

Scotland's international export performance: some recent evidence

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Abstract

This paper outlines the latest data and evidence on Scotland's export performance and highlights key changes over the past decade. Exporting, for the purposes of this paper, is defined as sales to overseas markets. Scotland's international exports have changed significantly over the past 10 years. The overall nominal value of international sales has grown since 2005 but the number of exporting businesses has declined, with the result that Scotland's exports are increasingly reliant on the performance of fewer firms. The sectoral composition of Scottish exports has also changed significantly: in manufacturing, the main change has been from electronics to food & drink and chemicals. Additionally, the overall contribution of Services exports, such as financial and business services, has been important. Developed economies, particularly the EU and US, are Scotland's largest export markets with emerging economies beginning to comprise a larger proportion of Scottish exports, albeit from a low base. A key factor in raising Scottish exports from current levels will be to increase the number of exporting businesses. Evidence suggests only a very small number of non-exporting businesses (3%) plan to start exporting. However, for example, if Scotland had an export rate similar to that of the UK there would be an additional 2,500 exporting businesses.

1. Introduction

International exports are a key contributor to economic growth and there are positive links between exporting and business performance in terms of firm innovation, productivity and growth². Having a greater contribution from net trade is an important goal for economic policy (for example, as set out in Scotland's Economic Strategy³) and it is important to business growth, as exporting allows companies to access the opportunities that bigger markets present. In Scotland's Economic Strategy, the stated aim of the Scottish Government is to "support Scotland's exporters to grow into new markets and expand their presence in key traditional markets" and "encourage a more export-orientated focus across all businesses and sectors in Scotland".

This paper outlines the latest data and evidence on Scotland's exporting performance and highlights key changes over the past decade. Exporting, for the purposes of this paper, is defined as sales to overseas markets⁴.

¹ *Scottish Enterprise* is one of Scotland's economic development agencies.

² <http://www.enterpriseresearch.ac.uk/publications/sme-innovation-exporting-growth-review-existing-evidence/>

³ *Scotland's Economic Strategy*

⁴ *SG: Scotland's Trade & Investment Strategy*

2. Scotland's international exports: what has changed over the past decade?

There are a variety of sources of export data for Scotland – the Global Connections Survey (GCS), the Small Business Survey (SBS) and data from HM Revenues & Customs (HMRC)⁵.

GCS data show that Scotland's exports have increased in nominal terms annually from 2005 (Figure 1). Real price GCS data are not available but a broad analysis⁶ suggests that international exports have grown in real terms too, but at a lower rate. 2005 is both an inflection and transition point from an 'electronics-led' export to a 'food & drink and chemicals' era. The HMRC data corroborate the GCS data but suggest a relative decline in the contribution of manufacturing to total exports (i.e. the gap between the red and green bars is increasing). IME data show an increase in recent years and are above the 2005 level. Whilst this is a volume measure it does show an increase in international exports in recent years that mirror some of the real growth mentioned in the paragraph above.

Figure 1 Total exports (£m) (GCS) vs Total goods exports (£m) (HMRC) vs Manufactured goods volume (Index) (IME)

