Export Based Growth

Global Competitive Advantage from the Scottish Brand

56 Scotland Means Business

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This report updates and develops analysis and policy recommendations set out in N-56's Scotland Means Business: The Facts and Scotland Means Business: The Strategy, both published in 2014.

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1 EXECUTIVE SUMMARY

Trade is an important driver of economic growth. At the global level it facilitates the forces of comparative advantage while at the country or company level exposure to foreign competition means that domestic companies need to ensure they remain efficient and innovative.

The UK's share of global trade has been declining and the value of UK trade is now lower than the average large advanced economy and well behind Germany. Scotland's exports have been growing and Scotland's total trade volume is equivalent to 129% of GDP, £34,878 ($54,500) per capita. However, this is lower than average for a small advanced economy and considerably less than the best performing small European trading economies. Trade would need to increase by 40% to match the average for small advanced economies. If oil and gas exports were excluded Scottish trade would need to increase by more than 60% to match the small advanced economy average.

Export growth is driven by productivity growth and therefore the best policies to promote export growth are those that enhance the productivity of exporters and potential exporters, such as investment in infrastructure, research and development and education. In addition, an exports-based growth strategy will require targeted fiscal policies in those sectors where Scotland has existing strengths and potential. Therefore, **export growth should be more prominent in Scotland's economic strategy**.

Scotland has global comparative advantage in a number of fast growing sectors. Scotland has a worldwide reputation for producing premium food and drink products. In 2013, exports of these products amounted to around £5.0 billion. Following the successful examples of whisky and, more recently, salmon, the food and drink sector also has the potential for export growth. The Year of Food and Drink 2015 is a good example of an initiative that is targeting further export growth.

Universities and schools can continue to grow their competitiveness in the international education market, based on the reputation of Scottish education. Four Scottish universities rank amongst the top 200 universities in the world, which means Scotland has the second highest number of top performing universities per capita.

The tourism sector supports almost 181,500 jobs, contributes more than £3.0 billion to the Scottish economy each year and earns £1.2 billion in exports. Scotland's history and environment provides a competitive advantage in the tourism sector that is impossible for other countries to replicate.

These and other sectors provide a large number of opportunities for the Scottish economy but Scotland cannot expect to be dominant in any of these global markets at the macro level. However, with globalisation a small country like Scotland can perform well economically by developing niche competitive advantages.

A number of factors will play a role in supporting Scotland to achieve export growth. Expanding exports will be dependent on maintaining access to global markets with **Scotland's continued membership of the European Union providing the easiest access to markets**. In addition, successful Scottish exporters have demonstrated the importance of sales and distribution networks. **There may be potential to reach agreements for large companies to work with small and medium sized companies in export markets, as well as a role for government agencies to assist businesses to establish new distribution channels, particularly in emerging markets**.

Developing sales and distribution networks also requires the necessary skills to be available. Although English is increasingly the language of international business, businesses which do most to respect and understand the culture of the countries in which they operate, including language are likely to do better. **An export-based growth strategy will therefore require that skills gaps in sales and languages are addressed**.

The development of a national brand can also assist businesses in export markets, since it provides a foundation on which they can build their own brand, if they choose to. The Anholt-GfK Roper Nation Brands Index examines the image of 50 nations. Scotland's score (61.8) and rank (17th) on the index show that Scotland already has a strong national brand. Across all dimensions, with the exception of exports, Scotland is ranked within the Top 20 countries indicating that there is room for improvement in the exports dimension.

The small country case studies of New Zealand, Singapore and other countries highlight the benefits of being able to invest behind a specific brand – and particularly one that is supported by a coherent policy approach. Other lessons that can be drawn from these case studies include the necessity of a realistic and authentic national brand. The focus therefore should be on generating outcomes, not simply investing in marketing or PR. This is important because the branding efforts need to be consistent and sustained and to be linked to policy settings. **The development of a national brand for Scotland is an initiative that should be developed by collaboration between government and business**.

The Scottish Government could also provide opportunities for Scottish businesses by targeted international engagement. That might include **applying to join the Nordic Council** to participate in programmes like the Green Growth initiative and establishing a leadership role in the EU in energy.

2 TRADE

Trade has been identified as an important driver of economic growth for a number of reasons. At the global level, trade facilitates the forces of comparative advantage while at the country or company level, exposure to foreign competition (while in domestic or export markets) means that domestic companies need to ensure they remain efficient and innovative.

Trade is an area where differences might be expected between the UK and Scottish economies as small advanced economies tend to trade more than larger advanced economies. An understanding of the trade position of the UK and Scotland is therefore important in understanding the economic performance and prospects of both.

2.1 UK Trade

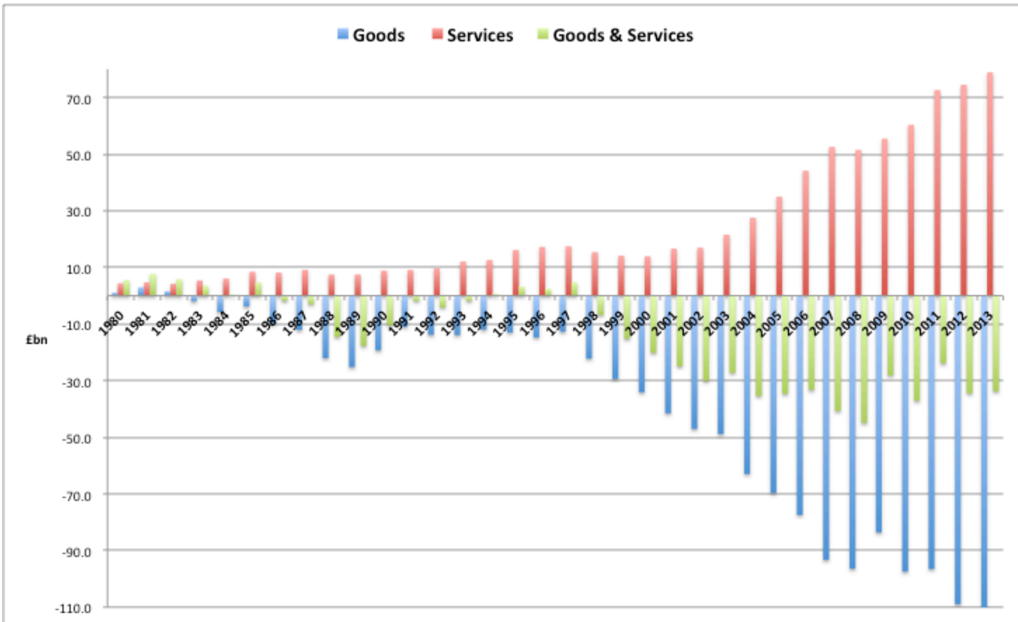
The UK continues to be a major trading nation ranking 8th in the world in 2013 for merchandise exports (and 6th for merchandise imports) and 2nd in the world for the export of commercial services (5th for service imports)[1].

Trade has been an important driver of global economic growth, with annual average growth in trade of 10% between 1946 and 2008[2] while UK trade growth since the 1980s was an average of 8%. The UK's share of global trade has therefore been declining over the long term.

The UK also has a trade deficit, that is, the value of imports exceeds the value of imports. As Figure 2-1 shows, the UK trade deficit has grown because the surplus in the trade in services has not been as great as the increase in the deficit in the trade of goods. In 2013, the UK exported £306.8 billion of goods and £209.1 billion in services and imported £419.4 billion in goods and £103.3 billion in services, giving an overall trade deficit of £33.7 billion (made up of a deficit in goods of £112.6 billion and a surplus in services of £78.8 billion).

[1] World Trade Organisation Statistics (September 2014), Rank in World Trade, 2013.
[2] Department of Business, Innovation and Skills (November 2010), BIS Economics Paper 8: UK Trade Performance: Patterns in UK and Global Trade Growth

Figure 2-1 – UK Balances of Trade in Goods & Services, 1980-2013



Source: National Statistics, Balance of Payments Dataset (December 2014)

2.2 Scottish Trade

Scottish trade statistics that are directly comparable with the UK trade statistics are not available. However, there are a number of sources that allow a picture of Scottish imports and exports to be painted.

The Scottish Government's Global Connections Survey[3] found that total exports to the rest of the UK in 2013 were valued at £46.2 billion with £27.9 billion going to the rest of the world, giving total exports of £74.1 billion. These figures capture exports of refined petroleum products and exports of oil and gas services. However, they do not include exports of crude petroleum and natural gas, which are reported in the Scottish National Accounts Project (SNAP).

