ASPECTS OF THE ECONOMIC EVOLUTION OF MALTA SINCE INDEPENDENCE IN 1964.

by

Miles K. Oglethorpe

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To My Parents

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SUMMARY

At independence in 1964, Malta's economy remained entirely dependent upon the revenue and employment provided by the British and NATO fortress on the Islands. The implications of this dependence were serious as, in 1957, the British Ministry of Defence had announced its intention to run down, and eventually to terminate its military involvement in the Maltese Islands. Faced with the imminent loss of a substantial proportion of the economy's revenue and employment, successive Maltese Governments (of both the major political parties) adopted vigorous economic diversification strategies. It was generally accepted that domestically generated economic development was impossible, and that economic diversification could only be achieved through the deliberate attraction of overseas enterprise. Multinational Corporations (MNCs) were therefore invited to participate in, and develop the three crucial sectors of the Maltese economy - the dockyards, the new manufacturing sector, and tourism.

Inevitably, the attraction of MNCs into the crucial sectors of the economy ensured that control of the economy was placed in the hands of overseas entrepreneurs, whose interests were not necessarily consistent with those of the Maltese Islands. The subsequent development of strongly dependent dual structures throughout key areas of the Maltese economy had by 1980 induced extreme economic instability.

Given this background, the intention of this thesis has been to evaluate Malta's post-independence development record. One of the best means of achieving this aim was seen as to be the adoption and adaption of a number of themes contained within 'dependency theory'. This avenue of enquiry has proved to be rewarding in two ways. First, the various concepts of

of dependence have helped to shed light upon the development experiences of Malta. Also important, however, is the fact that the Maltese case has itself raised many relevant questions concerning the application of dependency theory in empirical studies.

The thesis itself can be divided into three distinct sections. Section One briefly discusses development, and then proceeds to examine the concept of dependence. Of particular interest is the degree to which dependency theory is applicable to small countries, and the role of MNCs in the generation of dependence. Section Two provides the essential historical background to Malta's current position, and Section Three sets about examining in some detail the development of the Maltese economy, with particular reference to the growth of manufacturing industry and tourism.

The conclusions of the thesis again fall into two distinct groups. With respect to dependency theory, it seems that dependency themes can be of substantial use in the evaluation of a country's development process. With respect to Malta, it is apparent that Malta in the 1980s is facing a crisis of dependence that is rather more severe than that which faced the Islands at independence in 1964. The problem has clearly been that of excess dependence upon MNC subsidiaries. On the one hand, MNCs are seen as essential due to the inability of the domestic economy to generate its own industry. On the other hand, the dependent structures that have ensued have proved to be unstable and unreliable. Clearly, a compromise situation is desirable in which Government intervention ensures that foreign industries are attracted to the Islands, but that they are attracted selectively, and that their less desirable activities are meticulously restricted by the Government.

DECLARATION

I declare that this thesis embodies the results of my own research or advanced studies, and that it has been composed by myself. Where appropriate, I have made acknowledgement to the work of others.

[redacted]

Miles K. Oglethorpe.

June, 1983.

INTRODUCTION

INTRODUCTION

Aims Of The Thesis

The purpose of this thesis is to evaluate Malta's post-independence economic development. This involves an extensive study of the evolution of Malta's economic structure since political independence was achieved from Great Britain in 1964. This particular period of Maltese history is deeply significant as it represents a phase in which the country attempted to progress away from centuries of overseas dominance. At independence in 1964, Malta's economic structure remained completely dominated by the British Fortress, which had sustained the Islands since the expulsion of the French in 1800. The imminent departure of the British forces, announced in a British defence White Paper (HMSO 1957), necessitated a rapid economic development programme designed to compensate for an inevitable and substantial loss of national income. The development programme that ensued conformed to the traditional diffusionist pattern (see Chapter One), and placed faith in the propagation of a manufacturing sector from which it was hoped widespread prosperity would radiate. This thesis is, in effect, a study of the features and consequences of the adopted development strategy.

Because of the very nature of the study, it is inevitable that it contains some criticism of the various development programmes embarked upon by the Maltese authorities. It is therefore important that it is recognised that the aim of this work is not to favour or attack either of the two political Parties that have competed for power in Malta since 1964. The thesis is, in contrast, motivated by a strong affection for the Maltese people as a whole, whom the author has, during his visits to the Archipelago, grown to admire and respect deeply.

The major theme which emerges throughout the study is that of dependence - a condition which may be used to describe Malta's inability to achieve self-sustained development since independence in 1964. During the 1960s, and possibly to a lesser extent during the 1970s, economic, political and strategic circumstances combined to foster Malta's dependence upon external states and institutions, most notably Great Britain. Significantly, dependence has in many ways become a major bone of contention between Malta's two warring political Parties, who are unable to agree both about the extent and desirability of dependence, especially upon Great Britain. One of the major aims of this study is therefore to examine the role of dependence in Malta's development strategy. In formal terms, the ultimate purpose of the thesis is to test the general hypothesis that, despite the provision of nominal independence, the Maltese Islands remain as dependent now as they were in 1964, just prior to the end of colonial rule.

Specific Objectives

The concept of dependence is most conveniently and completely contained within a body of so called 'Dependency Theory'. There are, however, problems associated with the use of Dependency Theory in the Maltese case. One of the major difficulties stems from the theory itself, which is neither unified (Biersteker 1978), nor always suited to application in empirical studies (Seers 1981). Furthermore, some branches of Dependency Theory are based upon the impossibility of dependent development Frank (1967), an assumption that is shown to dubious by the experiences of a number of newly industrialising countries throughout the world. Many of the problems associated with the use of Dependency Theory in the Maltese case stem also from the exceptional characteristics of Malta , which defy many of the fundamental tenets of the dependency literature. One of the first objectives of this thesis is therefore to adapt Dependency Theory, thereby producing a number of dependency themes (or vectors) through which Malta's development programmes may be evaluated.

One of the few characteristics which the many manifestations of Dependency Theory have in common is the adoption of an historical approach to dependence. All agree that the failure to account for historical factors, and a corresponding adoption of a static approach to development studies, invalidates such studies. The historical component is in fact one of the most encouraging and redeeming features of Dependency Theory (Palma 1981), and it is for this reason that one of the major objectives of this study is to provide both a general account of recent Maltese history, and a synopsis of the evolution of Malta's post-independence economic structures. It should then be possible to apply the themes and ideas previously extracted from the dependency literature to the Maltese case. Finally, it will be possible to proceed from the above analysis to an assessment both of Malta's current position, and her short and long term prospects.

Background

One of the major reasons for this study's concern with the Maltese Islands is the fact that the funding which has sustained this research was an award linked to study in the Western Mediterranean, at the University of Glasgow. Given, therefore, that a topic within the Western Mediterranean region had to be chosen, there were a number of reasons for the choice of Malta as a study area. First, it appears that, on the surface at least, Malta has itself become a challenge to many of the conclusions that emerge from Dependency Theory. This is because, despite being heavily dependent upon Great Britain and the E.E.C. as a whole, she has, in conventional terms, achieved impressive levels of development. Second, and perhaps most important, is the fact that Malta is a nation of manageable size. Under normal circumstances, a research project concerned with the development of an entire nation would encounter severe problems of scale that would in the long term only be soluble through undesirable generalisation. In the case of Malta, a more detailed national coverage is possible, and is exemplified by the fact that even a small industrial questionnaire can quite easily account for a comparatively large and representative portion of the Nation's manufacturing activity.

Another of the major advantages of Malta as a study area is the widespread availability of official statistics. It seems that Maltese Government departments are highly efficient at producing large quantities of statistics, and that the statistical volumes within which they are published remain amongst the cheapest in Europe! There are, however, doubts as to the reliability of some of the Government data, a problem which will be discussed later in this 'Introduction'. On a positive note, one of the most important advantages of the official statistics is that they are published in English. This particular bonus is especially important in a wider context as communication has never been a problem during studies in the Maltese Islands. In consequence, the translation difficulties and ambiguities associated with work in non-English speaking Western Mediterranean field areas have been avoided.

In summary, it must be recognised that, given the regional origins of its research, this thesis is primarily concerned with the development of the Maltese Islands. As a consequence of this emphasis, the study has become directly concerned with a number of important development themes, most obviously related to the practical value of Dependency Theory in development studies, and equally important, the special conditions facing small countries when formulating development strategies.

On a philosophical note, it is perhaps important at this stage to place this research in a suitable bracket within the Social Sciences. The author is, by training, a Geographer, and much of the motivation and thought behind the thesis has therefore been from a geographical perspective. There is, nevertheless, a great deal of material contained within the study which is heavily economic, and consequently not necessarily consistent with traditional definitions of Geography. It is, however, the author's belief that one of Human Geography's most important roles has been, and continues to be, as a coordinating force within the body of the Social Sciences. Human Geography (and Geography as a whole) is by its very nature multi-disciplinary, and one of its greatest strengths is therefore its ability to make use (and sense) of material from other Social Science disciplines such as Economics, Economic History, Politics and Sociology. Bearing the above in mind, it should be assumed that this is a Social Science Ph.D. thesis, and that as a consequence of (rather than in spite of) its multi-disciplinary nature, it is simultaneously a thesis in Geography.

There are, meanwhile, other philosophical problems which must be resolved. For example, the study is, at the outset, critical of the current world economic system, and in particular, the manner in which it influences countries such as Malta. At the same time, the author was determined not to become trapped and governed by the scriptures of either the dominant (capitalist) or alternative (anti-capitalist) paradigms that mould so much of contemporary Human Geography. There have therefore been constant attempts throughout the thesis to retain at least some degree of objectivity. It would, nevertheless, be foolish to suggest that a study of this nature could be genuinely objective. Thus, it is preferable to think of the contents of this thesis as conforming rather more with the characteristics of 'neo-positivism' as explained by Pocock and Hudson (1978).

Such an approach may be seen as one which attempts to make use of the objectivity of the pure sciences, whilst simultaneously attempting to remain conscious of the many sources of subjectivity that are endemic within social science research.

In the case of this particular study, the attempted maintenance of some degree of balance is especially important as Malta's development strategy has since 1964 been moulded by both the major (and widely differing) political Parties in the Islands, as well as the previous British colonial administration. As has already been explained in this chapter, this thesis is deliberately designed not to favour either of the two political Parties, and given the high degree of political sensitivity in the Islands, is therefore obliged to maintain a semblance of objectivity.

<u>Research Design</u>

The first section of the thesis contains five chapters, all of which are concerned with general development issues. Chapter One introduces a number of development themes which are extended within Chapter Two into a discussion of Dependency Theory. Although there are many problems associated with the use of Dependency Theory, the retrieval and adaption of a number of dependency ideas is shown to be possible. One of the most important themes to emerge from the discussion is the vital role of the Multinational Corporation (MNC) in dependency arguments, and points to this effect are explained within Chapter Three. Dependency Theory's serious problems of empirical application are then considered, and Chapter Four shows that the characteristics and experiences of small countries are particularly difficult to accommodate within most dependency analyses. Chapter Five introduces Malta as a small country, and attempts to formulate a dependency based analytical framework through which Maltese post-independence development may be evaluated.

Section One is therefore designed to produce a theoretical base around which the remainder of the thesis can be structured. Because of the strong historical component of Dependency Theory, Section Two of the thesis is strongly historical. This has 2 advantages, which are that it provides vital background information, and that it also covers a large part of the existing available literature on modern Malta. Inevitably, it is impossible to ignore the important influence of the immediate pre-independence period upon events following independence in 1964. The first chapter of Section Two (Chapter Six) is, as a result, devoted to relevant events occurring in colonial Malta before 1964. The remaining 2 chapters of the section are divided neatly between the 2 distinct eras of post-independence government. Thus, Chapter Seven deals with the era of Nationalist Party administration between 1964 and 1971, and Chapter Eight the era of Labour Party administration that has extended from 1971 to the present day.

Section Three constitutes the main body of the thesis, and on the basis of the material already discussed, involves a more detailed analysis of the Maltese economy and its evolution since 1964. The cultivation of manufacturing industry has formed the most important element in all post-independence Maltese development strategies, and has in consequence been responsible for the development of some of the most significant dependent structures within the Maltese economy. For this reason, Chapters Nine, Ten and Eleven are devoted to an examination of manufacturing industry as a whole, and in turn, the important Textiles and Metals sectors. Most of the data used in these chapters is both aggregate in nature, and produced from official Government sources. The discussion at this stage is therefore confined to the macro-level. In contrast, Chapter Twelve provides the results and interpretations of an industrial questionnaire carried out in Malta during Autumn 1980. This particular chapter is especially important because it provides more detailed information at the micro-level about Maltese manufacturing industry, which augments the material already provided at the macro-level. It is also important because it is, in some instances, able to test the validity of some of the statistics on which the analysis was forced to depend in earlier stages of the thesis.

The final chapter of Section Three (Chapter Thirteen) is distinct from the others because it deals with the Tourist Industry in the Islands, and is thus not concerned directly with manufacturing activity. It was felt that the inclusion of a chapter on tourism was vital because of the central role played by tourism (alongside manufacturing activity) in Maltese post-independence development strategy. Furthermore, the extra-ordinary dependency links displayed by the tourist sector are ample evidence that the exclusion of the tourism material would be both foolish and illogical. However, perhaps the most important feature of the tourist industry in Malta is the fact that the dependent structures from which it suffers are remarkably similar to those of the manufacturing sector, and indeed, that they result from the same overseas oriented development strategies.

Methods and Assumptions

This thesis is an empirical study which attempts to utilize a body of theory that, by its very nature, is poorly suited to empirical application. There have, in fact, been few studies that have attempted to use Dependency Theory in such a manner (e.g. Jongkind 1979), and those that have have often done so with the intention of discrediting the concept of dependence. This study is different in that it chooses to extract and adopt certain acceptable and practicable dependency themes, through which an evaluation of Malta's post-independence development is attempted. In the final analysis, therefore, both the integrity of Malta's development strategies and the validity of the adopted dependency ideas are under scrutiny. As will become clear from the early chapters, the most important assumption contained within the study is that the concept of dependence is itself viable in development studies.

One of the most important features of the study is its dependence upon, and use of, large quantities of statistical data. Although there were startling omissions from certain Government statistical publications - particularly where the data involved was politically sensitive - official publications yielded large quantities of information that have been used extensively, especially in Section Three of the thesis. There are, however, certain potential problems associated with the official data. One of the most obvious concerns the definition of industrial sectors, and subsequent inconsistencies resulting from the aggregation of data. The Maltese have not always grouped their statistics in internationally compatible categories, and indeed have not always grouped their statistics in the same way[1]. Furthermore, there is no doubt that in Malta, as in most other countries, the manipulation and presentation of official data occurs in the interests of the established power groups. The dependence of this study upon such statistics is, unfortunately, unavoidable, and it is therefore necessary to assume that the inaccuracies that result are not sufficiently serious to invalidate the analysis.

The official statistics are, in any case, augmented by the use of some data

1. This particular problem applies to almost every national and international institution that produces statistics of this type.

collected in the field. This not only serves to reinforce the findings based on the official data, but also helps to shed light upon the underlying structures within the Maltese economy. In the process, it is hoped that the micro-level data will reveal some of the anomolies created by the manipulation of official statistics. However, perhaps the most important contribution of the data provided by the questionnaire survey is the fact that, unlike the official macro-level statistics, it is not implicitly diffusionist in approach. As has already been stated, this study is intended to be critical of diffusionist development approaches, and a study completely dependent upon statistics produced by the diffusionist school (e.g. Keynesian aggregate measures such as G.D.P.) would therefore be unsound.

In conclusion, the validity of this thesis is dependent upon the assumptions that dependence is a valid yardstick in the evaluation of development strategy, and that the widespread use of official Maltese statistics does not impair the conclusions of the analysis.

SECTION ONE

CHAPTER ONE: PERSPECTIVES ON 'DEVELOPMENT'

1.1 Introduction

This thesis is concerned with an evaluation of Maltese post-independence development, but before this can be achieved, some discussion of the meaning of the term 'development' is necessary. The need for some degree of discussion is enhanced by the fact that, throughout recent history, concepts of development have altered dramatically, contributing to the current diverse body of development theory.

There is, in fact, no single concept of development, as it has through the years acquired different meanings and connotations. It is, however, possible in simple terms to describe development as both a process and a potential state of being. A state of development implies a situation in which a society has become autonomous and is entirely in control of its own destiny. Thus, a <u>state</u> of development ideally should permit man to make his own history under conditions of his own choosing. The <u>process</u> of development is the means by which such conditions of human existence may be achieved. According to Lee (1981), such 'means' involve man in a productive crisis-free and non-exploitive set of relations with nature, and in a struggle to remove oppression and exploitation from the relations between men. He goes on to argue that, by these Utopian standards, no society has yet achieved a state of development, and further, that it is likely that no society has yet engaged in a true development process.

The implication, therefore, is that development in the real world is an imperfect process, and that as a condition, it does not yet exist. This explains the acceptance of the term development in many development studies as a process rather than a state. Significantly, the development process has traditionally been seen as being dependent upon economic growth induced primarily by industrialisation. Stöhr and Todtling (1977) have observed that development on both a regional and a national scale has in the past been governed by neo-classical economic theory. Traditional examples include the belief in sector theory, which advocates the implantation of a 'leading sector' from which other activity can develop, thereby helping to diffuse the benefits of development throughout a territory. Similarly, export base theory was based on the assumption that a territory's income is essentially a function of its export performance. Thus, the establishment of an export staple was seen as a vital engine of development. These, and other manifestations of neo-classical theory also tended to place great faith in the auto-corrective nature of the market system, which it was thought constituted the most satisfactory means through which the benefits accruing from the development process could be fairly distributed.

In a historical context, the years of the Great Depression in the early decades of the 20th century represented a period in which there occurred a massive disequilibrium in the world econmic system that the neo-classical economists were unable either to explain or counter. Although this era inspired the birth of Keynesian economics, it was not until after World War Two that the complexion of development theory altered significantly. Because of the widespread damage and destruction resulting from the conflict (particularly in Western Europe), dramatic reconstruction policies were devised. In the case of Europe, the United States inspired and financed 'Marshall Plan' represented an enormous and unprecedented externally induced development programme. Such massive State intervention in the national and international economies was unprecedented, and indicates that the auto-corrective powers of the world economies were at last seen as being inadequate.

Further changes in development philosophy were encouraged by the creation and expansion of the United Nations Organisations, and other supra-national institutions. Associated with these organisations was the accelerated decolonisation during the 1950s and 1960s, which gave birth to large families of poorly developed nations whose poverty, as a result of independence, was no longer concealed by the colonial powers. Global development issues therefore grew both in terms of academic interest and general urgency, and organisations such as the U.N.O. became concerned primarily with the many facets of world development. During this period, the major concern became one associated with the elimination of under-development rather than the attainment of development.

In recent decades, critics of the more traditional views of development have grown in number, particularly with the emergence of new schools of thought in the less developed world. Simultaneously, it has become abundantly clear from empirical studies that conventional development practice has done very little for the majority of the so called less developed countries (LDCs), which account for the majority of the world's human population. Thus, using the Kühnian concept of scientific revolution (Kühn 1970), it may be shown that the predominant paradigm of conventional development theory is being increasingly challenged by a new paradigm which, above all, is severely critical of the capitalist system (Foster-Carter 1976). At the heart of the problem is the increasingly apparent fact that there is a difference between the development requirements and conditions in the developed countries and those within LDCs (Seers 1963).

Stöhr and Tödtling (1977) were especially critical of development theory based on neo-classical economics because of its failure to produce sufficiently prescriptive analyses. Instead, they maintain, it seems to have been obsessed with the explanation of past patterns. Browett (1980) also comments that this type of theory has failed to produce valid prescriptive measures, and elaborates by observing that the theory became especially concerned with the explanation of the massively unequal patterns that had suddenly become apparent for all to see. Stöhr and Tödtling (1977) referred to the body of conventional theory as one which placed implicit faith in 'Development from Above'. Browett (1980) described such an approach more generally under the umbrella of the 'Diffusionist Paradigm of Development'. Unfortunately, despite the increasing hostility that has been shown towards the conventional theory, it continued to dominate throughout the 1950s, 1960s and 1970s, and is still dear to the hearts of most Western governments and development planners. Thus, it is still widely believed that the so-called free market mechanisms retain sufficient auto-corrective powers which will ensure the widespread diffusion of the fruits of development, even in the Less Developed World.

1.2 The Dominant Diffusionist Paradigm

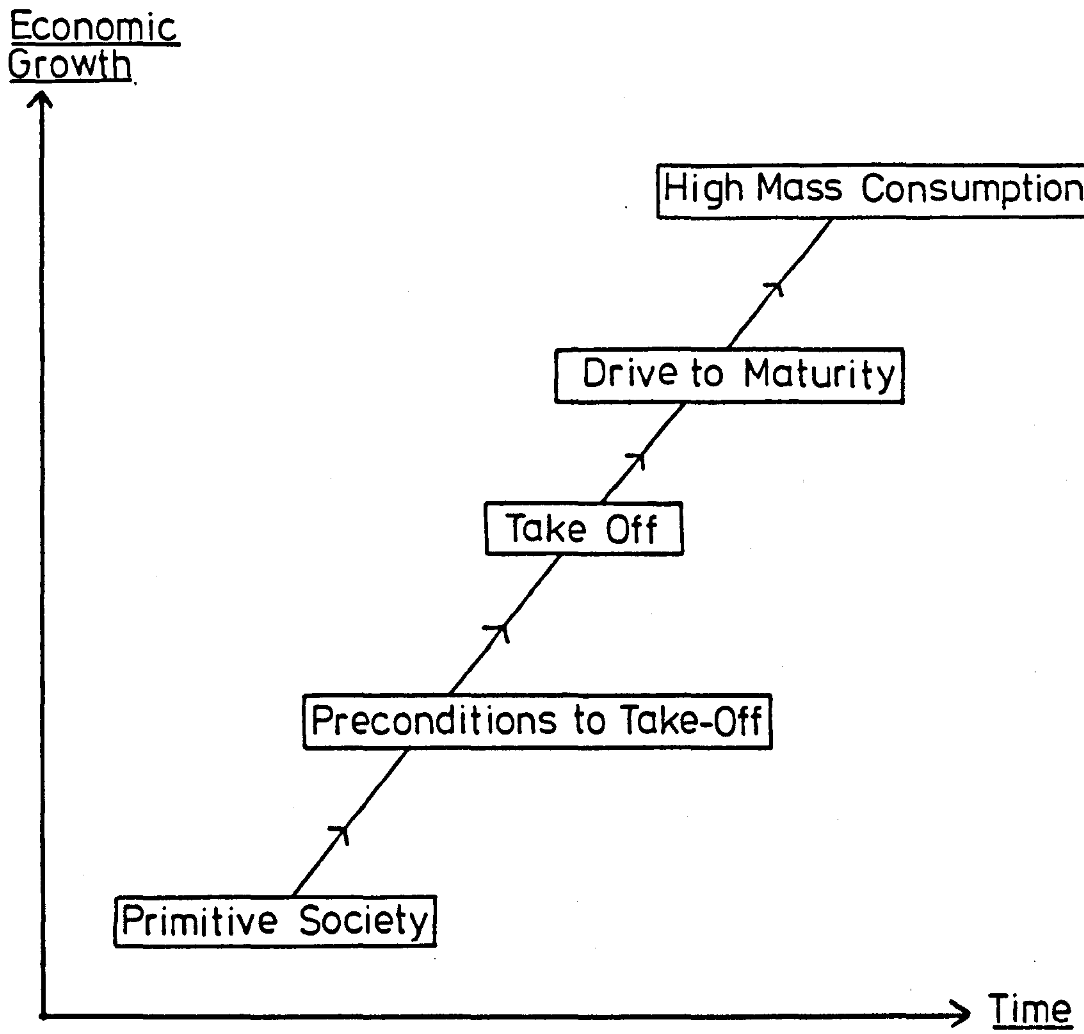
There are apparently three branches of diffusionist theory, the proponents of all three branches believing '...that they adopt a non-ideological approach to development and so are able to provide objective and value-free scientific analyses of the transition from "traditionalism" to "modernity"' (Browett 1980, p.60). Thus, the first branch of the paradigm - that of spatial differentiation - chooses to concentrate on comparative analyses of patterns of development, and assumes development in less developed areas to be obtainable through the elimination of underdevelopment characteristics. The second branch concerns itself with single region or single nation stage models, the most famous of which is that of W. W. Rostow (1960). The third and final branch deals with the spatial diffusion of development, the desired spread perceived as being obtainable through growth impulses generated from growth centres and sectors.

One of the general criticisms of the diffusionist paradigm is the fact that development was seen entirely in economic terms (such as 'growth'), and that it was therefore assumed that it could be measured exclusively in terms of economic variables. As a result, many of the aggregate statistical measures and indices devised by the Keynesian economists became exceptionally popular, and were used not only to reflect levels of development, but also to act as causal explanations of those levels of development. Major objections to arise from the indiscriminate use of such statistics include the observation that little attention is given to intra-area distributions,and the severe inequalities prevalent within many national units. Also, it is clear that the measures and criteria adopted are derived almost exclusively from the Euro-American development experience. 'Hence, it is implied that what is "modern" or "western" is good, and what is "traditional" is bad ' (Foster-Carter 1976, p.172).

Of the other major criticisms of the diffusionist paradigm as a whole are those that emphasise the frequent unjustified assumption that all societies begin from a common baseline of traditional 'underdevelopment'. Such a premise perceives today's less developed countries to be at earlier 'natural stages of development, which are conceived in terms of a unilinear transformation along a development continuum, from traditional to modern. The most famous theories that fall into this category include Clark's (1951) sectoral theory, and Rostow's (1960 and 1971) staged model of economic growth. The latter outlined five stages of economic growth through which all countries had to pass before achieving conditions of development (see Figure 1.1).

Implicit within Rostow's work, and indeed the work of many of his contemporaries, was a bias towards the concentration of capital for industrialisation. This may be attributed, in part at least, to the observation that developed countries were poor when they were agricultural, and only seemed to generate wealth as a result of industrialisation. It is also important to recognise that Rostow's work was intended to be an anti-communist manifesto, and was thus keen to disseminate anti-communist sentiments. It is therefore no coincidence that Rostow adapted a staged historical approach similar to that of Marx, and similarly, concentrated as Marx had done upon industrialisation as the main agent of change in the struggle towards advancement. Furthermore, the observation by Frank (1967) that Rostow's theory is guilty of attributing history only to developed countries, thereby denying all history to underdeveloped countries, may also be applied to Marx, whose attitude towards traditional societies was far from generous (Palma 1981).

Another of the diffusionist paradigm's most frequently cited faults is its assumption that the more developed and less developed nations and regions can be regarded as essentially separate systems of spatial organisation. The perceived lack of linkage between these two worlds allowed the proposition of the existence of isolated dual economies. The more developed areas were assumed to have experienced development through initial advantages at critical stages of change. In contrast, the less developed areas were seen as being trapped in vicious circles of poverty. It follows that the problems experienced by those living in less developed areas are largely of their own making (Browett 1980). Clearly, such a viewpoint may now be discarded as a result of the large quantities of



Source: Rostow (1960)

Figure 1.1 Rostow's Staged Development Model

empirical evidence, establishing beyond any doubt the true inter-dependent nature of the world economy. The view that economic prosperity, development and stability are more often than not heavily dependent upon external forces cannot be denied, and is, ironically, further reinforced by the observation that the world's capitalist and non-capitalist blocks remain substantially dependent upon each other for materials, markets and technology.

Of central importance to the diffusionist paradigm is the dubious assumption that there will be an automatic spread or filtering of growth impulses from more developed to less developed areas. This assumption in particular has been criticised by Stöhr and Taylor (1981). With reference once again to 'development from above', they maintain that the diffusionist paradigm mistakenly seeks to achieve the reduction of inequalities by higher or more effective functional integration, both on a national and international scale. Once again, implicit in this type of approach is a belief in the benefits of the free market system advocated by the neo-classical economists, as well as a persistent faith in the macro-economics of demand and economic growth purveyed by the Keynesian school.

Hansen (1981) states that, in the cases where theory concerning 'development from above' has been prescriptive in nature, it is best exemplified by the 'centre down paradigm', which advocates deliberately unbalanced growth. He cites the works of Perroux(1955), and Hirschmann (1958) as classic cases. Perroux (1955) was particularly concerned with sectoral industrial concentrations (despite the spatial implications of his growth 'pole'). He emphasised that growth rates vary from sector to sector, and therefore that even if a balanced approach to economic growth were desired, it would be impossible to achieve. Hirschmann's (1958) work also emphasised the need to concentrate resources in key sectors, which he suggested should be chosen on the basis of potential forward and backward linkages. It was hoped that growth would be communicated through leading sectors to other branches of the economy, and that the most important element of the 'trickle-down' effect would be investment by the boom sectors in the underdeveloped hinterland.

In contrast, Hansen (1981) cites Myrdal's (1957) approach, which was inherently pessimistic, and concerned itself with the concept of cumulative causation. Rather than spreading wealth into the periphery, the prosperous centre was perceived as cumulatively expanding its internal and external economies, and fortifying its growth at the expense of the periphery. Myrdal was therefore convinced that unbalanced growth strategies would serve only to worsen inequalities.

Myrdal's (1957) contribution was important because of its suggestion that core areas are dependent upon the continuous drain of the periphery for their continued prosperity. Many subsequent works on development have adopted and adapted this standpoint. However, many of the diffusionists still believe that the diffusion of development at sub-national, national and international scales is possible. In particular, they believe that, through specialisation and the exploitation of comparative advantage, and through injections of planning and capital, it is possible to reproduce the success of the Marshall Plan in post-war Europe (Browett 1980). Thus, the centre of their strategy is the establishment of bridgeheads or enclaves of modernisation from which external forces can be diffused into the more traditional economies and societies of the hinterland. Surprisingly, the resounding failure of this type of strategy does not seem to have deterred many of its proponents.

The diffusionist paradigm has been criticised in particular for its attitude towards the role of the State. Despite the often strong Keynesian influence, it has generally assumed that the State acts merely as a benevolent institution, or even as a neutral observer. It is often assumed that harmony exists between constituent nation-states, and that development is a non-contentious process, involving little conflict. Thus, state intervention, if necessary, is perceived as being gradual and incremental , undertaken by established elites, and designed so as to produce a minimum threat to the status quo, and to avoid revolutionary change. Once again, empirical evidence would suggest that such beliefs are unrealistic.

It is significant that, with comparatively few exceptions, less developed countries (LDCs) have adopted,consciously or otherwise, development strategies based upon many of the assumptions of the diffusionist paradigm. This has usually resulted in manufacturing industry oriented and spatially concentrated development programmes. Furthermore, it is clear that the development strategies of many LDCs have been conceived either in the more developed countries (often by consultancies), or by governments whose ministers and advisors have been educated in the more developed countries. It is for this reason that the development experiences of the metropolitan nations continue to be seen as fundamental guides, or implicit models in the development plans of LDCs.

Throughout the world, the historical stage development theories, such as Rostow's (1960 and 1971) retain their popularity, as do their assumptions that LDCs are in a low equilibrium trap (Griffin 1969) and that the provision of vital absent factors of production will provide the necessary impetus for development (or Rostow's critical stage of 'Take Off'). Brookfield (1975a) is extremely critical of much of 20th century stage theory in general, and points out that the conditions facing today's underdeveloped nations differ radically from those experienced by the already developed countries. Thus, he maintains that much development theory has, in relative terms at least, implicitly assumed the existence of an already dynamic and wealthy economy as a base for development. Referring directly to Rostow's works, Brookfield (1975a, p.37) adds that, 'Through its influence on a whole new generation of students of change, this publication is a major event in the prolonged obfuscation of the real issues contained in "development".'

Brookfield's (1975a) views may be reinforced by those expressed in earlier analyses, such as Seers (1963, p.81) who observed that '...the features of the private-enterprise industrial economy...make it of limited professional relevance for work in other economies.' Referring to contemporary factors of production in both more developed and less developed economies, he noted that the development opportunities of the latter were far more limited than was generally recognised. For example, labour in the metropolitan centres is <u>comparatively</u> literate, mobile and organised. Racial, religious and linguistic differences tend not to be sufficiently important to break up labour supply. Seers argued that this is far from being the case in LDCs. He also mentioned other important basic factors such as land tenure, land availability, capital and entrepreneurial activity, all of which he assessed to be lacking or obstructive in may LDCs. These assertions are supported by Weaver (1981, p.78) who also concludes that 'Ideographic problems such as natural resource locations and political boundaries were largely assumed away leaving two primal economic forces - production and consumption - to be balanced off in locational terms.'

The continued widespread use of macro-economic aggregate indices has not enhanced the credibility of the diffusionist paradigm. Brookfield (1975a) has pointed out that the use of such indices as GNP, GDP and National Income merely provides a rough indication of economic growth, and entirely conceals the internal distribution of income and social welfare, both in terms of socio-economic and regional structures. He has also emphasised the fact that aggregate statistics of this nature frequently embody a large element of estimation, especially if large portions of production are not marketed in the legally recognised commercial system. Thus, it is inevitable that the use of such official aggregate measures often fails to account for substantial and significant production associated with the 'informal sector' activities prevalent in so many LDCs.

Seers (1982) also notes that most development plans are highly aggregative, evading issues of distribution. Thus, there is often, for example, no distinction between foreign and domestic sectors. The statistical base for the plans are weak, and frequently politically doctored. Most aggregative indicators are in any case estimates, and are therefore '...the products of hypothesis not fact'(Seers 1982, p.70). Brookfield (1975a) concludes that understanding the whole is subordinate to the elucidation of the process by which the parts become the whole. Thus, one of the diffusionist paradigm's most serious problems has been its inability to consider the complex internal structures of national and regional economies.

Browett (1980) maintains that the diffusionist development paradigm has now been totally discredited, particularly in view of the fact that it has induced only very limited economic growth and very little development in less developed areas. He also notes that this failure is made worse by the persistence of extreme poverty and material deprivation even in those areas where some aggregate growth has occurred. Furthermore, one of the most important consequences of the adoption of diffusionist development strategies - successful or not - is the increased dependence of the LDCs upon the developed metropoli, and just as important, increeased dependence upon overseas owned and controlled multinational corporations.

Other critics of the diffusionist paradigm include Levitt (1970) who observed that in the so called 'Development Decade' of the 1960s, there was in fact a suostantial transfer of income from the poor to the rich countries. This, and many other arguments are difficult to counter. However, one of the most common defensive postures adopted by the more entrenched proponents of the diffusionist development paradigm is that the paradigm has never been implemented properly. Thus, '...investments have been too few, they have not been sufficiently concentrated, planners have worked with unrealistically short time horizons, and such strategies need to be embedded in more comprehensive development schemes. Thus one may say of the 'centre down paradigm'[1] what Shaw said of Christianity: it is not necessarily wrong: it has simply never been tried' (Hansen 1981, p.35). If this is the case, then it would appear that the diffusionist paradigm was untenable from the outset.

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1. The 'Centre Down Paradigm' may in this case be assumed to much the same as the Diffusionist Development Paradigm.

1.3 Alternative Development Paradigms?

Although dissatisfaction with the diffusionist paradigm of development is widespread, there appears to be little evidence to suggest that there are many valid alternative paradigms. Stöhr and Tödtling (1977) and Stöhr and Taylor (1981), however, distinguished between 'development from above' and 'development from below'. In their scheme , development from above corresponds closely to the diffusionist paradigm. Development from below, on the other hand, is a far more recent conception, and is a reflection of changing ideas on the nature and purpose of development itself. In their own alternative approach, which they describe as being representative of development from below, Stöhr and Tödtling (1977) perceived a need to increase the resilience of spatial systems by controlling the negative economic, social and political backwash effects first identified by Myrdal (1957). Development from below can therefore be seen as a strategy which attempts to reverse the current tendency towards functional and spatial integration which is acting increasingly in favour of the prosperous centres, and very much against the interests of the periphery. Development from below therefore aims to achieve even development.

There are, meanwhile, preconditions that apply to any such attempts to achieve more even patterns of development. First, Stöhr and Tödtling (1977) claim that the concept of spatial development needs to be broadened beyond economic to social and political processes. Second, distance friction should be regarded as a positive rather than a negative factor in decision-making. Third, greater attention needs to paid to non-market, non-institution based activities comprised in the informal sectors of countries. Finally, there has to be a shift of decision-making away from today's mainly vertical or functional scale to horizontal or territorial units at various levels. Thus, development from below is designed to benefit the bulk of the population, most notably in the poor and disadvantaged regions. The mechanisms of the strategy require the creation of dynamic development impulses within less developed areas, and may, according to Stöhr (1981) also require a degree of 'selective spatial closure' to inhibit undesirable transfers (particularly of capital) to and from the areas in question. Such strategies have yet to be applied within a world economy, although the rural-based development policies such as those of the Republic of China and Tanzania constitute brave efforts to break away from the traditional diffusionist mould.

Although the concept of development from below is relatively recent, other alternatives to the dominant diffusionist paradigm have existed for some years. One of the most significant early challenges to the paradigm emerged from the United Nations Economic Commission for Latin America (E.C.L.A.[1]), and was most closely associated with the Commission's first general secretary, Dr. Raul Frebisch. E.C.L.A. attempted a conscious policy of import substitution industrialisation, which it was hoped would propel the Latin American economies towards their elusive development goals. From a 'structuralist' standpoint, '...it was argued that conventional economic theory, with its emphasis on the theory of prices and general equilibrium, failed to recognise the existence of different structures...' (O'Brien 1975, p.9). It followed,therefore, that isolation from the damaging forces of world trade, dominated as it was (and is) by the metropolitan centres, would permit the sustained development of the Latin American economies. The intention was to promote import

1. E.C.L.A. was established in 1948.

substitution industries to act as engines propelling a broader economic development, and to protect new enterprise from foreign competition through the erection of high protective tarrifs.

Dos Santos (1973) summarised the intentions of the 'post-war' model of import substitution industrialisation as follows. The major aim was to reduce dependence upon foreign trade, and thus to gain more local control over the Latin American economies. This, in turn, involved a lessening of the powers of the traditional oligarchies, and a process of enhanced 'political democratization.' A more equal income distribution was envisaged, and in particular, the integration of the rural masses into 'modern society' was a major priority. There were also visions of the emergence of a Latin American consciousness, requiring supranational unity in the pursuit of national independence.

Central to the E.C.L.A. stance was the concept of a highly dynamic core periphery system. The developed core was seen as being homogeneous but diversified, whilst the periphery was perceived as being heterogeneous and yet dangerously specialised. Thus, the periphery (of which Latin America was perceived as being a part) was identified as displaying backward structures of production, stifled technical progress, poor and stagnant productivity of labour, and dominant primacy in the export sector. Remedies for the conditions of the periphery were influenced by Keynesian concepts, exemplified by corrective state intervention in the economy, as well as the controlled manipulation of variables previously considered exogenous or irrational (Palma 1981). Clearly, however, despite certain significant departures from the conventional development paradigm, such policies continued to retain inherently diffusionist elements within their strategies, illustrated by the importance given to integrating their various populations into 'modern society' (Dos Santos 1973).

Unfortunately, by the 1960s, it was more than apparent that the import substitution paradigm was in crisis. It had not lessened dependence, income distribution had grown considerably worse, and very large segments of populations, both rural and urban, were still marginal. Cultural alienation had become widespread as metropolitan values and patterns of consumption infiltrated Latin American societies, which remained both divided and extremely unstable. The various national policies of autonomous industrialisation had been undermined by multi-national corporations, and industrialistaion in Latin America was primarily being undertaken by foreign investors.

It was inevitable that disillusionment would lead to a body of theory still more critical of the existing world order. According to Seers (1981, p.14), 'The realisation that import substitution created new, and possibly more dangerous forms of dependence converted E.C.L.A. "structuralists" into "dependency theorists".' This was not so much an abandonment of earlier beliefs as a major change of emphasis, which generated a much more significant conflict with the diffusionist development paradigm. As a result, development and underdevelopment were perceived as partial, independent structures of one global system (O'Brien 1975). The numerous forms of dependency theory that have emerged are, not surprisingly, mostly pessimistic in nature, not only suggesting that the structures binding the periphery to the core are interdependent, but also maintaining that the dependence that ensues acts as an obstacle to development in the periphery.

The demise of the import substitution industrialisation paradigm was inevitable. As a potential policy alternative, it proved to be implausible for many Latin American countries, and remains so for most countries of the less developed world, whose internal structures remain unable to initiate and support endogenously generated industry. Unfortunately, the original E.C.L.A. strategies not only assumed development to be synonymous with industrialisation, but also failed to assess the implications of factors such as substantial foreign investment, and the activities of multinational enterprise in the peripheral economies. Such issues (and many more) are raised by the many manifestations of dependency theory. Because of its centrality in many contemporary development analyses, and indeed its role in later chapters of this thesis, which assess Maltese post-independence development, Dependency Theory will be examined in the next chapter (Chapter Two).

1.4 Conclusions

Traditional development theory, as represented by the diffusionist paradigm, clearly has been of little use to most LDCs. As Levitt (1970) has observed, during the great 'development decade', it seems that the core countries gained substantially at the expense of the periphery. In recent years, the plight of many LDCs has worsened still further. Unfortunately, it seems that the diffusionist paradigm's inability to produce viable prescriptive theory is matched by a similar failing on the part of the alternative paradigms. Thus, import substitution proved to be a failure in Latin America, and development from below has yet to be seriously attempted. Dependency theory, as will be shown in Chapter Two, also suffers from an inability to produce practical answers to the problems which it discusses. Its major advantage is, however, that it does at least ask more relevant questions (Seers 1981).

Malta's position with respect to development achievements is exceptional, and totally inexplicable in terms of diffusionist theory. Thus, compared to the models of Rostow (1960 and 1971) and Clark (1951), Malta is developing backwards along the diffusionist development continuum, trying in the process to establish a secondary sector, thereby alleviating tertiary sector dominance. Furthermore, Malta's efforts are currently engaged in diversifying her economy, a policy in direct contradiction, for example, to the specialisation (based on comparative advantage) ideas of the diffusionist paradigm.

Malta is, in fact, far from being an underdeveloped or Third World country, although she is a peripheral economy, located on the periphery of the Western European core. She is also a long way from becoming a developed country, and may therefore be placed within the diverse ranks of the less developed countries. Her current position is extremely precarious, and is governed by the behaviour of the European core countries. Her dependence is extreme, but not necessarily always negative. Before delving more deeply into the Maltese case, it is therefore necessary to examine various aspects of dependency theory, from which it may be possible to extract a range of more useful and viable means of measuring Malta's progress.

CHAPTER TWO: DEPENDENCY THEORY

2.1 Introduction

The first of the original Latin American works on dependency theory appeared in the English language during the 1960s, and by the 1970s, dependency had become a useful tool in the armoury of, in particular, left wing development economists (Lall 1975). However, it is suggested by several authors such as Seers (1981) and King (1982) that the dependency ideas did not receive, and ideed still have not received, adequate recognition in Europe and North America. Reasons for the slow adoption of dependency theory in the Western world include what Seers (1981) refers to as parochialism, which may itself be explained in terms of the diffusionist paradigm's inherent bias against non-western concepts and ideas.

Another of the reasons for the apparent unpopularity of dependency theory is its ideological content, which is obviously in conflict with the political assumptions of the dominant diffusionist paradigm, which, as Browett (1980) has pointed out, is seen by its proponents as being value-free. In addition, its interdisciplinary nature, and the fact that nearly all the early works were written in Spanish,further stunted its advance in Western academic circles. It is also significant that the Western social sciences were in the 1960s and 1970s strongly influenced by a wave of 'positivism' which required a scientific and rigorous approach clearly lacking in dependency theory.

Despite these obstacles, dependency theory has become popular in some recent development studies, to the extent that, in the words of Brookfield (1975a, p.1), 'The whole contemporary world problem that we call variously that of "underdevelopment", "modernisation", or"economic development of the Third World" is concerned at base with a dominance/dependence relationship.' Other contemporary works adhering to the dependency viewpoint have, in turn, considered the multinational corporation as the basis for a new type of technological industrial dependence, replacing earlier more formal and often colonial manifestations of dependence (Biersteker 1978).

Unfortunately, dependency theory is not (and never has been) a unified body of theory, as might have been hoped. In reality, 'Dependency is a label which encompasses such a diversity of arguments that any discussion of it must take care to distinguish between different usages if it is not to add further confusion to an already obscure debate'(Bienefeld 1981, p.79). In particular, because of the special connotation given to the word 'dependence', which is itself used frequently in normal parlance, some confusion has arisen over what it actually means in the development context. Greater world interdependence and increased dependence upon foreign trade and technology is not in itself bad or undesirable. But, to the Dependencia School, '"dependence" is meant to describe certain characteristics (economic as well as social and political) of an economy as a whole, and is intended to trace certain processes which are causally linked to its underdevelopment and which are expected adversely to affect its development in the future' (Lall 1975,p.799).

Quite how the dependency links are seen to affect the development process adversely seems to have depended very much upon the personal perceptions of the individual dependency theorists. Lall (1975, p.800) explains that, 'Even within the Dependencia School,...the word (dependence) is given different meanings according to the users' beliefs about the particular historical processes which have caused underdevelopment and about the relative roles of the various factors which are at present governing the future of development in the poorer countries.' Indeed, it has been observed that there are as many conceptions of dependency as there are dependency theorists (Biersteker 1978).

Dependency theorists have, in consequence, ranged from the mildly socialistic nationalists such as Furtado or Sunkel (often also referred to as structuralists - see Chapter One), via writers of increasing radicalism like Dos Santos, to explicit revolutionary neo-Marxists like Frank. Significantly, most review articles tend to produce a threefold classification of dependency theorists based on their political complexion, and their beliefs concerning the possibility of dependent development. First, there are those (such as Frank 1967 and Baran 1957) who do not accept the possibility of development in the periphery within the present capitalist system, and see only the further development of underdevelopment. Second, there are those who concentrate upon the obstacles which confront capitalist development in the periphery. Finally, there are those who accept the possibility of capitalist development in the periphery, placing the emphasis of their analyses upon the subservient forms which it adopts. Although Palma(1981) is not entirely happy with this classification (and suggests his own alternative format), it does serve to show the heavily political nature of most dependency theory.

Undoubtedly, the severest critics of dependency theory as a whole dislike it most of all for these strong political overtones. Thus, for example, '...to a social scientist brought up in the dominant positivist hypothetical-deductive methodology, theories of dependency may seem at best trivial or irrelevant and at worst political slogans wrapped up as theory'(O'Brien 1975, p.11). Furthermore, to the sceptics, dependency theory seems to display as many internal contradictions as the capitalist system that it chooses to criticise. Nevertheless, despite the many ambiguities and inherent contradictions embodied within dependency theory, there is little doubt that it has provided a useful development perspective (Seers 1981). The political component is obviously a source of subjectivity, but it is also a valuable source of motivation which has injected much needed energy, urgency and relevance into development studies. Moreover, it is difficult to conceive how development studies could be entirely objective and apolitical in nature as, at the heart of most development issues are numerous political decisions that embody development strategy. Indeed, Bienefeld (1981, p.79) warns that, 'Care must be taken to avoid delusions of objectivity in the field of dependency, and the indulgence in greater rigour which merely sweeps yet more reality under the ceteris paribus carpet.'

2.2 Background to Dependency Theory

Both the E.C.L.A. structuralists and the dependency theorists of the last three decades probably owe a great deal to the writings of Marx, and the subsequent literature that he has inspired. This is supported by the fact that more 'extreme' dependency theorists often refer to themselves as neo-marxists, and state the belief that development in peripheral countries is impossible under the conditions at present perpetuated by the capitalist system. It is, however, incorrect to associate such an attitude directly to Marx and Engels, for as Palma (1981) has pointed out, these beliefs go against the letter of Marx's writings and are more a reflection of those of writers such as Baran (1957).

Marx was a major source of inspiration to dependency theorists in particular because he too condemned the brutalising and dehumanising nature of capitalist expansion. However, his opinions as to the role of capitalism differed markedly from those of many of the current neo-

Marxists in that he perceived capitalism to be a necessary, if unpleasant, means by which 'backward' societies could further develop. Thus, both Marx and Engels viewed less developed societies as being peopled by 'barbarians', and therefore shared some of the pro-western modernisation views implicit within the diffusionist development paradigm. It was, in fact, within Lenin's work (on the development of capitalism in Russia) that there was the first systematic attempt to provide a concrete analysis of the development of capitalism in a backward nation (Palma 1981). This point was also explained by Edel _et al._ (1978, p.4) as follows,

> 'Writings on imperialism introduced the first compelling analyses of of the geographically differentiated character of capitalist advancement. Lenin, Trotsky, Luxembourg and others focused on the uneven penetration and impact of capitalism on countries, nationality groups and geographic areas.'

Lenin was keen to show that in Russia, the development of capitalism was not an inevitable process (as had been predicted by Marx), but that it was retarded because of the weakness of the Russian bourgeoisie as an agent of capitalist development, the severe competition from Western Europe that undercut many home produced Russian goods, and the great and unexpected capacity for survival of the traditional structures of Russian society (Palma 1981). This led Lenin to write in 1923 '...but the Western European countries are not completing this development (towards socialism) as we previously expected they would. They are completing it not through a steady "maturing" of socialism, but through the exploitation of some states by others' (quoted in Foster-Carter 1974, p.67).

According to Palma (1981), the works of Lenin, Bukharin and Luxembourg go on to provide further encouragement to dependency theorists by implying indirectly that capitalism leads to the domination and control of backward regions by the imperialist powers. In this way, the integration of such backward countries into the world economy, international capital movements, and the international division of labour all resulted in the restriction of backward economies to mineral production and agricultural primacy.

Despite these observations, there persisted the view that following independence, genuine unhindered capitalist development would occur. Independence and decolonisation have,however, not permitted this. Worse, it seems that the post-colonial period, especially in Latin America, has advanced the obstructive tendencies of imperialism identified by the imperialist writers. Palma (1981) identified the 6th congress of the Communist International in 1928 as the turning point that finally linked imperialism to the various concepts of dependence. After the congress, emphasis was switched from the inevitability of the 'historical progressiveness thesis' to the obstacles which imperialism imposed on industrialisation during the colonial period, obstacles facing 'late industrialisation', and most important, the 'feudal-imperialist' alliance. The latter is particularly important as it established that links frequently exist between the (feudal) power structures controlling backward regions and the external imperialist powers. Again, this thesis is central to dependency theory. It is, however, interesting to note that the imperialist writers, unlike the dependency theorists, continued to view development as being synonymous with industrialisation. Thus, the anti-imperialist struggle was simultaneously the struggle for industrialisation.

In contrast, one of the many advantages of dependency theory has been that, in general, its proponents have seen development in far more than simply economic and industrial terms. The contribution of the imperialist writers to dependency theory is nevertheless substantial. Dependency theory, like the imperialist literature, concentrates on the development of peripheral capitalism. More significantly, dependency theory follows up the fuedal-imperialist alliance premise of the imperialist writers, and attempts to analyse the development of peripheral capitalism, '...from the point of view of the interplay between internal and external structures'(Palma 1981,p.42). But, as has been hinted earlier, opinions within the dependency school vary dramatically in terms of the means by which dependency links may be reduced. There are those in the revolutionary tradition, including Frank (1967) and Amin (1974), who advocate semi-autarkic solutions. Those who see the state as being able to reduce dependence incrementally include Prebisch, Cardoso Sunkel and many others (Seers 1981). Quite which of these broad groupings is closest to the classical imperialist writings is difficult to judge, although the revolutionary zeal of Frank (1967), for example, encourages many to assume the radical alternative to be most in keeping with tradition.

Palma (1981) prefers to use his own classification of dependency theory, suggesting that distinguishing between different branches of dependency theory on the simple basis of 'possibility of capitalist development in the periphery' is inadequate. His first two categories correspond broadly to the first 2 categories in the previous classification, and include the 'stagnationists grouping' and the 'obstacles to development' theorists. The third category, on the other hand,is very different, and conforms to Cardoso's (1972) view that dependency theory is most useful when used as a framework for the analysis of concrete situations of dependence. In other words, both Palma (1981) and Cardoso (1972) feel that dependency theory is at its best when used in empirical study. Such an approach prevents excessive theorising in a vacuum by confining itself to 'concrete situations', and drawing upon an empirical data base. This, claims Palma (1981, p.43) is a welcome change as 'The need at the moment is for "analytic" rather than "synthetic" work.'

2.3 A Typical Dependency Viewpoint

Although it is extremely difficult to choose a suitably general and widely acceptable single description of the dependency viewpoint, Dos Santos (1973, p.76) provides a useful attempt at a summary.

> Dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can expand through self impulsion while others, being in a dependent position, can only expand as a reflection of the expansion of the dominant countries, which may have either positive or negative effects on their immediate development.

Despite criticisms concerning the implicitly static nature of Dos Santos's conception of dependence[1], Dos Santos (1970) had been careful to distinguish between various types, or phases of dependence. Colonial dependence (most frequently trade/export in nature), and financial and industrial dependence (especially in Latin America) were the traditional formsof overt dependence through which production was frequently geared to the demands of the metropolitan centres, often resulting in the rigid specialisation of production. However, 'In the post-war period, a new type of dependence has been consolidated, based on the multinational corporations which began to invest in industries geared to the internal market of underdeveloped countries. This form of dependence is basically technological industrial dependence. This situation is undoubtedly conditioned by the technological momopoly exercised by the "imperialist centres"' (Dos Santos 1970, p.234).

1. These criticisms refer to the use of the term 'conditioning situation'.

The specific problems for which contemporary dependence is blamed are numerous. Once again, Dos Santos (1970) sees the unequal and combined character of capitalist development at the international level reproduced internally in an acute form within less developed countries. Thus, the industrial and technological structures of such economies respond more closely to the needs and requirements of the multinational corporations than to the internal needs of the developing nations. Furthermore, the same industrial and financial systems of capitalism in LDCs gives rise to a highly unequal productive structure, a high concentration of incomes, the intensive exploitation of existing (particularly urban) markets, and a marked deterioration in an already serious rural-urban imbalance.

Other dependency theorists have developed similar, although not necessarily congruent specific ideas concerning dependence. There is general agreement that development is a global, structural process of change, and that underdeveloped countries are those countries which lack an autonomous capacity for change and growth. Indeed, writers such as Cardoso (1972) argue forcefully that development and underdevelopment are not different stages or states of a productive system, but rather are functions or positions that coexist within an international system of distribution and production. Sunkel (1971, cited in O'Brien 1975, p.26) reinforces this argument by stating that '...development and underdevelopment are two faces of the same universal process.' Predictably, Frank's views are rather stronger. 'One and the same historical process of the expansion and development of capitalism throughout the world has simultaneously generated, and continues to generate both economic development and structural underdevelopment' (Frank 1967, p.9).

One of the most common features of the majority of dependency theory's many manifestations is its chronological or historical approach. Thus, much of the dependency literature tends towards an attempt to produce a chronology of the effects changes in capitalism have wrought, particularly within Latin America. There is little doubt that this may be attributed in part to the Marxist historical tradition. However, it is also clear that temporal comparisons and analyses in this field are both easier and more valid than, for example, ahistorical spatial or international comparative analyses. Palma(1981) believes the historical nature of most dependency theory to be one of its major advantages, and severely criticises contributions that are inherently static in nature. The dynamic approach is thus seen as being particularly valuable as it sees that the so-called causes of underdevelopment are really the symptoms or results of the normal functioning of the total system, and that underdevelopment, with all its generally understood characteristics, is a normal part of the process of world capitalist development (O'Brien 1975).

2.4 The Problem of The Newly Industrialising Countries

One of the major crises to face dependency theory in recent years has been the sudden apparently successful development of a selection of LDCs. Bienefeld (1981) has observed that the 1970s have produced highly contradictory trends. Whilst the decade proved to be one of continued and predictable extreme difficulty for most LDCs[1], it also produced several 'newly industrialising countries' (NICs) which managed to generate periods of phenomenal sustained growth in their economies, based on manufactured exports. The development of these manufacturing bases was largely responsible for a rapid increase in the LDCs' share of world manufacturing output since 1973. Such apparently dramatic progress in LDCs

1. Difficulties include indebtedness and social and political polarisation.

represents a severe challenge to many segments of dependency theory, particularly those which denied the possibility of such development. Furthermore, it seems that Taiwan and South Korea, for example, show that if sustained for long enough, the benefits of such growth, 'dependent' as it is, can be spread throughout society.

The NIC phenomenon is therefore regarded by the proponents of the diffusionist development paradigm as proof of the validity of their approach. However, 'It is possible to show that the "fast developers" of Latin America, Southern Europe and South East Asia are still indeed "dependent" on the metropolitan countries in different ways and sometimes more markedly than a decade or two ago' (Lamb 1981, p.97). Whilst it can be argued that populations in the so called 'transnationalised enclaves' have an objective interest in the maintenance of dependent structures, there is evidence to suggest that such heavy structural dependence can lead to long term instability within the economies in question, and may not perhaps be as beneficial to the the various populations as might have been expected.

Amin (1974) strongly supports the view that NIC development is neither particularly beneficial nor inherently stable. In this context, he maintains that underdevelopment has three major features. First, underdeveloped countries display extreme unevenness of productivity between sectors of the economy. Second, they suffer from a complete disarticulation of their economic systems, the most obvious symptom of which is an extreme lack of linkages within their economies. Third, their economies suffer from outside domination, a problem that is highlighted by all the manifestations of dependency theory. Thus, Amin (1974, p.28) comes to the following conclusion concerning the purpose of development:-

> 'The object of the art of development is to guide economic choices in a concrete situation – that of a given underdeveloped country with a structure and history, in the prospective setting of a systematic structural transformation, namely, the willed construction of a homogeneous national economy, with its center and driving force in the country itself. This art belongs therefore in the context of a struggle for national economic liberation.'

Amin (1974) therefore argues that unless the three previously stated manifestations of underdevelopment are eradicated, development cannot be judged to have occurred. A superficial examination of most NICs reveals a continued prevalence of all three of Amin's underdevelopment characteristics. Amin and others therefore claim that the NICs have not developed, and that dependency is not challenged by the experiences of the NICs. Indeed, they maintain that, if anything, the case <u>for</u> dependency theory is strengthened by the experiences of the NICs. In this respect, Malta is an interesting case, and will be discussed briefly in the latter part of this chapter.

2.5 Dependence in Developed Countries?

It is interesting to note that the concept of dependent development provides additional problems when applied to more developed core countries. It is abundantly clear that many developed countries (and regions) also suffer from conditions of dependence. For this reason, it seems that if dependency is going to contribute any further to studies of underdevelopment, it is important that it explains why some dependent countries are rich, and others poor. Obviously, poverty and inequality are the major concerns of dependency theory, which has therefore confined itself to LDCs in most cases. However, there have been instances in which dependency analyses of more developed countries have been both interesting and revealing. Such works are often dominantly structuralist and nationalist in nature, Levitt's (1970) work on Canada being a good example.

Levitt began her work with the premise that '...the repatriation of economic decisionmaking is a precondition of a democratic social order' (Levitt 1970, p.xxi). Her major concern was the rapid expansion of American based MNCs in Canada. 'They are manifestations of a new mercantilism of corporate empires which cut across boundaries of national economies and undermine the national sovereignty of the hinterland countries in which their subsidiaries and branch plants are located' Levitt 1970,p3)

Expanding on this theme, she introduced the concept of the 'branch plant economy', which,she suggested, not only leads to a lack of indigenous entrepreneurship, but also precipitates a situation in which an economy becomes dependent upon imported technology, and is therefore '...assured of a perpetual technological backwardness vis a vis the metropolis'(Levitt 1970, p.105). This type of approach, assessing as it does the value and stability of apparently successful economic development, appears to be a potentially fruitful line of analysis. Moreover, if conducted carefully, such an approach should have sufficient empirical power to qualify as one of the studies of 'concrete situations' of dependency favoured by Palma (1981).

2.6 A reassessment of Dependency Theory

In his criticism of dependency theory, Lall (1975) maintains that any concept of dependence that is to serve a useful purpose must lay down certain characteristics of dependent economies which are not found in non-dependent ones. These characteristics must be shown to affect adversely the course and pattern of development of the dependent countries. Interestingly, empirical studies seem to suggest that there are cases, such as that of Malta, where dependence may be shown to have assisted development. Some dependency theorists have in turn suggested that 'dominance' over the LDCs' economies by the metropoli is a crucial element of the dependence argument that ensures the validity of dependency theory in development studies. Again, cases may be found in which a dominance dependence relationship between an LDC economy and a metropolitan power have not necessarily been to the detriment of the poorer country. More significantly, many highly developed countries, such as Canada, are also dependent upon dominant foreign powers.

On a positive note, dependency theory has without doubt aided the comprehension of many of the LDCs' problems. Seers (1981) states that the general feeling is that dependency theory, whilst not necessarily providing the answers, at least asks the right questions - questions which he says are much more relevant ones than those derived from neo-classical economics. Indeed, it seems that one of the most welcome contributions of the dependency theorists has been to produce a body of theory from the point of view of the less developed economies. The dependency literature has therefore fulfilled very important psychological functions, whilst simultaneously representing attempts to understand why the economies of the less developed world remain weak.

Unfortunately, whilst dependency theory has helped to identify and emphasise many of the problems facing less developed economies, it has been unable to show that these features of underdevelopment are caused directly by conditions of dependence. Thus, most dependency theory develops into an analysis and criticism of conditions of underdevelopment and the capitalist system as a whole, rather than the dependency links themselves. Indeed, there has been a tendency for dependency to be used to explain everything that is wrong with Latin America (and indeed every underdeveloped country's) society (O'Brien 1975). But, worse still is the tendency for circular argument to creep into dependency analyses, which leads to the conclusion that dependent countries are those which lack the capacity for autonomous growth, and that they lack this because their structures are dependent ones (Lall 1975 and O'Brien 1975).

One of dependency theory's greatest problems has been its failure to provide a solid measurement system for dependence. Without some degree of measurement, this type of theory becomes prone to vague statements and unjustified value judgements. Indeed, the actual mechanisms of dependency are seldom spelt out in detail (O'Brien 1975). Thus, it becomes impossible to draw the line between dependence and non-dependence without falling into the basic error of defining underdevelopment to constitute dependence (Lall 1975, p.803). The measurement problem would be considerably alleviated if it were possible to identify any country in the world that was totally non-dependent. Unfortunately, every country in the world is dependent upon external linkages to some extent. However, some attempts at measurement have been attempted.

Jongkind (1979), for example, attempted to measure Venezuelan dependency by using several indicator variables, ranging from those describing Venezuelan industrial structure, to others investigating the education and perception of managerial personnel. This particular study's main purpose is to disprove the dependency hypothesis that autonomous national development is impossible within a dependent economy. Predictably, the study upholds its claim that traditional dependency theory is erroneous. This is unfortunate as there is without doubt great potential in the measurement of dependency. Indeed, one of the major intentions of this study is, after accepting that dependence exists throughout the Maltese economy, to measure it wherever possible, and to establish its negative and positive effects. This should be possible, particularly with the assistance of time series data.

Lall (1975) concludes his criticism of traditional dependency literature by demonstrating that it has, at least in part, led to a concentration on the wrong problems and on unrealistic solutions, a serious defect which must be rectified if it is not to end up as yet another branch of 'grand theorising'. However, the study of concrete situations of dependency, as recommended by Palma (1981) holds far more promise. Further encouragement may be gained from Seers (1981) who suggests that dependency should be examined in terms of the potential consequences of 'delinking'. Delinking is only feasible on a partial scale, and may, for example, involve the raising of corporation tax rates, or the adoption of socialist pro-labour legislation. This may result in MNCs reducing output, exports, employment levels and technological inputs, all of which are measurable variables. It may also cause a considerable net outflow of capital. The penalties for such government initiatives have been known to be more dramatic. The events in Chile between 1970 and 1973 provide the classic example of this. President Allende's advance to power was apparently at one stage threatened by the activities of the MNC 'ITT', who wished to prevent him from gaining office. The details of the demise which overtook him after he successfully gained office are well known.

Delinking can have many other effects. It may lead to a crippling loss of confidence in the economy which may damage some sectors very badly indeed. This in turn can lead to losses of investment, the recall of loans, severe restrictions on new loans, the loss of tourists, the loss of emigrants' remittances, and inevitable currency crises. Such events frequently lead distressed governments to seek assistance from international agencies such as the International Monetary Fund (I.M.F.) and the World Bank. The powers of these institutions in the world is growing, and it is significant that they are perhaps amongst the most powerful proponents of conventional economic development strategies closely related to those of the diffusionist paradigm. Seers (1981 , p.139) summarises this point by observing that many countries are '...particularly likely to turn to the Fund (I.M.F.) and be put under pressure to drop the delinking strategy and associated internal policies. Jamaica is another case in point. So are Peru and Tanzania. So is Britain!'

Seers (1981 ,p.141) also emphasises the role of cultural dependence in development, a factor which is frequently underestimated. He explains that cultural dependence is '...of a different, higher order of importance than economic dependence, just as mental illness is of a higher order of importance than physical disease: a mental patient may be incapable of recognising his symptoms, of willing himself to recover, or of monitoring his own progress.' Hence, national policy-making is rarely truly sovereign under any circumstances. Clearly, the study of cultural influences does present problems, especially given the abstract nature of many of the variables involved. However, Jongkind (1979) showed that some measurements of cultural dependence may be attempted.

One of the major criticisms of traditional dependency theory is the fact that, although dependency theorists introduced many factors ignored by mainstream economics into development studies, the theory ignores many vital and palpably obvious factors. Again, Seers (1981) lists many vitally important factors governing dependence, many of which are measurable. Of these, the most important include a country's size (see Chapter Four), location, natural resources, linguistic and ethnic differences, geostrategic and local military factors, and political leadership. Adding such demographic and geographical factors '... to those conventionally covered in dependency theory reinforces the point that no government is entirely free to shape its policy without regard to external influences' (Seers 1981 , p.143). It also illustrates the value of an approach to dependency which accepts that dependency can coexist with many types of development, and which, through the examination of 'concrete situations' can assess the success of development through the measurement of specific types of dependency link.

It is clear that dependency theory is, or at least can be, a useful challenge to the diffusionist development paradigm. Without doubt, the major conflict between dependency and the diffusionist viewpoints is over their differing attitudes to external linkages. The diffusionists believe that external linkages need to be encouraged to induce development, whilst the dependency theorists suggest that it is exactly these linkages which obstruct development. However, to be of any use to this particular study, traditional dependency theory must be altered so that, in addition to external linkages, it takes into account the vital geographical, demographic and strategic factors highlighted by Seers (1981).

2.7 Summary

The discussion so far has shown that the numerous forms of conventional dependency theory are seriously deficient. In particular, they fail to provide meaningful answers, and similarly, are unable to generate viable solutions to the problems of dependence facing both underdeveloped and developed countries. Perhaps more important is the fact that dependency theory has rarely attempted to measure the dependency links that it chooses to criticise. It has, as a result, been unable positively to distinguish between countries afflicted by greater and lesser degrees of dependence. Consequently, dependency theory has failed even to prove that dependence is an undesirable and debilitating condition.

Also of importance is the fact that dependency theory has traditionally confined itself to the impoverished underdeveloped nations of the periphery. As has been explained, clear dependency linkages can be identified in all countries, underdeveloped or otherwise. Malta is extremely dependent upon external linkages, and yet she is far from being underdeveloped. Her dependence is both a consequence and a feature of her recent development. Thus, in the Maltese case, the priority is not a study of obstacles to development in the Islands so much as an examination of the quality and long term stability of the development. The adoption of dependency theory as it has traditionally been perceived is therefore not possible.

In the case of this study, much of the use of dependency theory involves the adoption of a number of quantitative and qualitative measures. Examples of the specific facets of dependence to be measured include the extent of certain types of concentration occurring in Maltese industrial production. It is therefore the intention to discover whether Malta is excessively dependent upon any one industrial sector. This particular line of enquiry corresponds closely to Amin's (1974) first criterion of underdevelopment - that of production concentration in an economy.

Other measures of dependence will include those of international trade or market concentration, and the predominance of overseas influence within the economy, represented by direct overseas investment. Dependence upon a small range of export produce, a small number of markets and marketing organisations, and dependence upon overseas capital (as well as overseas entrepreneurial impetus and technology) are all central themes deserving attention in development studies. Such indices also relate very closely to Amin's (1974) third feature of underdevelopment - that of overseas domination.

It will also be possible to assess the extent to which the Maltese economy has become internally integrated. Amin's (1974) second feature of underdevelopment was that of isolated and fragmented production within an economy. Thus, the primary concern in this case is to identify the extent to which there are internal linkages within Malta. A preponderance of external international economic linkages, and a corresponding lack of integration within Maltese productive capacity would, for example, suggest that the Maltese economy is structurally unsound.

On a hypothetical level, it will also be possible to assess Malta's dependence - and its undesirable potential consequences - by predicting the likely consequences of a delinking strategy. As well as dealing with purely economic variables, this type of analysis introduces important political and strategic factors into the study. These considerations are vital to the Maltese situation which, as the ensuing chapters will reveal, is, and always has been, governed by strategic and related political circumstances. For exactly this reason, the section of three historical chapters is vital to the comprehension of Malta's current situation.

Finally, the introduction of basic geographical factors into the analysis is essential, and is amply demonstrated by the importance of the size of countries to dependency links. Malta's exceptionally small size has led to the need for two chapters dealing specifically with the influence of country size upon development and dependency issues (see this section, Chapters Four and Five).

Initially, however, it is necessary to assess the role of the MNC in the development process. The MNC is undoubtedly the single most important source of external linkages within most economies, and is therefore one of the most important sources of dependence. The role of the MNC has increased dramatically on a global scale during recent decades. For these reasons, the influence and activities of MNCs are considered in the next chapter (Chapter Three).

CHAPTER THREE: MULTINATIONAL CORPORATIONS

3.1 Introduction

Multinational corporations have, since the birth of Malta's first development plan in 1959, played an increasing role in Maltese economic development. Predictably, their most important influence has been felt in the manufacturing sector, which is now heavily dominated by overseas owned and controlled enterprise. There have, however, been significant developments elsewhere in the economy, and the vitally important tourist industry is now also heavily dominated by foreign businesses, some of which may be classified as MNCs. Malta is therefore strongly influenced by the activities of MNCs, which may be seen as one of the most important sources of dependence in the Islands. It is important to note, nevertheless, that Malta's experiences are not unique, and that the growth of MNCs since 1945 has been on a global scale.

3.2 The Recent Growth of the Multinational Corporation

Although his primary concern was with regional development in modern capitalist states, Holland's (1976a) observations concerning the recent development of large and powerful MNCs is particularly relevant at national and international scales.

> '...changes in the modern capitalist firm since the 1950s have introduced new dimensions to regional imbalance which make imperative more direct state intervention to redress or alleviate regional problems. This is particularly true of the trend to monopoly and multi-national capital, which has established a new meso-economic sector between the conventional macro- and micro- economic orthodoxies as described in the literature. In the United Kingdom and the United States these meso-economic companies now dominate the upper half of the most regionally mobile sector of the economy - modern manufacturing. Their power to go multi-national rather than multi-regional both undermines indirect intervention through incentives, and decreases the power of the modern capitalist state to harness their resources for the development of problem regions' (Holland 1976a, p.v & vi).

The growth of multinational enterprise in recent decades has thus been rapid, and is illustrated by the following figures, again provided by Holland (1976a and 1976b). In the case of Britain, in 1950, the share of total net manufacturing output accounted for by the largest 100 manufacturing companies was 20%. By 1970, this figure had risen substantially to 50%. It is suggested that this proportion will have risen to at least 67% by 1985. Similar figures for the United States of America show that in 1947, the largest 100 manufacturing corporations accounted for 23% of total net output. By 1970, this had risen sharply to 33%, a figure that is put in perspective when it is emphasised that by 1970, there were over 700,000 active manufacturing corporations in the U.S.A. (Holland 1976b). Similar statistics have been provided by Newfarmer (1980), who suggested that by 1968, the largest 200 manufacturing enterprises in the U.S.A. generated 61% of total net output. It is therefore clear that in both the U.S.A. and the U.K., and indeed in most countries of the world where multinational enterprise operates, the upper half of the manufacturing sector is dominated by a few enormous firms, and the lower half by many very small firms, the latter conforming rather more to the assumptions of micro-economic models. The dual economic structure that results in the modern capitalist states is disturbing, but the severe dualism that is generated in less developed countries is more savage, and seen by many to be more detrimental.

The size and power of the MNCs has become a cause of increasing concern to many governments. The enormity of such companies is illustrated by the fact that their estimated annual turnover often exceeds the value of the gross national product of some E.E.C. nations, and is frequently several times the size of the GNP of less developed countries. In order to illustrate this point, Tugendhat (1971) produced a table of statistics comparing the GNP of a selection of nation states with the annual sales turnover of some of the largest MNCs. Although the statistics, which are shown in Table 3.1 are out of date, they illustrate very well the financial and potential political power of MNCs, which has certainly not declined since 1969. This point is further illustrated by the I.L.O. (1973), who claimed that by 1972, the largest 100 economic units in the world consisted of 50 nation states and 50 multinational companies.

The bargaining power of many of the larger MNCs is such that, especially in the present recessionary conditions, governments of all types go out of their way to attract their various activities in the hope that they will generate both revenue and employment, the multiplier effects of which (it is hoped) will diffuse throughout the host economies. In addition, the flexibility and resilience of many MNCs is well illustrated by the example of Ford (Europe), who are able to negate successfully the effects of strikes in one area of their European production by transferring the halted production to other European plants, where reserve capacity is maintained in case of exactly this type of eventuality. Thus, one of the major strengths of the MNCs lies in the mobility of capital, which allows for the rapid transferance of production to locations where factors of production are more favourable. Finally, the political muscle of MNCs has already been mentioned with respect to the potential consequences of 'delinking' strategies by governments.

Holland (1978) maintains that the growth of the meso-economic sector has transformed the structure of competition. This is significant as macro-economic demand management policies assume that competition determines price formation at the micro-level, and that fiscal and monetary policy instruments are seen as being able to manipulate demand. It is becoming increasingly apparent that the MNC is attaining monopolistic powers that allow it to become a 'price maker' rather than a 'price taker'. In this

Table 3.1 Multinational Company Annual Sales Turnover Compared With The Annual Gross National Product of Selected Countries (1969)

GNPs in 1969 ($ '000 million) Selected Countries		Selected Multinational Companies	1969 Annual Turnover ($'000 million)	Nationality of MNCs
Netherlands	28.24	General Motors	24.30	U.S.
Sweden	27.85	Standard Oil (N.J.)	14.93	U.S.
Belgium	22.82	Ford	14.76	U.S.
Switzerland	18.82	Royal Dutch/Shell	9.74	Neth/U.K.
Denmark	13.99	IBM	7.20	U.S.
Austria	12.47	Unilever	6.03	U.K./Neth
Norway	9.73	Philips	3.60	Neth
Finland	9.14	ICI	3.25	U.K.
Greece	8.40	Hoechst	2.27	W.Germany
Ireland	3.40	Alcan Aluminium	1.22	Canada

Source: Tugendhat (1971, p.2)

context, 'There is every indication that meso-economic firms are continually increasing their share of the market despite the policies attempted at national and community levels to maintain market structures of the old style competitive model' (Holland 1978,p.169).

Although this growth is not a conspiracy against the public interest, and is merely the natural outcome of economies of scale and the need for specialisation, the larger the firms become, the greater is their ability to earn super-normal profits. Consumer sovereignty has therefore been replaced by producer sovereignty. Competition still exists, but not as price competition. The main prizes have therefore become growth, flexibility, increased autonomy, and survival, goals which are not unlike those of many nations. But, perhaps the most disturbing aspect of all concerning the spectacular growth of the meso-economic sector is the inability of even the modern capitalist states to control or influence significantly the activities of the MNCs. This would tend to suggest that the large numbers of less developed countries have even less chance of successfully controlling and monitoring the activities of MNCs operating within their territories.

There has, in fact, been a substantial transfer of MNC activity away from the metropolitan core countries to the peripheral LDCs (such as Malta), particularly during recent decades. This has in part been a logical reaction to the fact that many of the resources and raw materials necessary to the MNCs are located or produced in LDCs, but is also a response to the increasing tendency for LDCs to compete in the deliberate attraction of overseas enterprise by providing excellent production facilities, including for example, free trade zones (e.g. Abidjan, Ivory Coast). LDCs are also able to provide cheap and comparatively well behaved (if unskilled) labour, a factor which many industrialists feel they can no longer rely upon in the metropolitan core countries, where wages are high, and trade unions often hostile. In short, LDCs have in many cases become locations where injections of international capital can rapidly yield dramatic financial rewards.

It is difficult to assess the true extent to which MNCs have transferred their production to LDCs. Newfarmer (1980) quotes crude figures which suggest that in 1945, MNCs had invested approximately 20 billion dollars abroad, and that by 1976, this figure had risen to 290 billion dollars (U.S.). However, much of this investment has occurred in other developed countries, a fact which is illustrated by the I.L.O. (1973) assessment that in 1970, only 27.4% of U.S. direct investment abroad occurred in LDCs. This is, nevertheless, a substantial advance upon previous decades. Furthermore, there is evidence to suggest that the recessionary difficulties of the 1970s have encouraged many MNCs to transfer their production units away from comparatively high cost locations in developed countries.

Opinions remain mixed as to the benefits accruing from the activities of MNCs in LDCs. 'Diffusionist' economists tend to attribute major economic benefits to MNCs because they bring to LDCs deficient factors of production such as capital, technology and managerial skills. Thus, the conventional view is that '...for less developed countries too small to be viable as national economies under present technologies, research and capital requirements, and existing transportation and communications facilities, multinational corporations are often "the only real hope"' (Biersteker 1978, p.2). Critics of MNCs disagree very strongly with this viewpoint, refusing to accept this implicitly benign image of the MNC. They observe that the interests of the MNC are rarely in harmony with those of the countries within which they operate. Levitt (1970, p.37) explains that '...the multinational corporation is responsible to nobody but itself. It pursues its own interests, and is not concerned for those of any external groups.' Levitt explains that the MNC's major motivation is growth in its own right, which it achieves through profits. In the interests of continued growth and security, the MNC attempts to gain control of total production processes and related complementary and competing products through vertical and horizontal integration maneouvres, which may involve the creation of new subsidiary companies, or the take-over and absorbtion of existing enterprise. One source of MNC power is its ability to create and exploit monopoly conditions at every level of economic activity.

MNCs have expanded internationally most frequently through direct investment. Such investment usually involves the creation or absorbtion of some kind of permanent organisation abroad, which may for example be a manufacturing plant, an administrative centre, or a service establishment such as a hotel. As a rule, parent companies prefer 100% control over their subsidiaries, and have therefore shunned joint-ownership unless local legislation or circumstances dictate otherwise. In addition, there is a preference for little or no direct shareholding in MNC subsidiaries because of what is claimed to be low profitability in the early stages of such enterprise. Instead, management encourages greater equity issue in the parent company, and concentrates on the transference of capital between segments of the corporation through the internal trade of materials, royalties and fees (Levitt 1970).

To the diffusionists, the benefits of MNC activity easily outweigh the disadvantages. In terms of short term economic and political objectives at least, it is argued that the presence of MNC branch plants provides employment, high personal income for employees, fiscal benefits through taxation, better products, multiplier effects throughout the economy, transfers of technology, and improved balance of payments. The critics argue exactly the reverse on most of these points. It is, for example argued convincingly that direct investment rarely contstitutes a substantial capital inflow, and that in the long term, it induces a significant transfer of income from poorer to richer countries through the structures of the MNCs. Indeed, Levitt (1970, p.75) observes caustic-all that 'The success of the large corporation is reflected by a fact which has been little noticed: they do not lose money.'

The differing attitudes to MNC direct investment are of great importance because in some cases they represent, or at least explain the approaches of governments to economic development. For this reason, the next two sections of this chapter are devoted to both positive and negative reactions to direct investment.

3.3 Pro-Direct Investment Arguments

Lall (1974) has argued that it is possible, at risk of some over-simplification, to group attitudes to direct investment by MNCs into six major categories - three in favour, and three against. The pro-direct foriegn investment group has as its most extreme component what Lall refers to as 'The Business School Approach'. Emanating from the business schools of the metropolitan centres, its characteristics include an implicit and central belief in the moral and practical virtues of the free enterprise system. There is also in this approach a tacit acceptance of the existing distribution of income within and between countries. It is frequently argued by critics that this attitude totally disregards the economic, political and social effects of the extension of the capitalist system into developing countries. Consequently, the prescriptions for government policy that ensue centre exclusively on the well-being of business enterprises as opposed to all other groups. Thus, it is assumed that an environment of stability and non-interference is most conducive to good business and universal prosperity. Many would suggest the the belief in 'good business' displayed by successive national administrations in the U.S.A. indicates an implicit acceptance of the Business School Approach.

The second of the three pro-investment categories is the 'Traditional Economic Approach' which takes a more academic line of analysis, although its general attitude and conclusions resemble closely those of the business schools. Once again, it leads to similar prescriptions involving laissez-faire, and the maximisation of foreign capital flows. Its assumptions are those of the diffusionist development paradigm, and also of normative economics. There is therefore considerable faith placed in the auto-corrective and distributive powers of the free market system. The numerous ceteris paribus assumptions therefore lead to little attention being paid to the vastly different economic, social and political conditions prevalent in developing countries.

The traditional economic approach therefore assumes that foreign investment constitutes a welcome net addition to investible resources in host countries, that it enhances their economic growth, and that the pattern of growth which ensues is desirable. The liberalisation of international trade and capital flows is regarded as conducive both to total world welfare, and to the welfare of each individual participating country. In addition, foreign investment is seen as bringing further benefits such as the introduction of new technology, improved management and organisation, superior marketing and market outlets, and sometimes, cheaper finance. Obviously, says Lall (1974), the benefits of these advantages are assumed, as is the view that if an enterprise is profitable, it must be good.

'The "traditional economic approach" therefore embraces vast tracts of received economic wisdom as well as hard-headed business pragmatism' (Lall 1974, p.44). The third category of pro-investment approaches, however, shows less faith in such business pragmatism. The so called 'Neo-Traditionalist' approach is concerned about the oligopolist, predatory and concentrated nature of multinational enterprise (Heath 1981). Whilst holding a basic belief in the desirability of foreign investment, it recommends controls and official regulation of multinational activity. Followers of this approach are thus more realistic than the genuine traditionalists, recognising some of the more obvious hazards, including the enormity and alarming power of contemporary MNCs. Indeed, Peninou (1978, p.39) observes that, '...at the very least, they (MNCs) are on an equal footing with governments; more often, they are superior to them, and sometimes their masters[1].' Consequently, he suggests that, 'Multinationals need controlling because, even if they do not appear as new political structures, they do act as forces in the political arena, and these forces are more flexible and more effective than traditional government bodies' (Peninou 1978, p.103).

The commonly suggested remedies to such excessive power include the establishment of multinational political institutions to cope with multinational enterprise (Behrman 1970), the implementation of various protective national measures, and drastic reversals of policy, designed to curtail monopoly powers and restore competition. The neo-traditionalist

1. The record of United States MNCs, particularly in Latin and Central America, supports this view, as do Seers's (1981) observations on the penalties of delinking.

school is, nevertheless, inherently in favour of multinational enterprise, and in fact sees its prescribed controls on the activities of MNCs as being both in the interests of the corporations as well as the nations within which they operate. Moreover, it is important to recognise that despite many overt political tirades condemning MNCs and the capitalist system in general, many governments throughout the world implicitly adhere to the neo-traditionalist approach by continuing in their attempts to attract MNC branch plants to their shores.

In the case of Malta, the existence of a large number of MNCs indicates that at least some of the post independence governments must have adopted pro-overseas direct investment stances of some type. However, the posture of some of the more recent Maltese administrations indicates than on the surface at least, there has been a degree of official hostility towards MNC investment in Malta, an attitude rather more in keeping with some of the anit-direct investment attitudes.

3.4 Anti-Direct Investment Arguments

Of Lall's (1974) three anti-direct investment stances, the 'Nationalist Approach' is the mildest. As is the case with the neo-traditionalist pro-investment approach, this is an increasingly common standpoint of national governments. The nationalist school is quick to question the basic virtues of the free market system, and is therefore critical of the implicit assumptions of the diffusionist theorists who place their faith in the distributive powers of the laissez-faire economy. Consequently, it is argued that external and internal effects of foreign investment can damage host economies in numerous ways. These include the surpression of domestic entrepreneurship, the importation of unsuitable technology and products, and the undesirable extension of oligopolist practices. Associated with the latter is unnecessary product differentiation, heavy advertising and excessive profit taking. Thus, it is argued that the market no longer provides an infallible guide to national welfare requirements. A classic exponent of the nationalist school is Levitt (1970).

The nationalist school therefore proceeds to identify the costs of private foreign investment as being too high because of the extraction of monopoly profits, the use of superior bargaining power by MNCs, unsuitable products and technology, frequently adverse environmental implications, transfer pricing, and 'unfair' marketing practices. The degree of integration with the international trading system implicit in allowing multinational enterprise to enter an economy is also seen as acting against the interests of the LDCs. However, the 'nationalist' school has little to say about alternative internal strategies of development, and whether, for example, socialist or capitalist principles should be adopted as central philosophies of development.

