European and External Relations Committee

4th Report, 2013 (Session 4)


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European and External Relations Committee

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European and External Relations Committee

Remit and membership

Remit:

The remit of the European and External Relations Committee is to consider and report on-

(a) proposals for European Union legislation;
(b) the implementation of European Communities and European Union legislation;
(c) any European Communities or European Union issue;
(d) the development and implementation of the Scottish Administration's links with countries and territories outside Scotland, the European Union (and their institutions) and other international organisations; and
(e) co-ordination of the international activities of the Scottish Administration.

(Standing Orders of the Scottish Parliament, Rule 6.8)

Membership:

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The Scottish Government's Country Plan for China

1. In 2006 the Scottish Government published its strategy for engaging with China over the coming five years. The strategy was formed as a 10 point plan of objectives, accompanied by targets and indicators to measure progress at its next refresh. The strategy sought to “implement a more integrated and cost-effective approach to engaging with China”.¹

2. The strategy was refreshed in 2008, and the European and External Relations Committee (Session 3) conducted an inquiry into the refreshed China Plan, focusing its scrutiny on the progress made to meet the Plans’ targets, most of which were due for completion in 2011.²

3. The findings of the Session 3 Committee’s inquiry, suggested that while there was a significant value in having a China Plan, the refreshed strategy was “lacking in some specific targets and falls short in some aspects of implementation”.³ The Session 3 Committee was concerned that the Plan lacked the financial data and baseline figures to support its objectives, and failed to deliver in a number of key aspects. That Committee recommended that—

“there is a significant role for politicians in supporting the links which businesses, universities, colleges, local authorities and others are seeking to make with China.”

4. The most recent refresh of the China Plan, was published in December 2012. The European and External Relations Committee (Session 4) agreed to conduct an inquiry into the refreshed Plan, in order to assess its targets and strategy for implementation and the progress made in meeting the objectives since 2008.

5. The 2012 strategy is divided into four priority areas—

1. To increase trade opportunities for Scottish business in China and encourage more Chinese investment in Scottish industry and infrastructure.

2. To expand and deepen Scotland’s education links with China.

3. To increase collaboration in research and development between China and Scotland.

4. To promote an innovative and creative Scotland through deeper cultural exchanges and sporting links with China as well as Hong Kong Special Administrative Region; and promoting Scotland as a destination of choice for Chinese tourists.

6. The Committee agreed to focus its inquiry on priority area one, while recognising that aspects of all the priority areas, may be relevant to economic development between Scotland and China.

The International Framework


Evidence taking by the Committee

8. In the course of its inquiry, the Committee visited several businesses across Scotland, which currently have some form of trade with, or investment from, China. Businesses included the Scottish Salmon Company (SSC) office in Edinburgh,

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5 Scotland’s 7 geographic plans are with Canada, China, Europe and the EU, India, Pakistan, South Asia and the United States of America.

Marine Harvest Ltd.\textsuperscript{7} in Fort William and Todd & Duncan Ltd.\textsuperscript{8} a textiles company based in Kinross.

9. The Committee heard oral evidence from Scottish Development International (SDI), a Scottish Government agency focused on international trade and development. The Committee also held a round table discussion, with stakeholders representing the Scottish financial sector and business organisations such as the China-Britain Business Council (CBBC)\textsuperscript{9} and the Hidden Office Ltd.\textsuperscript{10}

10. The Committee also took evidence from the Minister for External Affairs and International Development.

11. The Committee received written evidence from a variety of stakeholders with an interest in the inquiry remit.

12. Extracts from relevant meetings of the Committee are included at Annexe A, and a list of the oral and written evidence received by the Committee is included at Annexe B.

Summary of key findings

13. The following key recommendations emerged from the written and oral evidence received by the Committee and form its main findings—

- Progress to support business to business partnerships between Scottish and Chinese companies is required by SDI, as is the development of mentoring and business incubation schemes.

- The Scottish Government should consider how it could work more directly with SMEs and their representative bodies in both the drafting and delivery of the next China Plan in order to improve stakeholder involvement.

- Ministerial visits are vital to the continued engagement between Scotland and China. These should therefore be carefully planned and orchestrated to maximise returns for the Scottish economy.

- Links between Scottish and Chinese educational institutions are of increasing importance as is the teaching of Chinese languages in Scottish schools through programmes such as the Confucius Institutes.

- The financial sector currently has significant opportunities for Scotland in China, which the relevant authorities and organisations should be looking to maximise.

- A direct air link from Scotland to China will increase the potential for Scotland’s economic and cultural engagement in that country.