If these are added, Scottish exports increase to £98.7 billion, of which £56.6 billion (57%) were to the rest of the UK and £42.1 billion to the rest of the world (Table 2-1).

Oil and gas accounted for 25% of exports (including to the rest of the UK as well as to the rest of the world). Total imports to Scotland totalled £86.7 billion, of which £60.5 billion (74%) were from the rest of the UK and £26.1 billion from the rest of the world (Table 2-1).

On this basis, Scotland has a balance of trade deficit of almost £4.0 billion with the rest of the UK and a trade surplus of almost £16.0 billion with the rest of the world, a total surplus of £12.0 billion. Scotland's total trade volume (exports plus imports) of £185 billion would be equivalent to 126% of GDP, £34,878 per capita.

[3] Scottish Government (January 2015), Scotland's Global Connections Survey 2013

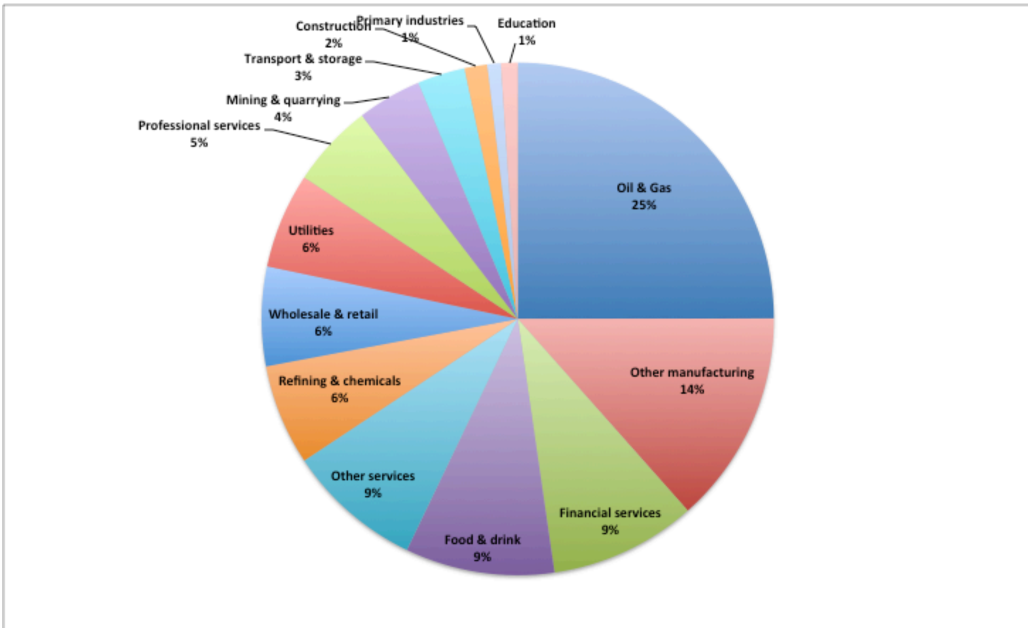
Table 2-1 – Scottish Exports and Imports, 2013 (£m)[i]

Exports	To Rest UK	To Rest World	Total
Global Connections Survey	+46,175	+27,875	+74,055
Oil & Gas	+10,418	+14,222	+24,641
Total Exports	**+56,593**	**+42,097**	**+98,690**
Imports	From Rest UK	From Rest World	Total
Total Imports	**-60,511**	**-26,141**	**-86,652**
Total	Rest UK	Rest World	Total
Total Trade	117,104	68,238	185,342
Balance of Trade	***-3,918***	***+15,956***	***+12,038***

Source: Global Connections Survey 2013, Scottish National Accounts Project Oil and Gas Model (2013)

Oil and gas makes a significant contribution to Scottish exports, accounting for 25% of exports (Figure 2-2). More than half of the food and drink exports are accounted for by whisky exports (valued at almost £5.0 billion). While these account for only 8% of total Scottish exports, they account for 15% of exports to the rest of the world. Financial services are also an important Scottish export, with £7.9 billion of total £9.1 billion in exports going to the rest of the UK.

Figure 2-2 – Scottish Exports by Sector (Rest UK & Rest of World), 2013



Source: Global Connections Survey 2013, Scottish National Accounts Project National Statistics, Oil and Gas Model (2013)

2.3 UK and Scottish Trade In Context

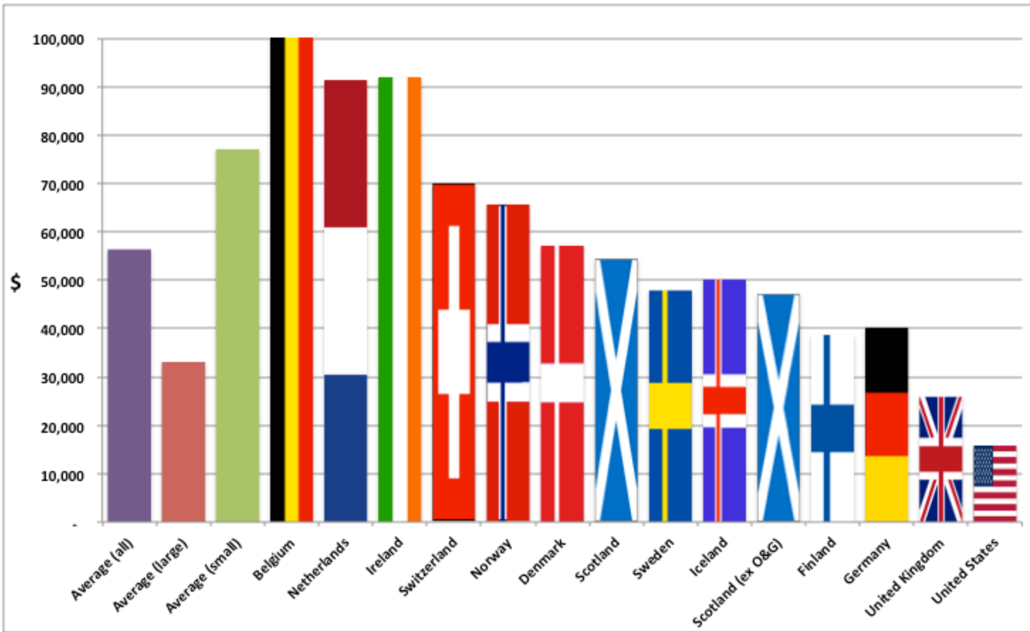
Small advanced economies tend to trade more than larger advanced economies. This can be attributed to the larger domestic markets that exist in larger countries and the greater global connections that can be observed in smaller advanced economies. The average annual trade per capita in the 34 advanced economies in 2013 was almost $56,400. However, for the 18 small advanced economies (population of less than 10 million), the average was just over $77,000 while the average for the larger economies was around $34,000 (Figure 2-3).

In Europe, two medium-sized countries, Belgium and the Netherlands perform well. The UK's trade levels are lower (78% of the average) than would be expected for a larger advanced economy, just under two-thirds of German trade levels, for example.

Scottish levels of trade are higher than some of the small advanced economies in Europe (such as Sweden, Iceland and Finland) but well behind economies such as Ireland (which has high levels of trade associated with foreign direct investment), Switzerland, Norway and Denmark.

However, Scotland's trade volumes ($54,500 or £34,878 per capita) are considerably less than the average for small advanced economies. Trade would need to increase by more than a third (40%) to match that average; and if oil and gas exports were excluded, Scottish trade would need to increase by 63% to match the small advanced economy average.

Figure 2-3 – Trade Volumes Per Capita, 2013



Source: World Trade Organisation (WTO) Statistics Database (September 2014) & BiGGAR Economics Calculations (Scotland)

3 EXPORT BASED GROWTH STRATEGY

3.1 The Need for a New Approach

The previous chapter found that trade accounted for a larger proportion of the Scottish economy than is the case for the UK. As well as this, whereas UK trade has been declining Scotland's exports have been growing (up 22% between 2008 and 2013 according to the Global Connections Survey).

However, benchmarking with the rest of the UK means that under-performance – and the economic opportunities associated with growth in trade – have been missed. Notably, Scotland is under-performing when compared to small advanced economies, indicating the potential for further significant growth. Scotland is heavily reliant on one 'export' market, the rest of the UK, which accounts for almost two-thirds of total Scottish trade flows. However, even if trade with the rest of the UK is included in Scottish trade figures, Scotland's trade per capita of £34,878 ($54,500) is well short of the average for a small advanced economy ($77,000). Scotland's trade volumes would need to increase by more than a third (41%) to match the average for small advanced economies (63% if oil and gas exports were excluded).

