The Jimmy Reid Foundation

POLICY PAPER

Growing the Scottish Economy: is Scotland well served on international trade and development?

By Margaret Cuthbert, an economist and statistician who among other things lectured in econometrics at Glasgow University. She is now retired and pursues research interests.

www.reidfoundation.org September 2015

The Jimmy Reid Foundation

Donations are welcome to support the work of JRF. For donation options please visit our website at http://reidfoundation.org and click on 'Join Us'.

1 Introduction

This paper examines how well Scotland is served by the UK and Scottish Governments and by their agencies in international trade and development support. In one sense, this may seem an odd task to undertake as there has been a recent review into the matter carried out for the Scotland Office and a Scottish Parliamentary enquiry. However, there are two aspects which were inadequately examined in these cases and that require further examination. The first concerns whether the current management of trade support agencies is likely to achieve the objectives of the Scottish Government's economic strategy. The second is whether the quality of the databases available, and the most fundamental tool by which to judge performance, are up to the task in hand.

The Scottish Government's *Economic Strategy* of 2015, sets out its ambition 'to create a more cohesive and resilient economy that improves the opportunities, life chances, and wellbeing of every citizen in our country' (p7). The approach it wishes to pursue is based on increasing competitiveness and tackling inequality. It states 'We want to move Scotland onto a more balanced growth path, with a greater contribution to economic growth from investment and net trade, rather than consumption. This will allow our economy to better withstand economic shocks and help ensure that everyone in Scotland can contribute to, and benefit from, growth' (p26). So trade is, thus, a central pillar of the Scottish Government's strategy.

An essential prerequisite to any investigation of this nature is reliable data. The paper therefore begins with an examination of the data available on Scotland's trade movements and its quality. This is particularly important given the number of recent reviews and enquiries which have studied Scotland's trade and which have relied on available data.

The findings of this paper are:

- There has been a fundamental failure of the UK and Scottish government in the collection, collation, and analysis of trade statistics for Scotland.

- The government agencies funded to improve Scotland's trade performance have had an easy passage to date. They have failed to collect and to provide solid data on how they have improved trade performance. And they have not been asked for it.

- Following the collapse in Scotland of sectors which were important to trade, such as textiles and electronics, there has been an almost total failure to examine the causes of their collapse and examine the role of trade policy in their collapse.

Without good data, and without analyses, economic strategies can end up as 'wish lists' and can actually harm the economy. The effect of past strategies in Scotland cannot be adequately scrutinised to determine whether or why they were successful and cost efficient, or why they failed: whether, for example, failure of some sectors was due to stricter regulation on the environment in the EU than in some other countries, low productivity in Scotland, UK tax policies that failed to adequately encourage innovation, low skills in Scotland, or unacceptably low wages in other countries.

The conclusion of this paper is that unless there is a radical change in attitude, in systems, and in working methods by government and government agencies, Scotland will be seriously hampered in improving trade performance, and in particular, in trade helping to make substantive inroads into austerity and into improving economic growth. The content of this report is as follows.

- Section 1 covers the importance of trade to the Scottish economy.
- Section 2 examines the statistics available on exports from and imports into Scotland: how good our export performance has been: and how good the quality of the data is.
- Section 3 looks at the actions that are taken by both the Scottish and UK governments to assist trade in Scotland, examining their costs and success.
- Section 4 gives a précis of the evidence submitted to the Wilson Review and to the Scottish Parliament.
- Section 5 summarises the findings of the report, puts forward the need for change, and outlines important steps that need to be taken to improve trade performance.

2 The importance of trade to the Scottish economy

The Scottish Government states that there are two key pillars to their strategy: increasing competitiveness and tackling inequality. It also sees a pressing need to rebalance the economy after the financial crisis of 2008, and in its latest strategy paper acknowledges that improving our export performance is essential, with manufacturing exports in particular being key to success. To satisfy its twin aims of increasing competitiveness and tackling inequality, the strategy that the government puts in place to improve internationalisation must therefore be broadly inclusive to all shapes and sizes of business as well as being ethically acceptable.

Its target is to deliver a 50% increase in the value of international exports. This target is set in money terms and is for the period 2010 to 2017: in other words, the target is not a hard target but is softened by the impact of inflation: the greater inflation, the less the increase needed in the real value of exports to meet the target.

The latest, June 2015, ‘State of the Economy’ report from the Scottish Government records that, in 2014, net trade acted as a drag on the growth of the economy ‘with a small positive contribution from exports outweighed by faster growth in imports.’ In particular, the index of manufactured exports, a subset of total international exports, contracted in the last quarter of 2014. This is worrying.

Further, the changes proposed by the Smith Commission to government funding of public services in Scotland mean that not only does Scotland need a healthy tax base to provide funding for public services, but also that Scotland needs an even more vibrant economy. The flaws in Smith as the proposals currently stand are likely to result in the funding of the Scottish government being progressively squeezed unless Scotland can grow its economy at least as fast as the rest of the UK (Cuthbert 2015, Cuthbert and Cuthbert 2015). It is therefore really important that we make the best use of available resources and improve our economic performance.

3 Trade statistics

Scotland's trade statistics are widely quoted in analyses of the Scottish economy: often with a very positive interpretation with regard to short term improvements in trade, but with little reference to how trade efforts are, and could be, affecting austerity. The result is a simplistic short term view of Scotland's trade – a type of analysis far removed from the substance that is needed to fulfil the Scottish Government's economic strategy pledge of "In the context of our International Framework, we will develop a Trade and Investment Strategy which sets out the Scottish Government's approach to international trade and investment and how we will work with businesses, the wider public sector and the third sector".

