Universities Scotland welcomes the opportunity to submit evidence to this inquiry. This submission represents the views of Universities Scotland only. Whilst we make reference to a new partnership approach in the form of Connected Scotland this submission does not necessarily represent the views of other Connected Scotland partners.

Context

Higher education is one of Scotland’s key sectors. As the Scottish Government’s key sector report notes:

“Universities in Scotland are significant players on the world stage. On performance and esteem measures they are regularly ranked among the best in the world and on specific measures such as production of research publications, citations and knowledge transfer efficiency they are as strong as or stronger than key international competitors.”

Universities’ export role

As a key sector Scotland’s universities secure export income for Scotland of some £1.3bn per annum (2011-12) from across their teaching, research and knowledge exchange activities. 60 per cent of this revenue comes from international sources (outside of the UK) with the remainder from UK sources out with Scotland. This makes the sector a significant player in terms of Scottish exports; it places higher education in the second quartile of Scottish industries based on export income and above other industry sectors such as accommodation and food services, agriculture, forestry and fishing, and the manufacture of basic pharmaceuticals. The sector is ambitious with the aim of growing this export income to over £2bn by 2017.

Scotland’s universities operate successfully in a highly competitive international market. They are supported in their ambitions by a range of Scottish agencies and partner organisations. Key amongst these are:

- British Council Scotland;
- Scotland’s Enterprise Agencies - Scottish Development International, Scottish Enterprise, Highlands and Islands Enterprise;
- Scottish Government;
- Scottish Funding Council;

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2 This calculation uses the same definitions of “exports” as in the Scottish Government’s Global Connections Survey. The sector’s export revenue is generated from: tuition fee income from international (non EU) students; students from the rest of the UK; research and knowledge exchange income from partners and businesses outside of Scotland; overseas campuses and the provision of transnational education; and, international and rest of UK spend and tourist spend in Scotland.

• Royal Society of Edinburgh; and,

• Universities Scotland.

Ambitious to deliver more

At the national level, all of these organisations have come together in a partnership, ‘Connected Scotland’, united in a goal to make Scotland become the higher education sector of choice around the world, to increase the scale of international activity of the higher education sector and ultimately increase the export revenue from such activity.

We believe that closer working and the sharing of information and market intelligence, experience and networks within Connected Scotland means we can achieve more than the sum of our parts and deliver more for Scotland. The remit of this work extends to supporting the recruitment of international students, the delivery of transnational education and the cultivation of research and commercialisation partnerships. A recent analysis of priority markets for Scotland’s universities has led to the identification of China, Malaysia, Brazil and Colombia/Mexico as the focus of Connected Scotland’s first three-year plan.

Further information is available on the Connected Scotland website and a two-minute animated film succinctly explains Connected Scotland’s objectives.

Universities as a key player in driving inward investment and thus increasing export potential

The Scottish Government identifies inward investment within its National Performance Indicator as one of the factors that can help to grow Scottish industries. The Performance Indicator reads: “A focus on attracting strategic inward investment which enhances the competitiveness of our growth sectors.”

Scotland’s universities have a strong role in attracting inward investment into Scotland, as one of the key “pull” factors for investors, and in so doing they positively influence the export revenue accrued in other sectors of Scotland’s economy.

The sector’s role in attracting inward investment is three-fold:

1. the creation of a talent pool of highly-qualified graduates which are sought after by investors,

2. the sector’s reputation for world-class research, development and innovation; and,

3. the “cluster” effect around certain industry bases of which universities are a part, which has an agglomeration effect where similar businesses base their location decisions on the successful location decisions of their competitors.

Testimonials from SAA, Molnlycke Health, Daktari are just a few of the many companies that have invested in Scotland in recent years and created jobs, citing universities as a key reason for choosing Scotland above other locations.¹

A recent analysis of the university role in supporting inward investment into Scotland by Universities Scotland found Scottish institutions to already be working according to innovative new models that experts have predicted will become: “critical to the way companies re-invent and evolve products and services”. The new model, described as “innovation webs” place a focus on access to rather than ownership of resources and talent. A recent example of this model in place in Scotland is the European Lead Factory, located in Lanarkshire in 2013; a partnership of 30 organisations including seven universities. Being on the front-foot when it comes to new ways of working, such as this, will serve Scotland well as competition for foreign direct investment increases.

There are big opportunities for higher levels of inward investment into Scotland in areas in which her universities perform very strongly. See Grow, Export, Attract, Support for more company testimonials and more information on this strand of university activity.

Response to consultation questions

**Has sufficient funding by the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise been made available since 2012-13 to support the ‘increase exports’ National Performance Framework indicator?**

- Universities Scotland values the contribution of the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise. We view the work of Scottish Development International, in particular, as key in supporting individual institutions and the sector as a whole to pursue its international objectives.

- The evidence suggests that the agencies are performing well with the budget that has been available to them. In reference to SDI again, we note the draft budget’s reference to the fact that SDI is on target to meet its goal of creating the 25,000-35,000 jobs through inward investment by 2015 and that Scotland ranks second only to London within the UK for foreign direct investment projects.

- We note that the 2014-15 budget provided for an increase (1.78 per cent) for the Enterprise Agencies, of which SDI is a part. We also note that a more substantial increase is planned for 2015-16. We hope that this increase will translate into opportunities for further support for all of Scotland’s key sectors, including universities.

- We are proud of the role that universities play in making Scotland an attractive place to invest and proud that SDI cites universities as two of their five key reasons to invest in Scotland.