\textsuperscript{7} Marine Harvest Ltd. Available at: http://www.marineharvest.com/scotland [Accessed 30 May 2013].

\textsuperscript{8} Todd & Duncan Ltd. Available at: http://www.todd-duncan.com/ [Accessed 30 May 2013].


\textsuperscript{10} The Hidden Office Ltd. Available at: http://www.thehiddenoffice.co.uk/ [Accessed 30 May 2013].
The visibility of Scotland in China, through the branding of Scottish products and Scottish company offices there, is a key element in increasing Scotland’s trade with China.

KEY ISSUES

Design and implementation of the China Plan

Awareness of the Plan and the work of Scottish Development International

14. The China Plan is a Scottish Government document, published following a consultation with interested stakeholders and Scottish Development International (SDI), the trade and investment arm of Scottish Enterprise and Highlands and Island Enterprise. While it is a Scottish Government document, the majority of Priority Area 1 of the Plan is the responsibility of SDI. The three targets listed for the first priority are:

- Target 1.1: Double the number of Scottish companies (based on 2010 levels) supported to access Chinese markets by 2017.
- Target 1.2: Increase direct exports to China above the Scottish Government’s export target of 50% by 2017 and to exceed this for China based on 2010 export levels.
- Target 1.3: Double the number of major Chinese investors with a presence in Scotland by 2017 based on 2012 levels.

15. The work of SDI is central to the achievement of these targets as its role is to provide support to any companies wishing to establish or increase their international trade partnerships and to attract inward investment into Scotland. In light of the original publication and subsequent refreshes of the China Plan, China features significantly in the work of SDI.

16. In evidence to the Committee, SDI stated that it provides various levels of support to companies in their planning and strategizing as well as practical help to prepare companies, for example, with product design, market research, and copyright protection.

17. During the Committee’s visits to Scotland-based companies, some issues emerged in relation to the degree of knowledge of the China Plan and the awareness of the support available from SDI. In a written submission, Eimpus Ltd., a firm based in Glasgow supplying condition monitoring equipment to electrical utilities, indicated that the while it had received initial support from Scottish Enterprise, mostly in the form of funding, it would have been unable to “establish a presence in China” on the basis of the support provided. The company used its own existing contacts in the engineering and renewables industry and drew on the experience of other Scottish small and medium enterprises (SME), to develop its approach to the Chinese market and identify potential distributors.

18. In written evidence to the Committee, the Minister for External Affairs and International Development provided a list of the stakeholders who were invited to engage in the Scottish Government’s consultation on the China Plan, as a way of
strengthening the awareness of the Plan among businesses in Scotland and building their experiences and suggestions into the updated Plan.\textsuperscript{11}

19. While Elimpus noted its gratitude for the initial funding grant provided, it also suggested ways in which Scottish Enterprise and SDI could improve the support framework for other companies with similar trade ambitions—

“it would be useful if Scottish Enterprise and/or SDI could facilitate a working group where account managed SMEs could meet on a regular, informal basis to share experiences and offer assistance/advise … Effectively this would be a “self help” group where experienced Scottish SMEs who have already had successful experiences in business development in China could “mentor” other Scottish companies with the same aspirations.”\textsuperscript{12}

20. SDI currently operates the globalscot network\textsuperscript{13} which uses SDI staff who have been working in China to share their experience and advice with Scottish companies hoping to begin their engagement there. This was referred to in evidence as a useful communication and learning tool for the business community.\textsuperscript{14} The Committee is aware of the trade groups established by Scottish Enterprise and the progress made by them and other businesses in promoting knowledge of trading with China. The suggestion of business partnerships was also raised by witnesses during the round table discussion. Angus Tulloch, First State Investments, stated that the way for a business to do well in China, was for it to find the right partner and ‘transfer skills’\textsuperscript{15}. The Scottish Salmon Company (SCC) provides a practical example of the benefit of finding a good partner, as it sells directly to ‘Ole’ the Chinese supermarket.

21. The China-Britain Business Council (CBBC) was of the view that more could be done to increase awareness of the challenges in engaging with the Chinese market amongst Scottish businesses, and to “bring up to the level of expectation … before they set foot in China”\textsuperscript{16}. The CBBC suggested that business incubation schemes could help provide companies with a ‘soft landing’\textsuperscript{17} in the initial stages of engagement, making trading more achievable and attractive to them, especially for SMEs. These schemes would limit the risks involved in outlaying the resources for engagement and allow companies to pull out of the market if necessary.

