SCDI is an independent membership network that strengthens Scotland’s competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI’s membership includes businesses, trades unions, local authorities, educational institutions, and the voluntary sector.

SCDI has always actively promoted international trade activity for Scotland. SCDI has delivered in excess of 370 trade visits comprising 6000 participants to more than 50 markets worldwide. SCDI proposed that there should be an ambitious target to grow Scotland’s exports and is supporting the Scottish Government’s target to deliver a 50% increase in the value of international exports by 2017 through our work on international trade.

SCDI welcomes the consensus which has been apparent following the recession around the importance of internationalisation in driving economic growth. The ‘increase exports’ national indicator in the National Performance Framework affords strong focus to the critical need to rebalance the economy from consumption to investment and higher net exports. While overall exports have grown, it is evident that rebalancing is not taking place quickly enough, with net trade forecast to make only a marginal impact on growth over the next few years.

In 2011 SCDI published a series of six Budget Principles which we recommended should be applied to decision-making by the Scottish Government and Parliament. One of these principles was that “public spending should be subject to a ‘Scottish Exports Test’”, where priority is given to public spending which supports a Scottish exports target.

As such, it is right that the Economy, Energy and Tourism Committee focuses its scrutiny of the draft budget 2015-16 on inputs which can contribute towards increasing Scottish exports, to ensure this spend is effective in supporting the economy and harnessing export opportunities wherever they exist to the benefit of the economy’s wider performance.

The type and level of public support for increasing exports

Scotland has world-class export companies and sectors, but there is a growing recognition that too narrow a number of sectors and companies are delivering Scotland’s exports. In 2012, for example, Scotland’s largest exporting industry was ‘food and beverages’ at £4.7 billion – with distilled spirits making up £3.9 billion of this total. Too few companies feel able to take advantage of the opportunities, especially in higher-growth emerging markets.

In order to accelerate the progress of Scotland’s export performance we must widen the base of companies which are globally connected. SMEs, in particular, represent the majority of the Scottish economy, and it is essential that government funding priorities lead to an expansion of export volumes amongst firms of this size. This will...

require raising the visibility of and widening access to government funded support to a wider base of companies.

Following the recession, public resources have been targeted on initiatives to increase exports, such as growth in Scottish Development International’s overseas network. These clearly have been of significant benefit to those businesses which have been involved. However, for those companies which are not account managed, for example, it is difficult to know what support is available. Effective use of all possible channels to raise the visibility of export support is needed to ensure information and support reaches companies at a grassroots level. This could be achieved with closer working and communication across the range of representative bodies, industry associations and government agencies which exist across Scotland’s geographical areas and sectors. The recent exports review by Brian Wilson made a number of positive recommendations, based on businesses’ views, which could bring about a strategic approach, closer alignment between UK Trade & Investment and Scottish Development International, and government-industry partnership in identifying opportunities and priorities. For instance, a business-led approach to the proposed single International Trade portal could simplify access to services for businesses.

There is also a need to encourage greater collaboration between public sector agencies and private businesses to leverage other sources of finance which complement the finance available through public agencies, for example, by making links with the finance sector to highlight private sector funding available for exporting.

Public funding can also be used to help stimulate opportunities for exchange of experience and knowledge within the private sector. Scotland Food and Drink, for example, represents a very effective initiative which harnessed public sector support and private sector knowledge to contribute to the 52% increase in exports in this sector between 2007 and 2012\(^2\). The proposal in the Wilson Review for Exporter Networks to share the global experience and expertise and, potentially, networks and facilities, of leading exporters, resonates with SCDI and is one which merits further exploration with businesses and trade associations.

Many of today’s most successful and innovative start-ups are international from their very conception. An awareness of what it takes to be globally successful should be built into the thinking of early stage companies, and pre-growth pipeline companies must be aware of and able to access support in order to get more businesses export ready. Business Gateway, for example, could signpost start-up businesses to resources and advice normally reserved for business further up the growth pipeline, including in-market expertise, in order to inform growth strategies’ and ensure that these consider and are adequately informed about international opportunities from their early stages. In addition, it must be ensured that all account managed companies are advised on opportunities around internationalisation, with signposting to opportunities in their sector.

