

Malta's Geo-Strategic Reality

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The tumultuous global developments in international relations in recent years including the Covid-19 pandemic and the outbreak of war between Russia and Ukraine have resulted in a complete sea-change when it comes to prospects for political and economic stability in the years to come.

While the Russia – Ukraine war has sent shock waves through the international system of states and called into question the durability of post-Cold War European security, the impact of the war is being felt by every state at both a global and regional level.

The devastation and atrocities witnessed in Ukraine are of course the most horrific development so far in this conflict that commenced in February 2022. If diplomacy does not succeed in bringing the two warring parties to a cessation of hostilities, it is clear that a war of attrition will emerge, and cause permanent human suffering in Ukraine.

While the international community has sought to mitigate the impact of the war on neighbouring states and beyond, it is clear that another casualty

of the war, at least in the short term, is the international political economy. The crisis has triggered a significant surge in inflation of basic foodstuffs and energy that is exposing the vulnerability of all states that are dependent on imports from Ukraine and Russia.

Globally we have all suffered from the Covid-19 pandemic, which has caused permanent damage to all economies and societies. A significant proportion of this damage will be impossible to repair - especially in the short term - due to the complete disruption of global supply chains that have been part and parcel of our international political economy during the past thirty years.

Moreover, the negative impact of the pandemic in general and the more recent zero-Covid policy adopted by China, coupled with its maverick attitude since the



invasion of Ukraine by Russia as demonstrated by its continued loyalty to Moscow, has resulted in a significant decline in foreign direct investment to China. This shift in international investment creates a major opportunity for other countries to try and attract some of the business that will no longer be based in China. In fact this is already happening with a move away from China to Vietnam, Malaysia, and other countries in south-east Asia, Latin America, and Eastern Europe.

The pivot from globalization to an increased reference to on-shoring, near shoring, and re-shoring as corporations seek to

shield production lines from global instability by outsourcing their investments closer to their client markets is a phenomenon that must be taken into serious consideration when mapping out foreign policy strategic priorities. In this regard, as European sources of investment seek to relocate closer to home, Malta should seek to be a catalyst when it comes to identifying near shoring in the Mediterranean area.

In the past decade the Euro-Mediterranean region has witnessed an untold number of new realities that have changed regional dynamics significantly. In our immediate vicinity, Arab revolutions

have resulted in a more unstable and fragmented geo-political and economic Mediterranean. The trend that has emerged is one of constant civil upheavals playing out in several Middle Eastern/North African (MENA) countries as a result of continuous unprecedented economic challenges.

This dynamic shock to the international system forces all states to have to review their foreign policy objectives in an effort to realign their security interests to the new world disorderly nature of events. Malta



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has recently launched a foreign policy strategic review that addresses the challenges that the evolving international system is unleashing.

A key strategic question to address is when it comes to the policy of near shoring, to what extent can a significant amount of European foreign direct investment be re-directed to the Mediterranean region? While continued instability in several locations across the basin hamper enthusiasm to re-locate business to the Mediterranean from other parts of the world, it is clear that a focus by European investors on a Euro-Mediterranean perspective would provide the clear advantage of geographical proximity and a large pool of young skilled workers that are currently seeking employment.

The Russia-Ukraine war does not only re-confirm that the post-Cold War end of history perspective that Francis Fukuyama proposed is a fallacy, but also that our multilateral international security system remains a fragile one where no one can take their stability for granted.

Thus, as Malta has articulated in its most recent foreign policy strategic review, the time has come to enhance our political and economic voice in European affairs by harnessing the benefits that EU membership has delivered. Malta's relevance in international relations must continue to be strengthened by articulating a Mediterranean strategic policy that promotes new avenues of cooperation with neighbouring countries.

This should be done firstly by continuously supporting diplomatic overtures that seek to address the ever-

growing number of conflicts in our midst. Secondly, by advocating within the European Union that diversification of trade supplies is essential in the new world that has emerged, with a re-directing of global investment towards the Mediterranean being a priority. Diversification of production and supply chains will automatically result in Europe being less dependent than it currently is on certain countries such as Russia and others in Asia. It will simultaneously provide its adjacent region of the Mediterranean with the immense investment it so urgently requires to cope with the ever growing demands of its citizens.

Malta's foreign policy consistency and credibility as a promoter of peace and dialogue in the Mediterranean must resonate in a manner that it continues to attract Foreign Direct Investment to Malta even in times of global uncertainty. Malta must continue to be a voice of the Mediterranean by highlighting the multitude of security challenges that must be urgently addressed. Malta must also continue to provide a platform where political dialogue and economic interaction take place.