22. In order to establish partnerships, and benefit from mentoring schemes however, witnesses stressed that significant support was needed from SDI. The Committee would welcome a response from SDI on how it could make progress in supporting business to business partnerships between Scottish

\textsuperscript{11} Minister for External Affairs and International Development. Written evidence, Annexe B.
\textsuperscript{12} Elimpus Ltd. Written submission, paragraph 5.
\textsuperscript{13} Scottish Development International. Available at: \url{https://www.sdi.co.uk/globalscot.aspx} [Accessed 30 May 2013].
\textsuperscript{17} Scottish Parliament European and External Relations Committee. \textit{Official Report}, 2 May 2013, Col 1167.
and Chinese companies, promoting the work of the industry groups established by Scottish Enterprise and facilitating more mentoring and business incubation schemes, particularly among SMEs.

23. The SSC also had views on how the Scottish Government and its agencies could work to develop the support offered to companies in the process of establishing trade with China. The SSC cited Norway, New Zealand and Australia, as examples of countries in which it believed support to be more proactive and efficient. Mention was also made of New Zealand Government website, where a volume of information on the NZ–China Free Trade Agreement\(^\text{18}\) is provided. SSC felt that a similar resource would be of use in Scotland.

24. In his written evidence, Philip Morgan, the former First Secretary (Scottish Affairs), stated that it is important to have the China Plan as it allows priorities and a rationale to be established; “a plan is an excellent presentational tool to explain and encourage others to get involved and participate”\(^\text{19}\).

25. However, Philip Morgan's written evidence went on to say that “a plan is only as good as its implementation" and suggested a number of aspects in which the Plan could be improved. Mr Morgan indicated that the Plan should take more of a realistic account of how much control the Scottish Government actually has over the risks involved in the Plan, and to what extent it can establish a means of mitigation for such risks. The level of resources allocated to the delivery of the Plan, is also highlighted as an area where Mr Morgan believes more explanation is needed; for example, that there is enough funding and that it is correctly allocated to recoup maximum profit.\(^\text{20}\) In written evidence, the Minister made reference to Mr Morgan’s concerns regarding risk assessment in the Plan stating—

> “We manage risk across the Scottish Government and Scottish Development International (SDI) and the high level targets in the China Strategy are linked to targets in SDI's Trade and Investment Strategy, the Government’s Economic Strategy and International Framework. Alignment of these measures is critical and has been achieved. It would not be appropriate to set out operational detail such as risk and resource management in a high level policy document. These issues are managed effectively on a day to day basis by officials.”\(^\text{21}\)

26. The Plan, as published in 2012, refers to the delivery and implementation of its priority areas as being not solely the responsibility of the Scottish Government stating that; “It will be for stakeholders across Scotland to work in partnership to achieve these objectives and drive forward our engagement”\(^\text{22}\). However, the Committee has heard evidence from other stakeholders that, while trading with China is certainly something that should and does appeal to many companies in Scotland, the awareness of the China Plan and the support framework it sets out

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\(^{19}\) Philip Morgan. Written submission, paragraph 3.

\(^{20}\) Philip Morgan. Written submission, paragraph 4.


is limited. Companies such as Elimpus, Todd & Duncan and the Scottish Salmon Company, all expressed the view that more direct input from SDI and on-going support would be welcome.

“Economic development bodies (Scottish Enterprise/SDI) must encourage and actively facilitate “networks and relationships” in Scotland of like-minded, similar SME companies so that they can collectively make a stronger showing in China.”

27. The Federation of Small Businesses in Scotland (FSB) has conducted research into the number of its manufacturing industry members, which are currently, or proposing to, trade internationally. The survey carried out by FSB showed that 44% of the respondents did not have any international trade plans. Among the reasons given for this was the cost of travel to develop new customer relations, the cost of trade show exhibiting and the cost of producing and shipping marketing samples. The FSB collected several case studies of the international trade experiences of its members and heard that many businesses had been unprepared for the time, resources and costs involved in setting up any international trade relations. It also discovered that awareness of SDI and its ‘Smart Exporter Programme’ was very limited—

“Of those responding to this question, none believed that they had FSB Small businesses in Manufacturing 18 received support through this programme. Only a small proportion of respondents (23%), said they were aware of Smart Exporter. The majority (77%) were unaware of the programme, at least by the brand name.”

28. However, the FSB was also keen to emphasise in its report of this research, that some of the businesses involved had received support from local networks e.g. the Scottish Borders Council and Edinburgh International Trade, which the FSB felt was an example of how public sector support could be effectively delivered on a local level. The Minister also referred to the use of local authorities as a ‘regional hub’ for SDI and similar organisations to work through, particularly to reach small businesses, and suggested it would be an area the Government should investigate further.