3.2 Exports and Productivity

Productivity growth (making more efficient use of natural and human resources and capital) is the driver of economic growth in advanced economies. Studies of productivity growth and export growth in economies comparable to Scotland[4] have concluded that there is a strong correlation between the two. While there is not universal agreement on the subject, the balance of evidence is that it is more likely that productivity is the driver of export growth rather than the other way round.

Scotland is currently in the third quartile of OECD countries for productivity, measured by GDP per hour worked (on an index where the United States is 100, Germany is 92.4 and Scotland is 73.6; comparator economies, with higher levels of trade include Norway at 136.1, Luxembourg at 129.6, Ireland at 111.5, Switzerland at 85.7, Denmark at 94.2, Sweden at 84.7, Austria at 84.3 and Finland at 78.2)[5].

Increasing trade primarily through export promotion (although this also implies higher levels of imports to balance trade) would drive and result in higher levels of productivity since it will require competitive advantages to be developed in high value added sectors and will mean that businesses serving only domestic markets will need to respond to increased competitive pressures (from imports of goods and services

[4] See, for example, Nesset (2004), Exports and Productivity in a Small Open Economy: a causal analysis of aggregate Norwegian data (in Journal of Policy Modeling)
[5] Scottish Government (2014), Scotland Performs, Productivity Data 2012.

and for resources with exporters).

These increasing productivity levels should also be associated with high value added jobs. Provided that the growth in exports is broadly based, this should help to address inequality, by increasing income levels rather than relying on the state to redistribute income to address inequality.

This is important when designing an export based growth strategy since it implies that exports should not be promoted by subsidy but by stimulating productivity growth (through investment in infrastructure, research and development and education).

3.3 An Export Based Growth Strategy

The wide range of policies required to stimulate productivity growth can be seen in best practice strategies from elsewhere. For example, the Danish Globalisation Strategy consists of 350 policy measures under 14 areas of focus. As can be seen in Figure 3-1, 8 of the 14 areas of focus are concerned with education, three with research and innovation and one each with interaction with other countries, entrepreneurship and a collaborative approach to implementing the strategy.

Figure 3-1 – Focus Areas in the Danish Government's Globalisation Strategy

World top performing primary and lower secondary school system
All young people should complete a general or vocational upper secondary education programme
A coherent education system and professional guidance
At least 50 per cent of young people should complete a higher education programme
Education and training programmes with a global perspective
World top level short-cycle and medium-cycle higher education programmes
World top level universities
More competition and better quality in public sector research
Good framework conditions for companies' research, development and innovation
Stronger competition and greater openness and transparency to strengthen innovation
Strong interaction with other countries and cultures
More high-growth start-ups
Everyone should engage in lifelong learning
Partnerships to promote the implementation of the Globalisation Strategy

Source: Danish Government, Progress Innovation and Cohesion, May 2006

Learning from Denmark, education and innovation will be important elements of an export-based strategy for Scotland, building on existing strengths. However, the starting position for Scotland's new strategy is different from Denmark's globalisation strategy. For example, Scotland already has world leading universities and high levels of participation in higher and further education, although continued investment will be required to maintain this position as others seek to compete.

Conversely, Scotland's infrastructure, including global connections for people and goods, has benefitted from lower levels of investment than Denmark's and so requires greater attention. The opportunity associated with Scotland's geographic position to develop hub airport services and international freight ports would lower the barriers to export for Scottish businesses that are not currently exporting.

While there may be a gap in trade levels between Scotland and competitor economies, there are some sectors of the economy that have achieved significant success in export markets and from which lessons can be learned. These include the whisky industry and more recently other food and drink such as salmon, as well as the oil services sector.

A common feature of these sectors is that they rarely distinguish between domestic and export markets, seeing their markets as global. In the case of whisky, entrepreneurs such as Johnnie Walker travelled to sell his product in all markets to which ships sailed and in oil and gas, supply chain companies that grew in Scotland as the North Sea has grown have followed their customers to wherever there has been oil to discover and extract.

These successes help to demonstrate the potential benefits from a corporative approach to policy making as recommended by N-56, since such a process would involve inviting representatives from those sectors to share their experience with others.

The policy package required to support an exports-based growth strategy will therefore require a number of elements, including:

- building on current strengths – innovation policy and education and skills;
- addressing perceived weaknesses – infrastructure and global connections;
- targeted fiscal policies in areas with greatest export potential – those sectors where Scotland has existing strengths and potential; and
- supporting initiatives that will require government and business collaboration, including investment in the development of a Scottish brand. This is addressed further in the following chapter.

This is a distinctive strategy for the Scottish economy; however, it would require divergence from the UK's economic strategy, with its high reliance on the financial services sector in the City of London.

3.4 Growth Sectors

Increasing exports is a credible strategy for the Scottish economy, since there are a number of existing and potential niches for Scotland in those sectors with the greatest global growth potential. So, for example, as economies grow:

- demand for luxury products grows – including high quality food and drink products;

- there is increased demand for education – including university education;
- leisure spend increases – increasing demand for services such as tourism and products such as computer games;
- the demand for energy increases – providing opportunities for sectors that are already strong like oil and for emerging sectors such as marine renewables;
- the wealth of individuals grows – increasing demand for financial services such as asset management.

This does not imply a strategy where the state 'picks winners' – Scotland will not be successful in all of these niche opportunities and it is difficult to predict in which ones the greatest opportunities will lie (the books written in the 1960s[6] about the Scottish economy highlight industries like steel and shipbuilding but do not predict that there will be opportunities in regenerative medicine and computer games). However, there are a large number of opportunities for the Scottish economy and so it does not seem unreasonable to expect success in some of them. Some of the sectors with potential for future success are discussed below.

Scotland cannot expect to be dominant in any of these global markets at the macro level since each of these markets is huge. However, with globalisation, a small country like Scotland can perform well economically by developing niche competitive advantages in markets that might be small in individual countries but are significant globally.

In addition, a strategy that is based on export growth does not need to be confined to particular industries – it can be a strategy that ensures the conditions for growth are in place across all sectors, as many of the opportunities and constraints are likely to be common across different sectors of the economy.

3.4.1 Food and Drink

Scotland enjoys a reputation for producing premium food and drink products ranging from malt whisky to smoked salmon. The Scottish food and drink sector has a turnover of almost £14.0 billion, contributes £4.8 billion in gross value added to the Scottish economy and has 116,000 employees[7]. Its exports have grown by 50% in a decade, to around £5 billion and the sector has targeted growth of another £2 billion by 2017[8].

The food and drink sector consists of more than 17,000 businesses, 40% of whom have less than 50 employees. With a sector dominated by small and medium sized businesses, there is merit in working on a

[6] See for example, "Scotland's Future", Gavin McCrone (Blackwell, 1969)
[7] Scottish Government (January 2015), Growth Sector Statistics Database
[8] Scotland Food & Drink (March 2014), Tomorrow the world: An export plan for Scotland's food and drink industry

common strategy to boost exports. An industry partnership, made up of public and private sector organisations has developed a strategy that targets 15 markets, with an initial focus on seven, to present the best opportunity to strengthen an existing presence or gain new footholds in: North America (USA & Canada); France; Germany; Middle East (UAE, Saudi Arabia & Bahrain); Mainland China; and Hong Kong, Japan and SE Asia (Singapore, Thailand).

The export success story in the food and drink sector is whisky, which has been exporting now for 200 years and had export sales worth almost £5.0 billion in 2013[9]. The success of the whisky industry is often taken for granted; however, the success was not inevitable, Irish whiskey exports in comparison are valued at less than a quarter of Scotch whisky exports. The development of the Scotch whisky 'brand' and of individual brands have been important, as has the development of sales and distribution channels.

Other parts of the food and drink sector have also grown exports in recent years, notably the salmon sector. In 2013, exports to North America increased by almost a quarter to £200 million and exports to China almost doubled to £50 million.

Scotch whisky and Scottish wild salmon are two of a number of products originating in Scotland that enjoy special protection under EU law. Other Scottish products that have this protection include Stornoway black pudding, Arbroath Smokies, Scotch lamb and Scotch beef. This protection helps to guarantee the authenticity and quality of products associated with particular geographic regions and means that the producers of these products enjoy a competitive advantage that producers elsewhere are unable to match. This means that it is virtually impossible for other countries to replicate Scotland's success in these product niches.