In order to sustain its rapid rate of development Malta must continue to increase investment in education, health, and safeguarding the environment so that Malta remains a competitive player in the ever-changing system of states. The key to future prosperity is to enhance Malta's sources of productivity that can only be achieved by having a highly-skilled working population.

After three months of warfare between Russia and Ukraine, it is very clear that this conflict is undermining the economic security of the majority of states in the

Euro-Mediterranean area due to their dependency on Ukraine and Russia for so many essential commodities.

Panic-buying has evolved into price hikes across the board. While everyone has to reassess their economic outlook, it is clear that it is the developing and underdeveloped states that will end up paying the highest price in this regard.

The main strategic question that must be asked is what will happen if the Russia-Ukraine war becomes a permanent on-going conflict that results in a continuous disruption of supply chains. Will a food crisis coupled with an increase in higher energy prices result in a global or at least a regional recession? Could there be an outbreak of riots or even civil wars in some states if malnourishment and famine become a reality?

The United Nations International Fund for Agricultural Development has already indicated that an increase in food prices and crop shortages is impacting negatively on the MENA region. Apart from Lebanon, countries such as Tunisia, Libya, and Syria import most of their wheat from Ukraine. Egypt, the world's largest importer of wheat, relies on more than 80 per cent of its wheat supplies from Ukraine and Russia. While governments are seeking to buffer their citizens from the adverse economic effects of this decline of supplies by subsidizing prices and rationing resources in some instances, it is clear that a prolonged war in Ukraine will undermine political and economic stability across the MENA region (Saleh & Terazon, 2022). In fact, grain and energy importers such as Egypt, Morocco and Tunisia will see their budget deficits balloon as they seek to manage this crisis.

Like all states, Malta is having to come to terms with the reality of the negative impact that the Russia-Ukraine war is having on international trade. Less than a month into the war Malta's finance minister, Clyde Caruana, announced that the war had already cost the country 200 million euros as the government sought to cushion the surge of inflation. This amount would include covering the increase in the cost of gas and fuels in 2022 (Farrugia, 2022). It is thus clear that that a prolonged war would result in an increase in economic costs for the government.

The aftermath of the Covid-19 pandemic, together with rising shipping costs and the Russian invasion of Ukraine are certain to force a continuing increase in the prices of strategically important resources such as wheat and energy. The rapid rise in the prices of basic raw materials is already being passed on to consumers when they purchase products. As the director-general of the Malta Employers' Association, Joe Farrugia, has indicated, the worst-case scenario for Malta is stagflation – a mix of inflation and unemployment that could emerge if a wage-price spiral undermines Malta's competitiveness (Amaira, 2022).

Numerous examples highlight the severity of the economic crisis due to the tremendously important roles of Ukraine and Russia in certain sectors. Half of global sunflower oil exports come from Ukraine and 21 per cent come from Russia. (Borelli, Vladkov et al., 2022)

Across the Euro-Mediterranean region grains and vegetable oil from Ukraine and Russia are part of national diets. Lebanon imports more than 70 per





cent of its wheat imports from Ukraine. (Saleh & Terazon, 2022).

In order to supersede the vulnerability of being a small state in uncertain times, Malta must avoid an outlook of limited diversification which results when economies of small states become too dependent on a single export, which brings with it an unhealthy dependency.

Of course, an open economy has its advantages and disadvantages. The advantages include the crucial interaction in the international economy and world trade which has the benefit of enabling access to a variety of products and cheaper prices. On the negative side, while exposure to international trade has its benefits, the same exposure leads to increased economic vulnerability in the wake of bad worldwide economic situations such as that being experienced now (Briguglio, 2007).

Navigating Regional Dynamics in Uncertain Times

As a European country located in the centre of the Mediterranean, Malta's main calling card must be the role it can play as a champion of Mediterranean interests. Looking ahead, Malta should use all international platforms, including the European Union, the United Nations, and the Organisation for Security and Co-operation in Europe to actively nurture Mediterranean solidarity by voicing the concerns and issues that are specific to this part of the world. A foreign policy agenda that is pragmatic



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in its outlook will allow Malta to further its already strong ties with all other countries in its immediate vicinity and beyond.

By projecting such a strategy Malta will be able to create a win-win situation: it will be assisting the European Union in its task of articulating a more effective Mediterranean policy, it will be helping Mediterranean countries by raising awareness of the serious challenges that they are confronting, and it will be taking a significant step forward to creating a more co-operative Euro-Mediterranean geo-strategic space. The fact that Malta is located at the centre of this geo-strategic space dictates that it implements such a foreign policy agenda. (Calleya, 2002).

