic and inflexible to administer, thereby failing to attract business participation.

Given Malta’s institutional constraints, past national innovation strategies called for business-driven and applied research and innovation (R&I). And they focused on a number of value-added economic sectors in order to obtain value-added R&I. The Chamber continues to support such an approach. However, it adds that within the context of the defined value-added economic sectors, blue-sky research should be supported. The Chamber recommends that economic-based innovation should include value-added manufacturing; digitalisation; smart-city technologies; marine and aquaculture technologies; aviation and aerospace technologies; and, health and biotechnology.

However, innovation-based funding programmes continue to be significantly underfunded. The Chamber stresses that an innovation-based ecosystem will fail to materialise unless substantial funding is invested. The Chamber recommends that a substantially financed innovation fund is established with the goals of: (i) supporting innovation-focused firms to mobilise resources; (ii) making available appropriate financing levels for early-stage start-ups; (iii) making available appropriate financing for fast scaling up of businesses that survive past the early years lifecycle; (iv) introducing fiscal incentives for companies to retain profits for investment in research, technological development and innovation (RTDI) related projects; and, (v) supporting collaboration between businesses and academia to, among other purposes, innovate new business models. The innovation fund should be such that it attracts world-class innovative research and product development, including first-class talent and accelerators that select Malta as their base.

The innovation ecosystem should include the setting up of Centres of Excellence in areas of innovation on which Malta will focus. Such Centres of Excellence can be established in different ways, such as locating them in Malta and attracting the best international minds to the country, or by means of entering into partnerships or joint laboratories with leading academic institutions or businesses in the area. The Government has stated that it wants to position Malta as a global player in the AI and Fintech sectors. The Chamber is of the opinion that this goal will only be met if it establishes a world-class Centre of Excellence for applied data analytics. In certain sectors, innovation is to be supported by creative regulatory legislation that supports innovation and risk-taking, even as it balances this against risk. Such legislation would allow for the testing of regulatory innovations, such as regulatory sandboxes.
The Chamber recommends that economic-based innovation should include value-added manufacturing; digitalisation; smart-city technologies; marine and aquaculture technologies; aviation and aerospace technologies; and, health and biotechnology.

Among other aspects, Malta’s size, infrastructure, and large number of tourists have enabled it to act as a test bed for multinational firms to conduct technology and product-related testing. The 2014–2020 Economic Vision recommended that Malta should be positioned as a global test bed for businesses to pilot with speed and to scale up for controlled experimentation, testing, and lead adoption. The Chamber re-affirms this recommendation. The Government should take the necessary action to establish ‘Test Bed Malta’ together with the appropriate support infrastructure. Among other opportunities, the Chamber sees Test Bed Malta as an ideal location for research being carried out in the space of new technologies and hydrogen-powered vehicles.

The Chamber is of the opinion that there is a need for the Government to rationalise the roles and functions of government agencies that support R&I and create a far more streamlined set-up.

**RECOMMENDATIONS**

20. The Chamber supports a responsible research and innovation approach that focuses on a number of value-added economic sectors, in addition to blue-sky research. Economic-based innovation should include value-added manufacturing; digitalisation; smart-city technologies; marine and aquaculture technologies; aviation and aerospace technologies; and, health and biotechnology.

21. For Malta to have an innovation-based ecosystem, the Government must introduce a significantly financed innovation fund – one that attracts world-class innovative research and product development, including first-class talent and accelerators that select Malta as their base.

22. The necessary action must be taken by the Government to actively establish ‘Test Bed Malta’, supported by an innovation-based ecosystem that includes Centres of Excellence.

23. The Government should rationalise the roles and functions of government agencies that support research and innovation and create a far more streamlined set-up.
(b) Supporting the Competitive Make-up of Business

Malta’s economy has been outperforming that of most other EU Member States. Research shows that the increase in the export market share in services is consistent with the substantial improvements in regional competitiveness registered in accommodation and food services, remote gaming, and professional services. Manufacturing registered an increase in value added between 2010 and 2017. This, however, resulted from benign global demand and industry conditions and not from improved competitiveness.11

Competitiveness bottlenecks within the economy continue to exist, and a number of these directly affect the manufacturing sector. By its nature, the manufacturing sector depends on the importation of raw materials and the exportation of finished goods. Despite the reforms carried out in the transportation and the logistics service chain, one important reform has never been implemented. The cost of transferring cargo from local ports to the manufacturing plants continues to be more expensive than its transportation from a European port to Malta. This establishes an unnecessary economic cost to the manufacturing industry that competitors do not face. To secure improved competitiveness for the manufacturing industry, the Chamber urges the Government to reform the tariffs and port charges for domestic cargo transportation from local ports. There should be a shift from tariffication of charges to market forces.

Following the change of administration in 2013, the reduction of electricity prices for non-household consumers led to increased competitiveness in all business sectors in Malta. This, however, has eroded over time. Malta has the fifth-highest prices for non-household consumers as cited in a statistics update on electricity prices in the EU issued in May 2019.12 It is preceded only by Cyprus (first), Germany (second), Italy (third), and the UK (fourth). For foreign direct investment (FDI), industrial tariffs are more than 40 per cent more expensive than the average of Malta’s main competitors, namely Bulgaria, the Czech Republic, Estonia, Croatia, Lithuania, Hungary, Poland, Romania, and Slovenia. At the same time, Malta is the only EU member state where industry tariffs are higher than those applicable to households. The Chamber suggests that the Government reduce the cost of energy for non-household consumers. By doing so, it will render business more internationally competitive and reduce inflationary wage prices resulting from price transferring of energy costs from the retail and distribution sector onto the domestic economy.

The Chamber is in favour of family-friendly measures insofar as they being conducive towards promoting equality between men and women, increasing female participation in the workforce, and improving workers’ quality of life. This is indeed one of the core recommendations presented in this Vision. Nevertheless, the country must remain cognizant of increased operating costs combined with a loss of productive days, which will be detrimental to Malta’s continued economic success. In a policy report titled ‘The Labour Market in 2018 and Beyond’, the Chamber underlined that the approach adopted by the European Commission and the Government of the forced introduction of family-friendly measures, new leave entitlements, and compensation for public holidays directly impacts the micro-economics of a business as this raises the cost of production simply to maintain the existing level of output.13 Such forced measures affect the competitive make-up of companies competing locally or overseas. Moreover, they have a crippling effect on small and medium-sized enterprises (SMEs), which constitute 95 per cent of businesses in Malta. Within the context where Malta aims to be a leader in social policy and working conditions frameworks in the EU, decisions to introduce new measures for paid time away from work should be left to the individual employer. In the wider context, the market will adjust itself because employers will have to follow the lead of trailblazers to compete for talent. However, the impact on SMEs is still likely to be negative as they will struggle to retain talent.

