

SCOTLAND'S TRADE POSITION AND PERFORMANCE:

The Scottish Government's [Economic Strategy](#) emphasises the opportunity to rebalance the economy through increasing exports. Exporting more will enable companies grow, become more productive, learn new techniques and benefit from a broad customer base. It is SDI's intent to support this growth as much as possible through working with businesses that already, those with the desire to export, and to stimulate a mindset change in Scotland towards thinking internationally.

1. SUMMARY

This paper provides a summary of Scotland's trade position and performance using the most recent data available from the ONS and the Scottish Government. Also covered are the key strengths and weaknesses that affect trade in Scotland along with some of the most important issues and opportunities to be faced in the future. Finally, some thought has been given to the role that SDI is playing in shaping Scotland's export performance.

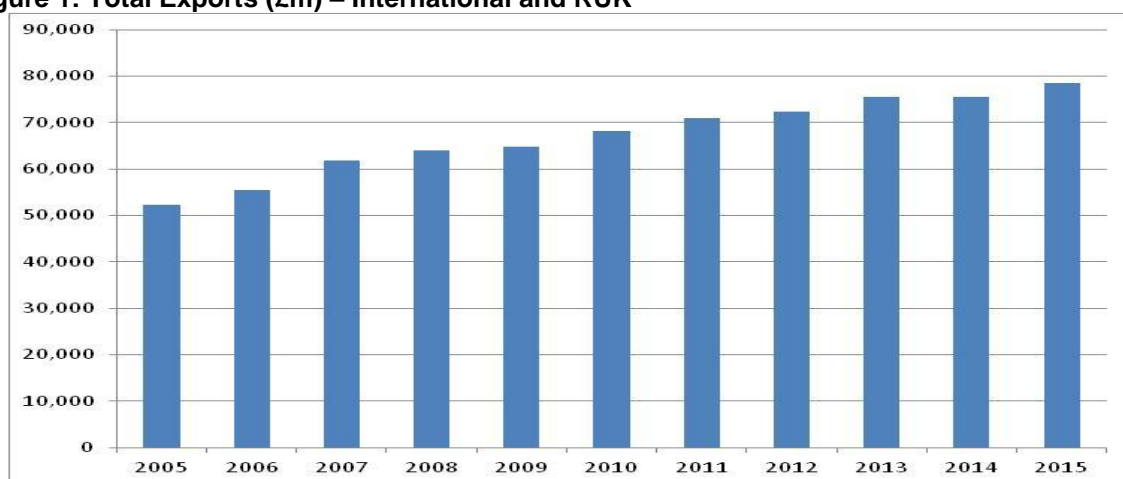
2. EXPORTS

Scotland's international exports have changed significantly over the last 10 years. Some summary information on Scottish exports and exporters, are highlighted below, and further detailed analysis of the exports market is available in the paper 'Scotland's International Exporting Performance: Some Recent Evidence' produced by SE in Summer 2017.

The Volume and Value of Sales

Scotland has seen **an increase in exports** in recent years (See Figure 1 below). Total exports (including to the Rest of the UK) rose by 50% from £52,390 million in 2005 to £78,570 million in 2015. In 2015, 36% of exports were international (£28,740 million). The proportionate split between UK and international sales has stayed broadly similar over the last decade, although there has been a slight movement towards **more international sales**. Currently SE does not support trade with the rest of the UK.

