

## **SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS**

# **MALTA**

## **EXPORT OF SERVICES: HIGH POTENTIAL OR WISHFUL THINKING**

## **MALTA'S APPROACH TO THE DEVELOPMENT OF NON-TOURISM SERVICES EXPORTS**

The aim of this paper is that of offering a general overview of the development of non-tourism services exports in Malta during the past 15 years or so. It also seeks to extract some 'generalisations' from the Malta experience and makes liberal use of a number of practical examples and case-studies. However it must be said that what has worked (or failed) in Malta may not always be generally applicable to other countries. Having said this, one hopes that some of the points and general observations made here may have some relevance to other small States in transition.

### **Introduction**

In the past, Malta's approach to the development of non-tourism services exports has not been particularly systematic. While the issue of developing services exports has been discussed and publicly debated for many years in Malta, there was never a clear and commonly accepted definition of what constituted "non-tourism export of services". As a consequence, there was no formal national strategy for the development of non-tourism services export. Despite these limiting factors, during the past 15 years, Malta still managed to successfully diversify its economy from being predominantly manufacturing based to one in which services exports are becoming increasingly important.

The absence of a *national and integrated* strategy for the development of services exports is now being addressed and METCO/Malta Enterprise are grateful for the assistance being provided by the Commonwealth Secretariat in this area.

### **Growth of services exports in the absence of a national strategy**

Non-manufacturing exports from Malta have grown consistently during the past 15 years, even in the absence of a formal national strategy to promote non-manufacturing exports. This is due to the fact that there were a number of sectoral strategies in place led by different organisations which proved to be effective even in the absence of an over-arching national strategy. These included:

- A strategy to develop Malta as an international financial services centre within EU parameters spearheaded by the Malta Financial Services Authority.
- A strategy to develop Malta as a regional distribution and transshipment centre spearheaded by the Malta Freeport Corporation. The Malta Freeport is today the second largest freeport facility in the Mediterranean.
- A strategy to develop Malta into a ship registration, cruise liner, yachting and maritime centre spearheaded by the Malta Maritime Authority. Malta today ranks among the top 10 worldwide in terms of ship registration.
- A strategy to develop Malta as a regional trading centre in the Mediterranean and a provider of selected industrial, commercial and professional services, spearheaded initially by the Malta External Trade Corporation (METCO) and now, Malta Enterprise.

While there is little doubt that these sectoral strategies have proven to be successful in varying degrees, the time has come for the adoption of an integrated and holistic approach towards the development of non-tourism services exports in order to maximize Malta's full potential in this area.

## **Rationale behind the integrated approach**

The reasons behind the adoption of a new integrated approach are various and include the following factors:

- A recognition that some of the strategies are complimentary and that the integration of some of these is likely to yield better results. Thus for example, the strategy adopted by the Malta Freeport to develop Malta into a regional distribution and transshipment centre by attracting Asian shipping lines (among others) to use Malta, fits in perfectly with the strategy of METCO/Malta Enterprise to encourage international companies (including companies from the Far East) to use Malta as a base for their regional marketing and sales operations in North Africa and the Mediterranean.
- A recognition of the fact that combined efforts in the same general direction are likely to have a greater impact on target companies overseas. Probably, one of the biggest problems faced by small states such as Malta is our inability to 'hit' a target market with sufficient force to make a noticeable impact. In this respect, the combination of scarce human and financial resources was seen as a means of overcoming (to an extent) this inherent limiting factor.
- A recognition of the fact that in many instances, the wide-ranging business interests of international companies and overseas entrepreneurs often require that an integrated response is needed in order to fulfil their varied business needs. Thus for example, while there has been a tendency in Malta (and other countries) for entities like METCO, the Malta Freeport and so forth to view their areas of operation as being rather 'distinct' from one another, it is not uncommon to find international companies being simultaneously interested in a number of different business possibilities which transcend the rather traditionally 'compartmentalized' operations of the different component organisations of the Trade Support Network.
- A recognition of the fact that international companies and overseas entrepreneurs require *solutions* to their business needs rather than the mere provision of services by organisations like METCO, Malta Enterprise, Malta Freeport and so forth. Anyone can provide services, but few can provide international clients with complete solutions. This is probably what differentiates Singapore from small states in transition like Malta. It is now felt that an integrated approach lends itself best to the provision of solutions, which add value to international clients.

