

SUSTAINABLE ECONOMIC DEVELOPMENT¹

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Introduction: Malta's Main Economic Challenges

The end objective of economic activity is to promote improvement in the quality of life. This cannot be achieved without the creation of appropriate employment opportunities to generate a satisfactory level of income for the population. This needs to be done in the context of sustainability, which calls for a long term view of development, taking into consideration environmental and social impacts.

The major long-term challenges that the Maltese economy is likely to face are the following:

- i. Given that Malta depends heavily of exports of goods and services for job creation, and given that globalization is leading to further exposure to international competition, Malta is in constant need to step up productivity to improve its competitiveness in terms of price and quality;
- ii. Given Malta's fragile eco-system and high population density, it is likely that environmental and social considerations will pose heightened challenges to economic activity.
- iii. The Maltese population is bound to age significantly over the next twenty years, with the number of persons of working age per pensioner dropping from just under four to slightly above two. This will create a heavy demand on resources allocated for social welfare, giving rise to increasing pressure on public finance.

This calls for a stable and resilient macroeconomic setup, where the burdens of external and fiscal deficits are minimized. It also calls for increased investment in human capital, knowledge and innovation efforts, and in the scientific infrastructure in order to step up innovation, research and development. Most of all it calls for improved efficiency in the public sector.

An important requisite in this regard, is that wages, taxation and productivity be balanced and that market-oriented policies towards resource allocation, based on fair trading considerations, be promoted. Such policies would enhance export competitiveness and attract investment.

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It should be realized that economic strategies based on improving the country's productive efficiency could create win-win situations whereby the economy would be in a better position to improve competitiveness, generate increased real income per capita and at the same time reduce environmental impacts, because efficiency requires and gives rise to improved use of resources.

Social partners should realize the importance of these challenges and agree on adequate strategies to meet them.

Promoting Sustainable Consumption and Production Patterns

Production and consumption are important economic activities, but they can have negative impact on the environment, and this may limit future production and consumption possibilities. Such activities therefore need to be sustainably carried out to ensure that they have a positive impact on human welfare in the long run.

Sustainability in production and consumption would be promoted if such activities:

- i. Do not deplete non-renewable resources.
- ii. Use renewable resources in a manner that allows enough time for regeneration.
- iii. Do not create toxic materials and pollution.
- iv. Do not generate waste, profligatory throw-away products, and in-built obsolescence.
- v. Do not give rise to balance of payments imbalances.
- vi. Do not transfer economic resources away from future generations.

The first four requisites are mostly environmental concerns. In general consumption and production should be eco-efficient by as much as possible de-coupling them from environmental damage through improved management, technology and utilisation of resources. This approach would be beneficial for producers and consumers alike, since it reduces cost per unit and at the same time minimizes the negative impacts on the environment.

In this regard, reference is made to the benefits that would accrue to society if it adopts the "Factor Four" concept which calls for a four-fold growth in resource productivity. Such a development would improve human welfare with less stress on the natural environment.

The fifth and sixth requisites are mostly economic, and focuses on the need to match our ability to produce with our desire to consume. From the external perspective, excessive consumption should be restrained so as to maintain the level of imports within the bounds of the economy's export capabilities.

From the intergenerational perspective, current consumption patterns should allow sufficient saving for investment to sustain the economic capital stock of future generations. This also refers to stock of public debt left to future generations, which should be reduced to the extent possible. In this regard, given that population-ageing phenomenon, it is important to encourage sufficient saving so as to be able to meet the future income requirements of the larger inactive section of the population.

Reliance of Market Forces and Fair Trading

Sustainable development calls for economic efficiency and social fairness in the use of natural, man-made and human resources, so that inputs could be converted into outputs at the lowest possible economic, social and environment cost.

In many instances, the market mechanism can be conducive towards this end. Reliance on market forces would also promote international competitiveness, something that is crucial for the further development of the Maltese economy, given that the economy depends heavily on exports of goods and services. Contrary to what is commonly thought, international competitiveness is also called for with regard to domestically oriented production, since this compete with substitutes which could be imported.