Figure 1: Total Exports (£m) – International and RUK

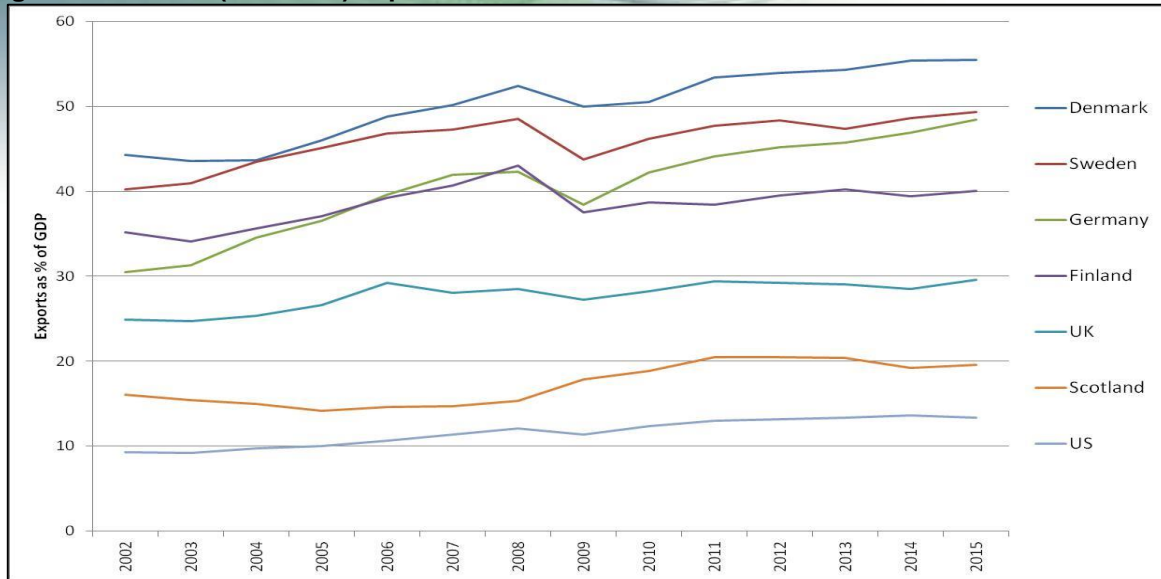


Source: Scottish Government

Performance Relative to other Countries

Exports as a % of GDP provides a comparable estimate of the contribution exports make towards a country's economic output. Relative to other countries, Scotland ranks in the **bottom quartile; 33rd out of 36 countries**; this means that if Scotland were to have the same level of exports as a proportion of GDP as other countries ranking in the top quartile, Scotland would have **additional £35,837m of exports annually**. (See Figure 2.)

Figure 2: Scottish (overseas) exports and those of other OECD Countries as a % of GDP

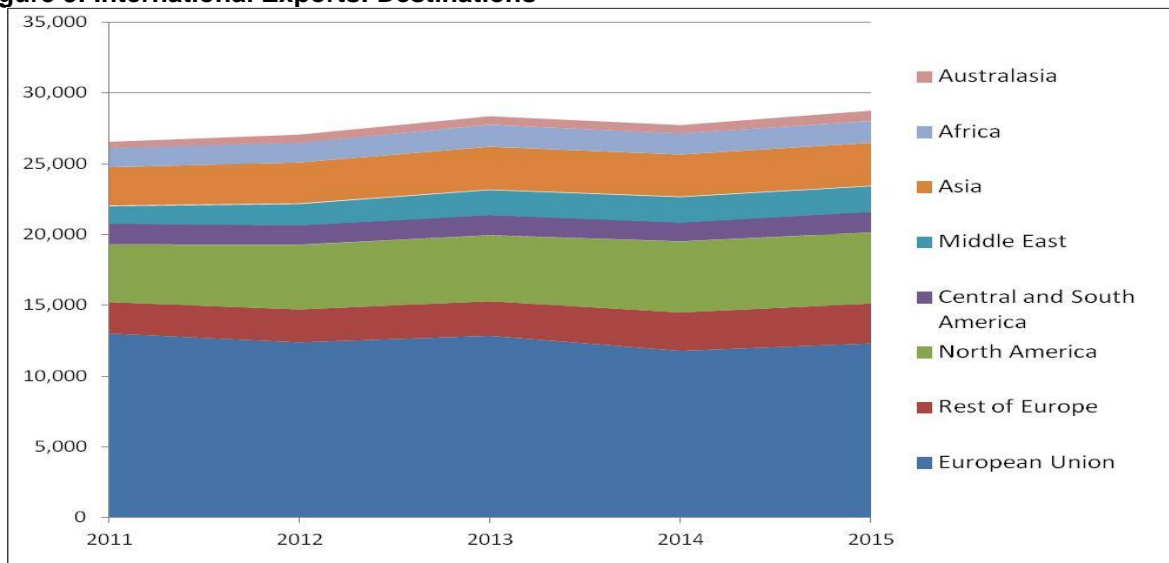


Source: OECD, Export Statistics Scotland 2015

Destinations

Scotland’s largest overseas export market is the EU. In 2015, 43% of Scotland’s international exports were to the EU (£12,305 million). By individual country, Scotland’s largest markets are: **the US** (16% of international exports), the **Netherlands** (8%), **France and Germany** (both 6%). See Figure 3.