Further to the discussion on the innovation economy, digitalisation is resulting in opportunities to develop new, smarter, and more sustainable economic sectors. In the manufacturing sector, for example, 3D printing is revolutionising production as it enables profitable production even at a small scale and makes it possible to create individualised products to order. The relationship between productivity and digitalisation, innovation, and technology (DIT) is long-established. DIT penetrates deeply in all parts of a manufacturer’s value chain: product development, production, business systems, supply systems, customers, and so forth. The pace of change is rapid, and businesses that do not respond to DIT face significant risks in terms of lost competitiveness. Digitalisation is not limited to the manufacturing sector. The advent of the e-tourist demanded a major revolution in businesses in the tourism sector in terms of how they market and manage bookings. In addition, e-commerce is rapidly transforming into a gateway for the fashion industry. Online shops are increasingly becoming more innovative. They are using AI, machine learning, and

15 Malta in 84th place.

The World Bank report titled ‘Doing Business 2019’ ranks tax credits on investments made and incentivised loans. Businesses. Among other initiatives, incentives could include tax credits on investments made and incentivised loans.

The Chamber recommends that the Government and business should partner together to develop and implement DIT-driven transformation pathways, which are directed at creating maximum synergies between DIT and productivity so that business becomes more competitive than it is now. As recommended elsewhere in this document, the Chamber adds that the Government should support the implementation of such digitalisation-driven transform pathways by means of setting up a fiscal incentive framework for smart investment by businesses. Among other initiatives, incentives could include tax credits on investments made and incentivised loans.

The World Bank report titled ‘Doing Business 2019’ ranks Malta in 84th place.44 The report evaluates the ease of doing business in each country across ten domains, including starting a business, getting credit, and registering a property. The Chamber is aware that the Government has rolled out better regulation initiatives and that all new legal notices must undergo an impact assessment. Nevertheless, the findings of the World Bank report show that a lot more is required for Malta to become a smart business environment. The existing administrative and regulatory burden is a barrier to local and foreign investment, with the latter opting for jurisdictions that have a more enabling investment environment. Moreover, business regulation has an important impact on business entry and growth, as well as productivity and profitability. The recommendation presented earlier regarding the importance of establishing an e-Business Portal must be twinned with process-rationalisation and technology initiatives that aim at placing Malta within the top 5 EU member states in terms of the ease of doing business.

Chamber members highlight other key bottlenecks that are being faced, which are not covered by the World Bank report. The most disconcerting issue is the extraordinary delays faced by businesses and individual persons when opening a bank account with a ‘traditional’ financial institution. New businesses and start-ups are reporting that it is taking a lengthy amount of time to open a bank account, and foreign workers at established firms are also finding it difficult to open a bank account in good time. The concerns raised with the Chamber are that such difficulties are making it unduly hard to do business in Malta. Banks, on the other hand, are bound to comply with the ever-stringent demands of international compliance regulations. Meanwhile, in the immediate term, the Chamber will work with Government and the regulatory authorities to fully conform with the requirements of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulations. Within this context, the issue of the time taken by a firm or foreign person to open a bank account in Malta will also be tackled as this has become a serious obstacle to doing business or relocating to Malta.

The Global Competitiveness Report for 2019 shows that Malta’s ranking has slipped to 38th from 36th. Therefore, another prestigious international benchmark has reported that Malta’s business environment is regressing. Malta is less competitive than 18 other EU member states, including Luxembourg (18th), Ireland (24th), Estonia (31st), the Czech Republic (32nd), Portugal (34th), Slovenia (35th), and Poland (37th). And it also ranks behind Iceland (26th). Of particular note, Malta’s competitiveness is seen to lag behind in institutions (41st), infrastructure (47th), skills (33rd), financial system (32nd), business dynamism (73rd), and innovation capability (37th).

Malta’s environment – language, natural beauty, warm climate, sea, heritage, safety, connectivity, and so forth – has provided the tourism sector with an inherent competitive advantage, and other sectors with a comparative advantage. Malta has shown that it is able to rehabilitate and regenerate neglected zones into areas of unique beauty and charm, as is seen in Valletta, Mdina, the Three Cities, Victoria in Gozo, and numerous village cores. These, however, contrast starkly with the general neglect that permeates across the country – from crooked road signage and the abysmal standard of certain roads to shabby surroundings, tired street furniture, and illegal dumping in the countryside. Along the same lines as the commitment made by the Government to modernise Malta’s roads, a similar commitment must be made to establish Malta as a five-star product. There is no reason why Malta cannot make this upgrade in quality. It is feasible and achievable within a relatively short time if the right investments, policies, and enforcement are in place. An improved–quality product will better the quality of life for the Maltese, attract higher–spending tourists, and add a competitive edge to business and people working in Malta.

As a small island state on the southern periphery of the EU, Malta has used corporation tax as a competitive policy to attract foreign direct investment (FDI). When it became

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RECOMMENDATIONS

24. To secure improved competitiveness for the manufacturing industry, the Chamber urges the Government to reform the tariffs and port charges for domestic cargo transportation from local ports. There should be a shift from tariffication of charges to market forces.

25. Government should reduce the cost of energy for non-household consumers. By doing so, it will render business more internationally competitive and reduce inflationary wage prices resulting from price transferring of energy costs from the retail and distribution sector to the domestic economy.

26. In the EU, Malta already occupies a leading position in social policy and frameworks of working conditions, and, hence, decisions to introduce new measures for paid time away from work should be left to the individual employer.

27. Government and business should join forces to develop and implement digitalisation, innovation, and technology-driven transformation pathways that are tailored to different sectors. The implementation of the transformation pathways should be supported by means of fiscal incentives.

28. It is unacceptable for Malta to rank in 84th place with regards to the ease of doing business in World Bank rankings. The Government should take all the necessary steps to ensure that Malta ranks amongst the top five EU member states by the end of the term of this Vision.

29. In the immediate term, the Chamber will work with Government and regulatory authorities to fully conform with the requirements of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulations. Within this context, the issue of the time taken by a firm or foreign person to open a bank account in Malta will be tackled as this has become a serious obstacle to doing business locally or relocating to Malta.

30. Along the same lines as the commitment made by the Government to modernise Malta’s roads, a similar commitment must be made to establish Malta as a quality, five-star product. This will enable the tourism sector to retain its inherent competitive advantage, and other business sectors will continue to enjoy a comparative advantage with regard to attracting foreign investment.