**What are your views on the extent to which Scottish Government policy and spend can lead to increasing exports?**

- Universities Scotland is of the view that Government policy and investment can yield significant results when it comes to increasing export revenue.

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7 [http://www.sdi.co.uk/](http://www.sdi.co.uk/)
• The majority of our response to this question focusses on policy support and funding for support agencies as that is where our experience predominately lies (as the vast majority of international activities of universities are not funded directly by the Scottish taxpayer).

• We address this question by looking at each of the areas in which universities derive their export income.

International student recruitment

• The recruitment of international students to Scotland and subsequent fees generated from this activity is a significant proportion of the sector’s total international (non-UK) export revenue. Our ability to recruit in a fiercely competitive international market is being significantly restricted by the UK Government’s immigration policy and, equally, overseas perceptions of this policy.

• Scotland has seen the first decline in international student recruitment with a one per cent drop in 2012/13 compared to 2011/12. This decline would, have been greater if not for modest growth from one key market in the form of China. We have experienced a decline in enrolments since 2010/11 of students from key overseas markets, particularly India (-49.4%), Nigeria (-19.2%) and Pakistan (-39%).

• Although this policy sits beyond the competency of the Scottish Parliament, it is worth mentioning it here as this is a solid example of how Government policy can help, or in this case hinder, an industry’s ability to grow its export potential.8

• We welcome cross-party support from within the Scottish parliament for changes to immigration policy.9

• We would like to see the introduction of a more competitive post-study work route and removal of international students from the net in-migration figures.

• We would welcome the continued support of the Scottish Government and MSPs to bring pressure on the UK Government on this issue. In our view a policy change is needed and is possible irrespective of the decision taken by the people of Scotland in September’s referendum.10

• It is also helpful, where possible, for Scottish Government Ministers to continue to take every opportunity, when overseas, to repeat positive and welcoming rhetoric that Scotland welcomes international students. In large part, it is the rhetoric of the UK Government on immigration for a domestic audience that has been so damaging to the way the sector is perceived by potential international students.

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8 Universities Scotland is neutral on the question of Scotland’s constitutional future. We would be content to see immigration policy changed under the current constitutional settlement or in an independent Scotland if that is what is decided in the referendum.

9 This has been stated on a cross-party basis many times but most recently in the Scottish Parliament debate on immigration and higher education on 29 May 2014.

10 Universities Scotland remains neutral on the issue of Scotland’s independence and wants to see a change to immigration policy irrespective of the outcome of the vote.
There is both a short-term and long-term benefit to Scotland’s exports from international student recruitment. In the short-term this benefit is derived from export income in fees and living expenses as explained above. Over the longer-term, there are substantial advantages to be had from the ‘soft-power’ Scotland accrues from its network of hundreds of thousands of alumni around the world, who go on to pursue successful careers in business and industry and may be in a position to do business with Scotland throughout their career due to the positive relationship with Scotland that began with higher education.

What are your views on the type and level of public support being provided through the draft budget to increase exports? Is it being targeted in the right areas?

We address this question by commenting on the different areas as relevant to our export agenda.

**Enterprise Agencies**

- As noted above, Universities Scotland is very supportive of the role that SDI plays in supporting the HE sector internationally. SDI clearly has a strong record of achievement across all areas of delivery.

- Continued financial support for SDI through the Scottish Government’s budget, and in turn the continuation of SDI’s support for higher education, will be vital to the sector’s ability to realise its growth ambitions for 2017.

- Individual universities will continue to engage with markets independently and with the support of SDI and UKTI. Alongside this, Connected Scotland intends to organise missions to the countries identified in its priority markets analysis and as with previous ventures. SDI’s input into future missions will no doubt be invaluable.

**The higher education sector itself**

- As far as the ability to increase the exports of our own sector is concerned, this is predicated entirely upon there being sufficient levels of public investment in our teaching, research and capital assets to keep us competitive on an international stage. As with other Scottish industries, our reputation for excellence and our world-leading position is what drives our export income. Public investment in our sector is undoubtedly an important lever to help attract private investment.

- Therefore it is essential, in our view, that universities continue to be funded at internationally competitive levels. The 2014/15 budget provides for this, to the extent that it can, given wider budgetary pressures. It is important to see this level of funding continue, taking account of inflationary pressures for the 2015/16 budget.

- Looking further into the future, as pressures on the Scottish budget ease, we hope to see levels of investment increase towards the goal of Scotland finding
itself in the top quartile of OECD countries for investment in higher education as a proportion of GDP.\textsuperscript{11}

Other public support

- The capacity of the Scottish Funding Council to make targeted support available to support strategic partnerships is valuable. For example the Council has provided funding to support university – SME partnerships in Europe and investment in postgraduate links through a framework agreement with the Research Grants Council of Hong Kong. The Council is also a funder, alongside the other UK funding bodies, of the UK International Unit which delivers high profile projects and activities to support and develop the breadth and depth of the UK higher education sector’s international activities.

- The Scottish Government’s direct investment, alongside the sector, in the Saltire Scholarships\textsuperscript{12} is important in attracting the best international talent to Scotland.

What alternative spend would you propose within the draft 2015-16 budget and from what area should such resources be diverted?

- Universities Scotland would like to see continued investment in the higher education sector at internationally competitive levels. This is a vitally important base from which to go out and attract further exports.

- Universities Scotland has no suggestions for alternative spend within the budget nor do we propose any reallocations.

Universities Scotland
July 2014

\textsuperscript{11} A commitment made by the Scottish Government in \textit{New Horizons}.
\textsuperscript{12} \texttt{http://www.scotland.org/study-in-scotland/scholarships/saltire-scholarships/}