The remainder of this paper focuses mainly on those services sectors that fall directly within the remit of METCO/Malta Enterprise operations, that is commercial, trading and industrial services.

## **A natural movement towards non-tourism service exports**

The increased importance being attached to the export of services has been accompanied by a natural movement towards non-tourism service exports from Malta. While there is no doubt that the endeavours of business support organisations like METCO (and now Malta Enterprise) have played an important part, one has to acknowledge that in a number of instances their role has been that of following and speeding up the lead of the private sector in its movement towards non-tourism exports. This in turn implies that some of the pre-requisite elements for this shift to occur were already in place.

In retrospect, these prerequisites within the Maltese context probably included the following:

- Escalating manufacturing costs (over time) which made the continued survival of cost-driven and relatively labour intensive manufacturing operations (e.g. garments, footwear etc.) unsustainable. In a sense, this has probably been the single most important factor in gradually shifting investment from manufacturing to services. Put simply, the private sector realised that

profitability in services was higher than in traditional manufacturing in mature industry sectors like garments, textiles, leather and footwear.

- Proportionately higher number of start-ups in non-traditional, non-manufacturing sectors due in part to the lower initial investment costs associated with many service businesses. This movement was probably assisted by the fact that the local (indigenous) entrepreneurial culture is somewhat more risk averse and less liquid (from a cash flow point of view) than their counterparts overseas, particularly those in developed countries.
- Clear business diversification strategies on the part of a growing number of local companies whose core business was traditionally manufacturing. Thus for example, a number of manufacturers of garments have successfully diversified into the international (i.e. regional) trading of garments sourced from lower cost third countries such as China, for example.
- The limited size of the domestic market has probably also played an important role in pushing companies in the services sectors to aggressively look overseas for new business opportunities. In this respect, the absence of a significant local market has meant that many services companies have opted to internationalise their operations very early on. This in part explains why service companies represent METCO's/Malta Enterprise's fastest growing client base in terms of both numbers and usage of services. Suffice to say that in 1993, under 38% of the TPO's clients were services and trading companies, while in 2003 the figure stood at almost 60%. A significant shift.

### **Malta's approach to the development of specific services sub-sectors**

The approach adopted by Malta has in many respects been an 'organic' one, which is a diplomatic way of saying that it has been partly planned, partly unplanned and partly opportunistic. While the need for an integrated approach to the development of services is now recognised and being acted upon, it is probably true to say that Malta's 'organic' approach has proven to be successful, even if it was not underpinned by a formal national strategy for the development of non-tourism based services.

This in turn suggests that there are merits in adopting a flexible approach, particularly in the initial stages of developing services exports. Having said this, once a country (such as Malta) moves beyond the initial stages of service development it becomes necessary to adopt a more structured approach, while retaining some of the flexibility associated with the former approach.

### **Narrowing the 'Services' definition**

One of the problems which Malta faced in systematically developing a national plan for the development of services exports hinged on its apparent inability to adequately define what 'Services' actually meant. Indeed, the term could be (and was) broadened to such an extent that it could (and did) include every conceivable type service, which could *in principle* be exported from Malta.

The practical realities of trade and investment promotion in a small country like Malta are such that without focus one is not likely to have much impact, since efforts would be spread too thinly over too many 'priority' areas. Consequently, the definition of commercial, industrial and professional services was narrowed by METCO (and now Malta Enterprise) to seven key areas in which Malta was deemed to have either a relative *competitive advantage* in a particular niche and/or a *unique selling proposition* to offer. These areas include the following:

- International Trading
- International Operations
- Medical & Health Services

- Educational Services
- Oil & Gas Services
- IT Outsourcing
- Professional Services

### **A Paradigm Shift**

It is relevant to point out that the above approach was developed incrementally over time, with the gradual addition of 'new' services sectors to the set of priority sectors identified by METCO/Malta Enterprise. It should also be kept in mind that while the 'export of services concept' was being introduced and put into practice, the core activities of the national TPO were still to a large degree directed at promoting exports in the traditional sense of the word, that is manufactured exports.