The major data sources on Scottish trade are the Scottish Government's *Global Connections Survey* of January 2015, the Scottish Government's quarterly *Index of Manufacturing Exports*, and the HMRC's quarterly regional analysis of trade called *Regional Trade Statistics*. These statistics are supplemented by statistics collated by particular industry bodies, for example the Scotch Whisky Association, Oil and Gas, and the banking sector. There are also some data from transport statistics. Looking at each of these in turn:

A. Trade statistics: the *Global Connections Survey*

The Scottish government carries out a survey of exports each year: its *Global Connections Survey*. The survey does not cover imports. It is, in its own words, 'the only export survey covering all sectors of the Scottish economy.' However, it omits oil and gas exports from the North Sea. The latest available data is for 2013, published in January 2015, and covering the years 2002 to 2013 inclusive.

On the basis of the survey, the Scottish government estimates:

Total exports in 2013 (excluding oil and gas)	£74.1bn
Of this, exports to overseas	£27.9bn
exports to rest of UK	£46.2bn

The key findings are all presented in a positive light, beginning with the statement that Scottish international exports had increased by 7.2% over the previous year. Much of the presentation is based on the latest year's data and comparison with the year before but with little reference to longer term trends in trade; to the factors that are likely to be influencing these trends; and to the implications of these export trends for the economy and austerity.

This positive presentation masks some important issues, which demand analysis and discussion, and are either not covered, or, not adequately covered. These are:

For International Exports

1) In real terms, although the rise in Scotland's international exports between 2012 and 2013 was 4.36%, between 2002 and 2013, international exports from Scotland actually fell by 2.5% in real terms from £20.14bn in 2002 to £19.64bn in 2013 (2002 prices). Therefore, despite the good performance in 2013, Scotland still lags in exports behind where it was in 2002.

2) Although exports to the EU rose in the one year between 2012 and 2013 by almost 9.5% in real terms, this has still not brought us back to the levels of 2002. Indeed, over the total period, 2002 to 2013, exports to the EU have fallen, in real terms, by 19%.

3) Exports to Germany, in many ways the economic power house of Europe, have fallen over the period by 23%.

4) Exports to the rest of the world outside the EU showed an increase in the year 2012/13 of 3.4% in nominal terms, but only 0.7% in real terms. But, over the period 2002 to 2013, it is these exports which have shown the most promise with an increase of 19.5% in real terms, such that international exports to countries outside the EU are 51% of all our international exports compared to only 41% in 2002.

5) Among international exports, two groups of exports stand out: distilling etc. of spirits and refined petroleum. Together they account for 46% of the value of manufactured exports and 27.9% of all international exports. These export statistics, and our export performance dependence on them, require examination in more detail. (See whisky and oil sections below).

6) Turning to the size of companies that are exporting: Large firms of more than 250 employees dominate Scotland's export trade. They are responsible for 64% of all exports in the production and construction sectors: down from some higher peaks such as 78% in 2003. Companies of between 50 and 249 employees are responsible for 31% of exports, with small companies of less than 50 employees responsible for the remainder. The situation is radically different in the export of services. Here small firms compete effectively and are responsible for 38% of service exports.

7) At one point, the Global Connections report does make reference to the following: 'The concentration of international exports is skewed with around 30 per cent of international exports attributable to around 10 businesses; 50 per cent of international exports attributable to around 50 businesses, and 60 per cent of international exports attributable to around 100 businesses.' It could have gone on

to emphasise the vulnerability of Scotland's exports to such concentrations. For example, 'computer, electronic and optical products' was one of Scotland's most important international exports in 2002, responsible for 27.7% of all international exports. Much of this screwdriver electronics industry in Scotland, which was heavily dependent on inward investment businesses collapsed shortly thereafter, and with it, many of the foreign direct investors in the electronics sector either left or downsized considerably. As other countries succeeded in moving forward to more advanced research and design based electronics, Scotland's electronics industry crashed: whole research teams, many educated at higher education institutions in Scotland, were moved elsewhere by foreign multinationals or dismissed: many finding employment in research in Europe and the US. Scotland failed to recover from the hit. Its own local electronics industry was not vibrant enough to become a leader in the new ICT industries: and this had a big effect on export performance. The sector is now responsible for only 5.7% of Scotland's international exports.

For exports to the rest of the UK

8) In 2002, 58.6% of Scotland's exports went to the UK: since then the share has become larger, reaching 68% in 2007, before falling back to 62.4% in 2013: still a higher percentage than in 2002. We are now more dependent on the rest of the UK for our export trade than we were in 2002. While our international export trade in real terms has fallen between 2002 and 2013, Scotland's export trade to the rest of the UK has risen in real terms by 14.2%.

All of the above would indicate that the overall picture from the *Global Connections Survey* of Scotland's export performance is not a particularly rosy one. But before we swing to conclusions, it is worth looking at the statistics collection and collation on which the Global Connections results are based, as there are major issues with the survey.