The main emphasis of the nationalist school is on minimising the cost and extent of foreign investment whilst extracting to the full its more desirable components. Policy recommendations are therefore similar to those of the neo-traditionalist school, emphasising the need for the stringent regulation of foreign investments. Arguments for the exchange of information concerning MNCs between countries (especially LDCs) are also advanced. The nationalist standpoint is therefore reformist in nature, and does not advocate the complete rejection of the capitalist system. It does, however, implicitly (and sometimes explicitly, as in the case of Levitt 1970) abhor the loss of national sovereignty associated with integration into the world capitalist system.

The second of Lall's (1974) anti-investment categories is the 'Dependence' approach, and as is clear from its title, it attempts to embrace much of the varied dependency literature that has already been discussed in Chapter Two. The dependence approach incorporates many of the features of the nationalist school, but stresses the broader ramifications of the whole capitalist development process, of which foriegn investment is a vitally important element. It has, however, already been observed in some detail that summarising dependency theory is difficult, if not impossible, as there is no single, unified theory of dependence.

At best, it can be concluded that most theories of dependence agree that dependent structures within an economy can seriously hinder, and in some cases, totally obstruct 'real' development. Through the confusion, Lall (1974, p.45) states that, 'The greatest contribution of the dependency school is its broad perspective and its analysis of the internal political/economic forces which reinforce the historical dominance of the central capitalist countries.' Remedies are therefore perceived as sweeping changes in both external relations and internal power structures. This type of attitude conforms with that of the declared post-1971 Maltese revolutionary socialist administrations whose stated intentions have appeared to be radical compared with those of previous governments.

It is inevitable that, in its most extreme forms, the dependence approach encroaches substantially onto the ground covered by the third anti-investment category, the 'Neo-Marxist Approach'. The neo-Marxists concentrate on class conflict, and the central concept of economic surplus extracted from the LDCs by multinational enterprise and foreign investors. Thus, much debate revolves around theories of imperialism and exploitation (briefly covered in Chapter Two). Whilst the dependency school concerns itself with national development, the neo-marxist school

is concerned with /-

socialist revolution and development, preferably on an international scale. The remedies are thus predictably seen as being internal and international revolution, and the complete rejection of foreign capital (Frank 1967). Such an attitude is similar to that officially adopted (although not necessarily practiced) by the Eastern Bloc countries. In conclusion, the fact that dependency theory, for all its faults, can be seen to have substantial roots in all three anti-foreign investment schools is significant. An examination of some of the more central themes of anti-foreign investment, dependency based arguments is therefore valuable.

3.5 Multinational Companies as Agents of Dependence

Because MNCs are amongst the most important agents in the generation of dependent structures, a closer look at the effects of direct MNC investment in LDCs is desirable. Biersteker (1978) has identified a number of areas of debate concerning the consequences of MNC investment in LDCs. Of these, the first concerns the expected benefits to balance of payments in such countries following the establishment of MNC branch plants. Conventional or diffusionist theorists argue that an improved balance of payments is likely. However, counter arguments point out that MNCs often inject little capital investment, and frequently depend on scarce local capital sources within the LDCs themselves. It is also maintained that MNC subsidiaries are deliberately restricted by parent companies to production for the local markets, and do not consequently concentrate on desired export production.

Perhaps most alarming is the mounting evidence that MNCs remit excess profits, and that they employ transfer pricing mechanisms to avoid local tax payments. The latter problem is now perceived as being so serious that many countries (e.g. Tanzania) employ specialist personnel to detect the transfer pricing of multinational enterprise. Furthermore, it is clear that even the comparatively advanced fiscal authorities of developed countries are unable to cope with such practices in their own territories, a fact which is confirmed by the publication by O.E.C.D. (1979) of a report and guide designed to minimise the problem. Nevertheless, the loss of revenue arising from such fraud is, in relative terms, far more serious in LDCs. Feninou (1978) has suggested that MNC currency transfers have in some cases exacerbated or even initiated currency crises in some LDCs.

The fact that MNCs frequently establish few, if any, linkages with the local economies within which they operate is also cited as a factor further diminishing the value of the MNCs' contributions to production (and import substitution) in LDCs. Furthermore, the net outflow of capital that frequently occurs, particularly as a result of transfer pricing, is seen as a major hindrance to development. The widely publicised income and employment multiplier effects never seem to materialise, and instead, there results an increased dependence upon the MNCs themselves to generate employment and overseas currency. Ideally, the integration of MNC activity into a domestic economy would prevent such dependence. This, unfortunately, rarely occurs, and the overseas sector remains isolated from the remainder of the economy.

It is also observed that the presence of MNC branch plants can displace or obstruct indigenous production (Biersteker 1978). Thus, the competitive advantages of many branch plants often allows them to out-compete, or buy out import substitution industries, transforming them into their own subsidiaries. In addition, they are often also in a position to attract scarce skilled labour away from local companies using the lure of higher wages and salaries. It can therefore be argued that the damage done to local factors of production inevitably reduces the possibilities and likely extent of self-sustained development. The productive structure that ensues is consequently increasingly dependent upon MNCs for advancement. It is also significant that the displacement of indigenous production is '...a highly visible and much resented process' (Biersteker 1978, p.10), which seriously reduces autonomy in national and regional decision-making (Levitt 1970).

Dependency theorists in particular argue that MNCs encourage inappropriate patterns of consumption in LDCs. In this respect, it is clear that many alien tastes have been imposed upon LDCs' societies, a process referred to as 'cocacolonisation' by Levitt (1970). It seems that the shaping of consumer tastes is as vital to the operations of the large MNCs in the LDCs as it is in the metropoli. For example, MNC producers of electronics products seem to have had a particularly strong influence upon consumption patterns on a global scale (Mattelhart 1979). Especially obvious cases include the worldwide trade of radios (even in the poorest countries), which themselves are amongst the strongest media of culture. Levitt (1970, p.75) explains that, '...the corporation thus has a vested interest in the destruction of cultural differences and in a homogenised way of life the world over.' This suggests that cultural dependence is largely a consciously manufactured problem generated at will by the MNCs.

The ease with which alien, and often detrimental consumption patterns may be established within LDCs stems from the relative might of the MNCs' competitive mechanisms, developed for the much more sophiticated and voluminous metropolitan markets. Thus, powers of innovation, gimmickry and trend-setting often rest with the MNC rather than the local producer. Of enhanced value are the advertising and marketing techniques of the parent company which may create totally new markets in LDCs. Once established, capital intensive techniques and other competitive advantages may be used to maintain extensive influence over consumption patterns. In many cases, the cultural dependence that ensues is so intense and complete that it is not detected by the indigenous population (Seers 1981). Perhaps one of the most alarming consequences of this is the weakening of links between the much more traditional (and frequently marginal) bulk of the economy and the new productive and extremely visible MNC sector.

It is often argued by dependency theorists that MNC activity divides society in LDCs by altering social structures and encouraging the development of a wealthy and increasingly alien socio-economic group. This new bourgeoisie is seen as having more in common with metropolitan society than its own (Dos Santos 1970)[1]. MNCs encourage the creation of this type of group through the provision of comparatively lucrative wage scales, and through strong incentives for '...conformity through socialisation pressures within the structure of the firm' (Biersteker 1978, p.22). It is argued that the existence and increased prosperity of these groups in LDCs exacerbates problems resulting from inappropriate patterns of consumption and associated cultural dependence.

The increasing association between the metropolitan oriented groups of LDCs and the MNCs tends, not surprisingly, to coincide with a corresponding increase in the power of MNCs over the governments of LDCs. It becomes increasingly difficult to resolve conflict between MNCs and LDCs in favour of the latter, emphasising that the independence of government

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1. This concept has much in common with that of the feudal-imperialist alliance mentioned by Dos Santos (1970) and other dependency theorists.

policy-making and decision-making in many areas may be adversely affected, or even corrupted. Indeed, MNCs '...do not hesitate to make capital out of the relationship which ties them to these countries. In so doing, they are certain for most of the time of being exposed to fewer risks than the country itself in the case of conflict' (Peninou 1978, p.101). The penalties of delinking strategies may therefore be prohibitively severe for LDCs.

It can, in addition, be argued that allied local groups oriented towards the metropoli are increasingly seen to be the major link perpetuating neo-colonial dependent relationships with the dominant core countries. Thus, friction with other social groups can induce further conflict and political instability. MNCs are therefore often regarded as '...part of a process involving the accelerated growth of a sub-system oriented toward the demands of a small priviliged section of the population...' (Hansen 1981, p.27).

Inevitably, closely related to the formation of such allied local groups is the problem of rapidly worsening income distributions. MNCs are often perceived as being instrumental to this process, particularly because of the comparatively high wages and salaries they encourage, and above all, the increased marginalisation of the traditional elements of the productive economy. Thus, the worsening rift between rural and urban areas, and indeed between different urban areas, is often blamed to a considerable extent upon the activities of MNCs.

An increasingly common feature of export based MNC activity in particular is the dispersal of corporation activity on the basis of production stages. Thus, it has now become possible for MNCs to carry out many different specialised stages of production in many different locations throughout the world. This is a disturbing trend for a number of reasons. First, it generally means that MNC branch plants are only concerned with production for the parent company. This tends to restrict very severely the potential linkages and positive multiplier effects accruing from export based MNC activity. Also, because of heavy trading with other parts of the corporation, there is greatly enhanced potential for transfer pricing activities. There is also evidence to suggest that this type of branch plant, devised as it is to enhance the flexibility of production, is most vulnerable to closure induced by policy changes, or more likely, market fluctuations and technological change. The latter factor, meanwhile, has not only permitted the staged breakdown of the total production process, but has also allowed much of the work required in the branch plants to be done by unskilled labour. The de-skilling process has helped to minimise the much desired technology transfer from the MNCs to the indigenous industrial sector. Sadly, it seems that many countries (Malta included) have become dependent upon labour intensive 'de-skilled' branch plant industries.

Technology transfer is one of the most important considerations as it is frequently technology, and usually innovative technology, which holds the key to the powers of MNCs. Similarly, it is very often the lack of this indigenous technological capacity that prevents internally inspired industrial development impetus in LDCs. It is argued by MNC critics that research and development is deliberately concentrated in the country of the parent company, to the detriment of the branch plant host countries. The tendency to retain and protect their monopoly over certain types of technology is also seen as a factor that seriously hinders valuable technology transfer in favour of many LDCs. The latter point is unfortunately inevitable, given the nature of captialist competition.

Although the location of research and development establishments by MNCs in LDCs is seen as desirable, particularly as it indicates a possible intention to develop locally appropriate technology, Germidis (1977, p.26) has emphasised the dangers of 'pseudo-centralised research establishments.' These are apparently not geared to local requirements at all, and in the more unscrupulous cases, exist merely as a means of recruiting high quality local personnel cheaply on comparatively low salaries. Through the internationalisation of their personnel and the systematic destruction of national barriers, MNCs can often encourage, where desired, the transfer of skilled personnel overseas to other parts of the corporation. By means of this 'brain drain', '...the brightest and ablest people from lower income countries swell the technical resources of private international empires'(Levitt 1970, p.108).

The LDCs' problems in acquiring innovative technology are attributable to the fact that the 'technology market' is not a free one (Streeten 1972), and that the diffusionist assumptions of the conventional development schools are consequently unjustified. In many cases, therefore, MNCs choose locations in LDCs precisely because of comparatively low labour costs, which permit the use of technologically obsolescent equipment that is no longer sufficiently profitable (or safe) in the metropolitan centres. As a result, truly valuable technology rarely diffuses from the core to the periphery. This explains the marked transfer of only the traditional labour intensive industries in recent decades from the traditional industrial centres to less developed peripheral locations.

The above situation presents a number of developing nations, such as Malta, with a difficult dilemna. They have a choice between achieving economic growth dependent upon low wages and labour intensive industries, or development based on improved living standards. Obviously, achieving development targets that require increased wages seriously jeopardises the major advantages of locating MNC activity in such countries - cheap labour. Thus, some countries appear to be in a situation that prohibits the achievement of genuine development aims. Although this is a problem that has dogged many Maltese governments (and will be raised later in this study), it must be recognised that the majority of LDCs are at present in a position in which both development and economic growth seem impossible. Unlike Malta, these nations may be referred to as Third World or underdeveloped countries.

In summary, there is little doubt that technological dependence remains one of the most serious forms of dependence to afflict LDCs. The tragedy of the situation is that this dependence is not even upon contemporary or innovative technology, but is often merely dependence upon a small and inadequate flow of obsolescent discarded technology from the developed centres. Indeed, it is clear that one of the reasons for the failure of research and development establishments in LDCs is the fragmented (staged), incomplete and outmoded nature of the production processes that diffuse to the peripheral economies.

3.6 Conclusions

The importance of MNCs in most economies of the world can no longer be denied. Because this study questions the value of allowing economic development through the attraction of MNC branch plant activities, it has deliberately adopted an anti-direct overseas investment stance. Consequently, a number of general detrimental dependency themes associated with MNC activity have been identified. These include balance of payments problems, the displacement of local production, the imposition of inappropriate consumption patters, the alteration of social structures, a worsening income distribution, disappointing industrial linkages, and negligible technology transfer. These themes will be pursued in the chapters that follow, the intention being to assess the extent to which such problems apply in the Maltese case. The next two chapters, however, are concerned with the role of country size to development. It will soon become apparent that the question of country size complicates many development and dependency issues, especially those discussed in this chapter.

CHAPTER FOUR: SMALL COUNTRIES

4.1 Introduction

One of the reasons for the increasing interest in the development of small countries in recent decades has been a rapid increase in their number resulting from post-World War Two decolonisation. Despite the provision of nominal independence to such countries, many have remained dependent upon their former colonial powers, and have made little progress towards achieving their elusive development goals. It seems, therefore, that the quest for self-reliance and self-determination in small countries is much more difficult than in large countries, most obviously and frequently because of scarcities in indigenous human and physical resources. Small countries are thus often forced to rely heavily upon the international transfer of factors of production, and consequently, to depend upon precarious flows of trade, capital and technology from the metropolitan centres.

In view of the abnormally severe difficulties of dependency facing small countries, it is not surprising that the size of countries is frequently associated with levels of development. Jalan (1982) has, for example, observed that, by using total population as a single measure of size, small countries may easily be associated with backwardness, under-development, and dependence. Thus, he notes that of the 133 LDCs for which data exist, 78 have populations below 5 million, and as many as 49 countries less than 1 million. However, there are other facets of the concept of size that may be equally crucial, and it is important to recognise that the adoption of different variables representing country size will occur with different subjects of study. Countries may therefore be small in many different ways. In this context, Selwyn (1975) observed that smallness as represented by physical area may represent a narrow range of natural resources, whilst a small population may similarly correspond to a narrow range of available human resources. In addition, he suggested that a measure such as gross national product may be used to represent the extent of the internal market for industrial products. Clearly, many small countries, particularly examples such as Malta, are small on any measure.

Some authors have suggested the use of size indices to classify countries on a multi-dimensional basis. Hence, using an example provided by Jalan (1982, p.43), an index of country size (I_i) of between nearly 0 and 100 may be obtained for each of a chosen number of nations from the following formula,

$$I_i = \frac{100}{3} \left[\frac{P_i}{P\ Max} + \frac{A_i}{A\ Max} + \frac{Y_i}{Y\ Max} \right]$$

<u>Key</u>

P = Population
A = Arable Land Area
Y = Gross National Product
i = country

where 'P Max','A Max' and 'Y Max' represent the highest values of population, arable land area and GNP respectively in the sample of small countries under study. Unfortunately, as Jalan (1982) observes, this type of approach is likely to be misleading in many cases because of its implicit assumption that the small value of one variable may be directly compensated by larger values in other variables.

Another of the major obstructions to the formation of a simple measure of smallness is the abundantly apparent variation in the type and history of small countries. For example, it is easy to distinguish between mainland or continental small countries and small islands. Indeed, it is evident that many small countries are either land-locked or sea-locked (Lloyd and Sundrum 1982). Furthermore, it is often argued that historical circumstances, in tandem with location and associated strategic factors, have conspired to generate distinct island characteristics in island nations. Caldwell and Harrison (1980, p953) argue that these differences '...are based on social and economic characteristics, which can be summarised by saying that such states are more westernised. They were part of the European maritime system at a time when the West did not have the strength to penetrate continental areas to the same extent. On the whole, they retained their colonial links longer.'

Much debate therefore persists currently as to whether there are distinct characteristics of 'islandness' that render island nations distinct from other small countries. In a special issue of 'World Development' (1980, vol. 8), Dommen (1980) attempted to identify distinguishing characteristics of island states by pairing a sample of island economies with continental countries displaying similar annual gross domestic products. Although the study depended excessively upon numerous implicit and unjustified assumptions, particularly concerning the use of GDP as the main criterion for pairing, there were several interesting general observations which were summarised as follows. 'The study supports the view that island countries are different, and indeed that they are particularly fortunate places, where life is longer and nature is bounteous, though the menu may be short. Politics are friendlier. Hurricanes are more dangerous than social unrest.'

In the same issue of 'World Development', Selwyn (1980) suggests that the notion that islands are different from mainland small countries stems from naturalists (such as Charles Darwin) who were concerned to identify the often dramatic biological differences between island and continental environments. Selwyn observes that small countries differ widely, but that so do islands. He concludes that many of the social and economic conditions of small islands are also characteristics of small countries.

> 'I find it significant that, when I carried out a study of islands for UNCTAD, the issues which forced themselves to my attention were those of small size, of remoteness, of dependence, of diversification, or bargaining capacity with foreign investors or transport operators – all questions which could be parallelled in small, remote mainland countries, or indeed peripheral regions of many larger countries' (Selwyn 1980, p.950).

Selwyn's reference to the peripheral regions of many larger countries is interesting and merits further attention. Economists, and to some extent geographers too, have frequently assumed regions to be smaller than countries. Obviously, the scale of many small countries makes the traditional practice of breaking up countries into regions difficult, and often meaningless. Selwyn (1975) perceptively points out that it is usually far more valid to view the small country as part of an economic region. Reasons for this include the fact that the small countries are rarely self-sufficient, and are forced to trade heavily with neighbouring areas. In addition, the productive capacity of many small countries is heavily specialised, exacerbating dependence upon external sources for goods and services. Selwyn (1975) also points out that many cases of double peripherality exist in which small countries find themselves on the periphery of a region which is itself on the periphery of a more prosperous metropolitan region. This view is supported by Brookfield (1975b, p.55) who noted that, '...it is possible to identify regional structures in which small countries emerge as politically separate portions of the periphery of regional economies centred beyond their borders.'

Despite the difficulties of measuring and assessing smallness, country size remains central to the concept of the viability of small countries. In the past, smallness itself has been assumed to be a problem, and by implication, large size has therefore been seen as a virtue. During the period of major decolonisation in the 1950s and 1960s, it was argued by politicians in particular that many of the small colonies that were being granted independence (including Malta) were too small to be viable independent entities, and were thus unlikely to survive the transition from colony to independent nation state. However, by 1975, Selwyn was able to report that there were then more small independent countries with membership of the United Nations Organisation than ever, and that they showed every sign of continuing to exist. He also emphasised the shallow nature of the concept of viability by declaring that, 'Viability has no meaning except in relation to the purposes of the citizens of a country, and in the last resort any national unit which can maintain its separate existence is ipso facto viable' (Selwyn 1975, p.12).

There remains, nevertheless, some doubt as to the nature of the independence and sovereignty that many small countries have obtained as a consequence of decolonisation. Thus, Lloyd and Sundrum (1982, p.31) point out that, with respect to small countries, the question at issue is whether national sovereignty should be interpreted in the same way as it is for large countries.' Certainly, the types of dependence prevalent in small countries, and the policies and implications associated with such dependence, would appear to differ radically from those of larger nations. This contention is extremely relevant as it follows on directly from the observations of Seers (1981) (see Chapter Two), who emphasised the tendency of traditional dependency theory to ignore obvious factors influencing numerous countries. One of the more obvious neglected characteristics was country size. Clearly, in the case of small countries such as Malta, a dependency approach which attempts to examine concrete situations of dependency, as advocated by Cardoso (1972), Palma (1981) and Seers (1981), is most applicable, particularly as it should be able to incorporate the special circumstances influencing small countries. For this reason, the remainder of this chapter attempts to identify some of the major characteristics of small countries, and the manner in which these characteristics influence dependence, and the development process as a whole.

4.2 Some Disadvantages of Being Small

Although not considered important by traditional dependency theorists, the often severe factor endowment deficiencies of small countries have been shown by Seers (1981) to be a major obstacle to development. Small countries were, for example, amongst the worst hit by the oil price rises (or 'oil shocks') of the 1970s (Seers 1982). However, most significant is the fact that the absence of indigenous resources is not always restricted to tradable materials. Other common scarcities include basic items such as space, cultivable land and fresh water, all of which are in short supply in Malta.

In addition to the usually severe deficiencies of physical resources in small countries, there is a frequent shortage of human resources. This situation stems from the smallness of the human populations involved, which usually results in small labour forces, shortages of skilled and professional personnel, restricted entrepreneurial activity, and a limited scope for technological development. Also significant, especially where manufacturing industry is considered as the desired engine of development, is the severely restrictive nature of internal markets in small countries, and a general inability to achieve economies of scale.

The patterns of trade and production that develop in small countries are prone to concentration, both in terms of product group and trading partners. Kuznets (1960) explained this tendency in terms of the restricted nature of the resource bases of small countries. Thus, given the economies of scale necessary to produce profitability, Kuznets maintained that it was likely that an economy would grow to rely heavily upon a comparatively small number of large producers manufacturing a narrow range of produce. Also crucial to this argument was the tendency of small nations to concentrate desperately on production with comparative advantage. Referring to empirical evidence supporting Kuznets's assertions, Jalan (1982) has noted that such trade and production concentrations render the economies of small countries extremely vulnerable to often violent fluctuations in international market conditions.

The weak trading position of small countries is exacerbated by the tendency of LDCs to compete with each other for the same markets by producing the same ranges of goods, such as textiles and clothing. Furthermore, trading conditions are worsened by the tendency for the export trade of small countries to be confined to a small number of market outlets, most frequently dominated by MNCs operating from the former colonial power. Not only may this weaken a small country's political powers of autonomy, but it can also render these economies unnecessarily vulnerable to additional market fluctuations occurring within individual metropolitan economies.

It is interesting to note, however, that logical diversification strategies, both of export products and trading partners, are further restricted by transport problems, particularly for the smaller and more remote economies. This is because, '...commodity concentration in foreign trade acts generally as a cost reducing factor in ocean transport if the cargos can be shipped in bulk on ocean carriers' (Bennathan 1982, p.215). Obviously, remoteness, diversified products and varied cargo destinations all lead to high costs as they frequently entail empty hauls (by air, boat, road or rail). It is in fact not uncommon for ships serving small countries (usually islands and archipelagos) to depend for their business upon multi-destination voyages which collect and deliver large numbers of small cargos. Not only does this directly add to the costs of trade, but it also massively increases delivery time, often ruling out trade in perishable goods, and further eroding the benefits accruing from trade.

One of the more fundamental problems facing indigenous enterprise in small countries is the acquisition of secure and stable overseas markets. 'Any new entrant into the world of international trade in manufactured goods and services faces a variety of handicaps even if its products are of good quality and of low price' (Lall and Ghosh 1982, p.150). The major hazards provided by overseas markets, especially in the metropolitan centres, include traditional brand-name preferences, different national standards, specifications and laws, a lack of direct and regular contact with customers, inevitable difficulties of maintaining a continuous flow of technical information both to and from product consumers, and increasingly aggressive trade protectionism. The latter problem is exemplified by the European Economic Community, which controls and limits its trade with external producers using, amongst other devices, tariffs and trade quotas.

It is inevitable that few indigenous enterprises in small countries will have sufficient expertise and financial resources to establish permanent marketing outlets in overseas countries. Only in exceptional cases will the scale of such enterprises merit the establishment of extensive overseas marketing networks. Small economies are consequently once again heavily dependent upon the MNC for market outlets. Furthermore, although MNCs have the international connections and structures capable of acquiring markets for small countries, the same structures lead to the division of production into separate staged units (see Chapter Three), which not only reduce linkages and multiplier effects within the host economies, but also permit intra-corporation transfer pricing practices. However, on a positive note, MNCs, by virtue of their power and their internationalised production, are often better able to avoid some of the trade protection measures that afflict indigenous enterprises in small countries.

The multinational enterprise is no longer the only international agent capable of fulfilling the marketing needs of the small economies. There are now growing numbers of foreign purchasing and retailing firms which are increasingly scouting the less developed world for suitable production sources (Lall and Ghosh 1982). Although these companies in many respects represent a welcome development, over-reliance on their activities is extremely unwise as they are often extremely 'footloose'. Unlike many of the MNCs operating in small countries, they have little or no capital invested in the productive enterprises themselves, and through their continuous scouting activities are easily able to transfer their contracts to other more competitive producers elsewhere. Indeed, this situation once again highlights the fact that many small countries, and LDCs in general, are competing directly with each other for the markets of the metropolitan cores.

With respect to industrial production, many of the problems associated with the establishment of manufacturing industry in small countries have already been raised. These have included obstacles such as shortages in both indigenous natural and human resources, and the restrictive nature of internal markets. These obstacles have in many cases been overcome or alleviated through the importation of absent factors of production and the export orientation of manufacturing industry. In this way, at least some of the constraints of production can be eliminated. Nevertheless, Brookfield (1975b, p.54) observes that, '...in a world where economies of scale are being constantly enhanced, the truly small and poor countries find that their maximum levels of operation lie further and further below the optimum.' Scale constraints therefore remain serious, despite export orientation, and they seriously limit the volume and the range of linkages which can develop around a growth industry such as a successful export staple.

Jacobs (1975) has emphasised that, in addition to the problems already discussed, small countries face abnormally severe difficulties in maintaining public administration. This may partly be explained by shortages in indigenous personnel[1], as well as predictable difficulties such as the financial burden of maintaining a comprehensive public sector. As a result, it is inevitable that small economies lack many of the valuable specialist administrative services necessary for the <u>controlled</u> sustenance of a new productive sector. There is therefore a serious need for the provision of many new services that were non-existent in the colonial period, and which have been neglected during the post-colonial era. Ideally, the provision of such new services would surpress

1. It has already been observed elsewhere that the public sector in small countries frequently absorbs a large proportion of the available skilled labour, thus depriving the private sector of suitable manpower.

tendencies towards informal and inefficient administrative procedure, and would help eliminate the debilitating inaccuracies and omissions which have traditionally plagued public records in small nations[1]. It would also permit the establishment of institutions whose purpose it is to monitor, and if necessary, restrict the activities of MNCs within the host countries.

As has been hinted above, the cost of maintaining an effective public administration may seem to be prohibitively large to the governments of small countries. Certainly, economies of scale apply to public administration as much as they do to industrial activity. Some public sector activities are particularly costly, and may therefore be scaled down deliberately, despite the ramifications. One of the best examples of this is the diplomatic service. In spite of the inevitable isolation that ensues, most small countries are compelled to maintain skeletal diplomatic coverage throughout the world, and in some cases, to depend upon the services of their former colonists for diplomatic links. This situation is unfortunate as it further restricts desirable access to overseas advice, information and markets (Cruise O'Brien 1981, and Jacobs 1975). Such dependence upon exogenous diplomatic services also has potentially serious political consequences.

4.3 Dependency Issues in Small Countries

Perhaps the most significant difference between dependence in large and in small economies is the fact that large countries are able at least to consider trying to reduce dependence substantially, whilst small countries frequently have no option but to tolerate their dependence, and try to

1. For example, small countries (and LDCs in general) are renowned for inefficiencies and irregularities prevalent in their taxation systems.

minimise the negative effects that the condition may have upon their economies and societies. In short, the consequences of a delinking strategy (Seers 1981) are likely to be more damaging than beneficial in small economies, whilst such a strategy in a large country should have a greater chance of success.

There are many conflicting views as to the extent and significance of dependence in small countries. Demas (1975) identified five major forms of economic dependence operating to the detriment of small countries. These included dependence through the foreign ownership and control of key sectors of the economy, and serious over-reliance generated through the provision of aid to small countries. In addition to discussing dependence induced by trade concentration (both by industrial sector and market destination), Demas also mentioned the gravity of dependence incurred through the provision of technology and other human resources by metropolitan agencies. Finally, he raised the problems of imported (often inappropriate) consumption and production patterns imposed upon small economies. Although these dependency links conform closely with many of the traditional manifestations of dependency theory, and are therefore seen to be present in LDCs of all sizes, Demas maintains that they are made more severe in small countries. The reasons for this include small internal markets, the open and vulnerable nature of many small economies, and the usually narrow human and physical resource bases.

An alternative view of dependancy in small countries is held by Blazic-Metner and Hughes (1982, p.86) who declare that, with reference to small countries, '...participating in international economic relations has not led either to economic or political dependence.' However, despite the surprising confidence exuding from this statement, most analyses of small countries tend to support the views of Demas (1975). For example, Jalan (1982, p.39) states that, '...the economic structure of most small countries is characterised by a much greater dependence on foreign trade and foreign capital investment.' He proceeds to emphasise that the quest for self-reliance is much more difficult in small countries, and that there is consequently a much more profound reliance upon the international transfer of factors of production. A more severe view is that of Ward (1975, p.129) who observed that, 'Small countries have often remained underdeveloped because of the distortions and rigidities built into their economies as a result of their integration into a world market from a position of profound weakness. Their imports and exports and general economic operations are more determined by the needs of the developed countries than by their own.' The latter point is central to dependency theory.

Many small countries do indeed operate in the world markets from a position of profound weakness. This observation is supported by the neo-classical school of economics which views small countries as 'price-takers' whose influence on terms of trade are negligible (Jalan 1982). Although most less developed economies may be classified as price-takers, it is significant that most small countries are unlikely ever to be able to operate on a scale sufficient to influence the world markets. Their position is therefore one in which establishing themselves as producers within the world markets is extremely difficult, and also one in which their sudden departure from direct participation within the world economy would have no repercussions outside their own countries.

However, the bulk of the analyses of small countries seems to suggest that given the necessary degree of flexibility, initiative and determination, small countries may overcome their endowed disadvantages and prosper within the world economy. It is therefore widely suggested that '...trade, access to foreign technology and foreign direct investment would seem to offer the only means by which small countries can diversify their exports, industrialise, and establish a viable base for long term growth' (Lall and Ghosh 1982, p.143). In this context, it is apparent that a number of the newly industrialising countries (NICs) are small countries, the most obvious examples being Taiwan, South Korea, Singapore, and to some extent, Malta. However, it is also clear that such a development strategy requires the extensive involvement of multinational enterprise, the hazards of which have already been discussed. Predictably, many of those who advocate the attraction of MNCs also call for the introduction of safeguards which may protect host countries from the more malignant, oligopolistic and predatory nature of multinational activity. This type of approach corresponds closely to the third of Lall's (1974) pro-foreign investment stances (see Chapter Three).

The more radical theorists, not surprisingly, are swift to dismiss the apparently benign features of the MNC, and the powers of the safeguards intended to curtail the less desirable elements of their activities. The monopolistic advantages of MNCs, particularly in technological and marketing fields, are seen as alarming because of the economic and political power which they wield over the fragile small economies. Small countries therefore operate from a particularly weak position when dealing with MNCs, which, in many cases, control all a small economy's major external linkages (Brookfield 1975b). Nevertheless, Selwyn (1975) maintains that MNCs can be persuaded to 'domesticate' their operations towards local interests, and that they do not have to have complete control of key sectors of economies. Indeed, Lall and Ghosh (1982, p.157) go further by assuming '...export based industrialisation under the aegis of MNCs to be desirable, and in fact essential.' They add that as an alternative two decades ago, such a strategy was inconceivable, but that now, following the outward expansion of MNC operations, and the growth of international subcontracting, the possibility that small economies may benefit from the restructuring of industry is no longer remote.

Despite their brimming optimism, even Lall and Ghosh are careful to mention many of the hazards and disadvantages associated with MNC operations in small countries. For example, because small economies cannot offer MNCs the benefits of a profitable internal market, they must offer them inducements to locate their export activities in these countries[1]. There results a bizarre and wasteful situation in which small countries (and LDCs in general) are forced to compete amongst themselves for foreign investments, thereby diluting the potential benefits accruing from overseas investment through the provision of unnecessarily generous fiscal (and other) incentives. Lall and Ghosh (1982, p.1610 conclude by '... accepting the sad fact...that developing countries will continue to compete with each other in offering fiscal incentives to foreign investors.' They add that, 'There are perfectly good theoretical arguments for banding together to tax MNCs, but the number of countries is so large, and their political interests so diverse, that in practice it seems wiser to accept the inevitable conflict.'

1. Small country dependency differs markedly from that of larger LDCs as there is usually no significant internal market for MNCs to disrupt. Thus, dependency theory's observation that MNCs systematically destroy indigenous enterprise in LDCs in order to gain control of the domestic market does not necessarily hold true in most small countries.

Indeed, the weakness of the small countries in the face of the power of MNCs is further emphasised by the implications of the adoption of delinking stategies. Clearly, the potential damage that may be inflicted by a disgruntled MNC upon a recalcitrant small host economy will in relative terms be far more savage than would be the case in a larger country.

In addition to increasing participation in the internationalisation of production, many small countries are turning to the metropolitan countries (and also oil producing countries) for various types of 'aid'. Small countries now receive much more development assistance per capita than large countries (De Vries 1975). This situation may be explained partly by continued strong links (often strategic) with ex-colonial powers, who may have a 'conscience', and may be concerned about the viability of their smaller former colonies. It is, in any case, easy to see that aid donors prefer to provide aid to smaller countries[1] because the expenditure involved is likely to be much less, and the beneficial results much more obvious and concentrated than in larger countries. It is also clear that aid is itself a source of external dependence, whether it is financial, technical or otherwise. Aid is frequently 'tied' in some respect, and also tends to be offered in a pre-packaged alien format that can often be at odds with the perceived needs of the recipient country.

In conclusion, successful economic development in small countries seems to depend upon manipulating rather than attempting to eliminate dependency links. This is because dependence in small countries is usually

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1. This is not necessarily always the case as larger countries are more able to finance feasability studies for projects, and give assurances of utility etc.

much stronger than in large countries, and is impossible to eradicate without seriously damaging most development objectives. Dependence, it seems, should instead be transformed by countering the many disadvantages of scale afflicting small countries. Indeed, some of the newly industrialising small countries such as Singapore and Taiwan have overcome their problems of scale and have successfully achieved impressive economic growth through the propagation of manufacturing industry, much of which is export-oriented. These countries owe their success to the many MNCs that have located, and continue to locate, branch plants within their borders. In terms of dependence, these countries could not be more dependent upon MNCs and other metropolitan agencies. What is important is whether the nature of this dependence is on balance socially and economically beneficial, and whether such links enhance rather than detract from the long term stability and progress of development.

4.4 Countering the Disadvantages of Small Countries

It has already been suggested that dependence in small countries cannot be eliminated, or even substantially reduced, but that given a flexible and energetic policy framework, it can be manipulated into a position in which its benefits can be maximised, and its negative influences minimised. Similarly, many of the more detrimental consequences of smallness may be countered effectively by such policies.

It is important to recognise that revolutionary anti-capitalist alternative strategies (epitomized by those desired by Frank 1967) are rarely compatible with the desperate material needs of most small countries. Such is the dependence of the small economy upon overseas sources for trade, technology and security that the defiance of world capitalism may be seen as potentially far more to the detriment of the small countries themselves than to the capitalist system. This point is supported by the view stated earlier that small economies are price-takers, and that their participation within, or withdrawal from the world capitalist system is unlikely to affect anyone but themselves. Thus, any attempt at isolation, such as that advocated by the 'development from below' strategy of Stöhr (1981) (see Chapter One) is usually not feasible.

There is therefore no alternative development strategy available to small countries. Their governments usually see themselves as being confined to an overseas inspired industrialisation strategy as a basis of their development. Manufacturing industry is seen as a valuable and essential contributor to national income, and a creator of much needed employment. In addition, it may aid a country's trading position by eliminating the need for some imports, and generating valuable foreign exchange through export activities. In this respect, there is the added advantage that in small countries, there are few internal markets to exploit, and few indigenous industries to destroy. Indeed, the small scale of local markets necessitates export based activities in the interests of scale economies, and these industries can improve the balance of payments markedly.

The conventional view of industrialisation in the development process is exemplified by Thomas (1982, p.103) who stated that,

> It is generally agreed that industrialisation, in the sense of creating an efficient and expanding manufacturing capacity, makes a vital contribution to accelerating economic growth and development. Manufactured goods tend to have higher income elasticities of demand over a wider range of income than other products, and are produced by techniques which generally involve more linkages and greater possibilities of diversification and specialisation than those of other sectors.'

Furthermore, it is significant that, despite the obvious and substantial factor of production disadvantages, large industrial bases have been successfully developed in small countries, a fact which suggests that diffusionist strategies are applicable in some degree to small countries.

Thus, given that successful industrialisation has been shown to be possible, it is unsurprising that it has become a major priority in so many development plans. Economists, meanwhile, further emphasise the desirability of industrialisation by demonstrating that manufacturing as a proportion of GDP tends to be less in small countries (Kuznets 1971), and that there is a positive correlation between per capita income and the proportion of GDP that is accounted for by manufacturing output[1]. Little time is devoted to the less obvious and less measurable consequences of industrialisation which, as has been suggested, are not always so positive.

One of the major purposes behind industrialisation is that it constitutes a form of economic diversification within an economy, but it is important to recognise that it may itself require diversification. Broadening the economic base of small economies is generally desirable as production is usually uncomfortably concentrated within a small range of sectors and activities. Brookfield (1975b) uses an ecological analogy when stressing this point, emphasising that mono-culture increases the chances and destructive potential of disease. However, he proceeds to distinguish between diversity and diversification, emphasising the fact that the latter does not necessarily lead to diversity. He proceeds to suggest that a naive approach, '...based on national balance of payments and on the import export economy may lead to forms of diversification that are detrimental to the structural diversification, or diversity, that is a source of strength and adaptive capacity to an open , dependent economy' (Brookfield 1975b, p.55).

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1. This, of course, neglects in particular income distribution, which tends to be savagely skewed in favour of the very rich in the less developed world.

Bearing this in mind, Brookfield maintains that governments rarely implement suitable diversification policies. In their efforts to increase their revenue bases in order to control the development process, growth in GNP and indescriminate diversification of the sources of GNP inevitably follow. Indeed, this can become a government fetish, leading to the encouragement of diversification that benefits the exchequeur and which produces few linkages within the economy. This superficial 'fiscal diversification' is seen as being in direct competition for imputs with much more desirable 'structural diversification'. The latter is seen as being preferable because it, '...improves the mobility of factors of production in the economy as a whole, and widens the range of opportunity for the mass of the people' (Brookfield 1975b,p.59).

The diversification process must also take into account existing diversity within the economy. In particular, it must not permit a loss of control over key growth areas of the economy. Indeed, 'Diversification which permits loss of control over the growth points of the economy, which evolves in isolation from the general economy so that it has few direct linkage effects, and which benefits mainly the central revenue, tends to have its "spread effects" channelled into central places where local control is already most eroded, and generate sharp rural urban differentials which create problems of a new order' (Brookfield 1975b, p.71).

Despite the numerous hazards of diversification through industrialisation, it remains the most popular alternative for the governments of most small countries. Export-oriented industrialisation is favoured in particular, and the MNC continues to be seen as the most suitable agent in this development process. Lall and Ghosh (1982) justify this position by observing that the MNC provides scope for growth in components and processes which are part of MNC integrated networks, where protectionism is much lower, and where the MNCs themselves constitute a powerful force that de-restricts trade. However, as has been mentioned previously, there are hazards and disadvantages associated with MNC staged production units. This serves to emphasise the necessity for governments of small countries to be selective when dealing with MNCs, taking care where possible not to attract unscrupulous enterprises, and being equally careful to attract compatible and complementary industries. Indeed, there is now an increasing need for the development of new industries in LDCs stemming from the worsening difficulties being experienced in traditional export staples,such as textiles and clothing. Ideally, LDCs (particularly small countries such as Malta) are looking for industries that add greater value during processing, and which are skill and labour intensive, but not scale intensive. Thomas (1982) suggests that information and communications industries show considerable promise.

Significantly, some small countrys' efforts at economic diversification have led them to develop non-manufacturing, service based activities, the most important of which has often proved to be tourism. Thus, many small countries with suitable climates, and which are sufficiently accessible to potential tourist markets, have indulged in rapid tourist development programmes. Unfortunately, many of the disadvantages facing small countries when developing manufacturing industry also apply to those fostering new tourist sectors, not least because MNCs tend also to control international tourism. Small countries therefore operate in the world tourist markets from a weak position similar to that experienced by those attempting industrial development. This point is particularly well illustrated by the Maltese case.

4.5 Conclusions

Whilst smallness undoubtedly presents some exceptional difficulties for many small nations, many of the problems that ensue are far from being insoluble. Small countries are at least fortunate in that their economies are of more manageable proportions. It is therefore possible that, with the assistance of the dynamic and even aggressive planning advocated by Seers (1982), integration into the capitalist system may be beneficial, and the commitment to growth and development successful. The fruition of such a strategy, and the balanced and stable evolutionary growth of the small economies is also heavily dependent upon the quality and strength of political leadership. A strong, determined and charismatic leadership can substantially reduce less desirable dependency links, and simultaneously inspire vigorous and diverse development goals. Indeed, Malta is particularly notorious for the aggressive manoeuvring that has severed many of the more detrimental dependency links with Great Britain (Schaffer 1975).

It is clear that a carefully balanced policy towards MNCs in small countries is essential. Excess aggression is likely to deter benign investors, whilst a lack of selectivity is likely to attract a malignant combination of industries. There is, in this respect, a serious paradox confronting the governments of small countries. This stems initially from the fact that MNCs have in the past favoured small countries when establishing overseas branch plants. The reasons for this include low labour costs, the ability to influence or dominate local and national decision-making in small countries because of the weak bargaining positions of the latter, and lastly, the often loose labour and financial controls prevalent in many small countries. Obviously, if a small country's government wishes to diversify its dependency links, impose its will upon guest industries, raise living standards through higher wages, and protect its environment, it can often only do so at the risk of destroying the very features of the country that attracted the MNCs in the first place.

Successive Maltese Governments have been confronted with this type of problem. The next chapter introduces Malta as a small country, and after brief comparisons with other small countries, proceeds to establish a number of dependency strands which can be pursued in later chapters of this thesis, and which may therefore be used to evaluate Maltese post-independence development.

CHAPTER FIVE: THE CASE OF MALTA

5.1 Malta as a Small Country

Malta may be classified as a small country on any scale of measurement. Her modest 316 square kilometers render her one of the smallest nations in the world in terms of area, although her surprisingly large population of 346,149 (in 1980) has ensured an extremely high average population density of 1095 persons per square kilometer (Central Office of Statistics, 1980). The landmass itself has, unfortunately, little to offer in terms of material resources. Arable land (39% of the total surface area), whilst being productive where it exists, is generally restricted to lowland areas as the karstic Upper Coralline Limestone of the upland areas usually supports little or no soil cover (see Bowen-Jones, Dewdney and Fisher, 1960). Similarly, fresh water supplies are restricted primarily as a consequence of serious catchment and storage problems (see Plates 5.1 and 5.2), generated by the limited surface area of the Maltese Islands, and also as a result of the hot Mediterranean climate, which experiences its annual rainfall on a highly seasonal and unreliable basis.

The only significant mineral resource with which Malta is endowed is Globigerina Limestone, which is an excellent building stone (see Plates 5.3 and 5.4). The sedimentary geology (see Figure 5.1) is otherwise unable to yield anything of great value, and is not even suitable for the manufacture of cement. There is, however, a possibility that oil may be found beneath Maltese territorial waters, although the extent of the territorial waters is currently disputed by neighbouring Libya (Department of Information 1980).

PLATE 5.1 A Dam Located in a Maltese Wied (dry valley). This is one of many dams designed to arrest storm runoff which would otherwise flow away straight into the Mediterranean. By reducing such runoff, dams such as this allow rainwater to infiltrate downwards through the geological strata, recharging the aquifers.

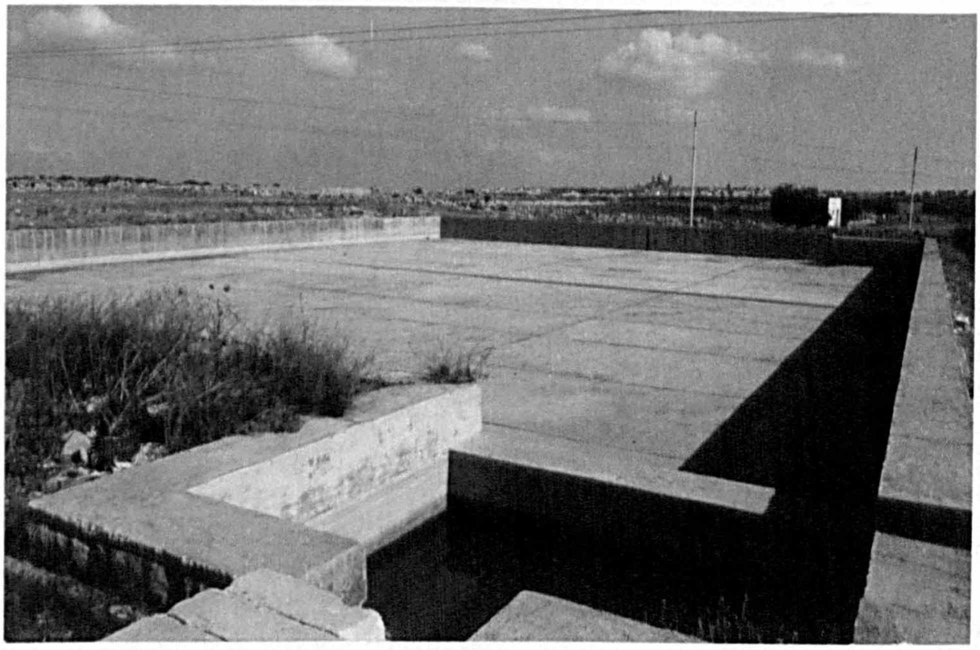

PLATE 5.2 A Covered Reservoir Near the Bulebel Industrial Estate. Covering reservoirs is essential as evapotranspiration can account for as much as 80% of water stored in open reservoirs.

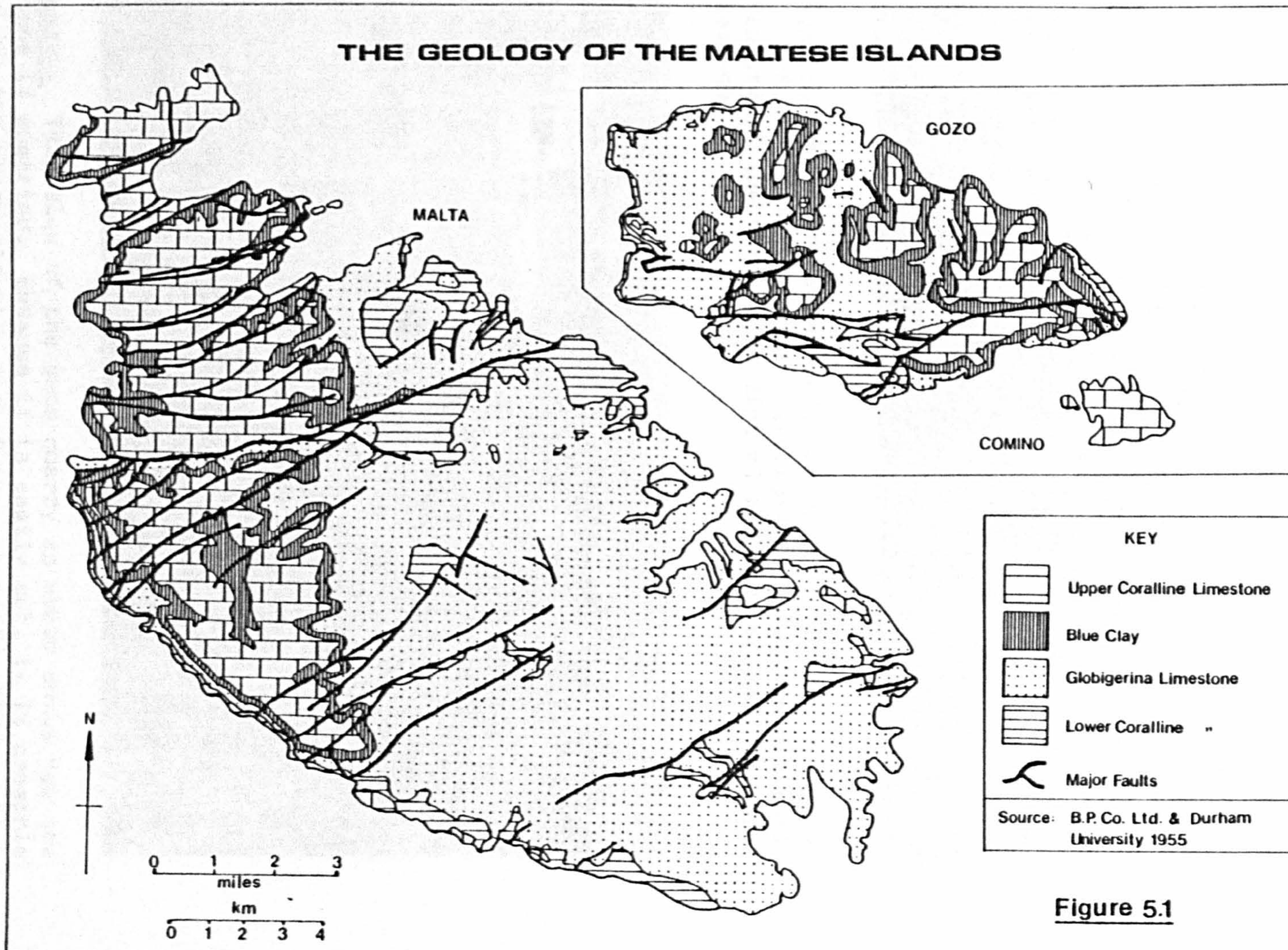
THE GEOLOGY OF THE MALTESE ISLANDS
GOZO
MALTA
COMINO
KEY
Upper Coralline Limestone
Blue Clay
Globigerina Limestone
Lower Coralline "
Major Faults
Source: B.P. Co. Ltd. & Durham University 1955
N
0 1 2 3
miles
km
0 1 2 3 4

Figure 5.1

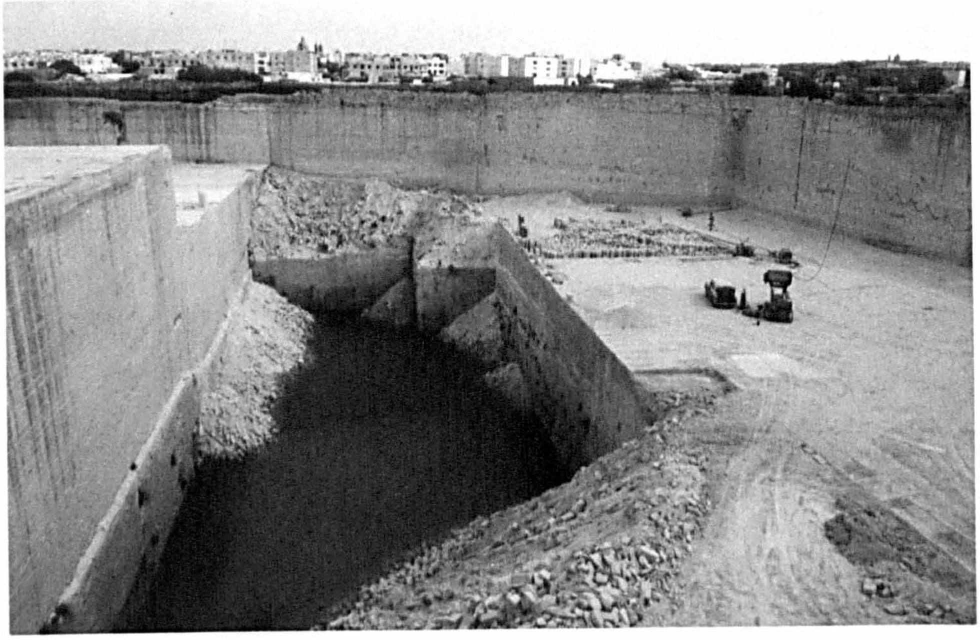

PLATE 5.3. Quarry. One of a number of Globigerina Limestone quarries in the Luqa area of Malta. Globigerina Limestone currently represents the only major mineral resource of the Maltese Islands.

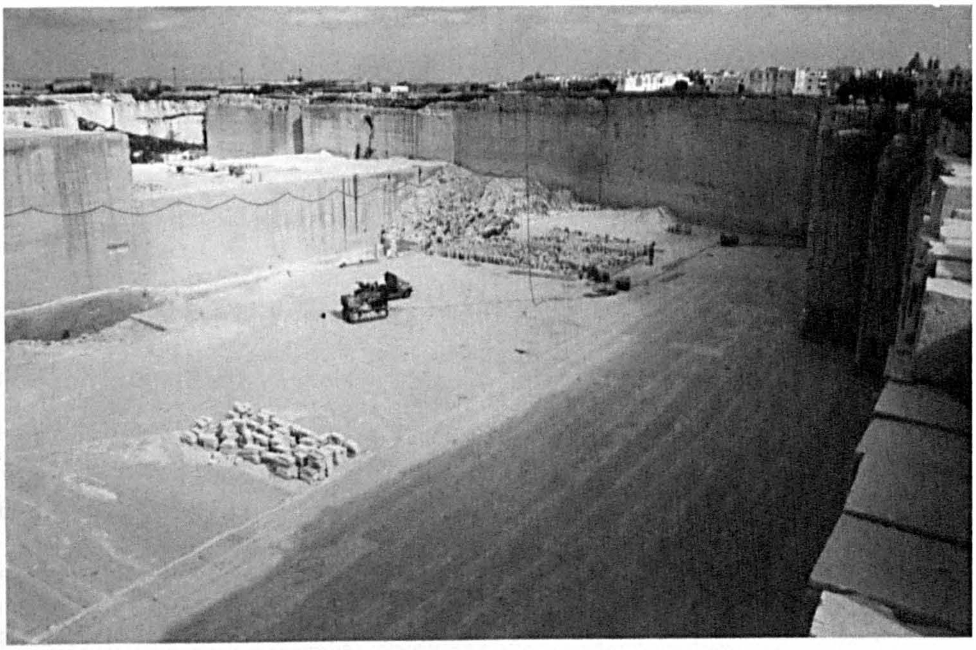

PLATE 5.4 Quarry. This view of the same quarry as above shows how the stone is quarried. Because it is easily cut, it is possible to saw the stone directly out of the ground in uniform blocks using electrical saws mounted on rails. The production of the stone is thus both cheap and rapid.

In contrast with the marked lack of indigenous resources, Malta has for some years displayed a comparative wealth of human resources. Not only is the Maltese population a large one in terms of the country's physical size[1], but it is generally well educated, bilingual (and often tri-lingual), and extremely adaptable and well disciplined in the industrial sphere. Several centuries of domination by overseas powers have helped an open, international perspective to evolve amongst the Maltese people. In this context, perhaps most significant has been Malta's extraordinary geostrategic position and military value, which has been the major reason for successive centuries of foreign domination (see Blouet 1967).

During the 19th and 20th centuries, Malta was developed by the British (the last, but most important of the occupying powers) as a 'fortress economy' devoted to the maintenance of the British armed forces, whose function was the protection, maintenance and expansion of the British empire. In order to ensure an adequate supply of indigenous skilled personnel to service the fortress, the British authorities helped to establish educational establishments, and provided training facilities, particularly for jobs associated with the naval dockyards, and with local administration.

Despite the industrious and resilient qualities of the Maltese population, after world war two, it was felt by many British politicians that Malta was far too small in every respect to survive as an independent nation state (Cox 1963). For this reason, whilst plans for world-wide decolonisation were being formulated by Britain, alternative plans for Malta were devised in which the archipelago would be integrated within Britain itself, receiving an allocation of three parliamentary

1. The Maltese population is also heavily concentrated in the Harbour Region of the main Island (see Figure 5.2).

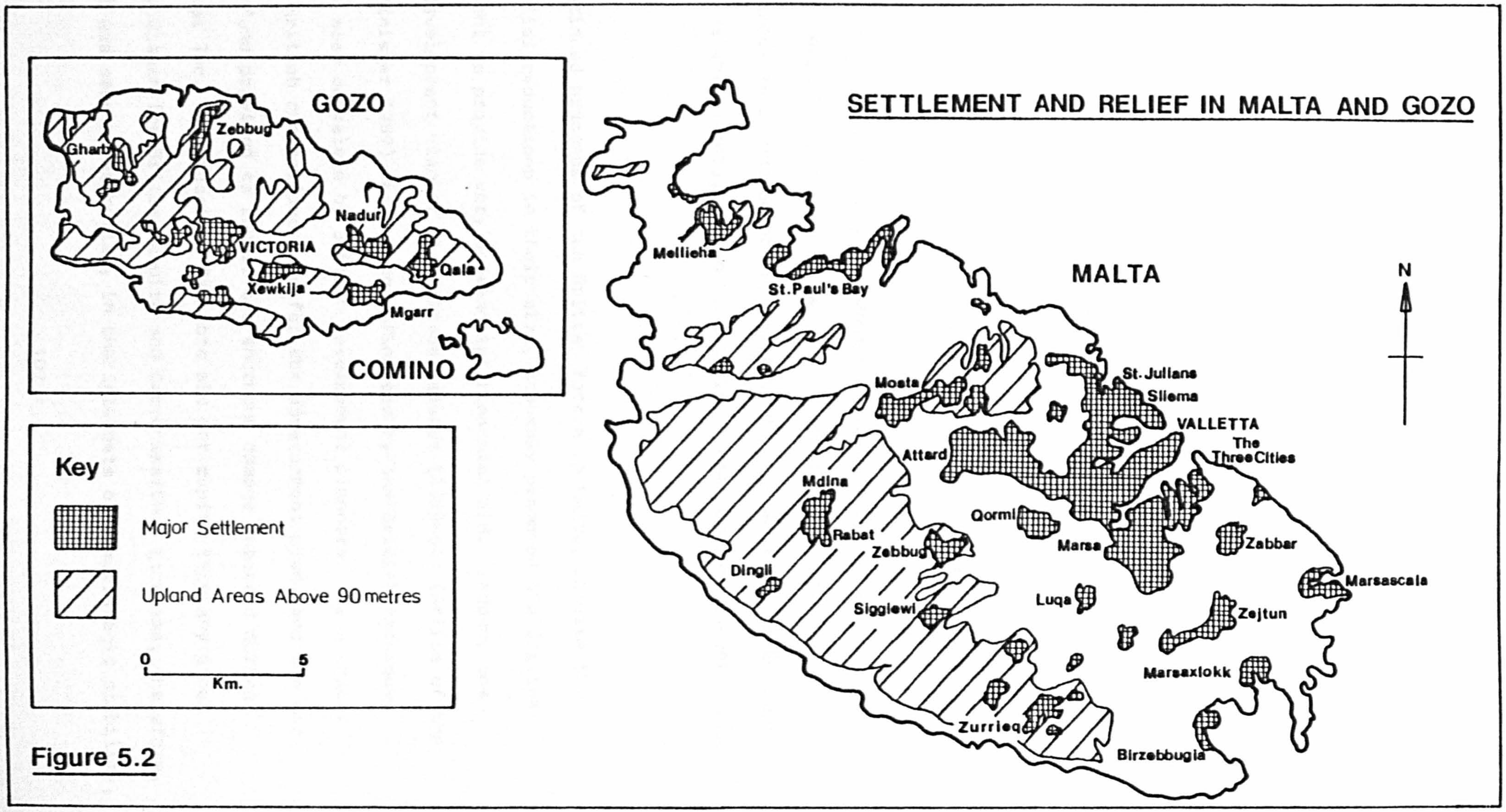
SETTLEMENT AND RELIEF IN MALTA AND GOZO
GOZO
Zebbug
Gharb
Nadur
VICTORIA
Qala
Xewkija
Mgarr
COMINO
MALTA
N
Mellieha
St. Paul's Bay
Mosta
St. Julians
Sliema
VALLETTA
The Three Cities
Attard
Mdina
Rabat
Qormi
Marsa
Zabbar
Zebbug
Dingli
Luqa
Marsascala
Siggiewi
Zejtun
Marsaxlokk
Zurrieq
Birzebbugia
Key
Major Settlement
Upland Areas Above 90 metres
0
5
Km.

Figure 5.2

seats in Westminster (two for Malta, and one for Gozo). The plan was contrary to mainstream British colonial policy at the time, and much more in keeping with French colonial policy (Austin 1971).

The exceptional nature of the integration plans reflected the unusually high esteem both the British and Maltese felt for each other. Integration, nevertheless was never successfully achieved, initially because of opposition from the Maltese Church and various political Parties, although a majority in favour of Integration was achieved in a referendum held in 1956 (Mintoff 1966). Faith in the Integration issue was, however, severely injured by the announcement in 1957 of substantial British defence cutbacks (HMSO 1957), which represented a severe body blow to the Maltese economy. Although never united, the two major political parties of Malta became totally committed to political independence as a consequence of the intended run-down of the British defence establishments, and in 1964, Malta became an independent nation state.

The continued presence of the British forces in Malta, despite the substantial reductions in their size, probably prompted the British government to provide very substantial financial aid. Indeed, the First Development Plan of the Maltese Islands (1959-64) (Office of the Prime Minister 1959) was not only financed by the British exchequer, but was also conceived by British development planners. As a result of the British capital provided for the development plan, and the war damage fund provided to repair the enormous damage incurred during World War Two, Malta received far more aid per capita than any other country within the British empire and Commonwealth. It seems, therefore, that it was seen as essential, in the interests of geostrategic stability, and moral obligation, that Malta's ability to function as an independent nation state was assured. Today, Malta's remarkable influence and high levels of activity in the international community - epitomized by her role in the formulation of the International Law of the Sea (see 'The Pardo Proposal' in Wenk 1972), and her activities in the non-aligned movements - seems to indicate that any doubts as to the viability of Malta as an independent nation state are unfounded.

5.2 Recent Maltese Economic and Political Evolution and Dependence

As would be expected, 164 years of British colonial rule in Malta resulted in the growth of strong dependency links between Great Britain and the Maltese Islands. It is, however, important to recognise that the geostrategic value of Malta, and the subsequent immense British military interests in the archipelago, helped to manufacture a form of intense dependence rarely experienced elsewhere in the world. A very large part of the Islands' economic activity was geared exclusively to the maintenance of the British forces, and by the time the first major military cutbacks were announced in 1957, it was estimated that as much as 27.1% of the Islands' economically active persons were employed by the fortress sector (Pirotta 1977). Similar statistics suggest that as much as 48.9% of GNP was accounted for by the U.K. military service sector in 1957 (Pirotta 1977), and that even in 1973, after extensive cutbacks, over 25% of foreign exchange earnings were also accounted for by the fortress sector (Metwally 1977).

The 1957 cutbacks in the fortress therefore represented a severe blow to the Maltese economy, the potential negative multiplier effects upon income and employment in the islands posing a severe threat to both economic and social stability. The only viable strategy was seen as rapid economic diversification away from the fortress. Initially at least, most faith was placed in the propagation of manufacturing industry, which was surprisingly lacking in Malta as a result of the British military dominance.

Given the overwhelming deficiencies in indigenous resources, it was inevitable that Malta would become heavily dependent upon external sources for vital materials. This situation persists today, more severely than every before, and has in fact been enhanced by the the post-independence industrialisation programmes. Malta's development strategies have, in addition, called upon other forms of external linkage, including British government aid, alternative forms of foreign capital, and the adoption of overseas technology. The generation of the manufacturing sector has been particularly dependent upon the attraction of MNC branch plants, who have provided both the missing factors of production and the necessary overseas markets for large scale production. The development philosophy has therefore been diffusionist in nature, relying heavily upon foreign induced industrialisation, and depending upon the growth and prosperity of certain leading sectors within the economy (see Office of the Prime Minister, 1959, 1964, 1970, 1973 and 1981).

It is not surprising that, following independence in 1964, Malta's greatest dependency links would continue to be those with Great Britain. The continued strong British military presence ensured this, although damaging further military cutbacks were frequent and without warning or consultation during the 1960s (Office of the Prime Minister, 1981). Because of strong commercial links between Great Britain and Malta, as well as the British-conceived and funded development plans, it was inevitable that many of the first industries to be attracted to Malta were branch plants and subsidiaries of British firms. Even British companies (first Baileys and then Swan Hunters) took over the dockyards, converting them from military to civilian based activities (King 1978a). It seems, therefore, that whilst dependence upon the fortress was declining with reductions in military establishments, so dependence upon British private enterprise was increasing, a situation which helped maintain substantial levels of general dependence upon Britain.

At the beginning of the 1970s, it became apparent that a total withdrawal of British and NATO forces was imminent, and despite the Prime Minister's[1] success at negotiating a five year extension (Wriggins 1975), the British finally withdrew in March 1979. The impending departure of the British had, meanwhile, lead to increased urgency in the development programme which was oriented around diversification of the economy away from the fortress (Office of the Prime Minister 1973).

During the 1970s, several important developments occurred that particularly affected the evolution of the industrial sector. First, in November 1970, Malta successfully managed to gain associate membership of the E.E.C., which, whilst meaning little initially in terms of preferential trade arrangements, at least permitted the Maltese to export some of her produce to the E.E.C. countries under a system of rigid quotas (Tulloch, 1975). On balance, this was clearly an arrangement that worked in favour of Malta, but the accession to full Common Market membership of Great Britain in 1972 presented severe problems. Britain's membership of the E.E.C. has without doubt cut off Malta from a number of promising market outlets which had, in the past, been guaranteed by British Commonwealth trade agreements.

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1. The Prime Minister of the time was, once again, Dom Mintoff.

E.E.C. associate membership, and its various renewals in the 1970s and 1980s, has, however, helped prevent British companies from further dominating Maltese manufacturing industry. A conscious policy of nationality based diversification has led to alternative foreign interests involving themselves in Maltese industry, the most notable examples being the West Germans. Nevertheless, this seems to have reinforced a condition of dependence upon the E.E.C. as a whole. Furthermore, it is very likely that the E.E.C.will reduce its import quotas from countries such as Malta when Spain and Portugal finally join the Community (Tulloch 1975). For this reason, diversification attempts have been extended well beyond the E.E.C.countries, and Malta is increasingly looking to the Middle Eastern Arab powers for markets and capital (Office of the Prime Minister 1973). Indeed, it is significant that the full force of the oil price rises of the 1970s was prevented from causing lasting damage to Malta's economy by the provision of half-price oil by neighbouring Libya.

Malta's dependence on E.E.C. markets has unfortunately gained genuinely problematic proportions because her industrial activity has simultaneously become dangerously polarised around the textiles sector (Grech 1978). Predictably, it is for textiles and clothing products that the E.E.C. import quotas are severest (Secretariat of the Council of European Communities, 1970). Greece, the newest member of the E.E.C., and Spain and Portugal all have struggling textiles and clothing industries which, once inside the E.E.C. tariff system are likely to add to the already great pressures for reduced textiles and clothing trade quotas. The heavy dependence upon single manufacturing sectors is undesirable, and the Maltese authorities have reacted by attempting to initiate further diversification programmes (Office of the Prime Minister 1981). Although new markets have been hard to find, recent governments in particular have attempted to establish parastatal enterprises, thereby creating new industries (Malta Development Corporation 1979a)and Office of the Prime Minister 1981).

There remains, however, considerable evidence suggesting that not only is Maltese manufacturing industry still heavily polarised around the textiles sector, but also that the export of manufactured goods is still dangerously concentrated around a small number of market outlets, particularly within the E.E.C. Even more alarming is the form of the manufacturing enterprises that have been established. Many appear to be branch plants of large MNC companies, and merely serve as surplus production capacity in prosperous years. Certainly there is evidence to suggest that in recessionary conditions, the Maltese branch plants are amongst the first production units to be discarded by parent companies (see Chapter Twelve).

Manufacturing industry is not the only major component in the development process. Malta has excellent harbour facilities which have been developed over the centuries by foreign military powers that have used them (King 1978b). Now the docks and harbours are almost entirely used for commercial purposes, and have been nationalised since 1968. They continue to be the single largest employer in the Maltese Islands, and are therefore of vital social and economic importance to the nation as a whole. With the completion of a shipbuilding complex at Marsa, employment levels in the dockyards will rise considerably above the current 5,000 mark. Once again, however, as is the case with the textiles sector, dependence upon shipping and related industries seems ill-advised as ship-building and repair industries in particular are suffering badly from the current recessionary conditions, and enormous global over-capacity. Nevertheless, the overriding advantage of the dockyards is the fact that they are State owned and controlled, and that penetration by overseas capital presents no threat at present.

Given that most of Malta's more traditional activities were oriented around the service and maintenance of the British fortress, the development of a strong tertiary sector within the economy was to be expected. Indeed, the development of a large tourist industry has become one of the major priorities of recent Maltese governments, and has successfully taken full advantage of one of Malta's major assets - her sunny, reliable and warm climate. Once again, however, the tourist sector suffers from an extreme over-reliance upon the whims of a comparatively small number of overseas (and usually British) tour operators. Another disadvantage of tourism is its over-sensitive and often fickle nature, which can cause violent fluctuations in levels of activity. Furthermore, although proponents of tourism point to the substantial multiplier effects of tourist based activity, there is evidence to suggest that few of the benefits accruing from Malta's tourist activity are retained within the Maltese Islands (see Chapter Thirteen).

As far as cultural dependence is concerned, it is very clear that over a century and a half of generally benign British rule in Malta has made its mark in the Maltese Islands. The fact that relations between the British and the Maltese have on the whole been so good since 1800 has permitted a very great diffusion of British influence to occur. This has undoubtedly deeply influenced Malta's consumption patterns, and it seems that many Maltese people continue to focus their lifestyles around certain key elements of British life. Many young male Maltese, for example, continue to attempt to attain British work permits despite the worsening recession in Great Britain. It would have been logical to expect the departure of the British forces to induce a reduction in the overseas influences upon Maltese society, but the rapid development of tourism in recent years seems to have done far more than British military personnel to impose alien cultures, habits and consumption patterns upon the native population (Busuttil 1971b).

Perhaps one of the most obvious and dramatic dependency links to have evolved since World War Two has been that of emigration. In the immediate post-war years, emigration from Malta was encouraged by the British administration, primarily because of the extremely high birth rate in the islands (Collins 1967). Following the beginning of the defence run-down and subsequent independence, the need for emigration was once again perceived as being great, particularly in view of the worsening employment situation in Malta. Most emigrants were assisted by the government, receiving financial help and the promise of employment in the destination countries. Estimates suggest that as many as 90,000 emigrated between 1948 and 1967 (30% of the 1948 population) (Jones 1973a),the vast majority of whom went to Australia. The migration of so many Maltese has undoubtedly enhanced Malta's international outlook, a fact which is reflected in the keen widespread interest in Australian affairs in Malta and Gozo, and the preponderance of kangaroo door-knockers. Also of vital importance have been the large quantities of foreign exchange sent back to Malta from the destination countries by the migrants.

Now that the demographic situation in Malta seems to have stabilised, an emigration policy is no longer perceived to be necessary. Indeed, such a policy is unlikely to be in keeping with recent government policy, and Grech (1977) has observed that it tends to drain the country of its most able personnel. Emigration has therefore fallen to comparatively insignificant levels in recent years. This may partly be explained by the world recession, which as discouraged countries from accepting more emigrants. In fact, the recession has enhanced the cyclical nature of emigration by inducing considerable flows of return migrants to Malta (King 1979 b & c). Since 1976, the numbers of return migrants have far exceeded the numbers of emigrants, a situation which has caused a degree of panic in some government circles because of rising domestic unemployment. The large numbers of return migrants are also an important consideration as they themselves form substantial overseas linkages, often bringing with them on their return comparatively alien ideas, standards and consumption patterns, as well as foreign currency.

External links with overseas countries, particularly Great Britain, are becoming increasingly contentious issues within Maltese politics. The electorate is rigidly (and spatially) polarised around two political parties (see Figure 5.3). The ruling Malta Labour Party (MLP) has in recent years appeared to adopt an increasingly antagonist 'delinking' strategy towards British interests in Malta. In reality, however, the MLP policies have done little to reduce dependence upon Britain, and have simultaneously helped to generate some degree of internal political instability. The MLP continues to promote a rigorous policy of non-alignment, and is attempting to forge closer links with the Arab world (Malta Labour Party 1976). The Nationalist Party (PN), which has now been in opposition for over 10 years, seems to be in favour of alignment with the Western Alliance, and of continued links with Great Britain in particular (Nationalist Party of Malta 1981). At a glance, it seems that much of the PN support identifies rather more with the British way of life than is the case for the MLP supporters, who, it is claimed, like a far more traditional Maltese existence. If this is genuinely the case, then it is ironic, given the circumstances of the late 1950s when the MLP,

MALTA NATIONALIST & LABOUR PARTY SUPPORT 1976

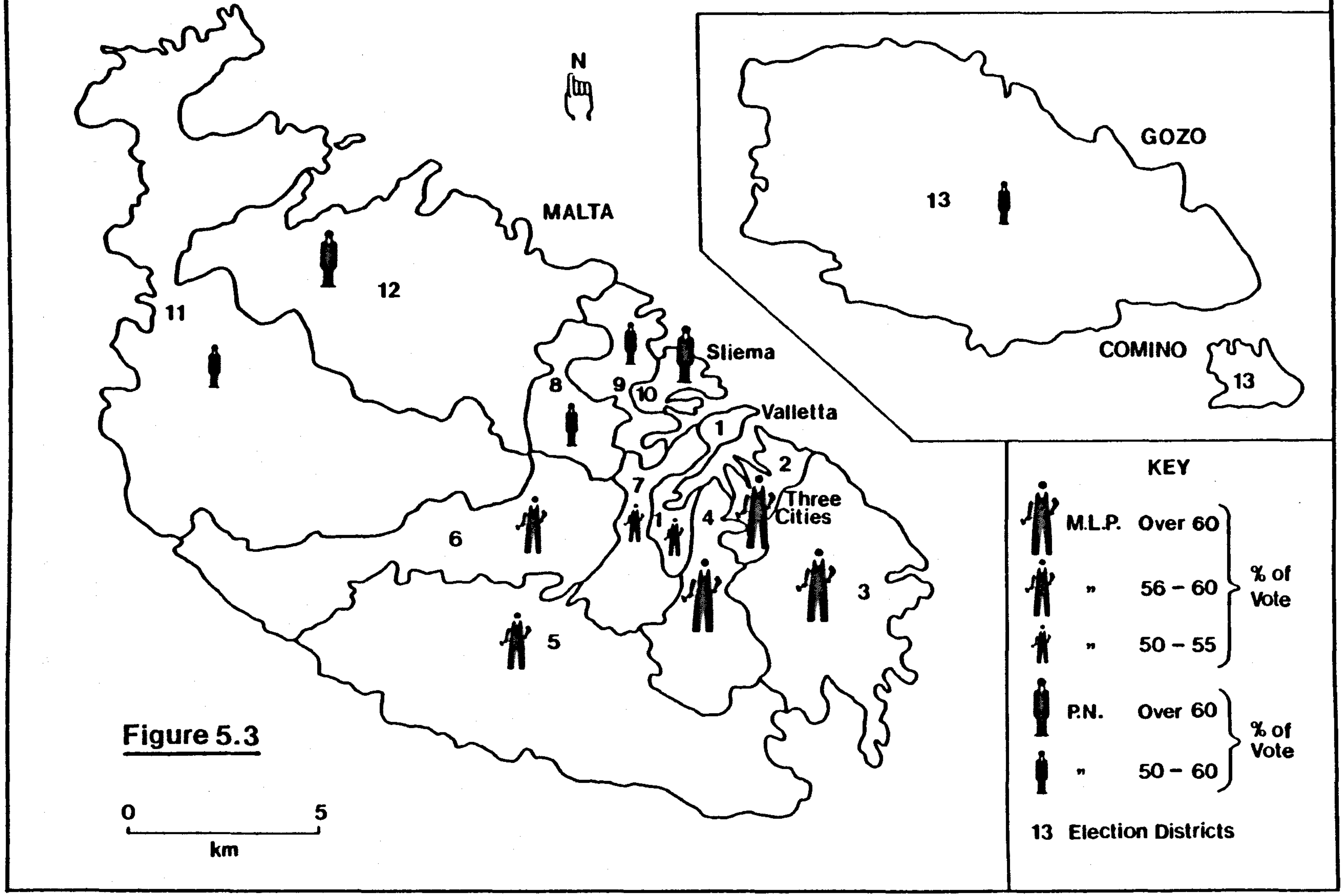

Figure 5.3

even then under the leadership of Mr. Mintoff, steadfastly supported the integration of Malta with Great Britain (Austin 1971).

It is unfortunate that political instability is becoming a serious possibility within Malta. Much of the problem emanates from a constitutional crisis concerning the electoral process. Sadly, the constitution provided by the British on their departure has allowed for the adoption of an electoral system that is unstable. Despite the fact that it is meant to be a proportional representation system, gerrymandering is possible, and is seen by some to have already occurred, causing anomalous general election results in December 1981. The parliamentary machinery has proved to be unable to rectify the situation, and the political crises are becoming increasingly destructive, and more difficult to resolve.

In conclusion, economic, cultural and political external linkages have ensured that Malta has, since independence in 1964, retained her condition of severe dependence. This is not surprising as her peripheral position - on the southern flanks of Europe and the northern fringes of Africa -, her tiny size, and her lack of indigenous resources were bound to lead to a heavy reliance upon overseas sources for many materials as well as capital, technology and markets. It is unrealistic to suggest that Malta could have substantially reduced her external dependence, but it is reasonable to expect her various governments to have devised a development strategy to minimise the potentially harmful effects of such dependence. Such a strategy would, in particular, be expected to counter the adverse effects of the planned further enlargement of the E.E.C. Ideally, Malta's economic structure should by now be displaying qualities of resilience, flexibility and diversity. Whether this is, or is not the case will become clear from the later chapters of this thesis.

5.3 A Comparison Between Malta and Some Other Small Countries

The Maltese Islands are so exceptional that it is extremely difficult to compile a list of other small countries with which they are reasonably comparable. Furthermore, having found such countries, there is no guarantee that data, especially comparable statistics, will be available or trustworthy. Using various combinations of statistical sources, it has been possible to select a small number of small countries (mostly island states, like Malta), and some varied statistics to go with them. To be chosen for this analysis, the countries in question had to be relatively small in terms of both area[1] and population. Within the group, at least two newly industrialising countries - Singapore and Hong Kong - were chosen in order to provide direct comparisons with Malta's industrialisation and development experiences.

Hong Kong was included in the analysis because, despite the fact that it is not an independent state and retains crown colony status, there are statistics available which may be used to speculate over Malta's potential fate had independence not been granted in 1964. However, a more concrete analysis should be possible with Singapore, whose record displays significant similarities to that of Malta. Other countries chosen in the sample include some islands, some small mainland states, some from other peripheral locations throughout the world, and neighbouring Cyprus from the Mediterranean. It was intended at one stage that Gibraltar should be included, but her totally exceptional circumstances, and a lack of data resulted in her eventual omission.

Table 5.1 provides some basic statistics for the sample of eleven small

1. An arbitrary maximum of 30,000 square kilometers was chosen.

Table 5.1 Selected Small Countries: Demographic Statistics, Area, and Island/Mainland Status.

Small Countries	1980 Population	Area in Square Km.	Pop. Density: Persons/sq.km.	Island/ Mainland
Barbados	275,000	430	640	Island
Cyprus	630,000	9,251	68	Island
Fiji	626,000	18,272	34	Island
The Gambia	593,000	11,570	51	Mainland
Haiti	5,739,000	27,750	207	Island
Malta	318,028	316	998	Island
Mauritius	943,000	1,974	478	Island
Rwanda	4,639,000	26,388	176	Mainland
Singapore	2,374,000	581	4,086	Island
Trinidad and Tobego	1,154,000	5,128	225	Island
Hong Kong	4,900,000	1,031	4,753	Mainland

Sources: Central Office of Statistics (1980), Kurian (1982), and Thomas (1982)

Table 5.2 Selected Small Countries: Colonial Heritage and Political Status.

Small Countries	Major Colonists	Approx. Date 1st Colonised	Date of Independ.	Current Political Status
Barbados	Britain	1624	1966	Parl. Democracy
Cyprus	Britain	1914	1960	Partitioned
Fiji	Britain	1874	1970	Parl. Democracy
The Gambia	Britain	1816	1965	Parl. Democracy
Haiti	France	1492	1804	Civil. Dictatorship
Malta	Britain	1522	1964	Parl. Democracy
Mauritius	Britain	1715	1968	Parl. Democracy
Rwanda	Belgium	1885	1962	Milit. Dictatorship
Singapore	Britain	1819	1965	1 Party Democracy
Trinidad and Tobego	Britain	1552	1962	Parl. Democracy
Hong Kong	Britain	1841	-	Crown Colony

Sources: Kurian (1982)

NB Some countries were colonised by more than one power (e.g. Haiti).

countries. It is immediately apparent that Malta is easily the smallest of the countries in terms of area, and is the second smallest in terms of population, behind Barbados. However, although Malta's average population density of approximately 1000 persons per square kilometer is extremely high, it is easily surpassed by both Singapore and Hong Kong, whose land area is put under intense pressure by very large populations. As subsequent statistics indicate, a large concentrated population may assist rapid industrialisation by providing concentrated internal markets and labour forces. The disadvantages of extremely small but concentrated populations is less easy to assess, although surprisingly, Malta does not seem to have suffered unduly from her scale problem.

All but two of the eleven countries of the sample were originally British colonies (see Table Two), although some were colonised by other powers at various stages in their histories. The two non-British ex-colonies are Rwanda and Haiti, who were colonised by Belgium, and Spain and then France respectively. On closer analysis, it seems that the nationality of the major colonists is important, particularly with respect to the types of government that have evolved in the newly independent countries. Furthermore, there can be little doubt that the varying nature of colonial rule has influenced most former colonies' ability to achieve their various development goals. Thus, a larger sample of small Third World countries (Kurian 1982) reveals that a particularly high proportion of former French and Belgian colonies, for example, are now ruled by civilian or military dictatorships, and show symptoms of deep political instability. Many of these countries have an alarmingly poor development record, not entirely unrelated to their problems in the political sphere. British former colonies are also prone to political instability, but it is nevertheless the case that a larger proportion seem to have retained some form of parliamentary democracy. Whether the survival of democracy assists development is a debatable point, but it is certainly true that political stability is an important pre-requisite to development. Thus, the importance of historical, colonial dependency links must not be discounted in the current development context.

It is not possible to generalise meaningfully as to the importance of the length of the various countries' periods of colonisation, particularly as the coloniser is different in many cases. However, it is reasonable to expect countries that were colonies for longest to be most influened by the culture and administration of their colonisers. Equally, it seems sensible to expect the countries that achieved independence earliest to have achieved most in terms of post-independence development and self-reliance. Certainly, there is no doubt that the comparatively long period of British rule in Malta has had profound effects upon Maltese society, which now shows many outward signs of the British influence. The prolonged British presence also resulted in the establishment of important institutions and infrastructure in Malta which permitted a smooth transition from crown colony to independent nation state. Other countries (including other former British colonies) have not been blessed with such good fortune. In addition, it is disturbing that many countries such as Haiti, apparently blessed with the advantages of an early release from the colonial yoke, have made very little progress towards achieving major development goals. This is certainly also the case in some of the larger Latin American countries (e.g. Bolivia and Paraguay). Thus, as tables 5.3 to 5.6 illustrate, the length of the colonisation and independence periods bears little relation to development. The critical factor is always the nature of the colonisation itself.

One of the most popular (and over-used) measures of living standards prevalent in the world's nations is the aggregate measure 'Gross National Product per Capita' (see Table 5.3). As has been mentioned in Chapters One and Two, it is an unsatisfactory measure because it cannot take into account income distribution or informal sector activity, and ignores other important, often social elements of development. Nevertheless, as a rough standardised measure of economic activity, it is relatively useful. Table 5.3 shows that within the eleven, Malta was ranked a healthy fourth in 1978, behind Hong Kong, Singapore and Trinidad and Tobego. With the exception of Cyprus and Barbados, the other countries are apparently far less fortunate. Table 5.3 also shows the average annual percentage growth of gross domestic product for the eleven countries during broadly comparative time periods. Significantly, Malta's average annual growth was only surpassed by Singapore during the 1960-70 period, and between 1970 and 1978, the Maltese economy showed even more spectacular symptoms of growth, the average annual increase in GDP rising to 13.1%. The enormity of this percentage growth is put in perspective by the observation that, in comparison with more heavily industrialised countries such as Hong Kong and Singapore, Malta's growth was from an extremely low base, and was therefore not so large in absolute terms. Nevertheless, Malta's growth of GDP was spectacular, particularly in the 1970s, when neighbouring European economies were suffering from severe recessionary conditions.