29. Denis Taylor, the Hidden Office Ltd., expressed scepticism over the credit given to the China Plan for the fluctuations in Scotland’s economic performance. He suggested that there is a general view that by increasing resources to the Plan, exports will increase, however this is not necessarily the case as—

23 Elimpus Ltd. Written submission, paragraph 11.
“the majority of businesses that are trading in China are getting on with it on their own. We must be careful about making a direct connection between Government investment and exports, whether they go up or down.”

30. **While there is clearly a significant volume of work being undertaken by Scottish Development International and Scottish Enterprise to deliver the targets of the China Plan, there is a need to tackle the perception that there is a lack of awareness of the existence of the Plan itself and the support available from the Scottish Government among some of the stakeholders. The Committee recognises that progress that has already been achieved and calls on the Scottish Government to consider how it could work more directly with SMEs and their representative bodies, in both the drafting and delivery of the next China Plan, in order to improve stakeholder involvement and delivery of the China Plan’s targets.**

31. **The Committee recommends that the suggestions made by Philip Morgan regarding the need for a risk assessment and a strategy for mitigation, are represented in the next Plan, or in a public document deemed appropriate by the Scottish Government.**

**Government level relations**

32. Throughout the inquiry, witnesses and stakeholders have stressed the importance of government level relationships to China. The Committee has heard repeatedly that Chinese culture values demonstrations of respect, therefore visits to the country by Scottish Government Ministers are well received. In evidence to the Committee, SDI reiterated this point—

“Government relationships are generally much more important in China than in most other markets across the world. To have a personal relationship at any level in Government is very important. Beneath that, a deep understanding of the way through the regulatory environment is desperately important. It would be very hard to do the job without strong Government relationships.”

33. SDI went on to explain the process its staff work through when arranging a Ministerial visit, in both the domestic and Chinese offices. This involves working closely with the Scottish Government to set up visits and events that will present new investment opportunities and have maximum benefit for trade relations. The aim of these visits and establishment of the connections they entail is to allow Scottish exporters to enter the Chinese market at a high level. SDI says that its

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staff in China continue to provide support and ‘on-going discussions’ following visits, however, “Ministers can open doors our staff cannot”.  

34. The importance of government visits to China was also referred to by Owen Kelly, Scottish Financial Enterprise (SFE), who agreed that, particularly in the financial industry, Ministers act as ‘door openers’. Mr Kelly felt that the experience of SFE had been positive in terms of Scottish Government ministerial and SDI’s input into its work overseas.

35. In written evidence from Philip Morgan however, it is suggested that more thought may need to be given to how each visit will work to achieve delivery of the Plan, for example in the content of the visit programme and its timing and cost.

36. In evidence to the Committee, the Minister stressed the significance of ‘government-to-government relationships’ to the Scottish Government’s work in China and cited the example of the recently acquired 3 telecoms contract that had resulted in new jobs in Glasgow. The Minister said that the contract has been gained following the First Ministers contact with the parent company of 3 and that SDI had been of substantial importance in setting up and supporting this meeting and others like it.

37. The Committee recognises the importance of Scottish Government ministerial engagement and was interested to hear examples of the successes of Ministerial visits. It would welcome any further information on the links between these trade visits and the award of contracts. The Committee would also encourage the Scottish Government to continue to emphasise the vital role that government visits to China play, and work with Scottish business networks to establish the best dates and events around which such visits can take place, for example during trade fairs, exhibitions and expos, in order to maximise returns for the Scottish economy and ensure value for money.

Challenges to trade

Doing business in China – culture

38. The Committee has heard that China is, in many respects, a very different market from other markets where Scotland has more experience in engaging. The importance of having a Scottish presence in China has therefore been emphasised by many stakeholders. James Anderson, Baillie Gifford, stated that the Chinese market represents the same economic position as America did 100 years ago and to neglect opportunities there would put Scotland at a serious disadvantage. However, the difficulties of engaging with China have also been referred to frequently in evidence, especially those issues relating to cultural and language differences between China and other major markets. The CBBC made
this point in its oral evidence, based on the surveys undertaken with businesses engaged in China.\textsuperscript{35}

39. Elimpus also claimed to have experienced the effects that the Chinese attitude to trade can cause—

“Communications, not just language/translation but finding a common and consistent understanding of issues and expectations can prove difficult. These are often less to do with language but rather cultural and value system matters … Contracts are not always honoured to the letter, agreements can be arbitrarily changed, payments are delayed etc.”\textsuperscript{36}