Figure 3: International Exports: Destinations

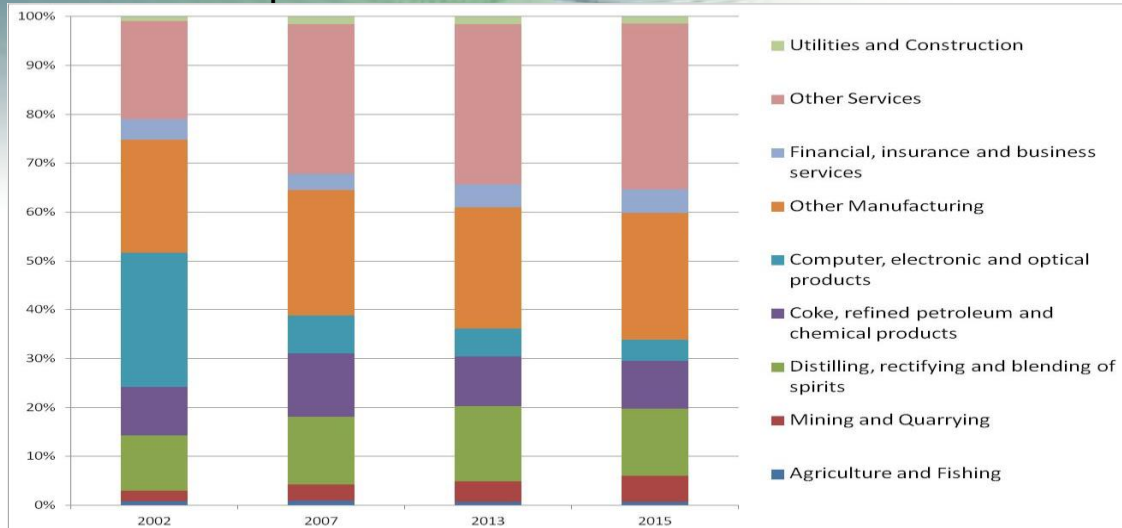


Source: Export Statistics Scotland 2015

Sectors

The most dominant sectors in Scotland are within the Manufacturing sector, where 17% of international exports are in the Food and Drink sector, and of that, 13.4% are from **The Distilling and Blending of Spirits’**. **Oil and Gas** is another big exporting sector, contributing **9.6%**. Within the service sector, the largest single export contributing sector is within **Professional, scientific and technical activities; 12.2%**. Since the early 2000s there has been a significant movement away from the export of computer and electronic products. See Figure 4.