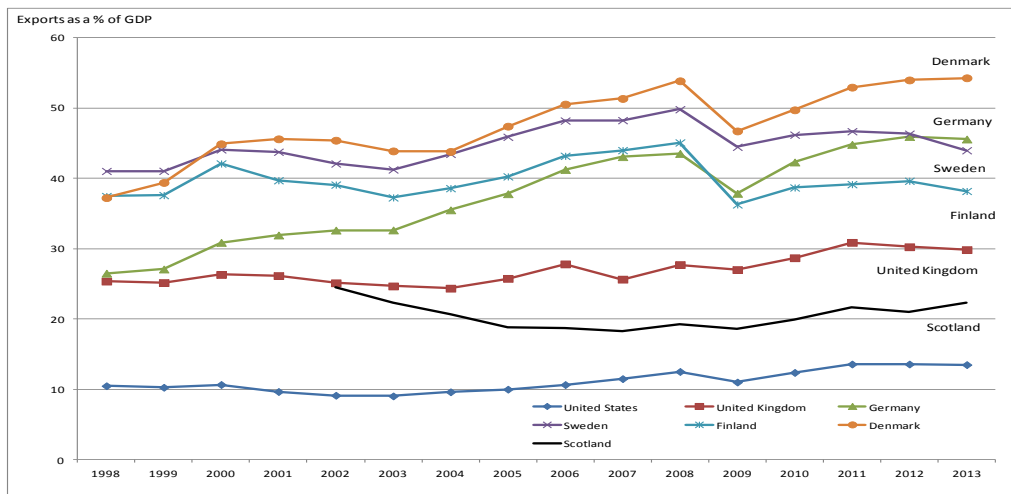


Source: Scottish Government, HMRC

How well does Scotland perform export-wise relative to other countries? Exports as a percentage of GDP is a measure that can provide evidence on the 'openness' of an economy and can perhaps be used as an indicator of a country's relative international productivity. Figure 2 shows that although Scotland's proportion of exports compared to GDP has grown over time, and performance since 2009 in particular has been relatively strong, the level is still lower than other countries.

⁵ GCS is an annual survey of Scottish exporting businesses and allows an assessment of total (nominal) exports from Scotland; SBS is a bi-annual sample survey with figures on the number of exporters included within it; HMRC produce quarterly figures on the value of exports for the UK and nations/regions based on manufactured products.

⁶ Using UK GDP deflators

Figure 2 Scottish international exports and those of other European countries as a % of GDP

Source: OECD, GCS

2.1 Too few exporting businesses?

One of the biggest challenges to increasing Scottish exports is that Scotland has too few companies that export. In 2013, around 60% of Scottish exports were accounted for by only 100 companies, and whilst it is difficult to say precisely how this proportion has changed over time⁷, it is likely this has been the case for a number of years.

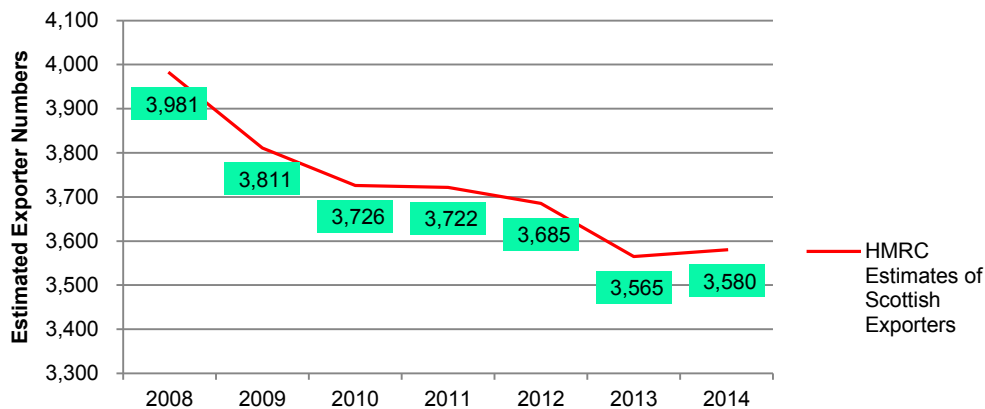
It is difficult to assess exactly how many export businesses there are in Scotland as there is currently no definitive data source. Totals are available from HMRC - but only for manufacturing businesses – while the Small Business Survey (SBS) has data for the percentage of SMEs that sell overseas (based on a sample survey). Unfortunately, for various statistical reasons, neither of these sources is ideal as a measure⁸.