During the past 15 years, something of a paradigm shift has taken place in local industry resulting from the combined effect of a contraction in export manufacturing (particularly in mature industries like textiles, garments and footwear, for example) and a growth in non-tourism service industries. The speed with which this occurred has taken many by surprise, and in this respect METCO/Malta Enterprise has had to act fast and re-engineer itself in order to maintain its relevance in the face of a radically altered industrial landscape where services and service companies now occupy a much more prominent position than before.

### **Keeping it flexible**

It must be stressed that although METCO/Malta Enterprise has identified certain priority services sectors, the approach has remained flexible enough to assist individual service companies who do *not* fall neatly and squarely within the above mentioned priority sectors. Thus for example, a company providing specialised environmental protection services (for which there is a demand in the Mediterranean), would still be able to utilize a number of services offered by METCO/Malta Enterprise in order to help it internationalize its operations.

Furthermore, the list of priority sectors has been kept flexible and is not cast in stone. METCO/Malta Enterprise periodically redefines its priority sectors in response to emerging opportunities and in response to the tangible results (or otherwise) obtained from its initiatives in each of these areas. METCO/Malta Enterprise has no compunction in 'dropping' one of more sectors from its priority list if the results fall significantly below initial expectations and set targets for services.

### **An enterprise based approach**

The Malta experience suggests that while a sectoral strategy (in terms of promoting specific services sectors) makes sense, it is probably equally sensible to combine a 'sectoral' approach with an *enterprise based approach*. At the end of the day, it is often *individual companies* within particular industry sectors (e.g. oil and gas services, medical and health services, IT outsourcing services etc) that determine the success or otherwise of a 'sectoral' strategy for services.

In other words, rather than just attempting to promote specific services sectors in a generic sense, the METCO/Malta Enterprise experience suggests that those service companies with the brightest potential and with a *genuine commitment* to internationalizing their operations, should be accorded special treatment and individual attention which may include tailor-made services and company-specific assistance.

One of the lessons learnt in Malta is that an attempt to treat all companies within a particular service industry or sector on an equal footing for the sake of 'political correctness' does not always yield the desired results. In fact, in a number of cases, this has proven to be counter-productive. For example, in the case of Malta as an IT outsourcing centre, it made little sense to internationally promote Malta's entire IT and software industry when in point of fact only 15 to 20 companies out of the entire population of such companies are really interested in pursuing this route.

The Malta experience suggests that providing tailor-made assistance and individual attention or mentoring to specific companies (within the designated priority service sectors) is probably the most cost-effective option. The proviso being that those companies benefiting from the TPO's support and assistance should possess a *real interest in international expansion* combined with a desire to help themselves by committing the required human and financial resources to their own international marketing endeavours.

The adoption of an enterprise-based approach seems to lend itself well to the promotion of services exports from small countries. This is attributable to the fact that as a general rule, the national TPO is dealing with a finite (often limited) number of companies in any particular field. In addition, the majority of such enterprises tend to be SMEs and even micro-enterprises. Such features of small economies like Malta (and others) also allows the TPO to provide support, assistance and services to particular companies that do not fall within any of the so called 'priority' sectors.

At this point, a few words on each of the previously mentioned priority services sectors would help to illustrate the underlying rationale and the general modus operandi of METCO/Malta Enterprise in these areas.

### **International Trading**

Malta (via METCO/Malta Enterprise) has adopted a dual approach in this area.

