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The sustainability of the manufacturing industry in Malta

by Ing. JP Sammut

Statements that the output of manufacturing has decreased and that of the tourism industry has increased may lead some to wrongly conclude that tourism has overtaken the manufacturing industry in importance and size.

The contribution of Malta's manufacturing output has not decreased as some sources infer, but rather it has increased by migrating to higher value adding activities.

The manufacturing output in apparel has migrated, among others, to a slightly lower output of the electronics and pharmaceutical sectors but with a much higher value and so is more beneficial to the national economy. So though it may be true that overall the output volume is less, the increasing sectors contribute more to the economy than those lost. This is because the targeted increasing sectors typically have a higher value adding than the apparel sector. This is supported by the statistics showing an overall increase in the wages and salaries per capita within the manufacturing sectors. Furthermore the statistics also show an increasing investment per capita also in the manufacturing sector.

Meanwhile international manufacturing is also becoming more complex to define as it involves more and more specialist subcontractors in the areas of product design, training, logistics and maintenance. Take these manufacturing activities out from under the umbrella of a large manufacturing enterprise and suddenly you have a fledgling service industry that falls squarely within the definition of a knowledge based industry. These services, allied to the manufacturing industry, are dependent and integral to the current definition of manufacturing and are very different to the other services industry. However this same fragmentation of the manufacturing sector also contributes towards the misconception that the local manufacturing sector is decreasing while the services sector is increasing.

The smaller specialist enterprise can benefit significantly from this fragmentation of the manufacturing industry because the larger enterprises realise that these specialist firms offer solutions that are more cost effective than those nurtured internally. This fragmentation also leaves the large enterprise with more time and energy to focus on its core business. The large enterprises are looking more and more outside their companies not only for innovative ideas on their product design, but also on innovative ideas on how their products are produced, marketed and sold.

Manufacturing encompasses the full chain of activities from marketing to designing a product that the market needs; the making of the product right to the sales; and logistics as well as after sales care. One may rightly argue that typically the foreign companies with production units in Malta have opted to keep the marketing and product development units safely tucked away in their native country. However the Malta Enterprise incentives now also target continuing foreign investment this time also in product development and marketing to complement their local production units. This would not only lengthen the sustainability duration of the bundled foreign activities, but it also opens new opportunities for our workforce to gain new skills in marketing and product design.

Becoming a local specialist firm globally supplying innovative services to large international enterprises is not easy. Of course information and communication technologies (ICT) are the enabling tools for this service to take place. What is more important however is that the local service provider has crucial first hand experience and skills in the manufacturing sector that has conveniently been provided by the larger foreign investors. This is the true knowledge industry part that adds that extra added value and increases our competitiveness.

Of course the increasing potential in the service industry is not only restricted to the services allied to manufacturing. The industries involving call centres, financial services, ICT and tourism are also very important to the national economy. However the advantages and opportunities that arise from the successfully evolving manufacturing sectors are also important for Malta's long-term strategy. These may not be clearly visible to the public, but the successful foreign direct investment in local manufacturing, and the allied service sectors, still has a long and important contribution to our continuing economic sustainability.



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