3.4.2 Universities

In 2011, when the Scottish Government published its updated economic strategy, universities were identified as the seventh priority growth sector for Scotland. Universities support economic growth both directly, through the creation of jobs and generation of wealth, and indirectly by training the workforce and generating new ideas. Recent research estimated that in 2011-12 the Scottish universities sector generated £6.3 billion GVA for the Scottish economy and supported more than 140,000 full-time equivalent jobs[10].

In 2014-15, four Scottish Institutions appeared within the top 200 institutions on the Times Higher Education World University Rankings. This means that Scotland has the second highest number of top ranking universities per capita in the world after Switzerland.

[9] Scottish Government (January 2015), Scotland's Global Connections Survey 2013
[10] BiGGAR Economics (2013), Economic Impact of Scotland's Universities, a report to Universities Scotland.

The quality of Scottish universities means that the sector enjoys a strong international reputation, which enables it to attract a relatively high proportion of students from outside Scotland. The fees and spending associated with these students represents export earnings for the Scottish economy, which currently amount to around £1.3 billion per year[11].

In 2013-14 Scottish Institutions were able to attract around 48,400 international students[12], representing 21% of the total student population. This is a higher proportion than any of the other constituent parts of the UK and is an indication of the high regard with which Scottish Institutions are held around the world.

3.4.3 Creative Industries

Creative industries is another of the seven priority growth sectors identified by the Scottish Government economic strategy. The creative industries turnover around £5 billion per annum, contribute £2.8 billion in gross value added and employ 65,200 people in Scotland[13]. Although creative industries is a diverse sector that encompasses a variety of different areas, Scotland has particular strength in the computer games industry, which employs more than 1,000 people across Scotland, including the cluster based in Dundee[14].

The Scottish computer games sector is underpinned by a strong academic teaching and research base. At the forefront of this is the University of Abertay Dundee, which has been at the heart of the computer games industry in Dundee since it launched the world's first degree in computer games technology in the 1990s. Since the University has led the way in providing industry-relevant and industry inspired games related courses and now hosts the first Centre for Excellence in Computer Games Education.

Importantly for Scotland's economy, the computer games industry is one that is expected to continue to grow. A report by the Westminster Scottish Affairs Select Committee[15] estimated the global market for computer games to be worth £33 billion per year, growing at more than 10% per annum. Scotland's existing network of established companies coupled with its strong academic base means that it is well placed to benefit from this growth.

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[11] Ibid.
[12] UK Council for International Student Affairs, International Students in UK Higher Education: Key Statistics http://www.ukcisa.org.uk/Info-for-universities-colleges--schools/Policy-research--statistics/Research--statistics/International-students-in-UK-HE/#International-(non-UK)-students-in-UK-HE-in-2013-14; accessed on 12/02/2015.
[13] Scottish Government (April 2014), Growth Sector Statistics Database
[14] Scottish Enterprise evidence to Scottish Affairs Select Committee, February 2011.
[15] Scottish Affairs Select Committee (February 2011), Video games industry in Scotland, Second Report of Session 2010–11

3.4.4 Tourism

According to Scottish Government statistics[16], tourism related businesses in Scotland had a turnover of £6.4 billion in 2012, contributing £3.2 billion gross value added (GVA) to the Scottish economy, supporting 181,500 jobs and earning £1.2 billion in exports (including spending by visitors from the rest of the UK as well as international visitors).

However, analysis by Deloitte and Oxford Economics for VisitBritain[17], suggests that official statistics may be underestimating the economic contribution of the tourism sector in the UK. It estimates that tourism spending in Scotland was £10.9 billion in 2013 (with 18% from international tourism), providing direct GVA of £5.4 billion. The sector supported 167,000 jobs directly, or 354,000 if supplier and income multiplier effects are also included, more than 13% of total Scottish employment.

It could be argued that the contribution of tourism to the Scottish economy has been undervalued in a wider sense. There is often an assumption that the tourism sector supports relatively low value service sector jobs. However, the growth of high value tourism in wealthy economies, notably Switzerland, Denmark and Austria, has shown that tourism can make an important economic contribution. These tourism destinations have focused on improving the quality of service and value the contribution of tourism to the economy. This has included raising the social status of tourism-related professions, as long has been the case in, for example, Italy and France.

The Deloitte research has forecast real growth (over and above inflation) of 6.1% per annum in international tourism to the UK, with 3% growth in tourism from domestic sources, but growth in outbound tourism of just 1.5%. On this basis, the tourism sector can be the source of significant real growth in GDP and in employment over the next decade.

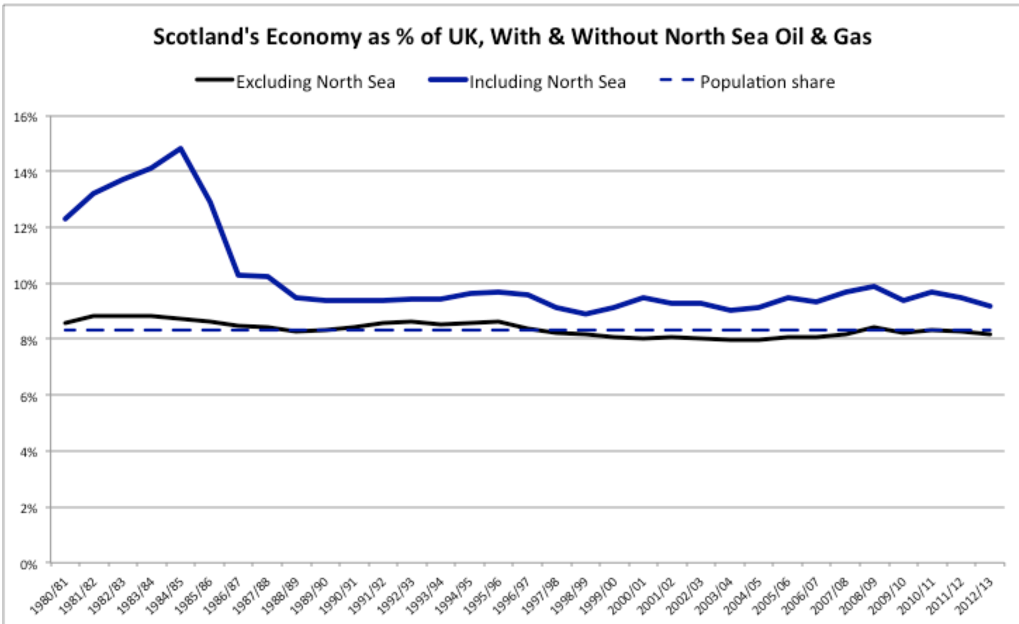
According to research undertaken by VisitScotland, the main reason that 58% of the visitors who come to Scotland give for visiting is to see the scenery and landscape[18]. This means that Scotland has a competitive advantage in the tourism sector that is impossible for other countries to replicate. In recent years Scottish tourism has sought to take advantage of this by developing products and services based around the natural environment. The development and promotion of Fort William as the "outdoor capital of the UK" and the promotion of adventure sports in various scenic locations throughout Scotland are examples of this.

[16] Scottish Government (January 2015), Growth Sector Statistics Database
[17] Deloitte & Oxford Economics (November 2013), Tourism: Jobs and Growth The Economic Contribution of the Tourism Economy in the UK
[18] VisitScotland (January 2012), Scotland visitor survey 2011-12.

3.4.5 Oil and Gas

The oil and gas sector makes an important contribution to the Scottish economy. In 2012-13, the output from the Scottish geographic share of the UK oil and gas sector accounted for £18.4 billion, 13% of Scottish GDP[19]. As Figure 3-2 shows, Scottish GDP including the oil and gas sector is more variable than Scottish GDP excluding the oil and gas sector. However, Scottish GDP has varied only in the region of 9% to 10% of UK GDP since the mid 1980s and such volatility could be described as up-side volatility since the without oil and gas, Scottish GDP per capita is almost identical to the UK.

Figure 3-2 – Scottish Economy and Contribution of North Sea Oil & Gas Sector



Source: Scottish National Accounts Project GDP Estimates for Scotland and UK

The oil and gas sector supports at least 450,000 jobs across the UK[20] including 36,000 directly employed by oil and gas companies and major contractors, 200,000 in the wider supply chain, 112,000 in jobs induced by the economic activity of employees and 100,000 in jobs exporting goods and services. Around 45% of these jobs, that is 200,000 jobs, are in Scotland, representing around 10% of all private sector jobs in Scotland (for the UK as a whole the sector provides less than 2% of private sector jobs).

