



INSTITUTE
MEMBERS IN
SCOTLAND

5 March 2010

Economy, Energy and Tourism Committee
Scottish Parliament
Holyrood
Edinburgh
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Dear Sir

Submission of written evidence: Inquiry into the public sector's support for exporters, international trade and the attraction of inward investment

The ICAEW Members in Scotland is pleased to respond to the Economy, Energy and Tourism Committee's call for written evidence on the inquiry into the public sector's support for exporters, international trade and the attraction of inward investment.

We hope that these comments help to inform the inquiry. We are happy to provide any further input or to discuss any of the points raised in more detail.

Yours sincerely

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INTRODUCTION

The ICAEW Members in Scotland welcomes the opportunity to submit written evidence to the inquiry into the public sector's support for exporters, international trade and the attraction of inward investment.

The ICAEW is a world leader of the accountancy and finance profession, with over 1400 members in Scotland working across the private and public sectors. We represent the views of ICAEW members who work in Scotland for Scottish and international organisations and disseminates information from ICAEW to its members in Scotland.

ICAEW operates under a Royal Charter, working in the public interest. The regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The ICAEW is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

OUR RESPONSE TO SPECIFIC INQUIRY QUESTIONS

As a professional accountancy body, we are not able to comment directly on public sector support given in this area. However, we would like to take this opportunity to focus on inquiry question 1: 'What is the economic rationale for trade development and promotion in Scotland and what have been the trends in international trade and inward investment?' as we feel we can offer some insight, from the results of our annual Global Enterprise Survey.

The UK ICAEW Enterprise Survey is now in its thirteenth year, but, with an increasing focus on globalisation of world markets, it was extended in 2008 to take a broader global view and included interviews with members in the EU, US and Asia. In 2009 the Gulf States were added as a further region.

Between 27 May and 3 July 2009, we conducted 1,000 telephone interviews with a cross-section of ICAEW members working within industry in the UK. At the same time, we conducted 543 interviews outwith the UK.

Our aim was to assess regional differences and trends in the impact of the economic downturn and other factors affecting global business activity; business growth, objectives and barriers; the impact of globalisation on business; and regulatory and taxation issues for business.

With reference to question 1 of the inquiry, we would highlight the following:

REGIONAL HIGHLIGHTS FOR SCOTLAND

From our Regional Highlights for Scotland we conclude that:

- Respondents from Scotland are among the most adversely affected by the recession.
- The recession has severely reduced the number of businesses planning annual turnover growth.
- Scottish businesses are less "globally engaged" than businesses from other regions in England and Wales.
- However they are amongst the most positive on the impact of globalisation.

OUR GLOBAL SURVEY

From our Global Survey we conclude that:

