

MALTA

Japan's innovative gateway to the EU and Africa

The islands' geographical location and world-leading approach to innovative industries, such as financial services, gaming and blockchain, make it the ideal base for investors looking to make the most of this year's EU-Japan Economic Partnership Agreement.

The signing of the EU-Japan Economic Partnership Agreement has turned the attention of investors toward a small, Mediterranean archipelago: Malta, a country intent on "leading the way" in future economic and trade relations between Europe and Japan, said the islands' Prime Minister Joseph Muscat when meeting Prime Minister Shinzo Abe in 2018. Its economy is one of Europe's strongest, noted Minister of Finance Edward Scicluna. "Our economy is growing rapidly, in 2017 at over seven percent and in 2018 at just under six percent. Investors are seeking us, rather than us seeking them," he said.

Malta has geographical advantages for those investors, not least as the ideal gateway to Europe, he explained: "We have the Euro currency, so if you do business with Malta, you do business with all of the EU. And Malta is one of the easier EU countries in which to do business—it shares a language and a lot of business values with the U.K., which is moving away from the EU. Malta is also a base to operate in Africa and the Middle East."

Parliamentary Secretary for Financial Services, Digital Economy and Innovation, Silvio Schembri, gave more reasons for the country's ascendancy: "Malta offers stability in its economy, legislation and politics. It is also small, nimble, flexible and excels at innovation, be it technological, legislative or otherwise. We are welcoming and have a dynamic relationship with investors." As a result, Malta is at the vanguard of cutting-edge industries, such as financial services, gaming and, most recently, blockchain. "We put experts and the best legal minds together and take modern ideas from birth to fruition, way ahead of many other countries," said Scicluna.

This approach makes Malta ideal for Japanese investors, according to Schembri: "Historically, we have a good relationship. Our prime ministers have huge mutual respect for each other and we are determined to build on that. If we look at our present export-import relationships with Japan, there is, for example, a huge success with our highly respected tuna exports and we have to replicate that success in other areas. There is a lot of opportunity for both countries to act together."

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Edward Scicluna, Minister of Finance

The first port of call for Japanese investors should be Malta Enterprise, the islands' economic development agency that is responsible for attracting foreign direct investment (FDI), helping companies to grow, encouraging exports and advising the government on business-related policies. "The role of Malta Enterprise is very important," said its CEO Mario Galea. "We support 60 percent of the components of the Maltese economy at the moment."

The organization's staff have a wide variety of skills and backgrounds, allowing it to work with investors in all sectors to ensure their requirements are understood and met from the start of any project. It is equally concerned with the long-term success of investments and endeavors to find solutions



Edward Scicluna
Minister of Finance



Silvio Schembri
Parliamentary Secretary for Financial Services, Digital Economy and Innovation

to issues faced at any point in a project's life cycle. Partly to guarantee excellent support, it has established an Institute of Foreign Direct Investment Studies to provide high-quality research and training in FDI management.

According to Galea: "Malta's success is driven by different factors. First, I would point to our diversified economy. Manufacturing, tourism and hospitality, financial services, e-gaming, engineering, plastics, aviation, maritime, information technology, pharmaceuticals and life sciences, for example: they have all seen tremendous growth and there is room for more in every sector." Another benefit for investors, he stated, is: "We have a cluster approach. We try to build an ecosystem and attract a number of companies from the same niche. A great example would be aviation, for which we have created a one-stop shop that benefits all stakeholders. Also, what really differentiates us from a number of other competitive countries is that we have a very good labor force and regulatory framework, plus great incentives and communications at all levels."

Scope for exports is another benefit. "Malta offers countless possibilities for Japanese companies, especially ones wanting to enter Africa, as our

industries. "We are studying a project to get a couple of accelerators that could work with us in order to encourage local and foreign startups. We have support from universities, entrepreneurs and the private sector, and the access to finance is good, so the situation is encouraging," said Galea.