First, it actively targets and pursues international companies, which have a trading and/or investment interest in Southern Europe, North Africa and the Mediterranean. The ultimate aim of the strategy is that of encouraging such companies to set up regional offices in Malta with a view to coordinating their trade, marketing, contracting or investment operations in the region. Companies are being targeted on the basis of detailed research on trade and investment flows in the region where the focus is on a number of 'high potential' product-service categories.

Second, it actively assists Maltese companies (*including foreign owned companies based in Malta*) to penetrate regional markets in Southern Europe and North Africa with non-Malta made goods and services. This is based on the premise that the import requirements of adjacent countries in Southern Europe and North Africa are much broader than Malta's current (or future) productive capacities in terms of both volumes and range. Thus for example, METCO/Malta Enterprise routinely assists Maltese companies that represent European, Japanese and North American office and industrial equipment manufacturers and suppliers to obtain orders and after-sales contracts in North Africa.

### **International Operations**

A small but growing number of Maltese companies are seeking to internationalise their operations not by exporting in the traditional sense of the word, but by actually investing in manufacturing, retailing and tourism operations overseas. Within the METCO/Malta Enterprise context this too constitutes an export of services, since it is the know-how and expertise of the Maltese companies that is being exported, often in the form of some association with a local partner within the country being targeted.

Clearly, due to the size of Malta's economy, the number of companies that are adopting this approach to internationalisation is not great. In addition, the riskier nature of such ventures appeals only to a select number of companies and entrepreneurs. Having said this, it is possible to cite a number of

examples of Maltese companies opening up manufacturing, retailing, distribution and tourism ventures in Eastern Europe, Africa and the Far East.

The role that METCO/Malta Enterprise plays in developing this type of export of services varies from one industry sector to another. In some instances it takes the lead, in others it simply provides assistance and support on request.

Thus for example, in order to help the Maltese furniture industry to internationalise its operations, Malta Enterprise (via METCO's sister organisation known as the Institute for the Promotion of Small Enterprise) encouraged some of Malta's leading furniture producers to set up a Furniture Manufacturers Association and then subsequently provided them with technical and financial assistance to set up retailing operations in a neighbouring North African country.

This is perhaps a good example of how a TPO can help a client to horizontally expand its operations from pure manufacturing into retailing services overseas. It goes without saying that such an approach may not be universally applicable. However, it does illustrate the point that even small companies from small countries can make some notable inroads if they are provided with the right kind of support and if they are really committed to making their service-ventures successful.

### **Medical & Health Services**

The export of medical and health services is a particularly interesting niche market for Malta and goes to show that it is possible to build up *credibility* in an area which is often considered to be the domain of the more affluent developed countries rather than small transitional States.

Today, Malta enjoys one of the highest levels of medical and health services according to the World Health Organisation, which ranked it fifth out of 191 countries. The number of private hospitals and private health care providers has also increased rapidly during the past decade. Thus for example, it is not uncommon to find that patients from Britain (and other countries) are flown to Malta for specialised treatment including fairly complicated operations like open-heart surgery. Clearly, the country's capital and human investment in the medical and health fields (private and public) has been crucial to the success of this strategy.

Notwithstanding this, METCO/Malta Enterprise feel that there is room for more development and is seeking to promote Malta as a regional centre of excellence for certain types of medical procedures and health services, whereby clients from adjacent EU and North African countries could have world class treatment in Malta for a fraction of the cost in mainland Europe or the United States. (The Malta Medical Association has estimated that the cost of treatment in Malta is equivalent to 40% of that in Britain, for example). In addition, Malta's close geographic proximity to both Europe and North Africa, makes Malta an attractive health-medical destination from a logistical and time-zone perspective. Special arrangements with global medical and health insurance companies are also being looked into as part of this strategy.

### **Educational & Training Services**

The export of training and other educational services is another priority sector. In reality, this sector initially developed as a result of the private sector's initiative with little or no direct assistance from Malta's business support organisations. Today, the situation has changed since the Government of Malta via the Trade Support Network (including METCO/Malta Enterprise) is providing a host of market information, market penetration and market representation services designed to assist private and public sector training institutions to internationalise their operations.