Table 5.3 also suggests that the manufacturing sector was responsible for a large proportion of the growth in Maltese GDP. Similar figures for average increases in annual manufacturing output for the same two periods reveal that Malta experienced the greatest relative growth in manufacturing, particularly between 1970 and 1978 (22.1%). Table 5.4

Table 5.3 Selected Small Countries: Economic Data

Small Countries	GNP/Capita $ (1978)	G.D.P. Average % Growth P.A. 1960-70	1970-78	Manufacturing Sector Average % Growth P.A. 1960-70	1970-78
Barbados	1,960	6.3	2.0	n.a.	6.5a
Cyprus	2,120	7.2	-1.5a	8.7	1.8a
Fiji	1,420	4.6	5.2a	5.4d	3.0a
The Gambia	230	6.2	8.2	6.6	2.5f
Haiti	260	0.1	3.9	-0.1	6.6
Malta	2,170	8.5e	13.1	13.1e	22.1
Mauritius	830	1.6	8.5g	-1.5	11.0a
Rwanda	180	2.7	4.8	n.a.	2.4b
Singapore	3,290	8.8	8.5	13.0	9.2
Trinidad & Tobego	2,910	3.9	3.4a	n.a.	-1.1a
Hong Kong	3,040	10.0	8.2a	18.6	5.6a

NB: a = 1970-77 c = 1964-70 e = 1962-70 g = 1970-75
b = 1972-77 d = 1965-70 f = 1973-77 h = 1970-76

Sources: Central Office of Statistics (1980), Kurian (1982) and Thomas (1982).

Table 5.4 Selected Small Countries: Data For Manufacturing Industry

Small Countries	Manuf. Output as % of GDP 1960	1978	Manuf. Goods as % of total exports in 1975	Exports of Manuf. as a % of 1975 Production
Barbados	n.a.	10a	97	93
Cyprus	12	15a	55	29
Fiji	n.a.	12c	99	68
The Gambia	2	1e	41	n.a.
Haiti	10	13a	59	n.a.
Malta	15	30e	98	63
Mauritius	12	21	99	74
Rwanda	1	15	5	6
Singapora	12	26	84	81
Trinidad & Tobego	24	14	67	60
Hong Kong	24	25	93	84

Sources: Thomas (1982) NB: a = 1976 c = 1973 e = 1977 confirms this, showing that manufacturing as a proportion of GDP was only 15% in 1960, but had risen to 30% by 1977. Once again, this figure is the highest of the eleven. Thomas (1982) suggests that there is a strong positive correlation between total GNP per capita and the proportion of GDP accounted for by the manufacturing sector. Thus, the implication is that high proportions of manufacturing output in GDP indicate high levels of economic prosperity.

From the 'conventional' or 'diffusionist' point of view, which perceives industrialisation as being paramount in the development process, Malta seems to have done well. Thus, Table 5.4 also shows that by 1975, 98% of Malta's exports (by value) were manufactured goods. With the exception of Cyprus, the countries in the eleven with lower proportions of manufactured exports show signs of negligible or even negative economic growth rates (see Table 5.3), and struggling development programmes. Table 5.5, meanwhile, displays further evidence of Malta's economic transformation, showing that in 1979, 28% of Malta's employment was in the manufacturing sector. Once again, Singapore and Hong Kong are the only countries of the chosen eleven to surpass Malta's position, whilst the figure for Haiti suggests that only 6% of employment was in manufacturing. In stark contrast to Haiti's position, Hong Kong's figure of 47% of employment in manufacturing seems impressive.

As has been mentioned earlier, economic growth, and indeed rapid industrialisation cannot in their own right be regarded as symptoms of stable economic development. The composition of the growth is, for example, particularly important. The remaining statistics in Table 5.5 concerning the contribution to value added by various manufacturing sectors, along with the composition of export manufacturers in Table 5.6, reveal that

Table 5.5 Selected Small Countries: More Data on Manufacturing Industry.

Small Countries	(1979) % Employment in Manufacturing	% Contribution to Total Value Added by Manufacturing During 1979: Textiles	Metals	Food/Bev.
Barbados	14	14	19	37
Cyprus	20	22	9	30
Fiji	18	3	11	69
The Gambia	9	n.a.	n.a.	n.a.
Haiti	6	12	13	40
Malta	28	38	16	20
Mauritius	17	12	9	63
Rwanda	n.a.	n.a.	n.a.	n.a.
Singapore	29	6	48	7
Trinidad & Tobego	20	1	3	7
Hong Kong	47	47	25	5

Sources: Central Office of Statistics (1979) and Thomas (1982)

Table 5.6 Selected Small Countries: The Composition of Export Manufactures by Sector in 1975.

Small Countries	Total Exports $ million (1975)	% Exports of Manufactures (1975) Textiles	Metals	Food/Bev.
Barbados	103	17	8	69
Cyprus	83	19	23	26
Fiji	157	-	-	97
The Gambia	20	-	-	100
Haiti	47	25	25	32
Malta	164	64	17	8
Mauritius	294	7	4	89
Rwanda	2	n.a.	n.a.	40
Singapore	4,510	6	32	7
Trinidad & Tobego	1,170	1	2	8
Hong Kong	5,592	50	27	2

Sources: Thomas (1982)

Malta's economic growth has been very heavily dominated by the textiles sector. Although the textiles sector has played a prominent part in the progress of other countries such as Hong Kong, the dependence upon the one sector is dangerous, providing an obvicus source of economic instability. In this sense at least, Malta may be seen as being rather more vulnerable than most of the other countries of the eleven.

Despite the serious concentration of Malta's new productive activity, there is no doubt that she has impressively transformed her economy since the days of complete fortress dominance. The six tables (Tables 5.1 to 5.6) show that she has more in common with the established newly industrialising countries (NICs) of the sample - Singapore and Hong Kong. Indeed, it seems that Malta's apparent advances are enough to prevent her from being classified as a Third World country (Kurian 1982). This may be a rather over optimistic view in the long term. However, a number of countries within the eleven may quite definitely be classified as Thrid World countries, the stagnation and escallating poverty prevalent in these territories remaining, often despite urgent development initiatives. In this context, Haiti, The Gambia and Rwanda in particular show signs of little progress. Other countries such as Trinidad and Tobego have benefitted from major local resource endowments such as petroleum. Currently, Malta has no such resources, and must, like Hong Kong and Singapore, depend almost entirely upon externally inspired development impulses for economic transformations. Thus, a brief further comparison of the experiences of the three cases - Malta, Singapore and Hong Kong - is useful at this stage.

All three countries were colonised, and strongly influenced by the British for well over 100 years. Hong Kong remains a crown colony. Once again, all three had (and have) excellent port facilities, which were both commercially and strategically valuable. In the case of Malta, it seems that geostrategic considerations were always dominant. The three territories all experienced severe damage and destruction during World War Two, and have experienced impressive industrial development since the conflict. Following reconstruction programmes, industrial growth gained momentum in the 1950s and 1960s, although in the case of Malta, her extremely small size meant that her growth in absolute terms was rather less than was the case in Singapore and Hong Kong.

Singapore in particular provides an interesting comparison with Malta as it achieved political independence in 1965, only one year after Malta. However, unlike Malta, which continued to depend upon military functions long after independence, Singapore has been forced to build her prosperity upon entrpot trade (HMSO 1981). Thus, the port of Singapore has a massive turnover, and the economy as a whoe is governed by unfettered international market forces. Singapore therefore has also developed as a prosperous commercial centre for the Far East. International capital is attracted from all over the world, and state intervention in the economy is rare. This contrasts markedly with Malta, whose recent governments in particular have taken a far more active role in the development process.

As was the case in Malta, the original industrialisation programme in Singapore was launched five years before independence, and involved the active encouragement and attraction of foreign investors through offers of tax relief, free repatriation of profits and capital, and other incentives (HMSO 1981). The impressive industrialisation that followed was rather more balanced than has been the case in Malta, both in terms of the range of productive sectors and overseas participants. The scale of the Singapore industrialisation programme is illustrated by the major industrial estate, 'Jurong Town', which is the largest estate in South East Asia, and accommodates 955 factories (employing over 80,000 people) (HMSO 1981). Malta's largest industrial estate is Bulebel, whose comparatively small factories numbered only 84 in 1980 (Malta Development Corporation 1980). In addition, Singapore possesses shipbuilding and repairing facilities (employing approximately 25,000), and is also the third largest oil refining centre in the world.

Singapore is often referred to as one of capitalism's successes, as are other NICs such as South Korea and Taiwan. Certainly, the extent of the economic growth achieved to date, and its relatively balanced nature is more encouraging than is the case for Malta. However, it has been suggested that some of the sacrifices necessary for the development programmes have been great, particularly those concerning human rights. The most common criticisms in Singapore's case concern the often severe one party democracy, which has surpressed the power of the labour movements (Bienefeld 1981). Thus, the harassment and imprisonment of trade union officials and the political opposition has prevented the evolution of an organised and effective labour movement, and has ensured that employers remain in a dominant position. It has also permitted the retention of comparatively low wage levels and well behaved workforces.

In Malta, there <u>appears</u> to be no surpression of the labour movements. Indeed, the Islands' major union, The General Workers Union (GWU) seems to be flourishing. However, it is significant that the GWU has, since 1971, been a major partner in government, largely because of its close alliance and traditional links with the governing Malta Labour Party. It can therefore be argued that, as a result of this close link, the bulk of the Maltese working population is kept in line by its preferred government. This may be a reason why Malta's labour forces are generally so well behaved. Furthermore, allegations concerning the nepotism prevailing between the Government and the dominant GWU are supported by the Government's apparent hatred of the increasing numbers of independent trade unions that have sprung up in recent years.

Hong Kong differs both from Malta and Singapore because it remains a crown colony of Great Britain. However, the prevalent development conditions facing the colony have been similar in many respects to those of Malta. Thus, 'Since it was founded, Hong Kong's basic resources have remained the same: a superb natural harbour and a pragmatic and industrious people' (HMSO 1981, p.488). Until world war two, Hong Kong's function was one of an entrepot, in this instance for trade with China. The Korean War, and subsequent UN embargo on China forced Hong Kong to diversify away from port activities. The diversification programme has resulted in Hong Kong becoming a leading producer of textiles and clothing, electronics and plastic goods. The growth has been especially successful in view of the destruction that occurred during the Japanese occupation (1941-45). As is the case in Singapore, the policy has been one of encouraging foreign free enterprise on a relatively indiscriminate basis, and establishing Hong Kong as a free trade area. The colony now lives off export industry rather than entrepot trade, and benefits from excellent world-wide communications. Despite a very strong textiles sector, the Hong Kong economy seems to be well diversified compared to that of Malta, and also benefits from a wide variety of commercial activities that have never been present in the Maltese Islands. The single major disadvantage facing Hong Kong is her colonial status and history. Uncertainty persists as to the fate of the colony when the lease on the New Territories expires in 15 years time. This is already having adverse effects upon development in Hong Kong as a whole.

It is difficult to assess the role of British administration in the industrialisation process of Hong Kong. On reflection, it seems that the major philosophy behind the policy has once again been one of allowing the forces of capitalism to develop the colony freely, a policy which would probably never have materialised in Malta had British rule been extended. Because of the geostrategic value of Malta, it is unlikely that an extended British period of administration would have led to such a laissez-faire policy. In addition, the open policies of both Singapore and Hong Kong are not necessarily suited to the Maltese case because of the extreme smallness of Malta. Indeed, Malta's small population (never much more than 300,000) reduces the scope for major economic projects. Such is the gravity of the scale confinement that what would appear to some countries as a very minor fluctuation in the world trading system can have a debilitating effect upon a very small economy such as Malta. This explains to a considerable degree the policies of intervention operated by the Maltese, and indeed, by many other LDCs with small fragile economies.

In conclusion, it can be said that, by comparison with many of the world's small countries, Malta appears to have made great progress during the last few decades. Compared, however, with the newly industrialising countries such as Singapore and Hong Kong, Malta's successes have been small. The reasons for this include Malta's exceptionally small size, which has prevented the generation of large scale economic activity, and the evolution of a totally open economic strategy, based on the indescriminate attraction of multinational enterprise.

CONCLUSIONS TO SECTION ONE

The main aim of this study was identified in the introductory chapter as being an evaluation of Malta's post independence development, which has itself been based upon the diversification of the Maltese economy away from the fortress sector. The means used to achieve economic diversification have been based upon the establishment of manufacturing industries, and the implicit acceptance of a diffusionist approach to development. Malta has therefore opted to integrate herself into the world economy, despite the risks that this has involved.

The dangers associated with the adoption of a traditional diffusionist approach to development have been discussed briefly in Chapter One. In Chapter Two, the major hazards of diffusionist development were discussed in terms of dependency theory. Thus, a large part of the development problem was identified as being associated with the eradication of harmful symptoms of dependence. The use of dependency theory created some problems, due in part to the nature of the theory itself. Of particular importance is the fact that dependency theory is not a unified body of theory, and is in fact very diverse in nature. This led to the need for selectivity when dealing with the theory. Also of importance was the fact that the theory is of little practical use in empirical studies such as this. Finally, Malta's exceptional characteristics and history invalidated a large part of dependency theory.

The latter point is well illustrated by the fact that the smallness of Malta has strongly influenced both her dependence, and her means of coping with that dependence. Consequently, there has been a need for the careful adoption and adaption of a number of themes emanating from dependency theory. For example, given that Malta's development strategy has become strongly dependent upon the activities of overseas owned and controlled MNCs, many of the dependency themes adopted in the analyses to follow have been based upon the operations of the MNCs.

Of the many dependency themes to be pursued, one of the most important is dependence on the fortress sector. This has declined throughout the post-independence period. The associated loss of income and capital resulting from the decline of the fortress has led to a strong dependence on alternative sources of overseas capital for the post-independence economic diversification programme. Consequently, foreign ownership and control, especially in Maltese manufacturing industry, has been substantial. The manifestations of dependence in this context include the extent to which foreign ownership has dominated, and continues to dominate Maltese business. Of particular importance is the concentration of this dominance, both in terms of the nationalities of the foreign firms involved, and the specific economic activities that they dominate. Examples of measures used to examine this domination include the proportion of industrial output and employment, and share capital controlled by foreign interests.

Another major concern of this study is to examine the extent to which overseas interests such as the MNCs have distorted the Maltese economy. The should once again be measured by the concentration of capital, labour and output in certain economic sectors. Undue dependence on any one sector must be regarded as disturbing, as was the situation when the fortress sector dominated the economy. Also of extreme importance, especially in the case of manufacturing industry, is the extent to which the various activities of the economy are interlinked. Conventional thinking advocates the propagation of a well integrated economy bound together by networks of strong forward, backward and horizontal linkages. As has already been explained, the tendency of MNCs to divide their activities into separate staged production units reduces the likelihood of linkages with the local economies within which their branch plants are located. It is important to examine the extent to which this has occurred in Malta.

One of the most serious problems facing peripheral economies is the acquisition of overseas markets, and one of the advantages of the attraction of MNCs to such countries is the fact that they are often able to provide efficient marketing structures well beyond the means of indigenous enterprise. The penalties can, however, be serious. Such dominance can once again lead to unhealthy concentrations, both in the types of product exported by a country, and in the market destination countries to which the exports are sent. In Malta's case, British and E.E.C. market dominance are the major issues of interest, in conjunction with a marked dependence upon the export of clothing(especially denim) goods.

Of the other types of dependence to receive attention in the chapters to follow, technological dependence is of importance. Also of great significance in the Maltese case is cultural dependence, particularly with respect to the long and continuing British influence in the Islands. There are, in addition, a number of expected consequences of dependence that merit attention. These include potential alterations to indigenous social structures, and worsening income distributions, both of which are predicted by all forms of dependency theory. Other social and economic phenomena, such as fluctuations in unemployment, employment, female participation rates and emigration levels will also receive attention.

Using all these dependency themes, it will be possible at the end of this study to come to a conclusion concerning the nature and extent of Maltese dependence, and also the quality and permanence of Maltese development.

Next, however, is Section Two, which provides the vital historical background to Malta's development experiences, and which is especially important as it explains the origins of many of the more important sources of dependence. It is for exactly this reason that the first chapter concerns itself with pre-independence Malta, despite the stated temporal confines of this study.

SECTION TWO

INTRODUCTION TO SECTION TWO

This section consists of three historical chapters that provide essential background information drawn largely from the available literature on Malta. The first chapter (Chapter Six) is concerned with relevant pre-independence historical material. Of special concern in this chapter is the influence of changes in the geostrategic value of the Maltese Islands, and the corresponding effects upon the dominant fortress sector. Also covered are the demographic crisis that followed World War Two, the events leading up to independence, and the first development plan (1959-64) that was implemented by the British in the final years of colonial rule.

The remaining two chapters of the section are conceived around two distinct periods of post-independence government. Thus, Chapter Seven deals with the period of post-independence Nationalist Party government between 1964 and 1971, and Chapter Eight with the period of Malta Labour Party government that has persisted since 1971. The two periods of government in question were distinctive, and consequently, the various development strategies and published plans differ accordingly. However, the consequences of the two different phases of development appear to be surprisingly similar, indicating either that the rift between the two political parties is smaller than it appears on the surface, or that the development process in Malta has proved to be well beyond the control of either of the two types of government.

CHAPTER SIX: CRITICAL DEVELOPMENTS IN MALTA BEFORE INDEPENDENCE

6.1 The Anatomy of Colonial Rule

The Maltese Islands have a long history of foreign dominance, stemming from their valuable location at '...the navel of the Inland Sea...' (King 1979a, p.258). Thus, 'The position of the Maltese Islands astride the sea lanes of the central Mediterranean, coupled with the main island's superb natural harbours and a terrain favouring the defender, have long made these islands a coveted military possession, and during much of their history, a pawn in Mediterranean history' (Owen 1969, p.10). The government of Malta has therefore rarely been exclusively in the hands of the Maltese. A succession of invading powers, beginning with the Phoenecians and continuing with waves of Greeks, Carthaginians, Romans and Arabs established the pattern of foreign domination. There followed a period in which European dominance gathered momentum, and was consolidated by the ceding of the Islands to the Knights of the Order of St. John of Jerusalem, in 1522. The rule of the Knights was terminated by the arrival of Napoleon Bonaparte in 1798, and the French were in turn dispossessed by British forces, in conjunction with a rebellious Maltese population, in 1800.

Under British rule, Malta became a colony, and played a vital part in the growth of the British Empire. Lord Nelson wrote in 1803, 'I now declare that I consider Malta as a most important outwork to India, that it will give us great influence in the Levant, and indeed, all the southern parts of Italy' (Dale and Bartolo 1976, p.126). When Prime Minister in 1838, Wellington was also emphatic about the role of Malta, stating that, 'We hold it as an important post, as a great military and naval arsenal, and as nothing more.' (cited in Bowen-Jones et al. 1960, p. 119). Thus, Malta developed into an important naval base, and dockyard wages became increasingly important to the domestic economy. In consequence, the maintenance of the fortress produced a steady flow of income for the Maltese Islands, compensating for the considerable lack of indigenous resources, and permitting the growth and sustenance of a large population. According to King (1979a, p.258), this resulted in the British Empire becoming '...a benevolent employment exchange for the Maltese.'

The enhanced reliance on the armed services in occupation caused an increasingly serious distortion of the economy, reflected in 1836 by the growth in the value of imports to double that of exports[1] (Dale and Bartolo 1976). The entrepôt trade that had developed, especially during the Napoleonic Wars, dwindled, and cotton growing and manufacturing, Malta's leading industry in the Nineteenth Century, was thrown into recession. It has been claimed that the British actively discouraged the growth of private industry for fear that it would take away skilled Maltese labour from the dockyards and military services (Grech 1978 and King 1979a). However, evidence provided by Bowen-Jones _et al._ (1960) suggests that, although the cotton industry may have employed as many as 9,000 persons in 1861, well over 90% of these employees were female, and therefore unlikely to be employable in the dockyards. Competition from the dockyards for skilled labour was therefore unlikely to be the major cause of the demise of the industry, which was so well integrated that it included a full range of activities, from cotton growing to cloth manufacture. The major damage was probably perpetrated by cheap cotton imports from Great Britain. As a result of the decline of the cotton industry in particular, the proportion of economically active population engaged in manufacturing industry fell from 25% in 1851 to

1. By 1918, exports covered only 10% of import costs, and by 1956, only 5% (Bowen-Jones _et al._ 1960).

12½% in 1948. Simultaneously, land was abandoned, employment in agriculture fell, and the only sector to gain significantly (outside the military) was 'Commerce and the Professions' (Balogh and Seers 1955). The Maltese economy therefore became so dependent upon the British armed services that the Islands prospered in times of war, and slumped noticeably in times of peace (Grech 1978).

In the latter half of the Nineteenth Century, the once buoyant ship-building industry, which constituted the only other major manufacturing activity on the Islands, was also seriously affected by uncompetitiveness, brought about by the introduction of larger iron hull boats from British yards (Dale and Bartolo 1976). Inevitably, Malta became even more dependent upon the British military services. Despite the opening of the Suez Canal in 1869, and the subsequent boost to some civil port activities in Malta, the Canal enhanced still further the military orientation of the Islands' economy. Malta became a vital coaling station, the Islands acting as '...an important stepping stone between Europe and Africa, half-way between Gibraltar and Suez'(King 1978a) (see Figure 6.1), and also a vital base on routes to East Africa, India, Australasia and the Far East. Meanwhile, any boom in civil port activity induced by the Suez Canal was reduced as a result of the increasing lengths of voyage possible in the new merchant ships, which no longer needed to stop in Malta. Shipping tonnages cleared in the Grand Harbour fell from 5.5 million tons in 1891 to only 3 million tons in 1894 (Bowen-Jones *et al.* 1960). Thus, dependence on British interest in the Island's strategic value seemed to become its corner-stone for all time (Busutill 1969).

It is significant that, as early as May 1912, a Royal Commission working from its own research and the 1911 census of Malta, declared

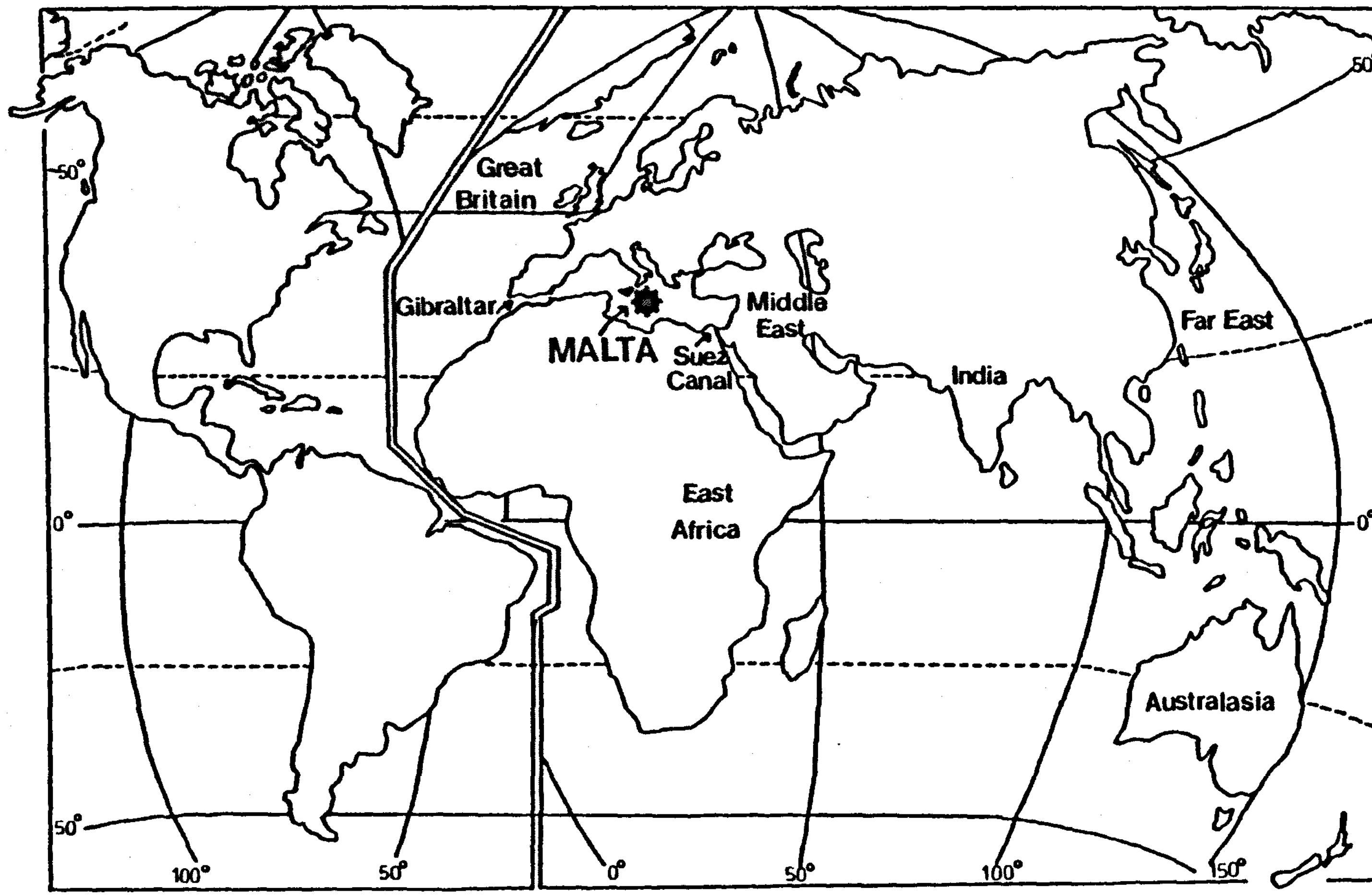

Figure 6.1 Geostrategic Situation

the Maltese economy to be precarious, and entirely dependent upon the British presence. It observed that a sudden withdrawal of the British fleet would reduce a large proportion of the population to idleness and starvation (HMSO 1912). Nevertheless, the findings of the Commission were not pursued, and there followed cyclical phases of prosperity and depression induced by fluctuations in military activity. This point is well illustrated by data provided by Bowen-Jones et al. (1960) on shipping tonnages cleared by the Maltese harbours, which show clearly that periods of boom correspond closely with surges in British military activity. The period around World War One was inflationary and unstable. The military base had once more proved to be useful against the Turks. However, peacetime heralded declining fortunes, culminating in riots in June 1919, which were related to the sudden dismissal, after the cessation of hostilities in 1918, of 15,000 dockworkers. The disturbances induced the provision of some direct financial aid by the British in 1920. With the new funds, feeble attempts were made to diversify the economy by the encouragement of small industry, and the establishment of a Tourist Bureau in 1924 (Dale and Bartolo 1976).

Efforts at economic development and diversification were severely hampered by the Great Depression, but from 1934, re-armament generated prosperity in the Islands. Once again, the emphasis returned to the service of the British military installations and personnel. During World War Two, employment in the naval dockyards reached its peak of over 12,000 (King 1978a)[1], as did Malta's strategic importance to Great Britain. Malta played a decisive role in the Allies' eventual successes in

1. In March 1957, the dockyards still employed 12,572 workers (Bowen-Jones 1960).

North Africa and Italy. However, the damage and suffering inflicted upon the Islands was enormous. During June 1942, for example, Malta was, each day, the involuntary recipient of more German bombs than were dropped on Coventry during the day of the Coventry Blitz (Ramsay 1975). Following the cessation of hostilities, the British Government established a war damage fund of £30 million to be used for the repair of the Islands. Although the grant was comparatively generous, considerable damage is still evident, and until recently, it was estimated that over half the scarce piped water supply was lost due to the bomb damaged distribution system (Camilleri 1978).

Despite the injections of capital emanating from the war damage fund, little economic diversification occurred in the immediate post war years. Such was the distortion of the economy that, by the 1950s, the British forces were still responsible for 25% of the total local employment, over 40% of the income from employment, and 60% of the country's foreign exchange earnings (Jones, H. 1971a). Furthermore, a new crisis was facing the economy, stemming from extremely rapid population growth. It became increasingly clear that the problem of unemployment was going to be enormous, and far more than the maintenance of the military services could absorb. It was factors such as these that caused the late 1950s to evolve into yet another critical phase in Maltese history.

One of the major issues to emerge during the 1950s was that of 'Integration' with Great Britain. Although Malta was, in 1921, the first British colony to receive formal self-government (Frendo 1979), full independence from Great Britain was not seen unanimously as a logical advancement. It was felt by many people, both in Malta and Great Britain, that the Maltese Islands were too small to constitute a viable independent nation state, and also that the close links that had developed between the Colony and its colonists were sufficiently strong to merit integration. In Malta, the pro-integration debate was championed by Dom Mintoff, the leader of the Malta Labour Party (MLP).[1]

At the Malta Round Table Conference in 1955 (which was convened to discuss Integration), considerable emphasis was placed upon, 'The traditions which Malta has chosen to share with us (Britain). She voluntarily came under the British crown 150 years ago, and continued to accept, with the prestige and material benefits of being a stronghold in the Mediterranean, the difficulties of being an island fortress economy' (HMSO 1955, p.3). Clearly, therefore, many people, both in Malta and Great Britain, felt that the continuation of this relationship on a more formal basis was desirable. Thus, to many Maltese, the concept of complete dependence upon Great Britain, and more specifically, upon the one industry of defence, seemed to be highly desirable.

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1. Mr. Mintoff has led his party to victory at every general election in Malta since his victory in 1971.

The apparent acceptance of the integration proposals by the British was exceptional, particularly because they ran quite contrary to the contemporary movement of colonial policy (Austin 1971). They were, in fact, far more consistent with the colonial policies of France, whose habit it was to turn her small colonies into 'Départments' of France itself. The Maltese plan was that the islands should be represented at Westminster by three M.P.s, two representing Malta, and one for Gozo and Comino. In effect, it was felt that representation at the centre (Westminster) would lead to greater autonomy and security at home, and that such a formalised link would guarantee the diffusion of long term material benefits to Malta from the mother country.

A full account of the unpleasant consequences of the integration debate is not necessary here. In brief, a referendum on the issue produced an ambiguous result, and whilst the arguments raged, the demotion of Malta's strategic status within the British and NATO defence policy was announced (HMSO 1957). It was realised by the MLP that the relegation of Malta by Duncan Sandys' Defence White Paper to 'auxiliary base status' heralded the beginning of a period in which new forms of income were desperately required to replace an ailing fortress sector. All the major political Parties therefore favoured independence, but the violent disagreements that occurred between them, and the widespread anger at the defence cuts themselves, led to civil disturbances, the supression of indigenous government, and the imposition of direct rule from Westminster in 1959. Political instability during this period was enhanced by the fact that the Church, always a strong political force in Malta, was being squeezed out of Maltese politics by the competing political Parties (see Plates 6.1 and 6.2). The crown colony administration lasted until 1962, when a new constitution and general elections heralded the apparent return

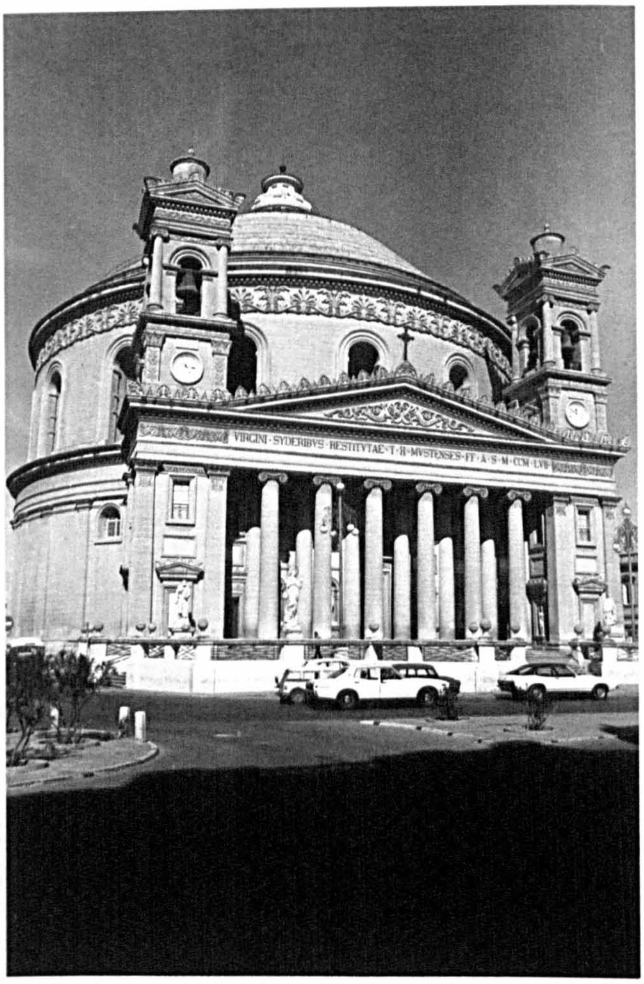

PLATE 6.1 Mosta Church, Malta. This church is one of the largest and most beautiful in The Maltese Islands, and symbolises the power of the Maltese Roman Catholic Church. In the years before independence in 1964, the Church was the major internal political force in the Islands, and acted, in effect, as the major medium of local government.

PLATE 6.2 The New Church at Birkirkara, Malta. Since independence, the Church has been squeezed out of Maltese politics. Consequently, governments of both Parties have conflicted with the Church. This particular church was much criticised as it was felt by the Government that the personal donations made to finance its construction could have been better employed if invested in the Economy.

of democracy (Pirotta 1977).

Although the defence cuts were logical, there is no doubt that the manner in which they were publicised and put into practice in Malta was both ill-advised and insensitive. In particular, the defence cuts helped to worsen an already disturbing political situation in the Islands. Thus, Blouet (1964, p.71) commented that, 'The difficulties attending the drafting of a constitution for Malta would suggest that internal political dissent is the greatest problem associated with independence for the Island.' The same internal political tensions and divisions persist today, and currently constitute the single most serious threat to further development.

Despite the serious political tensions that emerged at the end of the colonial era, Malta showed many external symptoms of economic and social health at independence in 1964. Thus, Abela (1962) was able to observe that colonial rule had not prevented the evolution of free compulsory education, free secondary education, free medicine, old age pensions, and a national insurance scheme. The education standards in particular were remarkably high, both in the field of school subjects and professional qualifications, such as medicine. Examinations were closely linked to the British system[1], as a result of which English had become the official language. It was only following independence that the Maltese language was properly taught in school. Despite the controversy surrounding the language issue, the bilingual abilities of most Maltese have definitely become a national asset. Meanwhile, high education

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1. 'O' levels and 'A' levels, as well as more specialised subjects related to the professions, involved the use of British examinations, and the assessment of candidates' answers by British markers. Today, many British examinations are still entered by Maltese citizens.

standards in Malta were complemented by a comparatively high standard of living, vastly superior to that of neighbouring Sicily (Cox 1963). 'The widespread possession of refrigerators and television sets, the conspicuous absence of the under-nourished and the crippled, the farmers' mechanical aids and trucks, and the wealth lavished on parish churches, patron saints and pyrotechnics on feast days are all further indications' (Young 1963, p.264).

Another feature of Maltese society was the care with which individuals spent their surprisingly high incomes, and their extraordinarily high propensity to save (Metwally 1977). This tended to lead to a situation in which the local economy was unable to utilise fully the available and plentiful capital. This was not only symptomatic of the restricted nature of the economy, but was also a feature of Malta's extreme financial dependence on Britain. Abela (1962) observed that both local residents and banks in particular were prone to invest their assets abroad, particularly in Britain, and often in gilt edged securities. 'Strong connections of local banks with London's "agents" increase the influence of British banking on the outlook and policy of Maltese banks, and encourage the banks to retain their liquid assets with the London money markets and to invest surplus funds on the London security market' (Abela 1963, p.10). Even more disturbing was the fact that this tendency continued long after independence. Furthermore, the inability of the Maltese to utilise locally the available capital was well illustrated by the first development plan (1959-64) which, especially in the tourism and manufacturing sectors, failed miserably to consume much of its meagre capital allocation (see section 6.4 of this chapter).

Given the many disturbing features of Malta's economy at independence in 1964, and considering the extremely small size of the emerging nation state, many British observers suggested that Malta would not survive long as an independent country. Faced with her rapidly declining value as a strategic base for Britain and NATO (see section 6.2), and an economy that had failed to respond to the overtures of a five year development plan, it was suggested that the maintenance of Malta's prosperity would be impossible under her changed circumstances. Thus, Cox (1963, p.265) claimed that, 'It is impossible to pretend that the Island can make ends meet without continued British aid...', and proceded to state that Malta's '...high standard of life was on the verge of catastrophe.'

6.2 The Geostrategic Value of Malta

Malta's domestic history illustrates the immense importance of her strategic position within the Mediterranean. She has, as a result, played a vital role in the shaping of Mediterranean and European history, and in the twentieth century played a crucial role on a global scale during World War Two. Malta's dependence upon her military potential has been strong enough to dictate the fortunes of her economy, to the extent that war has brought greater levels of prosperity to the islands than peace. Such has been the dependence of the Maltese Islands upon warfare that, in recent decades, it has been the changing technology of wars that has been one of the greatest influences upon the Maltese economy. The embarrassment of Suez in 1956 heralded the beginning of the end of the British base, and it was significant that part of the Suez operation was carried out from Malta (Busuttil 1969). However, much more important was the launch of the first space module by the USSR in 1957, a development which signified the beginning of the missile era.

In a general context, the development of warfare can be conveniently divided into four phases, the first of which - land based warfare- did not affect Malta significantly. However, the second phase was one in which sea travel and sea warfare began to dominate. Thus, from the Roman period onwards, well into the period of British domination, Malta became inextricably entwined within many European and North African conflicts. During the British era, sea power became the key to global influence, and was crucial to the extension, protection and trade of the British Empire. The third phase of warfare is technologically more complex, but can be linked to the aircraft, the development of which (between 1914 and 1960) dominated many wars. The potency of air power increased still further the need for secure overseas bases such as Malta, and the complex operational requirements of airforce maintenance often required labour intensive activity. Simulataneously, the development of the submarine added to Malta's naval base, and encouraged the British to invest even more heavily in the fortress. It was during this period of Malta's history that the fortress became most dominant. The Maltese lost all control of their tiny local resources (Pirotta 1977), and by 1946, 29.9% of the economically active population was employed by the fortress. In the same year, the wages and salaries from the fortress amounted to 44.3% of the total national wages bill (Pirotta1977, p.27-30).

The fourth phase of warfare is one dominated by nuclear missiles. The development of inter-continental ballistic missiles (ICBMs) in addition to long range bomber aircraft, and the more sinister later generations of missiles (such as the MIRVs), has put a completely new complexion on global geostrategy. Thus, East and Prescott (1973, p.67) observed that, 'These new military techniques mean that the need for foreign bases has been reduced, and that the strategic importance of some island locations, such as Malta and Sri Lanka, has been sharply reduced.' Thus, by 1964, seven years after the beginning of the rundown, the British base accounted for only 13.6% of total employment, and 23.0% of total wages and salaries (Pirotta 1977, p.27-30).

In geopolitical terms, Malta's great value throughout recent history may be seen in the context of the containment or expansion of empires. During the Great Seige of 1565, in which the Turks attempted to gain control of the Islands, Malta was seen as an outpost of Christian civilisation, desperately trying to hold back the conquering hoards of Islam. Once again, during world war two, Malta played a crucial part in the containment of Fascism. In contrast, during the 164 years of British occupation, Malta was used as a military base for imperial expansion in the Middle East, the Far East and Africa.

At the beginning of the twentieth century, 'containment' became associated with the general concern over the potential power base of the 'Eurasian Heartland Power'. Fuelled by the thoughts of Mackinder (1904), many strategists held the view that the power controlling the Eurasian Heartland or 'Pivot Area' was in a position of potential world domination. It was therefore seen as vital that the powers controlling the surrounding 'inner' or 'marginal crescent' countries contained any attempted expansion by the heartland power. Several other geopolitical writers have adopted and developed these ideas, including Spykman (1944) and Meinig (1956), in whose time, the threatening heartland power had been firmly interpreted as the Soviet Union. More significant was the concept of 'shatterbelts' between the opposing superpowers (Cohen 1963), whose constituent states' allegiances could swing back and forth between the superpowers. The influence of this type of geopolitical theory upon strategic thinking amongst the Western powers has been crucial, and was for some years after world war two, responsible for the great importance of Malta in Western 'defence' strategy. Malta was therefore seen as a base vital to the Western control of the Middle Eastern shatterbelt zone.

The arrival of the missile era provided a stern challenge to the traditional concepts of territorial defensibility fostered during the years of the British Empire. Despite the apparent certainty with which resources were withdrawn from overseas bases such as Malta, there remained a lingering doubt concerning the superpower's willingness to use their nuclear weapons. Consequently, uncertainty prevailed over the continued importance of conventional weapons, warfare and overseas bases. As will be shown in Chapter Eight, it was generally accepted that the maintenance of a British presence on Malta was too costly to the British exchequer. However, the major puzzle to emerge was inherently negative in nature, but nevertheless of vital importance. The Western Alliance was unable to assess the financial savings gained from a withdrawal from Malta against the risk of the excellent military facilities being offered by an embittered Maltese government to the Soviet Union, or even the People's Republic of China.

6.3 The Demographic Crisis

Rapid population growth has, for most of this century, been seen as one of the most serious problems facing the Maltese Islands. One of the reasons for this is the small physical size of the islands (316 square kilometers), which has helped maximise awareness of population pressure. High birth rates in the islands have generally been attributed to the strong support of the Roman Catholic Church, which actively encouraged large families, and opposed birth control. Thus, the 1948 census shows that over 25% of completed families in Malta in that year had more than 10 children. The high levels of fertility and natural increase in the population were also attributable to the early age of marriage in Malta (King 1979b).

Emigration has traditionally been seen as the solution to Malta's population problems. Malta's first major phase of emigration occurred in 1907 following the end of a dock construction boom (Jones 1973a). The formation of a voluntary body known as the 'Malta Emigration Committee' impressed the Royal Commission of 1912, which proceeded to support the concept of systematic emigration. Several years later, as a consequence of a post war depression, emigration increased dramatically, and between 1918 and 1920, 10,000 emigrants left Malta (Jones 1973a). Their departure was assisted by the establishment of an Emigration Office in 1919.

Malta's greatest period of emigration occurred during the immediate post-World War Two years (see Figure 6.2). By December 1946, 12,000 people had registered for emigration, a figure that would have been larger were it not for the rigours of reconstruction. By March 1949, the figure had risen to 42,000, and had been boosted by the introduction of the 'Assisted Package Scheme' in which 75% of the cost of each migrants' passage was paid for by the Emigration Office. In 1951, with emigration in full flow, it was assumed that 250,000 people constituted the optimum population level of the Islands (King 1979b). Thus, continued rapid emigration resulted in the departure of over 100,000 persons, of whom approximately 58% went to Australia, 22% to Great Britain, 13% to Canada, and 7% to the USA (King 1979).

Such was the success of the assisted package scheme that Malta can now boast of achieving the highest post-war emigration rate in Europe. Opinions are divided as to the wisdom of the policy. King (1979b) and Grech (1978) suggest that by 1950, a 'skill drain' was already becoming

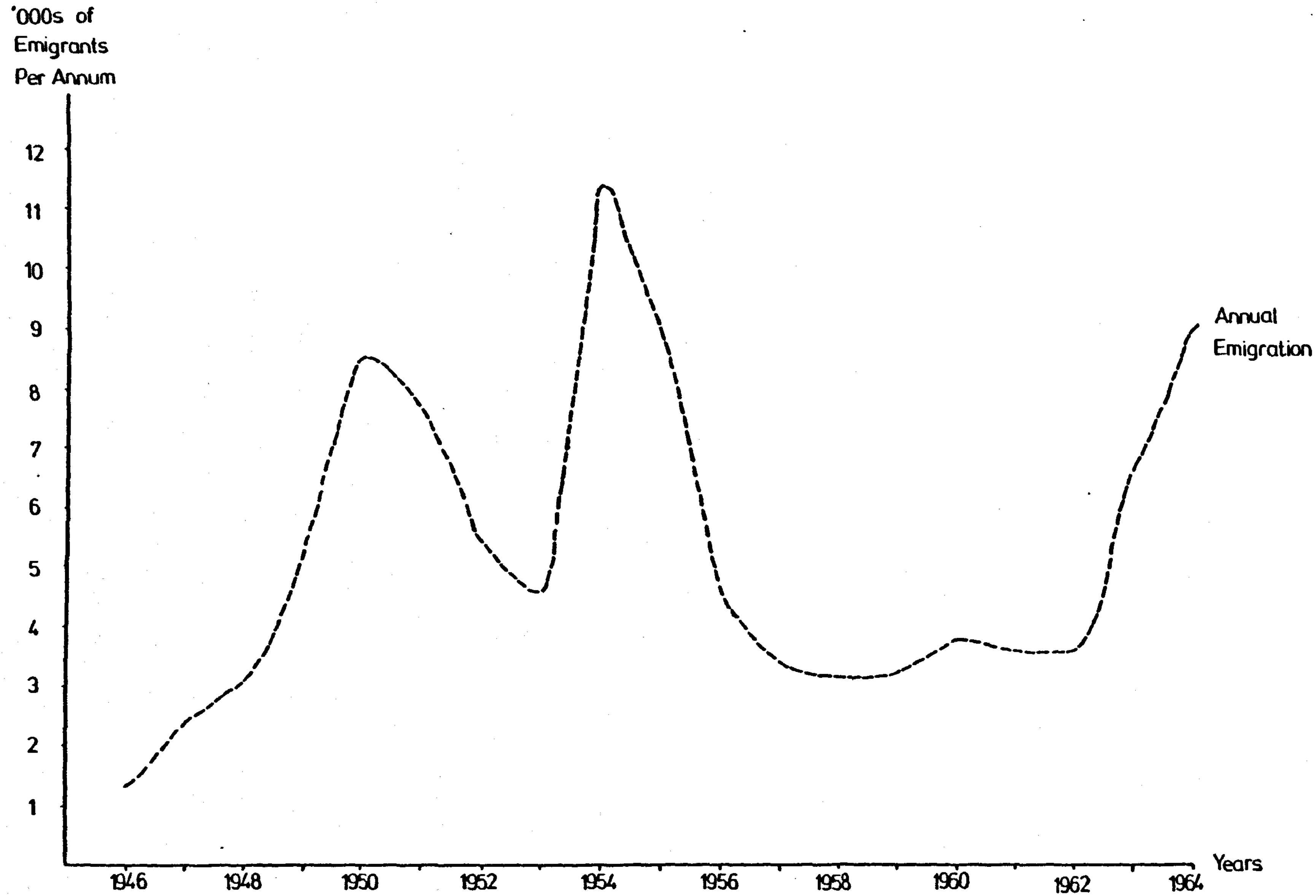

Figure 6.2 Annual Emigration 1946-64

Source: Central Office of Statistics (1967) apparent. Alternatively, Camilleri (1974) has calculated that had no emigration occurred, the 1970 population of Malta would have been approximately 420,000, compared with the actual figure of 322,187 (Central Office of Statistics 1970-71). In addition, he suggested that unemployment would have been a possible 22%, as compared with 4.7% in 1970 (Central Bank of Malta, 1983). In contrast, Grech (1978, p.7) argues that Malta '...lost a large proportion of the human capital it had invested in when many of the skilled left for better outlets.' This view is compatible with those of Collins (1967, p179) , who hinted that one of the <u>less</u> desirable alternatives facing Malta in 1957 following the announcement of the defence cuts was to encourage further emigration as this would risk, '...converting the archipelago into a nation of old age pensioners, unmarried women, priests and goats.'

It is important to stress that Maltese migration was intended to be permanent and global in nature, features that distinguish it from other European migration patterns. Thus, whilst it is possible to identify strong and potentially negative dependency links associated with, for example, Turkish, North African, Iberian, Yugoslav and Italian temporary migration flows to and from Western European countries, Maltese migration flows are markedly different in character. Dependency strands in Maltese migration may be identified as those linking the programme with Great Britain and the British Commonwealth as a whole. However, despite the importance of remittances, the consequences of Maltese migration seem to have been far less culturally, socially and financially traumatic. This is well illustrated by the effects of recessionary conditions in Western Europe which have helped enhance the insecurity, and increase the expulsions of many migrant workers in Europe. In addition, comparatively small cultural differences between Maltese people and those of their destination countries, and their knowledge of the English language, have permitted less traumatic settlement for most Maltese migrants. Jones (1973a) observed that Maltese migrants have been well received in Commonwealth countries and in Great Britain, not only because of their use of the English language, but also because of the colour of their skin, Britain's guilt over the gravity of the defence cuts, and the excellent system established by the emigration administration that found them work.

Although the major feature and advantage of Maltese migration has been its permanence, there is substantial evidence to suggest that Maltese sources have seriously overestimated the effects of the migration programme (King 1979c). The reason for this is that, until 1975, the Maltese authorities failed to measure the flow of return migrants. King (1979b) suggests that as many as 30% of migrants in the decades after the war may have returned to Malta. This figure is substantially less than has been the case in other European source countries, but nevertheless represents a large proportion of the migrant flow. Many returnees came back to Malta in the knowledge that regulations existed preventing them from gaining employment or claiming social security benefits. Many also returned with substantial capital after many prosperous years overseas. The returnees have helped to establish firm links between the Maltese Islands and their receiver countries, particularly Australia. Thus, the main distinction between Maltese and other European flows of returnee migrants is the fact that the Maltese returned voluntarily, whilst other migrants were expelled from their adopted countries.

Since independence, with the exception of a few bursts of emigration, the number of Maltese leaving the Islands has fallen. This may be attributed both to improved conditions and prospects in the Maltese

Islands themselves, a huge reduction in Maltese population growth, and most important, adverse economic circumstances and restricted migration opportunities in the four major receiver countries. Furthermore, the recessionary conditions prevalent within the world economy have also helped to increase the flow of return migrants, so that since 1975, the numbers of return migrants have each year exceeded the numbers leaving the Islands. This situation represents a serious problem, especially to governments intent upon stemming rapid increases in local unemployment.

6.4 The First Development Plan (1959-64)

In 1959, the British authorities reacted to the serious crisis by helping to devise and fund the first of several development plans, known as , 'Development Plan for The Maltese Islands 1959/64' (Office of the Prime Minister 1959). It was hoped that the plan would provide an effective basis for the economic diversification of the economy, and with the assistance of assisted emigration, pave the way for a stable transition towards independence in 1964. The plan document itself was explicit concerning Malta's changed circumstances. It declared, 'Economic, and with it political, policy must be based on the knowledge that the secure standard of livelihood based on service expenditure is sooner or later certain to be lost' (Office of the Prime Minister 1959, p.2). When commenting on the available choice of policy, the Plan was emphatic....

> 'There is, in fact, no real choice. The only practical course is to direct every effort, of investment, administrative measures and legal machinery, and of the skills of the people, towards the achievements of a self-supporting and viable economy which will, of itself, sustain and in due course improve the living standards now attained. It is often asserted in Malta that there is another possibility, that Her Majesty's Government or some other Government will provide as a free gift, without any strings, the money needed to maintain Malta's living standards, in short, that a permanently subsidised nation is a practical proposition. This

> demoralising aim is clearly not within the bounds of possibility, and cannot seriously be entertained as a possible aim of conscious policy.'
>
> 'The aim of economic and political policy must, therefore, be to make a considerable diversification of the economy in the next few years, the shock of the change being cushioned by the still continuing and substantial, though declining, service spending' (Office of the Prime Minister 1959, p.2)

Two of the Plan's more specific and important aims were therefore to establish full employment, and to maintain (and not increase) living standards. In order to do this, its priorities were the conversion of the dockyards to civilian use, the development of manufacturing industry, and the development of tourism. Total capital expenditure was projected as £32.25 million, £29 million of which was to be provided by the British exchequeur. Of the latter, £19 million was in the form of a grant from Colonial Development and Welfare Sources (Office of the Prime Minister 1959). Much of the remainder was comprised of loans from the British Government. Meanwhile, it was intended that, during the period of the plan, emigration should continue to be encouraged as the projected employment generation was estimated as only 7,500 new jobs.

Much of the projected capital expenditure was to be used on infrastructural projects already initiated by the colonial administration. However, £16.25 million was allocated to 'new spending'. Only £3 million of this was allocated for industrial development, despite the strong verbal emphasis on industrialisation in the plan. £6 million was set aside for the conversion of the dockyards to civil use, whilst an extremely meagre £0.5 million was allocated to tourism. The size of the grant allocations shows that the conversion of the dockyards was seen as crucial to Malta's future development. The British shipbuilders 'Baileys' were contracted to carry out the conversion, but after considerable controversy and delay, the contract was eventually switched to the Tyneside firm of

Swan Hunter (King 1978a).

Central to the planned industrialisation was an industrial attraction policy. The policy was clearly based upon the same economic assumptions as those of British regional policy, and was heavily diffusionist in its approach. It was considered vital that overseas investors and entrepreneurs be attracted to the Islands. In this way, it was hoped that overseas companies could act as central stimuli from which further new industrial and general economic activity could emanate. The major incentives provided for overseas enterprise included corporation tax relief (tax holidays), relief from customs duties, the provision of grants and loans for new companies, and the provision of fully serviced industrial sites and factories (Buttigieg 1975).

It is perhaps surprising, particularly in the context of more recent development experiences, that the Maltese were unable to utilize a large proportion of the capital set aside for the plan period. However, as has already been explained, Malta's traditional investment practices had for many years been oriented towards investment overseas, usually in the British money markets. In addition, the embryonic nature of the economy led to a failure to provide sufficient numbers of viable projects requiring finance. Thus, by 1964, the plan had been able to generate only 1,800 jobs (Jones 1971a), a figure far below that of the plan target of 7,500 jobs, and extremely disappointing given the further substantial job losses in the fortress sector.

Although in many respects the plan failed to achieve its ambitious targets, it must be said that there were achievements in not directly productive, but nevertheless important fields. Most significant were the vital infrastructural projects , such as the Marsa industrial estate. These advances were vital to the successes of subsequent Plans. Busuttil (1970, p.68) summarised the Plan's industrial achievements as follows. 'It must be remembered that Malta's industrial programme, dating from 1959, was introduced at a time of considerable uncertainty about Malta's future and with the Islands' ability to serve as a location for export-oriented industries unproven. Little was known of the problems of attracting and establishing new industries.' He concluded that it was clear that '...the package seems to have been drawn fairly heavily on experiences in the Development Areas of the U.K., particularly Northern Ireland.'

In conclusion, it seems that although the first development plan failed to achieve many of its goals, including reduced unemployment levels and broad economic diversification, it laid the foundations for future development, particularly as a result of infrastructural improvements. But, rather than attempting to fully solve the domestic social and economic problems caused by the rundown of the fortress, the planners chose the easy (and traditional) option of encouraging emigration. Simultaneously, they attempted (and failed) to prevent further cuts in the fortress sector. However, perhaps the most important feature of the Plan was the fact that several of its major constituents, including its industrial attraction policies, were to survive in almost exactly the same format in subsequent Plans (see Chapter Seven).

CHAPTER SEVEN: OPEN ECONOMIC DEVELOPMENT - POST-INDEPENDENCE NATIONALIST PARTY ADMINISTRATIONS 1964 - 1971

7.1 Introduction

The task facing the second five year development plan (1964-69) seemed initially to be more daunting than that which had faced its predecessor in 1959. The first plan had failed to achieve most of its projected aims, and both unemployment and emigration had by 1964-5 reached new peaks (see Figure 7.1). A mood of pessimism therefore hung over the independence ceremonies. It was observed that, in the 43 years that had elapsed between the provision of self-government and independence, remarkably little had been achieved in the way of preparation for full independence. Consequently, C. B. Jones (1964, p.100) concluded that, 'The tragedy of the Island's plunge into independence at this stage is that it comes at a time when the Island has not been prepared to meet such eventuality.'

By independence, it had also become clear that political problems were already a serious potential threat to the stability of the new nation state. Thus, Austin (1967, p.93) commented that, 'The misery of a large and growing unemployed section of the population, primarily in the most explosive centre of the Islands' political life - the dockyards in the Three Cities and Valletta - presents a serious problem to government both in the short and the long term.' Under these circumstances, the second development plan was conceived merely as a holding operation (Jones, H. 1971a) in which the primary objectives were to prevent the further lowering of living standards and increases in unemployment during the period of continued British forces withdrawal. Above all, it was seen as vital that further socio-economic decay be prevented, thereby reducing the chances of debilitating political instability.

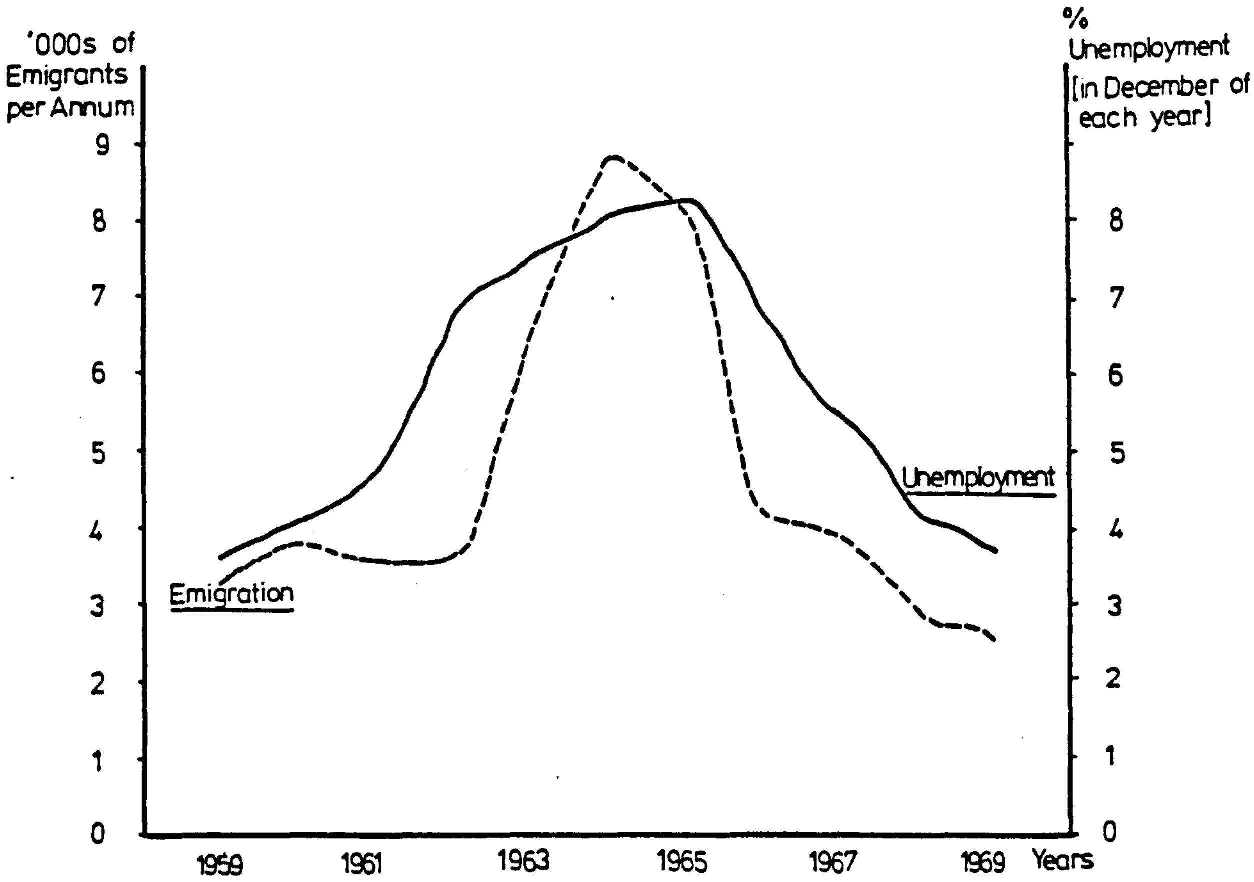

Figure 7.1 Emigration and Unemployment 1959-69 Source: Central Bank of Malta (1979) Department of Information (1978)

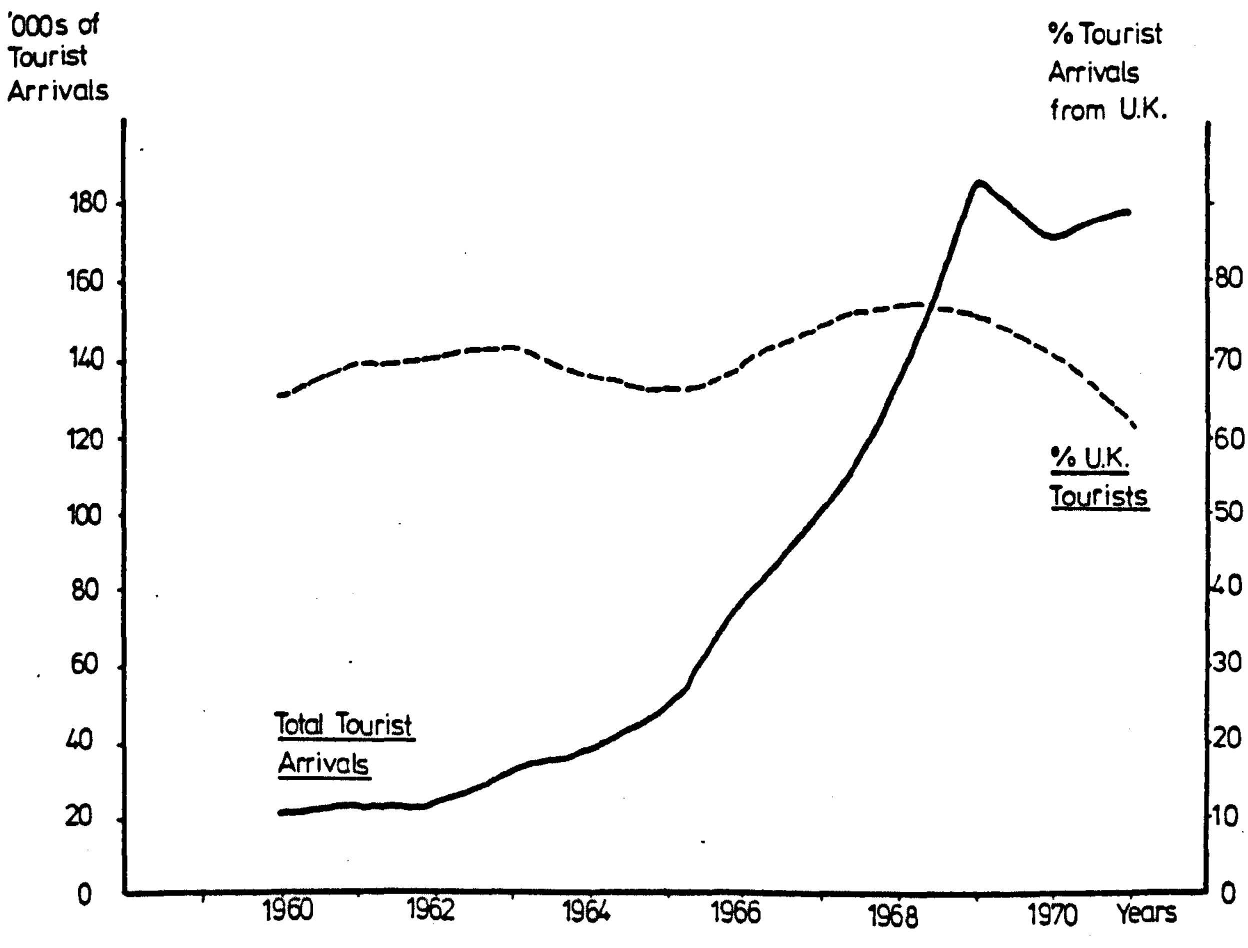

Figure 7.2 Tourist Arrivals 1960-71 Source: Central Bank of Malta (1979)

One of the first significant observations of the second Plan was the long term nature of Malta's development problem, which it claimed was only soluble in the context of a series of further five year development plans. It was assumed that, on the basis of advice provided by United Nations experts, 'ultimate viability' would not be achieved before 15 - 25 years of economic planning had been sustained. The 'open' nature of the prescribed development strategy, and its inherent diffusionist tone is well illustrated by the Plan's statement that, 'During this period Malta will require outside help in terms of know-how, grants and loans to achieve the required economic transformation' (Office of the Prime Minister 1964, p.1). This illustrates particularly well that the Maltese government's interpretation of development at that stage remained confined mostly to economic targets.

Further evidence of the second Plan's strongly diffusionist complexion was provided by the statement that, '...outside help will be essential until the economy reaches the "take-off" stage of development, when endogenous forces will be expected to support growth and lead the economy to eventual maturity'(Office of the Prime Minister 1964, p.1). The strong influence of Rostowian theory is easily detectable, as is the implicit assumption that Malta's path to development could be compared with that of most developed or developing countries. However, as King (1979a) correctly asserted, the Maltese development problem has never been one comparable with the Third World development problem. Thus, the Maltese Islands did not have to develop from a low standard of living, or low levels of formal activity. This point is best illustrated by comparing Malta's economic development problem with a traditional model of economic development such as Clark's (1951). Clark implied that the process of economic development involves the transition of an economy from a situation in which primary production (eg Agricultural production) dominates, through a phase in which secondary activity (manufacturing industry) becomes predominant, into a mature and relatively stable condition in which tertiary (service) activities become widespread. Malta's problem clearly does not fit into this scheme because she was not developing from a position of agricultural or primary sector dominance. Indeed, Malta was faced with the reverse of the Clark model. In 1964, there persisted a relatively high standard of living, but a rapidly declining tertiary sector based upon the service of the British fortress. The desired diversification strategy was one which, in particular, sought to revive and recreate manufacturing industry (a secondary sector), thereby putting the Clark scheme into reverse. The second development plan was therefore not so much concerned with 'take-off' as with the prevention of a disastrous crash landing by the Maltese economy.

7.2 The Second Five-Year Development Plan 1964 - 1969

The paragraph below was contained within the second development plan, and indicates the fact that the government was fully aware of the precarious position of the Maltese Islands at independence in 1964.

> 'It is manifest that the second five year plan must budget for a higher capital expenditure than was attained by its predecessor. The Defence White Paper has intimated that Malta will be reduced to a forward operating base. This implies that the annual service expenditure will be reduced by some £10 million by 1967. The consequences of this rundown have been assessed by a joint study group composed of United Kingdom and Maltese officials. The study group concluded that if no remedial measures were taken by 1967, unemployment would reach about 20,000 on fairly favourable assumptions and 29,000 under less favourable assumptions, National Income would drop by 15%, whilst government revenues would suffer substantial reductions' (Office of the Prime Minister 1964, p.2).

The second Plan was itself not only based upon the findings of the study group mentioned above, but was also dependent upon the advice provided by a United Nations Mission which carried out research in Malta in 1963. Among the more notable recommendations of the Mission was the advice that the Government should establish a Central Bank and a Development Corporation. In addition, it was suggested that emigration be sustained at a level of 10,000 persons per annum. The latter figure was eventually considered too great by the Government, which, on the advice of the Robens Report (Robens 1967), settled for 7,500 as a more realistic and satisfactory figure. Meanwhile, the Central Bank of Malta was formed in 1968, whilst the Malta Development Corporation (MDC) also formally came into being in 1968, replacing and improving upon 'The Aids to Industries Board'.

A strong preoccupation with the population problem is apparent throughout the text of the second development plan. Over-population was assumed to be an anti-development factor (Office of the Prime Minister 1964, p.5), and the plan emphatically stated that Malta could not afford to sustain further population growth in the plan period. However, it also recognised the various problems associated with emigration, particularly its sex and age selective nature, and the influence this has upon population age and sex structures. It is significant that the problem of sex structure was recognised in the plan, which perceived that a rise in female activity rates was inevitable, both because of the changing sex structure, and social pressure. Thus, the female activity rate of 18.2% in 1964 was projected to increase to 20.0% by 1969. Despite such considerations, the Plan considerably underestimated the role female labour was to play in the development process.

As was the case with the first development plan, economic diversification was to be achieved in three major sectors - the dockyards, the manufacturing secor, and tourism. However, the most important of these sectors, that of manufacturing industry, was to be altered substantially on the basis of the experiences of the first plan. In particular, much dissatisfaction was evident concerning industrial attraction policies, which were in the second plan destined to become more selective. The first plan's policy had proved to be both too generous and too indiscriminate, as was shown by the notorious Rambler Cars venture. The plant was meant to assemble cars for the North African and Middle East markets, but assembled only 200 cars before closing (Cox 1963). The second plan visualised increased selectivity being achieved through the curtailment of grants and the introduction of a scheme of interest free loans to ensure the attraction of more efficient and committed enterprise. It also hoped to encourage more local investment, and extolled the virtues of joint (overseas and local) investment enterprise. There was, however, no mention of a state sector comprised of profit-seeking parastatal enterprise, all the burden of development at this stage remaining upon the shoulders of the private sector. Furthermore, despite the above intentions, grants to overseas industrialists remained numerous, and attraction indiscriminate.

The development of tourism, which had been negligible during the first plan was to be more substantial in the second. A comprehensive scheme involving grants and loans to new hotels, loans to old hotels, and further assistance to beach establishments, catering projects and a yacht centre was conceived. In addition, advertising, publicity and promotion was seen as essential for market acquisition. The remaining pillar of the diversification programme, the dockyards, were also allocated substantial sums for capital investment. This was seen as both economically and politically essential given the dockyard's reputation as the 'Achilles Heel' of Malta's development problem (Jones, H. 1971a, p.139).

With the assistance of a total of £51 million in British aid, the second plan was able to budget for a total investment programme of £38.4 million, of which £8 million was immediately allocated towards grants and loans for tourism, agriculture and industries. Major items of expenditure included £2.2 million on much needed water supply development and repairs, £2.2 million on port development, £5.9 million on industrial development, and £3.6 million on tourism. A further £1.3 million was allocated to agriculture, primarily for the development of glasshouse horticulture to which the Islands' climate was well suited. The total investment programme was thus considerably greater than that of its predecessor.

In contrast with the first plan, the second plan was an overwhelming success with respect to the objectives layed down in the plan (Dale and Bartolo 1976). The plan seemed to lead to unprecedented expansion and prosperity, and allowed both unemployment and emigration to fall sharply, whilst retaining a balance of payments surplus (King 1979a). The success was totally unexpected, and involved expansion in light manufacturing industry, tourism, and property and construction. Jones (1971a) maintained that the reasons for the boom included the stability induced by independence. He also suggested that once early successes had been achieved, others followed more easily and more rapidly with increasing confidence. The increase in activity was undoubtedly facilitated by the establishment of the MDC, and further assisted by the recommendations of the Robens Report (Robens 1967). Another crucial factor was the escallation of costs experienced by British domestic industry, which had begun to look for cheaper overseas production locations. Malta seemed especially well suited to the needs of British satellite firms, and the fiscal arrangements such as the tax holiday, and the absence of selective employment and capital gains taxes were well appreciated. British firms also benefitted from the widespread use of the English language, which permitted communication between management and work-force. Also of importance was Malta's inclusion within the Sterling Area.

One of the major features of the period was the growth in the adoption of female labour, which was very much cheaper than male labour, and in many instances, such as in the textiles and electronics sectos, better suited to the various jobs required (King 1979a). To some extent, this was seen as undesirable as the growth in industrial employment had been intended to benefit the large numbers of semi-skilled male workers being released by the fortress sector. Nevertheless, many males were employed too, and by the end of the plan period, almost 10,000 new industrial jobs had been created in approximately 150 projects, many of which were functioning on the specially created industrial estates of Marsa, San Gwann, Bulebel, Kordin and Mriehel. Other sectors benefitting from the boom included construction, whose workforce incr-eased by 80% in the plan period. Impressive advances in tourism also occurred in this period as a result of a substantial hotel building programme, and a large increase in tourist arrivals (see Figure 7.2). It was estimated that employment in tourism increased from 7,350 in 1964 to 9,810 in 1968, an increase of 33.5% (Office of the Prime Minis-ter 1970).

The second plan's total expenditure was far in excess of that of the first plan, and by the end of the plan period, an unexpended balance of only £5 million remained. Between 1964 and 1968, GNP in real terms rose by 38% whilst unemployment dropped from approximately 8,000 to 4,000.

It had been expected that gainful employment levels would by the end of 1968 have risen to 83,000, but the actual figure achieved was 95,800. Similarly, after a current account balance of payments deficit was experienced in 1964, a surplus balance was experienced in each of the subsequent four years (Office of the Prime Minister 1970). Statistics, therefore, indicated that in conventional economic terms at least, the second development plan was a resounding success.

There were, however, set-backs that occurred between 1964 and 1969. For example, in 1966, just as economic expansion and diversification was accelerating, the British government announced that it was going to quicken the run-down of the fortress (Jones, H. 1971 a). It was in the discussions between the British and Maltese governments arising from this decision that the Robens Joint Mission was conceived. The Robens Report (1967) ammounted to a review and update of the second plan, and its decisions and recommendations were treated as such. The new recommendations included a job creation target of 15,000 by 1972, in addition to which infrastructural projects involving improvements to port facilities, electricity distribution and water supply were suggested. Of importance in the industrial programme was a recommendation that the Government should encourage advanced factory building on government estates on a much larger scale than had previously occurred. In the tourist sector, the report was concerned that restraints on the development of new hotel capacity should be removed.

The Government hoped that the MDC, the formation of which had been urged by the Robens Report, would help eliminate the ingrained conservatism that afflicted the average Maltese saver, thus causing much of the available indigenous capital to be invested abroad as previously, usually in Great Britain (Abela 1962). It was hoped that the MDC could provide the basis of an institutional framework that could put the bulk of local private savings into productive harness within the Maltese economy (Office of the Prime Minister 1970). The more specific tasks of the MDC were to help initiate industrial projects, to encourage the participation of private capital, and to provide assistance and advice to entrepreneurs. However, perhaps the most important function of the MDC was, '...to take over, on an agency agreement with Government, the duties of administering aid monies in the industrial and tourist development sectors. In the exercise of its functions the corporation can make all forms of investment, including the direct ownership of industrial enterprises...' Office of the Prime Minister 1970, p.15). This heralded the beginning of the evolution of Maltese parastatal industry, although the growth of State enterprise was restricted until after 1971, when the Malta Labour Party regained power.

In conclusion, the second development plan seemed to be successful, although the wild manner in which many of its targets were exceeded would seem to indicate that the development process was already far beyond the control of both Maltese private and public institutions. This is to be expected, given the emphasis that was placed on the role of the private sector, the involvement of overseas enterprise, and the general laissez-faire and diffusionist nature of the Plan. The experiences of the period were, meanwhile, not entirely positive, and the many problems and criticisms that emerged during the late 1960s and early 1970s will be raised in section 7.4 of this chapter. Amongst these is the observation that the second development plan failed to cater for the more social aspects of development, concentrating entirely upon economic problems. This was in fact also a feature of the third development plan. Indeed, in many respects, the third plan seemed to act merely as an extension of the second plan.

7.3 The Third Development Plan of the Maltese Islands (1969-74)

Perhaps the major feature that distinguished the Third Development Plan from its predecessors was its professional and glossy presentation. This is important because it reflects to a considerable extent the increased confidence and pride that the Nationalist Party placed in its development policy. This assertion is supported by the fact that over one third of the document (pages 1-55 out of 134) was occupied by analysis and praise of the second plan. Buttigieg (1975 , p.28) explains that the third plan was designed merely to continue with the economic performance achieved during the previous plan. Thus, 'The long term aims and policies of the Third Plan were practically the same as those advanced in all the previous plans.' Dale and Bartolo (1976) agree with this conclusion, emphasising the fact that this included inducing further economic ties with Great Britain.

Once again, the immediate aims of the plan were the creation of employment opportunities and the raising (not only maintaining, as previously) of living standards. As before, the core of the strategy was industrial policy, especially infrastructural outlays, the industrial estate programmes, and fiscal and financial aids. Total capital expenditure for the period 1969-74 was projected as £48.45 million, of which £8.59 million was to be allocated to industrial development. Of the latter, a sum of £3 million was designated for direct assistance to industries in the form of grants and loans. Unlike the previous plans, assistance to hotels was separated from the industrial assistance scheme. A further £5.25 million was allocated for factory construction. It was hoped that the development of industry would by 1974 have generated 13,500 new jobs (Office of the Prime Minister 1970).

Of the few modifications contained in the third plan were further restrictions on the provision of grants to new enterprises in Malta. Whilst grants were to continue, it was felt necessary to increase the role of loans as long term industrial incentives. Thus, wherever possible, interest free loans were to be substituted for grants. Also, although aid would still be available for the expansion of existing projects, entrepreneurs were expected to resort increasingly to re-invested profits or commercial sources for the necessary capital. The MDC was, in addition, able to provide further assistance by indulging in equity participation and providing commercial loans. Meanwhile, the tourist sector was to be nursed broadly along the same lines as before, the emphasis being on the attraction of '... as many tourists as possible to Malta...' (Office of the Prime Minister 1970, p.57), and the intention to make their stay on the islands as pleasant as possible. However, one significant difference was the recognition for the first time of the market dominance problem. It was recognised that the 70% share of tourist arrivals held by the British market constituted dangerous dependence, and the plan therefore stated its intention to diversify its tourist markets.

The only other major innovation in the third plan was the intention to gain associate membership of the E.E.C. It was hoped that this would, '...help producers in their quest for forign markets! (Office of the Prime Minister 1970, p.56). Membership was in fact achieved in 1970, and substantial reductions in tariff rates for Maltese exports to the E.E.C. were obtained, although it was argued that the E.E.C. concessions were not sufficiently generous. E.E.C. associate membership was eventually to become vital to Maltese interests following Britain's accession to full E.E.C. membership in 1972. Furthermore, during the middle and late 1970s, relations with other E.E.C. countries were to have important consequences for the Maltese economy.

The third development plan survived for less than two years, after which a change of government led to its eventual replacement with the fourth (seven year) development plan. The change of government was brought about by the 1971 general elections which, ironically were strongly influenced by one of the major failings of the second and third plans - the property and construction boom. The negative effects of the boom upon the Maltese communities were symptomatic of the absence of a social dimension to Maltese development policy (Boissevain 1977a). This, and other problems will be dealt with in the next section (7.4), which will concern itself with the records of both the second and the third Plans. Because of the similarity of the two plans, and the fact that the third plan was able to operate for only two out of its designated five years, it seems logical to treat the years between 1964 and 171 as one plan period.

7.4 A Critical Assessment of Nationalist Party Rule 1964-71

Many of the aggregate macro-economic indices, particularly those chosen by the Nationalist Party administrations, show the 1964-71 period to be one of considerable economic advance. Thus, after peaks of emigration and unemployment in 1964 and 1965, the two rates fell dramatically in the late 1960s (see Figure 7.1). Similarly, despite the slow expansion of the GNP in the early 1960s, rapid growth in national income followed in subsequent years, although it must be remembered that this was from a low base. Meanwhile, advances were achieved in the conversion of the dockyards to civilian use, although problems here were widespread, leading to the eventual nationalisation of the yards in 1968. The Government recognised the need for increased technical education and training if industrialisation was to be both pervasive and permanent, and it was also recognised that the industrial attraction policy needed to be far more selective. Finally, the administration was sufficiently perceptive to realise that Malta's associate membership of the E.E.C. was likely to be essential to the development prospects of the 1970s.

During this period, the concept of dependence was alien to the development planners of Malta, Great Britain, and most of the Western hemisphere. This is unfortunate as, in the Maltese case, awareness of some aspects of dependency theory would possibly have allowed the Maltese to improve various segments of their development programmes. In this context, the observations of Section One of this thesis are relevant as it is clear that Malta was not, and never has been, in a position which allows her to eliminate her exceptionally serious dependence. Her only alternative has been to manipulate and control her dependency links, thereby reducing the negative effects of her dependence. Unfortunately, this did not occur during the years of Nationalist Party administration, and Malta emerged into the 1970s displaying potentially harmful economic and social structures.

By 1971, the manufacturing sector was displaying symptoms of damaging imbalance. For example, although there were no statistics to show it, most new manufacturing industry was financed and controlled by British MNCs. A large number of expendable satellite ventures had been established by British companies, examples including the GKN, Plessey and PVC Plastics companies. More alarming was the increasing dominance within manufacturing of textiles and clothing firms, which in 1971 accounted for 26% of total gross output and over 25% of total employment in the sector (see Figure 7.3). One of the consequences of the increasing textile sector dominance was a rapid increase in the female participation rate which had already reached 22.1% in 1969 (Office of the Prime Minister 1970), over 2% in excess of the projected figure.

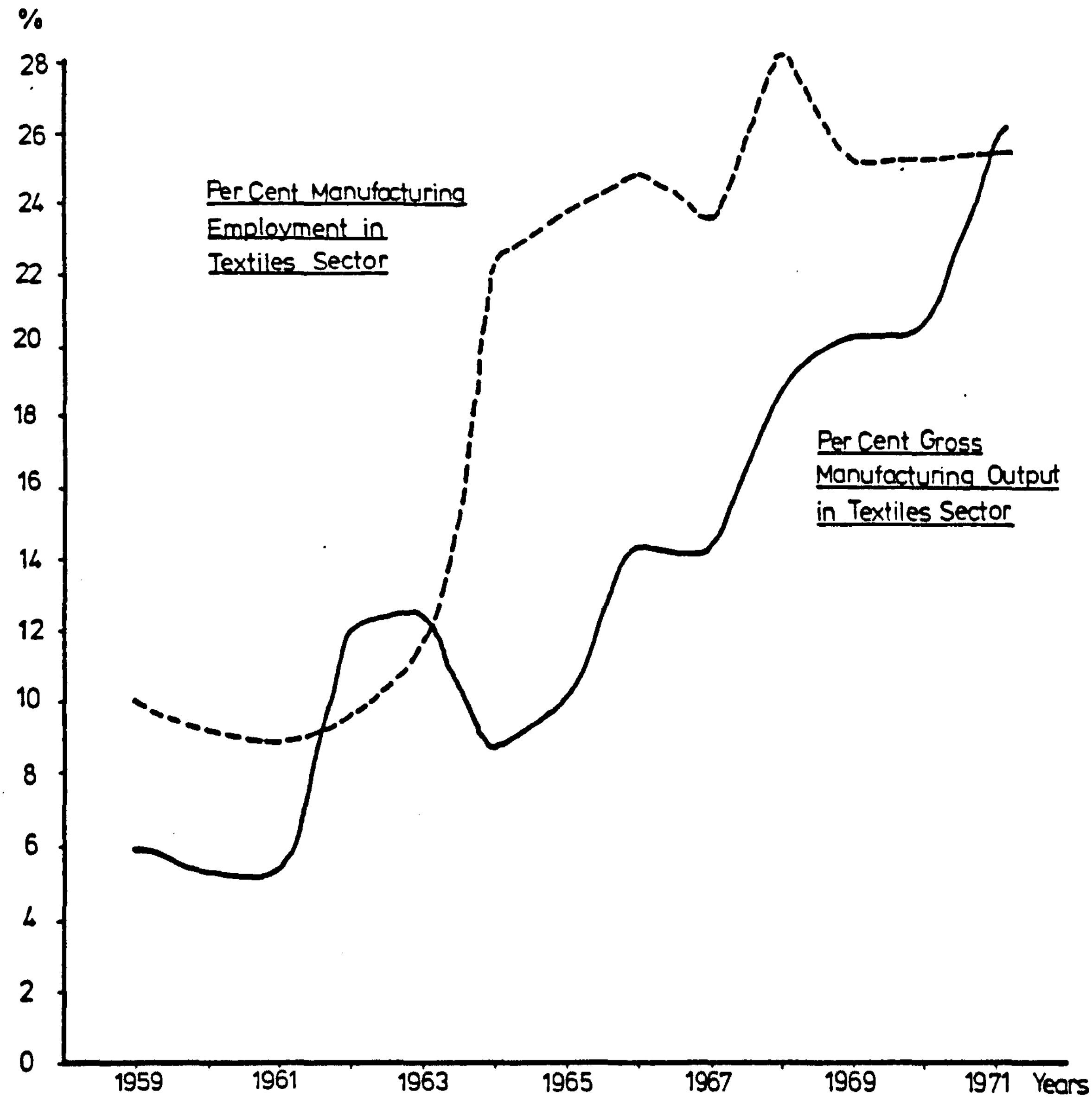

Figure 7.3 Per Cent Gross Output & Employment in Manufacturing within The Textiles Sector 1959-71

Source: Central Office of Statistics (1964-1970/71)

As Figure 7.4 illustrates, the proportion of male employees in the textiles sector fell substantilly during this period.

Increases in the female participation rate may be welcomed for social reasons, but the role of women in the new industries worried the Maltese Government as the new jobs were intended for the large portions of the male workforce in the fortress sector facing unemployment. As a result of the increasing demand for female labour, female unemployment[1] fell quickly from a peak of 11.3% in 1965 to under 3% in 1969, and thereafter remained at a considerably lower level than that for male unemployment (see Figure 7.5). The popularity of female employment may be explained in terms of easy supply, suitability to the available jobs, and the lower wages paid to women in Malta. The latter point negates to a considerable extent the social advances associated with the increased female participation rate.

In conclusion, Maltese manufacturing industry was by 1971 inextricably linked to the British economy, and was therefore both economically and politically vulnerable. In addition, much of the industry was based on textiles, an area of industrial activity which, even in the late 1960s and early 1970s, was showing signs of profound instability. Finally, it was clear that much of the overseas investment had occurred because Malta provided the opportunity to take advantage of extremely low labour costs, which, in the case of female labour, could be described in some circles as expoitation. Given that it was the stated central long term aim of the Nationalist Party administrations to increase living standards, it was clear that the attraction of labour intensive low wage industries

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1. The percentage of females (aged 15-60) registered for employment, and without a job. This is extremely difficult to calculate due to a lack of precise statistics, and Maltese unemployment regulations concerning females.