Figure 3 shows the number of exporters reported by HMRC, which, given its manufacturing basis, is an underestimate of the overall total number of exporters, but does provide an indication. The decline in the number of manufacturing exporters is long-standing. To some extent this reflects the recession and subsequent slow, uneven recovery. It also reflects the continuing sectoral trend away from manufacturing. A third reason may be that there are simply fewer manufacturing businesses in Scotland. Data from the Scottish Government's 'Business in Scotland' show that although between 2006 and 2009 the number of manufacturing businesses with employees in Scotland stayed roughly constant, between 2010 and 2014 the number of businesses declined from 6,575 to 6,025⁹.

⁷ Due to a changing composition of companies responding to the GCS each year

⁸ For example, the SBS only covers small and medium businesses and HMRC only covers manufactured products

⁹ <http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate>

Figure 3 HMRC estimates of number of Scottish exporters

Source: HMRC

However, the total number of goods exporting businesses may not be declining quite as dramatically as the HMRC data suggests. For example, it does not include growth in the number of exporting service sector companies (which do not appear in HMRC data) or companies 'moving' from manufacturing to services through a re-classification of their activities (for example, a move to outsourcing). Examinations of other data are, therefore, helpful.

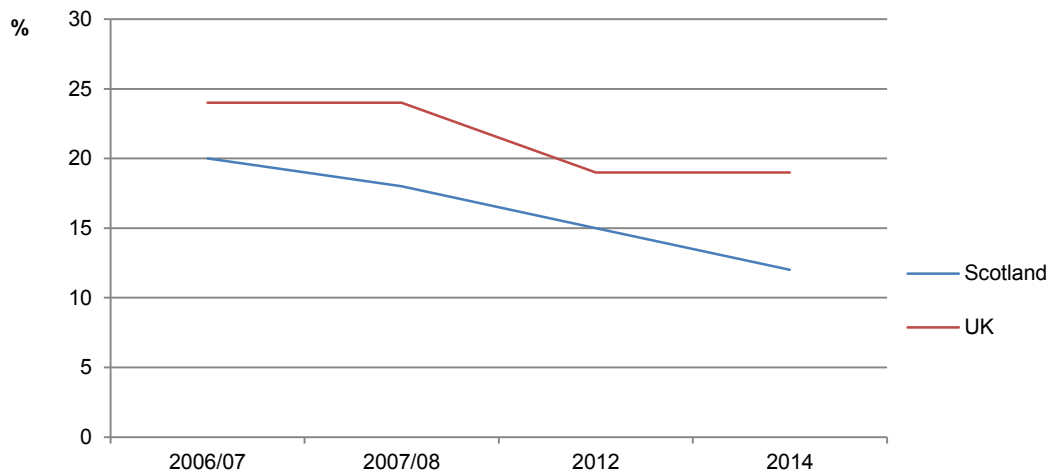
The SBS reports on the number of exporting SMEs. In 2014, only 12% of Scottish SMEs surveyed considered themselves to be exporters (compared to 19% for the UK). This is equivalent to around 15,000 SME exporters. However, the survey notes that not all companies export every year¹⁰. SBS data show that the proportion of SMEs that are exporters has been in decline since 2006/7 (Figure 4). The SBS data also highlight that:

- a smaller proportion of Scotland's manufacturing, ICT and business services SMEs export as compared to the UK.
- 88% of Scottish SME exporters export every year (similar to UK).
- exports account for less than a quarter of turnover for 64% of exporters (similar to UK levels).

Without more detailed data it is hard to assess how many more exporters Scotland may need to raise it to UK levels, however to increase the number over time will require more new exporters as well as ensuring that current exporters keep selling overseas. For example, in terms of the current performance gap with the UK, Scotland would need 2,500 additional exporting businesses.

Having more exporters may help reduce Scotland's dependency on a narrowing range of SME exporters.

¹⁰ <http://www.gov.scot/Topics/Economy/ASBS>

Figure 4 Percentage of SMEs (with employees) selling goods or services outside the UK

Source: BIS, Small Business Survey, 2014

2.2 Scotland's international exports, by sector

As noted above a key sectoral transition in Scottish exports has been a move from electronics to food & drink and chemicals – the latter of which now represent Scotland's leading export sectors. However, other trends are also evident. Figure 5 below shows the contribution to Scottish exports of major sectoral groups for 2002, 2007 and 2013.