40. Other witnesses such as Angus Tulloch, agreed that the procedure for establishing business contracts in China is different to that operated in most other countries, as they are seen to be a ‘basis for negotiation’ rather than the binding agreements that most Scottish businesses will be used to working with. CBBC was in support of the idea that the Chinese market should be seen as an investment, and that companies initiating engagement there should be aware that building relations there will be a long term process. However, CBBC was also quick to point out that, for different products, different approaches to the market should be applied—

“I think that that notion that China is a long-term market is a bit out of date. China could be described as a long-term market for high-involvement products … However, there has been an acceleration in business success for companies that sell food. China can work crazily slow, but it can work crazily fast for some food products or luxury products.”\textsuperscript{37}

41. James Anderson was concerned that too much emphasis was being placed on market differences and that doing business in China was not dissimilar to doing so with other markets—

“when we talk to the major Chinese sovereign wealth or related funds, they ask us exactly the same questions as their equivalents elsewhere in the world, particularly in North America. That is not accidental. By and large, they have modelled themselves on those people, which is good and bad.

You should therefore ask the question of all of us whether we can compete at this. Are we good enough?”\textsuperscript{38}

42. Mr Anderson continued that the efforts made by Scotland to match business standards set internationally, would be the reason for its success. The support available to meet this demand could therefore be viewed as instrumental.

\begin{footnotesize}
\begin{itemize}
\item[36] Elimpus Ltd. Written submission, paragraph 7.
\item[38] Scottish Parliament European and External Relations Committee. \textit{Official Report}, 2 May 2013, Col 1164-5.
\end{itemize}
\end{footnotesize}
Language and education

43. Building up Scotland’s knowledge and understanding of Chinese culture and language is included as a guiding principle for the China Plan. In evidence to the Committee, language was often referred to as one of the principal barriers to Scotland’s trade with China.

44. Angus Tulloch expressed the view that businesses with no representatives able to converse to some level in Chinese, would find making contacts and trade relations there difficult. He added that his business – First State Investments – would find it “very difficult to conduct due diligence on Chinese management if we did not have some Chinese speakers on our team”.

45. The Minister told the Committee that the Scottish Government is committed to encouraging more people to learn Mandarin and bringing together Scottish and Chinese educational institutions. He referred to numbers of Chinese students who undertake their studies at Scottish Universities as well as the Young Chinese Professionals (YCP) network, which brings together and promotes the work of, Chinese professionals living in both China and Scotland. The Minister’s written evidence further emphasised the achievements made in developing educational links with China, highlighting that in 2001-12 there were 8,075 students from China enrolled in higher education in Scotland, a 22% increase from the previous year, and the 13 Confucius Classrooms now operating across Scotland.

46. The YCP submitted written evidence to the Committee, in which it was keen to stress the importance of education to future engagement between Scotland and China, citing the Scottish Qualifications Authority’s (SQA) Chinese language courses and Scottish Universities’ work to promote Chinese language and educate Chinese students. The SQA and British Council also reiterated, in written evidence, the vitality of language in building relationships with China. Both organisations highlighted the significant numbers of partnerships existing between Scottish and Chinese educational institutions and praised the China Plan for its emphasis on increasing the volume of students in Scotland studying Chinese. In March 2013, the SQA was awarded the ‘Best International Partnership Award’ by the Chinese Government.

47. The SQA recommended that in order to meet the target of doubling the number of school students gaining qualifications in Chinese language from the 2011/12 level by 2017, more “more focused strategic direction from Scottish Government” would be needed—

“The continued involvement and support of Scottish Government both in China and fostering greater understanding in Scotland is greatly welcomed. We would therefore like to see this not only maintained but increased, as

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39 Angus Tulloch. Written submission, paragraph 3.4.
setting the strategic context and direction facilitates the practical activities that will ensure the successful implementation of the China Plan.”

48. Dr Judith McClure, Convener of the Scotland China Education Network, also raised the importance of having a workforce in Scotland with a broad cultural and linguistic understanding of China. She suggests that this would be an area on which universities and cultural institutions (for example, the Botanical Gardens and Edinburgh Zoo) in both countries could collaborate.

49. The difficulty of learning Chinese as a second language was raised by Owen Kelly, who told the Committee that he and others like him, had been trying to learn Chinese for almost 30 years. He suggested that more value might be gained from learning about the Chinese culture and history. Angus Tulloch also made the point that there is a need to understand the history between Scotland and China, in particular the opium wars, however, the value of speaking in the language of a country with which trading is desired, could not be understated.

50. Related to the importance of understanding Scotland’s historical relationship with China is the issue of China’s human rights policies, which have been widely critiqued on a global scale. The China Plan lists ‘Respect for Human Rights and the Rule of Law’ as one of its four guiding principles—

“Scotland is justly proud of its reputation for ethical business practices, and knows that human rights and the rule of law are key to long-term economic success and social stability. We will continue to share our experiences and values in our dealings with China.”