31. Malta should initiate steps to modernise the current corporate tax framework. While having served the country well over the past 25 years or so, the framework in its current form is not the right instrument to take Malta forward into the future. The Chamber emphasises that reforms to Malta’s corporate tax system should be such that the capacity of companies to engage in aggressive tax planning is limited. However, this would be without constraining Malta to apply corporate tax as an instrument of competitive policy. Going forward, Malta’s fiscal structures should include features that also reward the initiative of the Maltese (resident) investor, particularly in the area of research and innovation.
“The Chamber suggests that the Government reduce the cost of energy for non-household consumers. By doing so, it will render business more internationally competitive and reduce inflationary wage prices resulting from price transferring of energy costs from the retail and distribution sector onto the domestic economy.”
(c) Developing a Highly Skilled, Highly Productive Workforce

The rapid technological advancement being experienced is changing the type and nature of jobs for current and future workers. A variety of manual and cognitive tasks are increasingly being augmented by AI and, in some cases, completely taken over by robotics. Including these, as well as other emerging and new technologies, in businesses across different sectors this results in new jobs and the redefinition of new and existing tasks. It is estimated that 65 per cent of children entering primary education today will ultimately work in new types of jobs and functions that currently do not exist.¹⁶

Within the context of such change, Malta must redouble its efforts to ensure that the outcomes of the education system – from primary to tertiary levels – develop human capital that is not only in line with the market needs of today but also equipped for the jobs of the future.

As discussed earlier in this document, key indicators on the performance of Malta’s education system are not encouraging.¹⁷ The Chamber is aware that significant reforms have been embarked on by the Government to implement the national curriculum framework launched in 2012. The Chamber is also aware that the teaching profession is experiencing change fatigue, and this is in a context of pressures emerging from new situations that not only apply to differentiated teaching but to challenges arising from teaching a multicultural classroom.

Disconnects exist between the curriculum and secondary and higher education because the curriculum of the latter is not student-centric.¹⁸ Given that people are the country’s only natural resource, the persisting high percentage (18 per cent) of early school leavers should be reversed as it is a clear limiting factor to economic growth. The Chamber recommends taking the time for the Government, teacher-representing institutions and other stakeholders – including the Chamber, which is ready to take an active role – to take stock of the reforms, understand why Malta is falling behind international benchmarks, identify the teacher–student, soft infrastructure required, and agree on the next steps.

Addressing the challenges that arise in an increasingly digital world requires an overhaul of current employment and skills policies. Proficiency in the use of digital tools and services is required irrespective of the sector or the nature of the job. The Chamber underlines that one essential requirement is for the curriculum to equip all students with basic ICT skills, as well as solid literacy, numeracy, and problem-solving skills to enable people to use ICT effectively. At a further and higher education level, there is a far greater interest by students in humanities, management, and other social sciences than in science, technology, engineering, and mathematics (STEM). However, the Chamber reiterates its position presented in the 2014–2020 Economic Vision that the stipend system across further and higher education should be positively biased towards those disciplines that are central to the continued economic well-being of Malta. These include STEM streams and teachers of STEM subjects.

As the labour market continually changes, modernisation of professional and vocational education and training (VET) is a vital and on-going process, which is essential if VET is to continue transforming learners into workers. This is particularly crucial in terms of meeting the demand in the value-added manufacturing and services sectors for the skills VET traditionally produces. The quality of persons who move into the VET stream is very much dependent on VET’s esteem – or image – in comparison to academic-based education. The Chamber fears that the image of VET in the Maltese polity – unlike that of Germany, Slovakia, Switzerland, the US, or Austria – is that of a ‘failure’ pathway for those persons who do not obtain the qualifications needed to continue their studies at a university level. Statistically speaking, however, 30 per cent of those who obtain enough Secondary Education Certificate (SEC) subjects (that is, six) to continue in traditional, mainstream higher education, are opting for MCAST as their first choice. Image-building, however, requires adequate funding, as well as constant political support, to build the proper infrastructural learning environments for the 21st century.

The Chamber supports the changes being made in the curriculum to modernise and increase the attractiveness of VET through measures such as 'My Journey'. It also wishes to underline that this must be complemented by heavy investment in infrastructure, including workshops and equipment at Malta College of Arts, Science and Technology (MCAST) that reflect the world of employment of both today and the future. Additionally, the Chamber stresses that while Levels 4 and 5 of VET education constitute MCAST’s ‘core’ business, the College should have pathways towards VET Levels 6 to 8 to enable increased specialisation training. In doing so, it will further improve the image of VET as a pathway to successful employment and a long-term career. Professional vocational education and training are moving towards taking over larger territory in higher education overseas, as well as in Malta. In fact, many VET institutions are embarking on Doctoral VET. Therefore, the divide between the traditional and vocational strands will inevitably become even more blurred in the future.

Attractiveness increases when VET qualifications have currency in the labour market. Over the next decade, developments in the labour market indicate that work-based learning will become more important, and future jobs will combine technical and behavioural skills. Technology (automation) is taking over routine tasks and employers increasingly require workers to think, organise, communicate, and decide when dealing with non-routine tasks. Already, employers are concerned that applicants, particularly young people, generally lack experience, the right attitude towards work, and, importantly, ‘soft skills’, such as communication and problem-solving abilities. A combination of technical and behavioural skills is more likely to be developed through work-based learning. The Ministry for Education and MCAST should undertake the appropriate action, including the provision of fiscal incentives to SMEs, to increase demand and supply for apprenticeship and work-based learning opportunities. This can only be implemented if the Government increases its yearly allocation to MCAST and dedicates a specific budget for apprenticeship programmes. Such measures will complement the large and justified investment in VET at the level of secondary education.

“Given that people are the country’s only natural resource, the persisting high percentage (18 per cent) of early school leavers should be reversed as it is a clear limiting factor to economic growth.”
RECOMMENDATIONS

32. The Government, teacher-representing institutions, and other stakeholders – including the Chamber, which is ready to take an active role – must re-evaluate past reforms; understand why Malta is falling behind international benchmarks; identify the teacher-student, soft infrastructure required; and, agree on the next steps.

33. One particularly essential requirement in preparing future workers is for the curriculum to equip all students with basic ICT skills, as well as solid literacy, numeracy, and problem-solving skills to enable students to use ICT effectively.

34. The Chamber reiterates its position presented in the 2014–2020 Economic Vision that the stipend system across further and higher education should be positively biased towards those disciplines that are central to the continued economic well-being of Malta. These include STEM streams and teachers of STEM subjects.

35. The introduction of the VET ‘My Journey’ pathway within the curriculum will increase the esteem of VET. However, it must be complemented by investment in infrastructure, including workshops and equipment at MCAST that reflect the world of employment today and in the future.
36. While Levels 4 and 5 of VET education constitute MCAST’s ‘core’ business, the College should have pathways towards VET Levels 6 to 8 to enable increased specialisation training. In doing so, it will further improve the esteem and image of VET as a pathway to successful employment and a long-term career.

37. The Ministry for Education and MCAST should undertake the appropriate action, including the provision of fiscal incentives to SMEs, to increase demand and supply for apprenticeship and work-based learning opportunities. Increased investment in apprenticeships should prohibit employers from poaching enterprising apprentices as this jeopardises the apprentices’ development and future potential.

38. The Chamber will work with the University of Malta, MCAST, and other educational institutions to build long-term partnerships and create an adult-education platform that is flexible and tailored to the needs of industry.