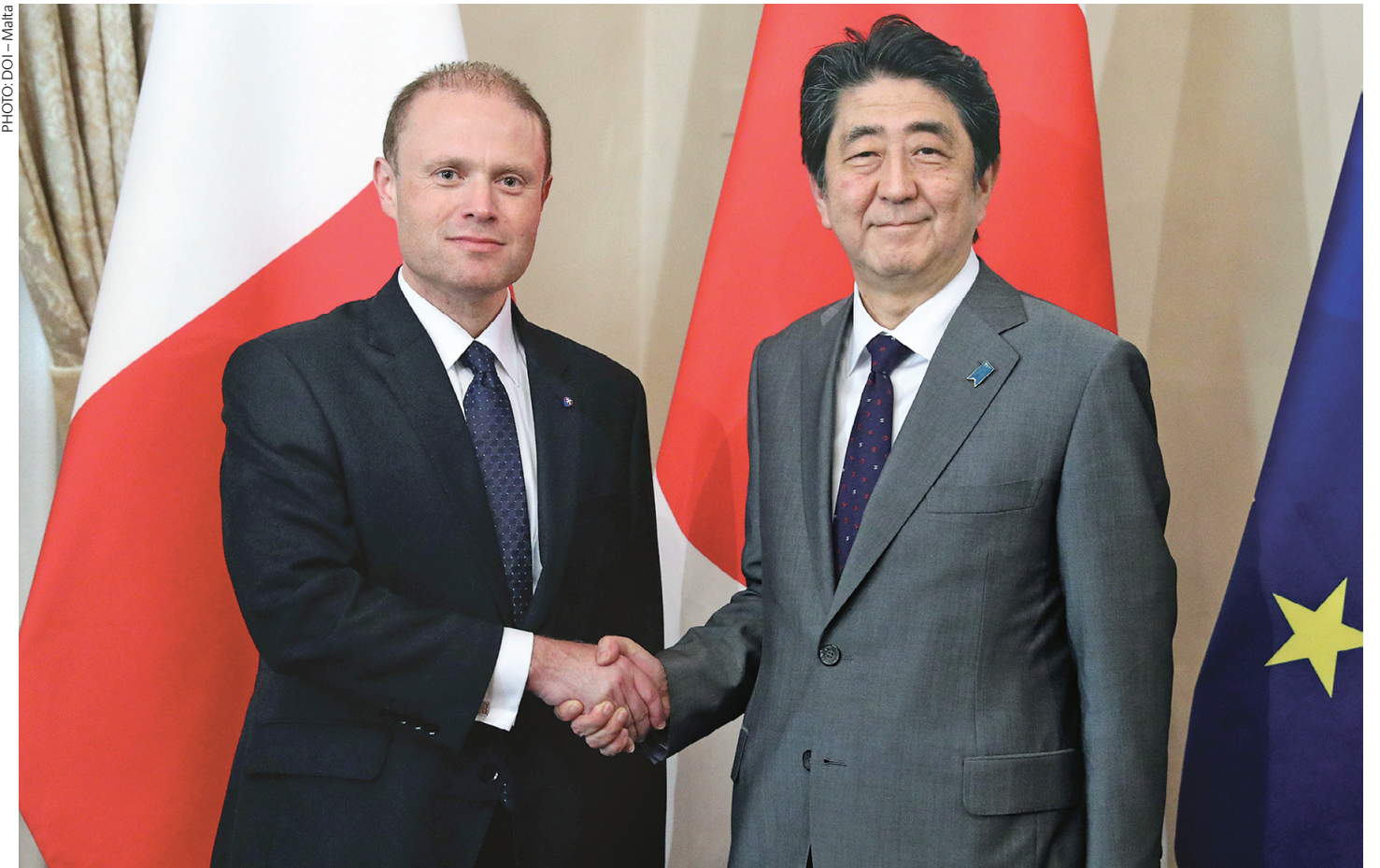
The blockchain island

One of the reasons behind this funding accessibility is that, "The Maltese financial services sector is robust and prospering," stated Schembri. "Not one of our banks needed a bailout during the global financial crisis, for example," said Scicluna. "They are quite conservative, they stood firm and this is what they have to show for it: high liquidity and profitability above the EU average."

Over two decades, the contribution of financial services to GDP has risen dramatically, with Malta now firmly established as a global financial hub, especially in asset management, insurance and private-sector finance, said Kenneth Farrugia, chairman of FinanceMalta, the public-private initiative promoting the country as a center for international finance. Farrugia explained why the world's leading players in those sectors moved to Malta: "Our thrust in financial services was driven by innovation. We developed very strong legal and regulatory frameworks quickly, giving us first-mover advantage."

In addition, "We are cost competitive in comparison to other European financial centers—salaries here are about 25-30 percent lower. Then, it's the accessibility of our regulator, which is very pro-business and meticulous. On top of Malta's overarching economic and political stability, the continuous dialogue between industry, policymakers and regulators has been very important," he said.