51. However, Mr Tulloch suggested that involving the issue of China’s human rights policy — guiding principle of the China Plan — in any meetings with the Chinese, would be “extremely counterproductive”. The Minister referred to Mr Tulloch’s point in his oral evidence, telling the Committee that the First Minister has invited Amnesty International and the Scottish Human Rights Commission to discussions on how best to progress the human rights agenda with China.

52. The Committee is encouraged to hear that numerous partnerships between educational and cultural institutions in Scotland and China are currently active. The Committee concurs with stakeholders’ suggestions that this is the most important way to strengthen links with China and increase Scotland’s profile as a place to study and visit. In line with the Committee’s separate inquiry into the teaching of languages in primary schools, the Committee would welcome more opportunities to learn

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43 Scottish Qualifications Authority. Written submission, paragraph 4.
44 Dr Judith McClure. Written submission, paragraph 5.
Mandarin or Cantonese at all stages of education. A good example would be the Hanban and Confucius Institute, currently undertaking work in this area across Scotland.\textsuperscript{49} The Committee also considers that the development of cultural links and tourism would further support business opportunities for Scottish firms in China.

**Tax and tariffs**

53. When the Committee visited Todd & Duncan Ltd., a textiles firm operating in Kinross, members were told about the difficulties it faced when trading with China, despite it being owned by a Chinese parent company. Todd & Duncan produce yarn reels to be sold to clothing firms based mainly in the Scottish Borders and Italy. One issue of importance to Todd & Duncan was the existence of a 16% tax rebate in China. The Chinese government gives textile firms based in China that wish to export their products, a 16% tax rebate. The rebate makes it possible for the Chinese firms to price goods more competitively on the global market than a company operating from outside of China, such as Scotland.\textsuperscript{50}

54. Under the World Trade Organisation rules any such rebates were to be reduced to nil since an agreement was signed with China in 2004,\textsuperscript{51} however, they have actually increased within some industries, including textiles.

55. The Scottish Salmon Company also discussed the issue of taxes, in its case the 10% import tax the Chinese Government applies to Scottish Salmon, which in comparison with Scotland’s competitors such as New Zealand (0% import tax) and Chile (3% import tax), makes Scottish salmon less affordable and attractive to Chinese retailers and consumers.\textsuperscript{52}

56. In evidence to the Committee the Minister said that the Scottish Government was aware that these rebates and other trade tariffs posed a serious problem for Scottish companies wishing to export, in particular SMEs, and was working with the UK Government to reach a solution—

“SDI is liaising with the trade policy unit in the UK Government’s Department for Business, Innovation and Skills so that we can fully understand those concerns and consider what further action might be taken.”\textsuperscript{53}

57. The Committee will look for ways to bring this issue into its wider work programme, and looks forward to receiving an update from the Scottish Government on the progress of its discussions with the UK Government in relation to trade agreements.

\textsuperscript{49} Scottish Parliament European and External Relations Committee. 3\textsuperscript{rd} Report, 2013 (Session 4). *Report on the inquiry into the teaching of foreign languages in Primary Schools* (SP Paper 361).


\textsuperscript{51} Ken Davies. Chinability, Available at: [http://www.chinability.com/WTO.htm](http://www.chinability.com/WTO.htm) [Accessed on 30 May 2013].

\textsuperscript{52} Scottish Salmon Company Ltd. Written evidence, page 3.

Country comparisons and market value

58. The value to Scotland of engaging in China was raised repeatedly during the inquiry. In one example, James Anderson said that to walk away from the opportunities that are currently present in China, would be detrimental to Scotland’s future and as a company, Baillie Gifford consider China to be a high priority.\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report}, 2 May 2013, Col 1175.} He added—

“[China] is the market where, increasingly, the clearest competitive advantage is required in order to be a winner. It would be catastrophic were Scottish business to walk away from that.”\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report}, 2 May 2013, Col 1174.}

59. Denis Taylor, however, expressed an alternative view of the value to be gained through channelling energy and resources into the China Plan and engagement in general with this country. He indicated that the focus on China in recent years and the resourcing planned to support future engagement there, could be better directed to markets closer to Scotland. In his view such markets would deliver a better return and would be significantly lower risk for the businesses involved—

“Eastern Europe is a growing and emerging economy with 100 million consumers. Resources have not increased in that area at all.”\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report}, 2 May 2013, Col 1161.}

60. Mr Taylor emphasised his belief that Scotland’s performance in China has not improved, despite the resources behind the Plan and the support from SDI. He attributed this in part to the difficulties of the Chinese market and also to the performance of the agencies engaged to support trade and investment.\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report}, 2 May 2013, Col 1161.} Mr Taylor submitted written evidence to the Committee illustrating the top 20 markets for international exports for the period 2002-11, which shows China’s position as fluctuating between 11\textsuperscript{th} and 19\textsuperscript{th} place.\footnote{Denis Taylor. Written submission, page 1.} Mr Taylor suggested that this data supports his argument that other markets have more to offer Scotland.