39. Businesses must share their workplaces with the University of Malta, MCAST, and other educational institutions as a learning environment where all forms of work-based learning – particularly apprenticeship programmes – become an integral part of the education and training programme. The future skills of Malta’s workforce largely depend on the active participation of business in education.

“The constant change of methods and objectives of businesses requires a flexible and adaptable workforce in terms of skillsets attained through a culture of lifelong learning, re-skilling, and up-skilling of the workforce.”
(d) Strengthening the Structural Framework of the Economy

Malta’s structural economy is primed by traditional economic sectors (such as value-added manufacturing, construction, retail, and tourism) and new economic sectors (such as iGaming, ICT, and financial services). A concern is that the Maltese economy is highly dependent on the construction sector and its highly developed value-chain, on financial services, and on iGaming, which accounts for 11 per cent of the country’s GDP. To ensure that Malta’s exposure to arising disruptions in such sectors is minimised, the Chamber recommends that the Government adopt a strategy to re-balance the economy to withstand a failure in any particular sector.

The re-balancing of Malta’s economy requires a four-pronged approach. Firstly, there is the re-positioning of existing economic sectors. For example, the iGaming sector is becoming more agile through innovations such as cloud services, performance marketing, and AI. Malta, therefore, should take a lead role in introducing policies that promote re-investment and innovation in new, bold service offerings that have a proven case for creating client value. It should also lead policy design within, as well as outside, the EU to define industry positions on what may be considered as contentious or significant issues. Malta should also elevate responsible gaming as a signature industry policy.

The financial services sector requires a new strategy that positions it as a catalyst for the long-term economic strategy and not an overweight economic pillar in its own right. In doing so, this will ensure alignment between the strategy for financial services and that of the overall economy, while reducing reputational risk. This is to be complemented by four measures. First, the portfolio of licenced entities is to be aligned with the target strategy, thereby ensuring that Malta only ‘hosts’ financial services companies that contribute to the development of the local economy and society. Second, the supervisory capability must be strengthened to ensure that the financial services sector operates per the EU’s regulatory obligations and creates a level playing-field for competition. Third, the payments market should be modernised to converge with EU norms, incentivising reductions in the use of cash and cheques, encouraging innovation, and removing barriers to competition. And fourth, there must be reforms and better regulation in the capital market and brokerage industry to reduce the conduct risk heightened by structurally low interest rates and a liquidity surplus.

Secondly, there is the creation of new economic sectors. In the 2014–2020 Economic Vision, for example, the Chamber underlined that Government should stop acting as the economy’s operator and should limit itself to its proper role of regulator so that a circular economy takes root in Malta. Apart from the creation of a new economic sector, a transition towards the circular economy offers an opportunity to reduce Malta’s consumption of raw materials and, therefore, minimise negative environmental impacts and waste generation. This approach also allows for the use of regenerative resources that preserve and extend the life of what is already used or produced, thereby turning waste into a resource. A case in point is Maltese stone, which is generally carted away as rubble to landfills rather than recycled into the construction ecosystem.

Government has already taken a strong stance with regard to the positioning of Malta in technology, including FinTech and AI. There is fierce international competition in the tech space. Nevertheless, certain tech sectors, such as FinTech and AI, are in their infancy. For Malta to nurture and further evolve a tech sector and ensure that it competes internationally, it is imperative for the Government to provide financial support and the right level of legislation and a regulatory ‘sandbox’ in which tech enterprises can create and test innovative products, services, and business models without being immediately regulated. The Chamber suggests that a tech policy is designed to meet the following strategic goals: (i) to encourage and incentivise businesses to embrace new tech business models; (ii) to create synergy between the services and ICT sectors to render Malta an attractive location for tech solutions; (iii) to ensure that Malta takes the lead in tech-enabling mechanisms; and, (iv) for Government to work with the relevant businesses, industries, and ICT services sectors to ensure an internationally competitive environment for tech and to attract international innovators to Malta.

In further evolving the tech economic sector, the Chamber recommends that a focused approach is adopted. The tech sector is broad and evolving, and it is also a multi-faceted discipline. In identifying the tech sub-sectors on which Malta should focus, the following should be taken into account. (i) Malta can, with the necessary investment and support, realistically become a premier destination for the selected sub-sectors in tech in Europe. (ii) Malta has certain anchor and core human, technical, and institutional resources that will enable such sub-sectors to take root and flourish successfully. (iii) The sub-sectors will, when coalesced, result in a new vibrant economic sector that organically evolves as the relevant technology continues to innovate. (iv) The sub-sectors selected should be areas of tech growth, which result in ancillary tech spin-offs in other economic sectors. And, (v) there should be a focus on tech sub-sectors that technologically overlap, thereby enabling a common hard and soft infrastructural base.
“Apart from the creation of a new economic sector, a transition towards the circular economy offers an opportunity to reduce Malta’s consumption of raw materials and, therefore, minimise negative environmental impacts and waste generation.”

The Chamber agrees with the position of the Malta Hotels and Restaurants Association (MHRA) that the tourism model requires a strategic reboot. The annual number of tourists visiting Malta is unsustainable, and it generates significant pressure on Malta’s infrastructure. While the tourism sector has adapted well to the e-tourism revolution, it is struggling in responding to the impact of the Airbnb disruptive technology. Much has been said over the past two decades about Malta’s need to move into the five-star sector to generate a higher yield with a lower number of tourists visiting Malta. As stated many a time, a five-star destination must be supported by a five-star product and experience.

The Government and tourist operators must agree on a medium-term plan to transform Malta, as discussed earlier in this document, into a five-star destination. Success can only be achieved through holistic, sustained, structured, and continued implementation of measures across a five-star destination ecosystem by tourist operators, as well as the Government. The Chamber acknowledges that the Government has taken action to ensure that private Airbnb operators work within a regulatory environment. The Chamber underlines that enforcement in this regard must be consistent so that there is a level playing-field between ‘traditional’ and Airbnb operators in the tourism sector.
BESIDES THE ABOVE, THIS ECONOMIC VISION RECOMMENDS THAT MALTA SHOULD TARGET ITS RESOURCES TO ACHIEVE MEDIUM TO LONG-TERM GROWTH IN THE FOLLOWING SECTORS:

<table>
<thead>
<tr>
<th>Targeted Sectors</th>
<th>Focus</th>
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<tbody>
<tr>
<td>Financial</td>
<td>Financial services that contribute to the local economy and society.</td>
</tr>
<tr>
<td>Consulting</td>
<td>Seeking opportunities in and with – among others – the EU, Africa, the World Bank, and so forth.</td>
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<tr>
<td>iGaming</td>
<td>Focusing on premium-based brands.</td>
</tr>
<tr>
<td>Construction</td>
<td>A shift to sustainable and green construction, and rolling out Leadership in Energy and Environmental Design (LEED) certification – one of the most popular green building certification programmes used worldwide.</td>
</tr>
<tr>
<td>Biotechnology, Bioinformatic, &amp; Pharma</td>
<td>Focusing on manufacturing, research and innovation (R&amp;I), and clinical trials.</td>
</tr>
<tr>
<td>Aviation &amp; Aviation Maintenance</td>
<td>Increased value-added growth across the value chain, including R&amp;I.</td>
</tr>
<tr>
<td>Super Yachts &amp; Vessel Maintenance</td>
<td>Increased value-added growth across the value chain, including R&amp;I.</td>
</tr>
<tr>
<td>ICT</td>
<td>Focusing on productisation, infrastructure-as-a-service (IaaS) online services, and software-as-a-service (SaaS) software licensing and delivery model.</td>
</tr>
<tr>
<td>Tech</td>
<td>Triggering growth in, among other, 5G business models, Fintech, artificial AI, Internet of Things (IoT), and robotisation.</td>
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<tr>
<td>Film Production</td>
<td>Increased value-added growth across the value chain.</td>
</tr>
<tr>
<td>Logistics &amp; Warehousing</td>
<td>Creating a hub and increased value-added growth across the value chain, including R&amp;I.</td>
</tr>
<tr>
<td>Retail</td>
<td>Supporting omni-channel approaches, e-commerce, and AI.</td>
</tr>
<tr>
<td>Tourism</td>
<td>Quality improvements across five-, four-, and three-star sectors.</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Focusing on e-/m-care and health, and robotics.</td>
</tr>
<tr>
<td>Education</td>
<td>Particularly, e-learning.</td>
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<tr>
<td>Environment</td>
<td>Reversing and preventing damage to the environment and making strides in the circular economy</td>
</tr>
<tr>
<td>Elderly</td>
<td>Particularly, residential and home care.</td>
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</tbody>
</table>
Thirdly, the Government should further incentivise private sector-led initiatives to support Malta-based companies in their drive to expand their businesses abroad. Over the past 15 years or so, the Chamber has seen an increasing number of its members branching outside of the domestic economy by internationalising their businesses all over the world. The Chamber believes that there are significant opportunities for Maltese firms to internationalise. Being a small and open economy, Malta depends on regulatory-based world trade and good access to export markets. Malta is vulnerable to trade barrier measures but, whether or not these result from situations such as BREXIT or US-China disputes, Malta’s position in international fora should be that of advocating for free trade and a regulatory-based global trade framework.

Lastly, the Government should continue promoting Malta as an attractive country for investment. The approach should be of attracting businesses in fields where Malta already has mature ecosystems, as well as in innovative new digital economy and high value-added investments.

**RECOMMENDATIONS**

40. The Government should adopt a strategy to rebalance the economy so that should a single sector fail, the knock-on effects will not result in a collapse of Malta’s economy. This will minimise Malta’s exposure to arising disruptions in industries, such as construction, financial services, iGaming, and other knowledge-based transient sectors.

41. Malta should take a lead role in introducing policies that promote re-investment and innovation in new, bold iGaming service offerings that create member value and elevate responsible gaming as a signature industry policy.

42. The financial services sector requires a new strategy that positions it as a catalyst for the long-term economic strategy and not an overweight economic pillar in its own right. In doing so, this will ensure that Malta’s economic and financial services strategies function in harmony and reduce reputational risk.

43. For Malta to nurture and further evolve a tech sector that competes internationally, the provision of the right level of legislation is required. There needs to be a regulatory ‘sandbox’ in which tech enterprises can create and test innovative products, services, and business models without being immediately regulated. To achieve this, fiscal support from the Government is imperative.

44. The Chamber believes that the tourism model requires a strategic reboot that moves the sector towards a high-quality, sustainable model. A reimagining of this kind will attract a lower number of tourists while simultaneously generating a higher yield.

45. The Chamber believes that there are significant opportunities for Maltese firms to internationalise. The Government should further incentivise private sector-led initiatives to support Malta-based companies in their drive to expand their businesses abroad.
SECURING SUSTAINABLE ECONOMIC DEVELOPMENT

The Economic Vision identifies three core thrusts that should be addressed to secure sustainable economic development, as discussed in this section.

(a) Inclusive Economy

The unprecedented economic boom that Malta is experiencing has seen the population grow by approximately 60,000 within a seven-year period – a 14 per cent increase since 2012. Labour statistics estimate that 16 per cent of the gainfully employed are foreign workers; that is, EU citizens as well as TCNs. Economic growth is dependent on talented and skilled migrant workers is necessary to strengthen and expand Malta’s base of human capital. Hence, importing talented and skilled migrant workers is necessary to strengthen and expand Malta’s base of human capital. In turn, this will allow it to meet the demand to spur an expansion of in-place economic sectors as well as to be able to build new ones. Like high-performing economies such as the UK, Germany, Australia and the US, Malta should seek out and embrace foreign talent, and not fear it. The Chamber notes that the Government has taken steps to rationalise and streamline the issuance of residency permits to foreign employees. However, further reforms are required. For example, given the continued need in a growing economy for human capital, TCNs should be given more flexibility with regard to finding a new job in Malta once they terminate employment with an employer. During their employment, they would have acclimatised to the Maltese culture. For example, some might have learnt English and Maltese, others – together with their families – will have settled in accommodation and integrated into society. These are essential elements required for a successful multicultural society.

The Chamber recommends that Malta make more productive use of migrants who seek refuge in Malta on humanitarian grounds. Their productive engagement is likely to lessen potential emerging tensions in a fast-changing culture in Malta. The Government, however, must ensure that, prior to being engaged productively in the economy, these persons are provided with language training in Maltese and English, and cultural training in Maltese and European values and other socio-cultural aspects that are key to successful assimilation. The Chamber has a zero-tolerance policy towards employers who exploit foreign workers by providing them with employment conditions that do not meet legislative requirements. The Chamber recommends that a policy of name-shaming should be introduced concerning foreign human capital exploitation, and the Government should strengthen its enforcement and sanctioning regime in this regard.

A primary concern that employers face with foreign workers is the high rate of turnover. After entering the market, approximately 46 per cent of new EU workers and 42 per cent new TCN workers leave between one and two years later. Of all new entrants, 54 per cent leave between one and two years, and 62 per cent leave between two and three years. In this context, 23 per cent of technicians leave in the first year, and 49 per cent of associate professionals leave between one and two years after starting. This state of play is creating high direct and indirect costs to employers, including, among others, replacement and training costs, productivity costs, and knowledge accrued. Chamber members recommend that this high – and unsustainable – rate of turnover may predominantly result from the high cost of living in Malta, which is spurred primarily by the price of rentals.