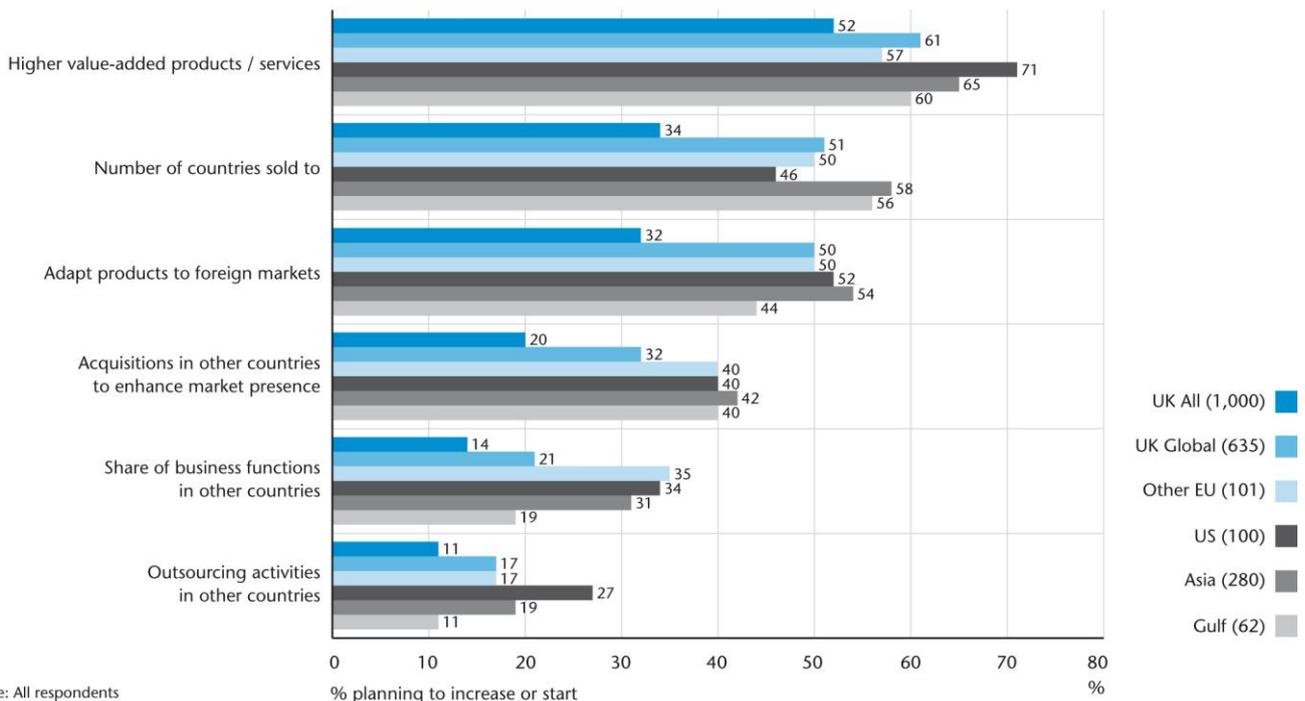
Strategies of businesses to combat globalisation are converging, notably moving to higher value added products and services, increasing the number of countries sold to and adapting products for foreign markets.

Many businesses are still seeking to develop and enhance their product offering but other initiatives may be less rigorously pursued.

Over the next five years, balancing the constraints imposed by the downturn with the competitive opportunities afforded by increasing globalisation of markets, a majority of businesses in all regions are looking to enhance their product offering to compete more effectively in world markets. A majority say that they plan to increase or start 'the provision of higher value added products or services', and approximately half plan the 'adaptation of products or services to markets in other countries' (see chart 12 below). If anything, there is some tendency for these strategies to be mentioned a little more frequently in 2009 than in 2008, particularly by US businesses ('higher value added' up from 66% to 71%, 'adaptation' up from 47% to 52%).

The following chart summarises the actions that respondents are planning to take over the next five years.

CHART 12: PLANNED ACTIONS OVER THE NEXT FIVE YEARS



More caution on new initiatives and investment

Other key strategies include market expansion: approximately half plan to increase 'the number of countries we sell to' and many plan 'acquisitions in other countries to enhance our market presence', however, in times of economic constraint and uncertainty, there are signs that businesses are more cautious with such ventures than they may have been in the past. In all four regions covered in last year's survey, a lower proportion of businesses this year say that they plan to increase the number of countries sold to (particularly the EU, down from 66% to 50%). In addition, with the exception of the EU, there is a decline in those seeking acquisitions in other countries (notably Asian businesses, down from 51% to 42%).

A third element within the strategic mix is to move aspects of the business process offshore: some businesses still plan to increase 'the share of our business functions that take place in other countries eg, internal accountancy or sales order processing' and the 'outsourcing of business activities, eg, manufacturing or component supply, to companies in other countries'. However, again, exercising greater caution and looking to keep more functions close to home, in 2009 fewer businesses were likely to adopt either of these strategies than in 2008. Those in the Gulf, included for the first time in 2009, are less likely than others to pursue these options.

While globally-engaged UK businesses tend to parallel their global competitors in many of these actions, they lag behind others in respect of acquisitions and the share of business functions placed in other countries.

The UK is an attractive destination for inward investment

Many overseas businesses have a base of operations in the UK

Many of the businesses in our international sample have operations in the UK, reflecting the importance of the UK within global markets for these businesses. 70% of US businesses, 48% of those from the rest of the EU, 43% of Asian businesses (especially from Singapore, 62%) and 34% of those from the Gulf said that they currently have an operation in the UK.