As can be seen, the increase in the proportion of exports by whisky, chemicals and the services sectors is marked, as is the decline in computer and electronics-related exports. In terms of growth areas, 'other manufacturing', which includes food and pharmaceuticals, is also worthy of note. In areas where smaller Scottish companies are prevalent (e.g. textiles), growth has been more muted.

The importance of whisky and chemicals, plus an increase in the 'concentration' of exports among a smaller number of companies, creates a number of economic risks and any decline in the export activity of those companies will, therefore, impact significantly on the overall Scottish exports total. Moreover, many of the crucial export-driving businesses are non-Scottish owned.

The risks of a dependency on a small number of sectors has been highlighted, for example, by recent data from HMRC and the Scotch Whisky Association that show a decline in the value of whisky exports (of around 7% by value and 6% by volume) between 2011 & 2014¹¹.

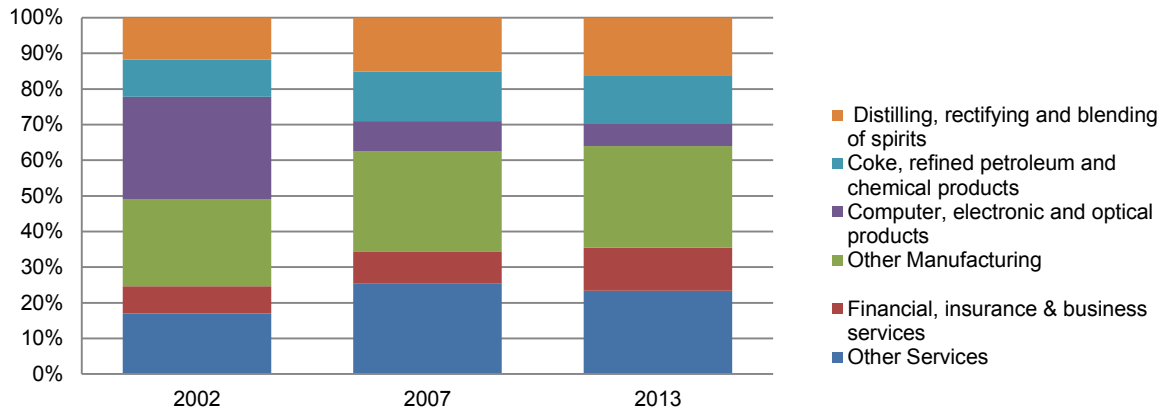
The picture for the services sector is different. Overall growth between 2002 and 2013 has been strong (+43%) and is relatively balanced in terms of major contributing sub-sectors. The contribution of

¹¹ <http://www.scotch-whisky.org.uk/news-publications/publications/documents/scotch-at-a-glance-2014>

financial services and business services is noticeable while in other areas, like Telecommunications, R&D and Education, growth has also been significant. Interestingly, more than £1.3bn of export sales in 2013 were from sectors that are often considered to be 'locally-traded' (e.g. retail and wholesale); it is not possible to identify the specific reasons for this from the data, however, e-business growth is likely to be a factor and indeed further adoption and growth in e-business may increase these totals further.

Figure 5 Percentage contribution of major sectors to Scotland's international exports, 2002 – 2013