Figure 4: International Exports: Sectors

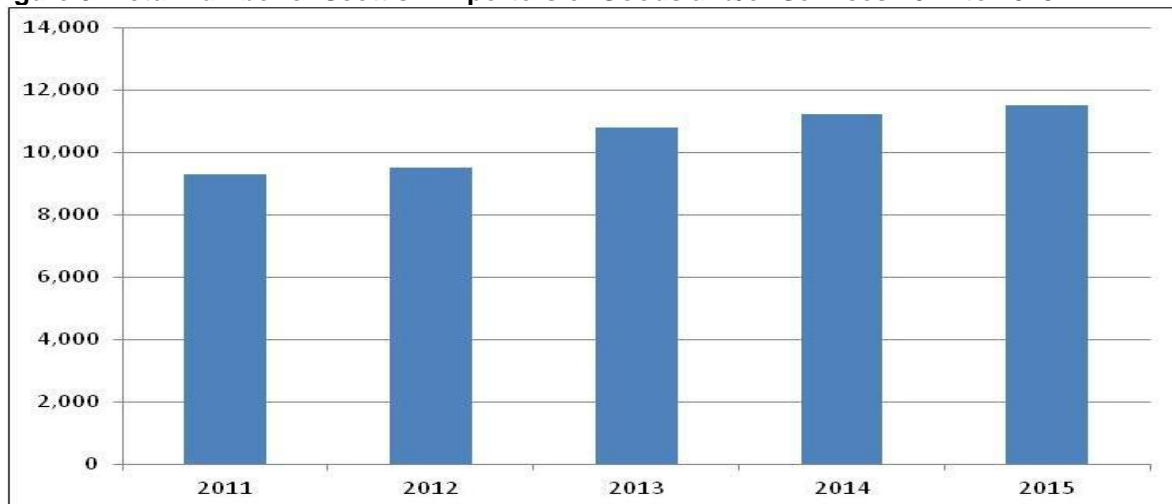


Source: Export Statistics Scotland 2015

Number of Exporters

Scotland has a **lower proportion of exporters** than other GB regions at 6.8% (11,500 businesses) compared with a high of 12.4% in the South East. If Scotland were to match the GB average there would be an **additional 5,600 exporting companies here (almost a 50% increase)**. International data also suggest that a lower proportion of Scottish SME's are exporting compared with other OECD countries. Exports are also highly **concentrated**: an estimated 15 companies account for 30% of Scottish exports. Size also plays a part in whether or not a company exports, with **large companies accounting for 54% of all Scottish exports**. See Figure 5.

Figure 5: Total Number of Scottish Exporters of Goods and/or Services 2011 to 2015



Source: Annual Business Survey 2016

3. STRENGTHS

This section provides a brief overview of the trade strengths and weaknesses that Scotland shows:

- **High quality products and services:** In terms of exports, Scotland's strengths are in **premium, high value consumer products with trusted provenance** such as whisky, seafood and textiles, and services in the leisure, business, sport and cultural events sectors. The value of exports has been increasing in Scotland year on year, indicating that there is demand for the country's goods and services.

- **Stable and transparent trade regulations and ease of access to markets:** Currently, as part of the EU, Scotland benefits from free trade movement within the EU as well as harmonised business regulations. It is hoped that, following Brexit, business regulations and tariffs will continue to encourage international trade.
- **Reputation:** Scotland is successfully building a reputation as a country that produces good quality, high-end products. It is also thought of globally as a strong trading partner. The Anholt – GfK National Brand Index¹, for example, examines the image of 50 countries by examining six factors: Exports, Governance, Culture, People, Tourism, and Investment and Immigration. Together these provide an overall indication of a country’s reputation. In 2016, **Scotland had an overall rank of 15th (the UK was 3rd)**, and this is improving. Scotland performed strongly in **Governance** and **Tourism** but overall emerged as a well-balanced country.
- **Current value of the pound:** As the value of the pound weakens, Scottish exports should become **more competitive**; as a result exporters can sell their products more cheaply and/or increase profit margins. However, demand for Scottish products and services depends on the economic position of the importing countries; it should also be noted that Scottish exports tend to be quite **inelastic** - being higher value makes them **less sensitive to price** changes.
- **A skilled labour market:** Many of the ‘products’ that Scotland exports are services rather than goods and while manufactured goods still comprise the majority of exports (52%), services exports (39% of total international exports) are growing. Over the ten year period to 2015 for example, the value of services exported from Scotland **rose by 92% to £10,880 million**. Scotland benefits from having a **highly skilled and educated workforce** that can add value at key points in the value chain process to maximise the contribution of manufacturing and services exports to economic growth.

4. WEAKNESSES

- **Too few exporters:** Scotland has a lower proportion of exporting companies compared with both other part of Great Britain and also with other OECD countries. As a result Scotland’s export performance is dependent on a **small number of key companies, sectors and markets**.
- **Lack of ambition amongst companies to export:** A **lack of ambition** to export and a **perception that products are unsuitable** are the main barriers identified by companies when it comes to exporting more or starting exporting. This is despite a correlation between exports and increased productivity. Evidence from the Small Business Survey Scotland 2016 shows that **97%** of non exporters do not plan on exporting in the future.
- **A potential over-reliance on Inward Investors:** Currently, there are more than 2,300 foreign owned companies with 314,000 employees operating in Scotland; many of these companies, which tend to be larger, export their goods and services. This in itself is not a problem, but there is a lack of smaller indigenous companies exporting and consequently too much reliance on foreign owned companies to generate export growth.