In addition to other factors, the large increase in migrant labour human capital and the resultant rapid growth of the population in a short period have created bottlenecks in...
“Like high-performing economies such as the UK, Germany, Australia and the US, Malta should seek and embrace foreign talent, and not fear it.”
the housing market. As demand outstripped rental housing supply, the cost of rentals has increased exponentially. The resultant impact is not limited to rental housing stock. Over the past few years, the cost of purchasing a first home has ballooned. The risk exists that first-time buyers are being outpriced when attempting to get onto the property ladder. The cost of rentals (primarily relating to foreign workers) and the need to pay more to own a property (primarily relating to Maltese workers) have triggered a wage inflation spiral. Workers are requesting increased pay and when they do not get it, they quit – either by exiting the labour market or by taking new employment elsewhere in Malta or abroad. The results are an increasing cost base, diminishing competitiveness, or, with regard to the domestic market, a spillover of costs to consumers and clients, thereby increasing the cost of living.

A further appalling direct outcome of the current state of play is that Maltese investors – developers as well as individuals – have embarked on a housing development spree so that they too can capitalise on this profitable opportunity. The result has been an increased ‘uglification’ of Malta and further erosion of the environment – thereby generating additional pressures on sustainability. To further exacerbate the situation, this is taking place when Malta already has a large stock of property that is either vacant or abandoned. Additionally, as discussed earlier, the Chamber is concerned that the risk of a housing bubble is being created. Given the irreversible nature of construction, Malta will find itself awash with vacant new residential property when the economy eventually turns – as it will.

“Given the irreversible nature of construction, Malta will find itself awash with vacant new residential property when the economy eventually turns – as it will.”

In January 2019, the Chamber presented a response to the ‘Renting as a Housing Alternative: White Paper’. The Chamber underlined that the ‘status quo’ is not a sustainable option. It presented several recommendations that included a clear and directional role for the Planning Authority (PA) in ensuring a supply of affordable permanent housing. This would address the needs of today and those planned for the future while preventing overdevelopment for speculative purposes. The Chamber’s recommendations also included a re-assessment of the Individual Investor Programme’s (IIP) property investment eligibility criteria; an audit of all private and public vacant property followed by efforts and incentives to place said resources to good use and form part of the rental property market; implementation of the reforms proposed by the Chamber regarding pre-June 1995 leased residential properties; and, feasible, effective and reversible housing solutions that create immediate supply of affordable and comfortable yet reversible accommodation.

The Chamber is disappointed to note that when the Government launched its reforms, it took little account of the Chamber’s proposals. The reform policy instruments chosen by the Government to address the rental and housing problem do not address the critical issues in this sector that must be resolved. The Chamber invites the Government to reopen the consultation process so that proper and pervasive solutions are introduced that: (i) ensure attraction and retention of foreign talent; (ii) retain cost competitiveness and bring the wage inflation spiral under control; (iii) protect Malta from an overheated economy stimulated by the construction sector; and, (iv) secure sustainable economic development.

The Chamber underlines that the economy should be inclusive, meaning that wealth generated during a period of high economic growth – as has been experienced in Malta – should also be shared with employees and society at large. A particular example of an employee-inclusive economy is when employers reframe their human resource management policy to include their employees’ social well-being. As discussed earlier, when employees retire, they will experience an income gap between income earned during employment and their pension income. When an employer’s value system and ethos support and administer an occupational retirement scheme without necessarily contributing financially towards it, the employer is showing concern regarding their employees that extends to their quality of life beyond work and during retirement.

With regard to a more socially inclusive economy, the Chamber encourages businesses to continue developing a deep understanding of the value of corporate social responsibility (CSR). A number of firms have already established Foundations and have been active in giving back to society – and for this, they are commended. While the Chamber supports the strengthening of social responsibility among businesses, it does not agree with any suggestion of gold-plating any EU requirement in this regard, especially in terms of rendering it a mandatory requirement for firms beyond a certain threshold.

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46. By importing talented and skilled migrant workers, Malta will strengthen and expand its base of human capital. In turn, this will allow the country to meet the demand to spur an expansion of economic sectors already in place, as well as to be able to build new ones. Like high-performing economies, such as the UK, Germany, Australia and the US, Malta should seek and embrace foreign talent, and not fear it.

47. Malta should make more productive use of migrants who seek refuge in Malta on humanitarian grounds. If provided with the appropriate language and cultural training, these persons can productively engage in the economy and contribute towards lessening potential emerging tensions in Malta’s fast-changing culture.

48. Malta needs to adopt a far-reaching, zero-tolerance policy towards employers who exploit foreign workers by providing them with employment conditions that do not meet legislative requirements. A name-shaming policy should be introduced in the context of the exploitation of foreign human capital. In this regard, the Government needs to strengthen its enforcement and sanctioning regime.

49. Proper and pervasive solutions must be found and introduced to reduce the high rate of turnover of foreign workers. These should be solutions that: (i) ensure the attraction and retention of international talent; (ii) retain cost competitiveness and bring the wage inflation spiral under control; (iii) protect Malta from an over-heated economy stimulated by the construction sector; and, (iv) secure sustainable economic development.

50. The economy should be inclusive. When wealth is generated during periods of high economic growth (as has been experienced in Malta), businesses should be encouraged to channel part of said wealth into the pervasive implementation of corporate social responsibility strategies. Similarly, the Government should invest part of the wealth generated in periods of high economic growth in social projects with long-term benefits.
(b) Planned, Safe, and Resilient Built Environment

The Chamber expresses its concerns regarding the extensive degree of low-quality and poorly regulated construction activity underway in Malta. The impression garnered is that construction takes precedence over sustainability, quality of life, wellness, and the environment. In 2015, the Government launched a strategic plan for the environment and development intending to replace the 1992 structure plan. However, in spite of this, decisions by the Planning Authority (PA) seem to be taken in isolation – not only of the local surroundings but also of the national context. Many Chamber members share in the general perception that the construction industry needs serious and urgent uplifting to quality standards in a regulated industry–climate that befits the national social, economic and environmental aspirations of our country.

Malta’s size is such that the impacts of negative construction and sustainable action are immediately visible to all. Towers change the skyline, green areas disappear, green lungs are squeezed out, and trees are chopped down and replaced by landscapes of barren roads. The result is that the quality of life of Maltese citizens and residents is diminishing. And, Malta’s attractiveness to locals and foreigners alike is declining. This is not in line with the Chamber’s belief that the progress of today must not occur at the expense of tomorrow’s. On the contrary, the country should capitalise on the economic resilience of the present by investing in further development and growth that is both sustainable and beneficial to the country.

Economic well-being and quality of life can and certainly must be able to co-exist and live as a means of balancing the contradictions between economic development and the environment, society, and quality of life. The Chamber recommends that Malta must adopt ‘carrying capacity’ as its approach to spatial planning. What this means is that there is a maximum number of individuals and buildings that the country can support in its environment without experiencing decreases in the ability to support current and future Maltese generations. A carrying-capacity approach takes into account – among others – quality of life, urban requirements as well as those of infrastructure and business, environmental degradation, ecological quality, and institutional conditions. It will examine sectors that include water quantity and quality; waste, land, development, and transportation requirements; air and atmosphere quality; energy supply; and, environment and open-space requirements. A carrying-capacity approach to spatial planning should also seek to protect Malta’s unique rural and cultural environment, village core, and traditional characteristics. Furthermore, Gozo must not be allowed to become a replica of Malta.