The oil and gas supply chain is an economic success story for Scotland, with strengths in areas such as project management, subsea, drilling and well services, health & safety, training services and logistics. There are an estimated 2,000 supply chain companies in Scotland[21], based in

[19] Scottish Government (March 2014), Government Revenue and Expenditure Scotland, 2012-13

[20] Oil & Gas UK (2014), Economic Report

[21] Scottish Enterprise (May 2012), Oil & Gas Strategy 2012-2020, Oil & Gas Industry Leadership Group

the North East and elsewhere in Scotland, including the central belt and the Highlands and Islands.

The oil and gas sector is perhaps the most globally connected sector of the Scottish economy. Supply chain companies are increasingly exporting their goods and services, now to more than 100 markets. In 2012-13, international activity (exports and subsidiaries outwith the UK) accounted for £10.0 billion, just over half of the sector's total sales[22]. To put this in some context, this is more than twice the £4.3 billion value of Scotch whisky exports[23], which have also been growing, by 87% in the last decade.

This is in addition to the balance of payments benefits from the production of oil and gas that would otherwise have to be imported to the UK, worth £40 billion in 2011-12.

3.4.6 Conclusions

The Scottish economy has existing and potential competitive advantages in niches of many of the global growth sectors. Oil and gas will continue to be important, increasingly as an exports-based sector. Other opportunities include high quality food and drink, education, tourism and the creative industries.

Increasing exports in areas of comparative advantage will drive productivity improvements, making a step change improvement in economic growth. As well as building on sectors where Scotland has existing strengths and potential, the policy package required to support an exports-based growth strategy will require government and business collaboration, including investment in the development of a Scottish brand.

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[22] Scottish Development International, Scottish Enterprise and Scottish Council for Development and Industry (May 2014), Survey of International Activity In The Oil And Gas Sector 2012-2013

[23] Scotch Whisky Association (April 2013), Export Table

4 ACHIEVING EXPORT GROWTH

This chapter of has been drafted and edited by BiGGAR Economics. However, the section on the experience of country branding in New Zealand, Singapore, Ireland and Finland has been based on a paper produced for N-56 by Landfall Strategy Group, which has been incorporated into the chapter.

4.1 Access to Markets

The success of small advanced economies can be linked to intrinsic issues such as high levels of trust and globalisation trends that removed barriers to trade for small advanced economies.

Expanding Scottish exports will therefore be dependent on maintaining access to global markets. While there are many ways that this can happen Scotland's continued membership of the European Union provides the easiest access to markets. Being part of the EU means that Scotland's domestic market has a population of more than 500 million and a GDP of some €13 trillion and has access to international markets as a result of trade agreements made at EU level as well as bilateral agreements.

4.2 Distribution and Sales

Successful Scottish exporters have demonstrated the importance of sales and distribution networks. Larger companies are able to establish their own networks; however, this may be more challenging for small and medium sized companies and high barriers to export may discourage such companies from exporting at all.

One area worth further consideration is whether larger companies with established sales and distribution networks might be in a position to assist new exporters. There is a potential for mutual interest here since such an approach would allow established exporters to offer a wider range of products to their existing customers and would lower the barriers for new exporters. Making export based growth a national strategic priority could encourage companies to reach such agreements.

There may also be a role for government agencies to assist businesses to establish new distribution channels. While it is almost always preferable for businesses to lead such activity, there are some markets, particularly emerging markets, where intervention by government to establish some framework agreements may ease the way for businesses.

Developing sales and distribution networks also requires the necessary skills to be available. While every successful company requires an effective sales force, selling skills do not always have the same social status as other professions in Scotland. The development of sales skills is often through on-the-job training and effective sales staff are in demand. An increased focus on exports will increase the demand for sales staff able to operate internationally. The strategy should therefore include analysis of the need for and feasibility of developing training in international sales.

English is increasingly the language of international business and so Scottish businesses will have some advantage over those where English is not the first language. However, while it may be possible to operate internationally in English, businesses which do most to understand and respect the culture of the countries in which they operate, including language, are likely to do better.

There may also be skills gaps in languages. Scottish businesses already operating internationally tend to have international staff with a range of language skills. The role of languages in the Scottish education system should be reviewed to ensure that Scottish children are equipped to compete in an increasingly global labour market.

4.3 Development of a Brand

The development of a national brand can also assist businesses in export markets, since it provides a foundation on which they can build their own brand, if they choose to do so. This is also a good practical example of an initiative that can be developed by collaboration between government and business.

However, the development of a national brand for Scotland and Scottish products is a long-term undertaking. There have been previous initiatives, such as Scotland the Brand, in which significant sums of public money were invested, but which were not sustained for long enough to become well established. The Scotland the Brand initiative was a country of origin mark and so more narrowly focused that the international examples described below.

VisitScotland has undertaken extensive research on attitudes to Scotland in its own target markets and has done much to develop a brand on which other sectors of the Scottish economy can also build. The reasons to visit, live, study or invest in Scotland are similar so there is potential for better integration of branding and marketing initiatives. The brand values identified by VisitScotland – human, enduring, dramatic – transfer well to sectors such as food and drink and textiles. However, they also have relevance to technology-based sectors such as life sciences and energy.

So, for example, the tourism branding and marketing activity related to Scotland’s dramatic landscape could be adapted to show why there are good reasons to invest in renewable energy, to take advantage of abundant wind and wave resources. Similarly, the enduring theme could be adapted to help revitalise Scotland’s historic reputation in engineering.

4.3.1 Building a Valuable National Brand

The potential benefits to Scotland associated with developing a national brand is best illustrated by looking at other small countries' experience. What is a national brand, what sort of benefits does the national brand generate (particularly for small countries), and how do small countries build a national brand? These questions are examined in the context of several small country case studies, focusing primarily on New Zealand and also looking at Singapore, Ireland and Finland.

4.3.2 Brand and Reputation

There are many ways to define or measure national brand value. There are several different international rankings of soft power, each of which include different factors. For example, Monocle Magazine has an annual ranking of soft power in which the whole of the UK does well (Scotland is not separately ranked). Anholt undertakes a survey in which Scotland ranks 17th in the world[24]. There are also numerous others including the FutureBrand Country Brand Index and BrandFinance Nation Brands 100 and small countries frequently do well in these rankings.

A strong national brand can have a positive impact on exports, tourism, attracting investment and people – as well as advancing national interests. Countries are more likely to get their way if they have a favourable background reputation. Indeed, many governments believe this to be important and are investing behind strengthening the national brand. Small countries need to find ways of standing out, and to get attention in a crowded international space. And for small countries, the development of a strong national brand is an important foundation for an overall export strategy – a central contributor to growth and employment in a small, open economy like Scotland.

Countries like Denmark, Switzerland, Norway, New Zealand, and Singapore are good examples of small countries that project various forms of soft power. It is interesting that small countries seem to have stronger national reputations than larger countries; according to the latest edition of the Reputation Index, 7 out of the top 10 countries by reputation have populations of less than 10 million people.

[24] The Anholt-GfK Roper Nation Brands Index (SM): 2014 Report for Scotland, 22nd December 2014. Available at: http://www.scotland.gov.uk/Publications/2014/12/4339/downloads

Figure 4-1 – The 2013 Reputation Index

1. Canada
2. Sweden
3. Switzerland
4. Australia
5. Norway
6. Denmark
7. New Zealand
8. Finland
9. Netherlands
10. Austria

Source: http://www.reputationinstitute.com/thought-leadership/complimentary-reports-2013

4.3.3 The Anholt-GfK Roper Nation Brands Index^{SM}: Scotland

Since 2008, the Scottish Government has used the Anholt-GfK Roper Nation Brands Index^{SM} to assess and monitor how Scotland's reputation is perceived around the world.

The Index is based on online interviews of approximately 20,000 adults aged 18 and over in 20 core panel nations. It provides a reputation score for a country based on 6 dimensions: exports, governance, culture, people, tourism and investment and immigration. The data allows for an understanding of how Scotland is perceived in 20 countries around the world and how it compares to 49 other countries in the Index.

Scotland's score of 61.8 and rank (17th) places it in the top 20 nations and shows that Scotland continues to have a strong reputation abroad. In addition, Scotland is scored and ranked similarly and sometimes ahead of other comparator small, high income, Western European countries on the index. Scotland's overall reputation in terms of score has improved in comparison to its 2012 score (60.1). In terms of absolute score Scotland's reputation has improved on each of the six dimensions of the index compared to 2012. Across all dimensions, with the exception of exports, Scotland is ranked within the top 20.