61. Members raised Denis Taylor’s concerns with the Minister and were assured that the work currently occurring in China is not at the expense of the opportunities in Europe—

“We intend to have an internal yearly review of the plan to ensure that the strategy is working and that we are getting the return that we think we should be getting on the effort that we put in. If that is not the case, we should have the ability to be flexible.”\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report}, 16 May 2013, Col 1212.}
62. The Minister added—

“The plan plays a pivotal role and will be a fast-expanding part of that international framework, but that will not be at the expense of the work that we do in our traditional markets in Europe and in North America … it will complement that work.”

63. The Committee welcomes the proposal to review the China Plan annually and asks that the Scottish Government share its findings, and any proposals for altering the Plan, with the Committee at an appropriate stage. The Committee would also suggest that more evidence of the progress made since the previous plan, be included at its next refresh, to support the need for Scotland’s presence in China.

Areas for development

Financial sector expansion

64. Priority 1 of the China Plan outlines certain industry sectors on which trade and investment efforts with China should focus: Food & Drink, Energy, Financial Services, Creative Industries, and Life Sciences. In 2011, the signing of a certificate of health allowed Scotland to export fish products directly to China for the first time, which helped increase the value of overall Scottish food exports to £1.16bn. This value fell in 2012, however, partly as a result of a poor salmon harvest. The manufacturing industry has also suffered a decline recently, a drop of 16.6% recorded in 2012, despite having risen sharply in 2011, to £23.9bn.

65. The variations in the two industries that, until 2012, had been key contributors to Scotland’s exports to China could be seen to highlight the need to have businesses in many different sectors engaging with the Chinese market. The short term fluctuations that affect the level of exports may have less impact on the overall value of exports to the Scottish economy, if they were balanced against more industries.

66. In the course of the inquiry the Committee heard from representatives of the financial services industry, who stressed the value to be found in investing in engagement between this industry, particularly asset management, and the Chinese market. The Committee heard from Angus Tulloch that there could be “huge opportunities” in this area. Owen Kelly reiterated this, adding that Scotland’s asset management capabilities were one of its principle strengths on an international field.

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67. The Minister also told the Committee that asset management is a field which the Scottish Government is aiming to promote, mentioning the First Minister’s speech at the asset management forum in Beijing in 2011. He added that this industry in particular was one in which the involvement of government contacts was crucial—

“The industry does not necessarily need financial aid or grants or market awareness—but we can help with key contacts, key networks … [I] am always happy to explore what further we can do to assist our financial services and asset management companies.”

68. Denis Taylor, however, was unconvinced of the actual benefit to Scotland that could be gained from this market. He suggested that it was important to assess the genuine value to Scotland, garnered from trade and investment opportunities, giving the example of the whisky industry as a sector in which increasing exports does not directly correspond with an increase in employment. Such sentiment was also expressed when the Committee visited the Scottish Salmon Company, which also felt that the profits it could make from trading with China, were not easily brought back to the local areas of its business, for example, the communities around the fish farms and processing plants.

69. The Committee recognises the importance of the financial sector in the future to trading with China. It recommends the Scottish Government continues to emphasise this as one of the key sectors for engagement and continues to work at a Ministerial level to strengthen the opportunities for Scottish asset management, and other financial sector companies. The Committee recommends that further significant effort be made by the relevant bodies, to ensure that the profits from any such engagement, be delivered in a way which will benefit Scottish businesses.

Hubs

70. The difficulty of entering into the Chinese market was much discussed throughout the inquiry. Witnesses have repeatedly stressed the multiple and different challenges faced by companies at the initial stages of engaging with China. Denis Taylor suggested that by using the existing relationship between Scotland and Hong Kong to build on investment in that country, it could provide a link into China. Similarly Angus Tulloch commented that First State Investments has around $20bn invested in companies based in Hong Kong and Singapore, which in turn are ‘heavily involved’ in China.

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71. The method of using other countries as ‘hubs’ for entering China, was raised with the Minister, who expressed interest in this approach and indicated it would be something the Scottish Government would be open to exploring further. The Committee would welcome updates on the Government’s investigations into the hubs option, and details of any advances made in developing existing hubs.