However there are many instances where the market (a) needs to be guided (b) has to be controlled and (c) should not be relied upon.

The market is to be guided in the provision of merit goods, such as education and health, which should not be left to market forces alone, since these should be available to all members of society, irrespective of income. In such cases, free or subsidised distribution may be warranted, to ensure that such services reach those who need them. A system of safety-net welfare support should also be in place. Such systems exist in Malta. Care however should be taken to avoid abuse in this regard.

Market control is needed to avoid abuse by suppliers, especially that arising from market domination and concerted practices. In such cases, unbridled market forces can lead to exploitation, where private profit will work against social well-being. To avoid this pitfall, fair trading legislation must be put in place, as is the case in Malta, and suitably enforced.

Market failure occurs in the case of public goods and services, such as many environmental services, where property rights are not well defined and where externalities are substantial. In

such cases the market cannot be relied upon to allocate resources to their best use. Valuation techniques and economic instruments should be utilised in such instances, to, amongst other things, rationalise use of resources and internalise external costs. Although these techniques and instruments are used in Malta, there is potential for their increased use.

Promoting Innovation, Science and Technology

In today's globalised world, countries need to develop a knowledge-based economy and to build a capacity base of scientific research and development. These should be oriented towards innovation in order to enhance competitiveness and to acquire new information regarding materials, products and processes, conducive towards sustainable development.

Reference is made here to the concept of "ecological modernization" which seeks structural change at the macro-economic level, aimed at minimizing the impact on the environmental, possibly through less reliance on resource intensive industries towards service and knowledge intensive industries.

This calls for measures aimed at improving the general framework conditions for research and innovation. Towards this end, the interactions between researchers, educational institutions and users of research output should be improved. In addition, the international links between researchers in Malta and those abroad should be strengthened to develop collaborative networks. Such links would also be conducive to creating the critical mass necessary to make research in Malta viable.

Sustainable Agriculture and Fishing

Maltese agriculture is characterised by an ageing workforce, fragmentation of holdings and low quality products. In addition, land scarcity in Malta has led to high opportunity cost of farmland. The opening up of the domestic market to increased international competition is likely to render certain types of agricultural products in Malta less profitable than they are at present. These negative factors, could give rise to further the abandonment of agricultural land, which will lead to increased soil erosion, with consequent land degradation and undesirable change in the landscape.

The farming community constitutes an important component of Malta's social structure, contributing to the maintenance and enhancement of Malta's rural environment and landscape and, indirectly, to Malta's tourism industry. Furthermore, in view of Malta's island status in the

periphery of the production centres of Europe, Maltese agriculture affords a limited but vital source of food security.

In recent decades, the agriculture sector was in continuous decline both as regards its share of GDP and employment generation. Given the inherent constraints associated with small size and fragmentation, complete reliance on the market mechanism is not likely to stall or reverse the trend, and some form of support is therefore required. Towards this end, the Maltese Government is putting in place a national rural and countryside policy to prevent further desertion of agricultural land and to render agricultural occupations more attractive.

Through such policy, farmers will be remunerated for acting as suppliers of environmental “public goods” relating to the promotion of biodiversity, preservation of the rural landscape and heritage, attraction of tourism and development of appropriate amenities.

Without such intervention, the provision of ‘public’, goods - in particular the range of environmental and cultural goods such as biodiversity, rural heritage and aesthetically pleasing landscape - will not occur, and the externalities arising from farming activities will not be realised. Such intervention will also check a number of undesirable effects associated with farm land abandonment, including soil erosion, dilapidated rubble walls, and uncultivated terraces will increase, possibly leading to further intrusion of building development into green areas.

Fishing in Malta is seasonal, as the main commercial species are migratory. Although Malta is surrounded by sea, fishing does not generate much income and employment, a situation exacerbated by the dwindling catches in the central Mediterranean. As a result, the share of GDP contributed by this sector has remained small. The fishing vessels tend to be small and multipurpose. In recent years there was a rapid development in aquaculture fish production, most of which is exported.