SCDI is supportive of the Scottish Investment Bank as a means to improve access to finance for potential exporters, particularly around support for SMEs. This support

\(^2\) [http://www.scotlandfoodanddrink.org/events/event-info/1015/scottish-food-and-drink-scotlands-larder---the-key-to-our-prosperity.aspx](http://www.scotlandfoodanddrink.org/events/event-info/1015/scottish-food-and-drink-scotlands-larder---the-key-to-our-prosperity.aspx)
must be available to any business with export potential. Current public support for business is usually predicated on alignment with a defined priority sector. However, as only a small proportion of Scottish businesses trade internationally, any business with international ambition which can find an international market should be supported to access this opportunity.

**Wider Scottish Government policy and spend crucial to exporting**

Scotland’s export potential is, of course, predicated on a strong domestic economy which relies on robust policies and adequate provision around key inputs to economic growth, including innovation policies, the provision of transport and digital infrastructure, and a successful educational system equipping young people with relevant skills. In our Budget Principles paper, SCDI advocated a more commercial, export-orientated mindset to be ‘mainstreamed’ in all parts of government and not just enterprise.

Investment in new equipment and new ideas are key drivers of growth. However, business and enterprise R&D in 2012 represented 0.56% of Scottish GDP compared to 1.14% for the UK as a whole\(^3\), and the UK compares poorly to other advanced economies such as the US and Germany, for example, which spent 2.8% and 2.7% of GDP on R&D in 2008, compared to 1.8% in the UK\(^4\). Scotland and the UK as a whole has lower R&D patenting than other major countries, and has experienced a decline since the 1980s. More effective commercialisation of Scotland’s world-class research base is a priority, and SCDI welcomes the focus on R&D in priority growth sectors through the development of a network of innovation centers, some of which have already been established. Public procurement can help to stimulate innovation, for example, through health spending and procurement which supports growth of Scotland’s life sciences sector. While innovation was one of the major priorities of the recent Procurement Reform (Scotland) Act, there was little discussion of this aim during its passage and there is a need to ensure that public bodies focus on and are able to deliver, such as through the development of the necessary skills among procurement professionals.

Competitive infrastructure and connectivity enables globally ambitious Scottish businesses to grow, as well as attract inward investment into Scotland. SCDI believes that improving access between Scotland’s city-regions, rail network, airports and ports is vitally important to the competitiveness and internationalisation of the Scottish economy.

It is vital that businesses have the air links they need across the UK, Europe and internationally in order to grow and develop new markets. Scottish airports have been successful in developing a number of international routes recently, but Scotland stills lacks direct links to key markets, especially emerging, high-growth markets and it is clear that the ability to travel via hub airports will remain a high priority. With airlines looking to increase passenger numbers, and key hub airports, in particular in the South East of England, seeing more demand for routes to emerging markets, routes to regional airports with lower passenger volumes and more marginal load factors or seasonal demand will find it increasingly difficult to

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access key airports. This will have a detrimental impact on Scotland’s competitiveness and restrict the potential for economic growth, particularly for city-regions without competitive transport alternatives to air. The Airports Commission report on capacity in south-east England is, therefore, of critical interest to Scotland. As there is an inherent risk in the start-up of new air routes, SCDI continues to call for the reintroduction of an EU-compliant air route development fund for direct air routes to key and emerging markets. The devolution and reduction of Air Passenger Duty is also strongly supported by SCDI.

Finally, Scottish businesses need a workforce with the skills to operate internationally, including communication and language ability, team work and leadership, and intercultural awareness. In recent research carried out by SCDI and British Council Scotland, it was found that over three-quarters of businesses (76%) and educational institutions (78%) surveyed agree that Scotland is in danger of being left behind by emerging economies unless its young people learn to think more globally. Less than half (42%) of businesses agree that they are able to recruit young people in Scotland with the global skills required by the business, and almost half (47%) think that this could constrain their international business plans over the next five years. A significant number of respondents across business, educational institutions and young people believed that the education system could do more to encourage an outward looking perspective in Scotland’s young people and that business should take a more active role in the education system, for example helping to increase understanding of overseas business cultures. In line with the Wood Commission’s ‘Education Working for All’ recommendations, the education system should be encouraged to engage with employers to ensure it provides those skills most relevant to employer needs and the wider requirements of a strong and sustainable economy.

I hope these comments are useful in your consideration of the draft budget 2015-16.

Scottish Council for Development and Industry
July 2014