At this moment in international relations, the main objective for Malta is to examine the strategic mechanisms and the selective strategic choices that a small state must choose in order to mitigate the weaknesses posed by our inherent vulnerability and to remain relevant in the international society of states.

A very important strategic mechanism in the foreign policy of small states is multilateralism. This is seen in the importance of international organisations for small states. Legally speaking, all states in the international system are considered equal. However, at a political level the international community of states is not a level playing field.

Hence, international organisations are regarded as useful vehicles where small states can amplify their voices. The comparative advantage that international organisations provide small developing states is the reason why such states seek to raise the profile and authority of such entities. Raimo Väyrynen states that '[u]sually, international institutions are the best friends of small states' (Calleya, 2016). Being integrated into international organisations gives small developing states the opportunity to reduce the insecurities stemming from vulnerability and allows them to participate in the processes occurring within the international organisations (Jazbec, 2001).

The key challenge is to implement a strategy that enhances our resilience at a time of so much disruption. In order to achieve such outcome, small states must avoid adopting a defensive strategy. Instead a proactive stance should be adopted that ensures participation in international cooperative structures such as international organisations, regional initiatives, and partnerships so that we can amplify our voice as a proponent of peace in the Mediterranean.

In its most recent foreign policy strategic review (Ministry for Foreign and European Affairs, 2022) Malta has successfully highlighted that it is of utmost importance that it continues to maximise opportunities for influence



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in strategic regions and multilateral fora. In Malta's case, this includes enhancing its role as a member of the European Union, continuing to strengthen relations with African countries, and developing regional framework for other strategic regions and continents such as the Gulf and the Asia-Pacific (Strategic Goal 3 within the policy).

In order to attract such activities it is essential that a country moves away from its national approach to international relations and adopts a more regional-based perspective of relations. Adopting a region-state approach will increase the spectrum of opportunities that a country can take advantage of when formulating its foreign policy agenda.

A region-state is a group of people that establish themselves as a dynamic economic unit and takes advantage of cyber-technology to advance its people's creativity and obtain prosperity from the rest of the world. Region-states are economic units that permit the free flow of capital, information, companies, and consumers. Ireland is a clear example of a successful region-state – it has adopted a series of foreign policy

strategies that have all been geared towards taking advantage of the opportunities at a regional level of operation.

Key components of a prosperous region-state are a large educated class capable of providing some service on a global scale, an international airport and capacity for international freight handling, and last but not least, a highly developed cybernetic infrastructure.

Given that Malta is geographically proximate to one of the world's most dynamic zones of technological innovation, Europe, and is also at the centre of the world's busiest sea routes, the Mediterranean, there is no reason why Malta should not be able to continue to absorb innovative technologies. With the services sector expected to continue to grow at a very rapid rate globally Malta must continue to strengthen its technology-based services in different sectors including tourism and financial services and offer state-of-the-art research and development facilities for multinational technology firms that are seeking to expand their business in the Mediterranean area.

In contemporary interdependent world system political and economic goals often converge. It is therefore in Malta's interest to promote its geographic location (Europe and the Mediterranean) with its comparative advantages (relatively competitive salary, well educated, English speaking, highly-skilled workforce) when mapping out its domestic and foreign policy strategy.

As a European country with a Mediterranean dimension, Malta is correct to pursue a foreign policy agenda that seeks to make the best of both worlds by playing on its comparative strengths (Ministry of Foreign and European Affairs, 2022). At a regional political and economic level it seems logical that Malta should focus on becoming a value added political and economic centre with networks throughout the entire Mediterranean region and beyond (Strategic Goal 2 within the policy).

Such a strategy will allow Malta to maximise its foreign policy potential as an EU member state and global player. The EU will be able to rely on Malta to help it implement its free trade framework in the Mediterranean. Moreover, North

American and Asian investors with an interest in the Mediterranean could re-locate to Malta and conduct their regional affairs from this centre of activity in full knowledge that as a member of the European Union, Malta's political and economic stability is guaranteed.

As the world moves towards a post-pandemic moment, Malta finds itself functioning in a more volatile international system. The challenge that lies ahead is to navigate Malta's independence and maintain its impressive post-EU membership rate of economic growth. The more Malta is able to voice its national, regional, and international concerns at a multilateral level of diplomacy, the more Malta will be able to safeguard its interests.



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