Exports continue to be perceived as Scotland's weakest point. Although ranked relatively highly for its products and services, indicating that customers abroad value the quality of Scottish produce, Scotland's contribution to innovation in science and technology and its creativity are consistently ranked outside the top 20. The scores indicate neutral ('don't know') responses, not negative ones suggesting that the respondents did not recognise Scotland for these exports attributes when thinking about its reputation. Scotland received higher ranks from established, high income panel countries with the UK, USA, Australia and Canada being among those most likely to recognise Scotland's reputation for exports. The survey also includes a word association question for each of the dimensions. For exports, the panellists most commonly selected 'agriculture', 'food', 'crafts' and 'banking' as words associated with Scotland's exports.

The governance dimension aims to capture a country's contribution to international peace and security, environmental efforts and fair treatment of its people. Governance continues to be perceived as one of Scotland's strongest national competencies, with attributes within this dimension ranking within the top 15 countries.

The culture dimension measures three elements of a nation's cultural reputation: its cultural history and heritage, its contemporary culture and its sporting excellence. The Index indicates that Scotland is recognised as rich in cultural heritage, and an interesting and exciting place for contemporary culture with its score for these two attributes in the top 20. The results also suggest that Commonwealth panel countries tend to have a more positive perception of Scotland's culture with the UK, Australia, South Africa and France ranking it in their top 15.

Tourism remains as one of the key perceived strengths of Scotland's reputation, outranking all other five dimensions in 2014. Scotland has seen an increase in both overall score and relative rank (from 13th to 12th) for this dimension compared to 2012. The tourism dimension aims to evaluate panellists' perception of a country's attractiveness as a tourist destination. Natural beauty is perceived as Scotland's strongest characteristic, with Scotland ranked 7th for this dimension. Respondents' willingness to visit, as well as their perception of Scotland's historic heritage, remain highly ranked (13th and 12th, respectively).

Overall, the results of the Nation Brands Index indicate that Scotland has a strong international reputation, ranking in the top 20 for almost all dimensions. Tourism in particular is viewed as Scotland's main strength and exports is the only dimension where Scotland is ranked outwith the top 20 countries. A closer examination of the results indicates that the quality of Scottish produce is valued internationally but there is less recognition of Scotland's contribution to innovation in science and technology and creativity. This suggests that there is a need for a more consistent branding message for Scotland, which extends more widely to Scottish exports.

4.3.4 Building a National Brand

There are a variety of approaches to building a national brand: some are focused on specific goals (tourism) while others are focused on telling a high-level story about the country. In addition to government strategies, national reputation and soft power is frequently bottom-up in nature (for example, music and culture in Ireland, K-Pop (and Psy) in South Korea). It also seems to be the case that smaller countries are more likely to have a deliberate branding strategy, even when large countries (e.g. the US) are able to organically build soft power.

Some countries have built strong 'country of origin' label branding – such as that used by 'Scotland the Brand', launched in 1994, or 'The

New Zealand Way' – but have struggled to broaden targeted campaigns into wider national branding efforts. The most effective national brands promote a country in multiple ways (e.g. FDI, export education, export promotion, tourism).

The international experience suggests that the national brand development process needs to have strong government involvement in terms of coordination and funding because successful, effective national brands require sustained investment, and will involve multiple sectors – and firms. Of course, individual sectors and firms will invest behind specific branding activity, but the experience suggests that national brands require a government role (acting in a collaborative way with business and other stakeholders).

4.3.5 Small Country Case Studies

This section describes a series of case studies; focusing primarily on New Zealand, but also examining other small countries that have interesting experiences with respect to national branding – and where there are instructive lessons.

4.3.5.1 New Zealand

New Zealand is widely regarded as having one of the most coherent and effective national brands in the world. This has been based around a brand known as '100% Pure', which emphasises the clean, green nature of New Zealand (beautiful landscape, friendly people). When the 100% Pure New Zealand campaign was launched in 1999, it was the first time New Zealand had used a single, clear message to communicate in all its target markets. In addition to the general campaign, Tourism New Zealand has made targeted investments – using this brand – around high-profile international events such as the Americas Cup yachting and the Lord of the Rings movies, clearly linking these to New Zealand.

This branding campaign has built on the reputation New Zealand established over time through its actions (such as being a good global citizen). Its actions and branding together have helped New Zealand rank well internationally on various measures of reputation; people are favourably disposed towards the country.

Although the 100% Pure brand has been highly successful, it works better on some dimensions than on others. In particular, it has been very successful in terms of promoting tourism as well as exports of food and beverage products (particularly in the context of increasing concerns about food safety).

In the first ten years of the campaign (1999 to 2009), visitor arrivals to New Zealand increased 50 per cent, from 1.6 million to 2.4 million; foreign exchange earnings for New Zealand from tourism increased from NZ$3.5 billion (£1.77 billion) to NZ$5.9 billion (£2.98 billion). And total user sessions on Tourism New Zealand's website, www.newzealand.com, increased from 1.4 million in 2002 to 10 million a year in 2008.

On these measures, the branding campaign was widely regarded as a success. However, there has not been an overall assessment of the return on investment from the campaign. Various announcements have been made over the past few years that suggest that a more formal economic assessment will be undertaken.

To give an indication of the scale of return, Tourism New Zealand's total annual budget during this period was less than NZ$100 million (£50 million), including funding for special projects. In the financial year ended 2012, Tourism New Zealand's international media programme generated an estimated $74 million (£37 million) worth of international media profile (on an advertising equivalence basis) and coverage for New Zealand by leveraging approximately NZ$1 million (£500,000) of investment.

However, despite these successes, there was a concern that the 100% Pure brand only communicated a portion of the overall New Zealand brand, and didn't have much to say about knowledge and innovation (or people). New Zealand was seen as attractively clean and green, but not knowledge or innovation based. This did not help the image and sales pitch of New Zealand exporters.

In response, there has been an active process of brand development over the past several years to build a consistent, more comprehensive story that would support all sectors, not only tourism. This resulted in 'The New Zealand Story' that was released in late 2013[25]. Tourism New Zealand, New Zealand Trade and Enterprise and Education New Zealand led the development of the New Zealand Story, working closely with public and private sector stakeholders. The objective was to provide a compelling story that would differentiate New Zealand from other countries and showcase what it has to offer to international audiences.

The main idea is that New Zealand is "Open to the New" (and welcoming of business): "Welcome to the country of open spaces; open hearts; open minds". The Story is presented in three chapters, each demonstrating cultural values associated by New Zealanders with their national identity, and which have been tailored to appeal to international audiences:

- open spaces: our land and sea; we are guardians of this place. Building on the 100% Pure New Zealand brand, this shows New Zealand as a beautiful and fresh country with "room to breathe; places to find".
- open hearts: our people, warm, honest, welcoming. For business partners, this means "lasting partnerships" can be formed; tourists are invited to enjoy authentic cultural experiences, because "strangers are treated as friends".

[25] http://story.newzealand.com/story

- open minds: our resourcefulness and fresh outward way of thinking. New Zealand is shown to value learning and creativity: a land "where ingenuity drives innovation for productivity", in an environment where "freshness" and "quality" are valued.

Economic Development Minister Steven Joyce explained the rationale for the New Zealand Story: "When New Zealand exporters first go out into the world or visit a new market, they need something which places New Zealand and their business into context. We are a small country, and often outsiders don't understand who we are, how innovative we are, and what drives us as a country…This initiative is about broadening the perception of New Zealand internationally, beyond the scenic beauty of the country to include attributes like our innovation and resourcefulness, our unique Māori culture, our integrity and our welcoming friendly approach."

Strong collateral has been developed that can be used to provide a consistent, meaningful picture for visitors, international students, investors and consumers. The primary focus of the New Zealand Story collateral is to support business-to-business communication.

4.3.5.2 Singapore

As a small island state, with effectively no natural resources, Singapore is very focused on presenting and promoting itself to an international audience. And Singapore has succeeded in achieving a prominent international reputation. For decades it has promoted an image designed to attract multinational companies and foreign investors: it is an attractively clean, green, safe, modern global city; an efficient, business-friendly, and orderly hub for Asia. Its standing as a high-quality destination is consistently reinforced by government agencies' marketing efforts, as well as by the country's sustained policy decisions (emphasising the rule of law, lack of corruption, world-class infrastructure and so on). The back-story of 'Third World to First' adds strength to its brand. The 'Little Red Dot' of Singapore now stands tall in the world, and is widely respected (as one marker of this, Singapore is regularly invited to G20 meetings).