That dialogue has been central to Malta's latest innovative step—its transformation into Blockchain Island and intention to be at the forefront of fintech and the digital economy. "It will be the future and Malta went for it," explained Scicluna. Using its experience of establishing world-class regulatory frameworks for other financial services and gaming—and after detailed discussion between all stakeholders—the country set up the world's first holistic legislative framework for distributed ledger technologies (DLTs), including blockchain, in 2018. "We have a new Malta Digital Innovation Authority,



Maltese Prime Minister Joseph Muscat meeting Japan's Prime Minister Shinzo Abe in Tokyo in August 2018.

and have enacted three new bills for this sector to flourish. These are focused on market integrity, consumer protection and industry protection, and give certainty, clarity and transparency for virtual assets and cryptocurrencies," said Schembri.

Fintech is already having an impact on Malta's financial sector. In 2018, the Malta Stock Exchange's (MSE) innovation, digital and fintech arm—MSX—announced it was developing two platforms for listing and trading security tokens in partnership with leading crypto-exchanges Binance and Okex. "This should place the MSE into a new league—we really are trailblazers here," stressed Joseph Portelli, executive chairman of MSE, who believes Malta can be the "Silicon Valley of the Mediterranean."

This is just the latest modernizing step from MSE. "Since my appointment as chairman three years ago, I decided we had to take certain approaches that will be different from the traditional ones," said Portelli. "Within three years, I believe we could be one of the world's first blockchain-compatible stock exchanges. We are nimble and agile, so should be able to move quicker than others," he said, adding that he would love to look for synergies with Japanese exchanges for further modernization.

Driving the global e-gaming sector

Malta hopes its blockchain sector will repeat its first-mover success in gaming. "Today we host the biggest cluster of gaming companies in the world," said Scicluna. In 2017, gaming contributed 11.3 percent of Malta's GDP. "Malta was one of the first European countries that regulated online gaming in 2004," explained Heathcliff Farrugia, CEO of the Malta Gaming Authority (MGA), the independent regulator responsible for the governance of all Maltese gaming activities. "Now, we have a very strong gaming ecosystem that includes top business-to-business services, so any firm or startup that comes here has what it needs," he added. That

ecosystem includes MGA's own European Gaming Institute of Malta, set up with the Malta College of Arts, Science and Technology to address training needs.

New innovations are constantly being introduced as gaming develops. For example, a new gaming law was enacted in 2018 that gives the regulator more flexibility in its operations. As a result, Farrugia is not worried about the introduction of cryptocurrencies to gaming. "We have a strong reputation as a regulator and our role will be to keep that momentum," he said. Alongside the government, MGA was also responsible for establishing the independent nonprofit GamingMalta foundation, which promotes Malta as a center of excellence for remote gaming, and liaises with authorities to improve Malta's attractiveness to investors and enhance the gaming ecosystem.

GamingMalta's role is to position the country as the "home of gaming excellence," said Ivan Filletti, its head of operations and business development. "We do this by engaging with all key stakeholders, and by connecting the dots within the different parts of the gaming ecosystem, both locally and internationally, to promote, strengthen and accelerate growth in gaming," he said. One of the ways the organization achieves this is through networking events and international roadshows, which also attract investors and give startups a platform. In addition, GamingMalta is increasingly reaching out to non-gaming, mainly technology, companies to raise awareness of the skills and knowledge that the sector has brought to Malta.

Looking to the future, Filletti is excited about the dynamic e-sports sector. "Malta has all the right credentials to become an e-sports hub and the government is strongly backing this," said Filletti. "Our advanced information technology infrastructure and an ever growing e-sports community, coupled with Malta being a natural tourist destination,

means the sector will find a welcoming home here. We also see simulation racing as an area for continuing encouragement." GamingMalta is also focused on building on the country's reputation as a digital creative hub. "We already have successful video gaming companies here and we want to ensure that structures are built to give further and sustainable impetus to this sector. By working closely with the sector, we can enhance the digital gaming ecosystem and attract key talent to Malta," he said.

Testament to Malta's creative potential is the recent relocation of the weeklong Trojan Horse Was a Unicorn (THU), an internationally renowned gathering of digital artists, to the islands. The 2018 edition brought over 1,000 creatives and creators from all corners of the world to Malta, including executives from the world's top entertainment companies. "THU is set to become a vital showcase of Malta's digital creative ecosystem, which is expected to grow and gain further global recognition in the years ahead," stated Filletti. The driving force behind Malta's creative industries is skills transfer, with companies operating out of Malta benefiting from expertise gained in the e-gaming sector, in areas such as analytics, data mining, personalization and customer experience, as well as the monetization of content.