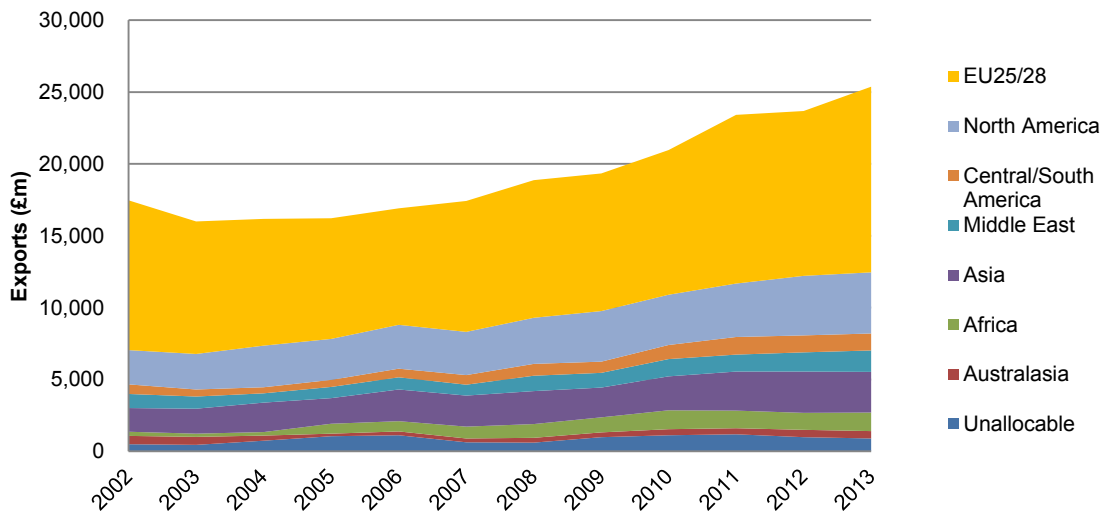
(Refer to Annex A for more detailed tables)



Source: GCS

2.3 Scotland's international exports, by country markets

Figure 6 Scottish international exports (£m), by destination



Source: GCS 2013

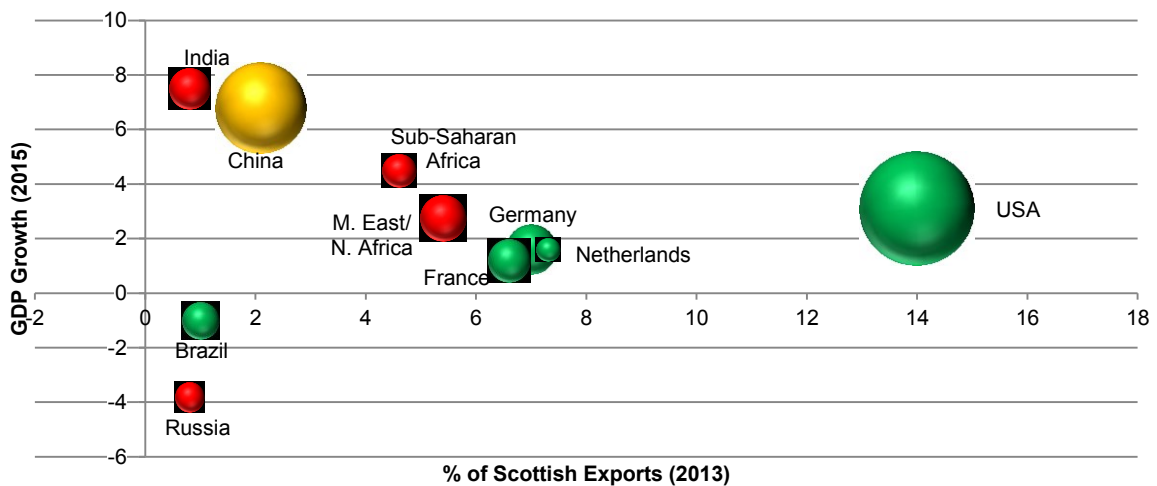
Figure 6 shows the main international markets for Scottish exports. In 2013, the EU accounted for 46% of Scottish exports and the US, the largest single market, around 15%. Other markets are much smaller. The proportion of exports going to the EU has declined from 56% in 2002 (although total sales

have increased by over 12% to almost £13b). Annex A provides greater detail of Scotland's top 20 export markets.

The consistent importance of the EU, Rest of Europe and North America (especially the US) is clear and the overall ranking of Scotland's export markets has remained fairly consistent over time. And this will probably not change significantly in the near future, given the established links that Scottish businesses have to these markets and the significant proportion of exports that are in high value goods (e.g. whisky and chemicals) that tend to be demanded by developed economy markets.