5. RISKS AND OPPORTUNITIES

Given political developments in the UK and globally, there are many risks that may impact on international trade. Some of the most important are:

¹ <http://www.gov.scot/Resource/0051/00513884.pdf>

- **Brexit:** Brexit is a significant risk to the Scottish economy. Given that the EU is our largest trading partner, it will be important to establish a strong trading partnership post Brexit with minimal export tariffs. Exactly how Brexit will impact on the country is still to be understood.
- **Political and economic uncertainty (e.g. US protectionist policy):** The economic contribution of exports is not just determined by that country but also by the countries it trades with. The **health of the global economy** has an impact on our own trade position. By country, the US is Scotland's biggest export market, so moves towards protectionist trade policies may have a knock-on effect on the demand for Scottish goods and services.

However, Scotland also has a number of opportunities:

- **Global value chains:** Global value chains are the activities that firms engage in, at home or abroad, to bring a product to the market, from concept to final use². There are various stages from product design and R&D to material and parts production and distribution to marketing and customer services. However, some stages of the value chain, e.g. product design and R&D generate higher value than other stages (e.g. assembly). Generally, Scotland is better placed to contribute to the stages in the value chain that demand high skilled, specialised labour such as R&D and marketing and these correspond to higher added value stages of the value chain. Scotland, therefore, has a good opportunity to promote itself as well placed to **engage in high value added activities** in the export process.
- **Technological innovation and digital trade:** The way companies are trading is changing; both small and large businesses increasingly rely on online platforms to connect and trade with customers. Online trade is now worth 10% of all global trade in goods and rising rapidly. Scotland is well placed to play a part in this, particularly given that the technology sector is a significant sector in Scotland, and **Digital Technology** alone makes up **approximately 5%** of Scotland's business base.
- **New markets:** Although Scotland has a number of reliable trading partners, there are many other emerging markets in Asia and Africa that could be targeted. It is likely that Asia will continue to drive global growth over the next decade, dominated by China. But China's population is expected to age rapidly during this period, with its consumption changing accordingly. Meanwhile, **Africa** will begin to emerge as a low-cost manufacturing location and a source of disruptive innovation. **Digital health, food productivity and education/training** are just three emerging opportunities in Africa where Scotland is strong.
- **Changing consumer demand:** According to a recent report by HSBC³, global consumer demand is expected to increase significantly in the medium term as people move out of poverty. In addition to the many associated technological changes impacting trade, there are likely to be new types of consumers emerge who will have different demands for goods and services. Scotland has an opportunity to tap into these different markets.

6. THE SDI APPROACH TOWARDS EXPORTS

SDI is the international arm of Scotland's enterprise agencies. Its role is to provide support and, where appropriate, financial assistance to help companies grow and trade worldwide. SDI support includes:

- Identifying and securing staff and skills

² OECD (2013) 'Interconnected Economies: Benefitting from Global Value Chains'

³ https://globalconnections.hsbc.com/grid/uploads/consumer_demand.pdf

- Staff training and development
- Providing capital investment
- Helping to improve efficiencies
- Developing leadership skills

To bring these areas of support together in a way that allows SDI to give the best support to companies SDI has developed **an export support framework** (using the acronym **ACE**); this comprises three stages:

- **Ambition & Awareness (A):** Here, SDI can help a pre-exporting business recognise that it may have the ability to be an exporter and assess what the opportunities are for it to be so. Developing an awareness of what might be needed and evaluating this need against the current position of the company is the first step in the ACE process.
- **Capacity and Capability (C):** Here, a company, with the help of SDI, will assess whether it currently has the ability to pursue export opportunities and what it needs to do in order to sustain this position. Once the company has decided to 'go', it will enter the market through its desired route – e.g. direct sales, agent, distributor - and seek the first sale.
- **Expansion and Extension (E):** Here, a company is helped to expand and will re-work its 'A' and 'C' decisions. However, these will become increasingly intrinsic as the business builds more experience. It is also at this stage that significant productivity enhancement can be seen both through 'learning by exporting' and growth in decision making efficiency.