Global Connections Survey issues:

i) There is no requirement for companies to take part in the survey.

ii) The response rate is low averaging 34% across sectors, being as low as 23% in financial and insurance activities, and 25% in telecommunications companies. No information is given about whether the survey succeeded in getting responses from some of Scotland's largest exporters. The largest number of responses was from the group 'wholesale, retail trade, repair of motor vehicles and motorcycles', where the category 'wholesale' is very wide and covers the wholesale of agricultural products, fish, crustaceans and molluscs.

iii) The actual number of usable responses, (once unusable and nil responses had been removed) is not given. And in particular, the percentage of usable responses from known exporters is not given. The following unpublished information was provided to the author by email: in total, the completed survey response rate was 27.1%; and from exporters was 32.5%. There were no completed responses from known telecoms exporters; and the completed response rate from telecoms non-exporters was 15%.[1]

iv) For the 2014 survey, responses were received from around 1,600 companies (including nil responses), and this data was supplemented with data from the ONS UK Monthly Business Survey (Production and Services), the ONS Monthly Business Survey Retail Sales Inquiry, the ONS Annual International Trade in Services and the ONS Annual Business Survey. In some cases, associations representative of particular industries provided data. In others, companies were contacted to obtain partial information over the phone. These survey responses then had to be 'grossed-up' to provide an estimate, not only of total exports, but Scottish exports by industry, by size of company and by destination. Essentially the gross value of exports for any category is estimated by calculating the sample value of exports as a proportion of the sample turnover, and then multiplying this proportion by the category's gross turnover as obtained from the Inter Departmental Business Register. Such techniques used on non-random sample results make it impossible to put confidence limits on the resulting estimates. Further, the breakdown of exports by country, by sector, by size of company, etc. must be testing the sample to its limit.

v) The survey data is not timely enough. Already there is evidence that UK trade decreased by 4.7% in the year to March 2015. The *Global Connections Survey* data covers up to December 2013, and the next publication, covering to end 2014, will not be out until 2016.

vi) No information is given in the Global Connections Bulletin of what barriers to exporting, if any, were reported by industry, by number of employees in Scotland, and by size of sales, although the question was asked in the survey form. In particular, the survey questions did not include an explicit question on whether funding was a barrier, despite this being regarded as a major problem by, for example, the UK export finance department.

vii) There are no linkages made between what is happening in the different sectors in the economy and the effects on trade, and vice versa. Nor, indeed is there any information on world and government policies that might be affecting Scotland's trade flows.

viii) The classification of businesses into small medium and large refers to the size of the business unit in Scotland – which is different from the classification used in business statistics in Scotland. There, size is classified according to the overall size of the company in the UK. As the Global Connections team itself said in an email to the author 'this could cause some misinterpretation, particularly when focusing on small and medium sized businesses'.

[1]Email response of 6 August 2015 to request of 14 June 2015.

In conclusion, with regard both to the *Global Connections Survey* and to the presentation of its results in the Bulletin, there are a considerable number of issues that need to be addressed. As evidenced above, the data do not give a firm enough basis on which a government can base an economic strategy.

B. Trade statistics: *Index of Manufactured Exports*

The *Index of Manufactured Exports* (IME) is a quarterly publication by the Scottish Government: it measures the growth, in real terms, of overseas export sales by the manufacturing sector in Scotland. The Index begins in 1999. It covers manufacturing exports from Scotland to countries outwith the UK: it does not cover trade with the UK. Further, it covers goods directly exported outwith the UK: it does not cover the export of goods or components which are exported further down the supply chain.

Data on international sales by UK firms are collected by the Office for National Statistics (ONS) as part of a monthly Business Survey. From this, the data for Scottish based firms are extracted. Where a business has several sites, then exports are apportioned to Scottish manufacturing sites based upon the share of employment in Scotland compared to all employment within the parent business. For Scotland, the survey covers almost all businesses with more than 150 employees, as well as a proportion of smaller businesses. The index is timely. Data for the first quarter of 2015 were published in July 2015.

The IME Bulletin concentrates its brief analysis on the last quarter and on a comparison of the latest four quarters with the previous four, but the accompanying excel spreadsheets do provide data back to 1999. For the first quarter of 2015, international export volumes rose 2.1% in real terms. And comparing the latest four quarters to the previous four quarters, the volume of manufactured exports to overseas markets grew 2.7%.

However, looking at a longer stretch of time, Scottish manufactured exports fell by 22.8% between 1999 and 2014. Textiles and clothing fell by 50%; wood, paper and printing by 34.7%; and engineering and allied trades by 63.5%.

Drink is one of the biggest categories in the export basket. The data show that in real terms, international exports sales fell over the period, 1999 to 2004. There was then a very substantial improvement of 58% in the volume of sales up to 2009. However, by 2014, sales volumes had fallen by over 7%, and there was a further fall in 2014 (see E below).

As noted above, the electronics industry in Scotland suffered badly after 2002 and did not recover. Relative to its peak in 2000, export sales of electrical and instrument engineering products are now less than a fifth in real terms.

In real terms, the one success story has been the food export market which has more than doubled. There has also been some success in the export of transport equipment, with export sales in real terms rising by nearly 17%.

What would be very helpful in this publication would be an analysis of what has been going on: why did textile exports fall so fast? Was Scotland alone in failing to recover in the electronics market? Take for example the benefits that an analysis of textiles trade data would show and how it could assist the development of an economics strategy and the fight against austerity in Scotland.

Over a short period at the end of the 1990s, a succession of textiles factories closed in Scotland. These included Levi's, Coats Viyella, Russell's, William Baird's, and Daks Simpson. Large retailers, such as Marks and Spencer, imported production from overseas. Two of the main reasons for the relative uncompetitiveness of Scottish textiles manufacture were (a) labour costs and (b) environmental regulations. Production in places like Tirupur in the south of India, was not bound by the health and environmental regulations of the EU and the UK, nor by the UK minimum wage. What resulted was that pollution resulting from the manufacture of the goods we buy was exported, and production costs were further lowered by the employment of people at extremely low wages, working in conditions unacceptable over here. Although considerable efforts to tackle pollution in Tirupur have been taken, there is still concern that untreated industrial effluent is being seen let off illegally in large quantities.

