Scottish Competition Forum

UK Industrial Strategy - what it means for productivity and competition

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15th May 2018
Economies are dynamic and evolve over time.....

Change in Share of GVA by Sector in Scotland

1973

- Ag, forest & fish: 5%
- Mining: 1%
- Government & other: 19%
- Business services & finance: 15%
- Trans, storage & comms: 8%
- Dist, hotels & catering: 13%
- Construction: 4%
- Electric, gas & water: 4%
- Manufacturing: 31%

2014

- Ag, forest & fish: 1%
- Mining: 2%
- Government & other: 26%
- Business services & finance: 14%
- Dist, hotels & catering: 14%
- Trans, storage & comms: 8%
- Construction: 7%
- Electric, gas & water: 4%
- Manufacturing: 11%

Source: Experimental Scottish National Accounts and SG Input-Output tables
Note: these data are not fully consistent over time because of changes in accounting systems and industrial classifications
Since the 2008 crisis, the labour market has remained relatively resilient. However, UK productivity growth has been exceptionally weak, in contrast to trends seen during and after previous recessions. As a result, the UK’s productivity level is 19 percentage points below its implied level had it continued growing at its pre-crisis rate.

<table>
<thead>
<tr>
<th>Average Growth Rates, 2000-07</th>
<th>Average Growth Rates, 2007-16</th>
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<tbody>
<tr>
<td>Scotland</td>
<td>1.2</td>
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<tr>
<td>UK</td>
<td>2.1</td>
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<tr>
<td>Euro area average</td>
<td>1.1</td>
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<td>EU28 average</td>
<td>1.6</td>
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<td>G7 average</td>
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<td>OECD average</td>
<td>1.8</td>
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Source: Scottish Government, OECD
Scotland’s ‘top quartile’ productivity ambition

Scotland would rank 19th out of OECD countries in terms of GDP per hour worked.
How do we improve productivity in Scotland..

- **Investment**
  - Business investment as % of GDP fell in the first 3 quarters of 2017 to 6.1%, but
  - Between 2007 - 16, Scotland’s productivity growth has been higher than any other country/region of the UK, incl. London.

- **Skills**
  - Across Scotland, 6% of establishments have reported a skill-shortage vacancy (5% in HIE); however
  - Scotland has the highest percentage of population aged 25-64 years who have attained a tertiary education qualification or higher, compared with all other EU countries

- **Innovation**
  - Scotland’s rate of private sector investment in R&D as share of GDP among lowest in OECD; yet
  - Scotland’s share of ‘innovation active firms’ – businesses involved in innovation – is among the best in Europe; (Scotland ranks in the top quartile of EU countries).

- **Internationalisation**
  - Scotland’s international goods exports (inc. oil and gas) increased by 19% to £28.8 billion between 2016 and 2017. Fastest growth of any of the UK nations.
  - However, the majority of international exports are concentrated to a relatively small number of large companies

- **Enterprise**
  - As at March 2017, there were an estimated 365,600 private sector enterprises operating in Scotland - the highest figure since the time series began (in 2000). However,
  - In 2016, Scotland had 50 new business registrations per 10,000 of the adult population in comparison to the UK figure of 78. (67 excluding London);
Scotland’s Economic Strategy Framework

PURPOSE

Increasing growth and tackling inequality are mutually supportive

COMPETITIVENESS

TACKLING INEQUALITY

Investment  Innovation  Inclusive growth  Internationalisation

The Scottish Government
Brexit Represents…

- A loosening of the economic integration built up between the EU countries.
- A redrawing of the lines from the perspective of the UK.
- Implications for UK and Scotland's economy across each of the 4 freedoms.
- Implications for our trading relationship not just with the EU but with all international partners.
- Potentially wider implications for workers, consumers and the environment.
Variable geometry of the EU.

Europe’s Ties That Bind

The U.K.’s plan to leave the European Union has focused attention on long-standing pacts that govern trade, immigration and the common currency.

European Union
28-nation single market of free trade and shared regulation; includes “free movement” of goods, services, capital and people

Euro Zone
19 countries using the euro currency

European Economic Area provides access to single market in exchange for payments; has “emergency brake” on free movement of people

European Free Trade Association
Free-trade zone and network of agreements with other countries

Customs Union
Circulates goods without duties, has uniform system for handling imports

Schengen Area
26-country passport-free travel zone

Sources: EU, ETRA, IMF
Challenges

- **External environment** – The international economic environment has strengthened in 2017 and 2018, however UK growth has weakened.
- **Brexit** - each trade scenario examined results in a permanent decrease in GDP relative to continued full EU membership.
- **Uncertainty** – has short-term impacts on investment and the wider economy, however has potentially longer term impacts if persists through Brexit.
- **Migration** – restrictions on inward migration has implications for attracting skills and innovation alongside offsetting demographic changes impacting the working age population.
- **Regional** - Scotland’s growth challenges and opportunities vary across economic geographies.