Figure 7 plots the scale of Scotland's major export markets by their growth rate. As can be seen those markets that Scotland currently does business with (green 'bubbles') are relatively slow growing. Scotland's exports to faster growing and/or more difficult-to-work-with markets (amber/red 'bubbles' e.g. China, India and Africa) are more modest and although the growth in exports to some (e.g. China) has been good it is growing from a relatively low base.

Figure 7 Country growth vs Scottish exports (bubble = relative size of overall economy)



Source: GCS, IMF

3. How can the number of Scottish exporters be increased?

Currently, one of the potentially biggest barriers to increasing the number of exporters is an apparent lack of interest or ambition amongst companies to want to start to export. Small Business Survey data suggest 97% of non-exporters do not plan to start exporting in the future with the main reason being that they believe their products are not suitable for export, and that exporting is not part of their business plan.

However, if 'export-ambition' can be developed, the potential to increase the number of exporters is large. For example, based on figures from the Small Business Survey, if Scotland had an SME export rate similar to the UK, there would be over 2,500 additional exporters.

The largest single impediment to exporting is that Scottish companies do not consider they have a suitable product or service suitable to export: according to the SBS, 34% have never considered exporting, despite (in their view) having a suitable product. The companies in this group are small (86% have 1-9 employees) but are well-established (69% are over 10 years old) and could be considered as a potential exporting cohort as they have survived and grown by serving domestic markets and already possess a product that could be sold overseas.

Building export ambition (and awareness of overseas opportunities) is important to increasing the number of Scottish export businesses. However, building ambition may be insufficient by itself to help increase overseas exporters significantly; companies also need the capacity and capability to successfully exploit opportunities.

One such capability is existing high productivity levels; high productivity is crucial to export success: firms with higher productivity are more likely to be internationally active (and able to be successfully international); AND internationally active firms tend to be more productive¹². The act of internationalising also increases productivity further, for example through companies becoming better at obtaining and using market intelligence¹³.

Therefore, increasing the productivity levels of Scottish businesses will contribute strongly to export growth.

5. Conclusions

The main conclusions from this analysis of Scotland's international exports and exporters are:

- Scotland currently perhaps has too few exporting businesses (selling overseas), and Scotland's export performance is therefore too dependent on a small number of key companies, sectors and overseas markets.
- The proportion of SMEs that sell overseas is lower than for the UK as a whole and is declining.
- However, there are opportunities to increase the number of Scottish exporting companies; for example, if Scotland matched the UK's exporting rate, there would be over 2,500 more Scottish businesses selling overseas.
- The EU and US are and will likely remain key markets for Scotland and while exports to emerging markets have increased proportionately they are low but have the potential to grow further given their generally higher forecast economic growth rates.
- Company productivity is a key enabler to helping to increase the number of Scottish exporters.
- Developing a level of international ambition in more Scottish businesses will also be crucial to increasing the number of Scottish exporters; and high productivity levels will help develop their capacity and capability to profit from opportunities.

¹² <http://www.enterpriseresearch.ac.uk/publications/sme-innovation-exporting-growth-review-existing-evidence/>

¹³ [SDI Evaluation](#)

Annex 1 – A1 - Scottish international exports by Manufacturing and Services sectors and sub-sector, 2002, 2007 and 2013