So if textiles are taken as an example, and if one was preparing an economic strategy that hopes to be encouraging manufacturing, might it not be helpful to have statistics on:

- Scottish textiles exports, their composition, and trends in them
- Imports of textiles by type and country of origin, and trends in them.
- Whether we can use our considerable skills in textiles and in our research establishments to meet today's environmental and market challenges, and to make textiles competitive enough to be exported around the world and to compete with imports from elsewhere.

Major changes are taking place in developing dyeing techniques which do not require the vast amounts of water that are used in the process today. Countries that lead on this are well placed to capture a bit of the textiles international market. Scotland's export strategy could be looking at this, and at other similar areas in which research and development can revolutionise existing practices damaging the environment. But we cannot make such decisions without sound data.

C. Trade statistics: HMRC survey of UK exports and imports

HMRC is the body responsible for collecting UK trade statistics. For trade with countries outside the EU, the information is based on UK Customs import and export entries made by importing/exporting businesses. For trade statistics between the UK and other EU members, data are collected from VAT-registered businesses via the VAT return.

For 2014, HMRC estimate of Scottish exports to countries outwith the UK was £19.6 bn, with imports at £15.15bn. Note that the *Global Connections Survey* estimated Scottish international exports to be £27.875bn.

However, again, there are major issues with the survey:

- It is seemingly impossible to allocate some of the international trade flows to different parts of the UK. Approximately 12% of all trade is assigned to 'unknown'.

- The data do not cover intangibles and services such as banking or tourism.

- The survey can provide no estimate of trade between Scotland and the rest of the UK.

- Trade is mainly allocated to a region by the postcode associated with a company's VAT registration. Where traders are not VAT-registered, there is no mechanism in place to collect information on EU trade movements. On being asked about this, HMRC responded: 'Section 2.3 of the Intrastat General guide states that businesses not registered for VAT and private individuals who move goods within the EU have no obligations under the Intrastat system. Therefore their transactions are not recorded.'

- In 2009, across the EU, the Economic Operator Registration and Identification (EORI) system was introduced. This meant that EU businesses could register for customs purposes in one Member State and obtain an EORI number valid throughout all EU member states. Under the EORI system, the vast majority of businesses are not allowed to retain branch identifiers. The result is that the recorded trade for countries/ regions within an EU state containing branches of a business is reduced, while the recorded trade for countries/regions containing the head office of that business increases. In response to concern about this, HMRC replied: *'The new EORI system has affected the methods we use to allocate trade to regions. We will be investigating and consulting on various ways of allocating trade to regions in a public consultation on the RTS methodology that we will be running in the autumn.'* Thus, for the past six years, a system has been in place which potentially distorts the UK's country/regional trade statistics with the EU in favour of regions with large head offices, and HMRC are only now considering setting up a consultation about it.

D. Trade statistics: treatment of exports from the oil and gas sector

Data presented in the Scottish *Global Connections Survey* excludes the value of oil and gas extracted from the UK Continental Shelf. In defence of the survey's excluding oil and gas from the North Sea, the survey invokes an old argument: 'In accordance with National Accounting principles, total Scottish exports do not include any exports of oil and gas extracted from the UK continental shelf and so exclude companies classified as Standard Industrial Classification (SIC) 2007 6.1 and 6.2. This is consistent with the approach taken in all Scottish economic statistics and is consistant (*sic*) with the European System of Accounts (ESA 95) conventions and UK National Accounts principles, these are not allocated to any one region of the UK'.

However, the mandatory provisions of ESA95 were in fact concerned with ensuring that there is a standard basis of compiling accounts for European Community purposes. The relevant part of the European Regulation which set up ESA95 clearly states that 'This Regulation does not oblige any Member State to use ESA95 in compiling accounts for its own purposes': (Council regulation 2223/96). So, contrary to a widespread impression, ESA95 did not in any sense stipulate what approach should be adopted for handling offshore oil and gas revenues. The argument used to be used in GERS but was abandoned after criticism (Cuthbert and Cuthbert 2011). GERS now presents its accounts with a geographical and a population share of North Sea activity.

The Scottish Government national accounts project estimates exports sales of gas and oil from Scotland to be £24.912bn in 2013, of which £9.18bn went in sales to the rest of the UK.

There is no substance to the excuse used in the *Global Connections Survey* for missing out oil and gas statistics. In fact, there is ample reason to include them as the export trade in refined oil and gas products, one of Scotland's largest exports, depends heavily on North Sea activity. And related to it are exports from the oil and gas sector supply chain. Scottish Enterprise and Aberdeen & Grampian Chamber of Commerce conduct an annual survey of international activity in the oil and gas sector supply chain. The survey covers businesses engaged in, for example, main contract work and consultancies, as well as supply, and components sub-contract work. It does not cover companies involved in exploration and development: nor does it cover energy utility companies. Their findings are that oil and gas supply chain companies international exports in 2013 (current prices) were £11.2bn, accounting for half of all Scottish supply chain sales.[2]

E. Trade statistics: distilling

The *Global Connections Survey* reports that, in 2013, as in previous years, one of Scotland's largest international exporting sectors was food and beverages, responsible for international export sales of £5.015bn; that is 18% of all exports. Most of this, however, is the whisky trade, accounting for £4.26bn. The figures presented by Global Connections are as follows:

	£m			
	2010	2011	2012	2013
Distilling, rectifying and blending of spirits	3,450	4,225	4,275	4,260

And figures from the Scotch Whisky Association for 2014 show a decline in export sales to £3,950m – a fall of 7.3% in money terms.