The relocation of most of the world's major players in blockchain and cryptocurrencies to Malta on the back of the island's groundbreaking fintech regulations brings new opportunities for innovators in gaming, said Filletti—particularly in terms of game license verification, game token monetization and the management of what can be millions of assets within a game. In addition to gaming, Malta's transformation into Blockchain Island opens up opportunities in many other industries—as Prime Minister Muscat said, "The time had come for Japan to give serious attention to the potential of Malta as a foreign direct investment location."



GAMING MALTA

HOME OF GAMING EXCELLENCE

gamingmalta.org

GamingMalta is an independent non-profit foundation set up by the Government of Malta and the Malta Gaming Authority (MGA). Tasked with the remit of promoting Malta as a center of excellence in the digital and remote gaming sector globally, it is also responsible for liaising with the local relevant authorities to improve Malta's attractiveness as a jurisdiction and enhance the ecosystem surrounding the gaming industry.



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Financial services guardian MFSA protects players

As the single regulator for all financial services activities in the country, the Malta Financial Services Authority is a pivotal figure in the fast-growing sector, working around the clock to ensure companies comply with strict legislation.



As banks and financial services providers across the world find regulatory spotlights shining on their operations like never before, Malta's industry guardian is meeting a series of challenges head-on and with confidence.



Joseph Cuschieri
CEO, Malta Financial Services Authority (MFSA)

Responsible for regulating and supervising credit and financial institutions, investments, trusts and insurance businesses on the island, the Malta Financial Services Authority (MFSA) has created a streamlined and efficient environment that has allowed industry players of all sizes to flourish amid healthy competition.

Headed by charismatic and dynamic CEO, Joseph Cuschieri, the MFSA continues to go from strength to strength as it ensures operators comply with stringent compliance legislation and meet international industry best practices.

In addition to housing Malta's Companies Registry, the MFSA's tasks include the issuing of guidance notes and the monitoring of local and international developments in the ever-expanding sector.

By working with relevant parties on legislative matters, the industry watchdog encourages and promotes the highest standards of compliance, as well as playing a major role in quality training.

Here, Cuschieri expands on the role of the MFSA and why industry players from Japan and beyond should seize the moment and explore the myriad of opportunities Malta has to offer.

You were appointed to the position of CEO in April 2018. What is your personal vision and mission for the organization?

We need to become a top-tier regulator. We need to have new technology as a critical mission within the organization. We need to use the latest technology for our regulatory activities. Also, we need to invest in advanced technological platforms. Technology will unlock the MFSA's true potential. It will make us more efficient as a modern regulator. I want us to be one of the most modern regulators in the world.

We must fully embrace fintech. Fintech is not

about cryptocurrency only, it is only a component within the chain. Fintech will revolutionize financial services products. The future is now — in the sense that those financial services institutions, banks, insurance companies and other operators must embrace the technology otherwise they run the risk of falling by the wayside. I want the MFSA to be up there, to be a thought leader in the technological space.

In meeting with the Japanese Prime Minister Shinzo Abe, Maltese Prime Minister Joseph Muscat stated that the time is at hand for Japan to regard Malta as a serious destination for foreign direct investment and a destination from where Japanese multinationals can run their European operations. What are your thoughts on Malta as a business hub, in comparison with other EU countries such as the Republic of Ireland and Luxembourg?

Malta has a very rich history and established democratic traditions. We have sound, democratic

institutions, including courts and regulatory authorities. Malta has also been heavily influenced by its rulers — the Phoenicians, Byzantines, Arabs, French, English ... this gave us a degree of resilience.

Malta has a deeply embedded level of resiliency. We are small and have been punching above our weight for centuries. Since our independence in 1964, we have been fully focused on our economic development.

Now, we have managed to shift our economy from that of a low-cost manufacturing centered economy, to high-end services focused (aviation, maritime, financial services, gaming, information technology, logistics).

Today, Malta is one of the most agile and nimble economies. Our size enables us to adapt quickly to the environment around us. We are very quick to implement legislation.

Given our size, politicians and policymakers have their ears closer to the ground, compared to other jurisdictions. Our administration is very accessible. We are readily available to listen to investors and their challenges.