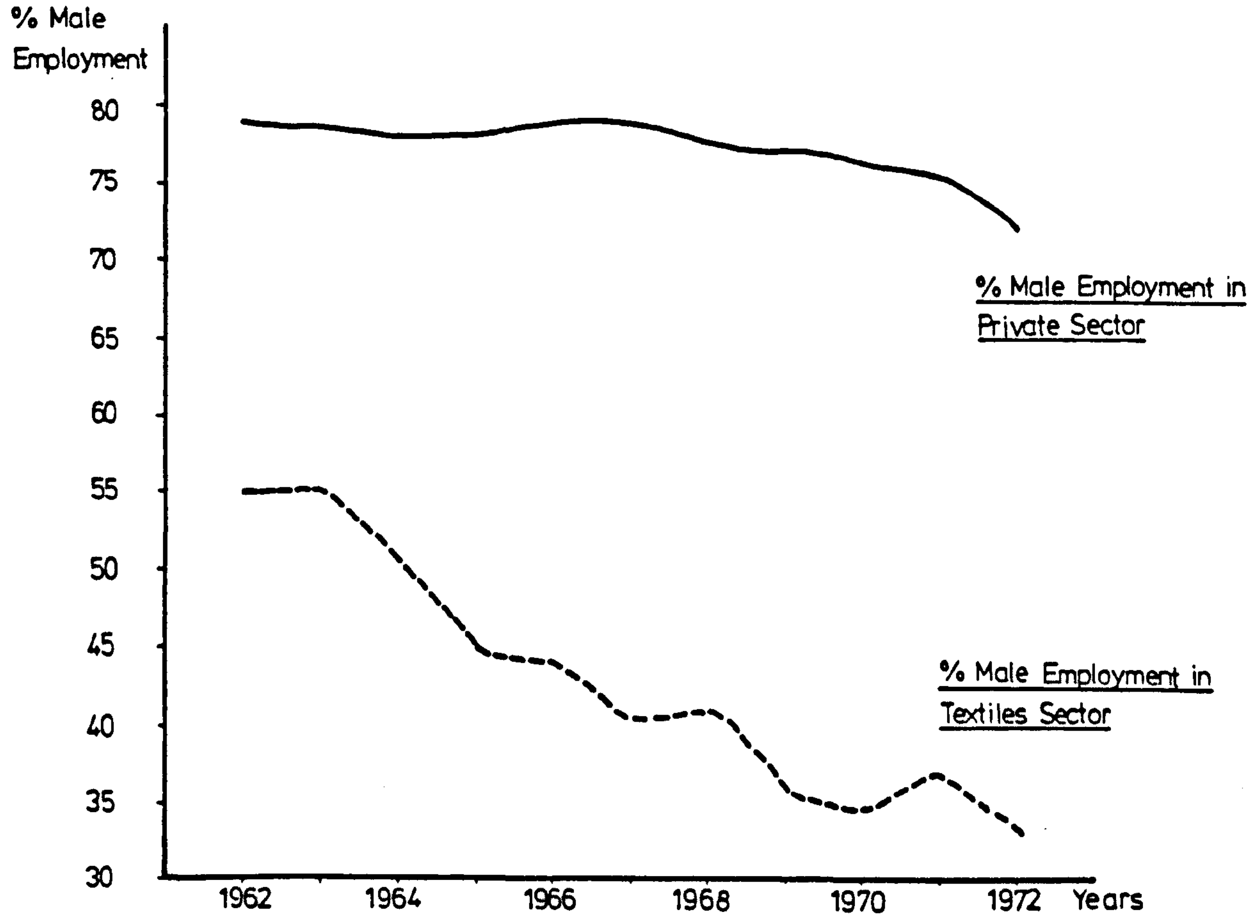

Figure 7.4 Per Cent Male Employment in The Private Sector, and in The Textiles Industry 1962-72

Source: Central Office of Statistics (1964 - 1972)

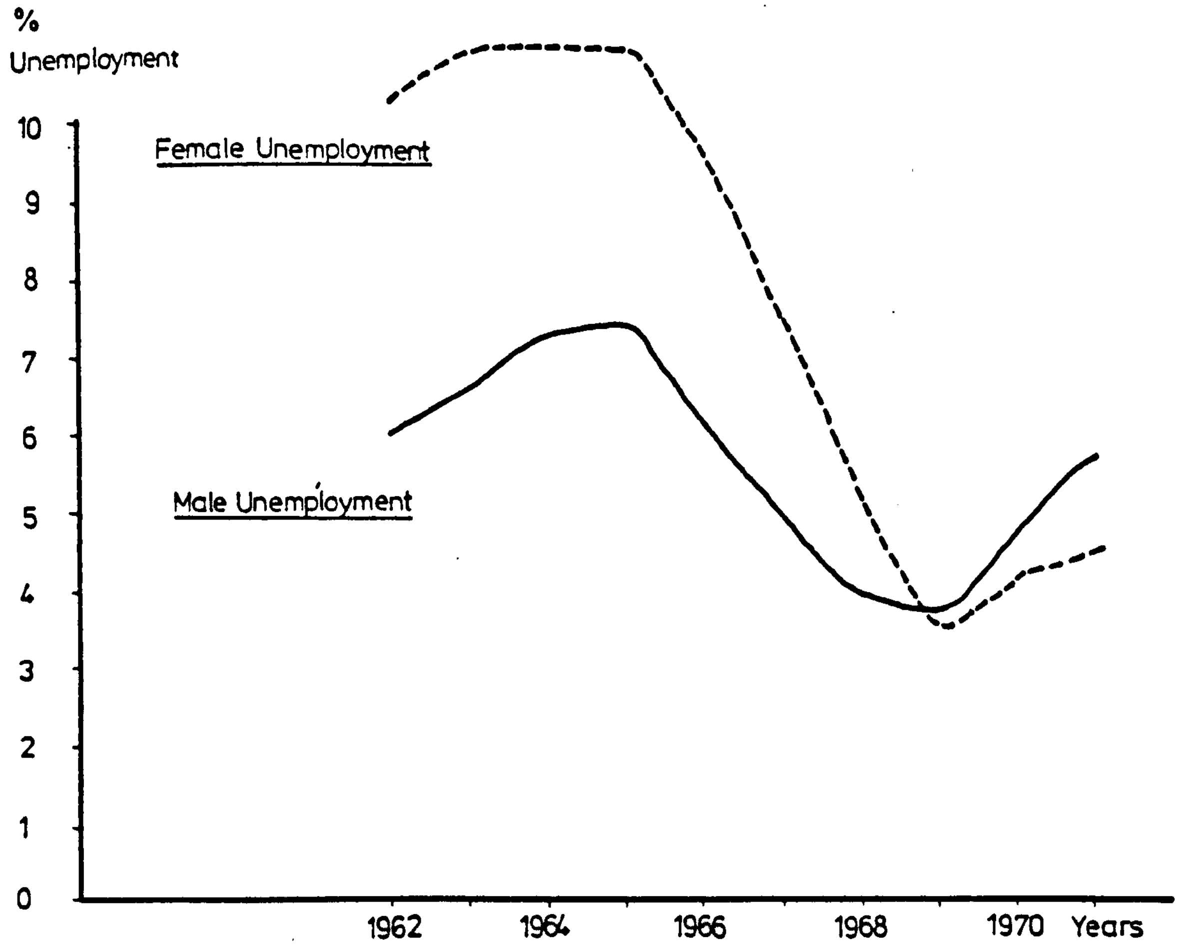

Figure 7.5 Male & Female Per Cent Unemployment 1962-71

Source: Central Office of Statistics (1964-1972)

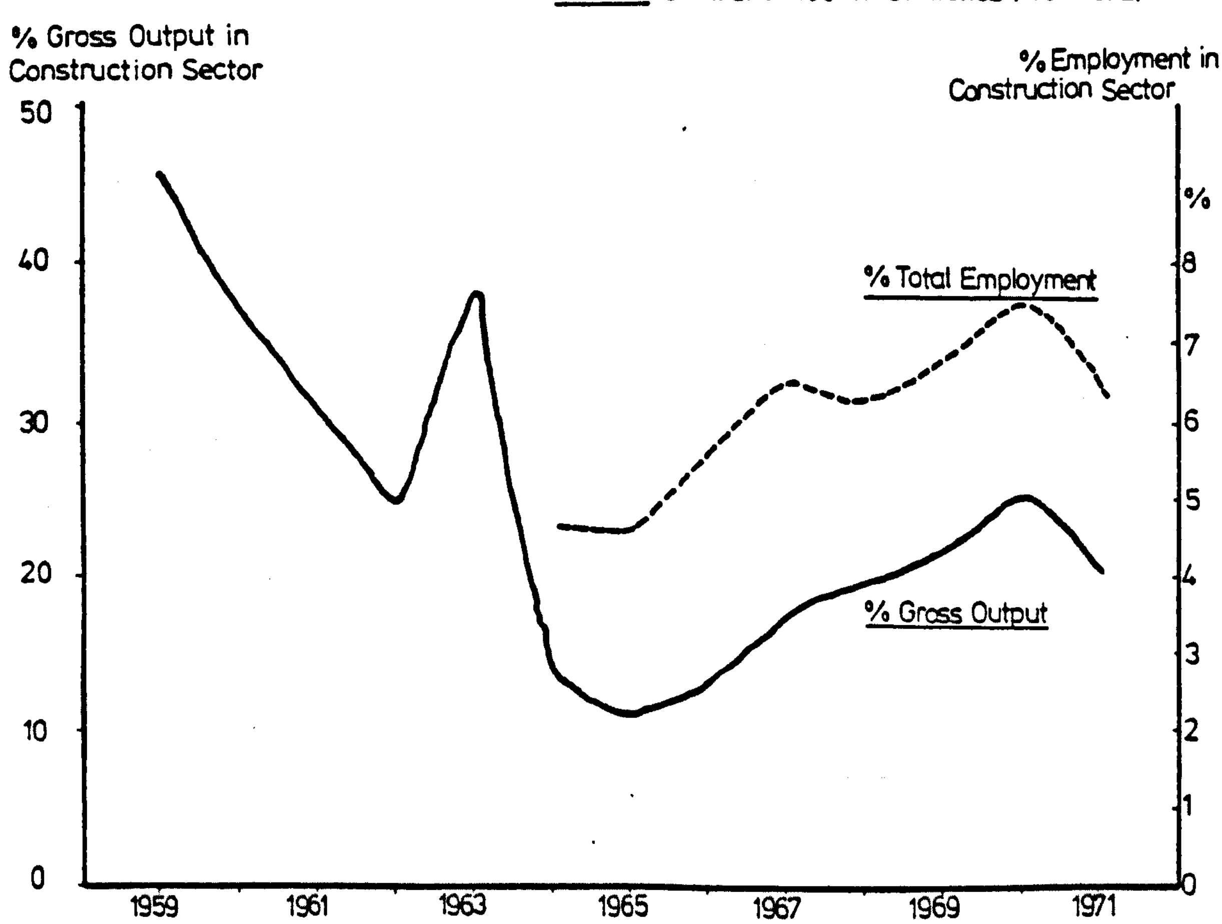

Figure 7.6 Per Cent Gross Output & Employment in Industry in The Construction Sector 1959-71

Source: Central Office of Statistics (1964-1972)

was, in the long term, bound to clash with Government policy.

Tourism, the other major 'success story' of the period was also showing signs of serious structural weakness by 1971. Despite very rapid increases in the numbers of tourist arrivals per year, the proportion of the tourists that originated in Great Britain continued to grow, and rarely fell below the 70% level (see Figure 7.2). Although concern at the extreme dependence on the British markets and tour operators was expressed in the third plan, no market diversification was achieved or seriously attempted. Instead, the potentially harmful nature of the dependence was illustrated by a change in Sterling regulations introduced by the British government, a move which caused a shortfall of 8% to occur in tourist earnings in 1970 (Jones, H. 1971a).

The problems of the tourist sector were not confined to British market dominance. Heavy British investment in Maltese hotels was evident. More important was the fact that most of the package tour operators were British owned and controlled, as were the airlines which transported the holiday makers. Consequently, it was abundantly clear that many of the desired benefits of the tourist activity (such as profits and employment) were being exported from Malta, mostly into the hands of British private enterprise. In short, the entire sector was owned and controlled by predominantly British interests, once again ensuring that the fortunes of Maltese tourist activity were inextricably linked with those of the British economy (see Chapter Thirteen).

The problems were, unfortunately, not restricted to those concerned with overseas control and reduced benefits from tourist activity. Throughout the 1960s, fears grew concerning the environmental implications of tourist development. This view was typified by the following comment.

'All those of us who know and love Malta and the Maltese feel not a little apprehensive at the thought of holiday camps, bingo halls, private beaches and the litter, rowdiness and shrill complaints of liverish and un acclimatized tourists' (Round Table 1964-65, p. 43). Eight years later, Dennis (1972, p.45) seemed to confirm such anxieties with the observation that, 'The tourist and settler have been invited in with enthusiasm, to replace the sailor and the soldier and to defend the poor from unemployment. The resulting invasion, which bears no arms except money, has done more damage in five years than was ever done in five thousand.'

Authors such as Dennis were venting their criticism in particular at the spectacular property boom which afflicted the Maltese islands in the mid and late 1960s (Brett 1971). A combination of tourist induced property speculation and an influx of so called 'six-penny settlers'[1], who also desired Maltese property, induced a violent increase in land prices of at least 200% between 1967 and 1969 (Dale and Bartolo 1976). Collins (1967) observed that the boom was occurring well before 1967, citing an example in Gozo (which in general was affected less severely by the boom (King 1979a)) in which a piece of land worth £600 in 1963 was sold for £40,000 in 1966 (see Plates 7.1 and 7.2). King (1979a) noted that the unharnessed building boom was accompanied by negligible structural planning on the part of the authorities, which in turn led to a break in the harmonious relationship between Maltese natural and cultural environments. Factories and hotels caused few problems, but the real problems emanated from the space-consuming villas, houses and apartment blocks erected for British tax exiles. These alien elements in the landscape were often magnified in importance

1. Six-penny refers to the very low rate of income tax - 6d in the pound - paid by British settlers, which indicates that the settlers were deliberately attracted by the Nationalist governments.

PLATE 7.1 Property Development in Gozo. Property speculation in Malta and Gozo during the 1960s encouraged exactly this type of development. In this case, these houses are likely to be destined for rich Maltese families, or for the rented holiday villa sector of the tourist industry.

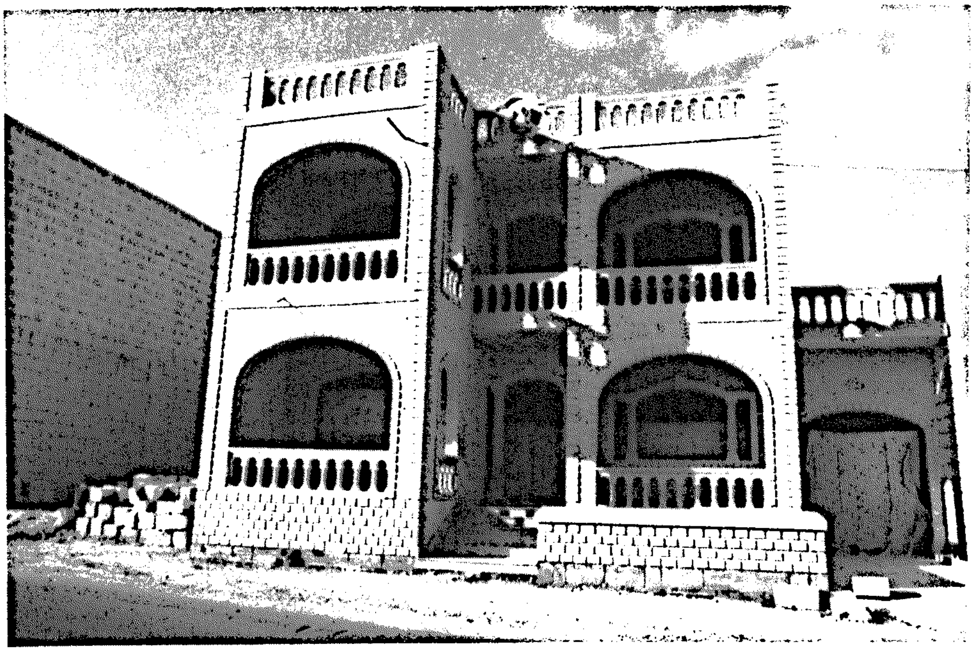

PLATE 7.2 Property Development in Gozo. This salubrious dwelling is likely to be for a wealthy Maltese family. Property speculation in Malta during the 1960s did not only benefit overseas investors, but also favoured a number of wealthy Maltese, who were able to build for themselves houses such as this in Mgarr.

by their elevated sites (Jones, H. 1971b).

Such was the attraction of the Maltese property boom to the British investor that there were cases in which British businessmen applied for, and received, industrial development grants from the MDC, which they promptly used to speculate in Maltese property. A number of British (and apparently Italian) businessmen in particular were therefore able to abuse Malta's industrial aid scheme. However, there were a number of instances in which such speculators were caught by the sudden slump that occurred in 1969, and consequently sustained considerable losses.

One of the more sinister elements of the boom was the fact that many wealthy Maltese also benefitted greatly from the property speculation, and worse, that many were, according to the MLP opposition, members of the Nationalist Party, whose government, it is claimed, prevented any sort of planning restrictions. Furthermore, the vast amounts of capital invested in Maltese property, and the elderly pensioners who chose to settle in Malta, were inevitably British. Indeed, the entire boom had its origins in the British money markets (Brett 1971). Such was the direct influence of the British economy upon the Maltese economy that significant structural alterations to the Malta's economic structure were induced during this period. This is best illustrated by Figure 7.6, which shows that British investment caused a very dramatic growth in the Maltese construction sector in the late 1960s, both in terms of output and employment. This undesirable distortion of the Maltese economy ended with unfortunate consequences in late 1969, when the reversal of the boom rendered many employees in the construction sector unemployed.

The period of post-independence Nationalist Party rule undoubtedly failed to reduce the Maltese Islands' dependence upon Great Britain. For example, although many specific factors benefitted British firms in particular, the development authorities continued to encourage British enterprise more than firms from other countries. Thus, Dowdall (1972, p.193) was moved to summarise the Nationalist Party's record as follows. 'The three main features of the Nationalist's diversification programme were to stimulate industrial investment, which has mainly been British; to attract tourists, who are predominantly British; to offer tax concessions to wealthy settlers, again mainly British, creating an ex-patriate social stratum to replenish the thinning ranks of captains, colonels and admirals.'

Dissatisfaction resulting from the building boom, and the chaos in the dockyards in particular, resulted in the election of Dom Mintoff's socialist Government in 1971. This apparently heralded the beginning of a new era of development in which <u>true</u> independence from Great Britain was to be a vital objective. The new Government reacted swiftly by suspending the third development plan, and conceiving its own (fourth) plan, which in turn came into operation in 1973. The Malta Labour Party, still under the leadership of Dom Mintoff, have won two general elections since 1971, and form the current Government of Malta. The next chapter (Chapter Eight) will therefore deal with the Mintoffian era - from 1971 to the present.

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CHAPTER EIGHT: INTERVENTIONIST ECONOMIC DEVELOPMENT - POST-INDEPENDENCE MALTA LABOUR PARTY ADMINISTRATIONS (1971 - 198)

8.1 Introduction

It is easy to judge the performances of the Nationalist Party governments and Plans harshly, particularly in view of the fact that economic diversification could have been less, and dependence on Great Britain worse by 1971. However, Dowdall's (1972, p.190) comment that, 'Of all Britain's former colonies, it would be difficult to find one where the transition to self-government had brought less change than in Malta', suggests the degree to which dependence had not been alleviated, manipulated or diversified. The instability within the structure of the Maltese economy induced by excessive dependence on Great Britain had been well illustrated in the late 1960s and early 1970s by a down-turn in Maltese economic fortune - increases in unemployment, and falls in tourist arrivals and industrial output - explicable in terms of unnecessarily strong linkages with the British economy. There was therefore an unquestionable need for proper diversification (Sams and Davies 1975).

Part of the down-turn of the early 1970s was probably a direct consequence of the trauma (both within and outside Malta) experienced following the change of Government in 1971. Mr. Mintoff's abrasive style of Government has, since 1971, been a source of internal political instability that has not aided the evolution of stable economic advance within Malta. Furthermore, the manner in which he and his party has retained power seems to be highly controversial, and has, at the last two elections, involved widespread allegations of electoral malpractices. Under the Mintoffian administration, the field of government power has been extended, penetrating hitherto undisturbed sanctuaries of Maltese life (see Plates 8.1 and 8.2). There have, for example, been increases in

PLATE 8.1 The Auberge de Castille, Valletta, Malta. This building contains the 'Prime Minister's Office' and the Government's Department of Information. It has become a symbol of Government in Malta, especially since 1971 when a succession of Labour Party administrations introduced policies that were more interventionist than those of previous Nationalist Party Governments.

PLATE 8.2 'The Times' and 'Sunday Times' (of Malta) Building, Valletta. This building was gutted by Labour Party demonstrators in 1979, and is seen here in the latter stages of demolition in 1982. Critics of the Labour Governments maintain that this is one of many cases in which 'government intervention' has gone too far.

the Government control of education, the broadcasting media, retailing, and legal activities (King 1979a). To the uninitiated, these developments may constitute a marked deterioration in the democratic tradition of the Maltese Islands. However, in the context of the dubious electoral practices of the Nationalist Party in the 1962 and 1966 general elections, the MLP's behaviour is understandable, although not necessarily justified. During the 1960s, Malta Labour Party members were forced to contend with excommunication from the Church, a situation which constituted unwarranted interference in the political process by the Church on behalf of the Nationalist Party (Mintoff 1966), and which was especially serious given the deeply religious nature of the Maltese communities. The continuation of the political struggle during the 1970s and 1980s, by both fair means and foul, should therefore not be underestimated, both in terms of its inevitability given past circumstances, and the often damaging influences it has had on the development process.

Many of the controversial decisions to be made by the MLP administrations were entirely logical and desirable, given the high levels of dependence on Great Britain prevalent in the early 1970s. Of the 'political frontiers' to be crossed in this period (Office of the Prime Minister 1977), one of the most important was the battle for a new order in the Mediterranean, based on neutrality and non-alignment. The commitment to non-alignment signified the end of the fortress era, and although an extension of the British military presence was negotiated in the interests of achieving a more smooth economic transition to non-fortress activity, the British forces were eventually to withdraw completely in 1979. In 1976, Malta joined the group of 77 non-aligned states, and proceeded to attempt to diversify her international links by signing numerous bilateral agreements with countries which have included Libya, Italy, the People's Republic of China, Kuwait, Saudi Arabia, France, West Germany and Algeria (see Plates

8.3 and 8.4).

According to the supplement to the 1973 –1980 development plan (Office of the Prime Minister 1977), the departure of the British forces was vital to the plans of the MLP government. The British media chose to believe that the Maltese forced the British and NATO garrison to leave the islands in 1979 on the basis of this type of statement,which was common throughout the MLP literature of the time. In reality, however, the MLP did not want to encourage a rapid departure of the fortress. As Wriggins (1975) observed, Mintoff deliberately engineered a five year extension of the base by encouraging fear (particularly in the U.S.A.) of a Maltese alliance with the Soviet Union. Thus, whilst making noises to the contrary, the Maltese Government successfully managed to retain the valuable British presence, despite the clearly stated desire of the British Ministry of Defence to abandon the Maltese base by 1974. There were, meanwhile, other developments which constituted important reductions in dependency links between Malta and Great Britain. Of these, one of the most important occurred on 25th August 1971 when Malta broke the one to one parity with Sterling, eventually fixing her exchange rate from a basket of predominantly European currencies (Grech 1978). This was a very significant decision because wild, and usually negative fluctuations in the international value of Sterling in this period could have had destabilising and damaging effects upon the Maltese economy.

One of the most important features distinguishing the MLP administrations' development philosophy from that of the PN was the strong element of social policy evident within the Plans. Boissevain (1977a) notes that the PN's major objectives of full employment and increasing living standards assumed the distribution of the benefits from such achievements as

PLATE 8.3 The China Dock, Grand Harbour, Malta. As part of a conscious policy designed to diversify trade and aid, recent Maltese governments have sought to establish ties with non-European countries. This particular project was achieved with substantial technical and financial assistance from The People's Republic of China.

PLATE 8.4 The Paola Mosque, Paola, Malta. The finance for this mosque originates in neighbouring Libya, a country with which Malta Labour Party governments in the last decade have been anxious to develop close relations.

being relatively unimportant. MLP policy, on the other hand, placed less faith in the distributive powers of the traditional market mechanisms, and consequently displayed elements of policy not considered by the PN administrations. Thus, the MLP priorities were independence from power bloc affiliations, higher living standards for all, and specific improvements for the socially disadvantaged.

The MLP, which established,amongst other services, old age pensions and a national health service during its earlier period of power in the 1950s (Kaim-Caudle 1981), extended its social policy in the 1970s through the implementation of a progressive personal taxation system, and the rigorous control of prices and incomes. It seems that one of the advantages of the smallness of the Maltese economy is the apparent ease with which prices and incomes may be controlled by the central administration. One of the features of this control has been the introduction of universal statutory wage and salary increases through the Government's major Budget Directives (Minister of Finance 1982). Usually, this involves a small percentage increase, and a standard bonus awarded to every worker, whatever his or her status. This has eliminated the destabilising effects of free collective bargaining, and has both in relative and absolute terms, raised substantially the incomes of the lower paid groups. Whilst complaining about the imposition of such wage and salary increases upon their companies, the private sector generally appreciate the stability it has created, although it is claimed that there is evidence that the frequency and size of the rises is acting to the detriment of Malta's general international competitiveness.

According to Kaim-Caudle (1981, p22), '...in the field of income redistribution, the Socialist Government had by early 1980, achieved the objectives it set itself in 1971. It almost certainly achieved them to an extent which neither its supporters nor its opponents would have thought possible when it took office.' Almost as impressive has been the public sector housing programme introduced to counteract the destructive effects of the building boom and slump of the late 1960s. The housing shortage was eliminated with the assistance of a public sector housing programme which provided about 4,500 rented dwelling units (Office of the Prime Minister 1982). The success of the programme prompted Mr. Mintoff to claim, without hesitation, that, 'We pride ourselves on having the best housing conditions in Europe' (M.E.E.D. 1980, p.3). Mr. Mintoff also became hostile towards what he referred to as the parasitic British Settler group by increasing taxation rates, and by restricting property sales and the employment of non-Maltese. This was intended to prevent a recurrence of the 1960s externally induced property boom.

Social policy also made its mark in the field of employment. For example, the MLP Governments decided that it was both wasteful and socially undesirable to restrict itself to indirect initiatives concerning the reduction of unemployment (Office of the Prime Minister 1973). It was therefore decided that a corps of able bodied men should be recruited from the ranks of the unemployed. The 'Labour' or 'Pioneer' corps were employed by the Government, on incomes only marginally higher than the unemployment benefit, to carry out important infrastructural projects such as road and reservoir construction. This policy would be strongly opposed by trade union organisations in other countries of Western Europe, but in Malta, the dominant General Workers Union was officially allied to the MLP government, and party to the decision. Also of great importance in the field of employment was the introduction of legislation designed to promote sexual equality. It is impossible to assess how effective this has been as many employers have been able to pay their female workers less on the basis of their youth and inexperience. It is also difficult to determine the extent to which the legislation was responsible for the extraordinary increases in female employment in the Islands during the 1970s. Figure 8.1 shows that the rate of female unemployment fell at one stage to under 1%. Thus, in 1978-79, female labour became so scarce that a state of full female employment could be said to have existed. In the same period, male unemployment still stood at 3.6% (see Figure 8.1, and Central Bank of Malta 1981).

As is illustrated by the strict control of prices and incomes in Malta, a feature of the MLP's rule of the islands has been increased centralised control. This has involved the nationalisation of essential industries and services. Of the latter, one of the most important cases was the nationalisation of the banking sector, which resulted in the formation of the Bank of Valletta and the Mid Med Bank in 1973 (Office of the Prime Minister, 1982). In particular, it was hoped that this move would prevent Maltese investment funds from being lost abroad as previously, and would also permit greater proportional Maltese ownership in new industrial and tourist enterprise by encouraging indigenous investment[1]. In addition, the formation of the 'Investment Finance Bank' in 1977 was intended to further assist medium and long-term financing. Meanwhile, Malta's fuel and energy industries were nationalised in 1977, a process which coordinated energy provision and delegated responsibility to 'Enemalta'. The public sector was further

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1. According to Metwally (1977), all that has happened is that the Maltese, who are by tradition great savers, have now chosen to consume far more of their incomes.

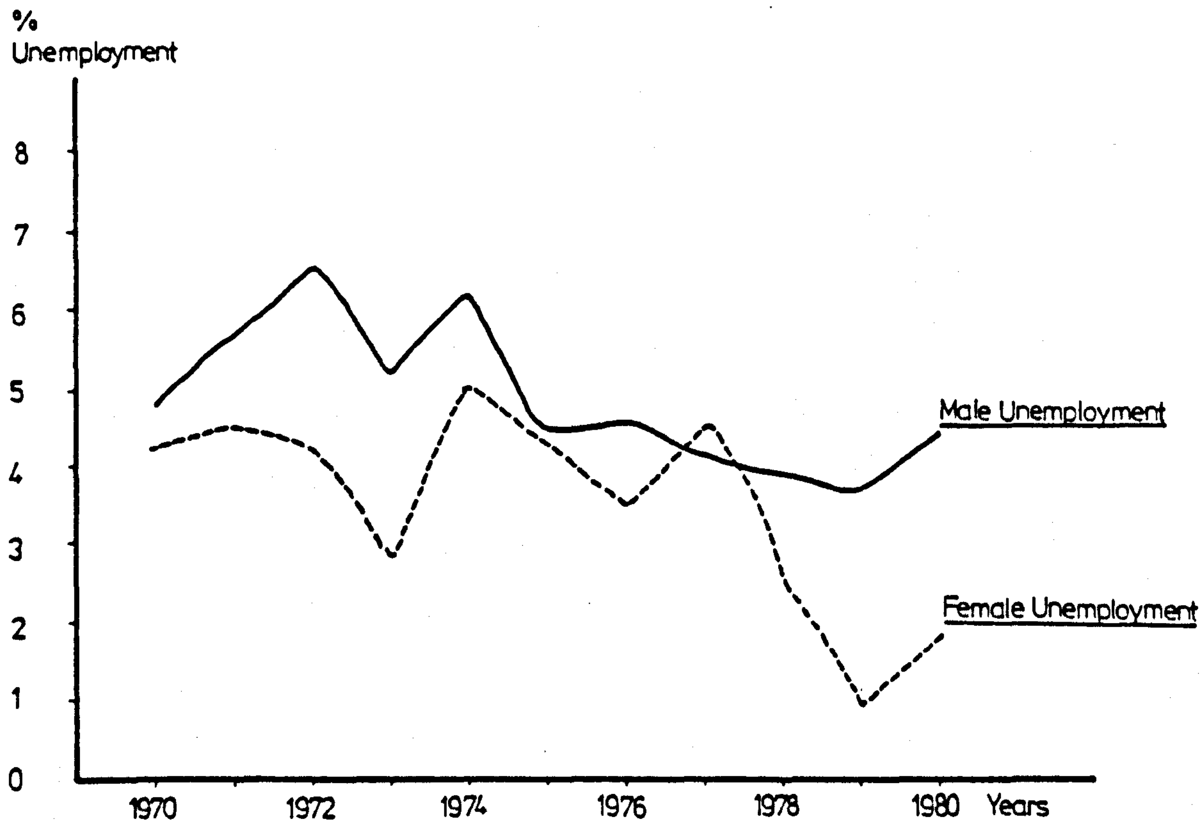

Figure 8.1 Per Cent Male & Female Unemployment 1970-80

Source: Central Office of Statistics (1970-80)

enlarged by the growth of parastatal manufacturing industries.

On the surface, the content of the MLP development plans contrast dramatically with the content of the PN development plans, which donated little space or emphasis to social policy, nationalisation or the growth of central administration. Indeed, such was the divergence of opinion on these issues that the 1981-85 development plan (Office of the Prime Minister 1981, p.51 stated that, 'The ultimate objective of economic development is social progress.' Inevitably, this necessitated the provision of mechanisms allowing for the more efficient sharing of the fruits of development (King 1979a), particularly in view of the unpalatable consequences of the unfettered boom of the late 1960s. This, it was argued by the MLP, could not be achieved without a more centrally planned growth process which, it was hoped, would provide adequate means of intervention within the economy. As expected, by furthering their attempts to achieve these new objectives, the successive MLP administrations further alienated the PN, who regard many of the new measures as infringements of liberty. This has exacerbated the already tense political situation in the Islands.

It is interesting that, despite the increased social orientation, many of the common objectives of the socialist administrations were similar to those of previous PN governments. For example, priorities included the creation of employment, a healthy balance of payments, the encouragement of savings to fuel investment, the promotion of tourism, and in particular, the expansion of manufacturing industry. Most important, however, was the fact that, as with the PN plans, the MLP administrations encouraged the attraction of overseas MNC investment in the Maltese economy. Also of great significance was the belief in the desirability of industrial linkages. Thus, the attraction of industries which were likely to generate linkages with other parts of the domestic economy was seen as a priority, as the ensuing expected employment and income multiplier effects were regarded as desirable.

The performance of the 1973-80 Plan was, on the surface, very impressive. Against a back-drop of the total withdrawal of the British base, a major world recession, repeated increases in petroleum prices, worsening trade protectionism and declining markets, Malta was able to reduce her unemployment drastically, increase industrial activity, increase the number of tourist arrivals, improve general living standards, and achieve many of the social objectives layed down in the plan. These objectives were not achieved without costs, however. For example, despite stated intentions to the contrary, the growth of both tourism and manufacturing industry has encouraged more severe dependency structures. This, perhaps, was inevitable as the new Plan continued to place faith in the role of multinational capital in the development process. In practice, therefore, both the MLP and the PN attitudes towards overseas investment were surprisingly similar, and may perhaps be classified as falling into the third and mildest of Lall's (1974) 'pro-foreign investment' categories (see Chapter Three).

Consequently, although the record of the MLP administrations until 1979 looked impressive, many ominous dependency structures remained, and in some cases had become more extreme. Furthermore, the PN cast doubts on the validity of the MLP government statistics which, it was suggested, were rather more optimistic than they should have been (M.E.D. 1980). It was factors such as these which caused King (1979a) to conclude that Malta's new autonomy was at least partially mythical in nature.

8.2 The Development Plan For Malta 1973-80

It is useful at this stage to become familiar with some of the economic projections that acted as the guidelines for the attainment of the Plan's objectives. The Plan's major aim was the reduction of unemployment (as in the P.N. plans), and the creation of 20,400 new jobs by 1980. During this period, it was calculated that 6,400 jobs would be lost as a consequence of the British withdrawal (6.2 % of the total gainfully occupied in 1973). A further 1,500 jobs would be lost following the disbanding of the labour corps. Thus, it was estimated that the net increase in the number of gainfully occupied would be 12,500 (Office of the Prime Minister 1973, p.26). By 1980, although the Labour Corps had not been disbanded, an increase of 16,755 jobs had occurred (Central Office of Statistics 1980).

The Plan projected correctly that by 1980, the foreign payments account would balance, despite the loss of the British rent payments for the fortress. Meanwhile, Gross Domestic Product, although varying from year to year, was expected to grow in real terms by an average of 5-6% per annum. No standardised statistics that represent real growth in GDP are yet available for 1973-80 in Malta[1], but crude unadjusted measurements suggest that Maltese GDP grew by an average of 13% per annum, a figure which compares well with the performance of other countries in the same period (see Chapter Five, Table 5.3, p.118). It is significant, nevertheless, that the Plan itself is quick to play down the importance of GDP growth in the development process.

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1. Real growth estimates are particularly difficult to compute for this period because of the inflationary turmoil created by the oil price rises of the mid and late 1970s.

Of the essential development pre-requisites, the Plan saw export expansion and a high rate of investment as vital. It was clear that it based its hopes, as did its PN predecessors, on the prosperity of export based manufacturing industry. As a result, the Plan projected an increase in the number employed in industrial enterprises from 28,066 in 1972 to 44,910 by 1979 (Office of the Prime Minister 1973). Significantly, the figure actually achieved by 1979 of 31,394 was much less than planned, and shows that employment growth must have occurred in other areas, and that many gains in jobs within the manufacturing sector were probably countered by substantial job losses due to the comparatively short life-span of many businesses. It is likely that tourist-related services will have generated much new employment, but one of the most significant employment sectors to gain employees was the Government sector (see Figure 8.2). This was ironic as the 1973-80 Plan states its intention to trim down the Government sector by 1506 from 22,406 to 20,900 jobs (Office of the Prime Minister 1973, p.30-31). In reality, Government sector employment in the period 1972-79 jumped by 6,242, an increase of 27.9% (Central Office of Statistics 1972 and 1979). These statistics tend to support the PN's allegations that the Government have been disguising unemployment problems by absorbing surplus labour into the Government sector. Still more embarrassing for the Government was the fact that the vital manufacturing sector was losing employment by 1979-80 (Central Office of Statistics 1980).

There is no doubt that a considerable proportion of the new employment generated during the period 1973-79 must have occurred in tourist and related services. The 1973-80 plan set itself an ambitious target of 350,000 tourist arrivals per annum by 1979. However, the sector experienced wild and unexpected growth, and the number of tourist arrivals in 1979 was registered as 618,310, of whom over 70% were British

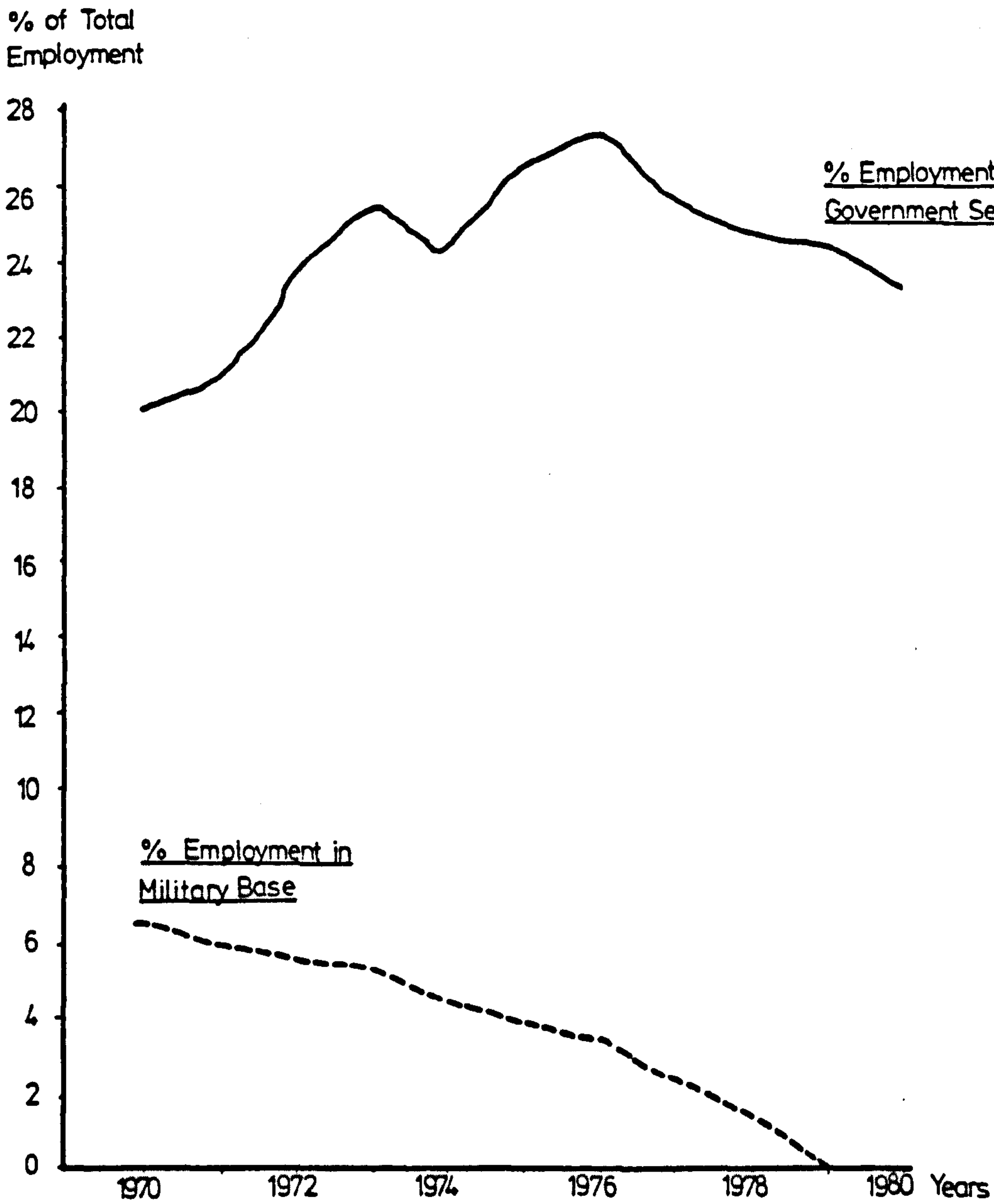

Figure 8.2 Per Cent Total Employment In The Government and Fortress Sectors 1970-80

Source: Central Office of Statistics (1970/71-1980)
Pirotta (1977)

(Central Office of Statistics 1979). Thus, whilst more than achieving its aim of increasing tourist intake, the plan had failed completely to diversify tourist markets (see Figure 8.3). Furthermore, the Plan stated the intention to retain the situation in which 60% of tourists used hotel accommodation, largely because the use of hotel accommodation induces greater tourist expenditure and greater income and employment multiplier effects. Unfortunately, by 1978, World Tourism Statistics revealed that only 54% of tourist arrivals in Malta used hotel accommodation, and the the figure was continuing to fall in favour of cheaper self-catering accommodation (World Tourism Organisation 1978).

In conclusion, the 1973-80 plan seemed to set logical and ambitious targets. Many of the statistics that are available suggest that, although many objectives were not achieved, others were attained and even exceeded beyond the Government's most optimistic expectations. This would seem to suggest that, contrary to the stated intentions of the Plan, the development process remained well beyond the control of the Government and its agencies. This is not surprising, given the turmoil within the world economy, and emphasises the need for the flexibility in development planning advocated retrospectively in the 1981-1985 plan (Office of the Prime Minister 1981). Above all, however, the lack of control over the development process is symptomatic of the fact that the MLP governments have, like their PN counterparts, surrendered the control of the Maltese economy by deliberately attracting overseas MNC enterprise. Thus, despite the anti-capitalist labels which have adorned recent MLP manifestos and development plans, their policies differ only slightly from the diffusionist pattern of their PN predecessors.

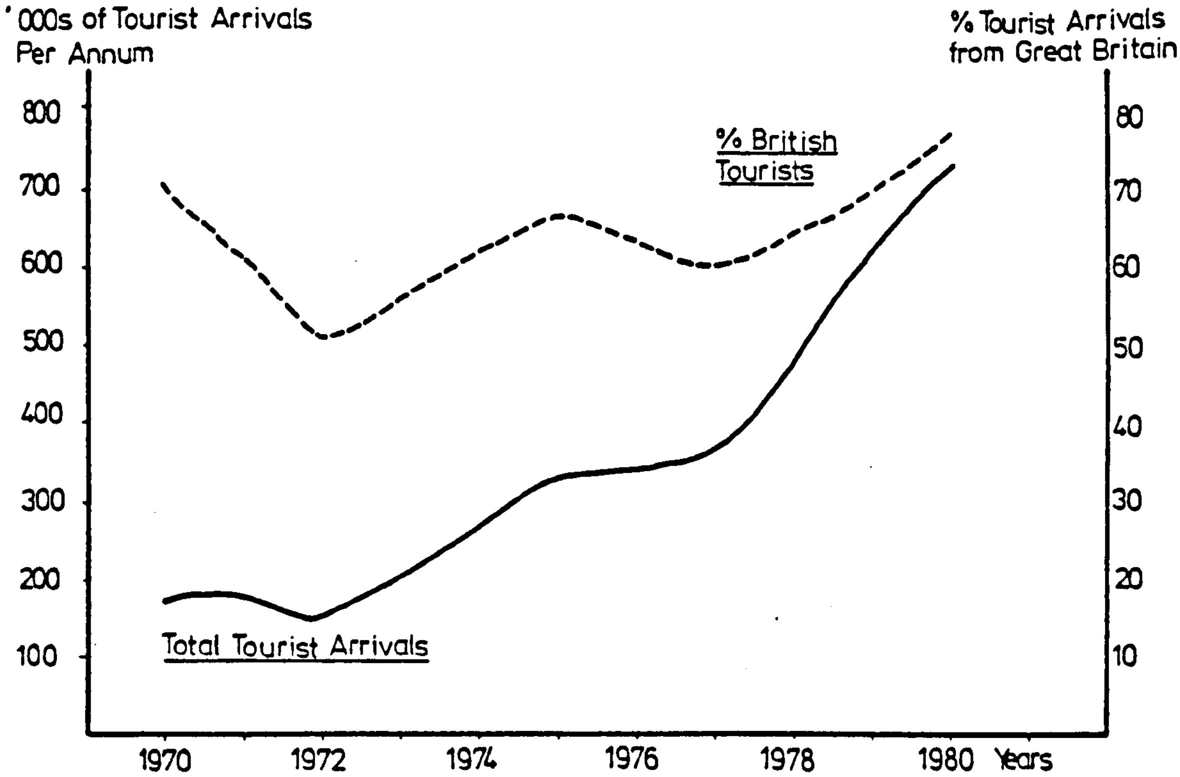

Figure 8.3 Per Cent British & Total Tourists 1970-80

Source: Central Bank of Malta (1982)

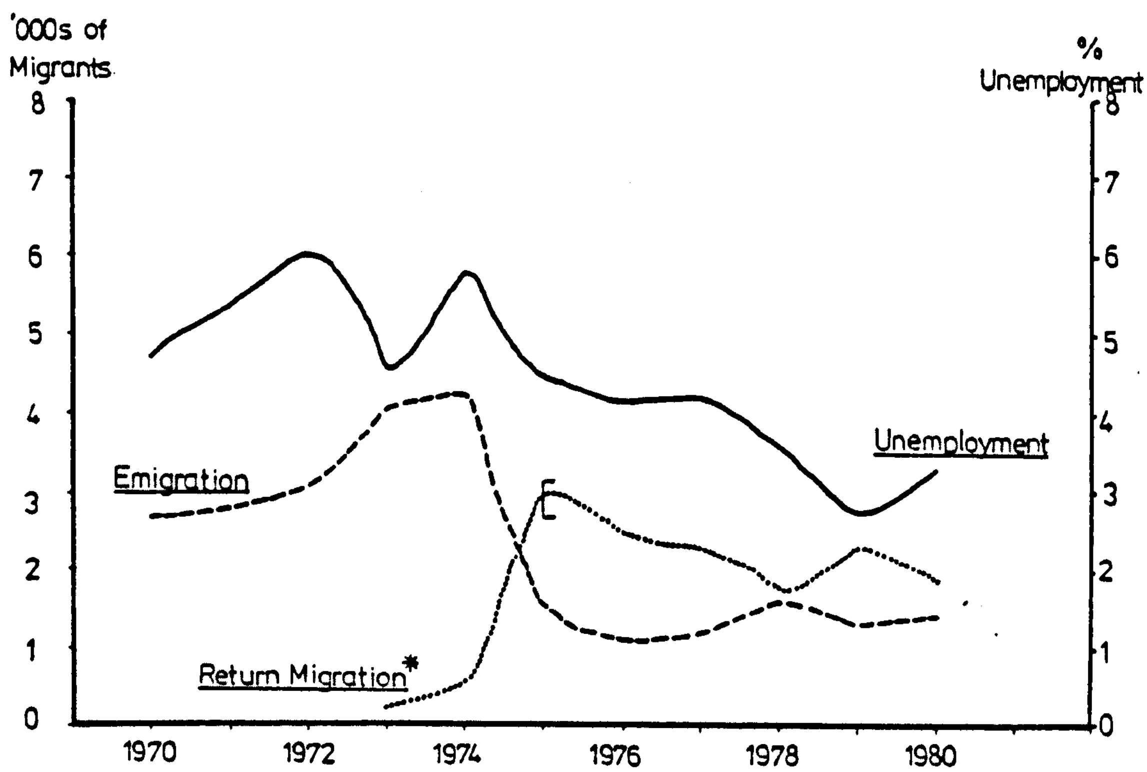

Figure 8.4 Migration & Unemployment 1970-80

Source: Central Office of Statistics (1977 & 1980)

* Note: Before 1975, only emigrants returning within 2 years of their departure were counted as Return Migrants.

8.3 Manufacturing Industry

One of the first actions of the new MLP administration in 1971 was to abolish the existing industrial incentives scheme on the grounds that it was uneconomic, and merely benefitted foreign capitalism. New incentives were reintroduced with the new development plan in 1973, emphasising the MLP's commitment to continue the efforts to attract multinational capital. The new incentives were, however, less generous than their predecessors (King 1978c). Thus, the 1973-80 plan stated,

> 'The new package of incentives approaches inducements to industries in an entirely different manner. The new incentives support and reward success...and presuppose operational viability...'
>
> 'The new policies are based on the assumption that Malta does not need to offer these gifts and that Malta has enough intrinsic advantages to give new industries a reasonable expectation of profits' (Office of the Prime Minister 1973, p.12-13).

No longer in the incentives package was there a ten year tax holiday, or grants for new companies' investments. Instead, the MDC offered packages of low interest or interest free loans, and provided tax relief only on reinvested profits. The other incentives included the removal of tariffs on imported raw materials and machinery, and the provision of ready-built, well serviced, low rent factories. In order to encourage overseas investors, the Maltese Government publicised some of the various 'natural' attractions of the Maltese location, particularly the quality and plentiful supply of Maltese labour. Not only were wages one third of those of Western Europe (see Chapters Ten and Eleven, and King 1979a), but the productivity of the labour force was also good, enhanced by what was claimed to be the lowest strike rate in Europe (M.E.E.D. 1980).

In addition to the changed incentive package scheme, the 1973-80 plan placed great emphasis on the need for joint ventures between Maltese and overseas interests, thereby encouraging local participation. This, it was hoped, would not only foster greater indigenous control of economic activity in Malta, but would also encourage the necessary transfer of managerial and technical expertise to Maltese personnel. As a consequence of the latter, the number of work permits issued to expatriate personnel in all sectors was cut back, a move which generally did not deter investors. The plan proceeded to state that it was the long term aim of its policy that, as a result of increases in the number of joint ventures and the growth of Maltese managerial expertise, the means of production within the Maltese economy would become predominantly owned by Maltese persons and institutions (Buttigieg 1975).

In the short term, meanwhile, it was felt that there remained a need for overseas investment and ownership in the Maltese economy, and it was therefore important to assure that diversification away from British economic dominance was achieved. In this respect, the Plan targets were at least partially achieved. Between 1973 and 1980, a large number of British firms ceased operations in Malta. These losses were more than compensated for by heavy investment from West Germany (see Chapter Twelve), particularly in textile and clothing activities. Although there were other substantial investments from, for example, Japanese sources, the enormity of the German involvement represented a swing away from dependence solely upon Great Britain to a more complete dependence upon the E.E.C. as a whole. This situation was brought about by the enlargement of the E.E.C. in 1972, which included Great Britain for the first time within the Community. The enlargement amplified the importance of the negotiated extension to Malta's associate membership of the E.E.C. during the 1970s and 1980s, which in turn helped to encourage enterprise from other E.E.C. countries (such as The Netherlands) to participate in the Maltese economy. Nevertheless, heavy dependence upon the E.E.C. institutions and enterprises is not a satisfactory condition.

Perhaps the most significant departure from the PN's development strategy in the manufacturing sphere was the Government's use of the MDC as an entrepreneurial agent. The 1973-80 plan emphasised that the State was no longer going to confine itself to a backing role and leave the private sector to initiate economic activity. Instead, there was to be much greater State involvement, especially in situations where the private sector failed to take the initiative, or where considerations of public sector interest were involved (Office of the Prime Minister 1973). Consequently, the State became involved in profit-making enterprise, and with the assistance of Chinese capital and technology, attempted to establish a number of import substitution industries. Unfortunately, many of these ventures ran into extreme difficulty soon after commencing production, and a number closed within two years of opening. There were, however, successes, which included a number of joint ventures between the MDC and overseas private and public enterprises, the most commonly mentioned of which is 'Medelec Switchgear', an enterprise combining the resources of G.E.C. (U.K.) P.L.C., the MDC, and the Libyan Arab Maltese Holding Company Limited. The MDC has also helped to establish State owned enterprise outside the manufacturing sector, the best examples being the national airline 'Air Malta', and the not so successful 'Sea Malta' shipping company.

Despite the efforts of the MDC, foreign ownership of enterprise in Malta has reached alarming proportions. King (1979a) observed that by 1976, over half the aided industries in Malta were either partly or wholly foreign owned, and that 58.5% of the total industrial share capital was foreign owned. In 1971, the MDC annual report (MDC 1971, p.10) had stated that the 37 wholly foreign owned industries, '...included the very largest of the sector. Units owned solely by Maltese numbered 69, but were generally amongst the smallest.' Grech (1978) explains that this situation did not alter during the 1970s, and that by 1976, the proportion of industrial share capital owned by overseas interests had fallen only marginally to 57.6%. This figure probably under-represents the extent of foreign ownership as the share capital of many firms is often only nominal, and usually is not proportional to conventional measurements of the size of firms, such as annual turnover or employment (see Chapter Twelve). It seems that a number of subsidiary firms operating in Malta choose not to raise the bulk of their capital through share issues.

There is therefore considerable evidence to suggest that Malta's means of production are still well beyond the control of both public and private sector Maltese agencies. This has important implications, for as well as illustrating the fact that the 1973-80 plan has failed to increase the Maltese ownership and control of industrial activity in the Islands, it also casts doubts as to the ability of future economic policy to influence the productive sector of the Maltese economy. This could be important, for as Grech (1978) pointed out, in December 1976, the 12 largest wholly foreign owned firms in Malta provided 30% of the aided sector's employment. Furthermore, King (1979a) estimated that in 1979, the single largest private enterprise in Malta, Bluebell Malta Ltd. (makers of Wranglers Jeans, and an entirely American owned company) accounted for approximately 20% of Malta's export earnings.

The case of Bluebell not only illustrates the extent of foreign ownership and control over the Maltese economy, but also shows the extent to which the textiles sector continues to dominate Maltese manufacturing industry. Despite statements in the 1973-80 plan declaring an intention to be more selective when attracting new industries[1] (thereby avoiding the further growth in importance of the clothing industries), a massive growth in textile sector activity occurred in Malta during the 1970s. This is best illustrated by the percentage of total manufacturing employment in the textiles sector, which in 1972 stood at 27.3%, and which by 1979 had risen to 42.1% (Central Office of Statistics 1972 and 1979).

Grech (1978) was especially concerned with the low levels of linkage established by textile related and other guest industries. There were, in fact, very few links between most industrial firms and other producers on the islands. As was the case with the PN Plans, the MLP believed industrial linkages to be important to the evolution of a stable industrial base. Unfortunately, the vertical and horizontal integration that has taken place within so many MNCs prevented any real need for business with the host economies, such as Malta (see Chapter Three). Thus, the carefully staged production processes of the MNCs ensured that their Maltese satellites' activities were directed inwards towards the MNC parent organisations rather than outwards towards local contractors.

The desired multiplier effects of industrialisation in Malta have therefore been as disappointing under recent MLP administrations as they were in the days of PN rule. Metwally (1977), unlike Grech (1978), believes that for this reason, industrialisation should not be the central focus of development policy. In its place, Metwally suggests that service

1. The Plan also strongly criticised the record of its predecessor, which it claimed foolishly allowed structural imbalance - also clothing sector dominance - to distort the manufacturing sector.

activities, such as tourism, should be encouraged as they generate far greater linkages within the Maltese domestic economy. There are, however, convincing arguments against encouraging all types of linkage, particulraly in view of the likely consequences of recessionary conditions, especially in small economies. Negative multiplier effects following a factory closure are probably more undesirable than the positive multiplier effects were desirable when the factory began operations.

It is difficult to summarise the industrial performance of the Maltese Islands since 1971. Perhaps the most important issues are those of foreign ownership and control, and textiles dominance. The performances of alternative manufacturing sectors have not been spectacular, probably because they were less able to take advantage of the cheap labour, and because of the complicated influences of the petroleum price rises. The failure of the manufacturing sector to meet its employment targets, and its unstable structure (resulting from textiles sector dominance) has as a result enhanced the importance of the dockyards and tourist sectors.

8.4 The Dockyards

In addition to the manufacturing sector, the dockyards and tourism have since independence been regarded as vital pillars of development. The dockyards, because of their strong manufacturing orientation, are dealt with in some detail in Chapter Eleven, and have been treated in the main part of this analysis as part of the manufacturing sector. The Maltese Government, however, have always treated the dockyards as a separate sector of the economy for historical reasons. A brief examination of their recent performance is therefore necessary at this stage.

One of the major features of the dockyards is that they traditionally formed the heart of the Maltese economy, particularly during the days of complete fortress dominance. Since independence, and after a brief period of control by British shipbuilding companies, they have been Maltese owned and controlled. Nationalisation was surprisingly enforced by a PN government in 1968. The decision to nationalise was made after the closure of the Suez canal in 1967, which had deprived the yards of much needed business. In addition, increasing unrest within the labour force in the dockyards had discouraged Swan Hunters, the British company in control until 1968. Industrial relations continued to deteriorate after 1968, and a pledge of support for the dockworkers in 1971 by the MLP was one of the reasons for the return to power of the MLP in the General Elections of the same year.

Once in power, the MLP rationalised the dockyards, and injected the investment that they had promised. The most important single development was a 300,000 dwt capacity drydock designed and financed by the People's Republic of China. The Chinese assistance involved the provision of a £17 million soft loan and the service of 700 Chinese technicians (King 1978a and 1978c). In addition, the Government has embarked upon a shipbuilding project in Marsa. This is seen as a particularly ambitious project, given the extremely depressed state of the world shipbuilding industry. The new shipyard is expected to open during 1983.

Despite the shipbuilding venture, a large part of the dockyard activities will remain in ship repairs and maintenance, which, according to M.E.E.D. (1980) account for approximately 80% of annual sales turnover. Important installations include modern tanker cleaning facilities, and other specialist equipment designed to cater for the requirements of (what was until 1983) a flourishing offshore oil industry in the Mediterranean. However, despite an increased dependence upon oil based business, the yards are well diversified, and perform numerous small metal-manufacturing functions for the Islands. Examples of this type of work include the structural steel work that forms the supporting structures for the Government factories on Malta's various industrial estates.

It seems that much progress has been made since the unstable period in the 1960s. Since 1973, the dockyards have benefitted from the reopening of the Suez Canal, which had by 1977 ensured that approximately 40 commercial ships passed Malta every day (King 1978a). Aided by new austerity measures in 1973, combined with the cheap but high quality labour, and increasing expertise, Maltese competitiveness has been difficult to counter in the Mediterranean. Indeed, in March 1982, ships were queuing for attention at the mouth of the Grand Harbour. The apparent prosperity of the yards is illustrated by the extraordinary fact that they have made a profit in most years since 1971. The ability of the Maltese yards to function at a profit whilst heavily subsidised competitors incur increasing losses, is officially explained in terms of the now excellent labour relations, more efficient working practices, and a streamlined workforce. However, opponents of the MLP Government suggest that the official statistics on the profitability of the yards are false, and that this is supported by the fact that few detailed precise figures on profitability have been available since 1973[1] (King 1978a). It is claimed that because the dockworkers

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1. This proved to be a problem in the analysis of the dockyards of Chapter Eleven as dockyard statistics are mysteriously excluded from the annual censuses of production.

and their dependents form the heart of MLP support, the MLP Governments are obliged to give unlimited financial support to the dockyards in order to maintain their mandate.

The importance of the dockyards to the Maltese economy cannot be doubted, both in terms of income and employment. Most important, however, is the fact that they are owned and controlled by the State, in the interests of the State. For this reason, their role in the development process in more likely to be fulfilled, a situation which contrasts with that of the other pillars of development - manufacturing industry and tourism - both of which are largely controlled by overseas companies. Furthermore, unlike the rest of the manufacturing sector, the yards are linked strongly with other sectors of the local economy, particularly the construction sector. However, on an ominous note, the most important factor affecting their well-being is their link with world markets, which have continued to deteriorate. It is surprising that the Maltese yards have managed to prosper to date in such conditions, and it can only be assumed that at some stage, the savage global recession afflicting shipbuilding and repairing will affect Malta.

8.5 Tourism [1]

The new development plan of 1973 placed great emphasis upon tourism as a pillar of development, and upon the need for the diversification of tourist markets. Other priorities included the need to attract wealthier high spending tourists, the need to reduce seasonality, and the need to utilise under-utilised hotel capacity. A vigorous advertising

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1. As was the case with the previous passage on the dockyards, only a brief section on tourism is required here as a detailed analysis is performed later, in Chapter Thirteen.

and promotion campaign in both Western Europe and North Africa was initiated. Because of the surplus hotel capacity, hotel building was initially slowed down, and incentives such as tax holidays ended (as in the manufacturing sector). Meanwhile, the responsibility of hotel building and major tourist projects was transferred to the MDC, and the Tourist Board was confined to administrative functions, most of which involved the coordination of the activities of the private and growing state sectors. Thus, the new overseas publicity campaigns constituted 90% of the total allocation for tourism in the fourth development plan (Central Bank of Malta 1980).

Increased public sector involvement in manufacturing industry was mirrored in the tourist sector. Thus, the MDC and other Government agencies began to take up interests in tourist businesses, such as tour operations and hotels. The intention was that, unlike other (Nationalist Party) administrations, the MLP Governments were determined to exercise control over the tourist sector. Government control was further enhanced by control over the graded classification of hotels and other tourist premises, the control of catering and hotel charges, and the levy of a room and an airport tax. Not surprisingly, opponents of the MLP Government claimed that Government interference had become too costly and too restrictive for the private sector operators.

The 1973-80 plan set itself a target of attracting 370,000 tourists by 1979, a figure which required an ambitious annual growth rate of at least 10% in tourist arrivals per annum (Office of the Prime Minister 1973). However, to the surprise of the authorities, the target was exceeded by over 67%, the actual figure for tourist arrivals reaching 618,000 (see Figure 8.3). By 1980, the annual total had risen even further to 728,732 (Central Office of Statistics 1980), a peak from which total tourist arrivals were to subside in 1981 and 1982 (see Chapter Thirteen).

Although the tourist boom has exceeded even the wildest expectations, thereby compensating for disappointments elsewhere in the economy, there were a number of alarming features of the growth in the tourist arrivals. First, far from diversifying the tourist markets, they had achieved even greater dependence upon British tourists, who in 1980 accounted for 76.5% of total tourist arrivals. Second, the desired wealthy high spending tourists had not materialised, and increasing numbers of tourists were spending less by choosing self-catering accommodation. Indeed, the slight alleviation of the seasonality problem had been achieved through the promotion of extremely cheap off-season packages. Third, the large numbers of tourist arrivals also placed a great strain upon the existing infrastructure, the most common manifestations of which were the frequent cessation of the water supply, and a surplus of sewage, which often found its way onto the streets. Thus, it became apparent, at some cost, that there was a limit to the number of tourists absorbable without incurring damage to social and economic structures (M.E.E.D. 1980).

In conclusion, it must be said that the MLP Governments of the 1970s failed to implement their stated policies, and consequently failed to control the tourist sector, a criticism also applicable to the PN administrations of the 1960s. Although there are many allegations claiming that the MLP administrations deliberately ignored their own declared policy, it seems more likely that the root of the problem of loss of control stems from the dominance of Maltese tourism by overseas (especially

British) tour operators. This, and other central themes, are discussed more fully in Chapter Thirteen.

8.6 Strategic Issues

It was clear to Mr. Mintoff in 1971 that, although it was politically and socially desirable to allow the British forces to withdraw entirely from Malta in 1974 (following the expiration of the 10 year defence treaty), the Maltese economy remained insufficiently diversified and too vulnerable to sustain the loss of the British fortress rent. It also occurred to Mr. Mintoff that his bargaining position was not as weak as might have been expected. Dowdall (1972, p190) explained that, 'Mintoff must be as aware as anyone else that Malta's strategic value to NATO is not in Britain's use of the Island, but in denying its facilities to the Russians.' The threat of another Cuba, this time in the Mediterranean, successfully forced the U.S.A. to insist on a continued NATO presence on Malta, despite Mr. Mintoff's expensive terms (King 1979a). There resulted a new 'Treaty of Mutual Defence and Assistance with Great Britain', the terms of which heavily favoured the Maltese. The British undertook to treble their annual rent payments to £14 million, to reduce the 3,500 military personnel and their 7,000 dependents to a mere 30 men, to provide a further £2.5 million apparently already owed to the Maltese Government, and to provide a £7 million concessional development loan (Wriggins 1975). In addition, the Maltese insisted upon maintaining an increasingly non-aligned stance by refusing to accommodate the American Sixth Fleet, a move which pleased the People's Republic of China, from whom considerable development assistance was being received. (Financial Times, 6th February 1975). The United States, meanwhile, was appeased by the knowledge that access to the Maltese harbour facilities had also been denied to the Soviet Navy.

It seems that Mr. Mintoff's diplomatic activities in the early 1970s can be equated with the aggressive manoeuvring advocated by authors such as Seers (1981), who suggested, probably with Malta in mind, that, under such circumstances, small countries may reverse and even exploit their dependency. In this context, Mr. Mintoff's diplomatic skills are further emphasised by his ability to obtain development loans from a diverse selection of countries. The Financial Times (6th February 1975, p.22) summarised Mr. Mintoff's achievements as follows. 'Without giving the impression of going cap in hand, he has managed to pick up soft loans from China, France, Canada, Libya and Saudi Arabia.'

Non-alignment remains a central part of the MLP Government policy, and is, on the surface at least, aimed at attaining political and economic detachment from Great Britain. The MLP has always maintained that the policies of the PN in the 1960s maintained such levels of dependence upon Great Britain that the independence achieved in September 1964 was only nominal in nature. It was for this reason that Malta was declared a Republic on 13th December 1974, this particular date replacing the previous independence day as a major national holiday. Whilst pursuing non-alignment still further, the Maltese Government have affiliated Malta to the group of 77 non-aligned states, and continually referred in their development plans and associated literature to the need for Malta to act as a Euro-Arab bridge (see Office of the Prime Minister 1973, 1977 and 1981). The especially strong Middle Eastern flavour to the current development policy is illustrated by the decision to make Arabic compulsory in the Maltese schools curricula, alongside Maltese, English, and Italian.

During the mid-1970s, the non-alignment policy was assisted by the rapid withdrawal of the British fortress's equipment and personnel. Between 1970 and 1977, the percentage of total Maltese employment in the fortress fell from 6% to 0% (Pirotta 1977, and see Figure 8.2). Simultaneously, the percentage of total foreign exchange earnings provided by the fortress, and the percentage of Maltese Government revenue also provided by the fortress, both fell to zero from over 25% in 1973 (Office of the Prime Minister 1977). In March 1979, the British forces withdrew completely from Malta, thereby bringing to an end over 2,000 years of overseas military domination.

8.7 Conclusions

The MLP Governments' positive achievements are perhaps best illustrated by using comparisons with Western European countries in the same period. For example, whilst recessionary pressures adversely affected the European economies, forcing unemployment rates into double figures, the official unemployment rate in Malta was falling to a level of 2.7% (see Figure 8.4). However, the M.E.E.D. (1980, p.4) asserts that, 'Perhaps the most meaningful vote of confidence has been cast by returning Maltese expatriates - after decades of being a major exporter of people, there has since 1975 been a small, but steady, net flow of immigrants.' (see Figure 8.4).

Although there have been notable successes in the new public sector, there have also been failures. For example, attempts to verticalise the textiles and clothing industries by establishing, with the assistance of Chinese technology, a spinning and weaving mill, resulted in disaster. Other parastatal industries, such as 'Sea Malta' have also fared badly. Furthermore, some public services such as telecommunications, and most important, water supply, seem to have been very badly managed. This is unfortunate as inadequacies in infrastucure have hindered the development of both manufacturing industry and tourism. It seems, therefore, that there is considerable room for improvement in the management of the public sector. This would tend to suggest that it was unwise to expand the activities and responsibilities of the public sector to such an extent, given the insufficient management expertise and financial resources available. It has also been suggested that the public sector has been extended in the wrong directions, and that greater emphasis should have been placed on the provision in Malta of international services. Under these circumstances, it has been argued that Malta could have transformed herself into the 'Geneva of the Mediterranean', especially following the demise of the Lebanon. Economists such as Metwally (1977) suggest that this would have produced more income and employment multiplier effects than has been the case with the continued emphasis on manufacturing industry.

One of the most serious criticisms of the MLP Government is that the increased centralised control of government is leading to widespread corruption. Certainly, there is mounting evidence to support this, especially in the retailing sector. The PN are also critics of the manner in which Government intervention has occurred in private industry, maintaining that the compulsory maintenance of specific labour levels is strangling private enterprise. In addition, the PN continues to claim that the MLP has doctored the available statistics, concealing unemployment by failing to disband the labour corps, and by absorbing many of the jobless into idle occupations in government service. But perhaps the severest criticism of the MLP is their industrialisation record, which is adequate in absolute terms, but extremely worrying in terms of its internal structure. Malta's industrial capacity is now even more dependent upon unstable textile sector industries than was the case in 1971 (see Figure 8.5). The promised extra-selectivity has not occurred,

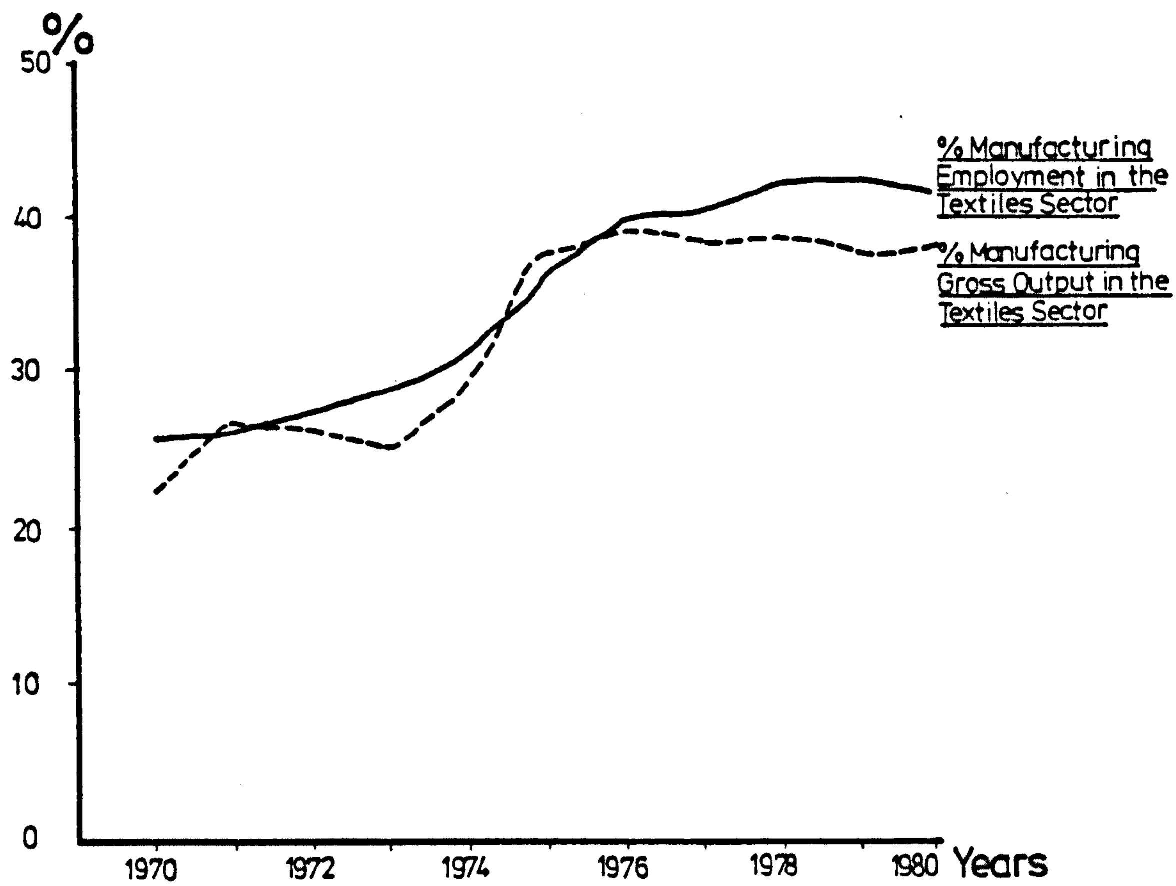

Figure 8.5 Per Cent Manufacturing Output & Employment in Textiles 1970-80

Source: Central Office of Statistics (1970/71-1980) and the consequences will probably be serious in the 1980s. Similarly, the tourist sector was to be diversified through the attraction of wealthier, non-British tourists. In reality, the expansion that occurred was achieved through what seems to have been the deliberate attraction of very large numbers of low-spending British tourists, and the growth of less desirable non-hotel accommodation.

Meanwhile, the dockyards, the other major pillar of Maltese development, constitute an area of activity which, like the textiles sector, is currently suffering a period of global instability and over-capacity. The Maltese yards will be extremely fortunate if they too are not eventually afflicted by the recession. The Maltese economy as a whole therefore remains in a highly unstable, dependent and vulnerable condition, despite the much advertised MLP promises of autonomous development. Unfortunately, current political instability has encouraged intransigence, and the new MLP Plan (1981-85) (Office of the Prime Minister 1981) merely represents a continuation of existing development policy. This is disappointing to many who support the more conventional economic policies of the PN, and is equally distressing to socialists such as Vassallo (1979), who perceiving the MLP development policies to be implicitly pro-capitalist, deplore the resulting multinational investment in Maltese economic activity. To those such as Vassallo, the only real success of the MLP period of government to date has been its social policy.

CONCLUSIONS TO SECTION TWO

This section has illustrated the fact that the Maltese situation bears little relation to the experiences of other less developed or even underdeveloped countries, and that many of the traditional development and underdevelopment experiences are completely irrelevant to this analysis. This has been shown in the simplest terms by referring to Clark (1951), whose development model predicts a logical transition from rural based and extractive primary activity, through the dominance of manufacturing industry to a mature condition of service dominance. The Maltese case is manifestly different, and has required a reverse transition from service (or fortress) dominance to productive activity. This has largely involved the development of light manufacturing industry and the commercialisation of the dockyards. It has also been possible, with the assistance of a buoyant tourist industry, to retain a strong element of service activity throughout Malta.

Chapter Six showed that in the post-world war two years, when the British defence industry remained dominant, the Maltese were happy to remain dependent upon Great Britain, and more specifically, upon the fortress. The contentment was soon terminated by the 1957 defence white paper announcing the end of Malta's role as a major base - an unpleasant development currently facing Gibraltar. The defence cuts marked the beginning of a concerted drive towards independence, and what was hoped would eventually become autonomous development.

In Chapter Seven, the MLP's attempts at autonomous development were outlined. Their strategy was one which was explicitly diffusionist, and involved the export of their potential control of the economy - especially the manufacturing and tourist sectors - into the hands of a number of MNCs. The results included dangerous concentrations in industrial structure, ownership and markets, and especially serious dependence upon Great Britain. The potentially dangerous consequences of their loss of control of the economy were well demonstrated by the propoerty boom of the late 1960s, which had its roots in the London money markets. Indeed, the entire development programme was strongly influenced by the British, who had devised and financed the first development plan during the years immediately before independence. In this period, there was no viable alternative to export industry based development, and the British planners logically applied strategies that they were using within their own regional policy, especially in Northern Ireland. Consequently, the attraction of overseas firms in order to provide much needed absent factors of production was a logical decision under the circumstances.

In Chapter Eight, the MLP's attempts at autonomous development were outlined. It must be recognised that they inherited what were already dependent structures. However, the adoption of an implicitly diffusionist development strategy ensured that, if anything, dependency structures gained strength within the Maltese economy. By 1980, concentrations within the economy were even worse than in 1971, and were exemplified by a strong dominance of unstable clothing industries within the manufacturing sector, and the astonishing preponderance of British visitors amongst annual tourist arrivals. Thus, despite strong policy statements to the contrary, the MLP inadvertently strengthened the tendencies towards concentration that it had pledged to reduce.

There have, however, been positive aspects to the MLP period of attempted development. Attempts at diversifying external dependency links have occurred, and have included the encouragement of Eastern Bloc and Arab ventures in particular. Not all have been successful, but some have taken root and prospered. Similarly, in the field of diplomacy, and aid and trade links, countries such as Czechoslovakia and Libya have begun to figure prominently. Also, despite the loss of control of tourism and light manufacturing industry, the important dockyards remain under indigenous State control. In addition, the adoption of welcome and successful social policies have benefitted many of the more marginal members of the Maltese community.

Many of the general observations and trends included in Section Two were gleaned from the existing literature and summary statistics on Malta. A closer examination of Malta's economic structures is now required, and this is to be performed in the chapters contained within the next section.

SECTION THREE

INTRODUCTION TO SECTION THREE

This section constitutes a detailed examination of the Maltese economy. Three out of the five chapters deal exclusively with manufacturing industry, and use official aggregate statistics. They are therefore concerned with development at the macro-level. The fourth chapter (Chapter Twelve) deals also with the manufacturing sector, but does so at the micro-level, using data collected in an industrial survey. This material is designed to complement the material discussed in the previous three chapters. Finally, the last chapter of the section (Chapter Thirteen) concerns itself with tourism, the other major pillar of development on which the Maltese economy is perceived to depend. Dependence within the tourist industry is identified, and can be seen to be as severe, if not more so, than is the case in Maltese manufacturing industry.

CHAPTER NINE: THE STRUCTURE OF MANUFACTURING INDUSTRY IN MALTA

9.1 The Importance of the Manufacturing Sector

The dominant role ascribed to the growth of manufacturing industry in all the Maltese development plans (see Chapters Six, Seven and Eight) reflects a widespread and worldwide belief in the diffusionist development paradigm and its assumptions concerning the generative powers of manufacturing industry (see Section One). In the late 1950s and early 1960s, Malta was in the unusual position of possessing a highly developed service sector, and very little manufacturing capacity. It was therefore predictable that the economic diversification programme would rely heavily upon conventional industrialisation as the major means of breaking the dependence upon the declining British fortress. Some industrial activity existed before the first development plan of 1959, but was confined to extremely small scale activity. At this time, exports were very small, most production still being confined to local distribution in the restricted home market. In the years since the first development plan, this situation has altered dramatically in favour of export based activities and comparatively large scale production.

One of the central features of the diffusionist thesis is the belief that the growth of a manufacturing sector - usually a group of chosen industries, often referred to as a growth pole (Perroux 1955) - will encourage the growth and diffusion of industrial activity through the evolution of both forward and backward linkages. In this way, investment in manufacturing activity is expected to generate what may be called (in Keynesian terminology) 'multiplier effects'. The popularity of manufacturing industry in many development strategies is partly explained by the traditional belief that manufacturing industry, through its linkages, is able to induce the greatest income and employment multiplier effects within a developing economy.

The wisdom of this strategy as it is usually implemented has already been called into question in Section One, and it is significant that alternative development strategies have in some instances been adopted (e.g. Tanzania and China). In the Maltese case, the unique problems of scale and history have also caused dissent amongst development planners. For example, Metwally (1977) successfully alienated the MLP government by suggesting that far greater multiplier effects were to be gained by investment in service sector activity, most notably tourism. Metwally supported this suggestion using econometric data and equations calculated from official government statistics. Thus, he was able to show that, of the three critical development sectors - the dockyards, manufacturing industry and tourism - tourism has had by far the greatest positive effects upon the Maltese economy (Metwally 1977 and 1979). Metwally ensured his own loss of credibility by advocating the encouragement of overseas settlers as part of a package of international service provision. His econometrics were also called into doubt by critics who included Delia (1978).

Despite the many arguments, manufacturing industry remains the focus of the current development plan for Malta (Office of the Prime Minister 1982). For this reason, the remainder of this chapter, and all but one of the remaining chapters of this section deal exclusively with manufacturing activity in Malta. Of great importance is the structure of Maltese manufacturing industry, which not only influences the nature and scale of the benefits accruing to the Maltese economy, but also determines the long term stability of Malta's industrial base.

Government-aided industry now constitutes the bulk of Malta's industrial activity, and consequently deserves a brief mention at this stage. The aided sector includes almost every large scale manufacturer in Malta, and as a result, accounts for almost all formal sector industrial activity. Thus, by 1980, 73% of total manufacturing employment was in the aided sector, a considerable advance from the 61.1% of 1973 (MDC 1980).

To qualify as an aided firm, a company must have received, and be receiving, some sort of official Government assistance through the Malta Development Corporation (MDC). Such assistance includes any of the official Government incentives, and therefore involves assistance such as the provision of loans, grants, factories, and import duty concessions. One of the most common forms of incentive has been the provision of ready-built factories on Government-built industrial estates (see Plate 9.1, and Figure 9.1). As a result, a large proportion of the aided sector operates from industrial estates. In 1980, the distribution of factories in operation throughout the estates was as shown in Table 9.1 below.

Table 9.1 The Numbers of Factories on Government Industrial Estates in 1980.

Estates	No. of Factories
Marsa	57
San Gwann	26
Mriehel	16
Bulebel	71
Kordin	31
Ricasoli	7
Hal Far	6
Xewkija (Gozo)	10
Others	17
Total	241

Source: MDC (1980)

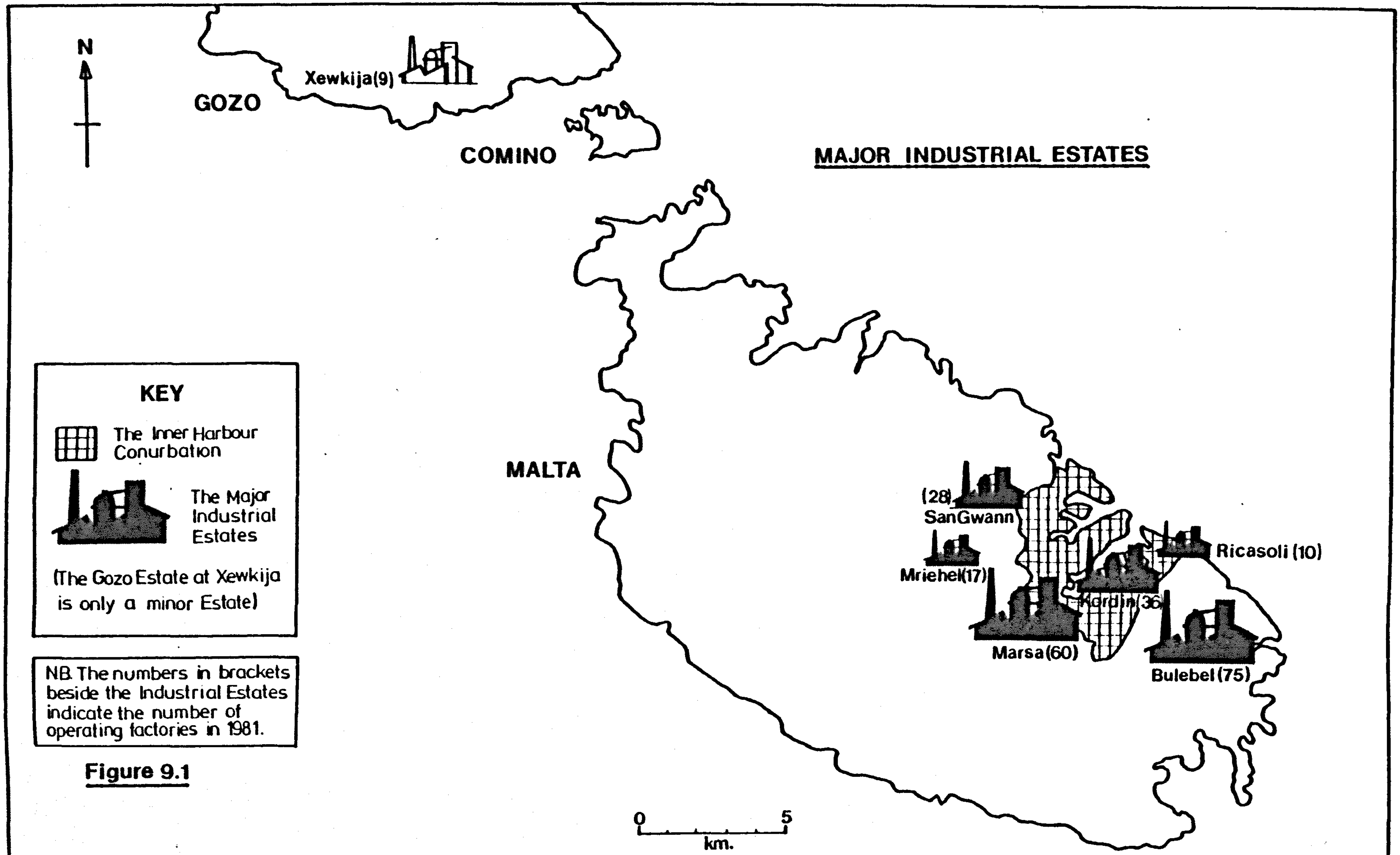
MAJOR INDUSTRIAL ESTATES
N
GOZO
Xewkija(9)
COMINO
MALTA
(28) SanGwann
Mriehel(17)
Marsa(60)
Kordin(36)
Ricasoli (10)
Bulebel (75)
0
5
km.
KEY
The Inner Harbour Conurbation
The Major Industrial Estates
(The Gozo Estate at Xewkija is only a minor Estate)
NB. The numbers in brackets beside the Industrial Estates indicate the number of operating factories in 1981.