These headline figures do not reflect the net contribution of whisky to the Scottish economy. As Graeme Blackett wrote in 2011 'Much of the Scotch whisky industry is owned and controlled from outside Scotland, meaning that little of the sector's GVA will be retained in Scotland'.[3] In other words, the benefits from this export trade are only a fraction of what they would be if head office functions were in Scotland. In particular, the majority of the revenue raised leaves Scotland, providing little return to Scotland.

---

[2] Scottish Enterprise and Aberdeen and Grampian Chambers of Commerce: Survey of oil and gas sector supply chain.

[3] Graeme Blackett, 'Contribution of the Scotch Whisky Industry to the Scottish Economy' Biggar Economics, November 2012.

Using the latest data available from the Scotch Whisky Association and 4-Consulting,[4] in 2013, and updating Graeme Blackett's analysis of 2011, we have:

2013	
turnover	£5.013 bn
purchases from suppliers amounted to around	£1.8 bn
employees costs	£0.52 bn
investment	£0.142 bn

This leaves £2.599bn as operating profit and return on capital. Given that much of the Scotch whisky industry is owned and headquartered outside Scotland, little of this is likely to remain in Scotland.

In addition, only 30% of investment is spent in Scotland due to 'the specialist nature of capital equipment: capital items like machinery, vehicles and software are less likely to be produced in Scotland'.[5] This, together with the relocation of the SWA head office to London, is a matter which should be of interest and concern to the government's economic strategy.

F. Statistics summary

Overall, unless we can get fairly good, timely and comprehensive estimates of exports and imports by sector and by country of destination/origin, it is very difficult, if not impossible, to determine how well Scotland is doing in international trade. The present information provided by the *Global Connections Survey* is woefully short in both timeliness and quality: and that provided by HMRC does not even attempt to remedy its known shortcomings in country/regional allocations of exports and imports within the UK. In addition, we can fool ourselves that we are doing well if we examine only trade flows and do not consider the impact on our international financial position of substantial profits leaving the country. And further, by presenting only very short timescale and shallow analysis, we then do not have the tools to study the effects of trade and trade strategy on the economy of the country - or learn for the future.

3. Actions that are taken by both the Scottish and UK governments to assist trade in Scotland: their costs and success.

A. The agencies and their cost

The government agencies with the particular remit of encouraging and supporting trade are (a) Scottish Development International (SDI), which is within Scottish Enterprise, but also

[4] 4-Consulting and Scotch Whisky Association, 'The Economic Impact of Scotch Whisky Production in the UK', January 2015.
[5] 'Scotch Whisky Supply Chain' Scotch Whisky Association, 5 February 2015.

has a remit for the area covered by Highlands and Islands Enterprise. SDI's remit is Scotland wide and is to encourage inward investment and to encourage exports; and (b) UK Trade and Investment, which has a remit to encourage exports and to encourage inward investment into the UK. Both agencies say that they work closely together and minimise duplication.

SDI is almost entirely funded by Scottish Enterprise, and, in a written response to a Parliamentary Committee question, stated it had a budget of £35.1m in 2014-15 and a planned budget of £34.1m in 2015-16. On how the SDI budget was split between the two activities of inward investment and trade promotion, Scottish Enterprise gave the written response 'The nature of our activity, and the integrated way in which our operations are structured, is such that it is not possible to directly assign activity against export or inward investment'.[6] Similarly, in correspondence with the author, SE/SDI were unable to give any detailed breakdown of their past performance in terms of improvements in exports, or the amounts spent on improving export performance.

UKTI report that they spent £13.9m in 2013/14 on Scotland's behalf. A further £2.9m was spent on trade development by the Department of Business, Innovation and Skills. (Country Regional Analysis of Public Expenditure, 2014).

So, in total in 2013/14, government agencies spent £51.9m on trade development in 2013/14, covering both export assistance and encouraging inward investment.

B. <u>How the agencies see and portray themselves</u>

UKTI

The number one activity of UKTI, as publicised on its website, is support to exporters. UKTI plays a very backroom role in Scotland. Although it has staff in Scotland, any firm using the UKTI website to find UKTI in Scotland is directed to Scottish Enterprise.

In their annual accounts UKTI state 'UKTI works with the Devolved Administrations in Scotland, Northern Ireland and Wales to promote international trade and inward investment. UKTI and the Devolved Administrations consult each other regularly on policy developments and activities to avoid duplication of effort, double funding of projects and contradictory actions.' This is the only mention of Scotland in the report and accounts. Similarly there is no mention other than 'we work closely …' in its UK Export Finance strategy and business plan.

Until end March 2015, on upcoming events in Scotland, the UKTI website had only one event noted on its Scotland page: *a November 2013 Commonwealth Games Business Conference.* After this author alerted a Scottish Government Minister to this, it is noted that,

---

[6] Internationalising Scottish Business Inquiry, Scottish Enterprise and Scottish Development International Supplementary, following their appearance on 24 March 2015 before the Economy, Energy, and Tourism Committee.

since April, information for events in Scotland reads 'Your search found 0 events. Ooops, sorry, there are no results that match your search criteria.' This still held true at end July 2015.

SDI

Helping businesses in Scotland 'make the most of international trade and global markets' is the second item on its website showing how SDI sees itself. And on its page 'How we can help', export support is the third item after (a) helping foreign investors to come here, and (b) helping foreign companies find a supplier here. And on that third ranked item, businesses within the Highlands and Islands Enterprise (HIE) area are referred onwards to HIE, as some services differ from those offered in the rest of Scotland.

Using the <contact> page on the SDI website, the user is asked to give details including the name of their country. While the Occupied Palestinian Territory is an option, Scotland is not. The excuse that the author was given, that,' In the main, SDI provide services to attract inward investment into Scotland - this will be why there is no drop down for Scotland on the form as the services provided are for companies outside of Scotland' falls far short of acceptable given that SDI are also involved in small Scottish companies investing and marketing overseas.