The ACE model is the **main mechanism** that SDI, SE and Highlands and Islands Enterprise (HIE) use to support internationalising businesses. For companies completely new to exporting, initiatives like *Smart Exporter* focus on the activity and the 'A' and 'C' stages with the desired outcomes being more exporting companies. For account managed businesses and companies with some exporting activity the focus is more at the 'E' stage. For the former the agenda is to 'broaden' the export base, for the latter it is to increase the intensity of export sales to turnover in businesses as they grow.

Working in Partnership for Trade

However, for SDI to deliver the optimal support and to ensure the greatest returns to Scotland are achieved SDI works in partnership with others. The Enterprise and Skills Review outlined an explicit role for SDI in the emerging formal Regional Economic Partnerships and challenged us to consider how we might increase our contribution to Scotland's Inclusive Growth further. As Scotland's Trade and Investment agency SDI has national and international reach and a remit focussed on growth.

In responding to the challenge from the review, we are striving to play to our strengths and broaden our engagement across Scotland. In seeking to maximise the impact of the Regional Economic Partnerships on Scotland's trade performance our initial focus will be on:

- Maintaining, as the core overriding priority, the focus on **growth** explicitly set out in Scotland's Economic Strategy while also building a deep partnership approach able to respond to a variety of regional opportunities and demands as appropriate.
- Considering how we establish necessary **operational flexibility** capable of delivering appropriate trade support in response to the regional priorities across the country as they emerge. This will involve SDI in reviewing how it delivers operational support with explicit consideration of regional variations as well as greater emphasis on how we support and build partnership capacity across the full range of our trade priorities.

In addition to the support above, which may be classified as **trade service** support and most of which is co-ordinated through Scottish-based specialists, **trade development** activities to promote Scotland and Scottish-based companies as trading partners, most of which is co-ordinated through overseas (or London)-based specialists, also takes place. This combination of Scottish and overseas expertise provides a depth to our activities which few others can match. Government commitment to SDI's activities has recently been strengthened and announced doubling of trade support across the EU.

Some examples from the Field

SDI work closely with the local authorities in NE Scotland ahead of and during delivery of the Scotland Pavilion at OTC in Houston. Both Aberdeenshire and Aberdeen City Councils liaise with SDI to ensure that they are reaching out to companies from their area and maximising the support available to them. During OTC week, each of the organisations assist with developing, promoting and delivering each other's and joint networking and industry engagement events aimed at raising the profile of the Scottish delegation at OTC and fostering collaboration with local partner organisations in Houston such as the Houston Grampian Association, World Energy Cities Partnership and British American Business Council.

SDI has also been working closely with Scotland Food & Drink for a number of years. As part of that collaboration jointly funded positions in Germany and France have been supported. In addition, a further post in Dubai is currently being developed.

In the autumn of 2016, SDI worked in collaboration with Edinburgh University Informatics Ventures and other Scottish partners including *We are the Future* and the *Power of Youth*, along with the City of Edinburgh Council, to host, in China, the "Engage, Invest, Exploit" showcase for early stage technology companies. This event enabled the companies to pitch to potential investors in Hong Kong and Shenzhen. It was a highly imaginative, successful approach to put some of Scotland's most innovative companies on the world stage.

7. HOW IS SDI PERFORMING?

The recently completed "**Strategic Evaluation of SDI International Activities**" assessed the benefits of international trade support to companies between 2012/13 and 2015/16.