This approach helps us to adapt and overcome crises. Malta, in the financial crisis (of 2008), was hit, but not as bad as other jurisdictions. Our resilience and conservative — sound — banking sector ensured that. No banks needed to be bailed out. We are forward-looking and open to business. If you have a good idea, we will make it happen.

A key consideration for any foreign entity entering a new market is belief in the structures and competencies of the regulating bodies. What are the core strengths and challenges facing the MFSA?

We can also discuss the streamlining of its services to cater to international players and the training and skills development of its staff. I entered the MFSA at the right time to ensure it becomes a technologically advanced, top-tier regulator — one of the most respected financial institutions in Europe. To do that, we need to invest not only in technology, but in our people.

We need to invest in the development of skills of the future. I am very impressed with the skills we

have here already; the competencies, knowledge, experience, passion and integrity are impressive.

Looking ahead, we need to increase our human resource capacity. We need to invest more in training, particularly in fintech. Fintech will affect all sectors that we regulate. We need to improve our corporate image — we need to become more of an 'employer of choice', our employer branding needs to be improved.

We want young graduates to look to us as an attractive employer. The MFSA is an enriching work environment and affords individuals true job satisfaction. I want there to be an emotional component between the employer and the employee.

The Wall Street Journal recently commended the Maltese financial services sector for its robust policies, diligence in tackling money laundering whilst embracing an extroverted, globalist and internationally integrated approach. What are your thoughts on ensuring stringent financial policies and best practices while remaining an attractive financial services hub for foreign players?

The fight against money laundering is a global problem. There was an article in the Financial Times recently which estimated that \$1 trillion has been laundered through the global financial system — that is a big, big challenge.

In focusing on Europe, we also know it is a local problem and money laundering has become more sophisticated than ever before. There are complicated structures in place to avoid regulating and tracking of funds. I do not believe we will ever get rid of money laundering, but what we can do, is to have strong lines of defense.

We need strong, solid systems in place that minimize the risk of money laundering. The way to do that is to have proper structures constantly under review. We need to have the right technological platforms which will offer us more information.

Ultimately, it is about how you manage intelligence, collect data, store, manage and process it. You have to innovate all the time. There must also be more European-wide collaboration. All

member countries must have the same standards of application.

We must also increase awareness and public knowledge of this problem. It is an area in which you must constantly improve.

The reality of laundered money is the source itself must be tackled, the crime itself where the money originates from must be addressed. Secondly, robust systems of checks and balances must be

“Within the next couple of months, we will publish a fintech strategy which will comprehensively explain the vision of the MFSA. We are the regulator and need to lead, so whoever operates under our regulations, understands what is expected. We need to be the guiding beacon.”

Joseph Cuschieri, CEO, Malta Financial Services Authority (MFSA)

put in place to reduce the risks.

Could you offer us an overview of the key role of the MFSA in the continuous modernization of the Maltese financial services sector in line with governmental objectives, including a particular focus on blockchain technology and the signing into law of various legislations aimed at developing the industry?

The MFSA is, as of Nov. 1, 2018, regulating crypto-assets. We are pioneers in this field. That is a good start, but more needs to be done. We need to lead the way forward. We need to articulate our vision — show that this is the vision of the MFSA for fintech. Within the next couple of months, we will publish a fintech strategy which will comprehensively explain the vision of the MFSA.

We are the regulator and need to lead the way, so whoever operates under our regulations understands what is expected within the sector. We need to be the guiding beacon.

What are your future projections for the Maltese economy, given the current strong GDP growth,

and what are the particular reasons why Japanese businesses should take note of the current momentum of the Maltese economy?

The projections of the economy, in line with the vote of confidence in the Maltese economy from the credit-ratings agencies, is for the next three years, we will perform at an above annual average growth rate — at least 5-6 percent. That is very reassuring.

The credit ratings agencies are praising our banking standards, the stability of our economy, how we are handling public debt, our deficit — our public finances have been in surplus for the past two years. This means we can invest more in infrastructure and the upkeep of the country, catering for the influx of foreign workers.

My message to Japanese investors is Malta is a great place to do business. The environment is very friendly. It is geographically centrally located and very accessible to mainland Europe. We can be a hub or a link for Asian firms to establish their businesses. We have many multinationals already.