C. Measures of their success

SDI/SE

SE's 2014 Annual Report records 'We are on track to meet all of our targets in relation to Scotland's International Trade and Investment Strategy (2011-15). Despite a challenging competitive environment, we continue to attract significant results in terms of Foreign Direct Investment, most notably in Financial and Business Services'.[7]

To back up this statement, Scottish Enterprise gives information on specific targets, and its success in achieving them: the target and success figures are given below, with the author's comments in italics:

i. A planned £1.2bn to £1.7bnincrease in international sales over the period 2011-15 from businesses it supported. The actual cumulative up to the end of 2013/14 was £290m – leaving between £910m and £1.4bn to be achieved in the final year of the plan.
ii. A target of 220 to 330 companies projecting significant turnover growth from exporting in 2013/14: it recorded 320 companies projecting significant turnover growth. But there is no indication of actual growth as opposed to planned growth in exporting.
iii. 150 to 210 of these companies to be projecting turnover growth from exporting of over £1m: in the event Scottish Enterprise recorded 228 companies projecting such an increase in turnover. Again, there is no information in actual growth as opposed to projected growth in exporting.

[7] Scottish Enterprise Annual Report 2013 –14.

iv. Over the period 2011 to 2015, there would be 25,000 to 35,000 planned jobs through the attraction of foreign investment – of which between 8,000 and 12,000 would be planned high value jobs: Scottish Enterprise recorded a cumulative total number of jobs to end 2013/14 of 21,975, of which 6,460 were high value. No information is given on the breakdown of jobs into new jobs and safeguarded jobs.
v. Assisting 8,000 to 10,000 companies to develop their capacity for exporting over the period 2011/15: by the end of 2013/14, 6,455 companies had been assisted. No information is given on any evaluation of the results of the assistance given.

Scottish Development International, SDI, also produces an annual report.[8] For 2013/14, it records that there were 78 inward investment projects into Scotland with a planned investment of £423m in these projects. Of the 7,446 jobs expected from these projects, only 65% of them were new jobs. Again, no information is given on money spent, the quality of the jobs, or actual rather than planned investment.

No information is given in its reports on the amount of spend and labour resources that SE used in its trade and investment role. However, in its business plan for the next three years 2015-18, Scottish Enterprise do give an estimated spend of £40.7m for Internationalisation in 2015/16. (There is no information given as to how much of this is on trade development and what is on inward investment). Note that, to the Scottish Parliament Committee on Economy, Energy, and Tourism, SE wrote that the planned budget for SDI was £34.1m in 2015-16, which would imply that SE plan to spend a further £6.6m on other internationalisation projects.

When asked by the author for detail on actual spend for previous years, Scottish Enterprise were not able to provide the figures, explaining that the way they previously categorised their accounts was different. '... activities were described around the broader themes of Supporting Globally-Competitive Businesses, Supporting Globally Competitive Sectors and Globally-Competitive Business Environment.'

Of the three top sectors in terms of jobs expected from inward investment in 2013/14, 61% of the planned jobs were in financial services. Five of the largest projects were in financial services.

There is no information given on actual as opposed to planned: nor on the breakdown of planned jobs into new and safeguarded jobs.

UKTI
The UKTI information on inward investment to the UK is interesting as it allows comparison with the SDI data. In its 2013/14 Inward Investment report, UKTI reported a UK total of 1,773 inward investment projects in 2013/14, of which UKTI supported 1,462. Of the total, UKTI records 122 of them as having taken place in Scotland.

[8] As above.

The UK total inward investment businesses were expected to bring a planned 111,000 new and safeguarded jobs, of which 66,000 were new. The leading industry group was advanced manufacturing with 418 projects and 37,204 planned jobs. It records 122 of the total as having taken place in Scotland.

In contrast, SDI gives neither a breakdown into planned and safeguarded, nor the number of inward investment projects that went ahead without its assistance. SDI recorded 78 rather than 122 inward investment projects in Scotland. Where the leading industry group in inward investment in Scotland is financial services that for the UK is advanced manufacturing: possibly reflecting the need to re-engineer the economy away from its dependence on financial services: a need voiced by the Scottish government but not translated into foreign direct investment actuality.

D. What is missing in their measurement of success

Scottish Enterprise/SDI

It is surprising that Scottish Enterprise do not have published data on the total amount they spent on internationalisation given that both SE and SDI have been in existence for many years. But it is not just to the public that information is not readily available. On 18 March 2015, the Economy, Energy and Tourism Committee of the Scottish Parliament took evidence on trade from senior representatives of Scottish Enterprise, Scottish Development International and UK Trade and Investment. To the question ‘ On the budget split, do you have any sense of how much of your budget goes on inward investment as opposed to export potential?’, the answer was ‘I do not have that exact information with me. We can provide it to the committee later. …In the current financial year, the estimate of what we are spending on our trade effort, excluding the cost of our staff resources, is about £11m. We will confirm the precise numbers to you in due course.’ To the question, ‘That £11 million is out of a total budget of how much?’ the reply to the Committee was ‘I am sorry—I do not have that figure in my head.’

