

Scotland's £12bn export gap

Blog post by Adviser Gregor Irwin, 10 February 2017

If there is a second independence referendum in Scotland, one of the central issues will be which single market matters more, the UK's or the EU's? The latest export statistics for Scotland, published last month, reveal what's at stake.

An unavoidable conclusion from the data is that Scotland's export performance is currently underwhelming. There is more than one way to evaluate this. The simplest and cleanest, is to compare Scotland's international exports (i.e., excluding intra-UK trade) with those of the rest of the UK as a percent of GDP. As Fig 1. shows Scotland is lagging far behind, exporting just under 20% of GDP, compared to 28% for the rest of the UK.

Fig 1. International exports, % of GDP

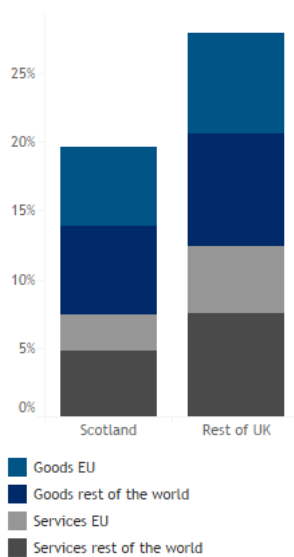


Fig 2. Scottish exports to the UK and EU, % of GDP

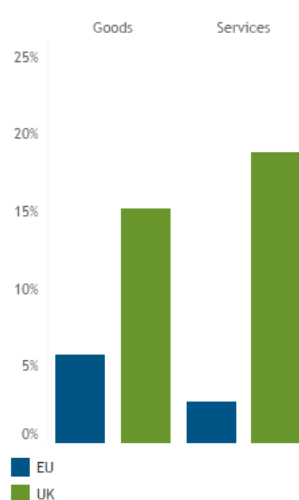
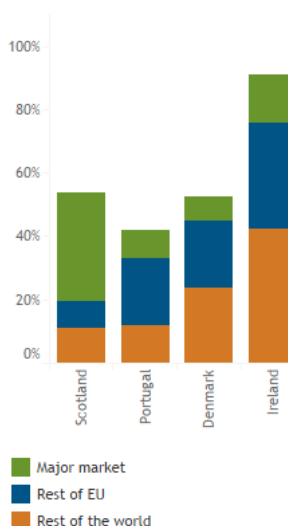


Fig 3. Scottish exports compared with other countries, % of GDP



Source: ONS, Scottish government, Eurostat, CSO, Statbank, Pordata, GC calculations

In monetary terms this implies Scotland currently has an export gap of about £12bn. That's how much higher Scotland's international exports would be if they matched the rest of the UK's as a percent of GDP. The underperformance is bigger for services than goods, with services accounting for £7.3bn of the total.

These amounts are not trivial. And this is not just a curiosity in the data. There is no obvious economic reason why Scottish business should be less open to the world than firms in the rest of the UK.

The Scottish exports statistics also estimate the value of trade between Scotland and the rest of the UK. Fig. 2 shows that the UK is currently a much more important export market for Scottish firms than the EU. The value of Scottish goods exports to the UK is almost three times as high as to the EU, while for services it is over seven times as much.

This gets to the heart of the independence issue, now that it is being reframed by Brexit. For those that want Scotland to stay in the UK, this data is taken as evidence that the UK single market matters more to Scotland than the EU market. However, it might equally be a sign of something structurally unhealthy about the Scottish economy.

By comparing Scottish exports with other European economies, you can see why this might be the case. Fig. 3 shows how Scottish exports compare to Portuguese, Danish and Irish exports. These countries are used as they are a similar size to Scotland and they each have a large neighbour that is a major export market - Spain in the case of Portugal, Germany for Denmark, and the UK for Ireland. Fig. 3 shows that Scotland is much more dependent on its big neighbour than any of these other countries. Compared with them, Scotland's dependence on its big neighbour looks excessive.

The UK market is clearly important for the Scottish economy. But both the £12bn export gap and the extent of dependence on the UK market suggests that Scottish business needs to internationalise. The problem now is that Brexit makes that more difficult.