Malta has recently negotiated an arrangement with the EU that will allow management of a 25-mile fisheries zone around the coast for conservation purposes. The aim is to promote sustainable fishing within that zone. Only vessels smaller than 12 metres will be allowed to fish in the zone so that only small scale coastal fishing which is least harmful to the natural environment will be allowed. In addition the number of fishing permits will be limited and will not exceed current numbers.

The arguments in favour of government intervention applicable to agriculture also apply to fishing, since this sector also provides ‘public goods’ which contribute to the culture of the islands and could serve as tourist attractions.

Curbing the Damage of Construction and Quarrying

Contrary to what is often thought, construction and quarrying are relatively small sectors in the Maltese economy, directly generating about 3 percent to GDP. However these industries have considerable inter-industry linkages and therefore generate income and employment in other sectors of the economy.

The major problem with construction and quarrying is that they are associated with environmental damage and undesirable practices. They tend to produce a large amount of inert waste, create noise and dust pollution. In some cases, contractors and private owners leave construction sites partly finished for an unduly long time. To make matters worse, some contractors often disregard building and traffic regulations.

There is a dire need to enhance enforcement and monitoring to reduce the destabilising effects on the neighbourhood caused by construction activities, by amongst other, requiring developers to clean up and remove loose stones from the vicinity of building sites, on a daily basis and not after the building is completed, to place safe and aesthetically acceptable hoardings around buildings under construction, to control the noise emitted from construction machinery, and to reduce emission of dust. Enforcement is also necessary to ensure the use of well maintained construction vehicles with appropriate and secure cover of building materials, driven by suitably trained personnel.

Sustainable Manufacturing

Manufacturing contributes about 23 percent to the gross domestic product, and generates considerable income, employment and foreign exchange. Both the export oriented and the domestically oriented segments of the industry face intense competition from abroad.

An ever present problem, associated with the manufacturing sector, is that some establishments within it cause environmental damage, mostly due to inefficient material handling, limited use of cleaner technologies and production methods that give rise to polluting emissions and discharges. Such cases need to be addressed.

On a broader front, it is important to encourage energy efficiency and industrial waste minimisation. It is also crucial to promote a culture of innovation and R&D in this sector.

Various steps have already been taken in this regard, including the establishment of the Malta Council for Science and Technology, the Innovation Relay Centre, the Malta Standards Authority, the Cleaner Technology Centre, the Business Incubation Centre and the launching of a Technology Venture Fund. However, other measures need to be taken to ensure that products manufactured in Malta, whether designed locally (currently only a few are) or elsewhere, compete effectively in European and world markets on the basis not only of price, but also of quality and eco-friendliness.

Promoting Sustainable Tourism

Tourism is one of the most important economic activities in Malta. In recent years it has directly contributed about 20 percent to GDP, with relatively high inter-industry linkages and multiplier effects. It also generates considerable foreign exchange inflows and provides employment for about 8 percent of the gainfully occupied population in accommodation and catering sectors alone, with many more in occupations associated with tourism.

The relatively large inflow of tourists, amounting to about 8 percent of resident population equivalent, coupled with the high population density and fragile ecosystem, exerts major impacts on the physical environment. Some of the negative effects of tourism relate to overcrowding of beaches, demand for land for accommodation and recreational facilities, mostly in coastal areas, traffic congestion, production of solid and liquid waste, and demand for scarce resources such as water.

Malta has formulated a strategy for tourism, which takes into account the islands' carrying capacity³ based on the need that tourism development respects the limitations posed by environmental, socio-cultural and economic constraints.

Linking Infrastructural Needs to Sustainable Development

The physical infrastructure, mainly that related to transport, water, telecommunications and energy, is a necessary pre-requisite for economic development. Infrastructural services should be provided efficiently, with minimal negative impacts on the environment and should be conducive towards sustainable production and consumption.

³ The Malta Tourism Authority has published a strategy for tourism in Malta which forms the basis of Government policy for the tourism sector. The strategy for tourism is now based on the concept of sustainability and controlled development.

Given Malta's limitation regarding land area and its high population density, it is important to limit the environmental footprint of infrastructural developments and avoid duplication when possible.