Figure 9.1

PLATE 9.1 Bulebel Industrial Estate. This is the largest of the Government industrial estates. The factories are constructed from the uniform globigerina limestone blocks quarried locally (see plates 5.3 and 5.4), and the steel substructures are usually manufactured in the dockyards of the Grand Harbour.

Marsa is the oldest of the estates, but Bulebel has become the largest. Ricasoli and Hal Far are likely to grow in importance. Unfortunately, it has not been easy to encourage manufacturers to locate in Gozo, on the Xewkija estate.

The aided sector has continued to grow since the MLP industrial development policies became operative in 1973, despite their less generous incentive packages. There has, however, been an increase within the sector in the dominance of the textiles sector activity (see Table 9.2). Despite a fall in the average workforce in textile activity, in 1980,

Table 9.2 The Number of Aided Firms, and the Average Employment per Firm, by Sectors, 1973 and 1980.

Sectors	Number of Firms		Average Employees	
	1973	1980	1973	1980
Food & Beverages etc.	15	16	46	87
Textiles, Clothing etc.	51	90	151	130
Chemicals, Plastics etc.	18	18	101	82
Metals & Machinery etc.	40	74	82	67
Total	160	255	96	87

Source: MDC (1980)

textile activities retained an average of by far the largest workforces in the aided sector. Textiles were also major sources of exports, 93% of the sector's production being exported in 1980 (MDC 1980). In the same year, the aided sector as a whole exported 81% of its output. Of these exports, 76.3% found their way to E.E.C. countries.

Of the 255 aided firms operating in 1980, 21 benefitted from direct State involvement. Of these, three were completely State owned, in seven, the State had a majority share-holding, and in the remaining eleven, the State had an equal or minority share-holding. However, despite the publicity given to parastatal enterprise, most of the aided sector consists of private enterprise, an important and large segment of which is owned and controlled by MNCs.

Because of the dominant position held by the aided sector within the Maltese economy, and especially within the manufacturing sector, the discussion and analyses which follow will be concerned to a great extent with aided sector activity. Consequently, despite the fact that the primary concern of the chapter is Maltese manufacturing industry as a whole, some statistics and discussion will relate specifically to aided industry. This situation has been encouraged not only by the dominance of the aided sector within manufacturing industry, but also by the high quality of statistics provided by the MDC concerning the aided sector.

Finally, some explanation is necessary concerning the sectoral classification of Maltese manufacturing industry in this analysis. This has been dependent to a great extent on the Maltese classification system, which has, unfortunately, not always been consistent. The sector of most interest - the Textiles Sector - consists of textiles, clothing and footwear manufacture. The Food Sector has as its major constituents food, beverage and tobacco manufacturers. The Chemicals Sector is made up of Chemical and Plastics industries. Finally, the Metals sector consists of metals and machinery industries, and includes electronics. The Metals sector is complicated by the fact that the dockyards are not included within its official statistics. Thus, although this study has chosen to include the dockyards as a manufacturing industry, it has not been possible to combine the dockyard statistics into the macro-level statistics.

9.2 The Employment Structure of Maltese Manufacturing Industry

Because of the decline of the British fortress, one of the major aims of the industrialisation policies was the provision of employment. It was hoped that industrial growth would replace the jobs lost in the fortress sector, and would also provide employment for the growing numbers of young male Maltese reaching working age. The growth of total employment in manufacturing was unfortunately slow during the first development plan period, but picked up quickly during the post-independence years. Thus, in 1959, total employment in manufacturing was only 11,000, and had by 1979 risen to a peak of 31,400 (see Figure 9.2, and Central Office of Statistics 1964 and 1979)[1]. The importance of employment in manufacturing also increased in relative terms during the 1959-79 period. Thus, in 1959, only 12.6% of the gainfully occupied population were employed in manufacturing industry. By 1979, this figure had risen to 26.5% (see Figure 9.2, and Central Office of Statistics 1964 and 1979). Simultaneously, the proportion of employed persons in the direct service of the British fortress fell from 18.3% to 0% (see again Figure 9.2, and Pirotta 1977). The manufacturing sector has therefore become one of the most important sources of employment in the post-independence era, and in this respect, successive Maltese Governments of both complexions may claim some degree of success.

Unfortunately, the structure of manufacturing employment is less pleasing. As is illustrated by Figure 9.3, Malta has failed to diversify her industrial base. During the 1964-79 period, whilst total manufacturing employment was increasing substantially, dependence upon textile sector enterprise for employment was increasing to unsurpassed

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1. By 1980, the figure had fallen back to 30,355 in manufacturing industry (Central Office of Statistics 1980).

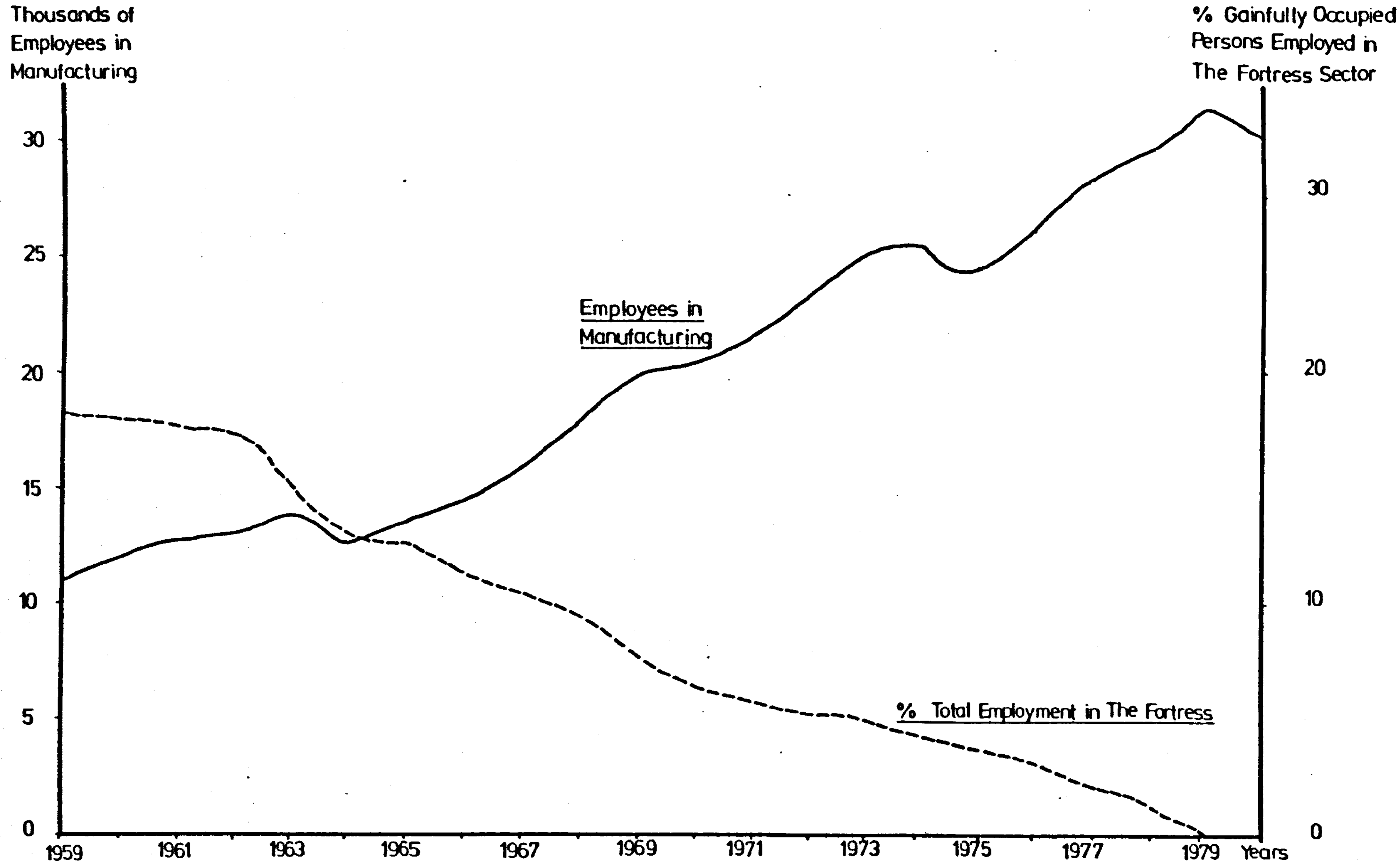

Figure 9.2 Total Employment in Manufacturing, and % Employment in The Fortress 1959-80

Source: Central Office of Statistics (1964-1980)

levels. In 1964, 22.3% of the total employment in manufacturing activity was accounted for by textiles sector enterprise. By 1979, this figure had risen to 42.1%. Other sectors remained relatively stable, and metal manufactures, in relative terms, advanced only slowly from 17.7% to 19.4% of total manufacturing employment in the same period. The Chemicals sector, however, illustrated well the potential vulnerability to external influences of certain industrial sectors operating in Malta when the OPEC induced oil price rises of 1973 caused the employment in Maltese chemical industries to contract from 5.2% to 1.2% of total manufacturing employment in only two years. Meanwhile, as expected, the relative importance of food related industries declined consistently throughout the period, despite the fact that in absolute terms, the numbers of employees remained stable (see Figures 9.3 and 9.4).

Although increases in total employment in manufacturing industry have been considerable since independence, the sex structure of the new employment has given cause for concern. Whilst it has been the stated intention of all Governments since the mid-1960s to increase female participation in the economy of the Maltese Islands, the provision of jobs for the unemployed males leaving the fortress was a more serious priority. However, the nature of the employment provided by the new industries favoured female labour. This is best explained by the domination of the textiles sector, the workforce of which was 73.7% female. Thus, whilst full female employment was achieved by the late 1970s, male unemployment remainded a problem[1]. During this period, the Government reacted by recruiting large numbers of males into government services, increasing the percentage of male personnel in the government

1. At this time (1979), female participation in the Islands had risen to 31.1%, a rise during the decade of over 10% (Central Office of Statistics 1979).

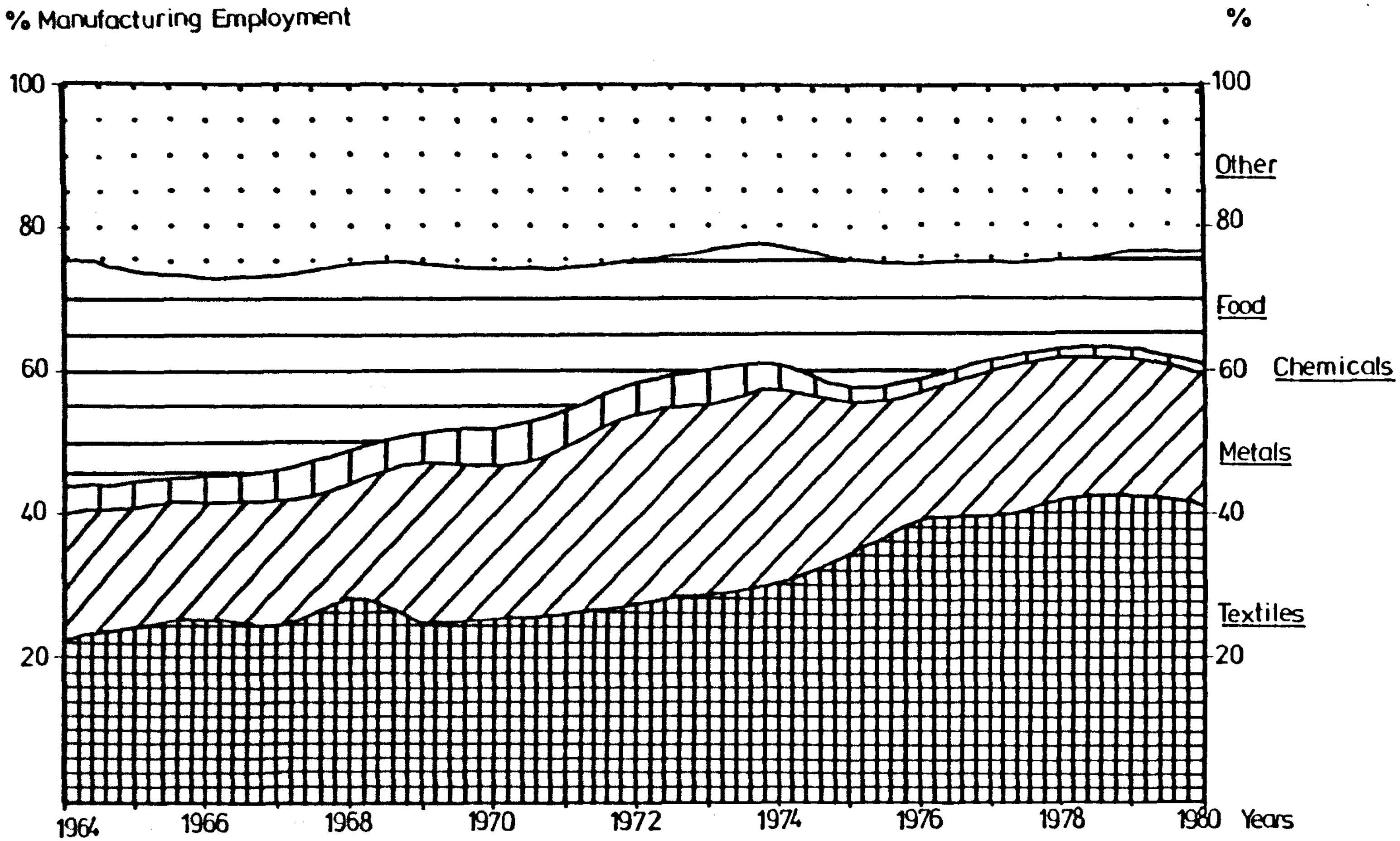

Figure 9.3 Per Cent Manufacturing Employment by Sectors 1964–80

Source: Central Office of Statistics (1967-1980)

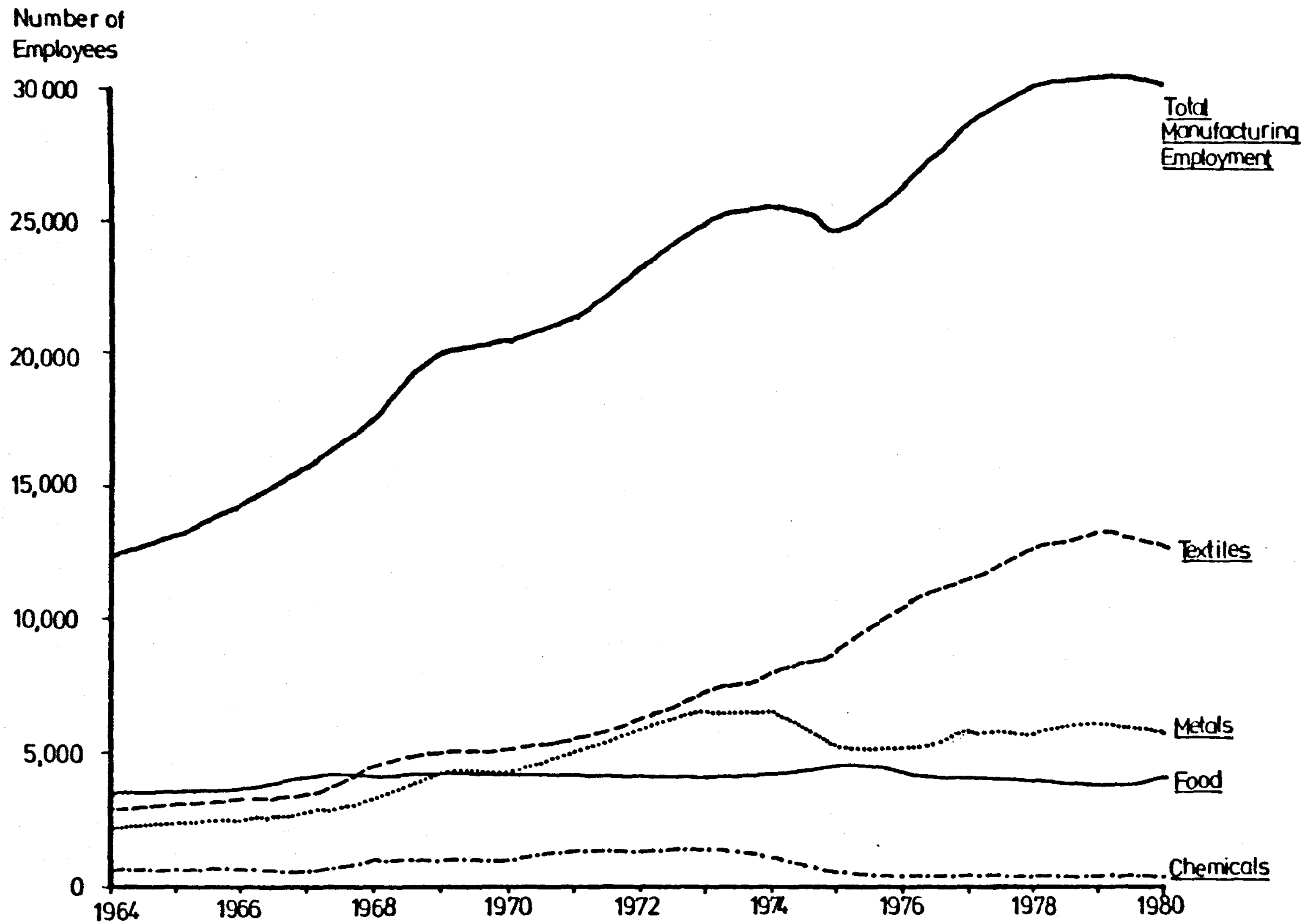

Figure 9.4 Total Manufacturing Employment by Sectors 1964–80

Source: Central Office of Statistics (1967-1980)

sector from 80.5% in 1971 to 85.4% in 1979.

In summary, the manufacturing sector has since independence become a major source of employment in Malta. However, manufacturing jobs have in recent years not increased in number as much as was desired. Thus, in 1980, the fourth development plan's (1973-80) manufacturing employment target of 44,910 was never reached, the shortfall amounting to 13,516 jobs (30%). Furthermore, most of the jobs provided were filled by women, a factor which exacerbated surpluses in the supply of male labour. Nevertheless, most disturbing of all was the dominance of the textiles sector, which by 1980 accounted for over 40% of manufacturing employment. The instability of the textile sector throughout the world would tend to suggest that the long term future of many Maltese manufacturing jobs is in jeopardy.

9.3 The Output of Maltese Manufacturing Industry

The total gross output of the manufacturing sector followed an exponential growth pattern during the 1964-79 period, the greatest growth in the value of output occurring from the mid-1970s onwards[1] - years which were characterised by rampant international inflation. The complexities of the international money markets and the relationship of the Malta Pound to the hard currencies hinder the calculation of 'real' increases in output for this period. However, other indicators (such as the number of employees and establishments in the manufacturing sector) indicate that substantial increases in real output were attained. During this period, Maltese manufacturing industry was transformed from predominantly small scale enterprise supplying only the Maltese domestic markets to almost entirely export-based manufacturing activity. Because

1. See Figures 9.5 and 9.6

of a complete absence of indigenous raw materials in Malta, one of the major disadvantages facing the manufacturing sector has been the high import content of manufacturing production, a factor which has helped ensure that the net output of the manufacturing sector is substantially less than gross output (see Figures 9.5 and 9.6). Although this has acted as a disincentive to overseas enterprise, extremely low unit labour costs in Malta as well as the various Government incentive packages have encouraged many MNC subsidiary companies to be established within Malta.

The increasing importance of manufacturing industry to the Maltese economy is well illustrated by the rise in the proportion of annual GDP accounted for by the manufacturing sector (see Figure 9.7 and Table 9.3). In 1964, only 33.9% of GDP was generated by manufacturing activity in Malta, but by 1977, this had risen to 69.0%. The growth of manufacturing activity slowed in the late 1970s, but by 1980, manufacturing still accounted for 62.2% of GDP (Central Office of Statistics 1969, 1977 and 1980). Part of the fall in the proportion of manufacturing output within GDP may be attributed to the strong growth of tourism within the Maltese economy in the latter half of the decade (see Chapter Thirteen).

The constituents of Maltese manufacturing output between 1964 and 1980 display a pattern similar to that of manufacturing employment. Measures of both gross and net output show that the textiles sector is by far the largest contributor to manufacturing output. It is also apparent that the textiles sector can attribute its enhanced importance within the Maltese economy to the very rapid growth of clothing industries in the mid-1970s (see Figures 9.8 and 9.9). Of the other major

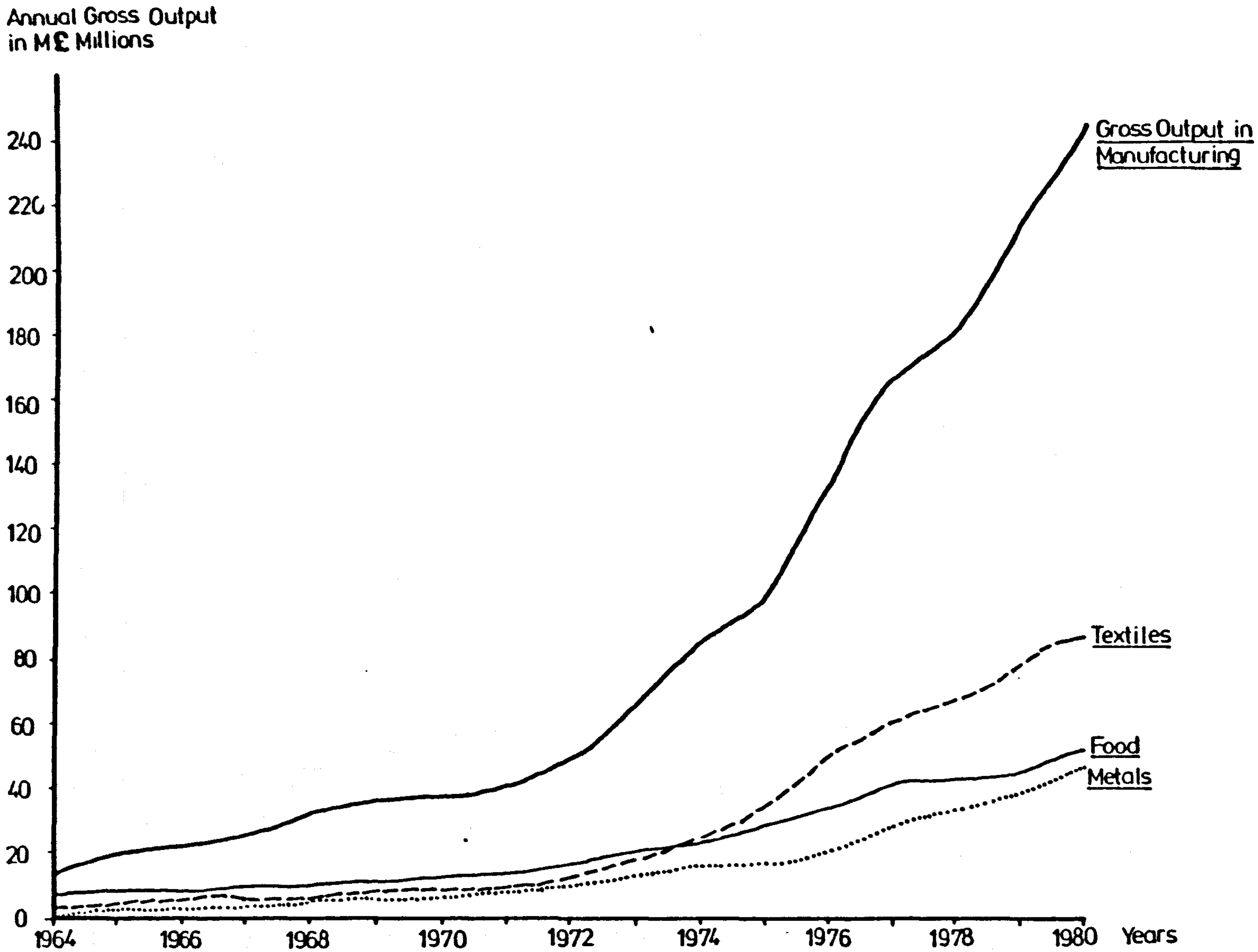

Figure 9.5 Gross Manufacturing Output 1964-80

Source: Central Office of Statistics (1967-1980)

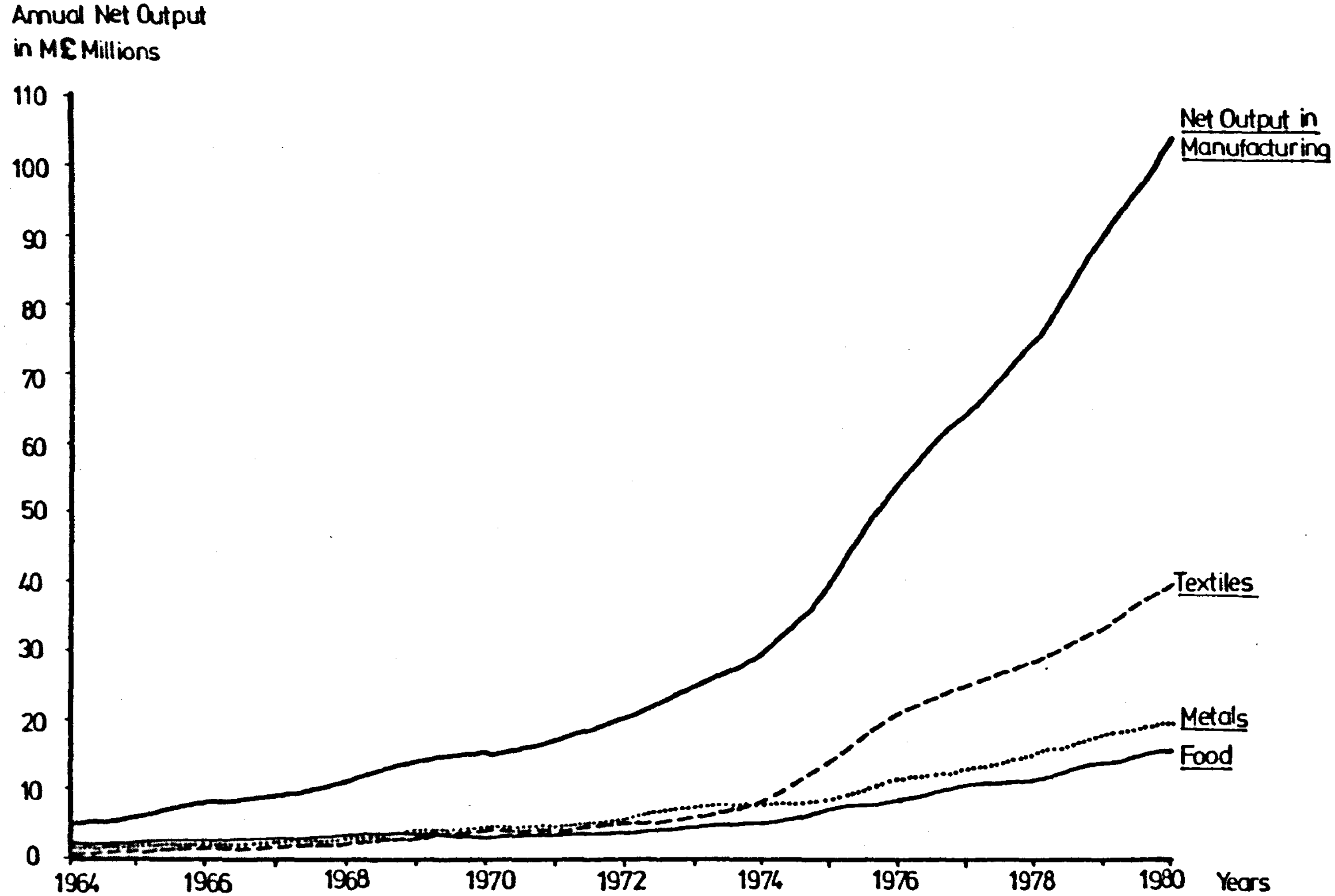

Figure 9.6 Manufacturing Net Output 1964-80

Source: Central Office of Statistics (1967-1980)

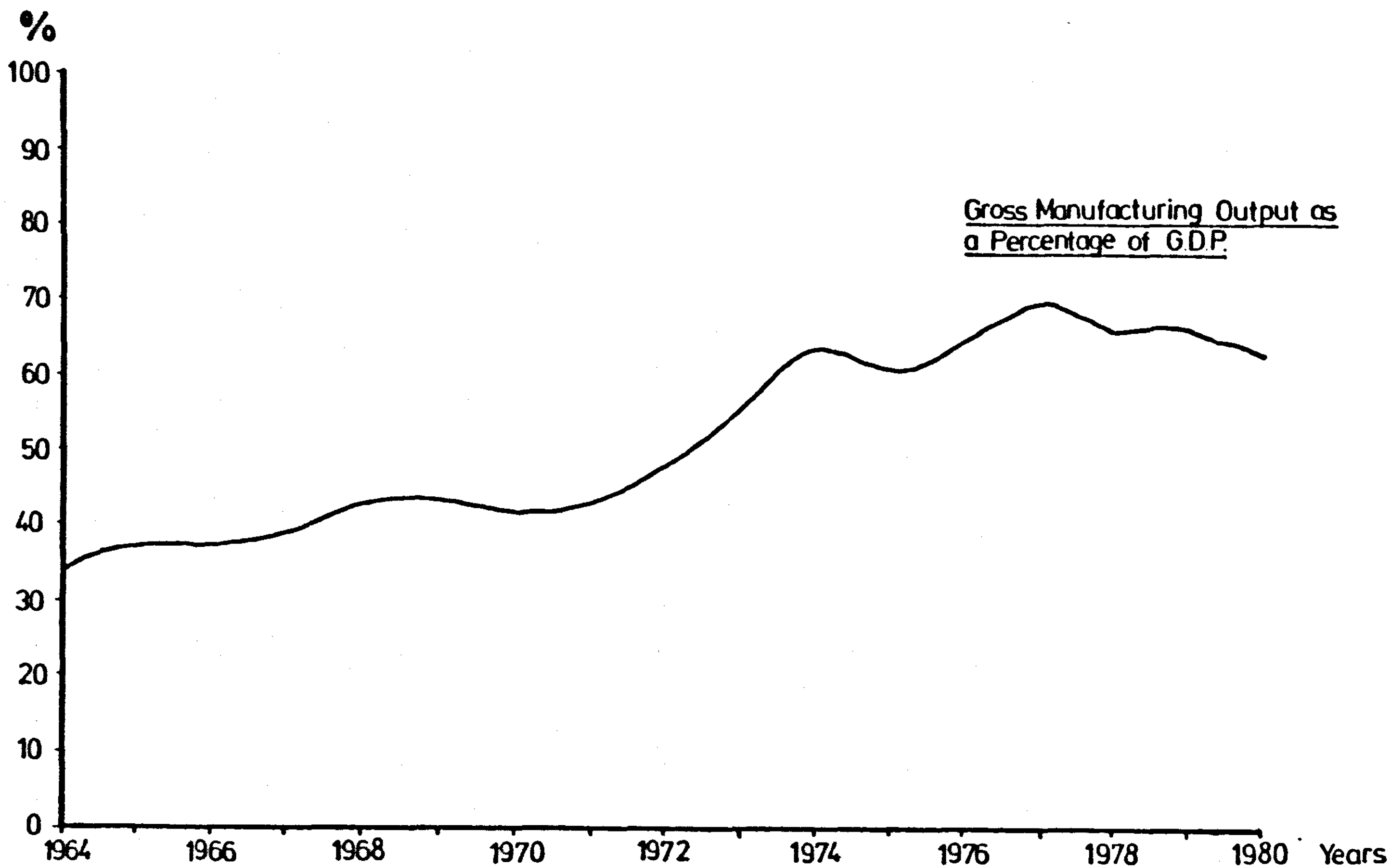

Figure 9.7 Gross Manufacturing Output as a Percentage of G.D.P. 1964-80

Source: Central Office of Statistics (1967-1980)

sectors, metals remained relatively stable, whilst chemicals suffered severely from the oil price rises. The food and beverages sector, as expected, declined in relative importance as other sectors grew in stature.

It is possible, by using measures of both gross and net output, to roughly estimate the average value added by each sector of manufacturing industry. This can be dome by taking net output for a single year as a proportion of gross output[1]. Subsequent computations (see Table 9.4) reveal that large material inputs and little value added during manufacture contributed to the low index value for the food sector (22% in 1964). This figure fluctuated wildly between 1964 and 1980, and eventually rested at a much improved 31.5% by the end of 1980. As is to be expected, the chemicals sector experienced a serious setback in the mid-1970s as the oil price rises caused large increases in the costs of materials. Meanwhile, the metals sector in 1964 appeared to be the most productive, net output representing 48.8% of gross output. The sector proceeded to rally dramatically during the early and mid-1970s, but from 1977 onwards, declined as material costs escallated, again propelled by the energy price rises of the mid-1970s. Finally, the textiles sector in 1964 displayed symptoms of low productivity, net output constituting only 27.9% of gross output. By 1980, this proportion had risen to 44.7%, an advance that is easily explained by the growth of clothing industries within the sector, and economies of scale. Comparative statistics for the clothing sector between 1964 and 1980

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1. In this case, gross output can be defined as the total value of manufacturing output, whilst net output consists of the total value of manufacturing output with the costs, of material inputs subtracted.)

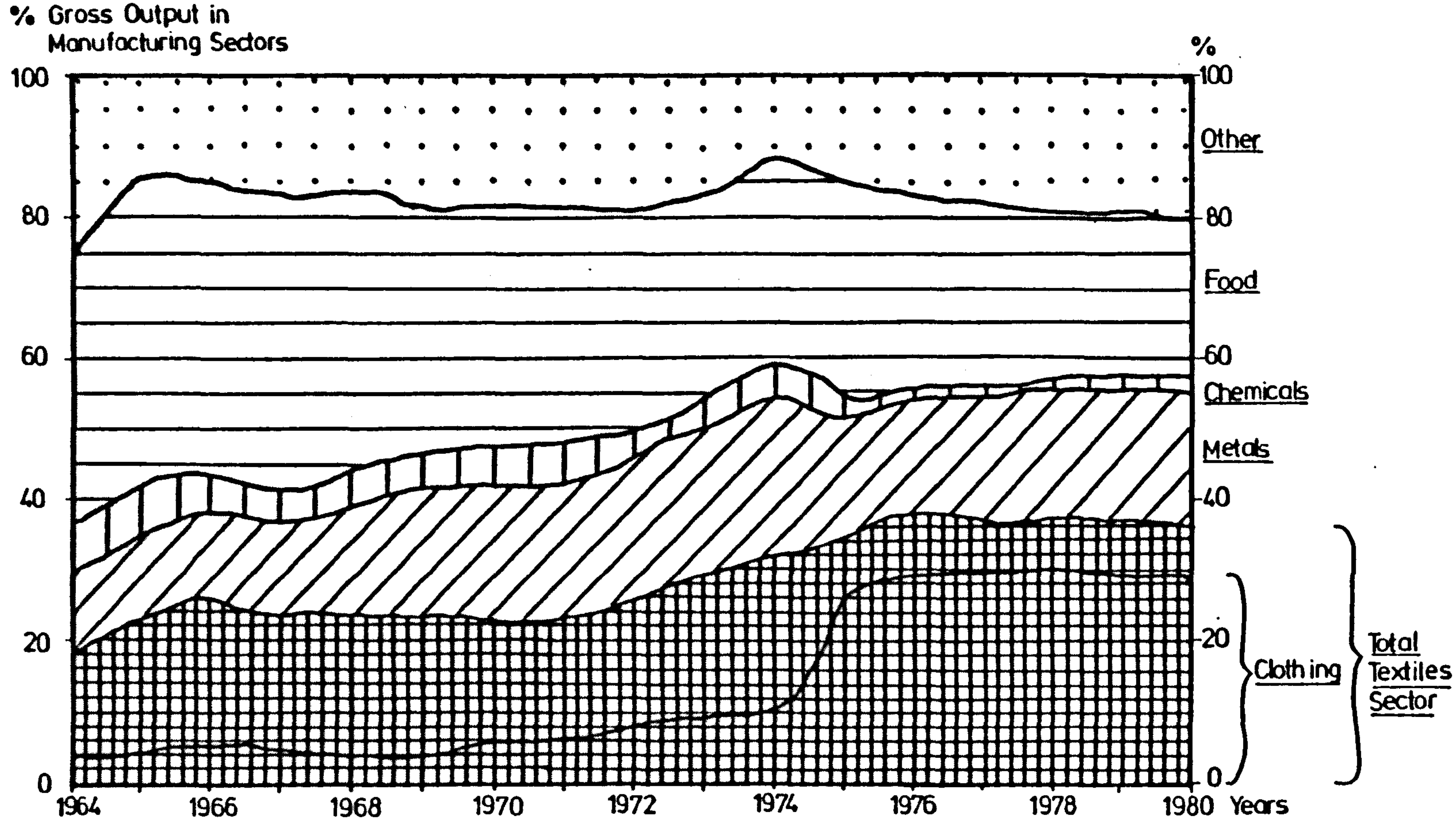

Figure 9.8 Per Cent Gross Manufacturing Output by Sectors 1964-80

Source: Central Office of Statistics (1967-1980)

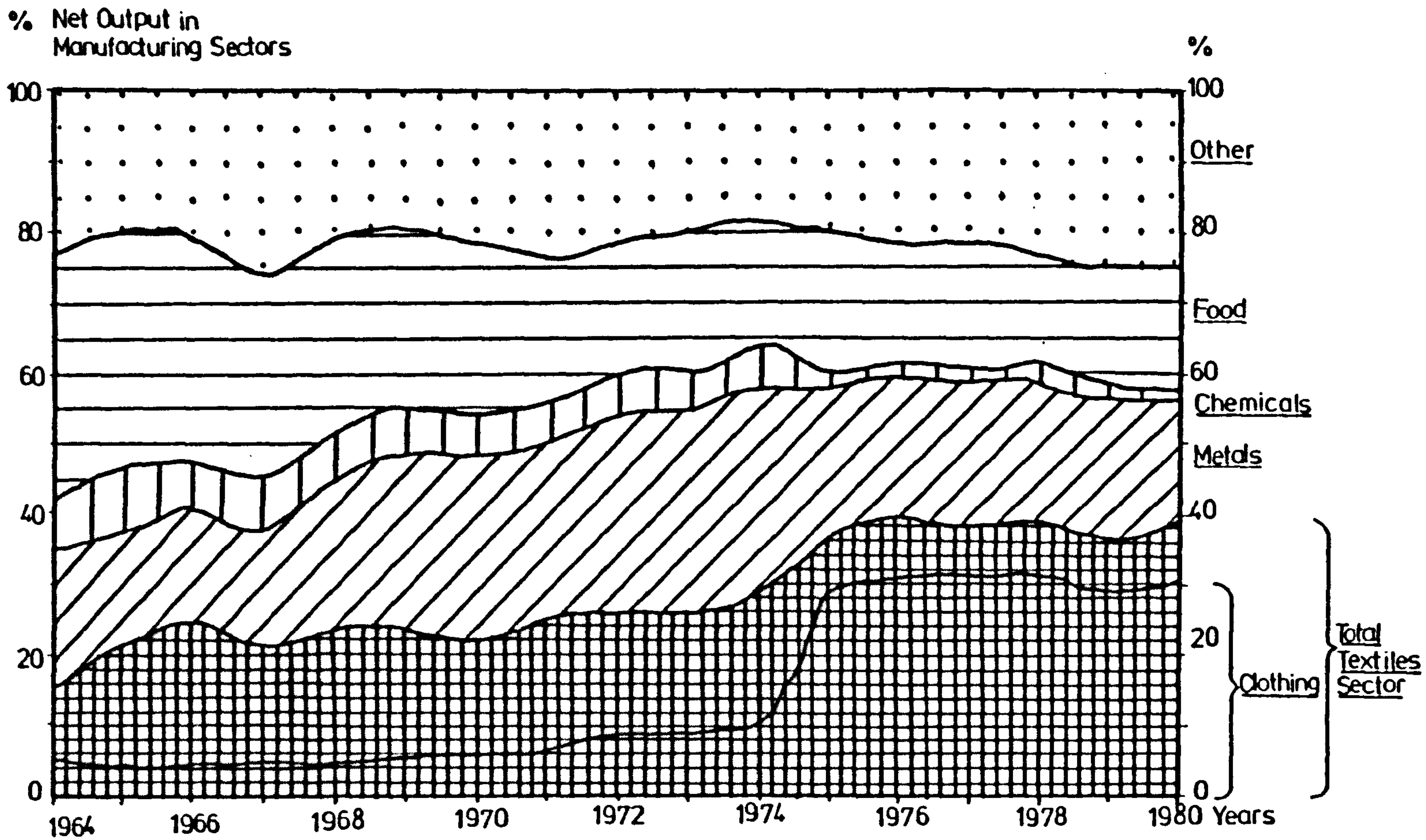

Figure 9.9 Per Cent Net Manufacturing Output by Sectors 1964-80

Source: Central Office of Statistics (1967-1980)

Table 9.3 Gross Domestic Product, Gross Manufacturing Output, and Gross Manufacturing Output as a Percentage of Gross Domestic Product. (1964 - 1980)

Date	GDP (M£'000s)	Manuf. Gross Output (M£'000s)	Gross Manuf. Output as a % of GDP
1964	49,175	16,655	33.9
1965	52,735	19,410	36.8
1966	58,788	21,949	37.3
1967	63,664	24,201	38.0
1968	71,298	29,818	41.8
1969	81,996	35,062	42.8
1970	94,821	38,827	41.0
1971	97,763	40,981	41.9
1972	102,205	48,733	47.7
1973	115,689	65,045	56.2
1974	131,582	84,105	63.9
1975	165,757	98,660	59.5
1976	203,714	132,144	64.9
1977	239,780	165,357	69.0
1978	277,617	181,349	65.3
1979	325,779	212,080	65.1
1980	391,964	243,638	62.2

Sources: Central Office of Statistics (1966, 1967, 1969, 1970-71, 1973 1977 and 1980).

Table 9.4 Net Output as a Percentage of Gross Output for Major Manufacturing Sectors, 1964 - 1980.

Date	Total Manuf.	Textiles	Metals	Chemicals	Food	Clothing
1964	30.8	27.9	48.8	30.9	22.0	39.2
1965	34.1	31.1	47.2	35.5	26.4	36.8
1966	36.6	36.3	47.9	42.0	28.1	47.0
1967	39.8	37.0	48.2	45.2	27.5	50.6
1968	38.5	41.6	49.5	42.7	27.1	48.2
1969	41.0	38.8	55.2	46.4	28.2	43.9
1970	39.9	38.9	54.1	43.5	27.3	40.0
1971	42.2	48.4	54.3	40.8	26.6	43.5
1972	41.1	46.1	56.7	45.1	25.7	40.2
1973	38.8	34.0	54.0	45.9	25.9	36.6
1974	35.5	33.4	52.2	33.9	21.1	34.1
1975	40.1	42.9	50.9	40.9	26.4	44.7
1976	41.0	42.8	52.9	40.0	25.5	42.7
1977	39.7	40.9	46.5	39.9	26.4	41.0
1978	41.1	42.5	47.6	45.3	26.6	43.3
1979	42.7	42.2	48.3	40.2	30.9	41.5
1980	42.7	44.7	42.5	38.9	31.5	44.1

Sources: As in Table 9.3 above.

suggest that clothing industries appear to have experienced relatively high productivity throughout the period, and that they were at least partly responsible for the lead the textiles sector as a whole displayed over the other manufacturing sectors in 1980 (see Table 9.4).

In summary, manufacturing output is heavily dominated by the textiles sector, which owes its elevated importance to the spectacular growth of clothing establishments in the 1970s. Once again, this shows that recent Government policies stating the need to diversify manufacturing away from the textiles sector have failed. However, although textiles sector activity is not renowned for its long term stability, it is significant that it appeared to be the most productive of the major manufacturing sectors.

9.4 The Scale of Production

The scale of much of Maltese manufacturing activity altered substantially between 1964 and 1980. As has already been mentioned, following the comparative failure of the first development plan (1959-64), much of the manufacturing sector was dominated by small scale home market oriented activity. By 1980, the manufacturing sector was completely dominated by the aided sector, which was comprised of much larger scale, export oriented industries that had taken advantage of the incentive packages offered by the Maltese Governments. The non-aided sector remained dominated by small scale, often part-time and informal enterprise, frequently confined to small workshops and to the local markets. The enhanced scale of the new industries was entirely dependent upon heavy investment, which followed a predictable sectoral pattern given the employment and production distributions discussed in the previous sections of this chapter.

The bulk of total annual investment in the manufacturing sector in the early 1960s occurred in the food and beverages sector, and in the textiles sector, which was dominated by spinning and weaving activities (see Figure 9.10). As would be expected, the importance of the food and beverages sector declined in relative terms between 1964 and 1980. The textiles sector, however, expanded, largely because, following the high capital costs of equipment installation, comparatively less investment was required in subsequent years. The jump in the importance of textiles in the early 1970s was entirely attributable to the growth of clothing establishments. It is significant that the capital investment required in the establishment of clothing factories is less than is the case for spinning and weaving industries, whose production processes require complex and expensive machinery. This point is illustrated by data (by sector) for investment per employee per annum, which shows clothing investment per head to be substantially less than is the case for other industries (see Figure 9.11). This is also a consequence of the highly labour intensive nature of the clothing industries.

Of the other manufacturing sectors, metals showed a substantial increase in relative importance during the 1960s, and after a setback during the mid-1970s following the oil price increases, stabilised in subsequent years. Investment in chemicals related industries were also hit badly by the oil crises. Perhaps most significant has been the increasing proportion of total manufacturing investment taken up by the 'other' category. This includes growing industries such as non-metalic minerals, wood, cork, paper, printing and furniture manufacturing ventures. Also of importance, however, has been the upturn in the relative importance of textiles sector investment, despite the diversification efforts

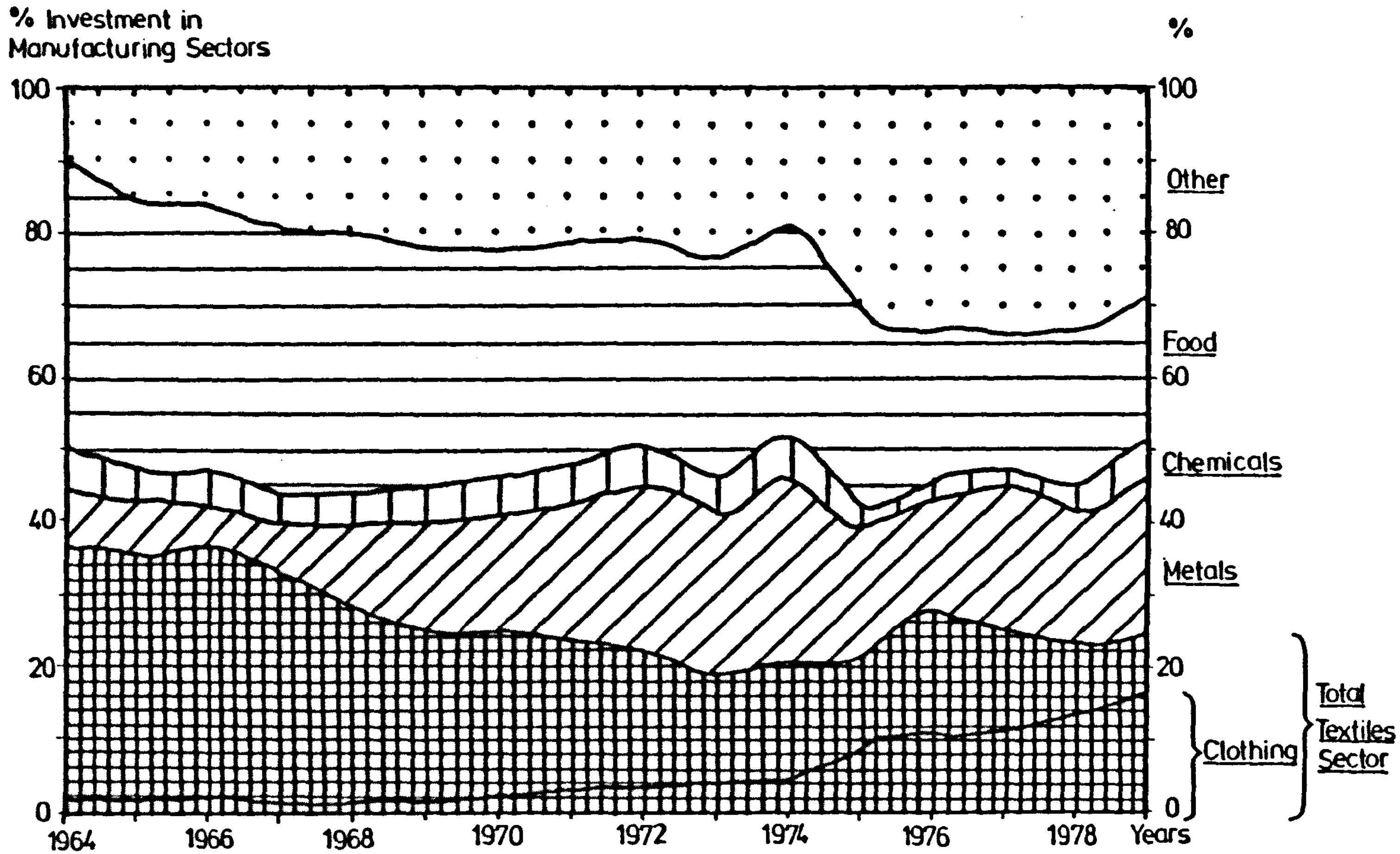

Figure 9.10 Per Cent Investment in Manufacturing by Sectors 1964-79

Source: Central Office of Statistics (1964-1980)

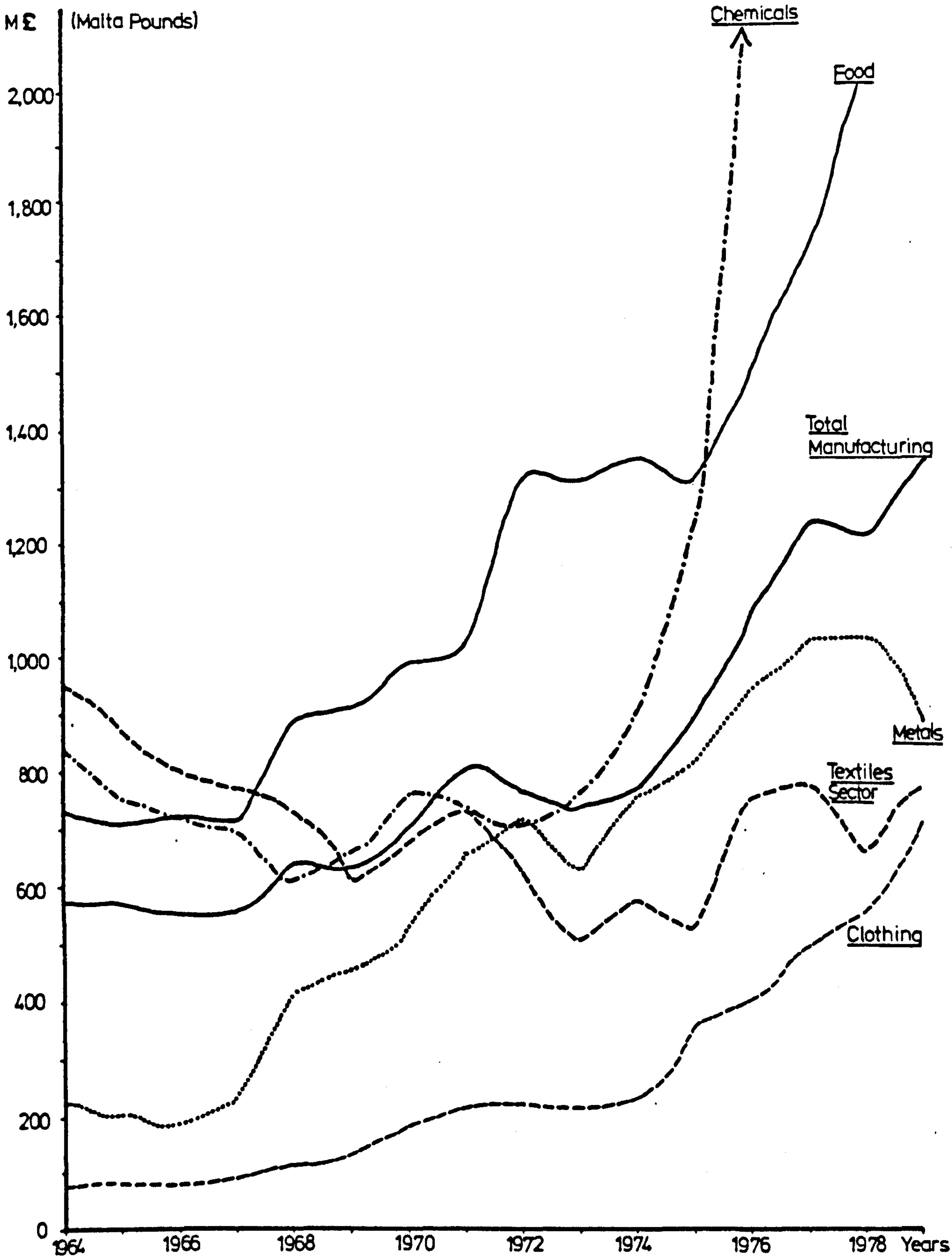

Figure 9.11 Mean Investment Per Head in Manufacturing by Sectors 1964-79

Source: Central Office of Statistics (1967-1980)

aimed at reducing textiles domination. This point is supported by the data for annual investment per head (see Figure 9.11), which shows the great extent to which investment per head in clothing establishments has grown in the 1970s.

Interpretation of Figure 9.11 is, nevertheless difficult as investment per head is influenced by both investment and employment levels. However, one of the more notable features to emerge is the enormous growth in the investment per head in the food and beverages and chemicals sectors. This is probably attributable in the case of food and beverages to strong linkages with the rapidly expanding tourist sector in Malta. In the case of chemicals, it is likely that the mid-1970s oil crises required the shedding of a large proportion of the sector's labour force in the interests of economic survival. Simultaneously, injections of new capital rendered the chemicals sector more capital intensive, thereby further increasing the levels of investment per head.

The effects of the new investment on the scale of Maltese manufacturing establishments are perhaps best represented by annual data for the average number of employees per establishment in each sector (see Figure 9.12). Figure 9.12 shows the enormous growth in the average size of textile sector establishments which, once again, is almost entirely attributable to growth in the 1970s of large clothing establishments. The comparative size of the textile and clothing establishment workforces, as compared with the less spectacular growth of investment in the textiles sector indicates that textiles activity in Malta is much more labour intensive than capital intensive. This is a feature of textiles sector activity throughout the world, and is a major reason for the mobility of textiles industries. The international mobility of

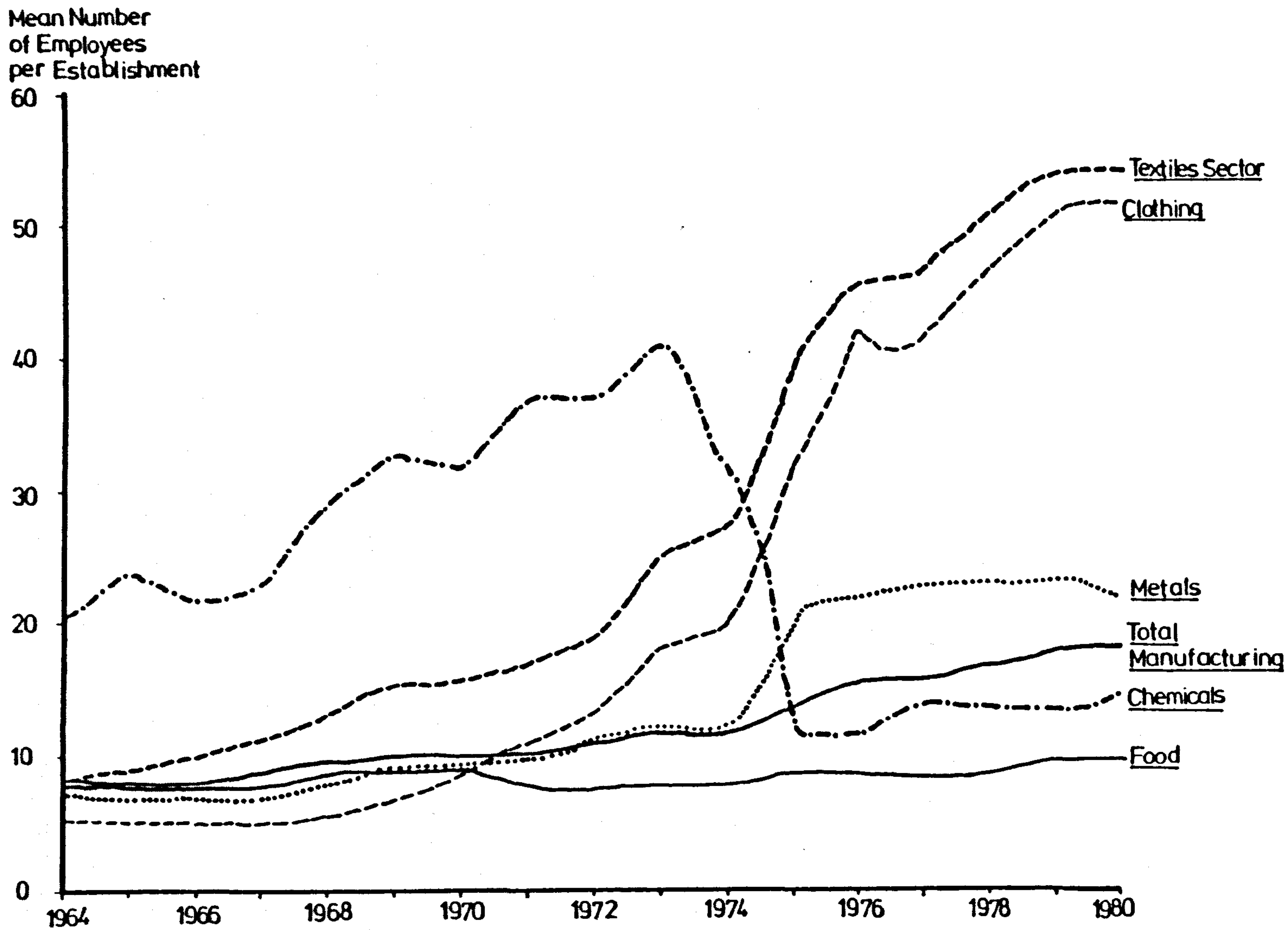

Figure 9.12 Mean Number of Employees Per Establishment in Manufacturing by Sectors 1964-80

Source: Central Office of Statistics (1967-1980)

textiles activity is well illustrated by the fact that many MNCs have chosen Malta as a suitable location for their branch plants, a choice that has been encouraged in particular by the comparatively cheap labour costs in Malta (see Chapter Ten).

The effects of the oil crises upon the chemicals sector are especially apparent from Figure 9.12. Until 1973, chemicals establishments appeared to be recruiting labour. However, between 1973 and 1975, the average number of employees per establishment fell from 41 to 12, a decline which, if repeated in a more important sector, such as textiles, would be catastrophic. Other sectors, meanwhile, were less volatile than textiles and chemicals. The food and beverages sector was the most stable, whilst the performance of the metals sector was disappointing. Despite a jump in average employment per establishment, metals never rose far above an average of 20 persons per factory unit.

In conclusion, the only sector of Maltese manufacturing industry to recruit significantly larger workforces and achieve very much greater economies of scale during the 1960s and 1970s was the textiles sector. The ease with which this transformation was possible was largely due to the comparatively small levels of investment required to establish this type of industry. Clearly, the dramatic nature of the transformations achieved by the textiles sector, especially in the 1970s, seduced the Maltese Governments into permitting the enhancement of the Maltese economy's dependence upon the textiles sector. Although this may have seemed justifiable in the short term, particularly in view of the difficulties associated with the establishment of alternative industries, such dependence is bound to be a source of instability within the Maltese economy in the long term.

9.5 The Ownership of Maltese Manufacturing Industry

It is extremely unfortunate that detailed ownership data for the various sectors of Maltese manufacturing industry were unobtainable, particularly in view of the fact that they probably exist in convenient form under the guard of a particular Government department or organisation. As has already been mentioned, ownership statistics were amongst a large number of important variables probably provided by industrial censuses, but not published in the annual statistical volumes. This is at least partly because the material collected in the industrial censuses was guaranteed confidential status in order to encourage the complete cooperation of respondents to the questionnaire. Ownership data is in fact available in crude documentary form at the Department of Trade. However, the task of searching the extensive files on each company and computing shareholding totals (as well as assuming the nationality of some shareholders) for every registered manufacturing enterprise was perceived as being too time consuming. Instead, it was decided that ownership data should be collected for the same sample population that constituted the industrial questionnaire survey that was carried out for this study (see Chapter Twelve). This was done at the Department of Trade in Valletta, and the task was made considerably easier by the staff in the records office, whose assistance was very much appreciated. Because the ownership statistics obtained relate more closely to the bulk of the micro-scale level of the questionnaire data, they have not been included within this chapter.

Ownership data concerning manufacturing industry in Malta is important because it is generally assumed that the patterns of shareholdings should represent to some degree the extent of overseas capital involvement within the manufacturing sector. This in turn should represent the degree to which Maltese industry is controlled by overseas interests, and also the extent to which profits generated in Malta are exported. Fortunately, some general statistics relating to foreign shareholdings are available, although they are published by the MDC only as aggregate totals for the government aided manufacturing sector as a whole (see Table 9.5). The data in Table 9.5 is not entirely representative as it deals exclusively with the aided sector. However, for reasons discussed earlier, it seems safe to assume that an analysis of overseas overseas ownership confined to aided industries is sufficient at this stage.

Table 9.5 Percentage Shareholdings in the Aided Manufacturing Sector, Aggregated by Nationality, 1978 - 1980.

		% 1978		% 1979		% 1980	
Maltese:	(State) MDC:	60.5	100%	42.1	100%	47.8	100%
	Private :	39.5		57.9		52.2	
	Total :	48.2		37.4		38.3	
E.E.C.	U.K. :	9.9		10.8		13.5	
	Italy :	2.4		2.1		1.8	
	West Germany :	8.0		7.8		10.1	
	Netherlands :	2.6		2.9		2.5	
	Other E.E.C. :	3.0		6.6		4.9	
	Total E.E.C. :	25.9		30.3		32.9	
U.S.A.	:	16.2		18.7		16.3	
Libya	:	-		5.0		4.9	
Japan	:	1.9		2.4		1.7	
Other	:	7.8		6.2		5.8	
Total Share Capital (M£'000)	:	£15,970		£14,585		£19,549	

Sources: MDC (1978, 1979, and 1980).

Because of difficulty in obtaining back issues of the MDC annual reports, it has proved to be impossible to produce a long time series from 1964-80. The data for 1978-80 are, nevertheless interesting, and deserve some attention. Of great significance are the Maltese ownership levels which, by 1978, had been strongly reinforced by the growth of parastatal industries from a very low base in the early 1970s. However, in 1979, there occurred a sharp decline in Maltese total, and Maltese State shareholdings (the latter being represented by the MDC), induced by the failure and closure of several of the new parastatal enterprises. The gravity of the failure of these state ventures is reflected in the value of total shareholding in the aided sector, which fell in 1979. By 1980, the downward trend had been emphatically reversed, and both total Maltese and Maltese State interests had regained some of their relative importance.

Meanwhile, the relative importance of E.E.C. interests had continued to grow, with a noticeable recovery in British interests between 1978 and 1980. Also of importance was the growth of West German investment, which had advanced from negligible levels in the early 1970s. As will be shown in Chapter Twelve, much of the new German investment has been associated with the clothing industries. However, perhaps the single most important segment of manufacturing investment originated in the U.S.A. (16.3% in 1980), and this was mostly accounted for by Malta's largest private sector manufacturer, the Bluebell Corporation. Their main product, Wrangler's Jeans, remain the largest single source of exports and employment in the Maltese Islands, a fact which ensures that the Maltese Government attempts to retain good relations with the Corporation's management. Of the other multinational interests, Libyan investment is possibly most important, representing the increased economic and political links that have been forged between Malta and Libya during the 1970s.

Although such aggregate proportional shareholding figures provide an indication of the degree of overseas capital involvement in Maltese manufacturing industry, it is important to recognise that in the Maltese case, the total value of individual companies' shareholdings is rarely proportional to the size of the companies' operations, as measured by indicators such as the value of annual output, and employment levels. Thus, comparatively large ventures may have as little as M£1,000 or even M£100 share capital. consequently, the aggregate ownership figures provided by the MDC reports do not accurately represent the extent to which overseas interests control Maltese industrial capacity and employment levels. This situation is similar to that persisting in the hotels sector (Spiteri, A. 1977), where many companies have in the past chosen to raise their capital through means other than equity issue, such as loans from parent companies. This has often allowed for more efficient repatriation of profits through loan repayments, and interest charges on such loans.

In the case of the hotels sector, it has already been possible to convert ownership figures into data representing the various proportions of hotel accommodation capacity controlled by overseas interests. Similar calculations are also possible for companies operating in the manufacturing sector, based on the value of their annual output for 1979, and their employment in 1980, as provided in the questionnaire survey. Thus, at this stage, all that can be said is that, since independence in 1964, over 50% of the Maltese manufacturing sector has been controlled by foreign interests, and that the involvement of E.E.C. capital in particular is still on the increase.

9.6 The Direction and Content of Trade

Of the many other features of Malta's manufacturing sector, the pattern of export trade is one of the most important. Predictably, trade is partly governed by the nationality of the many parent companies with manufacturing capacity in the Islands. As expected, Table 9.6 reveals that a large proportion of Maltese exports go to the E.E.C., particularly as a result of Great Britain's successful attainment of full E.E.C. membership in 1972. The importance of the growth of the E.E.C. as a recipient of Maltese exports cannot be overestimated in view of the tariff and quota measures being exerted by the European Community upon non-member states. Malta has been fortunate in this respect because she has so far been able to negotiate and renegotiate preferential treatment for her exports, since gaining associate membership of the E.E.C. in 1970. However, the likely E.E.C. enlargement (to include Spain and Portugal), in conjuction with worsening recessionary pressures within the E.E.C. itself, are likely to render such heavy dependence upon the one market as a precarious condition.

Within the E.E.C. group of countries, it is interesting to note that the relative importance of Great Britain has declined from over 40% in

Table 9.6 Percentage Exports to Various Destinations (by value) in Selected Years

Countries	% 1961	% 1969	% 1971	% 1979
Great Britain	27.6	34.4	40.4	21.2
Italy	26.3	10.8	8.4	4.1
West Germany	0.8	4.9	8.4	37.2
E.E.C. Total	34.6	25.6	26.1	77.9
U.S.A.	n.d.	n.d.	n.d.	2.1

Source: Central Office of Statistics (1967, 1969, 1972 and 1980)

1971 to under 25% of exports by 1979. This decline, whilst being emulated by Italy, has been more than countered by West Germany, whose share of Maltese exports has risen from a tiny 0.8% in 1961 to 37.2%

in 1979. This immense increase in importance is a measure of the enhanced importance of West German manufacturing companies operating in Malta, the presence of which was under-represented by the aggregate shareholding figures of Table 9.5. Partly as a consequence of overtures made by Maltese delegations in West Germany in the 1970s, a large number of West German industrialists chose to establish subsidiary plants in Malta, thereby taking advantage of Malta's comparatively cheap labour. As a result, West Germany is the only OECD country with which Malta regularly experiences a trading surplus. The increase of the E.E.C.'s share of Malta's exports from 26.1% in 1971 to 77.9% in 1979 is therefore partly a consequence of the growth of West German interests in Malta, but is also a direct consequence of Britain's newly gained inclusion within the E.E.C.

One of the major anomalies to emerge from the trading figures is the small volume of exports that are directed to the U.S.A. In 1979, the M.D.C. suggested that 18.7% of aided sector share capital in Malta was American owned. Simultaneously, only 2.1% of Maltese exports found their way to American markets. This discrepancy is easily explained by the fact that companies such as Bluebell have deliberately chosen to locate in Malta in order to use Malta's E.E.C. associate membership and trading concessions to penetrate the European markets.

The content of Maltese exports is, however, a cause of major concern. As Table 9.7 illustrates, textiles sector products are inevitably the most important constituent of Maltese export trade. The increasing protectionism being shown by the E.E.C. and non-E.E.C. countries, on top of the recessionary pressures themselves, would seem to further emphasise that the Maltese manufacturing sector is in desperate need

Table 9.7 Percentage Annual Exports in Metals and Textiles Sectors of Maltese Manufacturing Industry, in Selected Years.

Years	% Textiles Sector	% Clothing sub-Sector*	% Metals Sector**
1961	9.8	8.7	4.1
1969	34.2	19.8	4.4
1971	43.5	28.9	2.8
1979	47.4	41.7	2.3

Sources: Central Office of Statistics (1967, 1969, 1972 and 1980)

(N.B. * The Clothing Sector is included within the Textiles Sector.
** The Metals sector excludes figures from the dockyards in this case.)

of further diversification. It is therefore essential that, in the interests of stability, the continued advances of the textiles and clothing industries be discouraged. The Maltese economy would undoubtedly benefit from growth in the importance of alternative activities in the manufacturing sector.

9.7 Internal Issues Within the Manufacturing Sector

One of the most frequently stated problems of the Maltese manufacturing sector is its obvious lack of industrial linkages. It has become increasingly apparent that the overseas corporations which choose to locate their subsidiary plants in Malta do so precisely because there is no need to forge any major links with the domestic economy. This type of simple situation is seen as desirable because it allows the MNCs to directly control most aspects of production. The only major factor of production not directly within their control is the labour force, and it is usually for precisely this reason that such companies choose to locate in Malta. According to the MDC (1979b),Malta has one of the best industrial relations records in the world, and the fact that Maltese labour is also inexpensive, relatively skilful, and flexible has been seen as a major reason for Malta's past successes in attracting overseas enterprise.

Generally, therefore, the only major linkage between most of the aided industries and Malta's domestic economy is the labour force. The subsidiary plants are consequently able to act as isolated productive enclaves. Even some of the State and privately owned Maltese ventures interact only very occasionally with other Malta based manufacturers. The Government aided manufacturing sector is also spatially segregated from the Maltese domestic economy. Whilst traditional, often informal unaided activity is usually confined to workshops within the residential areas, the aided sector enterprises are positioned in specially constructed Government industrial estates that have usually been carefully located on the periphery of the harbour based metropolis in the East of Malta (see Figure 9.1). Fortunately, the small size of the Maltese Islands dictates that a person may commute from any part of the main island of Malta to any of the major industrial estates with few problems. The spatial dominance of the Valletta conurbation, and the added magnetism produced by the new industrial estates is therefore not such a problem in Malta itself. It is, however, a problem for Gozo, which acts as Malta's economic periphery. It has, to date, been possible to establish only a small number of new industries in Gozo's Xewkija industrial estate, which accommodated only ten factories in 1980 (MDC 1980).

The spatial imbalance of Malta's manufacturing growth has therefore not been a major problem. Other sources of imbalance have, however, proved to be more important. As has already been mentioned, the dominance of female labour in the new industries has not been universally appreciated. Similarly, the increases in State entrepreneurship and powers of intervention have been poorly received in some circles. There is, for example, evidence to suggest that protective measures introduced by the Governments of recent years to protect new State ventures have seriously damaged 'competing' private sector activity.

9.8 Conclusions

A number of crucial dependency themes emerge from the material in this chapter, and are directly linked to the themes developed in Section One of this study. Employment statistics for the Maltese economy as a whole are especially interesting. They show, for example, that whilst employment in the fortress sector had been reduced to nothing in 1979, a much desired increase in employment in manufacturing industry had been achieved. However, by 1979, over 40% of the new employment in manufacturing was concentrated not only in the textiles sector, but also within a major stage of production in the textiles sector - clothing industries. This situation was recognised by the Maltese authorities as being highly undesirable. Furthermore, it was clear that, far from providing employment for male workers released as a consequence of the closure of the fortress, the new distorted manufacturing sector employed mostly young women.

Industrial output figures reveal a similar pattern to that produced by the employment statistics. Thus, by 1977, manufacturing industry's share of annual GDP had advanced to almost 70%. The dominance of the textiles sector was, however, again very clear, and attributable to the growth of clothing industries during the 1970s. The demise of the chemicals industries during this period illustrates the fact that external influences can quite easily debilitate an entire manufacturing industry. If such circumstances were to afflict the textiles sector, the consequences would be disastrous. This point is further emphasised by the fact that the textiles sector includes the largest manufacturing units (excluding the dockyards) within the Maltese Islands.

Trade statistics also provide alarming information. Predictably, the most obvious concentration is in textiles sector goods. Also important are the market concentrations, especially in the E.E.C. The dominance of the E.E.C as a recipient of Malta's exports is undesirable because of the Community's ability to restrict trade in its own interests. Within the E.E.C. bloc, strong dependence upon West Germany and Great Britain's markets also gives cause for concern. Aggregate trade statistics are, however, not especially revealing, and the questionnaire data outlined in Chapter Twelve helps to reveal the intricate nature of Malta's export trade.

The lack of internal linkages within the manufacturing sector continues to arouse great concern. This is compounded by the fact that it is not only overseas companies that choose not to interact with the local economy. Many of the more advanced Maltese firms adopt a similar attitude, and are tied in a similar fashion by contracts to large overseas firms. Once again, this type of situation will be examined in greater detail in Chapter Twelve.

Perhaps the most important information to emerge from this material is the great extent of foreign ownership within the Maltese manufacturing sector. The preponderance of MNC subsidiary plants is a direct consequence of the industrial attraction policies of Governments of both Parties, and illustrates the extent to which Malta's productive capacity is beyond the control of Maltese private and public institutions. Moreover, the strong concentrations of British, West German and American capital detected probably underestimate the extent of overseas control over manufacturing activity in Malta. It is also important to observe that it is precisely such a loss of control over the manufacturing sector which encouraged the distortion of the sector in favour of the textiles industries, the concentration of trade, and the extreme lack of internal linkages with the local economy. The same overseas investment has, nevertheless, permitted a large amount of industrial development and social reform that could not otherwise have occurred.

The next chapters in this section deal with the manufacturing sector in greater detail, and Chapter Twelve examines the data yielded by the industrial questionnaire survey carried out in Autumn 1980.

CHAPTER TEN: THE TEXTILES SECTOR

10.1 Introduction

This chapter examines the textiles sector in greater detail using aggregate statistics provided by Grech (1978), the Central Bank of Malta, the Malta Development Corporation, and the Central Office of Statistics in Malta. It was felt that the Textiles sector deserves this special attention because of its dominant position within the structure of Maltese manufacturing industry. This chapter also ties in with a section on textiles manufacture in Chapter Twelve, which deals with the micro-scale data collected in the field in 1980.

Malta's successful attraction of textile industries since 1964 has occurred as a result of the internationalisation of this sector, which has in the last two decades led to the growth of new centres of production throughout the world, the best examples of which include Japan, Taiwan, Singapore, Hong Kong and South Korea. One of the major factors behind the redistribution of production has been the cost of labour, which has often become prohibitive in the traditional producer countries. Thus, for the labour-intensive industries such as textiles, the new international division of labour has been governed to a considerable degree by labour costs.

Grech (1978) has observed that there were a number of associated factors which encouraged the movement of production to cheap labour locations such as Malta. First, it was easy to obtain the machinery necessary for production anywhere in the world. Second, the raw materials necessary were also widely available throughout the world, in some cases being in surplus supply. However, most important was the highly imperfect nature of the international labour market. Hence, the cost of labour to the manufacturer was not governed by market forces, but more by the varied historical, social, political and economic forces prevalent in the different countries of the world.

The direct cost of labour was therefore not the only important factor to be considered when attracting MNC subsidiary plants away from the traditional producer countries. Other vital factors include the quality of the labour. The important qualities in question have involved the levels of education, adaptability, industrial relations, and the plentiful supply of labour. In addition, many MNCs could be wooed by packages of incentives offered by countries anxious to attract their branch plants. Offers of tax concessions, grants, free premises and other attractions were made by many countries as well as Malta. Also of vital importance to the MNCs was political compatibility and stability. The threat of nationalisation or revolution presented too great a risk for most MNCs.

In the case of Malta, MNCs were offered stable and friendly domestic politics, and a high quality labour force that was well behaved, relatively well educated, reasonably productive, and poorly paid. In addition, the supply of labour was plentiful, and enhanced by large and increasing numbers of females seeking jobs. In many cases, the availability of females had a double advantage. They were often far better at the required jobs than males, and simultaneously, it was possible to pay them less. In 1975, the average female wage in the Maltese clothing industry was only 68.4% of the average male wage. Further inducements provided by the various Maltese Governments included packages of tax and tariff concessions, factory provision, loans and grants.

Despite the importance of government incentives, labour costs were perhaps the single most important location factor in the Maltese case, as is suggested by the questionnaire results of Chapter Twelve. Table 10.1 shows the extent to which high unit labour costs (wages per hour) forced clothing manufacturers[1] to search for new production locations outside the countries of tne industrialised centre.

Table 10.1 provides an idea of the enormous difference between the labour costs in the traditional producer countries and those in the new producer countries. Also of relevance is the fact that the hours worked per week tended to be far less in the traditional production centres. Thus, using ILO statistics, it seems that a male Swedish clothing worker earned 11 times his South Korean counterpart per week in 1980. Obviously, Maltese labour costs do not compare with those of South Korea, but according to the calculations summarised in Table 10.1, in the 1970s[2], both Maltese female and male labour in the clothing industry was paid well under half the wages being paid to equivalent British and West German workers.

Thus, Malta's low labour costs have been a major factor behind the successful attraction of MNC subsidiary companies. Grech (1978, p.28) summarises by observing that Malta has...

> '...a very specific role in the international division of labour, a role that it tied in the main to unskilled labour intensive operations applied at the production level with no role in purchasing, marketing or research. This may be the lot of the developing countries and especially the smaller ones - a role that reserves the main controlling factors and creative elements

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1. Clothing companies form a major component of textile sector activity, and in the case of Malta, constitute the largest part of the sector.
2. It was in the mid-1970s that Malta was most successful at attracting MNC clothing firms.

Table 10.1 Approximate Average Earnings per Hour of Clothing Workers in Selected Countries, 1966 - 1980. $ cents/Hour

	Great Britain		West Germany	Sweden		Japan	Malta		South* Korea
	M	F		M	F		M	F	
1966	-	-	-	-	-	35	41	26	-
1967	-	-	88	-	-	39	43	27	-
1968	-	-	92	-	-	45	39	24	-
1969	116	72	105	-	-	54	40	26	-
1970	133	82	124	-	-	61	45	28	14
1971	148	95	153	264	230	76	53	34	16
1972	164	106	173	316	277	98	57	39	17
1973	184	122	257	391	345	147	69	47	16
1974	215	151	256	404	359	167	80	56	21
1975	223	159	279	491	422	183	101	69	20
1976	203	152	322	556	518	214	97	77	29
1977	234	176	356	599	562	231	119	82	39
1978	278	208	423	598	577	305	136	97	53
1979	395	296	512	740	708	326	171	127	64
1980	441	341	508	790	748	310	170	127	70

* South Korea's statistics are very approximate because of her floating currency. Korea, and most of the sample countries have implemented sudden devaluation policies at some time. These lead to occasional surprisng trends in these statistics.

Sources: ILO Yearbooks of Labour Statistics, 1967 - 1981

Note: The international comparison of wage levels using this type of data is highly unsatisfactory for a number of reasons. Most important is the fact that ILO statistics refer to average wage levels for a 12 month period, whilst exchange rates are likely to vary substantially during the course of a year. In the case of the 1975-80 period, violent fluctuations in exchange rates were far more common than had previously been the case. The choice of representative exchange rates for each year was therefore difficult and approximate.

In addition to the exchange rate problems, there are many other sources of innacuracy. The ILO, for example, point out that comparisons are risky because of international variations in employers social security expenditure, costs of training, costs of welfare services, costs of transport for workers, tax rates, workers' clothing etc. etc. The above statistics must therefore be treated as only a rough indication of varying international wage levels in the clothing industry.

of the system in locations elsewhere - on the other side of the globe!'

As a consequence, therefore, of multinational investment and international subcontracting, Malta has, like many NICs, been able to industrialise to a great extent through the growth of a textiles sector.

10.2 A History of the Maltese Textiles Sector

According to the Central Bank of Malta (1977a), the textiles sector may historically be divided into four different sub-sectors (see Table 10.2). The Bank proceeds to group the sub-sectors into two major

Table 10.2 The Constituent Sub-Sectors of the Textiles Sector

1. Yarn and Fibre Processing and Productions 2. Manufacture of Knitted Garments 3. Cottage Crafts	Textiles
4. Manufacture of Finished Textile Goods	Clothing

sections, the first of which includes the first three categories under the general heading of 'Textiles Industries'. The second section is concerned exclusively with clothing, which includes footwear. In the context of Maltese industrial development, it was textile industries that were the first to develop within the aided industries sector. The enormous growth of clothing establishments occurred much later, especially during the 1970s. For this reason, it is necessary to deal first with the textiles industries.

10.2.1. Textiles Industries

Of the three components of the textiles industries, the manufacture of yarns and fibres proved to be the most important in the early years of Malta's industrialisation programme, and soon surpassed the cottage industry in terms of output and importance. However, in more recent years, production in this sector slowed considerably. The more recent poor performances have been blamed on the fact that most of the firms produce only one product, using a single process. Such inflexibility, particularly within such an unstable industry, has been a hindrance. The high import content of the industries, and their complete dependence upon export markets has further exacerbated the damaging effects of fluctuating external influences upon comparatively inflexible production schedules. The Central Bank of Malta (1977a) complains in particular of the low linkage effects of this type of activity.

Knitting processes were introduced into Malta much more slowly than yarn and fibre production. Major advances in knitting manufacture in the Islands occurred in the late 1960s, this sector becoming the most dynamic element of the textiles industries by the mid-1970s. Much of this growth was associated with the increasing use of man-made fibres. One of the important advantages to emerge from the use of the synthetic yarns was that they are generally stronger than natural fibres, a property which permits the more efficient use of fast-running machines.

The cottage industry, which constitutes the earliest of the three textile industry components, has also increased in importance during the last 10 years. Many small firms specialising in the production of 'Malta weave' fabrics on hand operated looms, manufacturers of lace, and producers of hand-knitted and crocheted goods, existed in some form before the first development plan of 1959. However, such enterprises have grown both in number and size since the growth of Maltese tourism, and the subsequent expansion of demand for souvenir goods. The advantages of this type of activity stem from the greater linkages with the domestic economy, the labour intensive nature of the processes involved, the easy access to the tourist markets, the absence of overseas capital investment and control, and the provision of work and income to many of the more peripheral and marginal Maltese communities.

Before the first development plan of 1959-64 (Office of the Prime Minister 1959), the textiles industries consisted entirely of small scale cottage based activity. During the 1960s there occurred a period of unrestrained growth in which fibres and yarns grew to dominate the sub-sector. Thus, between 1961 and 1966, the textile industry boosted its share of manufacturing output by 22 times (Central Bank of Malta 1977a). The enormous increase in textiles production occurred as a consequence of the opening of five spinning firms and three knitting firms, all of which were mostly or entirely foreign owned. As is apparent from Table 10.3, between 1966 and 1972, the textiles sector stagnated as a result of competition from low cost Far East producers, and trade protection following a textiles recession in the U.S.A. and Western Europe. Although production recovered once again after 1972, it was mainly assisted by increases in the production of knitted cloth. Furthermore, the period of stagnation demonstrated the volatile nature of the textile industries, and the potential dangers of excessive dependence upon them.

It was hoped that, in particular, the growth of textiles sector activity would create new sources of employment in Malta. In 1959, the textile industry sub-sector apparently employed only 280 persons, a figure which constituted only 4% of total manufacturing employment. This figure probably underestimates the workforce, particularly in the cottage industries, as there is evidence to suggest that prior to 1964,

Table 10.3 Gross Output, Employment and Export Time Series Data for the Textiles Sub-Sector, 1964 - 1979.

	Gross Output		Employment		Domestic Exports		
	Amount in M£'000	As a % of Manuf.Output	Number Employed	As a % of Manuf. Emp.	Amount in M£'000	As a % of Tot.Exports	% Gross Output Exp'd
1964	1913	12	1240	10	1166	28	61
1965	3171	16	1660	12	2577	42	81
1966	4160	19	1950	14	3510	46	84
1967	3669	15	2050	13	2842	40	76
1968	4101	14	2360	13	3381	33	82
1969	4792	14	2820	14	4003	32	84
1970	4130	11	2570	13	3446	28	83
1971	4520	11	2300	11	2418	23	54
1972	4690	10	2230	10	3968	18	85
1973	7141	11	2280	9	5499	17	77
1974	7874	10	2432	10	6554	15	83
1975	7507	8	2527	10	6032	12	80
1976	9774	7	2595	10	8493	11	87
1977	9909	6	2749	10	7404	7	75
1978	9878**	5**	2660**	8**	8390**	7**	85**
1979	9939**	5**	2286**	7**	10785**	8**	**109*

Sources: Central Bank of Malta (1977a, and unpublished statistics compiled in 1982)

NB * Figures of over 100% are explicable in terms of stockholding and bottlenecks in marketing.
** Provisional

the smaller producers failed to complete the industrial census questionnaires. In 1964, the 1,240 employees in the textiles sub-sector amounted to 10% of the manufacturing workforce. A peak of 14% of the total workforce in manufacturing occupations was attained in 1966, after which a steady decline in relative importance has occurred. By 1980, textile industries accounted for only 8% of manufacturing employment. It is estimated that currently, over 90% of this employment is made up of unskilled operatives, whilst only 3% of the workforce is represented by qualified technicians (Central Bank of Malta 1977a).