Singapore's focus on the country brand has consistently been with a view to increasing GDP. Promoting a stable and well-organised business-friendly environment was the chief branding strategy when Singapore set out to attract multi-national companies to establish bases in Singapore. More recently, Singapore has sought to develop a broader image that extends beyond efficiency and stability. Singapore's re-positioning as a liveable city has occurred as wealthy investors, potential high net worth residents and tourists have placed greater weight on a country's vibrant cultural life, entertainment options and environmental concerns.

In line with this, Singapore has broadened its image to focus on its ethnic diversity and the arts and has constructed new attractions, entertainment and cultural venues (such as the integrated resorts/casinos, the Formula 1 night race, the precincts around Gardens by the Bay, as well as new developments for the arts, restaurants and bars). Specific tourism promotions are undertaken for major events such as the Formula 1 race; in addition to the direct economic benefits, it is estimated that there are substantial indirect benefits in terms of promoting Singapore.

A notable feature of Singapore's approach is the coherence of government activity: multiple agencies are involved in different aspects of the branding exercise, which is carried out in a coordinated way. Most of the effort is undertaken by agencies under the Ministry of Trade and Industry: The Economic Development Board (EDB) and the Singapore Tourism Board (STB) are two key agencies. Positioning Singapore to attract investment (for example, to establish research facilities, major regional offices and global headquarters) is carried out by the EDB, through offices worldwide. This investment promotion work is supported by other government agencies; for example by streamlining visa applications, constructing a straightforward tax and R&D incentive system, actively developing business parks, and ensuring that the education system delivers people with the right skills.

Singapore's brand positioning is consistent, extending also to the role of government-linked companies like Singapore Airlines. The positioning of this airline – efficient, premium, with high-quality service – is also part of building Singapore's international reputation.

4.3.5.3 Ireland

Ireland, like Singapore, has promoted itself as an attractive destination for companies. Through its effective policy settings and the promotional activities of the Industrial Development Authority (IDA), Ireland has focused attention on its well-educated, flexible workforce and favourable business environment. Pre-2007, Ireland's economic performance and success in re-positioning itself as a European platform for overseas companies earned it the name of the 'Celtic tiger.' The 2007 crisis damaged the Irish brand. Restoring Ireland's national reputation by recovering, paying down debt, and exiting from the bailout provisions has been seen as important for wider reputational reasons.

Attracting FDI was made easier because of Ireland's positive international image; its status as an educated, English speaking, low-tax area of Europe; and the way in which Ireland has used the Irish diaspora in the US to advocate for investment. More than 70 million people worldwide claim Irish descent, and the Irish government has invested significantly in diaspora communities - €60 million (£50 million) by the Department of Foreign Affairs alone over the five year period 2004-2009. Ireland targets its diaspora in a range of ways, but Ireland's success at attracting FDI has most often been linked to 'quality not quantity'; with help provided by a small number of exceptional people in the diaspora, sometimes now referred to as the 'Global Irish 1000'. Strong home institutions, with excellent execution, are needed to support these key individuals. Enthusiasm is maintained through long-term face-to-face relationships and an 'ask and task' approach.

Since the late nineteenth century, Ireland has promoted its culture and its people; the sophistication of this national branding has increased over the past twenty years as it has consciously built a reputation based on its sociable people, living and historic culture, and scenic beauty. The soft reputation that Ireland has built up is very powerful.

Bodies involved in promoting Ireland's brand include Tourism Ireland, the IDA, Bord Bia, and Culture Ireland. Fáilte Ireland is the National Tourism Development Authority, which supports the tourism industry.

Tourism Ireland and the IDA both put Irish people at the core of their communications: Tourism Ireland features the friendliness of the Irish as a key tourist attraction and the IDA features their education, innovativeness and creativity. Creative people are also at the heart of Culture Ireland's campaigns; and although Bord Bia concentrates on a 'green' positioning for Irish food, this message is fully consistent with the scenic attributes of Tourism Ireland's campaigns.

Three qualities are at the heart of Brand Ireland's destination marketing:

- sociable people – people are spontaneous, fun, engaging, authentic;
- a unique culture – a living and historic culture that awakens the senses; and
- scenic beauty.

The branding focuses on the island of Ireland as an immersive cultural experience that appeals to the senses and emotions.

As one recent example (that was based on Homecoming Scotland in 2009), Ireland held 'The Gathering' in 2013 – a series of events to attract people back to Ireland. The official estimate was that 250-275,000 overseas visitors to Ireland travelled specifically because of a Gathering, or because of the Gathering, and that the growth in visitor numbers, directly attributable to the Gathering, was worth approximately €170million (£141 million) in revenue. The Gathering was able to harness the power of the personal invitation from people in Ireland to friends, relatives and affinity groups abroad. Overall, about 8 million people visited Ireland in 2013.

Tourism Ireland's 2014-2016 marketing plan continues to focus on quintessentially Irish emotional experiences, targeted to key segments within each major market. For example, independent North American youth are targeted by advertisements promoting the Irish pub (think Guinness – aggressively marketed as quintessentially Irish; the Guinness Storehouse is the most visited tourist destination in Ireland) and music. Taglines include "In Ireland, a good time is never far away".

4.3.5.4 Finland

Several years ago, Finland undertook a process to develop a national brand. In 2008 the Minister for Foreign Affairs established a group, chaired by a private sector representative, to create a strategy for Finland that would promote Finland's economy, tourism and international status.

The delegation worked for two years to pinpoint Finland's strengths. The delegation met as a group, in smaller working groups, and at various seminars (business, education, youth, environment, marketing), expert meetings, and public meetings with Finns. A television programme even enlisted the public's ideas for action. The aim was to ensure transparency and to make the branding work accessible to all Finns.

This national conversation helped to identify the things that were distinctive and valued about Finland – and which would help to position Finland internationally. The idea was that that the brand had to resonate domestically, as the process was about building on existing strengths and capacities.

This process defined the country's brand identity as being the functionality of Finnish society, the Finns' close relationship with nature, and a propensity for education. The statement was: "*In 2030 Finland will be the problem-solver of the world. Finland offers the world functionality and sustainable solutions in the form of both products and services as well as a functional society. Finland offers the world its ability to negotiate so that the world can be a better place to live. Finland offers the world clean water and food and related expertise. Finland offers the world better education and teachers*."

Coherent, coordinated, effective international branding for Finland was a key priority identified by the Mission For Finland group. A country branding expert body was proposed, with coordinated implementation by other government agencies: Finland's embassies, agencies under the Ministry of Employment and the Economy (Finpro, Tekes, and the Finnish Tourist Board) and the Finnish cultural and science institutes supported by the Ministry of Education and Culture.

The Government's response was to include the national branding work under the umbrella of a wider review of external economic relations. After further work, a 'Team Finland' approach was recommended to promote Finland's external economic relations. This would involve high-level cooperation across government and be chaired by the Prime Minister, and with key Ministers involved. Relevant agencies now coordinate their efforts to promote Finland and its interests abroad (including the country brand). The Team Finland Strategy was launched in June 2013, with substantial support from Finnish businesses and government stakeholders. Country branding will be promoted through creating unique events that focus on cleanliness, design, education and competence.

4.3.6 Lessons and Implications for Scotland

The way in which a country is perceived has multiple benefits; this matters particularly for small countries (benefits include business, tourism, advancing interests through diplomacy, and so on).

Ultimately the national brand has to be backed up by outcomes and be understood and owned by the population. The Nordic branding works because they are also very successful economies and societies. Similarly, Singapore has built a reputation on strong performance. The national brand has to connect with reality and be authentic. The focus should be on generating outcomes, not simply investing in marketing or PR. This is important because the branding efforts need to be consistent and sustained – and to be linked to policy settings.

Many small countries (the Nordics, New Zealand, and others) have been active in deliberately building a brand around being a good global citizen, with a focus on environmental sustainability and foreign development assistance (e.g. Norway has partnered with Indonesia on deforestation with about USD$1 billion (£600 million) of funding). For small countries, this will require a need to focus on specific distinctive niches (Singapore often focuses on building public sector capacity and New Zealand has a strong geographic focus on the Pacific).

Scotland already has a strong national brand; the Scottish diaspora is large (and could be used in a way more similar to the Irish diaspora); and people have a sense of what Scotland is. However, the country case studies show the benefits of being able to invest behind a specific brand – and particularly one that is supported by a coherent policy approach. It is important that countries are able to approach the branding exercise in a way that is consistent with their context, preferences and objectives (the branding needs to be matched with the policy agenda and approach). For example, there are debates in countries like New Zealand and Norway regarding the consistency between a branding based on sustainability and the environment and the economics of the oil and gas industry.