The UK is an attractive destination for new investment in Europe by overseas businesses

If they were considering new investment in Europe, around 40% of businesses in the US, Asia and the Gulf said that it is likely that they would locate it in the UK. Clearly, for businesses outside Europe, the UK is an attractive centre for operations and activities. Those already based in the rest of the EU are less likely to consider new investment in the UK, but one in five would still consider it.

The UK's legal and financial framework gives potential investors reassurance

Perceptions that the UK has a fair and transparent legal system – a key concern in international expansion – is one of the main reasons for considering the UK as a location for overseas investment (cited by over 85% of potential investors in the UK in all four regions). Other factors of similar, high importance in considering the UK as a location for expansion are its well-served financial system (81%, particularly among Asian businesses) and its fair and transparent competition policy (79%) (see chart 15 below).

Other principal advantages of investing in the UK include the language and its skills base. Approximately two-thirds commented on the UK's market potential for innovative products and the quality of the supply chain. Asian companies in particular view the UK as a good base for distribution into Europe.

The following chart summarises the main reasons for considering UK investment, broken down by region.

CHART 15: MAIN REASONS FOR CONSIDERING UK INVESTMENT – BY REGION

	All regions (210) %	Other EU* (21) %	US* (44) %	Asia (121) %	Gulf* (24) %
Legal system is transparent and fair	90	86	86	93	88
It is English-speaking which is an advantage for our business	90	81	89	91	92
It has a good skills base	90	86	93	90	83
Financial system well-served by many finance providers	81	71	70	87	79
Competition policy is fair and transparent	79	71	82	80	71
Market offers potential for innovative products / services	69	67	68	70	63
Has a high quality supply chain	67	52	64	70	71
Good base for distribution into Europe	64	33	43	78	63
Good base for distribution into other global markets	48	43	32	56	42
Taxation system offers incentives for in-country operations	23	24	34	22	8

Base: All likely to consider UK for new investment
* warning: low base sizes (<50)

Overseas businesses sometimes chose other European countries because they offer greater market opportunities, are cheaper to operate in or the UK market is already well served

Greater market opportunities elsewhere and high operating costs are the main deterrents for considering investment in the UK

Those companies that would not consider the UK for new European investment most commonly cite that they perceive other countries offer greater market opportunities (73%) and that the UK market is already well served with their products or services (65%). The other main deterrent is the perceived high operating costs relative to other countries (70%) (see chart 16 below). Gulf and Asian businesses particularly cite the UK's taxation environment as a deterrent.

The following chart gives the main reasons for not consideration the UK for investment, broken down by region.

CHART 16: MAIN REASONS FOR NOT CONSIDERING UK INVESTMENT – BY REGION

	All regions (258) %	Other EU (69) %	US* (40) %	Asia (120) %	Gulf* (29) %
Other countries offer greater market opportunities	73	72	65	75	79
Other countries are cheaper to operate in	70	70	70	69	72
UK market already well served for our products / services	65	68	55	67	66
UK taxation environment deters in-country operations	36	19	28	46	52
UK regulatory environment deters in-country operations	14	16	18	11	14
UK transport system is unsatisfactory	8	16	3	6	7
UK skills base is inadequate	5	7	3	7	-

Base: All not likely to consider UK for new investment
* warning: low base sizes (<50)

CONCLUSION

From the points above we believe it is possible to conclude that:

- Competition for businesses in Scotland will intensify.
- The Scottish Government needs to continue supporting the needs of the more advanced industries such as IT, life sciences, the creative industries and universities as well as low carbon technologies.
- Scotland's location offers a good base for distribution into Northern Europe.
- Some attributes of UK law and regulation such as competition policy and levels of taxation will influence inward investment in Scotland.
- Scotland must continue its emphasis on Skills and Innovation as reflected in the Economic Recovery Plan.

Included as appendices to our submission are pdf documents of the ICAEW's 'Global Enterprise Survey Report' as well as a summary of Scottish Highlights from that report.