One of the most significant features of the employment in textiles has been that it is highly female intensive, although it is less so than in the clothing industries. In 1958, when cottage industries dominated, 87% of the workforce was female, as compared with 25% for manufacturing industry as a whole. The expansion of fibre and yarn manufacture encouraged a decline to a low female ratio of 56% in 1963. Reductions in the importance of females in this sector occurred because of the increasing use of heavy machinery, and most important, the adoption of shift work routines which conflicted with traditional views concerning the role of women in Maltese society. However, the growth of knitting industries caused female participation to advance to approximately 60%, as opposed to 40% for manufacturing industry as a whole (Central Office of Statistics 1958, 1967 and 1977).

Because of the use of complex and expensive machinery, textiles industries are amongst the most prominent sectors in the utilisation of capital. This is a consequence of the high installation costs when a textiles firm is established. For this reason, the growth of textiles industries in Malta has been confined mostly to the aided sector, whose share of the sector's employment reached over 90% in 1974. The high initial outlays on plant and equipment have also given rise to relatively large issues of share capital (for Malta), much of which is foreign owned (see Table 10.4). However, it is significant that,

Table 10.4 Percentage Sources of Paid-Up Share Capital in Aided Textile Industry, 1970 and 1975.

	1970	1975
Malta (State)	2	18
Malta (Private)	23	35
Total Maltese	25	53
Italy	44	38
British	25	5
Other Foreign	6	4
	100%	100%

Source: Central Bank of Malta (1977a)

since the MLP came to power in 1971, Maltese interests in the textiles industries have advanced considerably. Table 10.4 shows that in 1970, only 25% of share capital was in Maltese hands, whilst in 1975, 53% of the paid up share capital was subscribed by Maltese investors. A large proportion of this growth was accounted for by the MDC, which had taken on a more entrepreneurial role in the development process. Nevertheless, the questionnaire material contained in Chapter Twelve will reveal that Maltese interests are probably overstated by the official statistics.

Between 1970 and 1975, there was a substantial fall in the relative importance of British share capital in the textiles sub-sector. During this period, some British investment in most sectors of the Maltese economy was scared away by the aggressive politics of the new MLP administration, which may be seen to some extent as having indulged in a mild de-linking strategy during this period. Meanwhile, the fall in the Italian proportion of textiles share capital was only small by comparison, and occurred primarily because of the growth in Maltese interests. There seems, nevertheless, to be a strong pattern to the investment. Overseas investment is most prevalent in the spinning and weaving activities, which in 1970 accounted for 83% of textiles overseas share capital. Much of the new private and public sector Maltese investment has occurred in the new knitting ventures in which only 42% of the share capital originates abroad. This increase in Maltese ownership and control has to be welcomed, particularly in view of the naturally volatile tendencies of the industries. The Central Bank of Malta (1977a, p.24) explained that,

> 'The high level of foreign control of the textile industry often led to sharp fluctuations in sales and employment, against which the local authorities could take no short term remedial action. Thus, in spite of the benefits accruing from the presence of satellites of large foreign firms in terms of the availability of markets, the inflow of technology and other externalities, a sound industrialisation policy necessitates the enhancement of local participation in industry.'

Unfortunately, the nature of the Maltese public sector participation that has resulted in the textiles sub-sector has not been as satisfactory as might have been expected, and between 1975 and 1980, a number of reversals were experienced by Maltese parastatal textile ventures. A specific example of this will be examined in Chapter Twelve.

The nature of Maltese textile exports has changed substantially since 1959. Originally, textiles exports were confined to the hand woven fabrics of the cottage industries, which managed to contribute only 1 - 4% of the total value of exports. Following the arrival of the multinational yarn producers, and then the locally based knitting enterprises, textile exports expanded rapidly. Textiles sub-sector exports contributed most in relative terms to Maltese total exports during the late 1960s, their relative importance declining in the 1970s as a result of the advances in other types of exports, especially clothing (see Table 10.3). The reason for the comparative stagnation of the exports of textile goods stems from the poor performance of yarns. Fortunately, the losses in sales of yarn were compensated for by advances in knitted fabrics, which by 1975 accounted for at least half the exports of the textile industries (Central Bank of Malta 1977a).

Italy and Great Britain have traditionally been the recipients of the largest shares of Maltese textiles exports, reflecting to some extent the distribution of foreign owned paid up share capital. However, in the mid-1960s, the U.S.A. and Canada established themselves as major markets, only to be overshadowed by the E.E.C. countries. By 1975, the 9 E.E.C. states absorbed no less than 85% of the total textiles exports, roughly equally divided between yarns and knitted goods. Most of the more recent developments in the Maltese textiles trade have, meanwhile, been determined not so much by free market forces as trade agreements designed to protect many traditional centres of textile production. For example, the British market would have been of far greater importance had recessionary conditions in their domestic textile industries not prompted the British in 1966 to impose trade quota agreements on trading partners such as Malta. Britain's example has since been followed by other countries that have also traditionally been 'committed to free trade', such as the U.S.A. (1967), and most recently, the E.E.C. as a whole (1970/71 and 1978). The quotas have been most severe on yarn producers, which explains why knitted goods have been able to strengthen their position within the sub-sector.

By far the most important trade agreement has been that stemming from the association agreement with the E.E.C. in 1971. The concessionary quotas imposed upon Maltese manufacturers - 750 tons of cotton yarn and 600 tons of man-made fibre yarn - have undoubtedly restricted yarn manufacturers in Malta. In response to Malta Government requests, these quotas were raised in March 1976 to 910 tonnes and 800 tonnes respectively. However, the sector was badly affected by the new quota restrictions unilaterally imposed by the E.E.C. on Malta in late 1978 when both sides failed to come to a new agreement. Fortunately, since then, further relaxation of the restrictions has been achieved (see Table 10.5 below).

Table 10.5 Malta E.E.C. Quota Agreements 1979-81

Category	1979 (tonnes)	1980 (tonnes)	1981 (tonnes)
Cotton Yarn	1,700	2,000	2,100
Cotton Fabrics	1,600	1,700	1,800
Synthetic Fabrics	130	200	210

Source: Mid Med Bank (Winter 1979)

Clearly, the prosperity of the textiles sub-sector depends very much upon the generosity of the E.E.C. quotas, which may be reduced at any time. The inclusion of Spain and Portugal's textiles industries within the E.E.C. tariff system is very likely to induce such a reduction in Malta's current quotas.

10.2.2 Clothing Industries

The other half of the textiles sector is concerned with the manufacture of finished textile goods, which is often referred to as the 'making-up' sector. In Malta, this group of activities is dominated by clothing industries, although there is some activity associated with the production of footwear, and textiles for house furnishing, canvas and embroidery products. Because of the strong emphasis on clothing manufacture within the sector, and the format of the various sources of aggregate statistics, this sub-sector will be referred to in this text as the clothing industries.

Clothing industries have since the mid-1960s not only grown to dominate the textiles sector (see Figure 10.1 and Plate 10.1), but have also attained a position in which they dominate Maltese manufacturing as a whole. This contrasts sharply with the situation in 1958 before the first development plan when clothing manufacture consisted mainly of small establishments producing principally for the home market, less than one third of sales going abroad (Central Bank of Malta 1977b). The immense growth in clothing manufacture that occurred in the late 1960s and the 1970s may be attributed entirely to direct foreign investment by MNCs, which transformed the sector by establishing large scale production techniques. The impact of the new overseas investment is best illustrated by Figure 9.12 (in Chapter Nine) which shows that between 1964 and 1980, the average numbers of employees per clothing establishment rose from 5 to 51, the latter figure being one of the highest for manufacturing activity in Malta. Thus, whereas in the late 1950s there was only one clothing firm employing over 100 persons, in 1976, there were 24, accounting for well over 90% of the sub-sector's gross output. Simultaneously, 95% of gross clothing output was exported, most of which found its way to E.E.C. countries.

One of the features of the Maltese clothing industry which causes most concern is its high demand for imported fabrics, which gives the industry the highest import content after food based industries. Thus, for 1974,

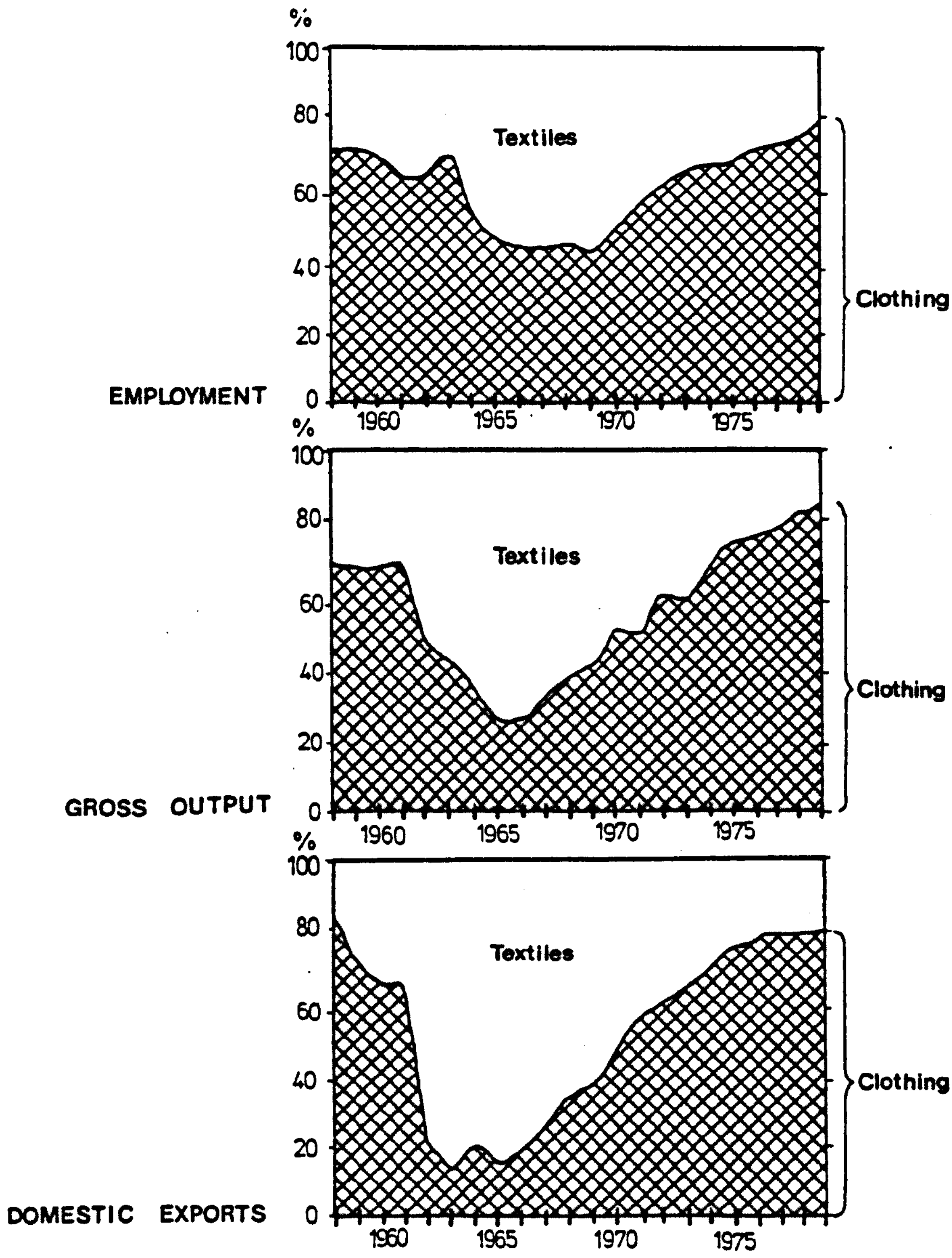

Figure 10.1 Composition of The Textiles Sector 1958-79

Source: Central Bank of Malta

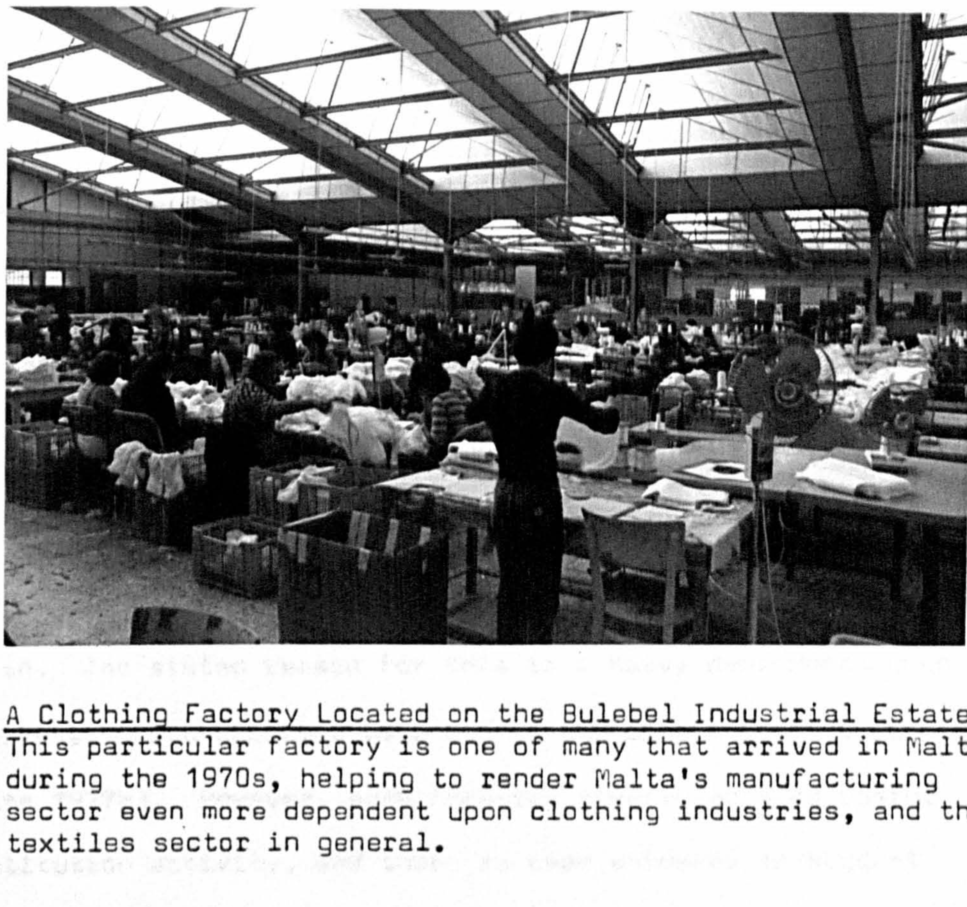

PLATE 10.1 A Clothing Factory Located on the Bulebel Industrial Estate. This particular factory is one of many that arrived in Malta during the 1970s, helping to render Malta's manufacturing sector even more dependent upon clothing industries, and the textiles sector in general.

the Central Bank of Malta (1977b) estimated that 59% of the goods and services used by clothing firms were imported. Furthermore, the clothing industry provides no intermediary output to be used by other local firms. Consequently, the much desired linkage effects on the rest of the industrial base are even more restricted than those of the textiles industries examined earlier. Much the same pattern is beginning to emerge in the footwear industries, which until the 1970s were similarly dominated by small scale, locally oriented producers. Since 1975, the impact of both overseas, and privately owned and State owned Maltese ventures has reoriented the industry towards a familiar pattern of isolated export based activity.

The only element of the clothing sub-sector to display significant linkages with the Maltese domestic economy is the smallest element of the sub-sector, which is dedicated to the manufacture of 'finished textile articles'. Ironically, the firms in this grouping produce items such as bed linen, blankets, towels, tents, badges and other embroidery work, and do not produce clothing. Production is generally small scale, and according to the MDC (1979), there is little scope for expansion. The stated reason for this is a heavy dependence upon the home markets, which consumed over 80% of the output in 1975 (Central Bank of Malta 1977b). However, such industry clearly acts as useful import substitution activity, and there is even evidence to suggest that important linkages may be developing with other firms in Malta. For example, a new embroidery firm is now able to sell a large proportion of its output - clothing labels - to a number of clothing manufacturers. Nevertheless, perhaps the greatest contribution of these small producers seems to have been to supply the growing tourist sector with essential items such as bed linen and towels, which would otherwise have been imported in far greater quantities.

It is significant that the clothing sub-sector was slow to react to the aids to industry scheme, which in its early years, was dominated by the textile industries. The shift away from textiles in favour of clothing industries dating from the late 1960s may be seen as a consequence of the labour intensive nature of clothing naufacture, and the relatively low labour costs prevalent in Malta (see Table 10.1). Whilst the clothing industries have expanded through the further recruitment of labour, textiles industries have tended to expand through increased capital investment in machinery, a fact which has permitted the comparatively capital rich countries to retain a larger proportion of their textiles production capacity than has been the case for clothing industries.

Other reasons for the sudden growth of the clothing sub-sector have included a worldwide boom in clothing demand based in particular on blue cotton denim. In the case of Malta, many of the newer clothing firms produce denim clothing. By 1975, 58% of clothing sales were of trousers, most of which were denim jeans (Central Bank of Malta 1977b). Thus, with the assistance of booming jeans sales, the clothing sub-sector managed to advance its share of manufacturing gross output from 7% in 1964 to 31% in 1976, after which provisional statistics indicate that the sub-sector's proportional contribution remained stable (see Table 10.6). This situation raises further doubts as to the viability of the Maltese industrial structure, for in Malta, not only is manufacturing industry dominated by a textiles sector heavily oriented towards clothing manufacture, but the production of clothing is itself also heavily dominated by denim clothing. The need for diversification of production therefore seems to be more desperate than may have originally seemed to be the case.

Table 10.6 Gross Output, Employment and Export Time Series Data for the Clothing Sub-Sector, 1964 - 1979.

	Gross Output		Employment		Domestic Exports		
	Amount in M£'000	As a % of Manuf.Output	Number Employed	As a % of Manuf. Emp.	Amount in M£'000	As a % of Tot.Exports	% Gross Output Exp'd
1964	1093	7	1524	12	318	8	29
1965	1203	6	1531	11	452	7	38
1966	1472	7	1636	11	822	11	56
1967	1832	8	1675	11	1033	14	56
1968	2627	9	2093	12	1816	18	69
1969	3542	10	2258	11	2484	20	70
1970	4560	12	2642	13	3197	26	70
1971	4789	12	3229	15	4784	32	100*
1972	8097	17	4119	18	6792	32	84
1973	11392	18	4985	20	11724	37	103*
1974	19122	23	6039	25	17267	41	90
1975	26862	27	6223	26	25547	51	95
1976	40709	31	7808	30	37519	47	92
1977	50999	31	8747	31	49150	47	96
1978	58722**	32**	9901**	30**	51745**	44**	88**
1979	69761**	34**	11029**	32**	61441**	45**	88**

Sources: Central Bank of Malta (1977b, and unpublished statistics compiled in 1982)

NB * Figures of over 100% are explicable in terms of stockholding and bottlenecks in marketing
** Provisional

The expansion of employment in the clothing industries reflects the expansion of production (see Table 10.6). The proportion of manufacturing employment provided by clothing establishments has increased from 12% in 1964 to 28% in 1976, and approximately 34% in 1980 (Central Office of Statistics 1980). The Maltese authorities view the contribution of the clothing sub-sector to employment in Malta as crucial, especially as substantial proportions of the profits of the sector leak abroad to MNC parent organisations. However, the extremely heavy dependence upon female labour in the sector has disappointed the authorities, who were keen to resolve the comparatively high male unemployment in the Islands. Until the mid-1960s, the female orientation was less pronounced and averaged only 43% of the total workforce. This was because the sector was then composed of many small male dominated tailoring and cobbling workshops (Central Bank of Malta 1977b). Subsequently, the growth of large scale clothing establishments has resulted in the recruitment of female labour, and a substantial increase in the rate of female participation in the Maltese economy as a whole. The proportion of females employed in clothing establishments is now far larger than both in the textiles industries, and total Maltese manufacturing industry, and in 1980 stood at 76% (see Figure 10.2).

Another of the major features of the clothing sub-sector's workforce is its high turnover. This is to be expected in a country where the female population is obliged to conform to family-based tradional values. Thus, where a clash occurs between family and employment, it is usual for the female worker to abandon her employment in the interests of her household. As a result, very few of the female employees are married, and their average age is between 18 and 20 years. This is to the advantage of the employers as they are able, despite anti-sex discrimination laws, to pay their female employees less on the grounds

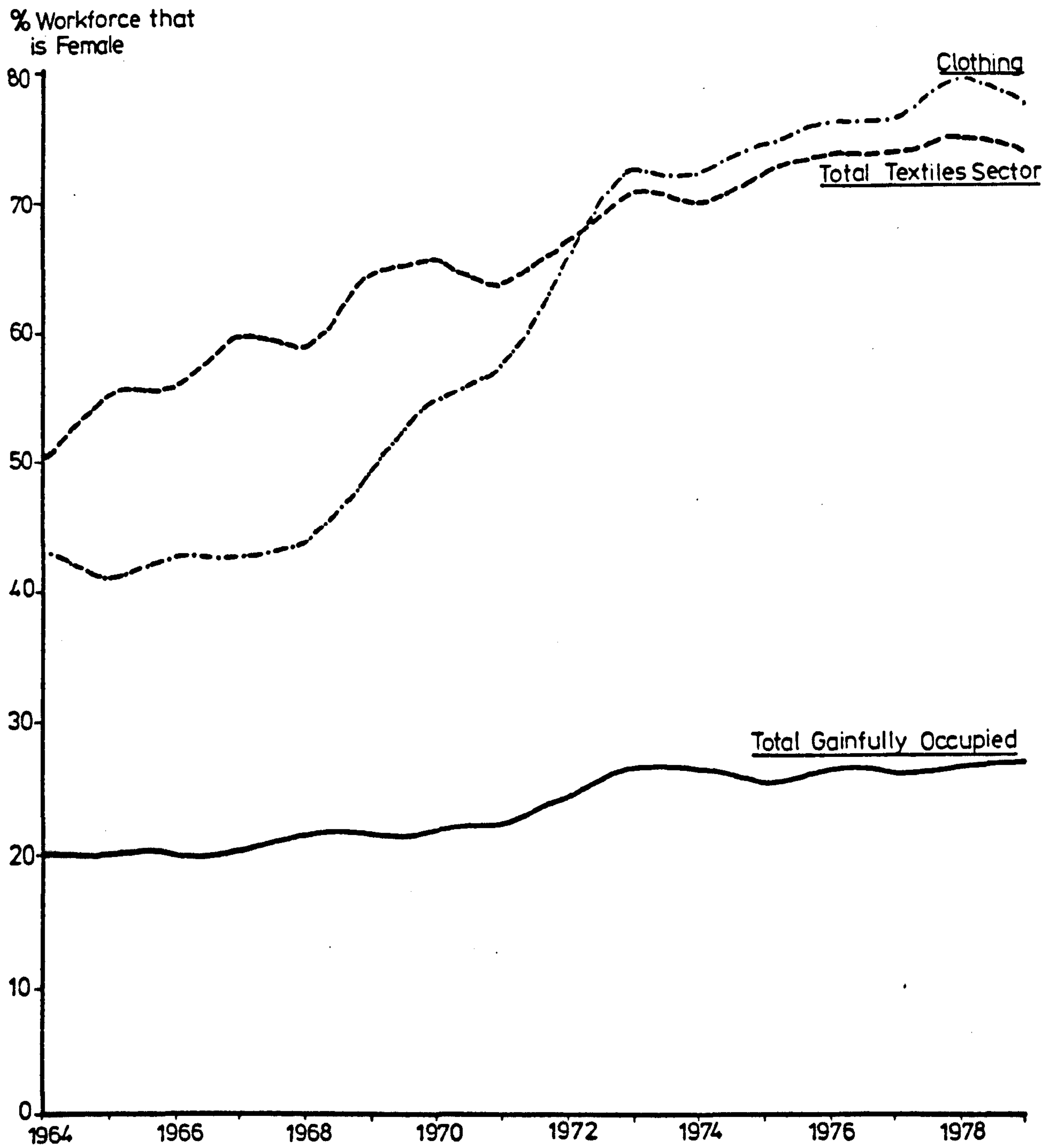

Figure 10.2 Per Cent Female Employment in Clothing & Total Textiles Sectors 1964-79

Sources: Central Office of Statistics (1967-1980) of their youth, inexperience and lack of service. In addition, over seven eighths of the workforce are usually classified as operatives, the lowest and least well paid grade of employee. It is, however, important to recognise that operatives in the clothing sub-sector are considerably more skilled than their counterparts in the textiles industries, since the efficiency of clothing manufacture depends heavily upon the operatives dexterity and speed (Central Bank of Malta 1977b).

The heavy reliance of the clothing industries upon large labour inputs is symptomatic of an industry that has traditionally been one of the least capital intensive of the manufacturing sector. However, the vastly increased scale of operations in Malta has required substantial capital investment, the bulk of which has come from abroad. One of the advantages of the clothing sector has been the flexibility that has resulted from its low capital intensity. Expansion plans in a clothing factory require comparatively little capital outlay as the extra machines cost relatively little. On the other hand, the textiles industries use complex, expensive and large scale equipment. Consequently, the capital investment required to expand textiles enterprises is likely to be very much greater than for similar expansions within the clothing sub-sector. The considerable influxes of capital into the clothing sub-sector in recent years therefore demonstrates the enormity of the sector's growth.

Unlike the textiles sub-sector in which Maltese interests have increased proportionally during the 1970s, the clothing sub-sector has been characterised by the increased dominance of foreign owned share capital. Although the aggregate figures for shareholdings are not accurate, the available statistics up to 1976 (see Table 10.7) indicate that the role of Maltese interests within the clothing industries has declined, falling from a comparatively healthy 43% in 1970 to a meagre 16% in 1976. This contrasts very sharply with the increase in the share of the U.S.A.'s paid up share capital from 17% to 61% in the same period. The immense increase in American involvement was not only caused by new MNC subsidiaries, but was also a result of the expansion of the important Bluebell Corporation into additional factories in Malta and Gozo. Increases in this type of American involvement explain the preponderance of denim jeans production within the clothing sub-sector.

One of the most significant changes to occur in the structure of paid-up share capital has been the sharp decline in British interests, a

Table 10.7 Percentage Sources of Paid-Up Share Capital in the Aided Clothing Sub-Sector.

	1970	1976
Maltese State	0	11
Maltese Private	43	5
Total Maltese	43	16
U.S.A.	17	61
Great Britain	36	7
'Other Sterling'	4	0
West Germany	0	11
Other Foreign	0	6
	100%	100%

Source: Central Bank of Malta (1977b, p.21)

decline which was emulated in the textile industries. During this period, it seems that Anglo-Maltese relations deteriorated, both discouraging investment, and in some cases, encouraging the closure of businesses. However, it is also likely that inflation helped contribute to the relative decline in importance of the British interests. Meanwhile, one of the most significant positive developments has been the growth of West German interests from nothing in 1970 to 11% in 1976. The latter figure probably underestimates the role of West German interests in the clothing sub-sector, which by 1980 had helped to ensure that West Germany had become Malta's most important trading partner.

Despite the advantages associated with the arrival of MNC subsidiary plants in Malta, anxiety concerning their presence has increased in recent years. In 1977, the Central Bank of Malta estimated that no less than 57% of clothing establishments in the aided sector were controlled by non-residents. Over 75% of the foreign controlled ventures were identified as being wholly foreign owned. This indicated that the clothing sub-sector was heavily dependent upon strategies that were not only determined abroad, but that were conceived in the interests of multinational capital as opposed to the Maltese economy. Most of Malta's clothing production is therefore controlled by parent companies which administer marketing, and procure raw materials, patterns and work-study data. The subsidiary plants' main function is usually merely to carry out production instructions and to minimise production costs. Equally disturbing is the tendency for joint ventures with foreign majority shareholdings to operate on a 'cut, make and trim' (CMT) basis, in which the local partner is normally paid commission on the value added. Once again, the local firm had no direct ties to markets and sources of supply (Grech 1978).

The arrival of the many MNC subsidiary clothing ventures has boosted the exports of clothing, which rose between 1965 and 1976 by an average 46% per annum (Central Bank of Malta 1977b), clothing eventually accounting for 85% of the textiles sector's total exports in 1976.

Simultaneously, the proportion of clothing production that was exported had risen to 92% by 1976 (see Table 10.6). As is the case with textile exports, most clothing exports are directed towards the E.E.C. The traditionally most important British markets have now been surpassed by West Germany, which now imports over three times the quantity received annually by the U.K. The E.E.C. as a whole accounted for 84.4% of clothing exports by 1979, and West Germany an impressive 56.5% (Central Bank of Malta, unpublished statistics). Meanwhile, the U.S.A. in 1966 accounted for almost one third of Maltese clothing exports. This market disappeared as clothing producers (especially American MNCs) concentrated on exploiting the European markets provided by Malta's association agreement with the E.E.C. It is claimed that the clothing sub-sector has more diversified markets than the textiles sub-sector, but the fact that the major recipients of Maltese clothing exports are all in the E.E.C. means that both sub-sectors are completely dependent upon the E.E.C.'s common trade policies. Fortunately, the E.E.C. has in recent years improved its quotas on clothing goods exported by Malta (see Table 10.8), but harsher restrictions may follow, as was explained previously.

Table 10.8 Malta E.E.C. Clothing Quota Agreements, 1979-81

Categories	1979 (Units)	1980 (Units)	1981 (Units)
'T' Shirts	1,900,000	2,200,000	2,200,000
Knitted Outerwear	1,500,000	1,600,000	1,700,000
Trousers	11,000,000	12,000,000	12,400,000
Blouses	1,500,000	1,700,000	1,700,000
Shirts	500,000	550,000	600,000

Source: Mid Med Bank (Winter 1979)

10.3 Integration Issues in the Textiles Sector

A major feature of the Maltese textile sector is that its components - textiles and clothing - have developed independently of each other, a fact that emphasises the extreme lack of linkages within the sector. The 2 main factors inhibiting coordinated development in the textiles sector are the lack of fabric production[1] and of dyeing and finishing facilities. In 1977, the Central Bank of Malta (1977b) therefore concluded that there was substantial scope for vertical integration involving the introduction of a weaving sector, which would satisfy the needs of both spinners and clothing producers. Such a development would not only permit import substitution, but would also save on customs duty, freight and insurance costs, as well as avoiding some of the more awkward E.E.C. import regulations concerning the origin of the constituent materials of certain products.

Clearly, diversification into weaving is only feasible if domestic industry could achieve internationally competitive levels as regards price, quality and service. A major problem of fabric production, dyeing and finishing capacity is the vast range of fabrics, yarns and dyes used, making it difficult to achieve sufficiently large weaving and dyeing runs in the Maltese case. However, there are situations where large quantities of narrow range cloth qualities are required, blue cotton denim being the classic case. Unfortunately, to date, the only major venture attempting to provide substantial weaving capacity of this nature in Malta - the state owned 'Spinning and Weaving Limited'- failed disastrously (see Chapter Twelve). In order to salvage some weaving capacity, the company was de-nationalised in 1979, a large portion of the stock being purchased by a U.S. MNC. The latter has since drastically rationalised the venture, but in 1980, severe problems of inefficiency were still said to exist.

Given the generally accepted need for diversification away from the textiles sector, it seems strange that the Maltese Government should have become so obsessed with enlarging the sector still further by developing a weaving industry. The prospects of even a well integrated textiles based activity are not good, and have been deteriorating annually as protectionism has continued to obstruct free trade. Furthermore, as well as external threats to the Maltese textiles sector, there is a danger that institutionalised wage rises may deprive Malta of her major industrial attraction - cheap labour. Should this happen, the labour intensive textiles sector will be the first to suffer.

Currently, the world trade situation is deteriorating, particularly for textile goods, as international trade protection measures increase in number and intensity. In the past, much of Malta's textile produce has found its way to Great Britain because of the heavy involvement of British interests in Malta's new industries. Also important was the fact that Malta had traditionally benefitted from the Commonwealth preferences based on the Ottowa Agreement of 1932. Britain's accession to the E.E.C. in 1972 has changed Malta's trade patterns, causing extreme dependence upon the E.E.C. as a whole, but simultaneously encouraging a diversification of markets to other E.E.C. countries, most notably West Germany. Such dependence upon the E.E.C. must be seen as being dangerous as a single E.E.C. ruling could cripple a large part of the Maltese economy. Such a ruling is becoming increasingly possible as the recession shows no sign relenting, and E.E.C. enlargement looms. Table 10.9 shows the great extent to which the textiles sector has grown to dominate Maltese manufacturing industry, and the overwhelming dominance of the E.E.C. markets. There is therefore a desperate need for rapid diversification both away from the textile sector, and away from E.E.C. markets. The attempted integration of the textiles sector does not seem to be a valid strategy as it will both enlarge the sector still further, and worse, induce more severe negative multiplier effects when (or if) recessionary pressures on the sector become more severe.

Table 10.9 Aggregate Textiles Sector Data for Selected Years

Years	% Gross Manuf Output in the Textiles Sector	% Manuf. Employment in the Textiles Sector	% Exports that were Textile Goods	% Textiles Exports to E.E.C.
1965	22	23	49	15
1970	23	26	54	39
1975	33	36	63	77
1979*	39	39	53	85

* Provisional figures only.

Sources: Central Bank of Malta (1982) : Unpublished Statistics

The next chapter examines metal based industries, which are usually seen as the activities most capable of neutralising the textile sector dominance.

CHAPTER ELEVEN: THE METALS SECTOR

11.1 Introduction

Given the recognised undesirable dominance of manufacturing industry in Malta by the textiles sector, the metals sector has, since the late 1960s, represented an area of hope for governments of both complexions. Expectations rested not only on the assumption that a growing metals sector would provide more employment opportunities, but also that it would provide jobs specifically for the male unemployed rendered jobless by the rundown of the British naval facilities. This was regarded as especially convenient as many of the newly redundant dockworkers were skilled or semi-skilled personnel ideally suited to employment in new metals industries.

There were other perceived advantages of a dynamic metals sector. For example, metals sector activities benefitted from the absence of E.E.C. restrictions on most metals sector imports to the Community, a fact which boosted the much desired export potential of the sector. Unlike the textiles sector, since 1977, no tariffs or quotas have been imposed upon Maltese metals exports to the E.E.C., although complex rules of origin do still apply. Meanwhile, the roots of a prosperous new metals sector were seen to lie in Malta herself, within the scores of small workshops scattered throughout the Islands. Thus, it was felt that there was greater potential for the inducement of indigenous entrepreneurial activity, which would possibly rely far less upon external sources of capital and technology. Above all, it was hoped that metals sector activity would be far more prone to internal linkages than was the case in the textiles sector.

Unfortunately, a consistent definition of the metals sector has been difficult to achieve as the official statistics tend to alter their aggregates, thereby varying the contents of the sector, and obstructing comparative time series analyses. Nevertheless, with the assistance of statistics provided mainly by the Central Bank of Malta and the Central Office of Statistics in Malta, analysis of this sector is possible. Furthermore, it should be possible to tie in some of the material with that obtained in the questionnaire survey outlined in Chapter Twelve.

The industries within the sector fall into two main groups. The first of these is the 'metals and machinery' sub-sector, and the second the 'transport equipment' sub-sector. The latter of the two groups is especially important as it includes the vital dockyards.

11.2 The Metals and Machinery Sub-Sector

11.2.1 Introduction

As its name implies, this sub-sector can itself be divided into two distinct parts based on metal fabrication and the manufacture of machinery. The former is by far the oldest component of the sub-sector and dominated until the mid-1960s. At that time, approximately half the output of the sub-sector was accounted for by breaking yards whose production has since diminished in importance dramatically. The advance away from scrap metal based activity has involved a growth in the manufacture of metal furniture, plumbing fixtures and fittings, and spectacle frames. Prior to the spectacular development of the latter, this portion of the metals sector proved to be encouragingly male intensive, the percentage of male employees usually amounting to over 90%. However, the arrival of one large West German firm manufacturing spectacle frames has, because of its preference for female personnel, reduced the male percentage to 80% (Central Bank of Malta 1977c).

The manufacture of machinery has been slow to develop on a large scale, and was initially confined to small Maltese owned workshops assembling and repairing electrical equipment, and manufacturing and erecting the forests of TV aerials which dominate the Maltese urban skyline. However, substantial investments by MNCs in the manufacture of electrical machinery have transformed this portion of the metals sector. The new participants include companies from West Germany, Great Britain, Japan and the U.S.A. In contrast to the local enterprises in the sector, their production has been comparatively large scale, export oriented, and extremely female intensive. In 1968, females constituted only 10% of the electrical machinery sub-sector's workforce. By 1976, this figure had blossomed to 77% (Central Bank of Malta 1977c). More recent statistics reveal that by 1980, female dominance in these activities had retreated, females constituting only 57.5% of the workforce (Central Office of Statistics 1980).

As can be seen from Figure 11.1, the growth of electrical machinery manufacture from the late 1960s onwards accounted for much of the growth achieved in the sub-sector as a whole. In the final analysis, this growth must have come as a disappointment to the Maltese authorities, not only because of the female intensive nature of the employment that it provided, but also because of the type of production involved. It has now become clear that the electronics industry came to Malta for exactly the same reasons that the textiles sector firms arrived in such large numbers. Although government incentives were important, cheap labour and access to E.E.C. markets were paramount (see Table 11.1).

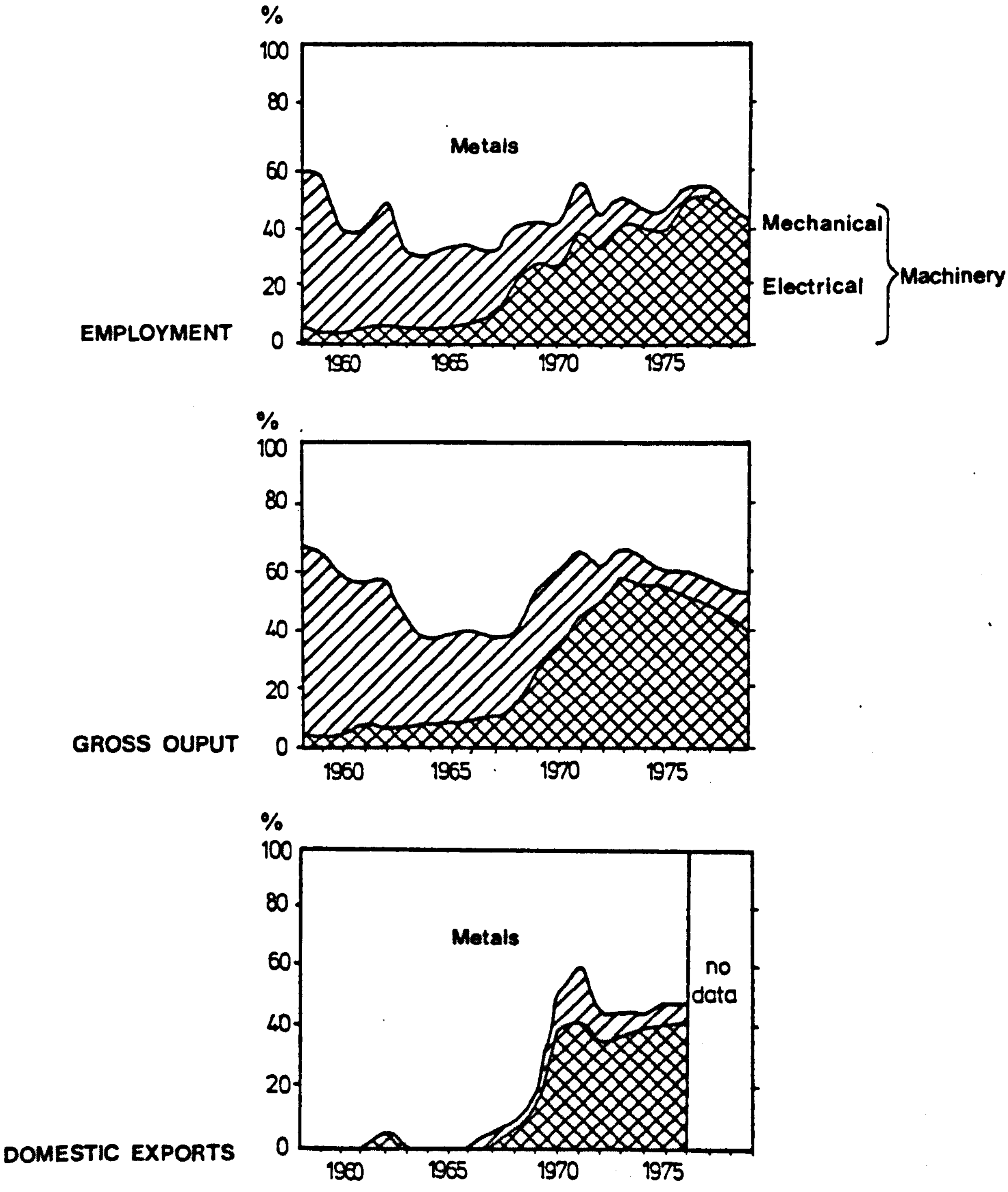

Figure 11.1 Composition of The Metals & Machinery Sub-Sector 1958-79

Source: Central Bank of Malta (1977c)
Central Office of Statistics (1980)

Table 11.1 Approximate Average Earnings per Hour of Electronics Workers in Selected Countries, 1966 - 1980. $ cents/hour

Years	Great Britain		West Germany	Sweden		Japan	Malta		South* Korea
	M	F		M	F		M	F	
1966	-	-	-	-	-	51	45	-	-
1967	-	-	107	-	-	57	46	-	-
1968	-	-	112	-	-	68	44	-	-
1969	130	80	128	-	-	82	47	-	-
1970	149	92	150	-	-	99	52	-	21
1971	172	109	186	310	264	125	62	-	27
1972	192	124	210	362	315	163	75	-	24
1973	216	144	308	444	385	225	97	-	23
1974	248	177	312	461	401	262	98	-	30
1975	275	200	408	536	472	306	98	-	42
1976	249	192	395	638	576	342	106	-	56
1977	279	214	440	682	615	398	126	-	62
1978	341	259	519	686	626	537	144	-	77
1979	470	358	634	835	775	547	170	-	88
1980	560	426	636	869	812	523	179	-	106

* As in Table 10.1, South Korea's statistics are very approximate because of her floating currency. Korea, and most of the sample countries have implemented sudden devaluation policies at some time. These lead to occasional surprising trends in these statistics.

Sources: ILO Yearbooks of Labour Statistics, 1967 - 1981

Note: The same caution when interpreting the statistics in Table 10.1 must be used when examining the statistics in this table.

Once again, in the case of labour, further cost cutting was achieved through the use of youthful cheap female labour.

Table 11.1 shows the extent to which Malta's cheap labour has become an attraction for MNC branch plants. Although countries such as South Korea remain in a more advantageous position in this respect, it is interesting to note that Japan, once a cheap labour location, now seems to pay its electronics workers comparatively high wages. Of the other countries in the table, the British wage levels (more than double Malta's) are easily surpassed by West Germany, and in Sweden, wages seem to be remarkably high. Another interesting point is the fact that the Maltese and ILO statistical publications seem to deny the existence of female workers in these activities in Malta. As has already been stated, and as will be illustrated in Chapter Twelve, electronics industries are in fact very heavily dependent upon female labour.

Perhaps the most disappointing feature of the electronics industries in Malta was the predictable lack of linkages with the local economy, caused by the MNC subsidiaries' tendency to trade solely with their parent companies. This is largely a consequence of the character of the electronics industries attracted to Malta. Much of the activity was heavily staged, and involved merely the assembly of ready-made components supplied by the parent companies. Under these circumstances, the need to trade with the host economy is usually very slight. This has not only reduced still further the possibility of positive multiplier effects within the local economy, but has also enhanced the chances of sudden obsolescence, as was painfully illustrated by Plessey Microsystems (Malta) Ltd., which closed down in early 1981.

It seems fair to conclude, therefore, that the arrival of the electronics firms has been almost as disturbing as that of the textiles industries. Little in the way of skill is transferred because the manufacturing processes have been deliberately devised to eradicate the need for skilled labour. In addition, the use of components, and the tight administrative control of the parent companies facilitates illegal transfer pricing operations. Finally, for technological reasons, this type of activity is even more volatile and unreliable than textile sector activities.

Electrical machinery is not the only type of machinery produced in Malta. There is also a small mechanical machinery industry, although until recently, this showed no signs of growth. This is a strongly male intensive activity which tends to be restricted in the main to the manufacture of machine tools. The reason for the poor record of this type of activity stems from its capital intensive nature, and the difficulty of achieving scale economies in Malta.

11.2.2 General Features

Following the arrival of MNC enterprise in the sub-sector during the late 1960s and 1970s (primarily in the field of electronics), the scale of production grew substantially. Thus, in 1959, only one firm employed more than 60 workers, a figure which had risen to 18 by the end of 1976. However, in comparison with the growth of the textiles sector, the growth was late. This may be explained by the aids to industries scheme, which, up to 1966, had given no grant assistance to firms in this category. This trend was reversed between 1967 and 1969 when the proportion of grants being allocated to metals and machinery ventures rose from 28% to 65% by value. This had resulted from the authorities' sudden recognition of the diversification problem (Central Bank of

Table 11.2 Gross Output, Employment and Export Time Series Data for the Metals and Machinery Sub-Sector.

	Gross Output		Employment		Domestic Exports	
	Amount in M£'000	As a % of Manuf. Output	Number Employed	As a % of Manuf. Emp.	Amount in M£'000	As a % of Total Exports
1959	477	4.9	482	6.0	379	32.0
1960	511	4.8	514	5.8	365	26.6
1961	633	5.8	623	7.5	600	31.0
1962	597	5.0	677	6.6	271	13.1
1963	658	4.8	637	6.7	247	8.1
1964	966	5.8	840	6.8	375	8.9
1965	1082	5.6	919	6.8	471	7.6
1966	1159	5.3	1011	7.0	398	5.2
1967	1423	5.9	1150	7.3	330	4.6
1968	1837	6.2	1279	7.2	446	4.4
1969	2491	7.1	1954	9.7	582	4.7
1970	3044	7.8	1933	9.4	979	8.0
1971	3932	9.6	2377	11.0	1807	12.0
1972	5812	11.9	3221	13.8	3835	17.8
1973	8469	13.0	3749	14.9	5762	18.1
1974	10687	13.0	3772	14.7	6662	15.7
1975	12371	12.5	3665	15.0	6974	13.9
1976	17755	13.4	4053	15.4	10590	13.2
1977	24413	14.8	4732	16.6	n.a.	n.a.
1978	28399	15.7	4975	16.6	n.a.	n.a.
1979	34714	16.4	5154	16.4	n.a.	n.a.

Sources: Central Bank of Malta (1977c)
Central Office of Statistics (1976 and 1979)

Malta 1977c).

Table 11.2 provides data for the entire metals and machinery sub-sector. Gross output, employment and domestic exports statistics all show the impact of the arrival of the MNC subsidiaries. In all three groups of statistics, substantial advances occurred in the years following 1967. The fact that the sub-sector managed to increase its share of total manufacturing output, employment and exports at a time when other sectors (particularly textiles) were also advancing, is impressive. It is,nevertheless,unfortunate that so much of the growth has been accounted for by electrical machinery (see Table 11.3 and Figure 11.1). Several inevitable reversals in the volatile electronics industries have since 1976 led to a substantial relative and absolute reduction in their importance within the sub-sector. Fortunately, these set-backs

Table 11.3 Percentage Gross Output and Employment Accounted for by the Constituent Industries in the Metals & Machinery Sub-Sector, 1976 - 1979.

	% Gross Output			
Industries	1976	1977	1978	1979
Fabricated Metals	48.4	45.9	51.3	55.7
Electrical Machinery	47.6	50.9	43.6	37.5
Mechanical Machinery	4.0	3.2	5.0	6.8
	% Employment			
	1976	1977	1978	1979
Fabricated Metals	40.0	42.7	45.7	46.4
Electrical Machinery	52.0	46.7	43.2	40.5
Mechanical Machinery	8.0	10.6	11.1	13.2

Sources: Central Office of Statistics (1979)

had until 1979 been more than offset by advances in fabricated metals, which include the expansion of the spectacle frame enterprise mentioned earlier. Thus, the sub-sector as a whole by 1979 accounted for over 16% of both total manufacturing output and employment.

The arrival of the MNC subsidiaries has drastically altered the pattern of ownership within the sub-sector. As Table 11.4 shows, in 1968, 46.2% of paid-up share capital was accounted for by private Maltese interests. The only major shareholding emanating from outside Malta were British (41.7%), and to a lesser extent, those from the U.S.A. (9.6%). By 1976, influxes of West German and Japanese capital

Table 11.4 Sources of Paid-Up Share Capital in the Metals and Machinery Sub-Sector, 1968 and 1976.

	% in 1968	% in 1976
Private Maltese	46.2	24.7
State Maltese	0.0	17.0
Total Maltese	46.2	41.7
Great Britain	41.7	12.7
U.S.A.	9.6	6.0
West Germany	2.5	21.0
Japan	0.0	12.0
Other Foreign	0.0	6.6
	100.0	100.0

Sources: Central Bank of Malta (1977c)

were especially prominent. British and American interests had remained stagnant during this period, whilst the urgent need for State intervention to diversify the manufacturing sector away from textiles had led to parastatal interests of 17%.

Superficially, the ownership statistics look encouraging, especially in view of the continued total Maltese interests of over 40%. However, as will be emphasised in Chapter Twelve, share capital data once again under-represent the extent of foreign interests and control. Moreover, the Central Bank of Malta (1977c) reveals that in 1976, the mechanical machinery and fabricated metal industries were 56% and 58% Maltese controlled respectively, according to accumulated share capital data. The electrical machinery industries were, in contrast, only 13% Maltese controlled. Furthermore, the Bank explains that in real terms, 94% of exports and 60% of employment in the whole sub-sector were foreign controlled in 1976.

As is implied above, the growth of exports from this sector can be attributed to the new MNC participation, and more specifically, the electronics industries, which, by the mid-1970s were accounting for almost 45% of total exports in the sub-sector. In the earlier days of fabricated metal dominance, most exports went to the British markets. Currently, the new MNCs have encouraged the advance of West Germany, which is now the single most important customer. The combined importance of the British and West German markets has ensured that the E.E.C. continues to account for over 80% of the sub-sector's exports (Central Bank of Malta 1977c). This trade concentration, which is similar to that in the textiles sector, is not desirable. It is hoped that in the future, advances can be made in the Libyan, Middle Eastern and Japanese markets, which accounted for less than 10% of exports in 1976.

The continued dominance of the E.E.C. as a recipient of exports stems from Malta's associate membership of the E.E.C. This initially resulted in a 70% tariff reduction for goods in this sub-sector, and since 1977, has resulted in no tariffs at all. This has rendered Malta an attractive location, especially for Japanese and other non-E.E.C.

firms, whose goods would otherwise find access to the Community both difficult and expensive. Initially, the rules of origin for the components of various goods were restrictive, but these have gradually been relaxed since 1976. There are, however, obvious problems associated with such dependence upon the E.E.C. Clearly, it is as easy for the E.E.C. to tighten as it is to relax its import regulations, and continued recessionary pressures within the Community indicate that, as is the case with textiles goods, the sudden introduction of tighter regulations is quite possible.

Meanwhile, the linkages within this half of the metals sector are very disappointing. One of the major problems has been the research intensive nature of the many product components, which inevitably leads to a very high import content. As has already been explained, this situation is encouraged by the tendency of MNC subsidiaries to specialise in one stage of production, especially in electronics assembly. Unfortunately, easy remedies seem unlikely as most of the vital inputs are too varied and insubstantial to justify import substitution policies. The Central Bank of Malta (1977c) also identifies the problem of the absence of iron and steel producing facilities in Malta as being a serious obstacle. Once again, the necessary scale economies, and the energy intensive nature of the iron and steel making process rules this option out. This particular problem is not very serious at present because of the current over-capacity in world iron and steel production, which ensures that heavily subsidised iron and steel are available in copious quantities throughout the world.

In conclusion, it seems that the prospects of this sub-sector are mixed. Current reports from Malta suggest that many industries are closing down as recessionary pressures are finally beginning to afflict Malta. Nevertheless, this is a sub-sector dear to the Government's heart, and there will therefore be considerable State intervention to save and create new industry. The Government maintains that the prospects are good, especially in electronics, where the technology is so dynamic that investment in complex automated plant is too risky in the long term. Consequently, they believe that electronics will continue to require cheap, high quality labour like that to be found in Malta. However, if electronics overcomes its sliding performances of the late 1970s and advances still further in the 1980s, it will provide more female jobs than male. Moreover, although the sub-sector as a whole pays higher wages on average than other industries, electronics firms pay low wages, as is illustrated in Chapter Twelve. Finally, a resurgence of electronics will not assist in the creation of a well integrated industrial base, and will add to the instability of Maltese industry because of the often short life-span of many MNC subsidiary electronics ventures.

11.3 The Transport Equipment Sub-Sector

This part of the metals sector is dominated by seacraft-oriented activity, based in the dockyards of the Grand Harbour. The dockyards, even with their reduced workforce, remain the largest single employer in the Maltese Islands. The other areas of activity in the field of transport equipment include aircraft and landcraft industries, both of which are only minor industries compared with the marine based activities of the harbours.

The importance of the transport equipment industries is illustrated by the fact that the Nationalist Party, and not the Malta Labour Party, chose to nationalise a large part of the sector in 1968. Very strong State interests continue to dominate, and render the sector the only portion of the Maltese economy that is directly under the control of Maltese interests. For this reason, the various Governments of Malta have been doubly anxious to see that these industries flourish. Their male intensive employment potential remains great, as does their ability to earn foreign exchange. Also of crucial importance is the trading pattern of the sub-sector, which is no longer dominated by Europe and the E.E.C.

11.3.1 The Seacraft Sector

The seacraft sector grew to its dominant position within the Maltese economy because of Malta's geostrategic location astride the Mediterranean (see Chapter Six). Most of the dockyard activity was originally confined to naval repairs, but the British defence cuts of 1957 resulted in the need for a rapid conversion of the harbours to commercial activity. This task was delegated to C.H. Bailey (Malta) Ltd. in April 1959, who, with the assistance of £7.8 million loaned from the British Government, were instructed to act accordingly. A series of events led to the termination of the Bailey contract and the appointment of Swan Hunter and Wigham Richardson Ltd. as managing agents in May 1963. Sharp declines in the once plentiful and profitable repair work for the British navy, and extreme international competition for commercial business led to substantial losses,which were exacerbated by the closure of the Suez Canal in 1967. The dockyards were eventually nationalised in April 1968, and the British Government agreed to provide £3 million for further diversification of the yards.

Heavy losses continued into the 1970s, worsened by increasing international competition and industrial unrest. In 1973, the Maltese Government was forced to introduce austerity measures involving changes in wages and working hours, in the interests of flexibility. There resulted a sharp reduction in overhead expenses, and the first operating profit in 12 years. The situation was further aided by the reopening of the Suez Canal after 1975. Apparently, the dockyards have achieved small profits in every year since 1973. However, statistics are extremely difficult to obtain, and are not contained in official Government publications[1].

The dockyards complex retains 6 drydocks including one recently built with the assistance of the People's Republic of China (see Plate 11.1) which can accommodate vessels up to 300,000 dwt. Also within the jurisdiction of the dockyards is the Ricasoli tanker cleaning installation, now fully operative after safety regulation problems. The dockyards have diversified their activities away from maintenance and repairs towards building activities, which have recently included two 6038 dwt parcel tankers for the Chinese. Manufacturing is not confined to boats, and includes pipeline laying equipment, wharfside cranes, pressure vessels, structural building, floating docks and mooring buoys, and even lamp posts for Maltese streets. The dockyard also administers a yacht yard, and provides travelling emergency repair parties.

The ingenuity of the Maltese dockyard craftsmen cannot be doubted. As is the case with the economy as a whole, new equipment is so costly that second hand rejuvenated and repaired equipment must be used to the full. The resourcefulness of the Maltese is well illustrated by their use

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1. Despite their absence from Government publications, statistics are included in a Central Bank of Malta Report on the transport industry published in 1979. They are, however, aggregate statistics, and include other activities.

PLATE 11.1 The Grand Harbour. To the right of this picture is the new China Dock, which has a maximum capacity of 300,000 dwt.

PLATE 11.2 Malta Shipbuilding Ltd. Part of the new shipbuilding complex under construction during 1982 in Marsa Creek. The new complex is due to begin operations during 1983.

of half the TorreyCanyon supertanker (last seen sinking into, and polluting the English Channel) as an oil storage tank in the heart of the harbour complex. Furthermore, the dockyards represent the only area of the Maltese economy where the Maltese have dealt adequately with their own international marketing requirements. The Malta Drydocks now have their own office in London, which explains their ability to acquire much desired contracts with companies such as Cunard. In addition, the dockyards have agents in West Germany, the U.S.A., East Germany, Italy, Japan, Denmark, Sweden, Saudi Arabia, France, Hong Kong, Greece, Egypt, Libya, the Netherlands, Belgium and Norway, all of whom are able to attract business.

At present, the dockyards, and a number of very small businesses account for the entire seacraft industry. Shortly, however, Malta Shipbuilding Ltd. (see Plate 11. 2) will begin operations in Marsa Creek. This venture, which is 70% Maltese State, 11% Algerian and 19% Libyan owned, is planned to build ships of up to 120,000 dwt. In addition, it hopes to involve itself in offshore and onshore marine engineering (especially associated with the oil industry), as well as structural steel work. At such a time of crisis in international marine engineering and shipbuilding, it seems surprising that any government should indulge in the creation of such an enterprise. Nevertheless, the officials maintain that there is a glut only of large ships, especially oil tankers, and that the new shipyards diet of small ships and engineering projects should provide adequate sustenance.

Also under construction is the new Marsaxlokk Port, which was seen to be necessary following space consuming increases in ship repairing and building activity in the Grand Harbour dockyards. Marsaxlokk, in the

South of Malta, was perceived to be an ideal location for the new port because of its excellent natural harbour, and the surrounding area available for industrial development and container facilities. The planned installations include substantial container facilities as well as the general cargo berths. The project is intended to encourage the development of Malta as a transhipment centre for the Mediterranean (Office of the Prime Minister 1977). This, it is hoped, will also reduce Malta's unhealthy dependence upon the often strikebound and hopelessly inefficient Italian ports. The project is being partly financed by a soft loan from the Saudi Fund for Development.

11.3.2 The Land and Aircraft Industries

Both the landcraft and aircraft industries are so small that they merit little attention. Aircraft based activity has until recently been confined to a small American company which services and maintains small aircraft used in the oil exploration industry. Recently, the acquisition of Boeing aircraft by the State airline, 'Air Malta', has necessitated the recruitment of local maintenance crew. The sector has otherwise remained static.

The land craft sector is more substantial, but extremely fragmented. There are, for example, 270 establishments that employ less than 6 people, and consist of family garage enterprises and workshops on the fringes of the formal sector. There have, nevertheless, since the 1960s, been several advances in the industry. These have involved the establishment of vehicle assembly plants (see Plates 11.3 and 11. 4). Car, coach and caravan assembly are now all performed on the Islands to varying degrees of success. In the late 1970s, the Islands' main car assembly venture in Marsa was in serious trouble. The condition of the other ventures is not known.

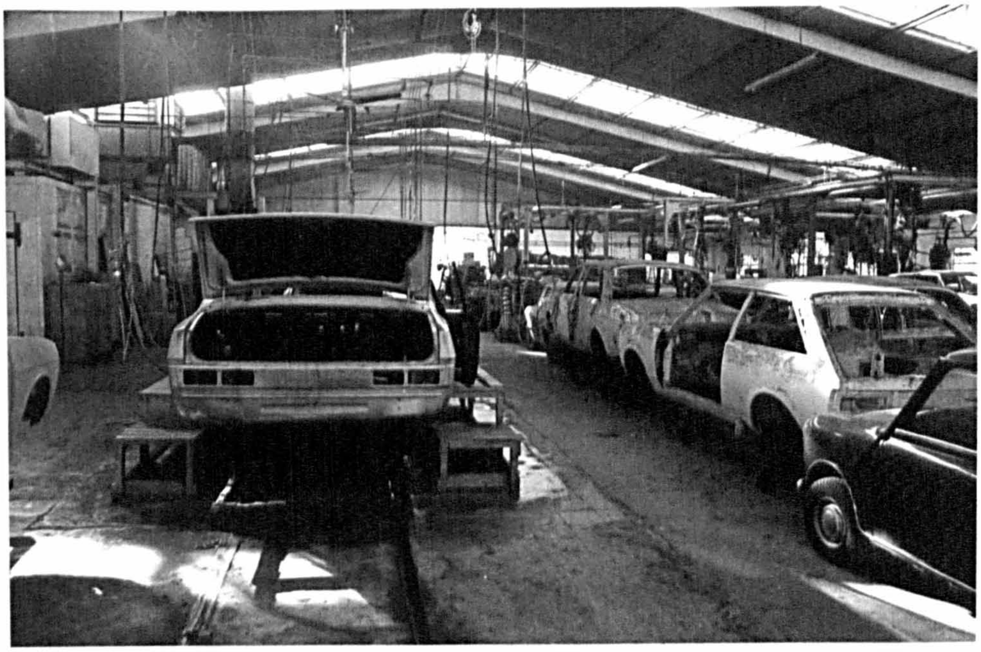

PLATE 11.3 Car Assembly Ltd., Marsa. This factory assembles cars from kits supplied by British Leyland. Unfortunately, such ventures have proved to be uncompetitive, largely because of an inability to achieve economies of scale. In this particular case, the company has resorted to car repairs and maintenance.

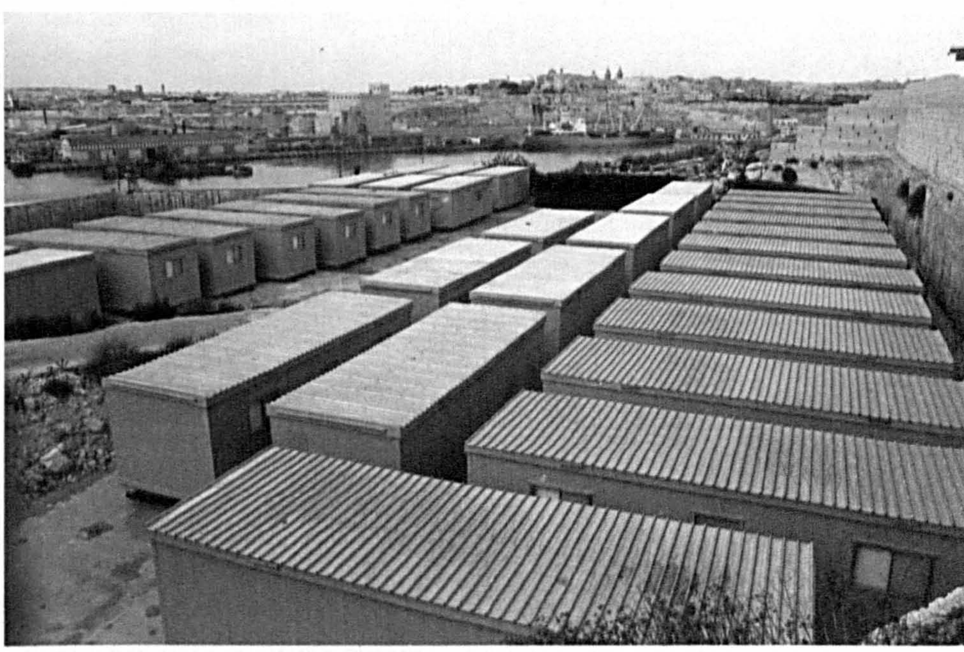

PLATE 11.4 Mobile Homes Ltd, Kordin. A large proportion of Malta's land vehicle's sub-sector is accounted for by the manufacture of mobile homes. These particular homes are to be exported to Middle Eastern countries for use in the oil industry.

11.3.3 The Transport Equipment Sub-Sector: General Points

During the 1960s, the transport sub-sector was completely dominated by the dockyards, which accounted for as much as 97% of the sub-sector's gross output in 1960 (see Table 10.5). Consequently, as the dockyards suffered serious reversals as a result of the fortress rundown, the transport sub-sector's share of total manufacturing output fell from almost 32% in 1960 to 13% by 1970 (see Table 10.6, and Central Bank of Malta 1979). Simulataneously, the transport sub-sector's share of manufacturing employment and domestic exports also fell from positions of dominance within the manufacturing sector. The spectacular nature of the decline was perhaps deceptive, for much of it was relative, and in the long term, more due to the diversification of the manufacturing sector than the continued absolute decline of the dockyards.

During the 1960s, repairs to British and NATO seacraft usually accounted for 80% of the seacraft industry's output. By 1979, this source of income had disappeared completely. The dockyards compensated for the loss of business by concentrating on commercial ship repairs and shipbuilding, which, in the 1970s, accounted for over 25% of the seacraft industry's output (Central Bank of Malta 1979). The land vehicles industry, meanwhile, grew in importance during the 1960s (see Figure 11.2), producing almost 40% of gross output by 1978.

Figure 11.2 also reveals that the dominance of seacraft in the transport sub-sector's employment structure has declined steadily since 1960. Table 11.5 shows that employment in the dockyards has remained relatively constant, indicating that the seacraft industry's proportional decline was mostly caused by the proportional increase in

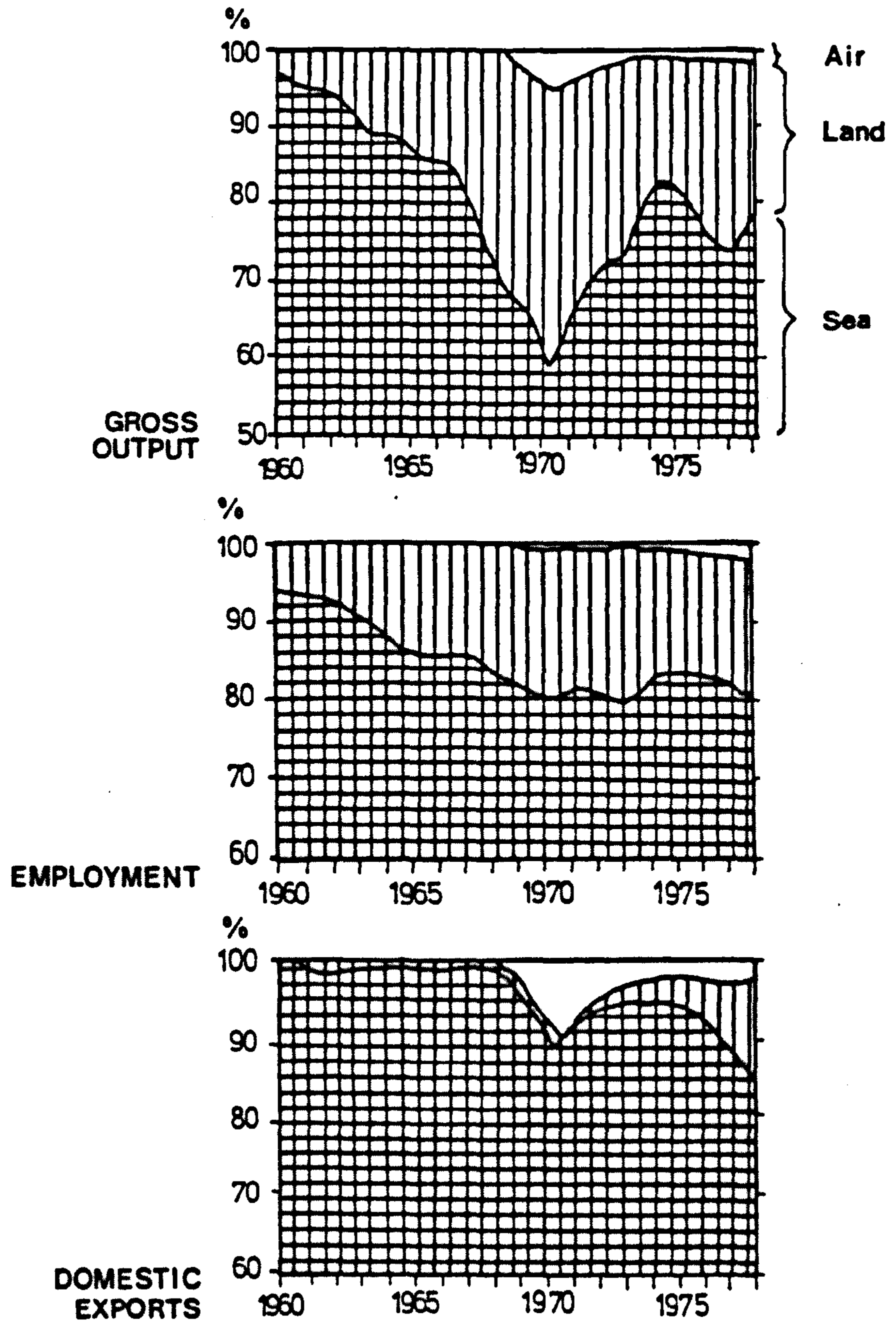

Figure 11.2 Composition of The Transport Equipment Sub-Sector 1960-78

Source: Central Bank of Malta (1979)

Table 11.5 The Transport Equipment Sub-Sector: Supplementary Data Concerning the Dockyards, 1960 - 1978.

	Total Employment in the Dockyards	% of Sector Emp. in the Dockyards	% of Manuf. Emp. in the Dockyards
1960	5629	97.3	47.0
1961	5184	92.5	40.4
1962	4993	90.0	38.1
1963	4825	80.2	34.3
1964	4871	77.5	39.3
1965	4828	77.1	35.8
1966	4826	73.2	33.4
1967	4781	71.1	30.2
1968	4680	69.6	26.2
1969	4792	66.2	23.9
1970	4815	74.4	23.5
1971	4784	69.9	22.1
1972	4864	73.8	20.9
1973	4698	72.3	18.7
1974	4601	68.7	18.0
1975	4782	71.8	19.6
1976	4809	72.7	18.3
1977	5019	75.2	17.6
1978	5045	75.0	16.8

Sources: Central Bank of Malta (1979)
The General Workers Union of Malta (unpublished statistics)

Table 11.6 Gross Output, Employment and Export Time Series Data for the Transport Equipment Sub-Sector, 1960 - 1978.

	Gross Output		Employment		Domestic Exports	
	Amount in M£'000	As a % of Manuf. Output	Number Employed	As a % of Manuf. Emp.	Amount in M£'000	As a % of Total Exports
1960	5051	31.8	5788	40.4	4710	77.5
1961	4795	29.1	5607	42.4	4535	71.1
1962	4536	26.4	5546	40.8	4255	68.4
1963	4153	22.9	6014	41.0	3669	54.9
1964	5063	24.1	6289	36.0	4447	51.5
1965	5614	23.3	6264	33.7	4893	44.7
1966	6455	23.6	6596	33.2	5562	42.6
1967	5258	18.7	6728	31.6	4331	38.9
1968	5923	17.7	6724	29.1	3826	27.4
1969	7606	19.2	7237	28.3	4960	29.6
1970	5401	13.0	6470	25.5	2872	19.3
1971	6124	13.7	6842	25.4	3975	20.9
1972	7842	14.5	6592	23.3	5363	20.9
1973	10059	14.0	6501	21.1	7083	18.3
1974	14027	14.7	6704	21.9	11379	21.3
1975	15723	14.0	6660	21.2	12581	20.4
1976	17590	12.0	6612	19.9	12733	14.4
1977	22806	12.4	6678	18.4	17315	14.8
1978	23326*	11.4*	6730*	17.8*	17755*	14.2*

Sources: Central Bank of Malta (1979)

NB *Provisional

the importance of the land craft industry employment[1]. Meanwhile, perhaps the most important feature of the employment provided by the transport equipment industries in general is that it has never been more than 2% female. Because of the physically demanding nature of much of the work, management assumes that females should be restricted to the few clerical and secretarial positions available. Another encouraging aspect of the industries is the fact that their employees receive comparatively high wages (Central Bank of Malta 1979).

Because of the very large quantities of equipment and the scale of the installations required by the seacraft industries, the transport sub-sector is the greatest consumer of capital in the Maltese economy. The central importance of the transport equipment sub-sector to the Maltese economy, and the enormous quantities of capital that it requires (which are beyond the means of the Maltese Private sector) has induced heavy state involvement[1]. The Central Bank of Malta's (1979) ownership figures for 1969 and 1979 confirm the heavy involvement of the State. In 1969, the State owned 95.5% of the sub-sector's share capital, and Maltese interests in total accounted for all but 0.1% of the accumulated share issue. By 1979, Maltese interests had retreated in favour of a substantial Libyan holding of 17.7%. Maltese State control nevertheless remained unchallenged, a fact which must have encouraged the authorities. Undoubtedly, the degree of Government control over this sector has prompted the Government to persist in its attempts to retain the dockyards as a central element in the development programme,

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1. By 1960, enormous and sudden declines in employment had ceased in the dockyards, the workforce of which had settled at a level of between 4,500 and 5,100. Before 1960, the workforce varied between 6,000 and 13,000, depending on strategic conditions.

despite the threat of increased recessionary pressures.

Further encouragement may be gained from export data, which not only shows a welcome decline in dependence upon seacraft exports, but also displays a diversified pattern of export destinations. Table 11.7 reveals that sources of E.E.C. business have been surpassed by Libyan and especially African markets. This contrasts with the other major sectors of Maltese manufacturing industry, which have, as has already been demonstrated, become dependent in particular upon both E.E.C. markets and capital.

Table 11.7 Transport Equipment Sub-Sector Export Data for Selected Export Destinations.

	Libya		Africa		E.E.C.		
	M£'000	% Sector Exports	M£'000	% Sector Exports	M£'000	% Sector Exports	Total Exports M£'000
1960	0	0.0	0	0.0	4	100.0	4
1965	0	0.0	51	32.7	32	20.5	156
1970	0	0.0	0	0.0	208	98.6	211
1975	475	38.7	912	74.3	77	6.3	1228
1978	2113	22.1	2347	24.5	247	2.6	9566

Sources: Central Bank of Malta (1979)

The prospects of the transport equipment sub-sector are not certain. For example, the negative influences of the international shipping crisis are inevitable, but the Maltese authorities maintain that the worst conditions are prevalent in the construction of large scale vessels, and that their own operations are still in demand. Nevertheless, the construction of a new shipbuilding yard is a hazardous venture, and is potentially disastrous. Meanwhile, the drydocks appear to have developed an enviable reputation and have been able to retain a steady flow of customers. When visited in mid-1982, they were so busy that there were queues of vessels at anchor offshore, and the yards were working full night shifts. Given the reversals currently being experienced elsewhere in manufacturing industry, it seems possible that the transport equipment sub-sector, dominated as it still is by the dockyards, may re-emerge as the strongest portion of Malta's economy.

11.4 Conclusions

The metals sector clearly has two separate and distinct components. The metals and machinery sub-sector has now been penetrated extensively by multinational capital, and therefore cannot be said to be operating entirely in the interests of the Maltese economy. Furthermore, its vulnerability to international market fluctuations, and more especially, its dependence upon E.E.C. markets says little for its long term stability. Ironically, the transport equipment sector, which is dependent upon one of the world's most depressed industries, remains comparatively stable, it seems as a consequence of firm Government control. It seems that the apparent successes of the Government's management of the transport equipment industries may have encouraged some of their ventures in other sectors of the economy, and may yet encourage more substantial projects in the metals and machinery industries. Such a strategy should be welcomed,as the current structure of the weaker half of the metals sector fails to inspire confidence.

12.1 Introduction

The survey was designed to gather detailed data on the structure of Maltese manufacturing activity, thereby providing information concerning ownership, production, employment and decision-making at the micro-level. (The questionnaire itself can be seen in the Appendix at the rear of this volume.) The original intention was to interview the managing directors (or equivalent personnel) of 100 firms operating in Malta. This target proved to be rather ambitious, especially in view of the limited period of fieldwork, and the elusive nature of the respondents. Finally, completed questionnaires for 56 factories were gained, and the data from these firms constitutes a large part of this chapter.

12.2 Operational Problems

One of the initial problems facing the survey was the choice of a suitable sample. The firms eventually chosen for inclusion within the sample were picked randomly from a total of 1680 manufacturers, of which 345 were aided projects in 1980. However, in order to ensure a fair representation of Malta's new industrial capacity, firms were chosen from the largest 400 employers using data provided by the Federation of Industries. Also, using similar data provided by the Department of Trade in Valletta, a proportionally operated quota system was adopted. Consequently, the largest category of manufacturers was that of the textiles sector, and the second largest representation that of the metals sector. The proportions adopted were roughly consistent with the total employment per sector in 1979 as provided by official statistics. The sample is therefore stratified, its composition being made up on the basis of the distribution of employment within the manufacturing sector. Some of the firms chosen for inclusion within the sample were not aided. As will become clear later in this chapter, the examples of unaided industry tend to display abnormal characteristics compared with the bulk of the sample population. Despite this, the non-aided industries included here are very much larger than most ventures in the unaided sector, which usually display very small workforces and output.

The advantages of choosing a sample dominated by aided firms were numerous. For example, most were easily contactable by telephone, most had competent, reliable and communicative management with which an appointment could be made, and most were spatially concentrated on the accessible industrial estates. However, the most important reason for choosing predominantly aided industry in the sample is that the development of manufacturing industry in Malta since independence in 1964 has occurred almost entirely through the growth of aided industry (see Chapter Nine).

Having chosen the sample of 100 firms, a letter was sent to each requesting cooperation and assistance with the questionnaire, asking for an appointment, and declaring not only that the information was for academic purposes only, but also that the data gained would remain confidential. Unfortunately, only a total of 20 out of the 100 firms chose to reply to their letters. Consequently, it was necessary to make contact and arrange interviews by telephone. This was not particularly satisfactory, and was possibly partly responsible for the refusal of eleven firms to cooperate. A further three firms refused to cooperate when visited personally, either on the grounds of suspected industrial espionage, or because of fears of Government investigation. There seemed to be no systematic bias linking the non-respondents.

Once contact had been made, it was generally the case that full cooperation was obtained from the respondents. It was especially fortunate that English was so widely spoken. In the cases where expatriates were employed, they were usually either British because of the British nationality of their company, or at least spoke English because of the need for communication with their respective workforces. This point is particularly important as the same degree of communication and cooperation could not necessarily be expected from non-aided, small-scale and less formal industries, whose ability to retrieve the desired information was also in doubt.

Although the original intention had been to leave the questionnaires with the respondents to allow them to answer the various questions at their leisure, this proved to be impracticable. The reasons for this include problems of ambiguity and errors that encroached into the unassisted questionnaires. Furthermore, in two memorable instances early in the survey, the questionees refused to relinquish their answer forms. This was unfortunate as the forms already contained information on ownership that had been researched from the Department of Trade's register of partnerships in Valletta[1]. It was also particularly unfortunate as one of the firms was the largest private enterprise operating in Malta. In this particular case, notes taken during the interview (not written on the questionnaire form), and documentary work carried out elsewhere compensated in part for the initial loss.

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1. The task of completing the questionnaire was made considerably easier by a preliminary two week period spent at the Department of Trade, who provided ownership data on each of the firms of the sample. They were also able to confirm that four of the chosen firms in the sample had closed down.

Given these experiences, it was decided that the best strategy was one which required half-hour interviews with each of the contributors. This seemed to work well, although the accuracy of some of the information gained was occasionally dubious. For example, the excessive ease with which certain figures came to mind, and the haste which was imposed upon some of the sessions indicates that in some instances, the data received may have gained a fictional edge. However, as is apparent from the questionnaire itself (see pages 437-441), most of the questions were easy to answer. Perhaps most significant was the tendency to approximate, particularly when proportional statistics were required. This is, unfortunately, inevitable, as will be explained shortly.

In some cases, information retrieval by the respondents was exceptionally difficult. This was often the case when historical information was required. For example, it was not always easy to recall previous employment levels. Worse still was the tendency of MNC subsidiaries to deal so closely with their parent companies that the value of the transactions between the parent and subsidiary were not accurately known by the respondent. In one instance, a manager maintained that his firm received the necessary materials from the parent company without paying for them, assembled them, and then returned the finished product without receiving payment. Only the wages and salaries, and incidental variable costs of production were apparently administered by the subsidiary management.

As the survey progressed, it became increasingly apparent that some questions were either gaining spurious answers, or no responses at all. These were gradually removed from the questionnaire. It was also possible, with the benefit of only a little experience, to rephrase some of the questions, thereby gaining an answer more rapidly and accurately than had been the case initially. For these reasons, the entire survey was carried out orally, using the afore-mentioned half hour appointments.

It is difficult to assess the degree to which a systematic bias may have afflicted the survey as a consequence of the response rate. The 20 firms out of the 100 that answered the letter of introduction were visited as all offered their cooperation. There seemed to be no common feature linking these companies. Interspersed between the successful visits to the remaining 36 companies in the survey was the occasional encounter with an uncooperative firm. There was, however, no common feature linking these firms, which ranged from local small ventures to large MNC subsidiaries.

12.3 The Questionnaire Itself

The questionnaire was divided into nine major sections, the first of which was concerned with general information. The second section required information about the Government incentives that had, or had not, been exploited by the firm. Unfortunately, the third section, which contained questions on employment structure, had to be simplified. For example, a large number of firms were unable to recall the levels of employment when the firm first came into operation. Furthermore, they found the various employee classification systems too complicated and highly ambiguous. It was therefore decided that the section should be restricted to questions on the number of male and female employees at the time (i.e. November 1980), the date and level of the firm's peak employment, the standard operative's weekly wage, and the number of expatriate personnel employed by the firm.

Further problems were experienced in the fourth section, on production and trade. This is well illustrated by difficulties concerning the value of production input and output, which are both distorted by varying stock levels. Malta is especially prone to shipping problems, largely because of heavy dependence upon the unreliable Italian ports. In order to prevent the shipping bottlenecks from harming production, many producers in Malta hold large stocks, both of production inputs and items for export. As a result, it is common for the annual exports of some firms in some years to exceed the value of the firms' annual output. Also, as has been mentioned, the close relationship between overseas parent companies and their Maltese subsidiaries occasionally has a strange influence upon input and output data.

For these reasons, section four of the questionnaire was also simplified, and consequently only requested information concerning the value of annual gross output in 1979[1], and the proportion of that output that was exported. In addition, information concerning the major export destinations was required, as was the approximate proportional distribution of the exports. Meanwhile, the information required in section five, which concerned itself with local linkages, also had to be rationalised as many respondents found it impossible to assess the importance of local linkages to their businesses. Thus, instead of requesting varied statistics on local transactions, the questionnaire was confined to asking about the nature of the various linkages in existence.

Both sections six and seven of the questionnaire, which were concerned with equipment and training respectively, were also problematic, and

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1. Because of the approximate nature of this data, it is not examined in great detail in the sections that follow.

had to be again confined to qualitative data. This was not, however, the case with section eight, which required information on ownership. This was attained in considerable detail prior to the survey through documentary work in the records section of the register of partnerships, in the Department of Trade, Lascaris, Valletta. This data has proved to be both interesting and useful.

The final section of the questionnaire (section nine) was particularly revealing. By asking for general comments concerning Malta as an industrial location, it was possible to appreciate many of the problems facing manufacturing operations in Malta, and indeed, many of the problems facing the Maltese Government. An outline and analysis of the data collected in this section of the questionnaire will be included in the latter stages of this chapter.

12.4 Constituents of the Questionnaire Sample Population

Of the 56 firms in the sample, 25 were textile sector firms, 15 metals sector firms, and the remaining 16 'miscellaneous' manufacturers. Table 12.1 below shows the breakdown within these categories, and also provides employment totals for the sectors of the sample.

Table 12.1 Classification of Firms in the Survey

Textiles Sector Firms:		Total Employment: 5,192
a) Spinning, Weaving and Knitting	6	
b) Clothing	16	
c) Footwear	3	
Total	25	
Metals Sector Firms:		Total Employment: 2,655
a) Electronics	6	
b) Machine Tools	2	
c) Transport Equipment	2	
d) Miscellaneous Metals	5	
Total	15	
Miscellaneous Firms:		Total Employment: 2,866
a) Chemicals Based Industry	7	
b) Food & Beverages	3	
c) Paper & Printing	4	
d) Other	2	
Total	16	
Grand Total	56	Total Employment of Sample: 10,713

As was mentioned previously, textiles and metals firms dominate the survey because of their proportional importance in the manufacturing sector as a whole.

Table 12.2 classifies the firms of the sample on the basis of ownership and control. Of the seven categories, the largest and most important is 'multinational controlled subsidiaries', which accounts for 20 out of the 56 firms. The second largest category is that of 'privately owned Maltese companies'. With the exception of overseas owned independent companies and State owned Maltese firms, the remainder of the firms in the sample are controlled by joint interests. The fact

Table 12.2 Type of Firms in the Sample, by Ownership and Control

	Textiles	Metals	Misc.	Total
1. Subsidiaries of MNCs	10	8	2	20
2. Overseas Independent Cos.	2	1	1	4
3. Maltese Dominated Joint Ventures	2	2	2	6
4. Equally Divided Joint Ventures*	1	0	2	3
5. Overseas Dominated Joint Ventures	2	2	3	7
6. State Owned Maltese Cos.	1	0	1	2
7. Privately Owned Maltese Cos.	7	2	5	14
Totals	25	15	16	56

*50% Maltese/50% Overseas

that, in the case of both the textiles and metals sectors, almost half are MNC subsidiaries is significant. This is in stark contrast with the miscellaneous sector, in which only two of the 16 firms are owned by MNCs.

