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# *Chapter 2*

Business and Investment  
Environment

## Industrial climate

Malta is an attractive destination for industrial investment. Its geographical location, modern infrastructure, adequate and flexible labour supply, and political stability are some of its key advantages.

The manufacturing industry is still strong and currently contributes approximately 17% of GDP. Government's economic policy focuses on assisting industrial players in tapping foreign markets and in restructuring their operations, while targeting new foreign direct investment in high quality, export orientated activities. Target sectors include electronics, pharmaceuticals, healthcare, plastics, rubber, aircraft maintenance and other similar relatively capital-intensive areas generating a higher value added per employee.

As a member of the EU, all products Malta exports to the EU have tariff free access. Malta also benefits from the trade agreements with an extensive network of non-member countries and trading blocs.

The importance of the services sector in the Maltese economy has grown significantly in recent years. One of government's key objectives remains to continue developing Malta into a centre for financial intermediation services with emphasis on insurance, administrative operations for investment services, software development, e-commerce, call centres, distance learning, international reservation systems and electronic exchanges. The financial services sector contributes about 7% of Malta's GDP and the Government is committed to double its contribution by 2015. (Note: software development, e-commerce, call centres are not statistically classified as financial services).

Tourism is another mainstay of the Maltese economy, contributing approximately 20% of GDP. Saturation point in the number of summer months' visitors may possibly already have been reached, and the emphasis is on the diversification and improvement of the tourist product. This trend is supported by the proliferation of new luxury hotels and conference facilities in recent years, the investment in the Grand Harbour cruise liner terminal project and the large scale residential and commercial developments at the Portomaso, Tigne Point, Manoel Island and Cottonera.

During recent years Malta has seen a steep growth in the on-line betting industry, serving foreign markets. Over 300 international remote gaming companies have set up shop in Malta representing about 10% of all online gaming websites. The ICT sector is also experiencing growth, with the Smart City Project promising to develop an IT village making Malta a centre for ICT excellence in the Mediterranean that should generate over 5,000 new jobs. The project's investors are estimated to be investing about USD300 million.

## Framework of industry

The industrial sector consists of a mixture of large enterprises and numerous smaller family-run companies, as well as subsidiaries of mainly European companies that account for most of Malta's export earnings. ST Microelectronics accounts for about half of Malta's merchandise exports, te-sector employer.

The industrial sector benefits from a wide-ranging and competitive fiscal incentives package (see Chapter 3). In addition, Malta Industrial Parks provides modern factories in its ten public industrial estates at commercially attractive rents.

Public share ownership in industrial activities has grown in recent years. 2008 saw around 14 new listings, including three new equities and three new corporate bonds, as well as over 60 government securities. The Exchange now lists 40 companies, counting both equity and corporate debtlistings, on both the main List and the second tier Alternative Companies List. Some of those companies have more than one instrument listed, bringing the total number of listings up to 53, eighteen of which are equities.

## Aims of government policy

### Industrial Policy

The Ministry of Finance, the Economy and Investment issued the National Strategic Reference Framework in December 2006 for the years 2007 - 2013. The report refers to the need to sustain Malta's competitiveness and economic growth prospects. Also the need to further invest in the physical infrastructure of the country, especially in terms of energy, environment and transport and the need to promote further human resource development and raise employment levels. Malta's vision is to promote a competitive, high value adding economy and to achieve sustainable socio-economic development earmarked for a better quality of life.

The Government is committed to address Malta's needs and challenges which include:

- The promotion of indigenous investment and the attraction and consolidation of foreign direct investment, the diversification of the tourism industry market segments as well as the development of the knowledge intensive economic activity in existing and new economic sectors.
- Addressing existing deficiencies in Malta's physical infrastructure in particular those related to the environment, energy, transport and ICT.
- Ensuring quality education and training for all and providing a knowledge and skill development environment which targets the responsive identification of future labour market requirements.

### **Tourism Policy**

The Malta Tourism Authority (MTA) was set up for the licensing, control and monitoring of accommodation and catering establishments, travel agencies, incoming tourism agencies, and destination management as well as organised excursion operators and tourist guides. The MTA is also responsible for marketing the Maltese Islands as a tourist destination and has embarked on a number of marketing campaigns outside Malta and has various representative offices in the major cities throughout Europe.

The marketing focus is discarding the longstanding tag line of Malta being a “sun and sea destination” and is branding Malta as a holiday destination all year round concentrating on attracting tourists for the islands’ culture and history. Malta is also increasing in popularity for Meetings, Incentives, Conferences and Events (MICE) facilities and enjoying increases in various niche markets such as religious, sports, English Language tuition and medical tourism.

Malta has recently recorded an arrival of over 1.3 million tourists annually, excluding the half a million day-trippers arriving on cruise liners. Accessibility to Malta and Gozo has improved with the introduction of low cost airlines and the services of a sea plane connecting Malta and Gozo.

### **Research and Development**

Through the Malta Council for Science and Technology (MCST), Malta promotes investment in Innovation Relay Centres (IRCs) under the EU’s Sixth Framework Programme for Research and Technical Development. The MCST also encourages scientific research and development through its science popularisation programme, which encourages the pursuit of careers in the fields of pure science and its applications.

### **Privatisation**

Government’s policy during recent years is to continue boosting the role of the private sector in economic development. It has substantially reduced state intervention and extended private initiative in most spheres of activity. Privatisation started in the banking sector with the partial disposal and the floatation of the two major banks, which together enjoyed 80% of the retail banking market. Past privatisations include the telecommunications operator, the airport, public lotto, the post office, and the petroleum division of Enemalta including an oil bunkering facility.

### **Public/private sector cooperation**

The principal form of public/private sector co-operation is in the assistance given by specially constituted government bodies to promote industrial investment and the export of goods made in Malta.

Malta Enterprise (ME) was established in 2003 in order to promote optimal enterprise growth in manufacturing and related services, excluding retail, tourism and financial services. It amalgamates the activities of three former specially constituted government bodies namely the Malta Development Corporation (MDC) that was responsible for the promotion of industrial investment in Malta, the Malta External Trade Corporation (METCO) responsible for the promotion of exports and the Institute for the Promotion of Small Enterprise (IPSE).

Government carries on a dialogue on matters of vital economic importance with the trade unions and the various private-sector representative organisations through the Malta Council for Economic and Social Development (MCESD).

### **eGovernment**

Initiatives have also been taken to carry forward the process of change in the public sector and to improve government services to the public. One of the Government's key initiatives in this respect was the implementation of Malta's e-government program aimed at promoting efficiency and utilising information and communication technology to the widest possible extent. The programme effectively places all government information and services on-line.