International Exports By Commodity (Manufacturing)					
£millions ⁴	2002	2007	2013	%age Change 02-07	%age Change 07-13
Total International Exports	20,135	19,915	27,875	-1.09	39.97
Manufacturing³					
Food products, beverages and tobacco products	2,765	3,330	5,015	20.43	50.60
<i>Of Which Distilling, rectifying and blending of spirits</i>	2,285	2,825	4,260	23.63	50.80
Textiles, wearing apparel, leather and related products	395	340	365	-13.92	7.35
Wood and paper products; printing and reproduction of recorded media	345	360	420	4.35	16.67
Coke, refined petroleum and chemical products	2,015	2,625	3,505	30.27	33.52
Basic pharmaceutical products and preparations	305	260	340	-14.75	30.77
Rubber and plastic products, and other non-metallic mineral products	395	540	815	36.71	50.93
Basic metals and fabricated metal products, except machinery and equipment	400	520	560	30.00	7.69
Computer, electronic and optical products	5,570	1,590	1,595	-71.45	0.31
Electrical equipment	550	360	435	-34.55	20.83
Machinery and equipment NEC	755	885	1,745	17.22	97.18
Transport equipment	700	1,010	1,230	44.29	21.78
Other manufacturing: including furniture	165	205	175	24.24	-14.63
Repair and installation of machinery and equipment	230	275	580	19.57	110.91
Total Manufacturing	14,585	12,295	16,780	-15.70	36.48
International Exports By Commodity (Services)					
Services³					
Wholesale ¹ , retail trade; repair of motor vehicles etc.	945	1,485	1,350	57.14	-9.09
Transportation and storage	555	690	910	24.32	31.88
Accommodation and food service activities	175	265	275	51.43	3.77
Publishing, audiovisual and broadcasting activities	55	90	45	63.64	-50.00
Telecommunications	20	120	255	500.00	112.50
IT and other information services	255	390	500	52.94	28.21
Financial and insurance activities	700	645	1,280	-7.86	98.45
Real estate activities	20	30	45	50.00	50.00
Legal, accounting, management, architecture, engineering, technical testing and analysis activities	780	1,065	1,870	36.54	75.59
Scientific research and development	270	315	500	16.67	58.73
Other professional, scientific and technical activities	240	110	200	-54.17	81.82
Administrative and support service activities	445	840	1,210	88.76	44.05
Education	175	280	620	60.00	121.43
Other Services ²	135	140	185	3.70	32.14
Total Services	4,765	6,460	9,235	35.57	42.96
<p>1. Wholesale figures include the wholesale of agricultural products, fish and crustaceans & molluscs.</p> <p>2. Other Services² includes the following activities: Health and other community activities, social and personal service activities as well as arts, entertainment and recreation</p> <p>3. All values rounded to the nearest 5% change calculations are based on unrounded data. Some changes in Industry sector should be considered with some caution due to change in company classification</p>					

Source: GCS 2013

A2 –Top 20 Scottish international export destinations, by country and value (£m), 2002, 2007 and 2013)

Destinations						
Rank	2002		2007		2013	
	Destination	Total Exports (£m)	Destination	Total Exports (£m)	Destination	Total Exports (£m)
1	USA	2,150	USA	2,445	USA	3,910
2	France	1,930	Netherlands	1,805	Netherlands	2,040
3	Netherlands	1,905	France	1,305	Germany	1,945
4	Germany	1,790	Germany	1,295	France	1,845
5	Italy	1,095	Belgium	860	Denmark	1,420
6	Spain	905	Spain	845	Norway	1,110
7	Eire	800	Eire	655	Belgium	1,000
8	Sweden	625	Switzerland	640	Eire	920
9	Norway	575	Italy	635	Spain	870
10	Belgium	530	Norway	545	Italy	745
11	Denmark	430	Denmark	515	Sweden	715
12	Switzerland	430	Singapore	415	Switzerland	615
13	Russia	360	Japan	400	UAE	605
14	Japan	315	China	380	Singapore	585
15	Canada	290	UAE	320	China	580
16	South Korea	250	Sweden	310	Australia	435
17	Austria	225	Canada	280	Canada	345
18	Australia	215	India	240	Japan	295
19	Finland	200	Australia	235	South Africa	285
20	Greece	190	South Korea	200	Brazil	285

2002 - 2007: Drop-outs in Green

2007: New additions in Blue

2007 - 2013: New additions in Red - Drop-outs in Purple

Source: GCS 2013

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