The process of developing a Scottish brand would necessarily involve a range of stakeholders; businesses, key civil society groups, as well as government. From observation of successful international experience, this needs to be championed by senior Ministers and to be treated as a strategic government priority. There should be strong business involvement, but a government leadership role is needed for a long-term national project such as this.

The process should develop a position on how Scotland should present itself to an external audience today, building on some of the existing perceptions (history, culture) and the diagnosis of the emerging challenges and opportunities for Scotland to address. The New Zealand process is a good example to consider, both in terms of the process used as well as the goal of building on an already successful brand.

The aim would be to create an overall national brand, in which more specific campaigns could be located e.g. tourism, export education, exports, inward investment attraction, and so on. The national brand should have a responsible agency, and regular assessments should be undertaken of its impact.

4.4 International Co-operation

The development of an export-based growth strategy would be strengthened by increased international co-operation at the Scottish Government level. Such interactions should focus on initiatives that can do most to support the development of sectors in which Scotland has existing or potential competitive advantage.

This might include, for example, applying to join the Nordic Council (whose members include both independent countries and devolved nations) so that Scotland can participate in joint initiative such as the Green Growth strategy currently being developed.

Scotland could also seek to establish a leadership role at EU level in energy, given the combination of oil and gas and renewable energy resources. There are many energy issues that are better tackled at the supranational level, such as the feasibility of and need for a European energy grid. If Scotland was to establish a leadership role in such areas, it is likely to provide development opportunities for Scottish businesses.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Trade is an important driver of economic growth. At the global level it facilitates the forces of comparative advantage while at the country or company level exposure to foreign competition means that domestic companies need to ensure they remain efficient and innovative.

The UK's share of global trade has been declining and the value of UK trade is now lower than the average large advanced economy and well behind Germany. Scotland's exports have been growing and Scotland's total trade volume is equivalent to 129% of GDP, £34,878 ($54,500) per capita. However, this is lower than average for a small advanced economy and considerably less than the best performing small European trading economies. Trade would need to increase by 40% to match the average for small advanced economies. If oil and gas exports were excluded Scottish trade would need to increase by more than 60% to match the small advanced economy average.

Export growth is driven by productivity growth and therefore the best policies to promote export growth are those that enhance the productivity of exporters and potential exporters, such as investment in infrastructure, research and development and education. In addition, an exports-based growth strategy will require targeted fiscal policies in those sectors where Scotland has existing strengths and potential.

Scotland has global comparative advantage in a number of fast growing sectors. Scotland has a worldwide reputation for producing premium food and drink products. In 2012, exports of these products amounted to around £5.0 billion. The food and drink sector therefore has growth potential based on exports, particularly following the successful examples of whisky and, more recently, salmon.

Universities and schools can continue to grow their competitiveness in the international education market, based on the reputation of Scottish education. Four Scottish universities rank amongst the top 200 universities in the world, which means Scotland has the second highest number of top performing universities per capita. Universities also have an important role to play in attracting mobile international research and development investment.

The tourism sector supports almost 181,500 jobs, contributes more than £3.0 billion to the Scottish economy each year and earns £1.2 billion in exports. Tourism is a sector than is often undervalued but can be both a high value added sector (as advanced economies such as Switzerland, Denmark and Austria have shown) and a source of growth. Scotland's history and environment provides a competitive advantage in the tourism sector that is impossible for other countries to replicate.

These and other sectors provide a large number of opportunities for the Scottish economy. Scotland cannot expect to be dominant in any of these global markets at the macro level since each of these markets is huge. However, with globalisation a small country like Scotland can perform well economically by developing niche competitive advantages. A strategy that is based on export growth does not need to be limited to particular sectors and instead should ensure the conditions for growth are in place across all sectors.

A number of factors will play a role in supporting Scotland to achieve export growth. Expanding exports will be dependent on maintaining access to global markets with Scotland's continued membership of the European Union providing the easiest access to markets. Being part of the EU means that Scotland's domestic market has a population of more than 500 million and a GDP of some €13 trillion and has access to international markets as a result of trade agreements made at EU level as well as bilateral agreements.

In addition, successful Scottish exporters have demonstrated the importance of sales and distribution networks. There may be potential to reach agreements for large companies to work with small and medium sized companies in export markets, as well as a role for government agencies to assist businesses to establish new distribution channels, particularly in emerging markets.

Developing sales and distribution networks also requires the necessary skills to be available. English is increasingly the language of international business and so Scottish businesses have some advantage over those where English is not the first language. However, businesses which operate in other languages are likely to do better. An export-based growth strategy will require that skills gaps in sales and languages are addressed. The role of languages in the Scottish education system should be reviewed to ensure that Scottish children are equipped to compete in an increasingly global labour market.

The development of a national brand can also assist businesses in export markets, since it provides a foundation on which they can build their own brand, if they choose to. Scotland already has a strong national brand. The Anholt-GfK Roper Nation Brands Index examines the image of 50 nations and Scotland's score (61.8) and rank (17th) on the index show that Scotland continues to have a strong reputation abroad. It also shows that Scotland's reputation has improved in comparison to its 2012 performance in terms of the overall score (60.1). Across all dimensions, with the exception of Exports, Scotland is ranked within the Top 20 indicating that there is room for improvement in the exports dimension.

The small country case studies of New Zealand, Singapore and other countries highlight the benefits of being able to invest behind a specific brand – and particularly one that is supported by a coherent policy approach. Other lessons that can be drawn from these case studies include the necessity of a realistic and authentic national brand. The focus therefore should be on generating outcomes, not simply investing in marketing or PR. This is important because the branding efforts need to be consistent and sustained and to be linked to policy settings. The development of a national brand is also a good practical example of an initiative that can be developed by collaboration between government and business.

The Scottish Government could also provide opportunities for Scottish businesses by targeted international engagement. That might include applying to join the Nordic Council to participate in programmes like the Green Growth initiative and establishing a leadership role in the EU in energy.

5.2 Recommendations

While there has been growth in Scottish exporting in recent years, including impressive growth in some sectors (for example, oil and gas services), there is significant potential for further economic growth to be driven by export growth and associated productivity growth.

A number of recommendations are made in this report, including:

- Recommendation 1 – export growth should be more prominent in Scotland's economic strategy, since it is associated with productivity growth and improved economic performance.
- Recommendation 2 – continued access to global markets is critical with Scotland's continued membership of the European Union providing the easiest access to markets.
- Recommendation 3 – the potential to reach agreements for large companies to work with small and medium sized companies in export markets, as well as a role for government agencies to assist businesses to establish new distribution channels, particularly in emerging markets, should be explored.
- Recommendation 4 – an export-based growth strategy will require that skills gaps in sales and languages are addressed.
- Recommendation 5 – a realistic and authentic national brand should be developed for Scotland, building on existing initiatives and learning from best practice elsewhere, particularly New Zealand. This is an initiative that should be developed by collaboration between government and business.
- Recommendation 6 – the Scottish Government should take a leadership role in internationalisation, including applying to join the Nordic Council (whose members include nation-states and devolved territories).

[i] The Scottish Government publishes data on Scotland's balance of trade in the Quarterly National Accounts. However, this estimate of Scottish exports only covers the onshore economy, and therefore excludes exports associated with the North Sea, as explained further here:

"The estimates of Scotland's trade balance presented in both the SNAP Quarterly Accounts tables and the Scottish Government Input-Output tables only relate to the onshore Scottish economy. Imports and exports associated with the North Sea are not reported. This means that, within the current framework, crude oils, NGLs, and natural gas that are exported directly from the Scottish North Sea, or landed in Scotland but then ultimately exported have not been reflected within the estimates of Scotland's balance of trade." (Scottish Government, Scottish National Accounts Project Estimating Oil and Gas Flows for Scotland, November 2013)

Data for the offshore Scottish economy is provided in the Oil and Gas Model, which is also published by the Scottish Government as part of the Scottish National Accounts Project. Consequently, this report has used the data in the Oil and Gas Model after adjusting to take account of information from the Global Connections Survey. The Global Connections Survey is an annual survey of businesses in Scotland collecting information on exports and forms the basis of estimates of exports in Scotland's Input-Output tables and Quarterly National Accounts.

N-56 aims to provide a new focus for Scotland's business community to work with government and others throughout the country, to plan a more prosperous future for the whole of Scottish society.

The ultimate aim is to ensure that Scotland attains a position among the top five advanced economies in the world.

If you would like to learn more about N-56, its aims and activities, please visit our website **www.N-56.org**

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