While it is clear from the SE and SDI websites that there is considerable activity in the sphere of trade and investment, the data are not available to make any meaningful judgement of how well the agencies are doing in the ultimate goal of improving Scotland’s export performance – and as the statistics section above shows, there is no evidence of improvement there either, other than in specific sectors such as food and drink. Further, no information is presented to allow judgement on whether the types of inward investment supported are beneficial to the economy. They could, for example, be being subsidised and at the same time be displacing existing businesses, or they could be companies manufacturing products regarded as undesirable such as chewing tobacco. There is no information provided to allow judgement on whether these inward investment projects will increase productivity in Scotland, or have positive spillover effects on productivity in other companies: and there is no way of assessing whether individual projects are ‘good’ inward investments, in terms of the benefits sticking to Scotland, or ‘bad’ in terms of loss of intellectual property and profits leaving Scotland.

UKTI

Other than information on inward investment, as given above, there is no information published by UKTI on its performance in Scotland. In addition, no information is given on the amount of help going to Scotland in export finance.

E. What the use of the websites show

To get to the complexity of what it must be like to be a small business in Scotland in the Highlands and Islands interested in exporting and having gone to the SDI website for information, it is worthwhile for the reader to do just exactly that. The steps are as follows:

1: Put in SDI in search engine
2. Choose third option : Export from Scotland
3. If your business is in HEI you are advised to 'Get in touch with our partners at Highlands and Islands Enterprise (HIE) for advice': so click on <support from HIE>.
4. Seventeen options are now available to you. By clicking on each in turn, further information is given. For some you are encouraged to contact HEI directly; for others you might have to fill in a Scottish Enterprise Enquiry form; or a GlobalScot form; or be directed to UKTI's website; or to a member of Scottish Enterprise; or the Scotland Europa website.
5. If your business is in the rest of Scotland, then you are directed to a web page with 19 options.

Regarding the UKTI website, as an example, the recent events for web optimisation for international trade held by SCDI and UKTI in Inverness and then in Aberdeen did not appear on the UKTI events website.

In summary, can the two organisations, Scottish Enterprise and UKTI really be collaborating well together when:

- The UKTI annual report makes no reference to Scotland bar showcasing two companies and giving some inward investment data.
- The Scottish Enterprise annual reports make no reference to the work of UKTI
- The UKTI website appears to carry few Scottish events.

4. What the reviews of trade have found

The two main recent reviews of Scottish trade were carried out in 2014 and 2015. In both, evidence was sought and recorded from a large number of interested parties, including trade organisations, chambers of commerce, and three government agencies, Scottish Enterprise, Scottish Development International and UK Trade and Investment.

a) The Wilson Review of Support for Scottish Exporting, which was commissioned by the Scotland Office, was published in May 2014. Among a comprehensive set of findings, the Review noted that:

- Small firms contribute little to Scottish exports (but note that it turns out that 'small' firms include large multinational companies which have small numbers of employees in Scotland.)
- Scotland has a narrow exporting base, and, as a result, the performance of a few big exporting firms, and industrial complexes like Grangemouth, have a disproportionate effect on the health of Scottish exporting.
- Very few small and medium sized businesses in Scotland were aware of how UK Export Finance could be of use to them, despite two specialists from UKEF working out of SDI.
- Despite large changes in world trade patterns, there has been little movement in the list of top twenty destinations for Scottish international exports since 2008.

The review recommended a single portal approach to providing export encouragement and assistance. It also recommended the establishment of a working group to push forward improvements in collaboration among the various export agencies and thus improve export assistance.

b) In 2015, the Economy, Energy, and Tourism Committee of the Scottish Parliament conducted an inquiry into Internationalising Scottish Business, exploring the reasons why many Scottish firms, particularly SMEs, do not export at present. It considered what more can be done to encourage them to enter and grow in international markets.
Among evidence submitted, were the following:

- co-ordination between SDI and UKTI was not as strong as it could be and that this was limiting the effectiveness of support available to Scottish companies.
- A Wilson Review working group has been set up and has met. However, at the appearance of SE/SDI and UKTI at the Committee, none of the representatives of these agencies thought that there was a Chair for the working group.

The Economy, Energy and Tourism Committee recorded its concerns in its report. It noted, for example,

- its concern at the relatively modest targets set for the new Smart Exporter programme
- at the time of the inquiry, SDI had not published on its website a list of forthcoming trade missions which it was promoting and supporting financially.
- A lack of data.

5. Summary, conclusions, and recommendations

Statistics may make many a person's eyes glaze over. There is no doubt they can be boring. But when it comes to preparing and monitoring a government economic strategy, soundly based timely statistics are essential.

The first part of this paper has put forward the case that, in the area of trade statistics, there are problems at all stages in the collection, collation and analysis of the data: to such an extent that, other than in those areas where industry itself collects the statistics, it is difficult to say what confidence can be placed in the data. Without a timely set of good quality data on how well Scotland is performing on trade; without an analysis of trends; and without connections being made between trade patterns and trends in the economy, it is difficult, if not impossible, to see how any government can devise, monitor, and evaluate the trade part of an economic strategy. Further, any individual country, and particularly one which is within a union such as the UK, is subject to world trade patterns and to policies devised by other nations. To be able to influence such policies and/or react in the best way to them, a country has to have a good detailed knowledge of its trade patterns and how they could be influenced by others' actions – and the information needs to be timely. (By December 2015, the data in Global Connections will be two years out of date).
Such information is woefully lacking for Scotland.

The paper then considered the published information available from SE, SDI and UKTI on their work in improving trade performance. Again, in all cases, the data published did not allow for any evaluation of performance. And, as it turned out and as illustrated above, this was not only the case with their publications and websites. Emails and parliamentary appearances showed that in some cases the data were not even collected and the agencies did not have answers to fairly obvious questions on trade performance.