Thus for example, it is possible to see close collaboration between the Malta Tourism Authority and Association of English Language Schools in Malta. Indeed, in recent years one has witnessed tremendous growth in the number of private and 'corporate' students from Europe and Asia that come

to Malta specifically for English language training. It is estimated (by FELTOM) that around 60,000 such students visit Malta annually. This trend has been accompanied by a similar growth in the number of language training facilities.

There has also been considerable growth in the tertiary and university education sectors with increasing numbers of students from the Middle East and Asia coming to Malta to pursue degrees in management, engineering and other technical subjects.

The establishment of a number of specialist training institutions in association with the University of Malta and foreign partners has also helped to increase Malta's 'marketability' in this field. For example, the establishment of a Mediterranean Academy of Diplomatic Studies in Malta a decade ago, and plans for the setting of a regional training centre by Microsoft in Malta are just two cases in point.

There has also been interesting growth in a number of other specialised areas including training in logistics and fire fighting, for example. The key to success has been specialisation. In this respect the role of METCO/Malta Enterprise has been that of providing on-going, personalised assistance and services to such companies. Most of these are SMEs or micro-enterprises according to internationally established definitions of these terms. Thus for example, one such company providing training in logistics management has set up operations in the UAE in association with a local partner, while another company specialising in fire-fighting and safety training has set up operations in Libya. Success stories like these and others have made the task of the TPO that much easier.

### **Oil and Gas Services**

Malta's geographic position in the centre of the Mediterranean, close to both on-shore and off-shore oil and gas drilling activities in the Mediterranean and North Africa has led to the provision of maintenance and supply services to oil and gas companies in the region as a 'natural' activity. Having said this, METCO/Malta Enterprise feel this service sector is nowhere near its real potential.

METCO/Malta Enterprise recognizes that there is a lot of untapped potential in this area and that the number of international oil and gas companies that could be encouraged to utilize Malta as their preferred supply and maintenance base for their operations could be increased substantially within a relatively short period of say, 3 to 5 years.

On the basis of research undertaken by METCO/Malta Enterprise, the reasons for this are various. There is renewed interest in the Mediterranean and North Africa as a result of the discovery of new oil and gas reserves, while North American companies are once again becoming more active in the region. Apart from this, the relatively 'closed' nature of the oil and gas industry is such that the number of 'target companies' is both manageable and readily identifiable, thus facilitating promotion and contact making in terms of impact and cost-effectiveness. Besides, Malta and Maltese companies are ideally placed to take advantage of these new opportunities by offering a lower-cost, no-risk supply and maintenance base while simultaneously offering a unique geographic and temporal proximity to the main target markets.

### **IT Outsourcing**

Malta has seen itself as an IT outsourcing destination for quite some time, however there never was a systematic, focused or determined attempt at promoting Malta as such. The general feeling was that since Malta had a reasonably good supply base of IT personnel, combined with a generally high level of education, a widespread knowledge of English, and a European time zone, the business (especially from Europe) would almost naturally gravitate towards Malta with little or no effort on our part. This did not take happen. With hindsight, the main reason for this failure was probably the fact that no attempt was made to *differentiate* Malta from the global outsourcing destinations like India, for example.

METCO/Malta Enterprise has reviewed the strategy and is working directly with its clients (i.e. Malta based companies) with a view to promoting Malta as an IT outsourcing destination for medium sized international companies in the retailing, banking, insurance and distribution businesses. The central strategy here is that of targeting mid-sized companies (mainly in Europe) whose outsourcing requirements are modest but which require a fast turnaround and a more frequent interaction between client and the customized software producer. The idea here is that of focusing on smaller projects which are of critical importance to the operations of the overseas client but which because of their relatively small size would probably be uninteresting and unprofitable to the big outsourcing specialists in Asia and the Indian sub-continent. Although it is still early days, this niche based strategy seems to be working with METCO/Malta Enterprise clients now supplying customised software to the likes of Safeway and British Airways.