They are overly satisfied with our legislation, fiscal frameworks, incentives, connectivity, information and communications technology infrastructure — these are all positive aspects. Our ecosystem is structured in a way to truly accommodate these multinationals, particularly those also focused on creating a digital economy space.



Gozo: Experience the difference for yourself

Blessed with a wealth of history, culture and natural beauty, the island of Gozo is building its economy by diversifying into new tourism sectors and other innovative industries, and by making itself more accessible to both tourists and investors.

Just 5 kilometers from the larger island of Malta lies Gozo, one of the Mediterranean's hidden gems whose economy is growing at above 5 percent a year. "It's the best part of Malta. When you step onto it, you can see and feel that there's something different here," enthused Minister for Gozo Justyne Caruana. And as the pristine little island gains increasing international recognition, more and more investors and tourists are experiencing that difference for themselves.



Justyne Caruana
Minister for Gozo

The tourists are coming for its scenic beauty, untouched countryside, some of the Mediterranean's best diving experiences and a perfect coastline that has received recent accolades from, amongst many others, the New York Times, Conde Nast Traveler and Travel + Leisure magazine, which named Gozo's Ramla Bay as one of the world's seven most beautiful red-sand beaches.

Beyond its natural assets, it is also rich in culture and heritage. "Divers can explore undiscovered Roman remains and a Phoenician wreck, for example. On land, we have the Ggantija temples — the oldest freestanding stone structures in the world. An upcoming European Union-funded project is a new museum and we are finalizing the tenders for that at the moment," stated Caruana.

As with the recent renovation of Gozo's

Cittadella, an ancient fortified city that dominates the skyline, this new museum is in line with the island's long-term regional development strategy that aims to preserve and enhance Gozo's strengths, while developing it in a sustainable manner and making it more accessible. This strat-

egy brings with it significant opportunities, many of which should interest Japanese investors.

Sustainable development is key
Sustainability in economic development is vital to Caruana. "With tourism, we're not after more visitors. A next step I'm really keen on is upmarket, specialized tourism.

Our offering of hotels is excellent but I would love to see the construction of a grand upmarket hotel, for example. The richness of our ruins and remains will be key in the future but we are diversifying who we can attract," said Caruana. That diversification encompasses sectors the island is well suited to, such as religious, business, sports, medical and wellbeing tourism.

To make Gozo more accessible, all of its physical infrastructure is being upgraded, she said: "This requires a high level of engineering and technology, and we would welcome Japanese expertise. For instance, our port is too small, so we're looking into its reorganization and expansion." The government has long-term plans to create a tunnel link to Malta, but in the meantime it is modernizing the services of the Gozo Channel Co., which runs the ferries that take 30 minutes to reach the bigger island. "We have a new call for tenders — open to private participation — to optimize the



Dominating Gozo's skyline, the newly renovated Cittadella contains a number of historic buildings, including a baroque cathedral.

fleet, make it more user-friendly, and introduce new IT and online e-ticketing systems," she explained.

The ferries are used by millions of tourists every year, but are also being used by a growing number of young Gozitans who had moved away from home. "We noticed that the perception of a lot of young people was there was nothing to do here. We have changed this, with the creation of a special program of events and activities. Instead of coming for a couple of hours to visit their parents, they now come for the weekend," said Caruana.

The first-class nature of the events Gozo is now hosting means these Gozitans are joined by young attendees from all over the world, with 2018's

Abode on the Rock festival attracting about 1,500 international music fans.

The ferries are also increasingly used for work travel, as Gozo's rejuvenation extends far beyond tourism. "Our economy is diversifying. Manufacturing was our strength in the 1970s but we are moving towards very different jobs. Although unemployment is next to zero, we are investing in the private sector to enhance people's work possibilities. The digital sector and financial services are two examples of areas in which we are seeing movement," she noted.

"We've done a lot of work on attracting companies to move here and some big names are coming, which we will announce soon," Caruana said.

Those firms are drawn by new initiatives that include a park for small- and medium-sized enterprises, a research and innovation hub, and a "cash back" of 6,000 euros made to businesses for every job they create on Gozo. In addition, the island's small size and high quality of life makes it very safe, and fosters creativity, innovation and productivity.

It would be easy for a stunning island like Gozo to sit back and rely on tourism for future economic growth. However, "Gozo is beautiful but it also needs to progress in a sustainable way. We are here to work, we are very flexible, we are very open and we have an ambitious development strategy that I'm looking forward to sharing with the world," she stressed.

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