Table 12.3 gives a further breakdown of the 20 MNCs in the sample by providing nationality data. The dominance of British and West German

Table 12.3 Overseas Controlled MNC Subsidiaries in the Sample by Sector and Nationality.

	W.German	British	Swedish	U.S.A.	Dutch	Japan	Total
Textiles	4	3	2	1	0	0	10
Metals	3	2	0	0	1	2	8
Miscellaneous	0	2	0	0	0	0	2
Totals	7	7	2	0	1	2	20

interests is most apparent, as is the strong Japanese presence in the metals sector. The presence of American interests is under-stated by Table 12.3 because the one American firm included within the survey is the largest private sector employer in Malta, and is responsible for a surprisingly large proportion of the textile sector's annual output. Swedish and Dutch interests are comparatively small.

It has been possible, using the sample and its MNC subsidiaries, to examine the major phases of MNC investment in the Maltese economy. This has been achieved by assembling the arrival dates (in Malta) of the MNCs, by nationality. In this way, an'average' date of arrival has been calculated, the results of which can be seen in Table 12.4. The U.S.A. has the earliest average date of 1967 because its only representative in the sample arrived in that year. Much more significant is the average of

Table 12.4 MNCs in the Sample - Arrival Profile, by Nationality

Nations of Origin	No. of Firms	Average Arrival Date
U.S.A.	1	1967
Great Britain	7	1968
Sweden	2	1972
West Germany	7	1974
Japan	2	1974
Netherlands	1	1975

1968 for the British firms. This illustrates very well the fact that it was predominantly British firms that invested in Malta during the immediate post-independence years of Nationalist Party (P.N.) rule in the 1960s. The West German MNC's average arrival date of 1974 is even more significant. This correctly represents a pattern of West German investment in Malta, primarily within the textiles and metals sectors, which occurred during the 1970s, in the period of new Malta Labour Party

(MLP) administration. This was a time in which the Maltese Government showed a great interest in diversifying the economy away from dependence on British interests. During this period, West Germany surpassed the U.K. as the single largest source of overseas capital investment in Malta, and simulataneously became Malta's most important trading partner. The West Germans were not the only non-British investors at this time. Swedish, Japanese and Dutch interests (as well as many others not listed in the sample, which include French and Italian investments) all established themselves in the Maltese Islands during the 1970s. The unfortunate aspect of this period of development was the fact that, as had been the case in the 1960s with British investment, textiles activity proved to be the most common beneficiary of the new investment.

Finally, before moving on to deal with the different sections of the questionnaire data in greater detail, it is important to demonstrate the dominance of the MNC operators within the sample, and indeed within the Maltese economy as a whole. This is best illustrated by the employment figures provided in Table 12.5. These show that the average

Table 12.5 Employment Breakdown of Total Sample.

Type of Firm	No. of Firms	(%)	Employees	Av. Employees	% Employees in Sample
MNC Subsidiaries	20	35.7	6,249	312	58.5
Maltese State Cos.	2	3.6	376	188	3.5
Maltese Private Cos.	14	25.0	1,130	81	10.6
Others	20	35.7	2,927	146	27.4
Total	56	100.0	10,682	191	100.0

size of MNC subsidiary workforces (312) is substantially greater than for other types of firm. Furthermore, MNC subsidiaries account for a disproportionately large share of the total employment within the sample.

In contrast, Maltese private companies, which include the few non—aided firms in the sample, have an average workforce of only 81, and consequently account for only 11% of the sample's employment total. This data illustrates well the dominance of MNC subsidiaries in Maltese manufacturing industry, and justifies the attention given to MNCs in the sections that follow, which deal with textiles, metals and miscellaneous manufacturers respectively.

12.5 The Textiles Sector

Table 12.1 shows that 10 out of the 25 textile sector firms in the sample were subsidiaries of foreign owned and controlled MNCs. Table 12.6 adds average employment figures to the data for the textiles sector of the sample. This illustrates the fact that in the textiles sector, the MNC ventures are usually the largest. However, it is interesting to

Table 12.6 Types of Firm in the Textiles Sector of the Sample, by Ownership, with Average Employment.

Types of Firm	No. of Firms	No. of Employees	Av. Employment
MNC Subsidiaries	10	3,173	317
Overseas Independents	2	113	57
All Types of Joint Venture	5	828	166
Maltese State Companies	1	210	210
Maltese Private Companies	7	868	124
Total	25	5,192	208

to note that the Maltese owned private enterprise is substantially more advanced in the textiles sector than it is in other sectors, where the average employment is usually very much less than 124[1]. Perhaps the most surprising feature of Table 12.6 is that of the low employment levels of

1. In the metals sample, the average employment levels of Maltese private firms was only 67. In the miscellaneous section of the sample, it was only 31.

overseas independent textile sector companies.

Sixteen of the 25 firms in the sample manufacture various types of clothing. Of the remaining 9, 6 produce textiles, and 3 footwear. It was felt that this sample was a fair representation of the total structure of the textiles sector in 1980. As has already been explained, most of the sector is now made up of clothing manufacturers, who strengthened their position during the 1970s. Large scale footwear manufacturers, meanwhile, did not exist in Malta before the mid-1970s, but have since made their mark in the Maltese economy. Textiles manufacturers have, meanwhile, diminished in importance, although knitted fabric producers (3 out of the 6 textile firms in the sample) have secured significant advances in recent years. The numerical dominance of the clothing firms is further enhanced by their employment levels (see Table 12.7), which

Table 12.7 Categories of Textile Sector Firms, and Employment Data.

Types of Firm		No. of Firms	Total Employment	Average Employment
Clothing Firms		16	4,101	265
Textiles Firms	a) Knitted Fabrics	3	365	122
	b) Others	3	151	50
	c) Total	6	516	86
Footwear		3	575	192
Total		25	5,192	208

indicate that their scale of activity is considerably greater than is the case for the remainder of the textiles sector. However, the average employment levels of the footwear firms in the sample indicate that the footwear manufacturers in Malta are also attempting to achieve scale economies, and that their processes are, like their clothing counterparts, extremely labour intensive.

Figure 12.1 shows the major phases of textile sector development clearly by illustrating the arrival date and ownership category of each of the firms in the sample. It is immediately apparent that 4 out of the 5 earliest arrivals were textile firms, a feature which correctly represents the extent to which textiles firms dominated the textiles sector in the early post-independence years. From 1966 onwards, the massive influx of clothing industries becomes apparent, after which the arrival of footwear manufacturers in 1974-76 within the sample identifies the birth of a new industry in Malta.

Perhaps the most obvious and important feature of Figure 12.1 is the phases of overseas involvement that it represents. Up to, and including the year 1971, British controlled firms were clearly dominant. In addition, the only Maltese firms represented in the sample were small private ventures. In 1971, the newly elected socialist administration adopted new policies which were probably partly responsible for the absence of any further British investment within the sample. In consequence, during the 1970s, a wide variety of non-British investors in the textiles sector were attracted to Malta, most particularly from West Germany. Also of importance in this period were the increasing numbers of State-owned, and joint State-owned and overseas-owned ventures, a development which heralded the birth of Maltese State capitalism.

It has been possible to produce more detailed ownership data for the sample than was the case for the manufacturing sector as a whole in Chapter Nine, and the textiles sector in Chapter Ten. Ownership data for the textiles sample are provided in Table 12.8, which shows in its first columns the total value and proportional value of various nationalities of share capital. The first and most obvious feature of note is

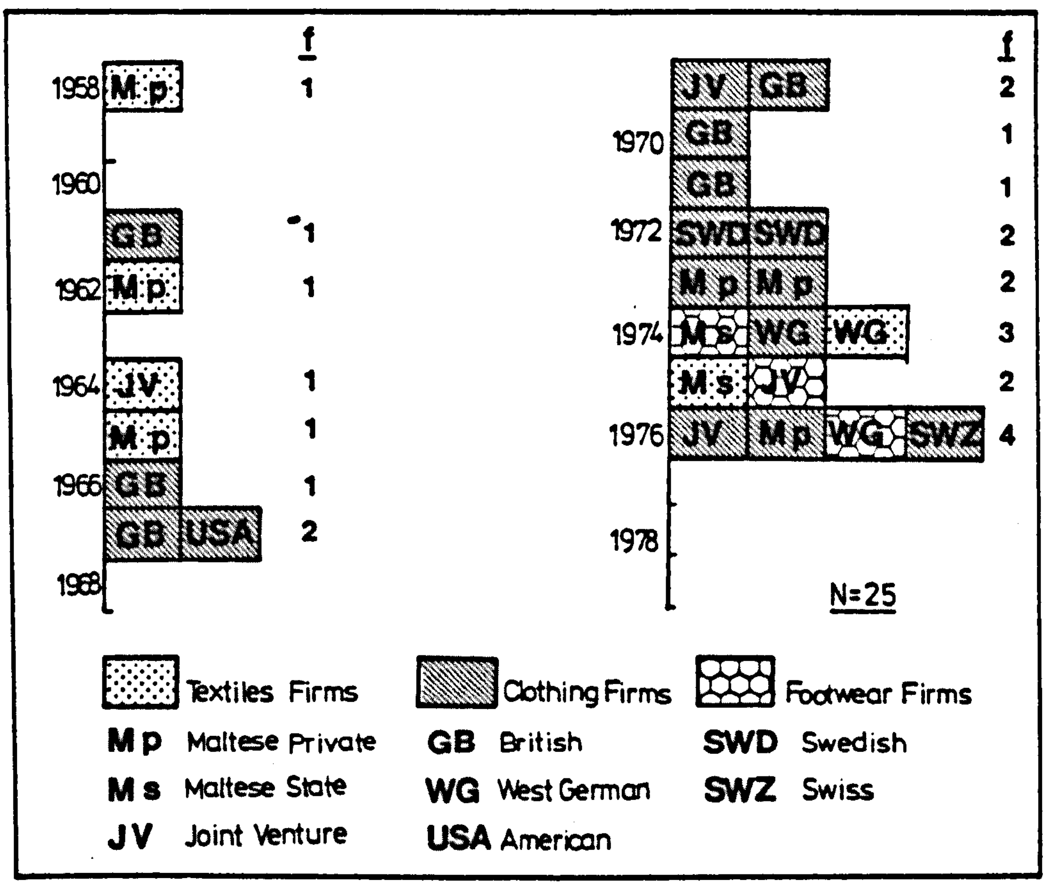

Figure 12.1 Year of Arrival & Nationality Data in The Textiles Sector Sample

the enormity of the U.S.A.'s total. This is in fact almost all accounted for by one company, which is indeed in a position of dominance over the entire sector (and some would say, the economy). However, because the ownership figures refer to a sample, the inclusion of this large firm has given the U.S.A. rather inflated importance. Furthermore, the share issue of many companies bears no relationship to the scale of activity of such companies. This is confirmed by the remaining columns

Table 12.8 Summary of Ownership and Control Data for Textiles Sector Firms in the Sample, by Share Capital, Employment and Output.

Countries of Origin	Share Capital M£'000 Total Value	%	Proportional Allocation of Labour Force	%	Proportional Allocation of Output M£'000	%
Malta (Total)	486	24.4	1,380	26.9	7,149	17.8
Malta (State)	152	7.6	479	9.3	4,290	10.7
Malta (Private)	334	16.8	901	17.6	2,859	7.1
U.S.A.	1,000	50.3	1,421	27.7	17,680	44.0
West Germany	256	12.9	727	14.2	5,783	14.4
Luxembourg	83	4.2	117	2.3	780	1.9
Great Britain	62	3.1	858	16.7	4,498	11.2
Greece	60	3.0	120	2.3	1,500	3.7
Switzerland	27	1.4	63	1.2	300	0.7
Sweden	9	0.5	423	8.2	2,375	5.9
Italy	4	0.2	24	0.5	158	0.5
TOTAL	1,989	100.0	5,133	100.0	40,224	100.0

of Table 12.8, the data for which was gained by allocating the production and employees of each firm on the basis of the proportional nationality of share capital ownership. Thus, it can be seen that West Germany's proportion of share capital for the sample (12.9%) under-represented her influence upon this sector of the sample. Consequently, over 14% of both the textiles sample labour force and gross output were 'controlled' by West German interests.

Perhaps the best examples of under-representation are provided by Great Britain and Sweden. In the case of the former, British share capital accounted for only 3.1% of the textile sample's total share capital, but simultaneously, 16.7% of employment and 11.2% of output was accounted for by British interests. The undervalued status of British influence by share capital accumulations may be explained in terms of the age of the share issues involved. Because many of the British firms in the sample are amongst the oldest firms of the aided sector, and because of international inflation that has occurred since their arrival and share issue, their original share issue is disproportionately small. The same situation does not apply in the case of the Swedish interests, which arrived in 1972. Between them, their share capital amounts to less than £10,000. This has led to a bizarre situation in which Swedish share capital is only 0.5% of the textile sample total, whilst the percentage of the labour force and output controlled by Swedish interests amounts to 8.2% and 5.9% respectively. Other examples, such as the large Maltese parastatal company in the sample with only £100 share issue illustrate the arbitrary nature of the results achieved from simply summing share capital totals.

Table 12.8 illustrates well the extent to which overseas interests control the textiles sector. It also shows that, although Maltese interests in the sample own almost a quarter of the share capital, well over 80% of the sector's output is probably controlled by overseas interests. The other significant participants in this sector of the Maltese economy are clearly American, British and West German. As was shown in Figure 12.1, the West Germans are the newest arrivals. This is supported by data concerning changes in ownership collected in the survey. Two of the most interesting cases of ownership transfer involved West German firms buying out British interests. There is also a case of a third British firm, in this instance being bought out by a local Maltese firm, which rescued the venture. In addition to these changes, there were a number of more complicated transformations, in one of which a British firm bought a majority holding in a wholly owned Maltese venture. Meanwhile, of rather greater importance was the failure of a State owned textile venture which the Government attempted to revitalise through the injection of American capital. This particular case is discussed in detail in section 12.6 of this chapter.

As was described in Chapters Six, Seven and Eight, all Governments since 1959 have been committed to the attraction of overseas investment through the provision of incentives. Table 12.9 provides the findings of the survey on incentives. All the firms in this sector of the sample were,

Table 12.9 The Number of Firms in the Textiles Sector of the Sample Receiving Government Incentives.*

Incentives	No. of Firms Receiving the Incentive
Provision of Government Factory	25
Import Duty Concessions	25
10 Year Tax Holiday (relief/exemption)	8
Reinvestment Tax Concessions	4
Cheap Factory Rents	17
Grants from MDC	5
Loans from MDC	3
	(out of total of 25)

*Any firm that has received an incentive in the past that had, by the time of the survey, expired, was counted as a recipient of that incentive.

at some stage, provided with Government built factories on industrial estates. Similarly, all firms received some type of import duty concession if they were importing capital equipment, or if the goods they were importing were for eventual re-export. However, only a small proportion of the firms received 10 year tax holidays. This is because

14 out of the 25 firms arrived in 1971 or after, thereby missing the chance to benefit from such tax incentives following the return to power of the MLP in 1971. From 1973, firms were offered a different type of tax concession - the reinvestment tax allowance - which was designed to encourage the reinvestment of profits into the Maltese ventures. Only 4 firms claimed to have benefitted from this incentive.

The provision of cheap factory rents turned out to be a contentious issue as many of the longer term residents complained that, after their original lease had expired, there had been a very sharp increase in the rents of their Government owned factories. As far as grants were concerned, noone had received any such generous assistance since the demise of the PN in 1971. In contrast, specially negotiated cheap loans occurred during both the PN's and the MLP's periods of office.

The intention of the industrial attraction policy and its incentives was to generate employment as rapidly as possible, especially for the large numbers of male unemployed discarded by the British fortress. It was therefore hoped that large scale establishments would grow within the new manufacturing sector. Table 12.10 shows that the textiles sector firms that established themselves between 1958 and 1976 were frequently substantially larger than was previously normal for the Maltese economy (see Chapter Ten). Indeed, in 1980, the average number

Table 12.10 Firms in the Textiles Sector Sample by Size of Workforce

Range of Establishment Size by Number of Employees	Frequency (N = 25)
Under 50	3
50 - 99	7
100 - 199	6
200 - 299	5
300 - 399	2
Over 400	2

of employees per establishment for manufacturing industry as a whole was only 17 (Central Office of Statistics 1980), as compared with 208 for the sample of aided firms in the textiles sector of this survey.

A breakdown of Table 12.10 in Figure 12.2 shows that the smaller firms are mostly Maltese, and usually private sector ventures. In contrast, the firms with the larger workforces are usually MNC subsidiaries. This explains the results already seen in Table 12.8 concerning the proportional control of the textiles sector by various national and international interests.

Data from the survey concerning sex ratios supports the national trend explained with the assistance of aggregate statistics in Chapters Nine and Ten. As can be seen from Figure 12.3 below, 14 out of the 25 firms employed workforces that were less than 20% male. The average sex ratio for the textiles sector of the sample was only 22.7% male. It seems that, not only are women in Malta better suited to textile sector employment than men, but also that it is possible to pay them less, despite the anti-sex descrimination legislation introduced since 1971. This is because the high turnover of female staff, who are encouraged to leave factory employment when they become married. It is possible, therefore, not only to pay them less on the grounds of their youth and inexperience, but also because of their usually shorter periods of service with the firm. The high turnover of female labour also allows the firms to adjust the size of their workforces more easily. Consequently, when reduction is required, it can be achieved easily by natural wastage, a situation which reduces the burden of redundancy payments.

Most firms were either unwilling or unable to give detailed information

N=25

Number of Employees								f
Under 50	Mp	Mp	WG					3
50 - 99	Mp	Mp	Ms	JV	SWD	SWZ	GB	7
100 - 199	Mp	Mp	JV	JV	WG	WG		6
200 - 299	Mp	GB	GB	GB	WG			5
300 - 399	Ms	SWD						2
Over 400	USA	JV						2

(for ownership Key, see Figure 12.1)

Figure 12.2 Firms by Size of Labour Force & Ownership in The Textiles Sample

N=25

% Male Workforce															f
Over 90	Mp	SWD													2
50 - 89	Ms	GB													2
40 - 49	JV														1
30 - 39	Ms	Mp	JV	GB											4
20 - 29	Mp	WG													2
Under 20	Mp	Mp	Mp	Mp	JV	JV	WG	WG	WG	GB	GB	SWZ	SWD	USA	14

(for ownership Key, see Figure 12.1)

Figure 12.3 Textiles Sample Firms by Sex Ratio of Labour Forces

on the wages of both sexes working in their factories. As a result, it was only possible to gather data on the average operatives' weekly wage, and even this was achieved in only 23 out of the 25 of the sample. Figure 12.4 shows that a large number of the reduced sample (8) paid a wage equivalent to the legal minimum wage of M£22.80. This is possibly deceptive as each firm had its own system of bonuses, usually conceived with the intention of alleviating serious absenteeism problems. Nevertheless, it is significant that the textile sector firms in the sample tended towards paying substantially lower wages than was the case in the metals and miscellaneous sectors. Perhaps most important, however, is the fact that there was no evidence to suggest that MNC subsidiaries paid either lower or higher wages than other firms. This would seem to suggest that the MNCs have not seduced employees away from indigenous enterprise using high wages. On the contrary, it appears that they have obtained all the labour that they need by inducing increased female participation in the economy. In this sense at least, it could be said that MNC activity has been complementary in relation to indigenous enterprise. Meanwhile, it seems that, within the sample, there is a concentration of 4 Maltese private ventures, all of which in 1980 paid their operatives only the State minimum wage (see Figure 12.4).

Given the usually volatile nature of textile sector activity, the questionnaire included a question concerned with peak employment data. It was felt that, if most firms had shed labour since reaching a level of maximum employment prior to 1980, then the industry may already be in decline. Figure 12.5 shows that 12 firms out of the 24 that answered this question were experiencing their highest employment levels at the time of the survey (Autumn 1980). The remaining firms had all employed larger workforces at an earlier date. Not all of the latter

Wages (Malta £) Per Week									f
22.00 - 23.99	Mp	Mp	Mp	Mp	SWZ	WG	GB	JV	8
24.00 - 25.99	Mp	WG	WG	Ms					4
26.00 - 29.99	Mp	GB	WG						3
30.00 - 31.99	Ms	GB	JV	JV					4
32.00 & Over	SWD	GB	JV						3

N=22

Mean Weekly Wage: M£26.05

(for ownership Key, see Figure 12.1)

Figure 12.4 Wages in The Textiles Sample

Year of Peak													f
1972	1972												1
1973													0
1974	1964	1974											2
1975	1967												1
1976	1958												1
1977	1969	1975											2
1978	1971	1971	1976										3
1979	1961	1973											2
1980	1962	1965	1969	1970	1972	1973	1974	1974	1975	1976	1976	1976	12

N=24

Figure 12.5 Employment Peaks by Years of Peak & Arrival of Textile Sample Firms

were in an unstable condition. It can be seen from Figure 12.5 that there seems to be no visible relationship between the time of arrival in Malta and the date of employment peaks. Further examination of the past peak firms is, however, revealing. Table 12.11 shows that, of the 12 past peak firms, half are Maltese. Perhaps most significant are the three British MNC subsidiaries, all of which were apparently past

Table 12.11 Past Peak Textile Firms in the Sample, by Nationality and Product.

Nations of Origin		Number of Firms
Maltese:	State	1
	Private	5
	Total	6
Great Britain		3
West Germany		1
U.S.A.		1
Joint Venture		1
	Grand Total	12
Product Groups		
Textiles		5
Clothing		7
Footwear		0
	Total	12

their peak employment potential in 1980. Also of importance is the fact that 5 out of the 6 textile manufacturers in the sample were also past their peak employment, a fact which demonstrates the recent reduction in the importance of textiles production within the textiles sector as a whole in Malta. Of the firms supporting their highest ever employment levels, only one was a textiles manufacturer, whilst 8 clothing and all 3 footwear producers registered peak levels of employment at the time of the survey.

The industrialisation programme was not intended to produce only increased employment opportunities. Income multiplier effects were also expected, as was the generation of an interlinked and stable industrial base. Unfortunately, this desired situation has not materialised, largely because most of the MNC subsidiaries have usually failed to establish linkages with other producers in Malta. This point is partially illustrated by Figure 12.6, which shows that 16 out of the 25 textile sector firms in the sample exported between 91 and 100 per cent of their total output. Twelve out of the 16 claimed that they exported 100% of their production in 1980. This indicates that a very large proportion of Malta's textiles sector output is exported, and that the sector is, in domestic terms, very poorly integrated. Furthermore, the fact that much of the production that is not exported is finished produce that finds its way directly onto the local markets would seem to suggest that the absence of local linkages in this sector is worse than it appears.

Figure 12.6 also shows that all bar one of the firms exporting 50% or less of their produce are Maltese ventures. The joint venture amongst these firms was in fact the State textile firm that ran into difficulties. This particular firm is one of the few operating within the sector that does have significant local linkages (see section 12.6 of this chapter). Meanwhile, all but one of the MNC subsidiaries within the sample exported more than 90% of their exports, supporting the claim that MNCs do not encourage linkages between themselves and the local economy.

As would be expected given the patterns of ownership concentration discovered earlier, the pattern of export destinations is also highly

% Output Exported																	f
91 - 100%	Mp	Mp	Mp	Ms	JV	JV	GB	GB	GB	WG	WG	WG	SWZ	SWD	SWD	USA	16
81 - 90	Mp	GB	WG														3
71 - 80	JV																1
61 - 70																	
51 - 60	JV																1
41 - 50	Mp																1
Under 40%	Mp	Mp	Ms														3

N=25

(for ownership Key, see Figure 12.1)

Figure 12.6 The Proportion of Output Exported by Textiles Sample Firms

concentrated. The results of the questionnaire reveal that 13 firms out of the 25 in the textiles sector of the sample sent all their exports to one destination. Of these, all 4 West German owned MNC subsidiaries sent 100% of their exports to their parent companies in West Germany. Two out of the 3 British companies, and 1 of the 2 Swedish firms did the same. Similarly, the one British independent company in the sample exported all its produce to one customer in Great Britain. However, perhaps most important of all was the fact that 3 Maltese enterprises (2 private, and 1 State owned) exported all their produce to individual West German customers. Two other Maltese firms sent all their exports to British and Italian customers respectively. This is symptomatic of the fact that,even where Maltese interests control manufacturing capacity, they have no control over market outlets. Thus, a large proportion of the manufacturing capacity that is supposedly controlled by Maltese interests is in fact subcontracting work, and is consequently also controlled by outside interests. Worse still is the fact that subcontracting work is often the most vulnerable of all to severance in recession conditions.

It seems, therefore, that the pattern within Malta's textiles sector is one of isolated and externally oriented production, which has little or no linkage with the domestic Maltese economy. This contention is supported by some simple data collected on industrial linkages. Of the 24 firms which answered the relevant section of the questionnaire, 20 claimed that their production processes benefitted from no material inputs provided by other firms operating in Malta. Of these, 6 firms claimed that they did use some packaging materials provided by a Maltese firm operating in Malta, but that these inputs were negligible. Exceptions to this pattern included firms which purchased locally manufactured labels, chemicals and miscellaneous materials. The number of firms denying providing other manufacturers operating in Malta with production inputs was 19. Of the miscellaneous materials and services provided by the 5 exceptions, fabric dyes were the most common. As far as local services were concerned, the only significant common linkage was the use of accountants, whose auditing services are required by law. This was a common feature of every firm, and does not therefore require further attention.

Given the high level of autonomy and isolation maintained by MNC subsidiaries in particular, it would be reasonable to expect such organisations to insist upon filling their management positions in Malta with expatriate personnel. Strangely, this was not the case. Of the 14 firms in the sample employing no expatriates, most were Maltese. However, 2 British firms, 1 Swiss and 1 West German firm, in addition to 2 joint ventures, all employed no expatriates. Most of the remaining firms, which included the rest of the MNC subsidiaries, employed either 1 or 2 expatriates. Only 2 firms employed three or more overseas personnel. Most intriguing of all were the 2 Maltese ventures - one State and one privately owned - employing expatriates. In one instance, the person was German, and was there to ensure that standards were adequate for the German customers. In the other case, a British technical expert was employed to oversee production in the early and difficult stages of a new venture.

Unfortunately, the results of the questionnaire concerning equipment and personnel training were disappointing and not very detailed. What did emerge was the fact that all firms in the sample used some second hand machinery, and all also used some new machinery. In addition, it was impossible to compute the value of equipment in most factories because of varying rates of depreciation, and variations in practices and types of insurance broker. In the case of training policy for personnel, several generalisations could be made concerning the entire sample. First, all operatives were trained on the job, initially on paper in the case of clothing manufacture, after which they were accepted for full time employment if their performance was satisfactory. In the case of middle management and technical staff, training was done on the job, and at the new local technical colleges, and the University of Malta. Higher management and technical personnel were either trained locally like their middle management counterparts, or sent abroad to relevant centres of learning. Also, in many cases, the temporary use of expatriates as training personnel proved to be useful.

In summary, assuming the questionnaire sample survey to be representative, it seems that a large part of the Maltese textile manufacturing sector is not only controlled by overseas interests, but also that the locally controlled ventures are also in effect controlled by overseas enterprise. Furthermore, the sector's manufacturing units are extremely isolated, a situation which ensures that linkages with the internal economy are kept to a minimum. The sector is therefore highly vulnerable to external fluctuations in economic fortune, particularly those affecting the E.E.C.

12.6 The Case of Malta Spinning and Weaving Limited

Malta Spinning and Weaving Limited (MSW Ltd.), which was included within the sample, is a special case which merits further attention. The Company represented the Maltese Government's major attempt to provide an import substitution industry, and simultaneously integrate the textiles sector. With the assistance of technology from the People's Republic of China, a large manufacturing plant covering 4½ acres was established in buildings on the old Ta'Qali aerodrome. The intention was that it should provide local manufacturers with fabric that they would otherwise have been forced to import. Unfortunately, the project rapidly developed into an embarassing failure for the Government, which has since attempted to rescue the operation through investments offered by the Texaco Corporation.

Grech (1979, p.82) detected some of the problems facing MSW Ltd. before its dramatic rationalisation in late 1978. He pointed out that, '...this plant cannot bleach or dye fabric[1]. Although the quality of the fabric seems to be acceptable, the width of the fabric seems to be unacceptable. As a whole, the setting up of the this plant in spite of the insistence by the Government that the locally operating clothing firms should buy their cloth from it, has not gone a long way either to substitute imports or to verticalise the industry. The basic problem with this plant is that it has been set up with little consideration for the market it was meant to serve.'

The company became 'Mdina Weave' in late 1979 following the Texaco intervention. The enormity of the disaster from the Government's point of view is reflected in the employment figures of the firm. In its infancy between 1976 and 1978, 700 people were employed in the Ta' Qali

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1. This may be connected with the severe annual water supply problems facing the Islands.

factory, making MSW Ltd. one of the largest single employers in the Maltese economy outside the dockyards. After rationalisation, only 86 employees were retained on the 4½ acre site. The manager maintained in November 1980 that even his much reduced plant was working at only 33% capacity. Of the total production, 95% was directed to one local customer, whilst the remaining 5% was exported to an Italian customer.

MSW Ltd. represents one of a number of failures that have occurred amongst the new generation of parastatal industries. Because of the political implications, it is often difficult to obtain information on these closures. However, of the more spectacular failures, an ornamental glass factory and a carpet factory are perhaps the most notable. Both were established, as was MSW Ltd., with the assistance of Chinese aid. MSW Ltd. remains the most important failure because of the scale of the venture, and the fact that it represented a failed attempt at vertical integration within an important industrial sector.

To criticise the parastatal sector in general would be unjustified. There have been a number of ventures that have been successful to date, one of which has been included in the textiles sector sample. Furthermore, many projects have been initiated in particular with both local and overseas interests, and have shown promise. Given the recent decision to call Texaco to the rescue of MSW Ltd., the MLP Government clearly belives that joint ventures form a stable medium for State enterprise.

12.7 The Metals Sector

The metals sector sample is also dominated by MNC subsidiary companies, which constitute over half the 15 companies represented in the survey. Table 12.12 shows that, in addition to the 8 MNCs, there are 4 joint venture enterprises, 2 privately owned Maltese ventures, and one foreign independent company. The average employment figures also given in Table 12.12 reveal that, as expected, the MNC subsidiaries

Table 12.12 Types of Metal Sector Firm in the Sample, and Average Employment Data.

Types of Firm	Number of Firms	Average Employment
MNC Subsidiaries	8	232
Overseas Owned Independents	1	26
Jointly Owned Ventures	4	160
Private Maltese Firms	2	67
State Owned Maltese Firms	0	-
Total	15	177

are usually very much larger than other operators within the sector. Jointly owned ventures, it seems, are also generally larger than the Maltese private firms. Most important, however, is the fact that each of the firm categories has an average employment level that is substantially less than that of the textiles sector. This indicates that metals sector firms are not only less numerous than their textiles counterparts, but also that they tend to employ fewer personnel.

Classifying types of metals sector production was complicated, but as can be seen from Table 12.12, electronics firms have assumed a strong position within the sector. This is largely because the assembly of electronic equipment, like much textiles activity, is labour intensive, and therefore requires the plentiful supplies of cheap labour that Malta have been so eager, and able, to provide. Other representatives within the sample include machine tool and transport equipment manufacturers, in addition to which there is a sizeable miscellaneous category. Average employment data,also in Table 12.13, reveals that the largest employers

Table 12.13 Metals Sector Sample - Categories of Production, and Average Employment.

Types of Product	Number of Firms	Average Employment
Electrical Machinery	6	162
Mechanical Machinery (machine tools)	2	70
Transport Equipment	2	74
Miscellaneous	5	279
Total	15	177

are in the miscellaneous category. One of the reasons for this is the presence in Malta (and in this category) of a German spectacle frame manufacturer, which has now become one of the largest private sector employers of the Islands. Electronics firms, meanwhile, seem to maintain moderate levels of employment, whilst the remaining machine tool and transport equipment manufacturers have shown little long term employment potential.

The year of arrival statistics (see Figure 12.7) reveal an even more distinct pattern than was the case in the textiles sector sample. The 2 oldest firms are Maltese, and the next 4 to arrive were all British[1]. After 1971 and the election of the new MLP administration, all the arrivals were again non-British. Of these, 3 were West German, and 2 Japanese. Of the 10 firms to arrive since 1971, 5 manufacture electronics. The sixth of the electronics manufacturers was British, and arrived in 1969. At the time, it was hoped that this particular firm would help lead the way for similar ventures, thereby aiding diversification away from the textiles sector. Unfortunately, electronics technology is highly dynamic, and the introduction of the silicon chip rendered the Maltese plant obsolescent. It closed in early 1981,

1. One of the British firms was subsequently taken over by a West German MNC.

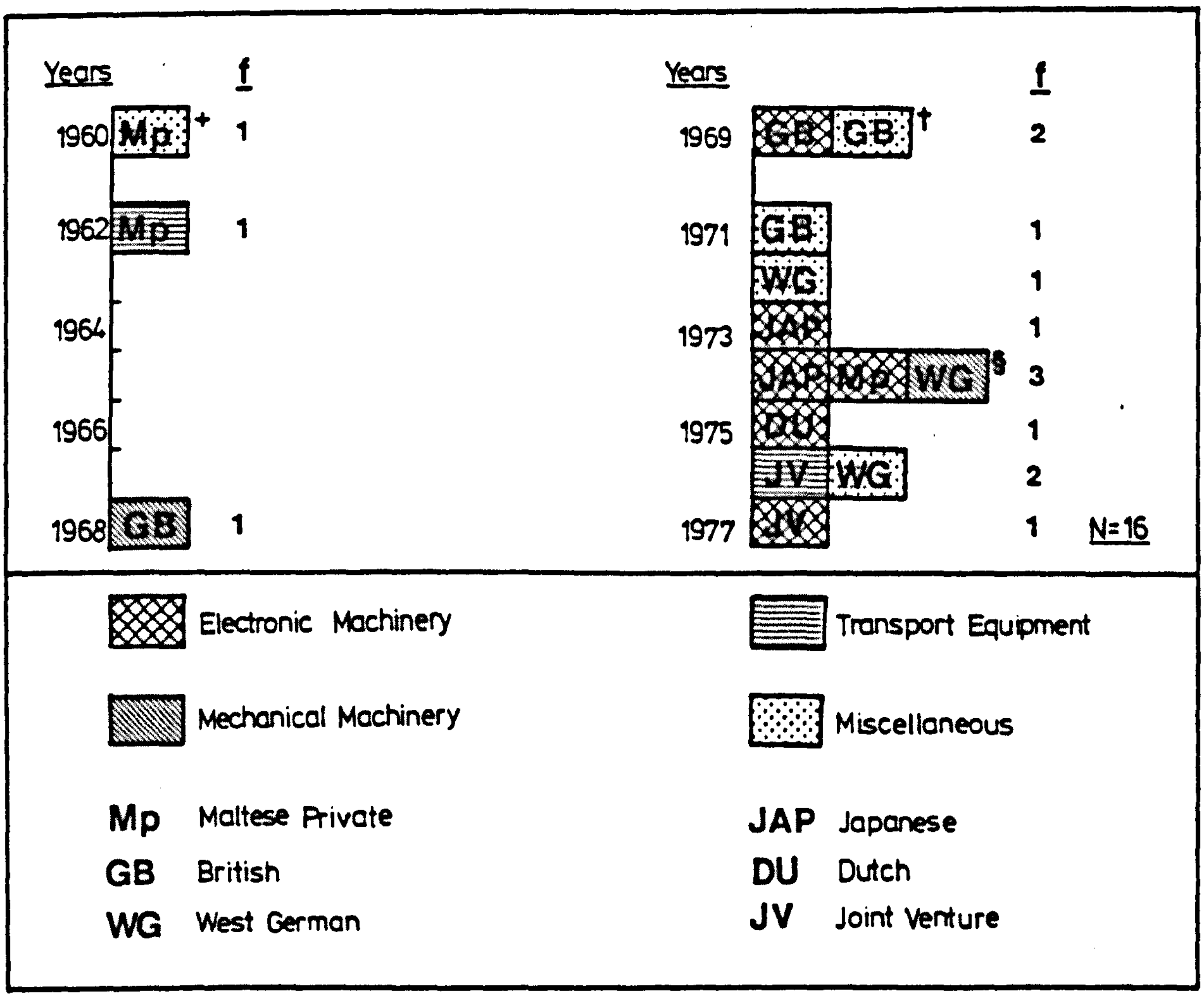

Figure 12.7 Year of Arrival & Ownership Data for The Metals Sample Firms

[NB Ownership data here refers to ownership in the year of arrival. Thus, the following symbols indicate that a change in a firm's ownership has occurred subsequenty.
+ now West German § independent West German † now a Maltese/Libyan joint venture.]

with a loss of 165 (mostly female) jobs. At its peak in 1972, this venture employed 624 persons.

As was the case in the textiles sector sample, West German investment has become prominent since 1971, as have Japanese and Dutch interests. Also, although there are no completely State owned ventures in the sample, there are 2 comparatively recent joint ventures in which there remains a strong State interest. As has already been explained, the State has been keen to take an active role in the diversification process. However, MDC officials confirmed that it has been far harder to attract metals sector enterprise than it has been to induce textiles based activity, a fact that explains Malta's distorted industrial structure.

The eagerness with which the Maltese Government attempted to attract non-textile based activity is evident in Table 12.14, which shows that as many as one third of the firms in the sample received substantial

Table 12.14 Maltese Government Incentives in the Metals Sector Sample

The Incentives	Number of Recipient Firms (N=15)
Import Duty Concessions	14
10 Year Tax Holidays	4
Reinvestment Tas Allowance	6
Cheap Factory Rent	14
Factory Provision	15
Grants	5
Cheap Loans	3

grant aid, in addition to the usual official aid. As was the case in all industries, 10 year tax holidays were restricted to those firms that arrived before 1971. Similarly, the reinvestment tax allowance was only available to firms arriving in 1973 and after. All the questionees in this sector were housed in Government built factories, and all bar one claimed that they benefitted from cheap factory rents. Only one firm, a company assembling cars from British Leyland kits, claimed that it received no import duty concessions. This was because its entire output was destined for the home market.

Clearly, the role of incentives in this sector has been important, particularly as indigenous entrepreneurship has shown little initiative. The fact that 8 out of the 15 firms in the sample are overseas owned MNC subsidiaries is evidence in itself. Table 12.15 examines the ownership statistics in further detail. Accumulated paid up share

Table 12.15 Metals Sector Sample - Summary of Ownership and Control Data, by Share Issue, Employment and Output.

Countries of Origin	Share Capital M£'000 Total Value	%	Proportional Allocation of Labour Force	%	Proportional Allocation of Output M£'000	%
Malta (Total)	985	29.5	334	12.6	1,575	7.2
Malta (State)	249	7.5	136	5.1	574	2.6
Malta (Private)	736	22.0	198	7.5	1,001	4.6
West Germany	454	13.6	928	35.0	10,321	47.5
Great Britain	227	6.8	395	14.9	2,371	10.9
Netherlands	0.1	-	122	4.6	235	1.1
Japan	400	12.0	553	20.8	4,800	22.1
Libya	1,060	31.2	133	5.0	780	3.6
Czechoslovakia	160	4.8	88	3.3	360	1.7
Canada	54	1.6	102	3.8	1,275	5.9
TOTAL	3,338	100.0	2,655	100.0	21,716	100.0

capital statistics reveal that 29.5% of the sample's share issue was Maltese controlled. The bulk of this was Maltese private investment. Somewhat surprisingly, the largest portion of share capital (31.2%) was owned by Libyan interests. West German interests, meanwhile, accounted for only 13.6% of the share issue, and British interests a meagre 6.8%.

A totally different pattern is achieved in the second column of Table 12.15, which divides labour force for each firm on the basis of the firm's proportional nationality. This reveals that the dominant Libyan share capital was responsible for only 5% of the sample sector's employment. As expected, West German interests accounted for 35% of the employment, whilst Japanese and British interests accounted for 20.8% and 14.9% of employment respectively. As was the case with Libyan involvement, Maltese ventures were apparently over-capitalised, and provided only 12.6% of the sample sector's employment.

The third column of Table 12.15 deviates even further from the pattern established by share capital accumulation. Thus, Libyan and Maltese interests were apparently responsible for only 3.6% and 7.2% of output respectively. In contrast, the West German firms accounted for a surprisingly large 47.5% of production. Other major contributors included Japanese interests with 22.1%, and British interests with 10.9% of the sample sector's total output. These statistics confirm the view stated earlier that aggregate ownership statistics based on accumulated share issue do not accurately represent the degree of overseas control in the Maltese economy. In the case of the metals sector sample, West German interests are clearly dominant.

The importance of West German involvement in the Maltese economy should not therefore be underestimated. Similarly, in relative and absolute terms, the decline of British interests cannot be denied, and is well illustrated by one particular company which was struggling badly in the early 1970s. It was eventually purchased by a German company, which has since expanded production dramatically. Maltese interests, meanwhile, are over-represented in official statistics, as are Libyan investments, which also receive considerable publicity. It seems that this sector in particular has been heavily dependent upon overseas MNCs for capital, technology, markets, and entrepreneurial stimulus.

Figure 12.8 shows that, unlike the textiles sector, there is no discernible relationship between the size of the respective firms' workforces and their nationality. All that can be said is that most of the firms employed between 50 and 300 employees, a generalisation which is consistent with the average workforce for the sample sector of 177 persons.

Sex ratio data for the sector's workforce is more interesting. Given the worrying dominance of female labour within the textiles sector, there is no doubt that the Maltese Government hoped that the metals sector's workforce would be predominantly male. Figure 12.9 shows that 8 out of the 15 firms had workforces that were over 90% male. Unfortunately, the few firms at the other end of the scale were mostly labour intensive electronics manufacturers, a fact which ensured that the proportion of employees in the total sample sector that were male was a disappointing 48.9%.

Weekly wage levels in the metals sector seem to be considerably higher than those in the textiles sector, a contention that is supported by official Government aggregate statistics. Figure 12.10 shows that none of the firms in the sample paid their operatives the minimum wage. Indeed, 9 out of the 15 paid comparatively healthy weekly wages of between M£26.00 and M£30.00. This compares favourably with all sectors. The average weekly wage for the sample was M£29.01, a high rate compared with the M£26.05 of the textiles sample sector. There was no detectable

Number of Employees						f
Under 50	WG §					1
50 99	Mp	Mp	WG	JV		4
100 199	GB	GB	JAP	DU	JV	5
200 299	WG	JV	JV			3
300 399	JAP					1
Over 400	WG					1

N= 15

(for ownership key, see Figure 12.7)

Figure 12.8 Metals Sample Firms by Size of Labour Force & Ownership

% Male Labour Force									f
Over 90	Mp	JV	JV	JV	JV	DU	GB	WG §	8
50 - 89									
40 - 49									
30 - 39	WG								1
20 - 29	WG	WG							2
10 - 19	GB	JAP							2
Under 10	Mp	JAP							2

N= 15

(for ownership key, see Figure 12.7)

Figure 12.9 Metals Sample Firms by Sex Ratio of Labour Force & Ownership

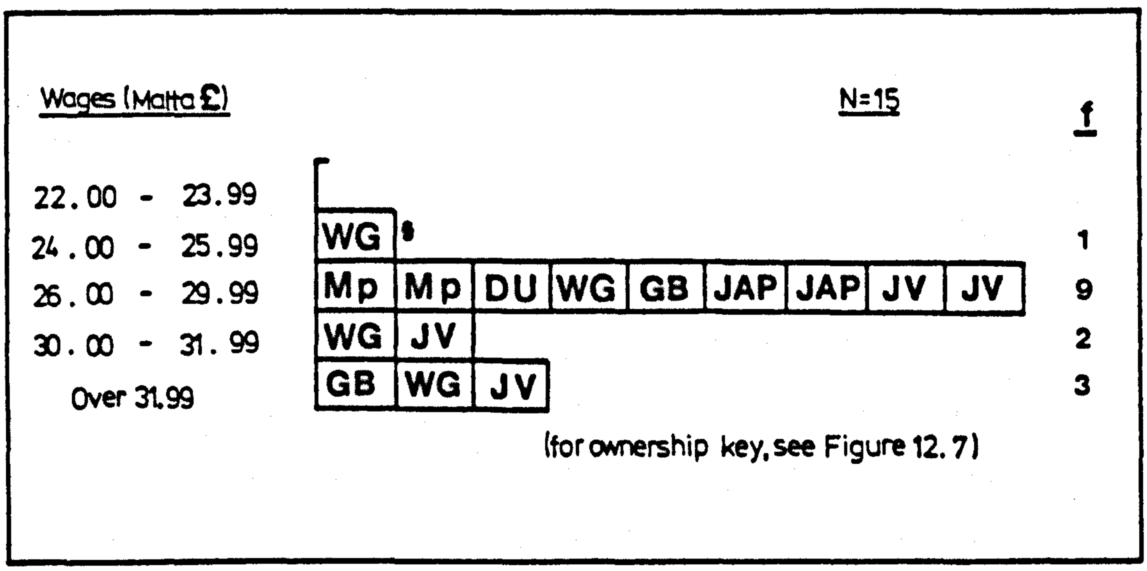

Figure 12.10 Weekly Wages of Metals Sample Firms

relationship between the ownership of the various firms and their wage levels. Thus, it was not possible to generalise about the levels of wages paid by MNC subsidiaries. However, it could be said that in situationsof surplus labour supply similar to that prevalent in Malta, MNCs do not need to offer higher wages than local firms to attract sufficient labour.

Of the 15 firms in the survey, 11 had never employed larger workforces than those engaged at the time of the survey. However, the 4 remaining firms showed signs of decline. One was a Japanese electronics venture having difficulties with European contractors, and another a Maltese private firm assembling cars from kits. The latter was suffering severely from competition from Maltese car importers, who were able to undercut their local market. Furthermore, planned exports fo the Middle East were impossible as the company selling them the kits was also selling completed cars to the Middle East at well below those obtainable by the Maltese venture. The remaining two firms were in severe difficulties at the time of the survey. Both were British, and both have closed down their Maltese operations since the survey. In one instance, the redundant employees were immediately employed by a competing West German firm which manufactured exactly the same product range.

A familiar pattern emerges from the data concerned with the proportion of annual output exported. Twelve out of the 15 firms exported over 90% of their produce. Only 2 firms - 1 Maltese and 1 joint venture - exported less than 50% of their production. The direction of exports was closely related to ownership. Thus, the 3 West German MNC subsidiaries sent over 90% of their exports to their parent companies in West Germany. Only 1 of the 3 sent 100% of its production and exports to the parent company, indicating that the links between parent and subsidiary were not as great as in the textiles sector. Exactly the same situation applied to the 2 ailing British companies, one of which exported all its output to its parent, whilst the other dispatched only 90%. The Dutch subsidiary behaved 'normally', sending all its produce to its Dutch parent company, whilst the Japanese subsidiaries exported all their produce to sister subsidiaries in the E.E.C. In the latter two cases, the Maltese location not only provided access to cheap labour, but also allowed the Japanese companies to avoid a number of E.E.C. tariffs and quotas because of Malta's E.E.C. associate membership.

Other interesting features to emerge from the direction of exports data include the fact that one of the Maltese firms worked on a sub-contracting basis for a West German company, which absorbed all the company's production. Also of interest was the fact that 10 out of the 15 firms in the sample sent 100% of their exports to E.E.C. countries. Of the remaining 4 exporters, all sent the bulk of their exports to Libya. One further significant feature of this sector's exports was that, especially in the case of electronics firms, the Maltese plants tended to produce only components, or semi-assembled pieces of equipment. Consequently, they rarely dealt with more than a few stages of production, and did not produce finished products ready for retailing.

The latter point leads directly onto the question of linkages with the local economy. Once again, Government officials are undoubtedly disappointed at the lack of linkages within the metals sector. Of the 15 firms questioned in the survey, 12 maintained that they received no inputs to their production process from other firms working in Malta. Furthermore, 13 out of the 15 firms said that they produced no inputs to the production processes of other firms operating in Malta. Two other firms said that they received substantial inputs in the form of woodwork and furniture items. Of the two firms providing goods and services for other industries, one specialised in heat treating and the other in chrome plating and die casting. All the evidence therefore suggests that linkages with the local economy in the metals sector are just as tenuous as they are in the textiles sector.

Because of the wide variety of equipment used by the various producers in the sample, generalisation is once again difficult. All the respondents maintained that they used both second hand and new machinery. The comments on machinery made by the Maltese manager of a German machine tool firm were, however, most interesting and revealing. He was very critical of many Maltese entrepreneurs' overwhelming preference for British machinery. He suggested that too many Maltese businessmen pay more for inferior British equipment, despite the availability of superior, cheaper non-British machinery. He cited his own factory's machinery, stating that of his 15 machines, only 1 was British, and <u>it</u> was the one that always caused the trouble. Although his comments were clearly motivated by his personal frustrating experience with the British machine, it is nevertheless relevant that such a preference for British goods should be perceived 16 years after independence.

The training routines of the various metals sector firms fell broadly into the same pattern as those of the textile sample sector pattern. Operatives were usually trained on the job, whilst the more complicated occupations required some kind of training at local schools and colleges. Higher management was again dominated by Maltese personnel, some of whom had been trained abroad. In addition, there was a small complement of expatriate personnel, some of whom were only temporarily employed for the purpose of training their Maltese replacements. The 2 exceptions to this pattern included a Japanese company with a special permit allowing 4 expatriates. The other case was a Maltese State joint venture with a Czech firm. In this case, technical requirements apparently led to the need for 7 expatriates.

The latter case represents one of a number of Maltese State joint ventures with overseas companies. These efforts are not only designed to diversify the economy, but are also intended to encourage market diversification. Consequently, they are at least partly responsible for the recent growth in importance of Libya as a recipient of Maltese metals sector exports. Such joint ventures represent the latest in a series of desperate attempts by the Maltese Government to break the E.E.C./ textile sector dominance. It remains to be seen if they will achieve any long term success.

In summary, it seems that the metals sector is also dominated by multinational enterprise. There are few viable linkages with the Maltese economy, and in many instances, the Maltese subsidiary plants merely represent a minor and often dispensible stage of an MNC's total production process. In short, despite the efforts of the Maltese Governments and the MDC, the metals sector appears to be in a precarious situation similar to that of the much criticised textiles sector.

12.8 Miscellaneous Manufacturers

Only 2 of the sample of 16 firms in this category were MNC subsidiary companies (see Table 12.16), and one was a small foreign owned independent company. Also included were 6 Maltese companies - 5 private, and 1 State owned - and a variety of joint venture enterprises. Of the 16 firms, 7 were chemicals sector firms, 3 food and Beverages producers,

Table 12.16 Miscellaneous Sample Sector Firms, by Ownership.

Type of Firm	Number of Firms	Average Employment
Subsidiaries of British MNCs	2	705
Maltese (private) Companies	5	31
Maltese (State) Companies	1	166
Overseas Independents	1	60
Joint Ventures	7	153
Total	16	179

and 4 paper, printing and packaging firms (see Table 12.17). Clearly this sample is not large enough to be representative of all non-textiles/metals manufacturing industry in Malta. However, it does at least throw

Table 12.17 Types of Miscellaneous Sample Sector Firms by Product Group.

Type of Firm	Number of Firms
Chemicals and related Industry	7
Food and Beverages	3
Paper, Printing and Packaging	4
Others	2
Total	16

some light upon some of the other activities that constitute the Maltese manufacturing sector.

As can be seen from Table 12.16, the 2 subsidiary companies are by far the largest companies in the sample. They are both British owned firms, one of which manufactures bank notes (legally), the other specialising in the production of rubber seals. The scale of the two companies' operations results in their dominance of this section of the sample, both in terms of employment and production. Once again, however, ownership data based on accumulated paid up share capital (see Table 12.18) are misleading. In this case, British controlled share capital accounts for only 32% of the total, although British interests are apparently responsible for 61.0% and 57.1% of employment and production respectively. As has been the case in the other sectors, Maltese share capital data

Table 12.18 Miscellaneous Sector Sample - Summary of Ownership and Control Data, by Share Issue, Employment and Output.

Countries of Origin	Share Capital M£'000 Total Value	%	Proportional Allocation of Labour Force	%	Proportional Allocation of Output M£'000	%
Malta (Total)	1,036	47.9	999	34.9	11,964	38.2
Malta (State)	50	2.3	166	5.8	1,000	3.2
Malta (Private)	986	45.6	833	29.1	10,964	35.0
Great Britain	708	32.8	1,747	61.0	17,912	57.1
Netherlands	330	15.3	60	2.1	500	1.6
Switzerland	42	1.9	14	0.5	170	0.5
Denmark	38	1.7	12	0.4	155	0.5
Australia	1	0.1	11	0.4	494	1.6
Austria	7	0.3	23	0.8	160	0.5
TOTAL	2,162	100.0	2,866	100.0	31,355	100.0

seems to overstate the control by Maltese interests of this sample of firms. Thus, Maltese interests account for almost 50% of share capital, but only 34.9% of employment and 38.2% of gross output. Indeed, the small scale nature of much of the Maltese owned enterprise is confirmed by Table 12.16, which shows that the average workforce for Maltese private firms is a meagre 31 persons - small compared with the 705 of the MNC subsidiaries in the sample sector. Nevertheless, Maltese ownership and control in the miscellaneous sector seems to be much more substantial than is the case in the 2 sectors discussed previously. Exactly the same applies to British interests, which when combined with the Maltese allocations, account for a very large proportion of total share capital, employment and production. This pattern is probably similar to that prevalent in the entire manufacturing sector during the 1960s and early

1970s, although early British interests were then possibly even more dominant.

Time of arrival data (see Figure 12.11) reveal a rather more diverse pattern than was the case in the textiles and metals sample sectors. Compared with the usual tendencies, the 2 British MNC subsidiaries are comparative latecomers, 1 arriving at the end of the PN admininstration in 1971, and the other taking over a dying Maltese/British joint venture in 1974. Interestingly, all but 4 of the 16 firms of the sample arrived before 1972, a fact which would seem to suggest that very little of the spectacular growth in Maltese manufacturing industry that occurred during the 1970s occurred outside the textiles and metals sectors. Most of the early arrivals were privately owned Maltese firms, including 1 which was established as early as 1874. There seems to have been no discernible order to the arrival of joint ventures, which arrived between 1948 and 1972. It is, however, significant that 6 out of the 7 joint ventures have shared British and Maltese interests. It is also important to note that only 1 chemicals sector venture arrived after 1971, and that this particular enterprise was not dependent upon energy intensive activity.

Many of the miscellaneous firms were not located on the Government industrial estates[1]. This was confirmed by the data collected concerning Government incentives (see Table 12.19). This reveals that only 10 out of the 16 firms were housed in Government factories, and that only 8

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1. In the early days of industrialisation, it is likely that the Governments' desire for overseas enterprise prompted them to ignore the indigenous sector, and to fail to provide premises on the estates for local firms. In addition, some local firms were formed before the industrial estates.

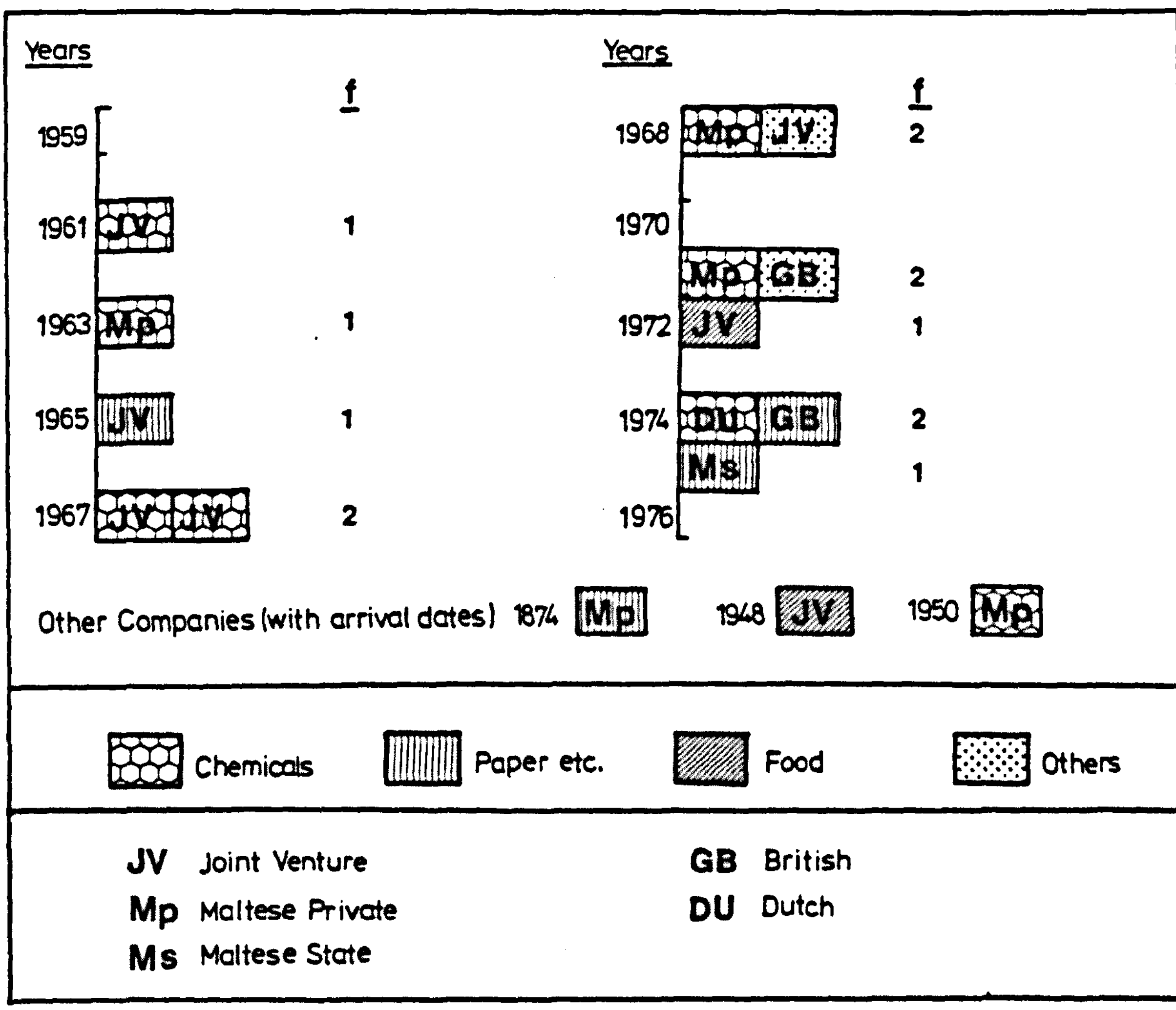

Figure 12.11 Year of Arrival & Ownership Data For The Miscellaneous Sample

Table 12.19 Miscellaneous Sector Sample - The Numbers of Firms Receiving Government Incentives

Incentives	Number of Firms
Factory Provision	10
Cheap Rent	8
Import Duty Concessions	10
Grants	3
Loans	2
10 Year Tax Holiday	7
Reinvestment Tax Allowance	2

of these claimed that they benefitted from cheap rents. Similarly, only 10 benefitted from import duty concessions, a fact which indicates that several of the firms in the sample were neither aided firms, nor registered exporters. The comparatively large number of recipients of tax holidays is a reflection of the large proportion of the sample that arrived before 1972.

The employment structure of the Miscellaneous sample is radically different to the textiles and metals samples, indicating the lesser extent to which multinational capital has penetrated the sector. Figure 12.12 shows that 10 out of the 16 firms employed less than 100 persons, and that 6 of these employed less than 50. In addition, there were unusually few ventures employing workforces of between 100 and 400 (only 3), whilst very large companies employed workforces of over 400. The latter group raised the average workforce for the sector to an unrepresentative 179. Two of the 3 firms were large British MNC subsidiaries, and the third a Maltese dominated beverage manufacturer with strong British interests. It is significant that all 5 private Maltese ventures employed less than 50. It is also significant that 6 out of the 7 chemicals sector ventures also employed less than 100 personnel.

Number of Employees							N=16	f
Under 50	Mp	Mp	Mp	Mp	JV	JV		6
50 99	Mp	DU	JV	JV				4
100 199	JV	Ms						2
200 299	JV							1
300 399								
400 & Over	JV	GB	GB					3

(for ownership key, see Figure 12.11)

Figure 12.12 Miscellaneous Sample Firms by Size of Labour Force & Ownership

% Male Labour Force									N=16	f
Over 90	Mp	Mp	JV							3
50 90	Ms	JV	JV	JV	JV	JV	GB	DU		8
40 49	Mp	GB								2
30 39										
20 29	Mp	JV								2
Under 20	Mp									1

(for ownership key, see Figure 12.11)

Figure 12.13 Miscellaneous Sample Firms by Sex Ratio of Labour Force & Ownership

Sex ratio statistics for the various manufacturers in the sample also vary considerably from those of the metals and textiles sample. Figure 12.13 shows that 11 out of the 16 firms had workforces that were over 50% male. Although there is no indication from Figure 12.13 as to which particular industries are more male intensive, it seems safe to assume that the promotion of industries in this broad sector, instead of textiles and metals, is more likely to alleviate male unemployment. The proportion of the Miscellaneous sample's workforce that was male was an encouraging 65.6%, as compared with 22.7% and 48.9% of the textiles and metals sector samples respectively.

Also of potential encouragement to the authorities was the tendency of the miscellaneous firms to pay higher weekly wages. Indeed, 8 out of the 16 paid a weekly wage of above M£32.00 (see Figure 12.14). In contrast to the other sectors of the sample, there is a strong relationship between the ownership of the various ventures and their wage rates. Figure 12.14 shows conclusively that the smaller private Maltese ventures tend to pay their personnel very much less than the joint ventures, the British MNCs, and even the Maltese State owned enterprise. The average weekly wage of the miscellaneous sample is M£33.78, a level considerably above the average M£26.05 and M£29.01 paid in the textiles and metals sector samples. Another interesting point is that no firms in the Miscellaneous category paid their workers the minimum wage. It is possible, therefore, that in this case, the presence of MNCs has led to a certain degree of competition for skilled male labour, which has in turn raised wage rates.

The peak employment statistics for the miscellaneous firms reveal very little, and are consequently not worth recounting in detail. It is,

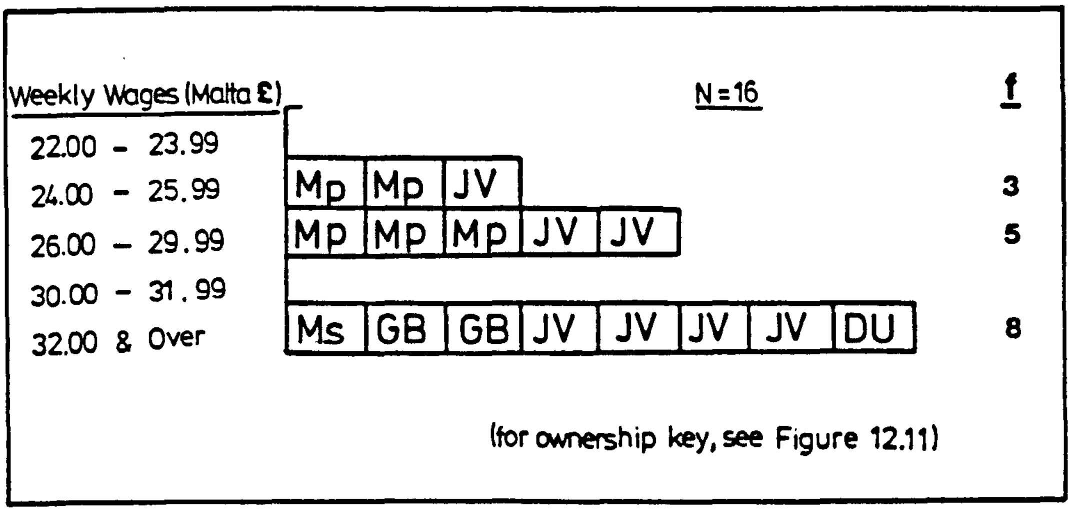

Figure 12.14 Miscellaneous Sample by Weekly Wages & Ownership

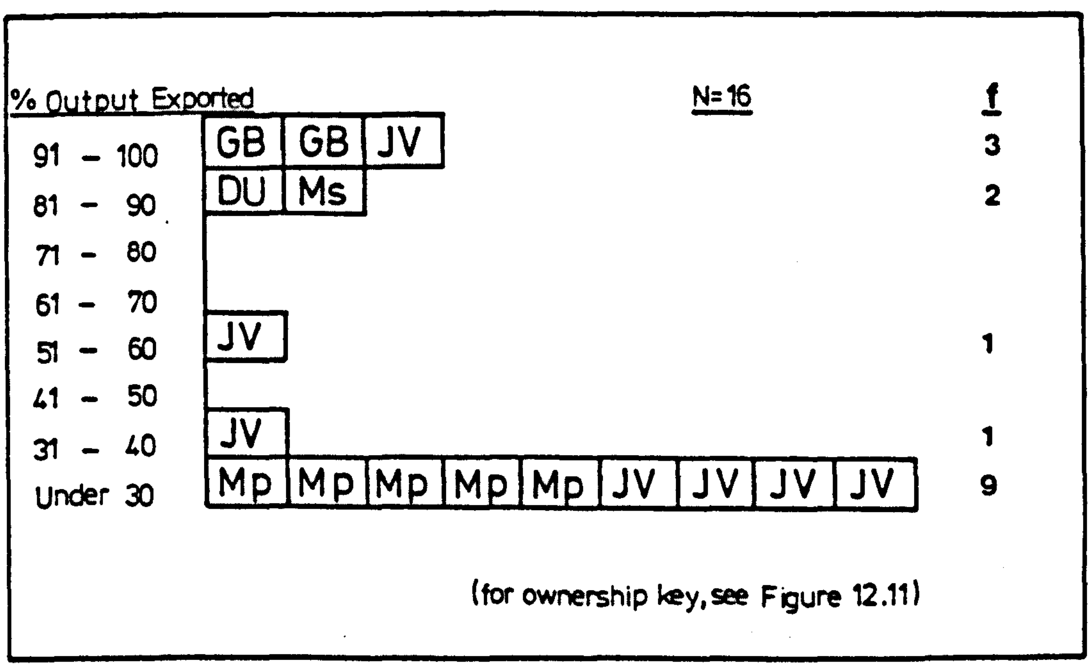

Figure 12.15 Per Cent Output Exported by Miscellaneous Sample Firms

however, possibly significant that 4 out of the 8 firms that had passed a period of peak employment were Maltese private firms, 2 of which complained bitterly about the effects of cheap imports. The 1 British MNC subsidiary experiencing difficulties was being adversely affected by the high prices of energy and chemicals on which it depended, as well as its collapsing British markets. As a result of the difficulties being experienced in the U.K. by its British parent company, this firm was forced to resort to marketing its own product outside Great Britain.

In general, the direction of the Miscellaneous exports was much more varied than was the case for the other sectors. This in turn has resulted in far less dependence upon E.E.C. markets. Four firms dealt predominantly with Libyan customers, whilst 2 others exported all their produce to Middle Eastern customers. One particular food manufacturer specialised in the production of 'liquid dessert and instant foods' that could be eaten in some parts of the Middle East during Ramadan. Only 2 firms exported all their produce to a single customer, one being a British MNC subsidiary supplying its parent company in Great Britain, and the other a Dutch independent manufacturer supplying a pharmaceuticals trader in the Netherlands.

It seems that not only are the export destinations of the Miscellaneous sector sample more varied, but also that the linkages with the local economy are more substantial. Figure 12.15 shows that 9 out of the 16 firms questioned exported under 30% of their total output in 1979. Only 3 firms, 2 of them the British MNCs, exported more than 90% of their output. However, it seems to be the smaller companies that display low levels of exports, and usually the Maltese privately owned ventures. Thus, rather than being indicative of greater internal linkage, this distribution is possibly more a measure of the inability of many Maltese ventures to establish their own external linkages and markets. Nevertheless, some industries, such as food and beverages, must be near their markets, and are therefore bound to be locally oriented.

On balance, the data specifically on linkages is more encouraging. Although 13 out of the 16 respondents denied using locally produced materials and services in their production processes, half (8) of the sample claimed that they contributed directly to other manufacturer's production processes. Of the most significant items mentioned were packaging materials, furniture, paint and rubber seals, all of which were manufactured by various firms in the sample. Of the few items produced in Malta and used by the firms in the sample, bottling accessories and furniture were the most important. Thus, although the linkages were more substantial than in the textiles and metals sectors, they were not well developed.

Unfortunately, few generalisations can be made in the Miscellaneous sample concerning either equipment or training, given the variety of the firms involved in the survey. However, the fact that most are predominantly concerned with the local markets has confined their access to new machinery, technology, information and markets. Similarly, training programmes in many of these firms are not coherent. This situation is reflected in the number of expatriates employed by these firms. Nine of the sample employed no expatriates at all, the remaining 7 employing between 1 and 3. There was, however, 1 exception to this pattern. This was one of the 2 British MNC subsidiaries, which required as many as 9 expatriates because of the extremely complex nature of the printing processes involved. As this company employed 550 highly paid personnel (by Maltese standards), the Maltese authorities were prepared to issue 9 work permits without argument.

12.9 Respondents' Perceptions of Malta as an Industrial Location

This section refers to data collected in the questionnaire in answer to the last questions, which asked for comments on the respondent's views of Malta as an industrial location. The most common responses by far were those concerned with labour. Over half those questioned mentioned cheap labour as a major incentive, although a number of comments were made to the effect that recent wages rises imposed by the Government were eroding this particular advantage. Many also commented on the high quality of Maltese labour. This was usually explained in terms of adequate education, and a commitment to work. However, others were not so impressed, and a number of venomous complaints were received concerning the poor record of absenteeism amongst female workers in particular.

One of the most encouraging comments received concerned industrial relations, which were in every case described as good. This may be explained by the negotiating abilities of the major Union, the General Workers Union (GWU), the fact that many Maltese workers realised the precariousness of their jobs, and the unending pressure put on the GWU by the MLP Governments in recent years. It seems, however, that some of the industrial harmony of which the Maltese were so proud in 1980 has since disappeared amid continuous political chaos since December 1981.

Several firms complained that there was a severe lack of suitably trained and educated management personnel in Malta. This, they claimed, has led to a need for expatriate personnel in their management structures. The Maltese Government, however, is not sympathetic to requests for expatriate work permits, a stance which has caused ill will in the past. Many firms also complain about the petty bureaucracy of Government departments, which seem to specialise in withdrawing import licences. One of the managing director's office was covered with import licence request forms impeccably stamped with enormous 'Rejected' stamps in red ink. His attempts at placing his usual orders for acrylic yarn with French and then Israeli producers had been blocked by the Government for political reasons. He claimed that he was being forced out of business.

Several of the respondents commented about what they described as Malta's political stability. This, and the various Government incentives provided since 1959,were said to complement cheap labour as Malta's great advantages and attractions for industrialists. Sadly, although this may have been the case in 1980, political instability has persisted since the general elections of 1981. Furthermore, the stable currency described by a number of producers as an advantage has received increasing criticism in recent years, particularly from Japanese producers, who clearly have their own ideas as to how a currency should be manipulated.

The Japanese, nevertheless, were quick to appreciate the Maltese location's advantages as far as E.E.C. tariffs were concerned. Malta's associate E.E.C. membership had definitely allowed them easy access to European Economic Community countries. They did, however, express disappointment at the limited nature of the internal market in Malta. Meanwhile, one British manufacturer stated pleasure at the flexible nature of his Maltese workforce, which was probably a result of Malta's 'industrial youth'. Thus, typically British problems such as job demarcation were never a problem. In contrast, another British manufacturer complained that the Maltese did not have sufficient industrial psychology behind their work, a problem he too attributed to Malta's industrial youth.

Of the endowed advantages, location was mentioned most frequently. More often than not, it was mentioned favourably, particularly with reference to climate and associated advantages, such as low heating costs. There were, neverthless, many complaints about the cost and reliability of shipping. The fact that Malta depends on multi-destination cargo vessels causes problems as they are usually totally dependent upon the unreliable Italian ports. The latter are very frequently strike-bound, in addition to which Maltese cargos are often pilfered. This results in the need for many firms to hold very large stocks of materials to ensure uninterrupted production. Unfortunately, these problems have not been solved by the creation of the State shipping line, 'Sea Malta', which has continued to operate at a substantial loss. Consequently, the Maltese Government is placing great faith in the completion of a container based transhipment port in the southern harbour of Marsaxlokk, which it is hoped will not only reduce dependence upon the Italian ports, but may also take much of their business.

Two of the more interesting complaints concerned the Government built factories themselves. In one, the dust emanating from the Globigerina Limestone masonry caused severe problems in the manufacture of micro-circuitry. This revelation was made late on in the survey, and it was too late to enquire elsewhere in other electronics factories. The other case illustrates the potentially rediculous nature of the Government's more petty bureaucracy. One particular firm wished to retain one of its expatriate work permits, but was refused permission as a 'punishment' for not building a water saving cistern beneath its factory, as the law has dictated in Malta for many decades. The management found it difficult to sympathise with this decision as it was the Government that had originally built the factory.

In conclusion, perhaps the most important factor mentioned by the respondents was that of language. This originally acted as an attraction for British firms interested in overseas production locations, and has since encouraged West German enterprise as well, largely because of the widespread knowledge of English in West Germany. It was even noticable that in a number of cases, West German companies had employed British expatriate personnel.

Generally speaking, the responses to the question on Malta as an industrial location were positive and optimistic. Sadly, given the recent unpleasant political events, it is likely that, if the question were repeated in 1983, the majority of responses would be much more negative.

12.10 Conclusions

The questionnaire survey has helped to show the enormous extent to which Maltese manufacturing industry is dominated by overseas enterprise. In the case of the dominant textiles sector, 10 out of the 25 firms in the sample were MNC subsidiaries. In turn, the textiles sector itself has been shown to be dominated by clothing firms. MNC clothing firms may therefore be seen as forming a substantial part of the Maltese economy, a position which is enhanced by the fact that such enterprises display much the greatest employment and output levels of the manufacturing sector.

The extent of foreign ownership in the textiles sector indicates that the control of a large proportion of Maltese manufacturing capacity is in foreign hands, and that the operations of the sector are thus likely to be directed in the interests of overseas corporations, as opposed to Malta herself. The loss of Maltese control occurred during both the PN and the MLP phases of government, when industrial incentives were used to encourage overseas firms to locate in Malta. However, although some of the incentives were important, cheap, plentiful and high quality labour was perceived by most respondents as being the most important reason for choosing a Maltese location.

Several phases of overseas involvement may be identified. In the early days of independence of the mid 1960s, few overseas investors chose Malta as a location for offshore industries. There then occurred in the late 1960s an influx of British capital, a fact that is well illustrated by the comparatively early arrival dates of many British firms in the survey. In the 1970s, other E.E.C. countries, especially West Germany, contributed more fully to Maltese industry, whilst British interests declined in importance. Simultaneously, other sources of investment such as Libya, and just as important, the Maltese State, began to make an impact upon the manufacturing sector.

The extent of foreign dominance is well illustrated by the ownership statistics for the textiles sector. In this case, strong American investments were detected, in addition to which West Germany, Great Britain and Sweden displayed substantial involvement. The most important feature of the ownership tables was the fact that Maltese share holding statistics seriously overestimated Maltese control of output and employment in the sector. This is important as the Maltese authorities continue to choose accumulated share capital statistics to measure the degree of foreign ownership and control of manufacturing.

Perhaps the most important feature of the textiles sector was the fact that it appeared to be almost entirely export oriented. In 16 out of the 25 firms that responded to the questionnaire, over 90% of output was exported. Simultaneously, the same firms claimed that they neither received nor provided materials from or for other producers operating in Malta. MNC textiles sector enterprise therefore acts as an isolated export oriented enclave within the Maltese economy. More alarming still is the complete absence of autonomous marketing within the textiles sector. Most export trade is concentrated not only within single countries, but also with single customers . Such customers are often the subsidiaries' parent companies, but are also often independent organisations that subcontract their production requirements. This explains the extremely disturbing tendency for even the Maltese owned ventures to concentrate on performing subcontracting work for overseas companies. This type of arrangement induces the most serious vulnerability of all.

So far, attempts at improving the local linkages within the textiles sector have failed, the State inspired spinning and weaving project meeting early difficulties. It is extremely unfortunate that the other dynamic area of Maltese manufacturing industry, the metals sector, is in a similar position to that of the textiles sector. Metals are also dominated in some measure by MNC subsidiaries, and have also in turn been dominated by the arrival of electronics firms in the last 15 years. Ironically, it seems that technological instability within the electronics sub-sector render such industries more volatile than textiles sector activity. This point is well illustrated by the closure of the British owned Plessey subsidiary at San Gwann in Malta during early 1981.

Ownership data for the metals sector reveal a similar pattern to those of the textiles sector in the survey. Once again, early arrivals in Malta were mostly British, but during the 1970s, West German and other E.E.C. interests have grown, whilst British interests have, in relative terms at least, declined. Also of great importance were Japanese (electronics) ventures that located with the specific intention of exploiting E.E.C. markets. Share ownership figures again overestimated the Maltese control of employment and production in the sector. In reality. West German interests dominated the sample, with Japanese interests also assuming a strong position.

As was the case with the textiles sector, most of the firms (12 out of 15) exported over 90% of their output. Most of the exports found their way to E.E.C. destinations, although single customer concentrations were not quite so severe. Nevertheless, the severe lack of linkages within the internal economy remained extremely disturbing. Given the more complex industrial processes involved, the metals activities were more prone than textiles to the breakdown of production into staged, isolated and widely distributed production units. This is well illustrated by the tendency of most of the firms operating in Malta to concentrate on the part assembly of sub-units of equipment from ready made components. The Maltese experience has shown that subsidiary companies dependent upon this type of activity are most prone to technological obsolescence, a short lifespan, and early closure by parent organisations.

The Miscellaneous sector of the questionnaire sample survey shows a more encouraging internal structure. In this case, there were only 2 MNC subsidiary plants, although their enormity in comparison with the other firms in the sample affected the ownership data. Thus, although Maltese share ownership figures were prominent, the 2 MNCs ensured that British interests were once again dominant, if understated. Meanwhile, much encouragement was to be found from the fact that the Miscellaneous activities paid higher wages than the sectors already covered, and that they also tended to be much more male intensive.

The Miscellaneous activities also displayed far more substantial linkages with the local economy. Nine out of the 16 firms of the sample exported less than 30% of their output[1]. Furthermore, of the production that was exported, far less was confined to single customers within the E.E.C. The more diversified markets included North African and Middle Eastern customers. This, and the characteristics stated earlier indicate that if an economic diversification policy concentrated on selectively expanding the Miscellaneous sector, then improvements in wages, export diversification, the provision of more jobs for males, and much improved local linkages, would possibly ensue. It is, however, no coincidence that Miscellaneous activities have been most difficult to encourage, and that the textiles and electronics manufacturers have established themselves so easily. It must not be forgotten that, although a severely distorted and unstable industrial structure has resulted from overseas domination of Maltese industrialisation, without such overseas involvement, very little industrialisation of any kind could have occurred.

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1. This was at least partly a result of the fact that a larger proportion of the firms in this section of the sample were unaided.

Meanwhile, the extent of MNC control over Maltese manufacturing industry, and its export based orientation, has further exacerbated the internal linkage problem. Malta therefore does not have an industrial base as such. Instead, she has a collection of industrial units which are linked only to external organisations and markets. In the few instances where internal linkages exist, the producers involved tend to be small, Maltese owned enterprises. In such cases, the confinement to locally based activity is possibly more due to the inability of the Maltese entrepreneur to establish export markets than his wish to exploit internal markets.

There therefore exists within Maltese manufacturing a dual structure. The modern half of the sector, dominated as it is by MNC subsidiaries, is externally oriented, and is poorly integrated with the host economy in which it is located. The traditional half of the sector consists of small scale activity that is confined to exploiting local markets. The 2 external and internal structures rarely interact, although they operate side by side within the same territory. Such dual structures are often seen as an undesirable consequence of dependence. However, the 2 sectors are not entirely incompatible, despite their lack of complementarity.

Dependence in the manufacturing sector may also be seen as emanating strongly from the ownership structure of the sector which, as has been observed, is dominated by British and West German MNCs. A large proportion of manufacturing employment and production is therefore overseas controlled. The overseas control has helped to generate concentrations of employment, output and markets in the textiles and electronics activities in particular. Dependence upon such concentrations is deeply undesirable because of the potential vulnerability that they induce in the face of fluctuations in the world markets.

On a positive note, there are advantages associated with the maintenance of a dual structure in manufacturing. In particular, it must be recognised that there are both potential positive and negative multiplier effects associated with industrial activity. Thus, the lack of internal linkages in Malta has caused disappointment because of the loss of much desired positive multiplier effects. However, it must be recognised that in the difficult recessionary period in Malta that has occurred since the 1980 survey, the lack of internal linkages has prevented numerous factory closures from inflicting far more serious damage upon the Maltese economy as a whole. Consequently, the type of 'dominoe effect' associated with the collapse of the car manufacturing industry in the West Midlands of England has not occurred in Malta.

Despite this encouraging observation, it must be said that the distorted dual structure of Maltese manufacturing industry has inevitably resulted in continued economic instability within the Maltese economy as a whole. Inevitably, this has led to great faith being placed in the fortunes of Malta's tourist industry, the progress of which is discussed in the next chapter (Chapter Thirteen).

CHAPTER THIRTEEN: TOURISM IN MALTA

13.1 Introduction

The distorted structure and potential instability of the manufacturing sector of the Maltese economy has encouraged many to place their faith in the development of tourism. Tourism seems to be one of the few activities to which the Islands are genuinely suited. The hot, dry climate (especially in the summer months) is ideally suited to the demands and tastes of the Northern European tourist markets. Furthermore, the large numbers of premises vacated by the British and NATO armed forces between 1957 and 1979 have often proved to be easily convertible to provide tourist services and accommodation (see Plates 13.1 and 13.2). There is also no doubt that one of the more fortunate effects of the long period of British military dominance was the distortion of the economy in favour of the provision of services to 'guest populations'. During the last 2 decades, it seems that it has not been difficult for the Maltese to adjust their services towards the demands of the tourist markets.

Since 1966, tourism in Malta has blossomed, and during the mid-1970s, it expanded faster than any of its competitors in the Mediterranean Basin (see Figure 13.1). Annual tourist arrivals in Malta increased from 170,853 in 1970 to 728,732 during 1980, an extraordinary increase of 327% (Central Bank of Malta 1981). The sudden and apparently successful evolution of Malta's tourist status is well illustrated by the fact that in 1981, Malta was the sixth most popular overseas holiday destination of British holiday-makers (The Times 24/8/1981). However, the very fact that British tourists in particular are flowing to Malta in such large numbers is one of the many problems currently facing the Maltese tourist authorities. Indeed, such is the scale of British

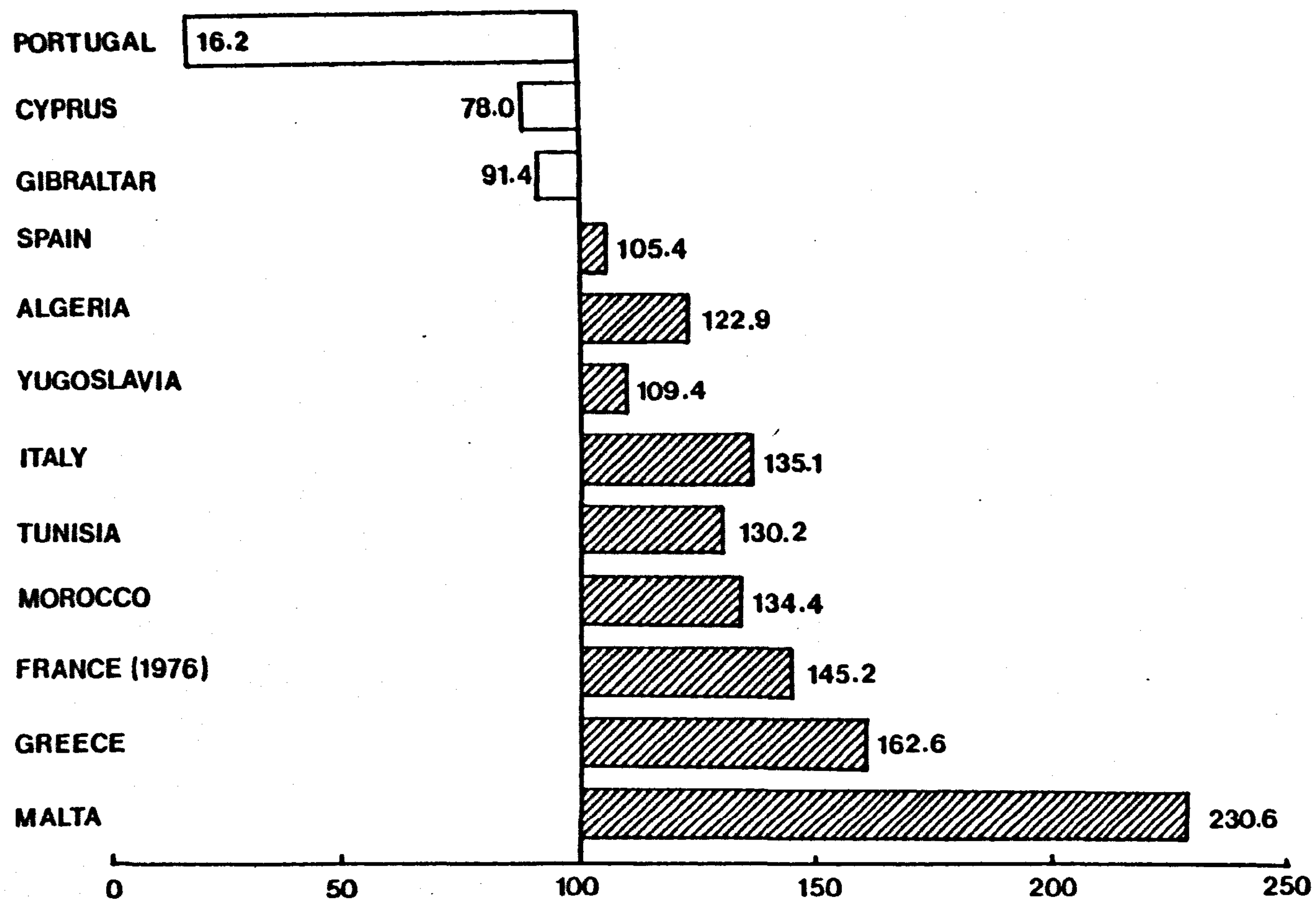

Figure 13.1 The Growth in Tourists Visiting Mediterranean Countries 1972-77 (Index: 1972=100)

Source: Central Bank of Malta (1980)
United Nations

PLATE 13.1 Il Fortiza, Sliema, Malta. This coastal fort, built during the rule of the Knights of St. John, illustrates the way in which old military installations can be converted for use in the tourist sector. It is now a tastefully converted public bar and pizzeria.