### **Professional Services**

The term 'professional services' has been used as something of a convenient catch all phrase to include 'services not specifically mentioned elsewhere', and herein lies the problem. Indeed, with the exception of financial and accounting services (spearheaded by the Malta Financial Services Authority), Malta has never adopted a systematic approach to the development of professional services' exports. METCO/Malta Enterprise is endeavouring to change this by marketing Malta as a centre of management and engineering expertise, in addition to 'traditional' professional services in the financial and accounting fields.

The biggest challenge in this area is probably a 'cultural' one in the sense that while Maltese professionals in these fields undoubtedly have the necessary expertise, experience and training, the nature of the business was such that until recently there was no real need or impetus for them to look overseas for business. Fortunately, this is changing as witnessed by a number of smallish management and engineering companies (with differing specialisations such as automation, for example) that have successfully completed projects overseas, particularly in the Middle East. The approach being adopted by METCO/Malta Enterprise is that of working closely and individually with such companies on a quasi-consultancy and/or mentoring basis.

### **The Way Forward – Basis for a National Export Strategy for Services**

When viewing the export of non-tourism services from a national strategy perspective, a three-stepped approach is being considered for Malta. The initial step refers to the creation of a 'Strategic Direction Document for Services Exports'. The second is a critical review of the current flexible and 'organic' approach to the development of services exports. The third focuses on the development of a formal 'National Export Marketing Plan for Selected Services'.

#### **Step 1 - Strategic Direction Document for Service Exports**

The objective here is that of bringing together the formerly disparate sectoral strategies for the promotion of non-tourism services exports from Malta that are already in place into what may probably be best described as a single 'Strategic Direction Document for Services Exports'. The Strategic Direction Document (SDD) would act as a 'high level integrator' of the various sectoral strategies being put into place by the various lead agencies for financial services, transshipment services, maritime services, international trading services and so on.

The aim of the exercise is that of loosely 'integrating' the formerly separate strategies into a cohesive whole which is internally consistent but which would allow each agency to retain its autonomy and flexibility in its area of specialisation. Put simply, the ultimate aim of the SDD is that of ensuring that the different strategies are broadly aligned so that operational synergies between organisations promoting different types of services exports may be allowed to develop organically as and when required.

It is anticipated that Malta Enterprise will take up the role of ‘facilitator’ and seek to bring together the various sectoral strategies via a Working Group composed of the senior personnel and decision makers from the various organisations responsible for the promotion and development of different services exports. The SDD would be revised as needed, probably on a bi-annual basis with Malta Enterprise taking the lead in terms of its drafting (in consultation with the other agencies) and subsequent revisions.

## **Step 2 - Critical Review of the Current Approach**

The second step in the way forward consists of a critical review of the current approach to the development of services exports. The review is expected to have three main components.

- A review of the existing support systems, services and structures in place within the organisation (i.e. METCO/Malta Enterprise) for promoting the export of services
- An evaluation of the competitiveness and export potential of current priority services sectors and the identification of new services sectors for export bearing in mind the predominance of SMEs in the local industrial/commercial landscape
- The identification of niche market opportunities for selected services sectors and sub-sectors as determined by market conditions and/or emerging opportunities within target markets/regions

This Critical Review would form the basis of a National Export Marketing Plan for Services.

## **Step 3 - National Export Marketing Plan for Selected Services**

The objective here is that of developing a formal and publicly accepted National Export Marketing Plan for Services (NEPS). For practical and operational reasons this would concentrate mainly on services sectors that fall clearly within the parameters of Malta Enterprise. The priority services sectors that are expected to feature prominently within the formal National Export Marketing Plan for Services are those indicated previously. Nevertheless, the list is indicative and sectors may be added (or removed) from the priority list if the results of the review process described in Step 2 point in this direction.