Given the considerable impact that the construction industry has on the quality of life and the economy in general, during 2019 the Chamber promoted and facilitated the introduction of the Considerate Contractor Scheme with the Authorities. The intention was for the Scheme to bring about an improvement in standards within the Maltese construction industry and the infrastructure that supports all other industries. In fact, these intentions fell squarely in line with the 2014–2020 Economic Vision, which emphasised that the country should focus on quality. In this context, mediocrity and sub-standards were to be replaced by a culture of excellence, where the current ‘good enough’ attitude would be replaced by ‘nothing but the best’.

Shortly before the Scheme was effectively launched, there came the unfortunate, catastrophic series of structural collapses that occurred adjacent to construction sites. The Chamber has supported the stand taken by the Kamra tal-Periti (KTP) and has itself insisted that progress ought to be monitored and measured to ensure that set goals are met. And where experience shows that improvements are required, the necessary amendments should be introduced earlier rather than later. The KTP and Government must take immediate corrective action and impose the agreed-upon sanctions in the event of malpractice or abuse. This will further show that the reforms have drawn an unwavering line across the previous laissez-faire approach to construction.

The Chamber agrees with the decision taken by the Government that all constructors must register by the end of 2019. The Chamber strongly emphasises that stringent criteria must be established for the provision of operating licences to constructors so that the construction industry makes the related reforms and investment to reach the standards present in other EU member states. The Chamber disagrees with the construction industry being self-regulated. Self-regulation is established when a professional or particular sector has a level of professional maturity and is governed by a professional body that has an ethos and a value system to which it adheres. Regrettfully, neither the Malta Development Association nor the industry at large is sufficiently mature to: (i) assure civil society and citizens that self-regulation will improve quality, standards, professionalism, health, and safety; and, (ii) adhere to regulations – regardless of whether or not these relate to bothersome activities or carrying out works in urban areas.
“Many Chamber members share in the general perception that the construction industry needs serious and urgent uplifting to quality standards in a regulated industry-climate that befits the national social, economic and environmental aspirations of our country.”

The Chamber supports the Government in its decision to set up the Building and Construction Authority (BCA), which is to absorb the Building Regulations Office (BRO) among others. However, the Chamber cautions that the new BCA must be equipped with the appropriate resources and tools, as well as a strong enforcement function that is allowed to operate without fear or favour.

The Chamber believes that trust and confidence must be re-established within the Planning Authority and the Environment and Resources Authority (ERA). Both entities should have their enforcement functions strengthened, and a robust spatial-planning capacity should be established within the PA.

RECOMMENDATIONS

51. Malta must adopt ‘carrying capacity’ as its approach to spatial planning. What this means is that there is a maximum number of individuals and buildings that the country can support in its environment without experiencing decreases in quality of life and the ability to support current and future generations. A carrying-capacity approach will protect Malta’s unique rural and cultural environment, village core, and traditional characteristics. Furthermore, Gozo must not be allowed to become a replica of Malta.

52. The Kamra tal-Periti and Government must take immediate corrective action and impose the agreed-upon sanctions in the event of malpractice or abuse of the new construction regulations. By doing so, they will strongly show that the reforms have drawn an unwavering line across the previous laissez-faire approach to construction.

53. The construction industry must be regulated by the state. Stringent criteria must be established for the provision of operating licences to constructors so that the construction industry makes the related reforms and investment to reach the standards present in other EU member states.

54. The new Building and Construction Authority must be equipped with the appropriate resources and tools, as well as a strong enforcement function that is allowed to operate without fear or favour.

55. Trust and confidence must be re-established within the Planning Authority and the Environment and Resources Authority. As a first step, both entities should have their enforcement functions strengthened, and a robust spatial-planning capacity should be established within the Planning Authority.
(c) Resource Efficiency and Low-Carbon Economy

The Chamber notes that one of the mandates assigned to the BCA is to revise legislation relating to building and construction and to update this to reflect modern requirements as well as to create a consolidated legal framework. Buildings have extensive direct and indirect impacts on the environment because, during construction, occupancy, renovation, repurposing, and demolition, they use energy, water, and raw materials, and they generate debris and emit GHGs, and other air pollutants especially fine airborne dust. The Chamber recommends that the review process should also lead to guidelines and codes that contribute towards achieving sustainable construction. These should embrace aspects such as the design and management of buildings and construction, choice of materials, and use of resources. The purpose behind having guidelines and codes for sustainable buildings is to ensure that large new or rehabilitation developments with a footprint of 1,000m² and above have a reduced environmental impact throughout their lifecycle; lower energy demand; lower consumption of operating materials, and increased utilisation of reusable or recyclable building products and materials; an extension of the lifetime of buildings; risk-free return of materials to the natural cycle; comprehensive protection of natural areas; and, that they make use of all possibilities for space-saving construction.

In 2013, the proportion of energy consumed by households in buildings (that is, occupancy only) in Malta was 17 per cent of total GHG emissions. Also in 2015, the BRO issued a strategy for the construction of quasi zero-energy buildings. The Chamber recommends that, as part of the review, the new BCA should set a more ambitious target – that of positive green-energy buildings. A deep renovation pilot project – co-financed under the 2007–2013 European Regional Development Fund (ERDF) programme – at St. Nicholas College Primary School resulted in an energy environment that produced more energy from renewable technologies than it consumed in fossil fuel-generated electricity. This project was recognised by the joint secretariat of the European Commission as one of the best examples of good practices across Europe, demonstrating how school buildings can be adapted to generate more energy than they consume. This target, ambitious as it is, is nevertheless achievable.

Air pollution harms human health. In Malta, concentrations of air pollutants are too high – higher than the EU average. Given Malta’s size and dense urbanisation, the concentration of pollutants from land vehicles and sea traffic (particularly cruise liners) is pervasive across the country. Though this pollution is not entirely generated on Maltese soil, and is the result of trans-boundary air pollution, the result is that the Maltese are being exposed to, among other pollutants, particulate matter (PM) that poses serious health risks. This leads to significant societal and economic impacts, including increased medical costs, reduced productivity, and premature deaths. In 2019, the European Heart Journal published research that showed that premature death in Malta due to disease brought on by airborne pollutants is estimated to be 576 deaths per year. That is twice as high as was previously thought.

The EU’s 2017 Environmental Implementation Review was carried out in 2019. It identified the transport sector as a major challenge, and it highlighted the need to improve air quality by introducing systemic solutions to alleviate transport congestion. While the Malta Public Transport data shows that more patrons are using public transport, the number of cars has continued to increase. In the Chamber’s opinion and as shown earlier, the core fundamental reform that Malta must embark upon is the introduction of a multi-modal transport system that feeds into an underground metro, which connects to Gozo.