The problem of poor data is not new: whether we are talking about trade statistics as published by Global Connections (Scottish Government) and by HMRC, or about the evaluation of efforts by SDI and UKTI in improving trade performance. No organisation can be said to have addressed the need to have timely good quality data, despite their having produced publications on trade or trade performance for years.

What can be said, however, is that this problem is now becoming a far more urgent issue and requires fixed.

First, there is the Smith Commission. Whatever finally results from Smith, it is likely that Scotland will be more in charge of its fiscal affairs. Fundamentally, in these circumstances, unless Scotland gets a grip on how it manages its economic affairs, there will be less room for manoeuvre in tackling austerity. So Scotland needs to improve its trade performance: at the same time making sure that increasing trade increases the benefits to the domestic economy, and that most of the benefit does not simply evaporate out of the economy as can happen, and in some cases has happened. Benefits of trade, whether through exporting or inward investment need to be shown to transmit into a constant revitalising of the industrial base, research and development, improved productivity, and opportunities for the workforce. If an extreme example is needed of what can happen if a country exports without revitalising its economy, look no further than Saudi which could well find itself caught in an oil based economy now suffering from the cheaper US fracking industry.

Second, there is TTIP. The proposed Transatlantic Trade and Investment Partnership between the United States and the European Union has produced considerable disquiet throughout Europe, and not least in Scotland where there is concern that the trade agreement will provide a back door for the privatisation of the national health service. It of course is not the only Scottish publicly owned asset at stake: another is our water supply and distribution.

It is clear that, despite considerable public disquiet and anger regarding TTIP, the Scottish Government is in favour of it, subject to a few caveats, and believes that TTIP could deliver significant economic benefits for Scotland. For example in reply to the Scottish Parliament's European and External Relations Committee in August 2014, John Swinney wrote:

The Committee will be aware that the US is Scotland's largest export market outwith the EU and most significant source of inward investment. Indeed, as Scotland exports relatively more goods to the US than the UK (13.2% vs 12.8%) and attracts a larger share of inward investment (40% v 26%) the impacts of TTIP on Scotland are potentially greater than for the UK as a whole. Given this, the Scottish Government is keen to ensure that Scotland gains the maximum benefit from the estimated £4-10 billion annual increase in UK national income, equivalent to a 0.14-0.35% increase in GDP, arising from TTlP and the estimated £1 4OOm increase in exports from Scotland to the US. It is in this context that the First Minister emphasised the importance of TTIP to Scotland when he met the EU Trade Commissioner, Karel De Gucht, last September.

What the present paper shows is that the data on which the government bases its position is far from good enough to make such a claim: both in terms of the value of exports and in terms of the net value and multiplier effects of foreign direct investment to Scotland. Clearly, Scotland would be in a much better position to determine what is best for Scotland if it had a much better handle on its information re trade.

A good trade database and some decent analysis would go far in informing Scotland's economic strategy. The following recommendations are therefore made:

1. HMRC trade statistics based on VAT data are the major source for statistics on imports and exports. These should be urgently progressed to the point where there is confidence in their country/regional analysis. Some of the errors pointed out in these trade statistics (Cuthbert and Cuthbert 2003) have been corrected, but we should be well beyond the point of 'haudin' a wee meetin' aboot it' in progressing much needed further improvements. These statistics could then form the basis of trade statistics for Scotland with the rest of the world.

2. The *Global Connections Survey* in its current form either needs a complete revamp or should be scrapped. What is required is a more thorough survey of trade between Scotland and the rest of the UK. Currently, there is no compulsion on businesses to answer the *Global Connections Survey*. This has been shown to produce low returns. Given that concern has also been raised about the timeliness and quality of business statistics for Scotland (Cuthbert 2015) which are based on the UK inter departmental business register, consideration should be given to following the practice of Northern Ireland: that is, Scotland having its own separate and compulsory business survey. This could include questions on trade with the rest of the UK. Currently business statistics for Northern Ireland are considerably more up to date than Scotland manages.

3. The failure of Scottish Enterprise and Scottish Development International to produce meaningful statistics on their performance and their costs in exports and foreign direct investment appears, from their responses, to be just one aspect of their internal data collection, collation, and analysis process – a process which, since the creation of these agencies, has not produced data capable of analysis across sectors, by size of company, or through time, and which is incapable of statistics based evaluation.

Using the Treasury's annual public expenditure statistical analysis by country and region (PESA CRA), it is possible to identify spend by other UK departments on Scotland's behalf at a fairly detailed level. But when it comes to expenditure controlled by the Scottish Government, for example that spent by Scottish Enterprise and Highlands and Islands Enterprise, detail just is not there. So we know how much UKTI spends on Scotland's behalf on foreign direct investment and on improving export performance, but we cannot read off what Scottish Enterprise etc. have spent. This needs to change.

We fool ourselves about the future and about economic strategy without knowledge based on an analysis of the facts.

References

Cuthbert, J.R. (2015) 'The Barnett formula under the Smith reforms': Fraser of Allander Institute Economic Commentary, 39/1, June 2015.
Cuthbert, J. R. and Cuthbert M. (2011) 'GERS: Where now'? in 'Scotland's Economic Future' edited by Donald MacKay, Reform Scotland, October.
Cuthbert, J.R. and Cuthbert, M. (2015) 'Smith Commission: why the economic and fiscal arrangements need to be changed', Jimmy Reid Foundation, May.
Cuthbert, M. (2015) 'A Note on Business Statistics, Scotland', paper for meeting of Scottish Economic Statistics Consultative Group on 24 March.
Cuthbert, M. and Cuthbert, J.R. (2003) 'Customs and Excise Regional Trade Statistics: a Note', Fraser of Allander Institute Quarterly Economic Commentary, 28/3, October.