The National Export Marketing Plan for Services (NEPS) will also take into account the Foreign Direct Investment (FDI) dimension. The Malta experience suggests that foreign investment in certain service sectors (e.g. IT, biotechnology, environmental management services, R & D facilities etc) can sometimes effectively *kick-start* the development of services sectors which were either embryonic or non-existent prior to the arrival of such FDIs.

The adoption of a rather ‘loose’ approach to the development of services exports has yielded dividends in the past. However, the increasing numbers, growing sophistication, and diverse requirements client companies in these priority sectors is such that METCO/Malta Enterprise must adopt a more structured approach. The challenge is that of retaining flexibility combined with the ability to respond fast to emerging opportunities within the context of a more structured framework.

## **Conclusion: Lessons Learnt**

Some of the lessons learnt from the Maltese experience, which will hopefully have some general relevance are listed below:-

- *A holistic approach* to the development of services for the country as a whole is fundamental, particularly when the development of services falls within the remit of different agencies and bodies. However, the holistic-integrated approach has to be flexible enough to recognize that certain services (eg. transshipment, maritime and financial services etc) are best developed and promoted internationally via specialised organisations.
- *Defining 'services'*. It is vitally important to define what constitutes 'services for export'. Failing this, one runs the risk of broadening the definition to include an excessively broad range of services which are exportable only in principle. It is probably advisable to *focus on a few services sectors* and gradually expand the sectors covered. Without a narrowing of focus there is likely to be little impact and few tangible results.
- The implementation of an *enterprise based approach* combined with generic sectoral strategies may be feasible in small states due to the modest size of their economies and the relatively small number of companies involved. This makes the provision of 'customized' assistance in favour of specific and committed companies, especially SMEs, a feasible proposition, with the TPO taking up a role of 'partner' rather than mere service provider.
- *Acknowledge the SME dimension*. It is probably safe to assume that the bulk of TPO services sector clients in small States tend to be SMEs or micro-enterprises with the average company size of such enterprises being smaller (in employment terms) than that in manufacturing. The typical limitations and constraints associated with the SME dimension should therefore be considered when developing and implementing sectoral and enterprise based strategies.
- *Realistic expectations*. For example, Malta's failure to become a global IT outsourcing centre is due in part to the fact that it was not realistic in its initial aspirations. On the other hand, Malta has found a niche which is more in line with its productive capacities and which takes full advantage of the flexibility that smallness brings with it.
- *Work with FDI promoters*. Although the trade promotion and FDI promotion functions are often radically different in terms of operations, one has to acknowledge that there is a close link between the two. There should be an alignment between strategies to promote inward FDI in the services sectors (e.g. shared services centres, IT, biotechnology, R & D facilities etc), and the TPOs strategy to promote non-tourism exports. This is especially pertinent when the FDI and trade promotion functions rest in two separate organisations.
- *Credibility is key*. A major problem with many small countries in transition like Malta is credibility. While Commonwealth countries are often seen as credible business partners when it comes to producing and exporting traditional manufactured exports (such as handcrafts, garments, footwear, textiles etc), they are rarely accorded the same credibility when it comes to non-tourism services. However, the Malta experience in the health services sector suggests that it is possible to build up credibility *over time*.
- *Follow the lead of the private sector*. More often than not, the private sector is able to smell an opportunity for the export of services first. In this respect, the role of the national TPO should be that of supporting these initiatives by providing the right kind of support in a timely fashion. The TPO should be prepared to follow the lead of the private sector whenever this has been taken.

- An 'organic' approach to the development of services exports which is partly planned and partly opportunistic is definitely possible and can be successful. However, *at some point the introduction of a National Export Marketing Plan for Services is probably advisable*, particularly once the sophistication and number of services companies increases over time.

By way of conclusion, it must be said that the Maltese experience is conditioned by the particular conditions of the country and the economy. Although Malta as a small State in transition shares many of the problems and challenges that similar countries have, one has to acknowledge that there are often significant inter-country differences. Notwithstanding this, one hopes that at least some of the positive (and negative) experiences of Malta in the promotion of non-tourism services exports, may prove to be of some relevance and use to other small countries in transition.