The Chamber will provide all the necessary support to the Government in the creation of reforms aimed at reducing traffic. These reforms are required to improve air quality, and they must be well planned so as to meet the desired outcomes effectively.

During the past legislature, Government launched an electro-mobility strategy. Despite fiscal incentive schemes to consumers to shift to electrical and hybrid vehicles, the number of vehicles in use accounts for only 0.9%, or 3,708 vehicles, of the entire vehicle stock. The 2020 Budget Speech states that a Government-appointed Commission will recommend during 2020 a deadline date by which the importation of “polluting cars” may continue to be allowed. The same Budget Speech set newly improved energy rates for the charging of electric cars from residential homes.

Major, multinational vehicle manufacturers, such as VW, Mercedes, and Ford, have announced massive investment in their respective e-vehicle programmes. Indeed, Honda has announced plans to stop producing gasoline-only cars by 2022. The carmaker said it would ‘electrify’ all of its models sold in Europe within the next three years, which includes making many models hybrid.
Innovation in e-vehicles and their supporting infrastructure have now adopted a revolutionary pace. The time needed to recharge batteries has been reduced to 30 minutes, and the vehicle’s range has been extended to 300km. Given this and the revolutionary innovation that is expected to take place in the next couple of years in the e-vehicle sector, the Chamber suggests that the Government should draw up a new e-vehicle policy. A matter of particular importance that the policy should address is the infrastructure needed for charging vehicles, be it at fuel stations, in towns, home garages, car parks, and so forth. Such a new e-vehicle policy should not overlook the research that is being carried out in the space of hydrogen-powered vehicles as Malta could be an ideal test bed for this technology.

“Given Malta’s size and dense urbanisation, the concentration of pollutants from land vehicles and sea traffic (particularly cruise liners) is pervasive across the country.”

56. The Government should introduce sustainable construction codes and guidelines to ensure that new or rehabilitation developments with a footprint of 1,000m² and above have a reduced environmental impact throughout their lifecycle; lower energy demand; lower consumption of operating materials, and increased utilisation of reusable or recyclable building products and materials; an extension of the lifetime of buildings; risk-free return of materials to the natural cycle; comprehensive protection of natural areas; and, that they make use of all possibilities for space-saving construction.

57. Malta should set the goal of having all new construction consist of positive green-energy buildings.

58. The Chamber will provide all the necessary support to the Government in the creation of reforms aimed at reducing traffic. These reforms are required to improve air quality, and they must be well planned so as to meet the desired outcomes effectively.

59. Given the revolutionary innovation taking place in e-vehicles, the Government should draw up a new e-vehicle policy. A matter of particular importance that the policy should address is the infrastructure needed for charging vehicles, be it at fuel stations, in towns, home garages, car parks, and so forth. The policy should also seek to establish Malta as a test bed for hydrogen-powered vehicles.
CONCLUSION

This Economic Vision for Malta builds on the previous 2014-2020 Vision which the Chamber had presented to the government and the broader polity. As discussed in this document a number of the recommendations presented in the previous Vision document were implemented, such as the government becoming a stronger partner to business, some are still under implementation and yet to deliver, such as the reforms related to the justice system, and some were passed over, such as the safeguarding of Malta from uglification.

Whilst a core number of fundamentals have remained unchanged and continue to require significant reform – pensions, health, long term care, the environment, education and VET, sustainability to mention few – much has change in the period between the earlier Vision and the Vision we present today.

Malta needs to completely rebuild its credibility as an honest global player across all economic sectors. The Island suffered huge damage to its international reputation as a result of the mishandling of the Panama Papers scandal which went unchecked for years in spite of repeated calls, even by the Chamber, to take bold decisions eventually reached unprecedented heights with the outcome of investigations of the murder of Daphne Caruana Galizia. The clean-up process expected by the Chamber and the ensuing institutional reforms must be made in the shortest time possible. The country cannot expect to experience similar rates of economic expansion and long-term economic stability without good governance and at the same time business cannot thrive without economic and political stability. The Chamber, as it has consistently done since the Panama Papers revelations, continues to insist on the unequivocal upholding of the three main pillars of good governance, namely Accountability, Transparency and the Rule of Law.

On a different level completely but insofar as negative hindrances on the Economic Vision are concerned, Malta must curtail the unrelenting expansion of the construction sector – irrespective of its negative impacts on the environment and quality of life; a housing and rental market that is spiralling wage inflation in turn eroding competition and contributing to a serious deterioration in the quality of life of a large cohort of people, and an education system that continues to result in poor outcomes in practically all of the education performance indicators.

On the 'plus' side we have seen an economy that has grown at an unprecedented scale, requiring the importation of competencies and skills as unemployment is at a quasi zero rate, reaching high GDP levels, the continued reduction of the country’s debt structures, the achievement of budget surpluses resulting in elevated wealth levels whilst strengthening Malta’s fiscal position. This economic performance is even more so astounding given that it is achieved in a global and regional environment undergoing significant turmoil: increased protectionism, BREXIT, continued under performance of countries in the Euro Zone area – particularly Member States in the Mediterranean region.
The vision that the Chamber presents is that of a ‘smart sustainable island’ that sets the pathway for Malta’s future economic growth and social wealth. It is a vision that is underpinned by two prongs: achieving smart economic growth and securing sustainable economic development. To achieve this Vision the Chamber presents 59 recommendations presented across three fundamentals:

01 National Economic Determinants

Which looks at:

a. Long term macroeconomic stability;

b. Digitalisation, governance;

c. Government and the judiciary; and

d. Infrastructure bottlenecks.

02 Achieving Smart Economic Growth

Which looks at:

a. Smart innovation economy;

b. Supporting the competitive make-up of business;

c. Developing a highly skilled, productive workforce;

d. Strengthening the structural framework of the economy.

03 Securing Sustainable Economic Development

Which looks at:

a. Inclusive economy;

b. Planned, safe and resilient built environment;


The Chamber recognises that Malta, at this juncture, is at a cross roads. The decisions that are taken during the term of this Vision are ones that will define Malta’s future over the coming twenty years. It is for this purpose, that the Chamber presents a Vision that has a shorter timeframe. It is the Chamber’s judgement that the fast moving global, regional, and local challenges coupled with the rapid changing landscape of disruptive technologies and innovation place constraints on the time required for important decisions – that lay foundations or build on existing policies that will determine Malta’s further economic growth and social well-being. This time round, in contributing its Economic Vision to the country the Chamber shall be following the uptake of its recommendations by identifying a number of indicators that will tangibly assist in the measurement of progress throughout the time period covered by the Vision. In so doing, it pledges its full support to Government and national stakeholders in meeting business’s expectations for Malta’s economic and social advancement in the immediate years ahead.
SMART SUSTAINABLE ISLAND

SETTING THE PATHWAY FOR MALTA’S FUTURE ECONOMIC GROWTH AND SOCIAL WEALTH

02. 2020