PLATE 13.2 Tower Road, Sliema, Malta. Many of these buildings, which can be found on the waterfront at Sliema, were British officers' quarters during the period of British colonial rule. Some have since been successfully converted to hotels, or self-catering accommodation, thereby augmenting the capacity of the Maltese tourist sector.

involvement in the Maltese tourist sector that it is now more than apparent that the Maltese have merely transformed their economy from one dedicated to the service of British military installations and personnel to an economy heavily dependent upon the British tourist markets.

There is little doubt that such severe dependence upon the one market enhances the Maltese tourist industry's vulnerability to damaging fluctuations in fortune, and raises questions as to the wisdom behind such tourist-oriented development. The threat of wild fluctuations in annual tourist arrivals, the control of tourist enterprises by overseas tour operators, the rigid seasonality of tourist activity, and the vulnerability of the industry to international financial and political pressures, are all associated with the heavy dependence of a tourist industry upon one market source. In addition, political instability within Malta herself jeopardises still further the long term stability of the industry.

Further examination of the tourist industry reveals that the development of tourism is not always as fruitful as economists such as Metwally (1977) have suggested. For example, heavy overseas investment in tourist accommodation, travel and administration not only signifies a lack of indigenous control over the tourist sector, but also indicates that a large portion of profits emanating from Maltese tourism are being repatriated to foreign investors. In addition, new investment in tourist accommodation now favours non-hotel accommodation, reducing the employment benefits normally associated with such developments. Meanwhile, tourist expenditure, much encouraged as it is, not only tends to have an extremely high import content, but also tends to fuel domestic inflation. Finally, in conjunction with the hidden economic penalties of tourist development are numerous social and cultural influences which, whilst not being by any means wholly detrimental, have nevertheless had profound effects upon Maltese society.

This chapter attempts to analyse the development of the Maltese tourist industry since independence, and tries to draw parallels with concurrent developments in the manufacturing sector. In particular, characteristics of both sectors, such as their fragility, their market concentration, and the strong influence of multinational capital penetration, deserve attention. Furthermore, it is significant that both sectors have since 1981 suffered reversals in fortune. In the case of tourism, it is therefore possible to assess some ideas concerning cycles of tourist development which help to explain the current downward trends in Malta.

13.2 A Brief History of Maltese Tourism

In view of the excellent climate and accessibility of the Maltese Islands, the first development plan proceeded to describe tourism as, '...an indispensible part of the general plan for the diversification of the economy' (Office of the Prime Minister 1959, p.37). Despite the verbal emphasis on tourism within the Plan, financial emphasis was far from generous as only 1.7% of the total capital programme was directed towards tourism development. Moreover, although a mid-plan revision substantially increased this allocation, only one fifth of the available funds were consumed, and only 3% of the budgeted assistance to hotels was utilised (Central Bank of Malta 1980). The second development plan placed great emphasis on the need for hotel accommodation (see Plate 13.3). Consequently, the capital allocation to tourism was increased to 10% of the entire programme, of which 60% was absorbed by hotel development (Office of the Prime Minister 1964). An attraction policy similar to

PLATE 13.3 A New Hotel Under Construction in Sliema, Malta. Maltese hotel capacity was still expanding in 1982, despite serious shortfalls experienced in the numbers of annual tourist arrivals since 1980.

PLATE 13.4 A Tourist Complex at Mellieha Bay, Malta. Some tourist developments in Malta are renowned for poor planning, and their failure to blend into the existing landscapes. This particular tourist complex is a case in point.

that operated in the manufacturing sector was implemented. Overseas investors were attracted through the provision of 10 year tax holidays, grants and soft loans, and duty free imports of vital materials and hotel fixtures and equipment.

In contrast to the experiences of the first Plan, 88% of the second Plan's grant allocation to tourism was consumed as Maltese tourism began to gather momentum. Hotel employment increased from 766 in 1964 to 2,778 in 1969 (Central Bank of Malta 1980), whilst direct and indirect employment in tourism was estimated to have risen from 7,350 to 9,810 in the same period (Office of the Prime Minister 1970). The 65 new hotels to begin operations, of which 17 were grant aided, provided a further 5,202 beds, an increase of 220% (Central Bank of Malta 1980), and it was estimated that tourist foreign exchange earnings as a proportion of gross invisible exports swelled from 5.7% in 1964 to 22.9% in 1969.

The Maltese Government was generally pleased with the performance of the second development plan, and therefore announced in the third development plan (1969-74) that, 'It will be Government policy to continue nursing the tourist sector broadly along the lines already established'(Office of the Prime Minister 1970, p.57). The Plan proceeded to state that, 'The large multiplier effect of tourism continues to make this sector a rewarding avenue for investment and a main element in the Government's policy of development through diversification' (Office of the Prime Minister 1970, p.89). However, in response to a definite over-capacity in hotels, hotels assistance was cut. Most significant was that, for the first time, the heavy dependence on the British markets was recognised as a major problem. Already, British tourists were accounting for between 65% and 75% of total tourist arrivals (see Figure 13.2). The

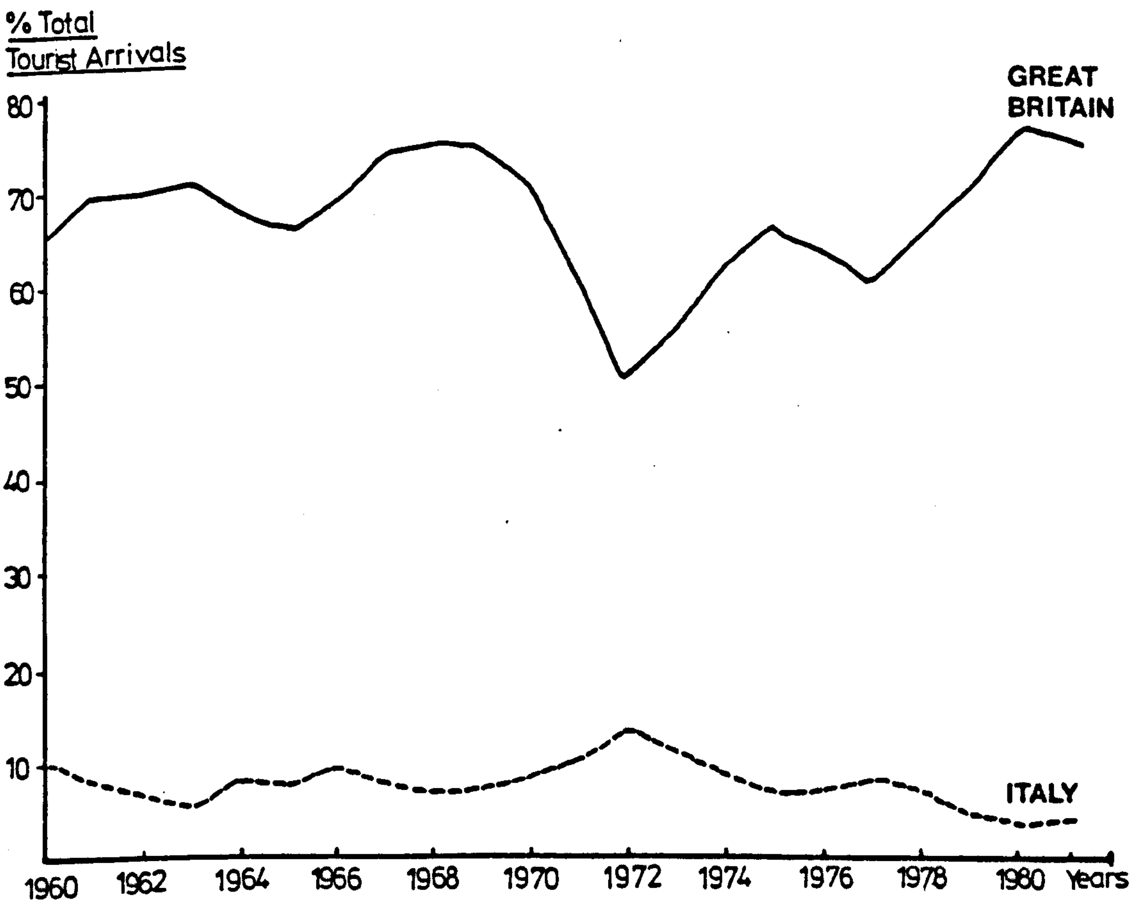

Figure 13.2 Per Cent Tourists Visiting Malta From Great Britain & Italy 1960-81

Source: Central Bank of Malta (1980)

intention was, therefore, to continue to enhance the flow of tourists from Great Britain, but to encourage far more vigourously the flows of visitors from other countries.

The third development plan was aborted 2 years before its expiry date by the new MLP Government under the leadership of Mr. Mintoff, elected in 1971. Adopting a broader concept of development in the fourth development plan (1973-80) (Boissevain 1977a), the MLP administration placed greater emphasis on diversification of markets away from British tourists. Simultaneously, the PN's incentive schemes were abolished for both practical and ideological reasons. Attempts were also made to spread the tourist season into the less popular months, thereby reducing the seasonality problem.

As a result of the new policies, most funds (90%) provided by the Plan were directed into advertising and promotion campaigns, which were concentrated to a far greater extent in Western European and Northern European countries (except Great Britain), and which attempted to encourage off-peak holidays (Office of the Prime Minister 1973). There were also attempts to encourage business from the more affluent, less voluminous tourist markets, particularly in West Germany[1]. Despite these heavily publicised efforts, tourist arrivals had risen still further to 728,732 in 1980, an astonishing 76.5% of which were British (see Figures 13.2 and 13.3). Since 1980, declines in tourist arrivals have been recorded. In 1981, a small decline of 3.2% was registered (Central Bank of Malta 1982), and in the first 4 months of 1982, tourist arrivals were down 24% on the previous year's figures. As will be shown shortly, these declines are entirely attributable to negative

1. It was felt that the propogation of less voluminous, high spending tourist markets was preferable to the attraction of larger numbers of low spending tourists.

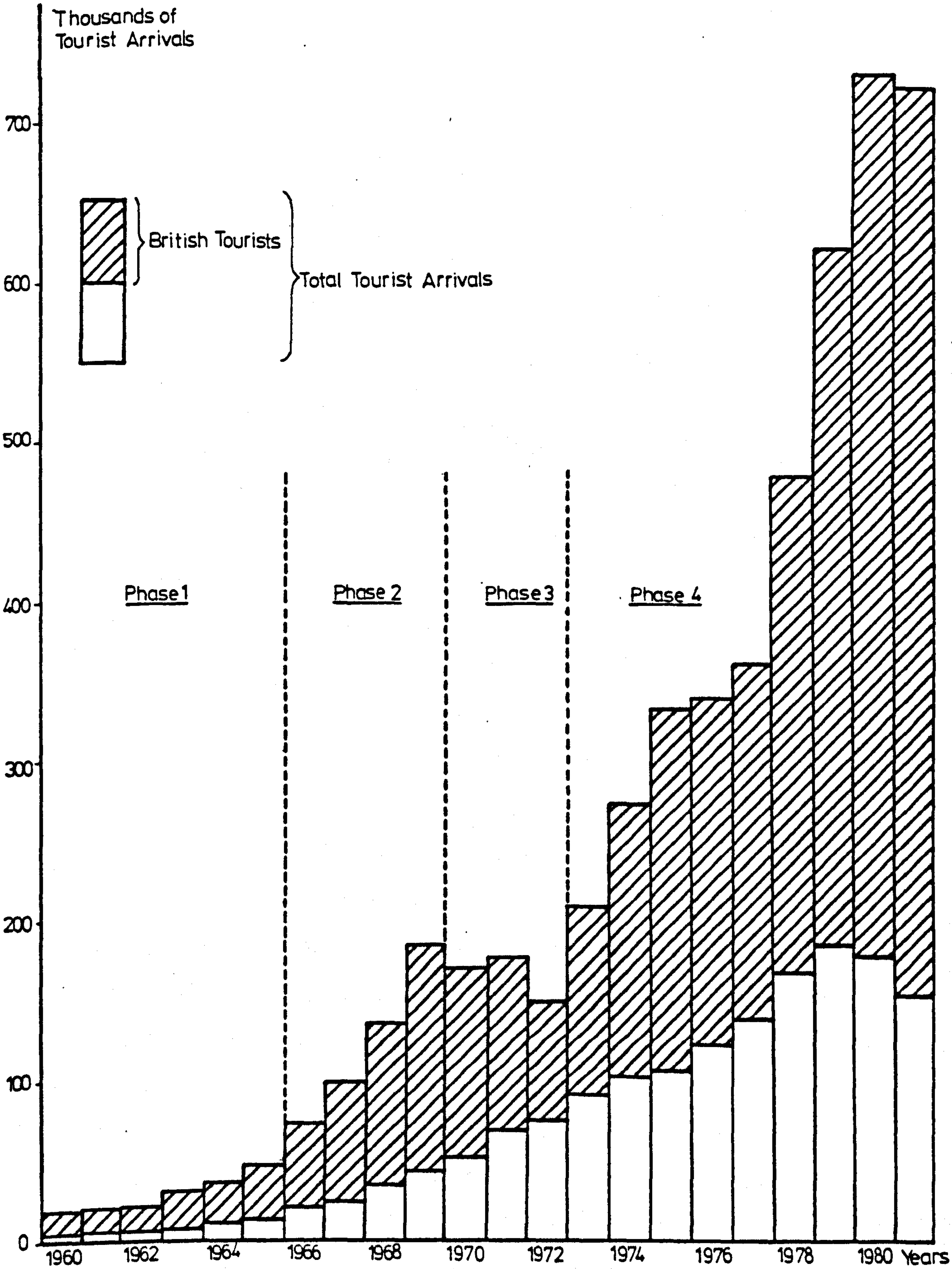

Figure 13.3 Tourist Arrivals 1960-1981

Source: Central Bank of Malta (1982)

fluctuations in the British tourist markets.

13.3 Phases of Tourist Industry Development

Figure 13.3 shows the enormous extent to which the Maltese tourist industry has grown since 1960, especially during the mid and late 1970s. The years between 1960 and 1980 have been divided in the diagram into 4 different phases which will shortly be compared with models of tourist development proposed by Butler (1980) and Keller (1983). During Phase 1, which includes the years immediately before and after independence, little development occurred. Although the annual increase in tourist arrivals averaged 27% in this period, this growth was from a very low base indeed. Capital investment in tourism was extremely low, and infrastructure and accommodation remained scarce, unorganised and fragmented.

In Phase 2 (1966-69), there was a marked acceleration in the growth of Maltese tourism, amounting to an average annual increase in tourist arrivals of 40%. Almost all European sources increased their particip-ation in Maltese tourism, but the British market share was ultimately responsible for the bulk of the increases (see Figures 13.2 and 13.3). The third phase of development (1970-72) was characterised by severe shortfalls in the tourist inflow, once again, entirely attributable to fluctuations in the British markets. In Phase 4 (1973-80), there occurred an extraordinary advance of tourism, predictably fuelled by a sudden surge of British tourists. By 1980, the annual intake of tourists was in excess of twice the population of the Maltese Archipelago. Since 1980, there has been what appears to be a sharp decline, the dimensions of which are not yet fully known outside Maltese Government circles.

The Maltese experience seems to fit quite neatly into the 3 phases of tourism on which Butler (1980) based his analyses[1]. These involve a sequence of phases of 'discovery', 'local response and initiative', and 'institutionalised institutionalisation'. Butler proceeded to develop his own sequence of phases based on the growth of the volume of tourism through time (see Figure 13.4). The first phase of 'exploration' involves small numbers of tourists who are provided with few specialist facilities, and who are therefore not segregated from the local populace. Their presence has little influence upon the human environment. This stage conforms with the experiences of Malta between 1960 and 1965 (Phase 1).

Butler's (1980) second, third and fourth stages of 'involvement', 'development' and 'consolidation' occurred in Malta between 1965 and 1980. Defining the individual stages during this period in Malta is not easy, and is not necessary. However, the occurrences within these phases are very significant. Butler identifies the stage of'involvement' as being one in which local interests and authorities begin to lose control of the tourist industry to external interests and institutions. In the Maltese case, this is demonstrated by the effects of the PN's policy of encouraging (with the assistance of financial incentives) overseas investors to build hotels and other tourist facilities in Malta. By applying Butler's model , it can be seen that during the 'development' stage, local involvement and control began to decline rapidly in Malta as locally provided facilities were eliminated by larger scale, more elaborate facilities provided by multinational organisations. The tourists became 'institutionalised', arriving in increasing numbers, and

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1. Butler states that he based these ideas on Norhona, R. (1976), 'Review of the Sociological Literature on Tourism.' New York: World Bank.

STAGES IN THE ORGANIC DEVELOPMENT OF A PERIPHERAL TOURIST INDUSTRY

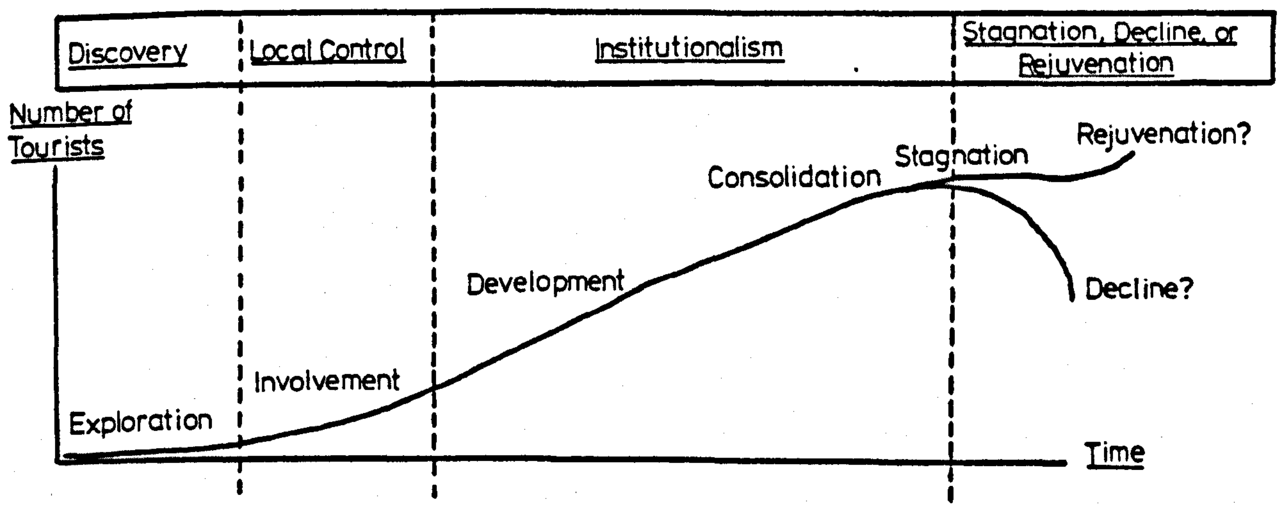


Figure 13.4

Source: Butler (1980)

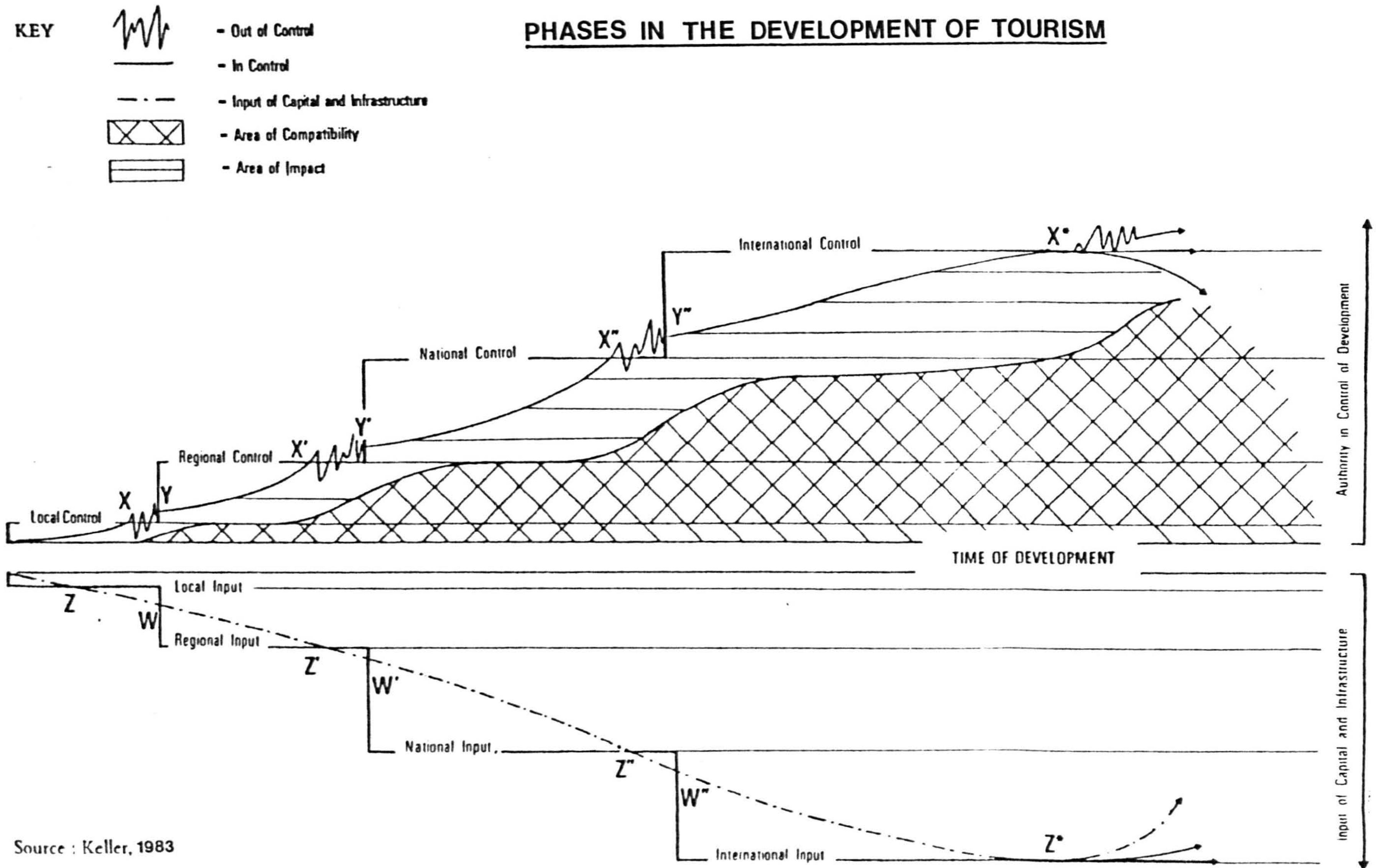
taking advantage of package deals. With the onset of mass tourism, the natural and cultural features which originally encouraged the tourism were increasingly dwarfed or destroyed by the new institutionalised facilities, which themselves became the major tourist attractions to many visitors.

By the 'consolidation' stage, efforts are usually being made to eradicate the very serious problems of seasonality and market concentration. There are also often serious problems as the tourists become increasingly segregated from the indigenous populace, which is often displaced in favour of the all important tourist. The friction that often develops between the tourists and the indigenous population is often serious, and in the long term, damaging to the tourist industry.

Fortunately, the Maltese experience does not seem to have been as negative as has been the case in, for example, the Caribbean, where the hostility of local people towards the tourists has severely damaged the industry. However, the influx of overseas capital into Malta, during the 1960s especially, caused very serious social problems. In particular, the property boom induced by British property speculators excluded most Maltese from buying their own property (see Chapter Seven). Despite this, the segregation problems experienced elsewhere were not encountered in Malta, although most tourist activity is concentrated in the northern half of the main island. This was in part due to the fact that most Maltese speak English, and that most tourists are British. Also, the cultural compatibility of the tourist and native groups is important. Almost 200 years of servicing the British military facilities has clearly had effects that have, on balance, positively influenced the attitude of the Maltese to the predominantly British visitors. Consequently, Malta herself remains a tourist attraction as much as the new tourist facilities provided by the MNCs.

Keller (1983) states that it is during the period of dynamic growth (Butler's Involvement, Development and Consolidation stages) that the tourist sectors of the peripheral countries are taken over by the developed metropolitan centres. In the Maltese case, this occurred between 1966 and 1980. During this period, hotels were built with the assistance of overseas investors. This has resulted in extensive overseas ownership and control of Maltese hotel capacity (see Table 13.2). In addition, the airlines and package tour operators tended also to be predominantly foreign (British) owned, the consequences of which will be discussed shortly. Keller (1983) has produced his own model of the stages of tourism (see Figure 13.5) which seems to fit the Maltese case very well. According to his scheme, Malta's tourist industry has, for a number of years, been under international control. He goes on to support Butler's (1980) view that such external control tends to detract heavily from the benefits of tourist activity in the periphery. Once again, this conclusion would seem to apply in the Maltese case, and will be examined more closely later in this chapter.

Returning to Butler's (1980) stages of development, following 'development' and 'consolidation', there occurs a stage of 'stagnation' in the development process, after which 'decline' becomes a likely possibility. Decline occurs when the tourist centre is no longer able to compete with newer and more dynamic tourist attractions elsewhere. Tourists therefore become fewer, and stay for shorter periods. Butler also states that a change of image and attractions, or the exploitation of new untapped natural attractions, may induce a rejuvenation instead of decline. The important point here is that, because the tourist industry is by this stage



Source : Keller, 1983

Figure 13.5

beyond the control of indigenous businesses and the national authorities, it is often only the controlling overseas enterprises that are in a position to invest in the required rejuvenation. In many cases, it is far easier, and far more lucrative, to transfer their business to newer and more attractive venues. Thus, multinational companies operating within the tourist industries operate in a fashion similar to their counterparts in manufacturing industry. In both cases, activity can be transferred to more profitable areas, much to the detriment of the original locations. Recovery from reversals experienced in tourist activity is therefore likely to be extremely difficult unless some degree of indigenous control is rapidly re-established.

This situation can, unfortunately, be applied to Malta. Statistics for the first 4 months of 1982[1] show that tourist arrivals had fallen by almost one quarter. This represents an enormous decline by any standards, and was caused primarily by the withdrawal of a number of tour operators from Maltese operations. The Maltese authorities, already concerned at the effects of the recession upon the tourist industry, were powerless to prevent this sudden contraction in business. Attempts are being made by the State to recover some of the lost markets, but a lack of control, especially in the field of marketing, remains the major obstacle preventing a reversal of the decline. At the heart of the problem is the fact that the overseas control has led to the complete dominance of one tourist market - Great Britain. The effects of this dominance will be examined in the next section.

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1. Although this period represents only a small part of 1982, reports from Malta (particularly in Maltese newspapers) indicate that the initial losses were consistent with those of the rest of the year. If any recovery was achieved, it was done so with the assistance of cut price holidays, which inevitably have further reduced the benefits accruing from tourism in Malta.

13.4 The Problem of Dependence on the British Market

The strong dependence of the Maltese tourist industry upon the British tourist market means that apparently minor political and economic decisions made in Great Britain may have major repercussions in Malta. Thus, the decision by the British Government in 1966 to place a £50 restriction on Sterling taken outside the Sterling Area was a boost to Malta's economy because of Malta's inclusion within the Sterling Area. This measure was partly responsible for the substantial growth in tourist arrivals that occurred between 1966 and 1969 (see Figure 13.3). However, perhaps more significant was the British Government's decision 4 years later to raise the limit to £300, a move which allowed British tourists to travel elsewhere, and which simultaneously helped to reduce the number of tourist visitors to Malta from Great Britain in the 12 months between January 1970 and 1971 by nearly 10% (Central Bank of Malta 1980).

The dominance of Maltese tourism by British tourists has also become a political problem. As is well illustrated by the decisions concerning Sterling restrictions, a hostile British Government could quite easily impose specific restrictions upon British tourists with the intention of persuading a Maltese Government to alter policy. Given Malta's geo-strategic value, this could be crucial should the Maltese wish, for example, to adopt a less pro-Western attitude. Thus, as a result of the close links that continue to perpetuate the substantial dependence of Malta upon Great Britain, it is likely that any 'de-linking' strategy attempted by Malta may be greeted with suitable hostile and persuasive counter-measures.

This type of situation appears to have occurred in some measure during the early 1970s when Malta's new Prime Minister, Mr. Mintoff, was engaged in aggressive negotiations over the rent and continuation of the British and NATO bases on the Islands. Destructive publicity in Great Britain, and corresponding losses of confidence of tour operators in Malta resulted in a fall in tourist arrivals between 1971 and 1972 of 16%, and a drop of the British tourists' share of total tourist arrivals to a trough of 50% (see Figures 13.2 and 13.3).

Perhaps more disturbing than deliberate interference are the seemingly uncontrollable fluctuations in economic fortune that influence the British economy, which during the late 1970s and early 1980s has been afflicted by a severe and continually worsening recession. The dangerous potential of the dependence of Maltese tourism on Great Britain was well illustrated by the collapse of 2 major tour operators in the early 1970s, the consequences of which added to the problems afflicting the Maltese tourist industry at that time. It was during this period that the decision was made to end the Malta Pound's parity with Sterling, a move which prevented the Maltese economy from being adversely affected by huge variations in the international value of Sterling. The value of the Malta Pound is now determined by the Central Bank of Malta using a mystery 'basket' of foreign currencies.

In retrospect, it seems remarkable that the number of British visitors to Malta rose so sharply during the 1970s, especially in view of the recession conditions afflicting the British markets. When the first signs of decline appeared in 1981, they came as no surprise. However, a drop of one quarter in the first 4 months of 1982 was extremely alarming, and showed that it was possible for tourism to contract as fast as it had grown. On top of the recessionary conditions (which have proved to be most damaging to the mass tourist classes on which much of the

Maltese tourist industry depends), strong competition from other Mediterranean resort countries (such as Greece), and an apparently over-valued Malta Pound, are the most common explanations for the current crisis. Also of importance is the damage done to the valuable regular returnee tourist market by the chronic summer water shortages which were worse than ever during 1981. In this context, it could be said that, to some extent, the over-development of Maltese tourism has led to the destruction of the Islands' major attractions.

Solving the water problem is relatively simple compared with eradicating British market dominance. Indeed, the construction of a reverse osmosis desalination plant has already alleviated the water crisis to a considerable degree. In comparison, the continuous attempts during the last 15 years to diversify the tourist markets have failed miserably. The Central Bank of Malta (1980 , p.26) explains that, '...the diversification programme is often frustrated in the brisk years by the aggressiveness displayed by British tour operators in securing allocations of beds, and by their strong bargaining position vis a vis hoteliers and owners of holiday premises.' Thus, in the years of most vigorously attempted diversification, the British share of tourist arrivals soared from 61% in 1971 to 76.5% in 1980 (see Figure 13.2). In the same period, Italy, the second largest tourist market, retained her second position, but experienced a slump from 10% to a meagre 3.7% of total tourist intake. Meanwhile, West Germany, one of the priority target areas of the diversification publicity programme, never accounted for more than 6.3% of tourist arrivals, providing only 2.6% of tourists in 1980.

The destructive potential of the British market dominance is perhaps best illustrated by tourist arrival statistics for each of the first 4 months of 1982 (see Table 13.1). These show that there was a decline of 24.1% in total tourist arrivals on the first 4 months of 1981. Further examination of the statistics reveals that the decline in British tourists represented no less than 96.8% of the total decline in tourist arrivals. Moreover, in 2 of the 4 months under scrutiny, the British decline was larger than the total decline in tourist arrivals,

Table 13.1 Tourist Arrival Data for January - April 1982

	Total Tourist Arrivals			British Arrivals		U.K. Decline
Months	Total Arrivals	Decline on 1981	% Decline	Decline on 1981	% Decline	as % of Total Decline
January	20,257	-6,757	-25.0	-7,505	-39.3	111.1
February	22,670	-10,256	-31.1	-10,008	-43.9	97.6
March	38,151	-8,256	-18.0	-8,777	-27.4	105.0
April	42,200	-13,847	-24.7	-11,666	-31.7	84.0
Total	123,278	-39,217	-24.1	-37,956	-34.1	96.8

indicating that decline in the British market more than cancelled out the encouraging advances of other markets. It seems that the British market declined by over one third during this period. If sustained during the remainder of 1982, this decline must have severely damaged the Maltese economy as a whole.

On top of the problem of falling tourist numbers is one of declining benefits from tourist activity. This will be discussed in the next section of this chapter.

13.5 The Economic Value of Tourism

In supporting a new tourist sector, successive Maltese Governments have generally assumed that widespread benefits will ensue, far outweighing the economic, social and cultural costs incurred. Of the benefits of tourism, new employment is seen as one of the most important. For example, employment in hotels alone has risen from 438 in 1960 to 5,159 in 1980 (see Figure 13.6). However, the hotels sector in particular performed disappointingly after impressive employment growth in the late 1960s. Part of the problem was identified as that of the seasonal nature of the trade, which resulted in the reluctance of hotels and other tourist businesses to take on extra permanent staff.

Much of the seasonality problem emanated from the traditional rigid preference of the dominant British tourist markets for the hot summer months. The problem has been alleviated slightly by the introduction of cheap off-peak holidays which have appealed to the recession afflicted British tourists. More important has been the Maltese Government's introduction of laws determining minimum staff levels in hotels. Under the new legislation, high class hotels are obliged to maintain staff/bed ratios that are substantially greater than is the case in the less exotic hotel categories. The new laws have greatly improved the hotel employment levels since 1975 (see Figure 13.6). This type of legislation illustrates well the potential of carefully conceived Government intervention.

Hotels are not the only source of new employment within the tourist sector. Examples of new jobs emerging from tourist related services include those in catering establishments, which rose by 59% between January 1978 and September 1980 (Office of the Prime Minister 1980), reaching a total of 1,583. In addition, there has been less detectable, but nevertheless important employment growth in activities less formally linked to tourism, including the distributive trades, and food and beverage industries. There have also been very positive effects upon

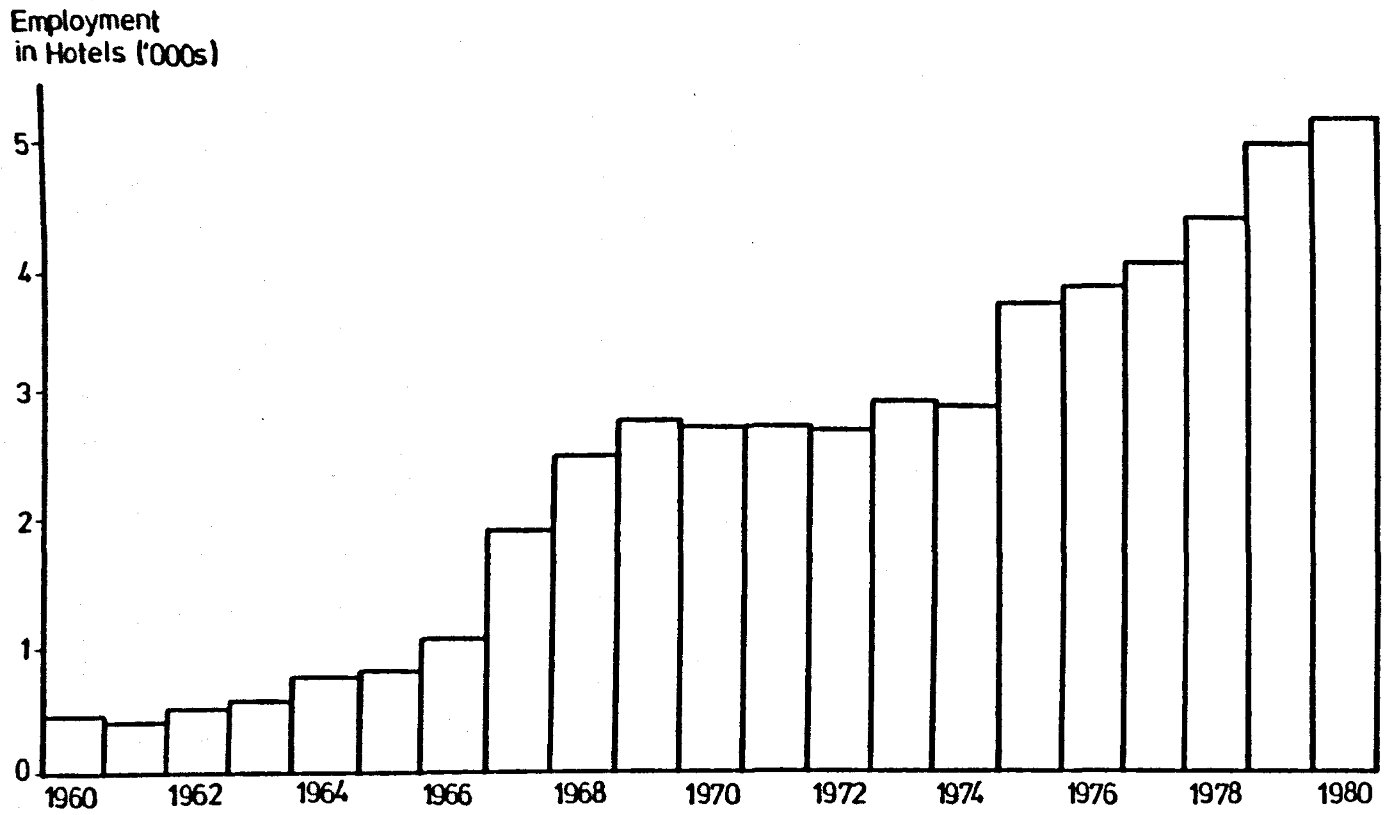

Figure 13.6 Hotel Employment 1960-80

Source: Central Bank of Malta (1980)

local arts and crafts, especially good examples including lacemaking, weaving and pottery industries. Thus, at least some of Metwally's (1977 a) desirable multiplier effects have materialised.

The fact that tourists accounted for 17.3% of total consumer expenditure in Malta in 1974 (Central Office of Statistics 1974), and as much as 30.7% in 1980 (Central Office of Statistics 1980) (see Figure 13.7), implies that the growth of tourist activity must have had considerable employment and income multiplier effects in recent years, and is perhaps a useful measure of the growing importance of the tourist sector in the Maltese economy (Metwally 1977a). However, it is estimated that the import content in tourist expenditure now amounts to well over 50%, the local content of tourist revenue in 1976, for example, only accounting for 44% of tourist expenditure (Grech 1978). The Central Bank of Malta estimates, therefore, that the net economic contribution of tourism to the GDP is only likely to be approximately 10%[1].

A large proportion of tourist expenditure is inevitably on accommodation. Significantly, British tourists in particular enjoy the financial savings associated with self-catering accommodation, a fact that is especially relevant in view of the continued decline in living standards in Great Britain. By 1978, World Tourism Statistics revealed that, of the total tourist arrivals in Malta, only 54% stayed in hotels, and that of the British tourist arrivals of that year, only 49% opted for hotel accommodation (World Tourism Organisation 1978). The fact that so

1. The vague nature of these statistics illustrates a further problem of tourist activity. Measuring the progress of tourism is extremely difficult as its numerous activities and manifestations fall into different economic sectors, and are often inseparable from aggregate statistics.

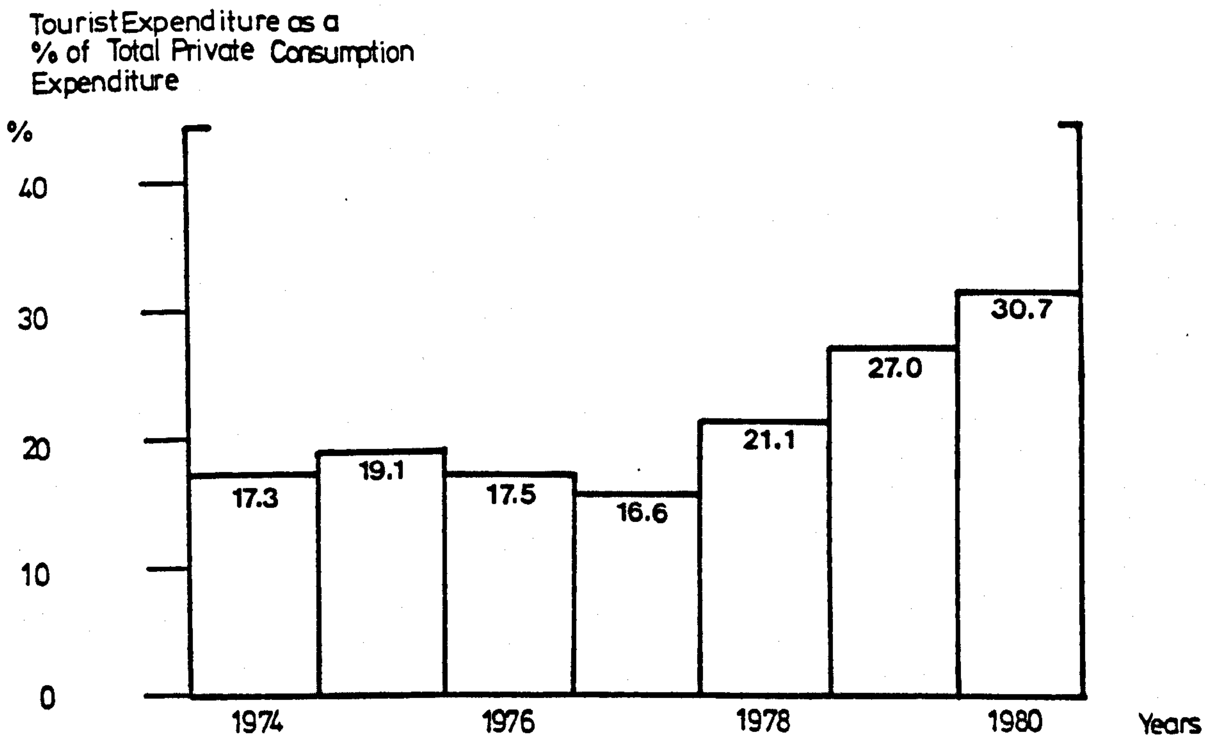

Figure 13.7 Tourist Expenditure 1974-80

Source: Central Office of Statistics (1980) many visitors now spurn hotel accommodation in favour of flats and villas in order to save money is an increasingly disturbing phenomenon which suggests that as Maltese tourism has expanded, so its income and employment multiplier effects have been eroded. Furthermore, according to statistics published by the Mid Med Bank (1980b), in 1978, non-hotel accommodation accounted for 66.9% of tourist accommodation capacity.

The ownership of tourist accommodation also determines to a great extent the local benefits accruing from tourist activity. If accommodation is foreign owned, a large proportion of the profits generated is likely to be repatriated to overseas investors. As has already been discussed, the development phases of Maltese tourism involved substantial MNC capital penetration which has affected the hotels sector. Unfortunately, determining the exact proportions of overseas investment in the various categories of Maltese hotels is rendered extremely difficult because of the variety of company names under which the hotels operate, and their complex intertwined networks of co-ownership. Nevertheless, with the aid of material kindly provided through the University of Malta, it was possible to trace the names of the hotel companies, and then to provide some idea of the extent to which foreign ownership persisted in Maltese hotels in 1977 (see Table 13.2)[1].

Of greatest interest in Table 13.2 is the De Luxe Class, whose hotels are apparently over 80% foreign owned. These are the largest hotels in the Islands, and by virtue of their quality and status, are the most expensive. Unfortunately, in many instances, determining the nationality of individual companies was extremely difficult as they were literally

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1. Ownership figures were gained with the kind assistance of the personnel of the Department of Trade, Lascaris, who kindly provided access to the necessary company files.

multinational. For this reason, ownership has been classified as 'Maltese' or 'Foreign'. However, it is surprising that many of the foreign owned hotels were not British. Thus, in addition to numerous British owned hotel enterprises, there seemed to be an extremely strong American and Libyan presence. Fortunately, the much more modest

Table 13.2 Hotel Ownership, Establishments and Average Size, by Category (1977).

Hotel Category	No. of Hotels	Ave. No. of Beds	% of Total Beddage	% Foreign Owned	
De Luxe	6	327	21	83	
Ia	4	270	12	40	
Ib	5	181	10	2	
IIa	15	156	25	44	
IIb	23	82	20	25	
III	19	47	10	9*	
IV	8	32	2	19*	
				40	Total

* In Classes III and IV, sole proprietors and family owned enterprises were assumed, for statistical purposes, to be entirely Maltese owned.

(N.B. Although total ownership data gained from the Department of Trade was for 1980, no hotels registered since 1977 have been included in the statistics.)

foreign interests detected in other hotel categories is encouraging, indicating that the Maltese still control a sizeable proportion of their less salubrious hotel capacity.

It is, unfortunately, impossible to determine the degree to which overseas interests have penetrated the self-catering (non-hotel) sector of tourist accommodation, especially in view of the even more diverse and fragmented nature of this sector. However, although the particularly strong British interests in Maltese property (which developed during the property boom of the late 1960s) have subsided considerably, it is likely that there remains a significant British interest in the non-hotels sector of Maltese tourist accommodation. Nevertheless, the recent conversion of British and NATO barracks (and other buildings - see Plate 13.2) into self-catering accommodation by the Government indicates that there must be an increasing State interest in this type of accommodation.

Whilst much of the tourist expenditure in Malta is likely to be on accommodation, payment for most holidays is usually on a package basis, and includes, amongst other items, the cost of travel to and from Malta (usually by air). Hence, the major participants in package holiday trade include travel agents, package tour operators, and airlines, as well as the hoteliers and other owners of local holiday premises and businesses. In general, it is the package tour operators who have ultimate control over the tourist markets, and as Keller (1983) and Butler (1980) would agree, it is apparently British tour operators whose aggressiveness have ensured that three quarters of annual tourist arrivals in Malta in the past have been British.

The Maltese authorities' lack of control of marketing in the tourist sector seems to be far worse than is the case even in the manufacturing sector, and has been recognised by the Maltese Governments of recent years as a serious problem. One of the means adopted to gain further control of, and benefit from, the tourist markets has been the creation of the State airline, Air Malta, which was formed with the assistance of Pakistan International Airlines in April 1974. The new airline has since taken a considerable share of scheduled and charter flights (mostly relinquished by British Airways), and has established new routes to other countries with whom intensified economic and tourist links are seen to be desirable. Air Malta has also taken majority shareholdings in several package tour companies in a positive attempt to participate more effectively in the tourist markets (Office of the Prime Minister 1980).

There are, meanwhile, encouraging signs that the private sector may be fostering the roots of successful future package tour operations, in some cases, with the assistance of State agencies. If this proves to be the case, then the stabilisation of Maltese tourism may be possible. However, all the indications are that such developments are both too late and too insubstantial to avert the savage decline now afflicting Maltese tourism.

13.6 Non-Economic Issues

There are signs that the development of tourism in Malta has served to enhance spatial inequalities, although the segregation of tourists away from the local population has not occurred (see Figure 13.8). Figure 13.8 shows that nearly all the major hotels of Malta are located in the northern half of the main island. The same distribution applies to the location of restaurants, nightclubs and discoteques, and much of the non-hotel accommodation. It seems, therefore, that the beneficial multiplier effects of tourism are to some extent confined to limited areas of Malta. The less wealthy, predominantly Labour voting southern portion of Malta has few tourist facilities, and in contrast, contains most of the manufacturing centres. Consequently, the full cultural force of tourism is not experienced in the South, which similarly benefits little from enhanced local services.

A commonly sited consequence of the rapid development of tourism in many resort countries has been a corresponding deterioration in the physical

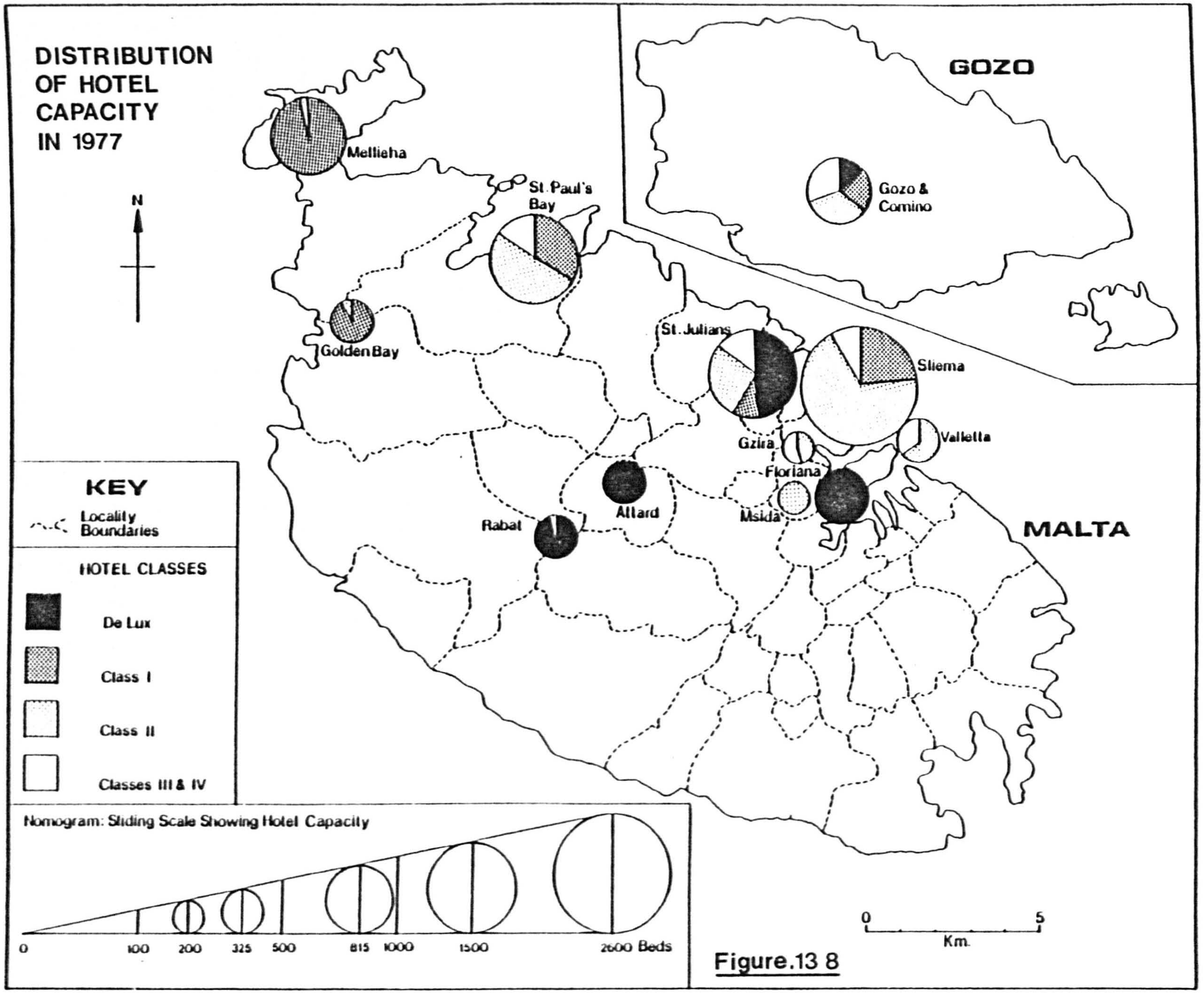
DISTRIBUTION OF HOTEL CAPACITY IN 1977
GOZO
Gozo & Comino
N
Mellieha
St. Paul's Bay
Golden Bay
St. Julians
Sliema
Gzira
Valletta
Floriana
Attard
Msida
Rabat
MALTA
KEY
Locality Boundaries
HOTEL CLASSES
De Lux
Class I
Class II
Classes III & IV
Nomogram: Sliding Scale Showing Hotel Capacity
0
100
200
325
500
815
1000
1500
2600 Beds
0
5
Km.

Figure.13 8

environment. This is not only demonstrated by the increasing strain on existing infrastructure in Malta (such as water and electricity supplies), but is also illustrated by the unsympathetic and uncontrolled construction of tourist facilities throughout the Maltese Islands. Jones (1972) identified this problem as becoming a potentially very serious threat to the Maltese landscape. He did not see the major hotel sites as being the only major threat (see Plate 13.4). He observed that it is also (and mostly) the numerous space-consuming villas and apartment blocks, which are being built in increasingly prominent places (especially in the north of Malta), that seem to cause serious problems.

The destruction of traditional lifestyles and values by the development of tourism is inevitable. In resort countries such as Malta, tourism encourages the accelerated acceptance of alien metropolitan values and tastes, a process that has been referred to as 'cocacolonisation' (Levitt 1970). The Maltese have had to tolerate the invasion of obscure foods, such as the 'cornish pastie', and worse, have witnessed the arrival of chains of 'Wimpey Bars'. Keller (1983, citing Doxey 1976 and Cohen 1972) extends his temporal analysis to show that with increasing unsympathetic overseas control, the growth of tourism is increasingly resented by the indigenous population (see Figure 13.9). This does not seem to have happened in Malta. Instead, little segregation has occurred, and the Maltese seem to have eagerly adopted many of the tastes of the visiting tourists, including cornish pasties.

The general change that has resulted is nowhere more apparent than in external attire, and clothing is now much more colourful, brief and provocative, much to the disapproval of the older generations. Family conflict has increased as new values have infiltrated to widen the

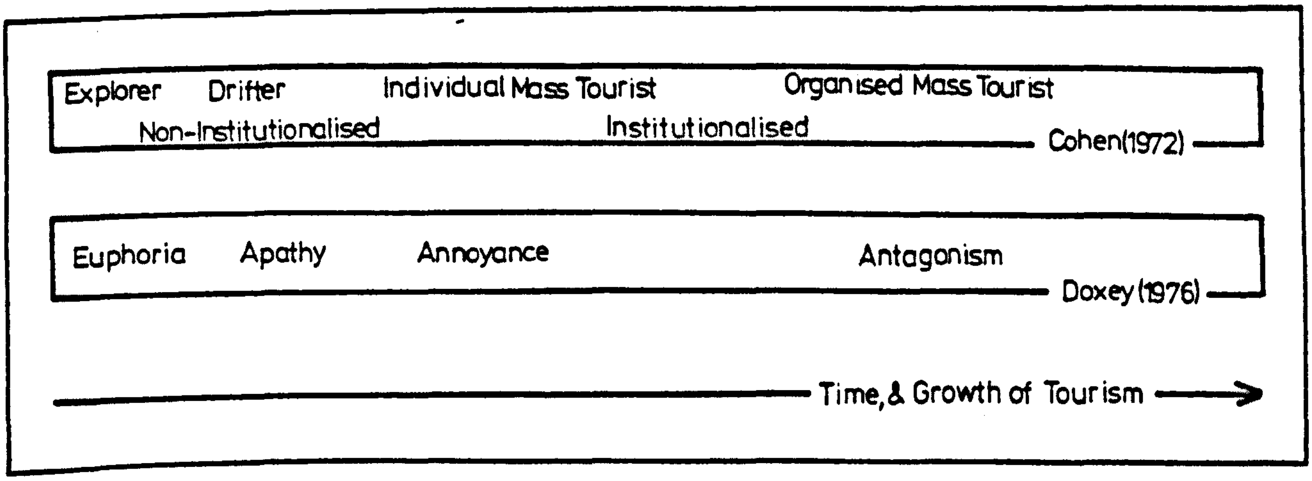

Figure 13.9 Tourism Development Models

Source: Keller (1983)

generation gap, and traditional Catholic standards of behaviour have gradually been eroded. It must be remembered that tourists come to Malta for leisure, pleasure and relaxation purposes, imposing a perpetual holiday atmosphere upon the Maltese community. Such is the effect of the new tourist activity that '...undoubtedly, the Maltese themselves do not realise how fundamentally their way of life has altered in the last decade' (Busuttil 1971a, p27).

One of the major hazards of tourist activity is that it can lead to the commercialisation of social relations and cultural manifestations (Boissevain 1977b). In Malta, the glorious village feasts (fests) are now frequented by thousands of tourists, but surprisingly, the villages generally seem to enjoy the presence of the foreigners, and have even in some cases changed the traditional dates of the festivals in order that they may coincide with more popular tourist months. In contrast to the experiences of other resort countries, it seems that in Malta, tourism is helping to create a new feeling of individuality, especially in the rural communities. Very positive effects upon arts and crafts in particular have enabled the Maltese to discover their own cultural heritage. Tourism has therefore given the Maltese pride and identity always previously denied by colonial military status (Busuttil 1971a).

The ease with which Maltese society has coped with tourism until now suggests that tourism itself has not, and will not become a source of internal political instability. However, recent events within Malta suggest that political instability (produced by the anomolous general election results of December 1981) is becoming an increasingly serious threat to the stability and prosperity of tourism. This is ironic as it was, to some extent, political instability in the 1970s in competing

Mediterranean resort countries which allowed Malta to develop her own tourist industry so dramatically (see Figure 13.1). The Iberian peninsula , for example, suffered severely, first as a result of the coup in Portugal in 1974, and then the death during the following year of General Franco in neighbouring Spain. In Portugal, subsequent uncertainty and instability helped to reduce tourist arrivals from 7,893,400 in 1974 to only 887,700 in 1975 (United Nations 1980/81).

Other Mediterranean resorts such as Greece have suffered similarly, and the arrival on Cyprus in 1974 of several thousand armed Turkish personnel seemed to discourage other visitors for several years[1]. Cyprus, Spain, Portugal and Greece in particular have all recovered much of their markets, and in some cases, have improved upon their earlier positions. Unfortunately, in the case of Malta, political squabbles and accompanying violent incidents may quite easily induce a deterioration in the tourist sector similar in gravity to those experienced by Malta's Mediterranean competitors. For this reason, it is essential that the highly unsatisfactory constitution inherited at independence in 1964 is amended so as to prevent a repetition of the disastrous 1981 general elections.

13.7 Conclusions

Recent Maltese Governments have stated that it is their intention to dominate tourism rather than be dominated by it. However, the continuing dominance of the British tourist markets render control over this major source of national income difficult, if not impossible. The situation is rendered more unsatisfactory by the fact that foreign interests allow

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1. In 1973, tourist arrivals in Cyprus amounted to 264,100. After the invasion, in 1975 they had fallen to 47,100.

many of the benefits accruing from tourist activity to be exported, in addition to which tourist spending tends to have a high import content. Bearing this in mind, it seems that one of the most important lessons to have emerged from the Maltese experience is that State intervention and involvement is vital to the future health and stability of the tourist industry, especially in small countries. To date, this has involved the creation of the State airline, and other State owned businesses, and has also led to the establishment of vital monitoring agencies. Obviously, the State believes that if it can emulate some of the achievements of the State dominated 'seacraft sector' (see Chapter Eleven), then some degree of stability should prevail within Maltese tourist activity.

Many Maltese, however, claim that the type of State management experienced recently has been far from satisfactory. They point to the disastrous and often embarassing inadequacy of water supplies in the summer of 1981, and the complete failure of market diversification programmes. Furthermore, it is suggested that the Government, whilst emphasising the desperate need for market diversification, has in fact deliberately fostered and further encouraged flows of British tourists in the interests of short term economic and financial gains. As evidence of the failure of Government policy, critics point to the disastrous beginning to 1982 when tourist arrivals sagged badly. More alarming still is the fact that the apparent demise of the tourist industry has come at a bad time as there have been simulatneous setbacks in manufacturing industry.

Clearly, Maltese tourism and manufacturing industry are both afflicted by the same problem - control by external organisations and institutions. Consequently, neither of the 2 most important sectors in Malta's economy is in a position in which it can control or even influence the markets on which it depends. Both sectors are therefore not functioning in the interests of the Maltese economy, but are in contrast merely contributing to the budgets of multinational enterprise. Of the 2 sectors, tourism is perhaps the more desirable because of its superior linkages with the local economy, and its more tangible multiplier effects (e.g. within the construction sector). Malta is undoubtedly suited to tourist activity, and is particularly suited to the tastes and requirements of British tourists. The problem of British dominance is not that the tourists are British, but is the fact that the marketing organisations which govern the destinations of tourists are British. If the future Maltese Governments can emulate the impressive international marketing achievements of the seacraft sector, then a more stable Maltese tourist industry may emerge. The chances are that,under such circumstances, most of the tourists would still be British, but that the tour operators and air charters bringing them to Malta, and the accommodation in which they stay, would be Maltese owned and controlled.

CONCLUSIONS TO SECTION THREE

The diverse selection of chapters in this section have all shown that there are severe dependent structures prevalent within the Maltese economy. Both in the manufacturing and tourist industries, dependency links have been identified as sources of potentially dangerous structural weakness within Malta's economy. The inclusion of the tourist sector within the analysis has proved to be especially valuable as the dependence with which it has been afflicted appears to be most serious. In both sectors, however, the irony is that little development could have occurred without extensive overseas involvement, and that it is precisely this multinational involvement that has caused the structural weaknesses identified in these chapters. It seems logical to conclude, therefore, that any further line of enquiry should concentrate on questioning whether overseas involvement has been sufficiently controlled and manipulated, rather than whether it should have occurred in the first place.

CONCLUSIONS

CONCLUSIONS

A number of important conclusions can be extracted from this study, and may be divided into 2 broad groups. The first set of conclusions relate to dependency theory itself, and to the lessons learned from the Maltese case concerning the application of the theory. The second, more voluminous set of conclusions relate to Malta itself, and are concerned with the relevance of dependence to the Maltese development experience.

Conclusions Concerning Dependency Theory

1. This study has shown that, although dependency theory is not necessarily a completely coherent or unified body of theory in its own right, it can at least be used to devise a framework of analysis for empirical studies. In the case of Malta, it has been possible in particular to examine and evaluate the role of the MNC in the development process. This study has therefore assumed dependent development to be possible, and has therefore concentrated on examining the quality of the development achieved by successive Maltese Governments. It seems that such an approach to dependence is likely to be more revealing than one which, at the outset, denies the possibility of dependent development.

2. The presence within an economy of structural concentrations in production, overseas ownership, export markets and employment may be seen as a major structural weakness that is likely, in the long term, to induce damaging dependence and severe instability. The most obvious manifestation of the concentration problem is that of sectoral concentration. The Maltese case has shown that an idea of the degree of concentration within an economy can be gained by establishing the proportion of GDP which is accounted for by a group of related products or services. Equally important in the Maltese case, especially as MNCs are heavily involved, is

the extent to which economic activity is owned and controlled by overseas interests. This is especially significant as it is clear that the interests of multinational investors do not necessarily coincide with those of the host countries within which they establish their subsidiary activities.

3. It is clear from the Maltese experience that marketing constitutes one of the most serious problems facing many LDCs. There is inevitably a strong relationship between patterns of overseas ownership and control within the Maltese economy, and the extent and direction of Maltese export trade. Consequently, many of the worrying concentrations of overseas ownership correspond exactly with similar concentrations in export links. This type of situation persists in many other LDCs, and is therefore worthy of further study. Of particular interest is the inability of many countries to establish their own marketing links abroad, and also the extent to which total trade, when aggregated on a national basis, tends to be heavily concentrated with one country - often the ex-colonial power. Such a situation may render the weaker LDC vulnerable to political pressure exerted by the government of a dominant trading partner, or may also have repurcussions should the economy of the dominant trading partner encounter severe reversals in fortune.

4. As a result of the above, strong concentrations in the structure of employment ensue on a sectoral basis. This can be a serious problem for governments whose economies may become dependent upon concentrations in unstable activities; thus, a concentration of output and export trade in, for example, a volatile manufacturing activity, can lead to severe fluctuations in levels of employment, and accompanying social problems. Such difficulties may be exacerbated if overseas controlled enterprises

act entirely in their own interests, thereby ignoring the social costs incurred by their decisions.

5. Assuming the Maltese experience to be applicable to many LDCs (especially small countries), it seems that the indiscriminate attraction of MNC subsdiaries by LDCs seeking externally induced economic development can be a major cause of the structural concentrations and dependence currently prevalent within many economies. This is ironic as it is usually the perceived need for economic diversification which prompts governments to embark upon such development strategies. Unfortunately, it seems that MNC manufacturing subsidiaries fail to generate secondary activity during their residence in LDCs. In contrast, their heavily staged activities encourage linkages almost exclusively with their parent companies. The complete lack of internal linkages (apart from labour) with the often more traditional host economy indicates the existence of a 'dual economy' in many LDCs - a major symptom of dependence. The much desired income and employment multiplier effects of MNC activity are therefore often not as great as is hoped, although the direct provision of employment by the MNCs is usually greatly appreciated.

6. Dependency theory may therefore be employed directly to examine and assess the importance of structural concentrations in an economy, and the degree of integration (as indicated by the presence of local linkages) within the same economy. Further important considerations emanating from the dependency literature include the influence of MNC induced development upon a nation's balance of payments, its socio-economic structure, and, more specifically, its income distribution. Of equal significance are assessments of the importance of transfer pricing activities by MNCs, and

the potency of government when faced with the often persuasive bargaining strength of the MNCs.

7. Of the many facets of dependence applicable in empirical studies, cultural dependence is perhaps the most difficult to pursue. This is attributable to the largely abstract and subjective nature of cultural dependence. Measurement is therefore difficult, but the case of Malta demonstrates that external cultural influences can be important. MNCs are undoubtedly responsible for a substantial proportion of imported alien culture in Malta, especially through their activities in the tourist sector. However, the strength of surviving colonial structures, and the prolonged post-independence presence of the British fortress, render an assessment of the role of MNCs in the enhancement of Maltese cultural dependence difficult. Similar problems are likely to apply in the study of other countries.

8. One of the problems of the dependency literature has been its inability to provide solutions to the problems induced by dependence. Most contributions imply that dependence is a 'bad thing', and that it should be eliminated. The advantage of empirical studies of dependence is that they emphasise the fact that dependence need not necessarily be a wholly undesirable condition, and that no prescriptive measures are likely to be able to eliminate dependence completely, especially in small countries such as Malta.

9. The case of Malta has shown that it is essential to consider the basic geographical characteristics of countries when examining dependency structures and designing a suitable economic strategy. Factors such as natural resource endowment, situation and geostrategic value are extremely important. However, size has proved to be one of the most important

factors governing Malta's dependence, as well as her means of coping with that dependence. For small countries such as Malta, dependence is unavoidable. Smallness results in deficiencies in physical and human resources, an inability to achieve scale economies, and a corresponding pattern of concentrations in production. In many cases (excluding some of the more successful small NICs such as Singapore), it also helps to ensure a profoundly weak trading position in which the small country remains a price-taker, and is never able to influence the markets on which it depends. Eradicating dependence in small countries is impossible, as is well illustrated by the often dangerous consequences of vigorous delinking strategies elsewhere in the world (e.g. Jamaica). Alternative strategies are necessary, which in effect involve the diversification and manipulation of dependency links, and simultaneous reductions in the dangerous structural concentrations which frequently develop in small less developed economies. Dependency theory may therefore be used prescriptively to help countries cope with, and even exploit their dependence.

10. In small countries especially, it is clear that, despite the inevitable development of dependent structures, the attraction of MNCs is vital if major industrial and service development is to be successfully established. The experiences of Malta have shown that in many small countries, most crucial factors of production (including capital, technology, raw materials and entrepreneurial impetus) are absent, and must therefore be imported. Equally important is the inadequacy of the internal markets of small countries, which hinders the creation of import substitution industries, and encourages dependence upon external markets for businesses seeking economies of scale. In this context, it seems that market acquisition is itself a serious problem facing most LDCs, and once again, that MNCs often provide the best means of obtaining market

outlets, both for industrial goods and international services (such as tourism).

Given that the attraction of MNC subsidiaries is unavoidable, it is essential that a complementary and beneficial blend of MNC activities is encouraged. Thus it is important that the MNC attraction is selective, and that the development of dangerous dependent structures is avoided through the prevention of undesirable concentrations in overseas ownership, export markets, production and employment. It seems that under these circumstances, strong State intervention is necessary if the desired indigenous control over the development process is to be retained.

11. Dependency theory may therefore be employed as a means of planning and assessing a country's development programme. In this case, it has been used to assess Malta's development strategies, particularly with respect to the role of MNCs. The section that follows contains conclusions concerning Malta's development experiences, and the role of MNCs in Maltese development.

Conclusions Concerning Maltese Development

1. Malta is an extremely small country with an extremely small economy. Whilst it is perhaps reasonable to expect larger countries, with more substantial human and physical resources at their disposal, to attempt a more autonomous development strategy, Malta has, since independence, been heavily and unavoidably dependent upon external sources for capital investment, technology, entrepreneurial impetus and markets. Thus, although many dependency theorists assume that the elimination of dependency links is a vital component of any development strategy, the Maltese case illustrates that elimination is often impossible, and that

some countries are forced to tolerate conditions of extreme dependence.

Despite this apparent handicap, Malta appears to have attained many of its development goals (both in economic and social terms), and to have achieved the 'dependent development' that so much of dependency theory claims to be impossible. However, the extreme nature of Malta's dependence has without doubt devalued much of the development achieved since 1964. Consequently, in this study, it has been possible to use dependency theory to assess the value of Maltese post-independence development - an approach that differs radically from most uses of dependency theory, which prefer to concentrate on the impossibility of dependent development.

2. Malta has emerged from almost 2 decades of independence with a severely distorted economic structure. The current pattern of economic activity in the Islands is directly attributable to the policies of successive Governments of both Parties, which, despite displaying widely differing labels, have involved the concerted attraction of overseas-owned and overseas-controlled export-oriented manufacturing industry, and the development of an overseas-controlled tourist industry.

3. Both Nationalist Party and Malta Labour Party Governments have achieved their broad aims of enlarging the Maltese manufacturing sector, but have in the process surrendered the initiative to MNCs, which in turn has encouraged the development of undesirable concentrations within the manufacturing sector.

One of the most obvious concentrations has occurred in manufacturing output, of which 36% was accounted for by the textiles sector by 1980. The only other manufacturing sector to show significant growth has been metals, much of this advance being in electronics industries. Both the textiles sector and electronics based activities have been shown to be volatile, fluctuating industries, a fact which indicates that excess dependence upon them is highly undesirable.

4. The labour intensive nature of the textiles and electronics activities has resulted in a corresponding concentration in the employment structure of Maltese manufacturing. The creation of employment has been a major priority of all post-independence Maltese Governments. However, the concentration of the new employment in such unstable industries gives cause for great concern. Furthermore, the fact that the new industries have in most cases opted to employ young, semi-skilled and female labour instead of the experienced, redundant male workers for whom the Government industrial attraction policy was devised, has been disappointing.

5. Although it must be accepted that indigenous factors were unable to generate the desired new manufacturing industry alone, by attracting overseas MNC subsidiaries, successive Maltese Governments have lost much of their influence and control over the new manufacturing sector. Ownership data for manufacturing industry has revealed that, especially in the leading sectors, British, American, and latterly, West German interests dominate. In most cases, it is also apparent that official Government statistics underestimate the direct control that overseas interests have over Maltese industrial output and employment. Unfortunately, it is difficult to ensure that the perceived interests of the nation coincide with those of the MNCs operating in Malta. This is particularly worrying given the already volatile nature of the industries involved.

6. Perhaps the most disturbing concentration to have developed within the structure of the manufacturing sector is that of overseas markets, the current distorted pattern of trade clearly resulting primarily from the domination of overseas interests in Maltese manufacturing activity. By 1980, 82% of exports found their way to E.E.C. markets. Much of the trade occurred between MNC parents and their subsidiaries. Most alarming was the fact that, in the comparatively few cases were Maltese companies exported their produce, they too depended almost entirely upon MNCs for their marketing activities. Furthermore, as a result of the distorted pattern of output within Maltese manufacturing, Maltese exports remain confined to a restricted range of mostly textile goods. Consequently, a complete lack of Maltese control in the marketing sphere, the strong dominance of E.E.C. market destinations, and the very limited range of products exported by the Maltese economy constitutes a highly unsatisfactory and dependent situation.

7. There is no doubt that tourism represents a welcome addition to the Maltese economy, and that it constitutes a vital component in the post-independence diversification programme. It is, nevertheless, disappointing that tourism displays serious structural concentrations similar to those of the manufacturing sector. Indeed, as far as markets are concerned, tourism is in a very much more serious situation than manufacturing activity. Tourism is a highly sensitive activity, the potential for wild market fluctuations, in general, remaining much greater than is the case for other activities. Moreover, in the Maltese case, by 1980, over three quarters of all tourist arrivals originated in Great Britain (over 90% originating from the E.E.C. as a whole). The current dependence afflicting Maltese tourism may be attributed to the control of Maltese tourist activity by overseas tour operators, the bulk of which are British.

8. As is the case in most economies attempting overseas induced economic development, it is hoped that the introduction of MNC subsidiary activity will help create a well integrated economy. The key to such an achievement is seen as the development of local linkages that bind the new activities to the domestic sector of the economy. This rarely occurs in LDCs, and the overseas industries tend to remain largely separate from the local economy. This situation has occurred in Malta, where a type of dual economy now exists. Malta's new industries are spatially segregated from most indigenous activity, operate on a different scale to most local industry, export almost all their output, and usually do no business with local companies. They therefore induce little extra activity on their arrival, and consequently fail to realise the desired employment and income multiplier effects expected in the official Maltese policy documents. On a positive note, however, the extreme lack of linkages has its advantages as, in the current world recessionary conditions, the closure of a Maltese factory is unlikely to have serious negative multiplier effects. Significantly, the only dynamic areas of the Maltese economy to show substantial internal linkages are the dockyards, and the unstable tourist industry.

9. To many dependency theorists, the structural concentrations evident within the Maltese economy, and the corresponding absence of internal linkages, would indicate the existence of damaging dependent structures. However, some of the other common ingredients of a classically dependent economy are absent in the Maltese case. For example, there is no evidence that the arrival of MNC subsidiary plants has displaced indigenous activity. Indeed, although a dual economy may be said to exist in Malta, there is no sign that the modern, overseas controlled sector of manufacturing industry is incompatible with the indigenous

sector. This may be explained in some measure by the fact that nearly all the MNC subsidiaries are export-oriented, and that they do not compete with indigenous enterprise for the domestic market.

MNCsare usually attracted to LDC economies in the hope that they will be able to attract valuable foreign exchange to such countries. For a variety of reasons, dependency theorists maintain that in the long term, MNCs encourage the reverse situation, inducing a loss to the domestic economy of foreign exchange earnings. Fortunately, in the Maltese case, this does not seem to have occurred to excess, and the Maltese balance of payments has consequently remained in surplus in most years since the late 1960s. This is impressive, particularly in view of the fact that the close relationship between MNC parents and their subsidiaries has inevitably permitted transfer pricing activities.

Dependency theorists may also be surprised to observe that in Malta, there is no evidence to suggest that the new MNC activities have encouraged the development of new class groupings. Furthermore, there is little evidence to suggest that they have worsened the income distribution in the Islands. In contrast, it seems that in the last decade especially, firm interventionist Government policy has ensured that incomes have converged, an achievement which has substantially assisted the poorer classes.

Although it seems that the power of the Maltese Governments may have been sufficient to eliminate some of the less desirable consequences of MNC activities in Malta, there is little evidence to suggest that their bargaining power over MNCs is strong. As is the case in other LDCs, the

Government in Malta is generally unable to impose terms on overseas investors, and equally important, is rarely able to prevent the arbitrary closure of Maltese plants by disinterested MNC parent organisations.

10. Of all the manifestations of dependence, cultural dependence is probably the most difficult to assess. Malta clearly regards itself as part of Europe, as is illustrated by many Maltese citizens' apparent dislike of north African (particularly Libyan) visitors. There is little doubt that Maltese cultural dependence upon Europe (particularly Great Britain), has been reinforced by her *prolonged colonial experience*, and the continuation of the British fortress in Malta long after independence in 1964. In addition, the strong influence of the British dominated tourist industry should not be underestimated. There remains in Malta, therefore, a positive prejudice in favour of British goods especially. Thus, despite increasingly severe import restrictions, many Maltese consumers still prefer British goods (particularly food and confectionary goods), and many Maltese entrepreneurs still prefer British capital equipment (if they can obtain it).

11. Countering dependence in the Maltese Islands has been complicated by the extremely small size of the Maltese economy. As has already been observed, the capacity for indigenous economic development has never seemed great, and the decision to depend upon multinational enterprise as the major force in the development programme appears to have been unavoidable. It can only be concluded that successive Maltese Governments have never been in a position in which the elimination of dependence has been possible. The only option has consequently been one of attempting to manipulate and diversify dependency links, and in some cases, to sever some of the more undesirable links. Such a policy would be expected to involve the

adoption of a controlled delinking strategy, and the diversification of the economy, thereby reducing, where possible, the more serious structural concentrations in the economy. It seems that recent MLP Governments in particular have adopted this type of development strategy, although their success has clearly been limited, particularly with respect to economic diversification, and the reductions of the now enormous structural concentrations in the economy.

12. To many British observers, especially those who are unaware of the strong links which continue to bind the Maltese economy to the British economy (particularly in the tourist industry), Malta has in the last decade adopted a vigorous delinking strategy. Manifestations of this strategy include the official break with Sterling, and the aggressive way in which Malta greeted negotiations concerning the continuation of the British fortress in 1972. It is strange that the majority of the British public still incorrectly believes that the Maltese expelled the British and NATO forces from the Islands in 1979. This was not the case, and it is similarly not the case that the Maltese people have adopted an anti-British attitude. If a genuinely anti-British attitude were to develop in Malta, it would seriously damage both the tourist and manufacturing sectors of the economy.

13. The loss of the British fortress has, however, been significant in the diplomatic sphere. Malta now has an entirely rejuvenated attitude to international politics, and is a fully-fledged non-aligned state. Increased 'cooperation' between Malta and the Eastern Bloc countries, and most important, the Arab world, has helped diversify Malta's sources of aid, although it has as yet done only a little to broaden Malta's trade links. Malta therefore no longer perceives its importance in the

Mediterranean in terms of geostrategic value, but prefers to think of itslef in peaceful terms as a 'Euro-Arab Bridge'. This explains a recent Government decision to make the teaching of Arabic compulsory in Maltese schools. It is possible that such decisions may go some way towards diluting the dominant British culture which continues to influence the Islands.

14. Recent Maltese Governments have undoubtedly made great progress in the social sphere. Through the application of strongly interventionist social policy, MLP Governments since 1971 have reduced income inequalities, reduced unemployment by creating the Labour Corps, and countered severe housing shortages by implementing a major housebuilding programme. Their activities have therefore benefitted the most disadvantaged groups of the Maltese population. Simultaneously, as a result of a series of unpleasant clashes, the MLP Governments have further reduced the power of the Church in Maltese politics. It is unfortunate that such successes have not been repeated effectively in the economic sphere. However, the internal political instability that has occurred within Malta during the last 11 years indicates that a similar approach to the economy could have done more harm than good.

15. Since the peak of 1980, it seems that Malta has begun to pay the penalty for permitting the uncontrolled development of dependent and highly concentrated structures within her economy. The latest figures to be published by the Central Bank of Malta (1983) show that during 1982, unemployment jumped from 5.3% to 8.5% - the highest rate on record since 1960. This increase constitutes a rise in the number of Maltese unemployed of 82.3% in 12 months. Simultaneously, the disturbing downward trend in tourist arrivals in the first 4 months of 1982 (see Chapter

Thirteen) worsened in the next 3 months up to the beginning of August, indicating a fall of almost one third. The British shortfall continued to account for over 90% of the total decline in tourist arrivals.

The latest figures from the Central Bank indicate that Malta is facing a very severe crisis. Increases in unemployment, and decreases in tourist arrivals show at least that the tourist sector is in difficulties. However, unofficial reports indicate that much of the new unemployment has been caused by difficulties in the manufacturing sector. The only bright light amidst the gloom is provided by the State-owned and controlled dockyards, which still appear to be working at full capacity, and to have overcome mounting recessionary pressures.

16. Finally, the Maltese Islands at independence in 1964, and the Maltese Islands of the early 1980s, were both faced with serious crises. Malta in 1964 was faced with the task of trying to shake off its colonial dependence, and reduce its dependence upon the dying fortress sector. Help in the diversification process was comparatively plentiful, and was provided by the British Government. In the 1980s, Malta is once again trying to diversify her economy, this time away from an unhealthy dependence upon tourism, textile manufacturing activities, and the multinational companies that control these vital sectors of the economy. Although the dependence of the 2 periods is markedly different in character, the problems of economic diversification remain similar. Nevertheless, in the 1980s, Malta cannot rely upon substantial British aid, and is also forced to contend with hostile world markets which were rather friendlier in the 1960s. Consequently, despite substantially increased living standards, the dependency structures of contemporary Malta are rather more debilitating than those which faced the Maltese Government at independence in 1964.

APPENDIX

DEPARTMENT OF GEOGRAPHY

UNIVERSITY OF GLASGOW

GLASGOW G12 8QQ

SCOTLAND

INDUSTRIAL SURVEY OF THE MALTESE ISLANDS

DISCLAIMER

The information obtained in the following questionnaire is NOT for publication. It is not to be used for commercial or political purposes, and is entirely academic in nature, contributing substantially towards a crucial part of the enquirer's doctorate research. All the information gained will be treated with the utmost confidentiality.

SECTION ONE: GENERAL INFORMATION

1. What is the Maltese registered name of your firm? Please state the firm's address:-

   ....

   ....

   ....

2. Are you a subsidiary company or a branch of any other firm?

   YES NO

   If YES, please give the name, address and nationality of your parent company:-

   Name: ....

   Address: ....

   Nationality: ....

3. What are your main products? ....

....

4. In what year did your company begin production in Malta? ....

SECTION TWO: GOVERNMENT INCENTIVES

1. Have you ever received Maltese Government assistance? YES NO

If YES, please tick any of the list of incentives below that you received:-

Interest free, or low interest loans	Factory Provision
Grants	Cheap factory rent
10 year tax holiday	Reinvestment tax allowance
Import duty concessions	Other forms of aid? Please describe:-
	....
	....

SECTION THREE: EMPLOYMENT

1. How many persons do you employ? Total: .... Male: ....

Female: ....

2. What is the largest number of persons that you have ever employed, and when?

Maximum Number of Employees: .... Year: ....

3. What is your standard operative's weekly wage? M£...............

4. How many expatriate persons do you employ? ....

SECTION FOUR: PRODUCTION AND TRADE

1. What was the total value of output of your plant during 1979?

M£...................

2. What proportion of your output was exported in 1979? ....%

3. If you do export, please list the countries to which you exported in 1979, and the approximate proportions of your exports that went to each country:-

....%

....%

....%

....%

SECTION FIVE: LOCAL LINKAGES

1. Do you obtain inputs to your production processes from any other manufacturers operating in Malta?

YES NO

If YES, please state a) The various inputs ....

....

b) The companies which provide them ......

....

....

c) Their value in 1979 ....

....

2. Do you provide inputs from your production inMalta for any other manufacturers operating in the Maltese Islands?

YES NO

If YES, please state a) The various inputs ....

....

b) The companies with which you provide the inputs

....

....

c) Their value in 1979 ....

....

SECTION SIX: EQUIPMENT

1. Do you employ second-hand machinery? YES NO

   If YES, what proportion (by value) of all your machinery is second hand?

   ....%

2. From which different countries does your equipment originate, and in what proportion?

   ....

   ....

SECTION SEVEN: TRAINING

1. Does your firm have a training policy for:-

   a) Shop floor personnel YES NO

   b) Management Personnel YES NO

   If YES, please elaborate ....

   ....

   ....

SECTION EIGHT: OWNERSHIP

1. What is the total value of your paid up share capital? M£ ......

2. Who, and what nationality are the major share holders?

Share Holder	Nationality	Value	%
....	....	M£	......%
....	....	M£	......%
....	....	M£	......%
....	....	M£	......%
....	....	M£	......%
....	....	M£	......%

SECTION NINE: GENERAL COMMENT

1. What, in your opinion, are the advantages and disadvantages of Malta as an industrial location?

2. Do you have any further comments to make about Malta?

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