WHAT WORKS

The following types of support were highlighted as being particularly effective in growing exports:

- **Overseas events and trade missions** – to address barriers of lack of information on new markets and appropriate contacts, and allow businesses to test potential export demand. The financial support for overseas trips is often critical in allowing potential exporters to access information that allowed a better assessment of opportunities and helped to 'de-risk' trade.
- **International Manager for Hire** - the biggest barrier to entering new markets is management resource both in terms of both time and skills/knowledge. Many companies using International Manager for Hire support have since recruited dedicated staff to take forward exporting strategies (addressing market failure).
- **Sector specialists** – companies highlighted the success of the Food & Drink specialists that provide more valuable advice and contacts for businesses in-market.

- **Quality of advice from trade staff, export advisers (contractors) and Account Managers** - and the information resources available, was highlighted as an important part of the support.
- Although businesses exposure to the SDI field offices and the in-field staff was usually limited to attendance at events, where there had been engagement, experiences had generally been very good, with a lot of praise for the enthusiasm and dedication of staff. As SDI works to increase its operational flexibility close links to SE/HIE account managers and staff in partner organisations will develop to encourage more direct contact to Field staff. Similarly, SDI will consider how field offices could do more to raise their profile in Scotland.

SATISFACTION AND ADDITIONALITY OF SUPPORT

- **Satisfaction** levels are very high for companies who received more intensive trade support (with over 90% being either satisfied or very satisfied).
- Overall, the evaluation suggests a **high level of additionality of support** - the vast majority of companies reported that support made a positive difference to trade outcomes.
- The most cited **benefits** of support are gaining new information on overseas markets; developing or improving an exporting strategy; developing new skills; and, introducing new website/e-commerce platforms.

OUTCOMES AND IMPACTS

The key estimated outcomes of export support (for the population of supported companies) are:

- 300-400 supported businesses starting to export over the 12/13 to 15/16 period. This is a significant number in the context of the 2,000 new exporting businesses in Scotland reported in the Annual Business Survey.
- 64% of companies receiving more intensive support made sales in new markets; 55% increased sales in existing markets (SDI support increased companies' capability to develop export plans and how to grow exports that is relevant to **both** new and existing markets.) For existing exporters looking to sell more, support, was used to address the financial risks.
- 36% of companies receiving less intensive support made sales in new markets, and 38% increased sales in existing markets
- The economic impact of support delivered through SDI has generated:
 - £630 million of **additional international sales** by 2012/13 to 2015/16, and a further potential £360 million 2016/17-2018/19 for the population of businesses.
 - **Net additional GVA** of £465 million over the 2012/13 to 2015/16 period, with potential further £265m GVA up to 2016/17-2018/19 (including supply chain and wider economy multipliers).
 - With costs of £114 million, the ratio of GVA to investment cost is between 1:4 and 1:6.: **so for every £1 SDI invests it yields GVA of between £4 and £6**

COMPANY QUOTES

"Being part of the Scottish Pavilion at the OTC (Offshore Technology Conference) - this was well organised and provides an opportunity to be in the centre of the conference. If attending as an individual company, you would end up with a stand on the periphery. Attending the OTC provides profile, credibility and helps with access to important clients and GlobalScots"

"The targeted nature of the missions we have taken part in to date have been extremely effective – this helps to identify the main players in this part of the industry. The breakfast one-to-one meetings organised as part of these missions were also beneficial, allowing us to develop working relationships with potential partners"

"The expertise of SDI advisers is the most valuable thing - providing advice and guidance both when the company attends exhibitions or trade shows or responding to queries via email or telephone"

"The SDI manager we dealt with overseas was by far the most effective element of the support. His knowledge of the market and key players was second-to-none. He was very effective at knowing when we needed a bit of "hand-holding" and when he need to "step back and let us get on with it"

8. SUMMARY AND CONCLUSIONS

Scotland benefits from a number of key strengths as a trading partner and there are many opportunities to help instigate positive change. The recent evaluation of SDI highlighted that the majority of what is delivered works very well and estimated that the economic impact of the organisation is significant. However, Scotland is still lagging many other OECD countries in terms of export performance, and a lack of exporting companies has been highlighted as a contributing factor. With a renewed emphasis on partnership working across both public and private sectors, SDI is seeking to assist more companies to begin exporting, as well as exploring some of the other trading opportunities that might be available to exporters in the future.