Air links
72. An issue that has been referred to regularly is that of direct air links from Scotland to China. Currently it is not possible to fly to any city in China without stopping and or transferring, at different airports outside Scotland. The Committee questioned SDI about the work being done to make Scotland more accessible to the Chinese market, particularly in regards to the leisure and tourism industry. SDI indicated that it is working with the Scottish Government and its relevant departments to establish a direct air link to China. However, the market was severely competitive and the existing connectivity is deemed as acceptable, given it can involve only one change when flying from Scotland.

73. Angus Tulloch however, emphasised that he felt a direct air link was of crucial importance to the Chinese view of Scotland and that it would encourage more Chinese firms to recognise the possibilities of using Scotland as a ‘European headquarters’. Denis Taylor picked up on this point, elaborating that it would be insufficient to simply have a direct air route, such a link would also have to be low cost enough to rival the available rates for business travel to Europe.

74. The Committee raised the issue of air links in evidence with the Minister who agreed that every aspect of Scotland’s engagement with China would be strengthened by having a direct air link between the two countries. The Minister told the Committee that the First Minister had conducted discussions with the Civil Aviation Authority in China of China, during his visit in late 2011. However the initial progress made at this meeting had not progressed significantly since then. Transport Scotland has been advised to contact a Chinese carrier and the Minister offered to supply the Committee with subsequent updates.

75. The Committee is of the view that a direct air link would be of substantial assistance in the development of Scotland’s business trade with China, as well as helping Scotland to become more of a tourist destination for the Chinese market and build its image as an international travel hub. The Committee therefore recommends that the Scottish Government continue to engage with China and the relevant Chinese air carriers, and the Civil Aviation Authority of China, as a matter of priority. The Committee

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would welcome updates on the progress made by Transport Scotland and SDI, as offered by the Minister.\textsuperscript{74}

**Branding and promotion**

*‘Scotland the brand’*

76. The methodology for increasing trade and investment with China has been a central element of the inquiry. Witnesses have raised the issue of Scotland’s image abroad, as having significant impact on the volume of trade and investment gained and the overall progression of the China Plan.

77. The Scottish salmon industry, has heavily contributed to an increase to exports in the food and drink sector (notably in 2011).\textsuperscript{75} Since the signing of a ‘health licence’ between the Scottish and Chinese governments in 2011, the Scottish Salmon Company (SCC), one of Scotland principle producers of farmed salmon, has begun exporting to China. The growth of demand in China has made salmon products both more affordable to Chinese consumers and more desirable, as it is seen as a high-quality, status symbol good. The SSC reports that it has so far exported 70 tonnes of salmon and expects this to increase in line with the demand. By selling to supermarkets directly and taking part in SDI’s promotional activities (the World Association of Chefs’ Societies (WACS) held in China), the SSC has been able to highlight itself, and Scotland, as a brand visible to certain sectors of the Chinese market.

78. In evidence to the Committee, SDI discussed its involvement in events such as overseas food and drink fairs, one of which recently took place in Dubai and in Hong Kong, as examples of the promotion of Scottish products in an international arena. Food in particular, was referred to as an increasingly important export with the potential to boost Scottish products abroad and reinforce Scotland as a brand.\textsuperscript{76} SDI was of the view that, while there is still work to do in order to make Scotland and its goods more visible and attractive to overseas consumers, it “would be fair to say that we punch above our weight”.\textsuperscript{77}

79. However, Owen Kelly proffered a differing view, citing the statement made by a senior member of the Chinese government during his visit to London in 2012 that the UK was “falling behind France and Italy in branding and perception.”\textsuperscript{78} He added that, seen from China, Scotland is a part of Europe, and should use that connection to build its own image in China.

80. In May 2013, the Scottish Government announced that it would be tendering a new contract for an international public relations team, to promote the work of SDI, VisitScotland and other Government agencies abroad. The Minister told the

\textsuperscript{74} Minister for External Affairs and International Development. Written evidence. Page 3.
\textsuperscript{76} Scottish Parliament European and External Relations Committee. Official Report, 2 May 2013, 1146.
\textsuperscript{77} Scottish Parliament European and External Relations Committee. Official Report, 2 May 2013, 1149.
\textsuperscript{78} Scottish Parliament European and External Relations Committee. Official Report, 2 May 2013, 1167.
Committee that this resource would be used to build the image of Scotland ‘the brand’, drawing on the ‘country of provenance’ status for Scottish products as an example of a means to highlight Scotland’s profile abroad.\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report, 16 May 2013}, Col 1195 and 1207.}

\textit{Visibility in China}

81. Closely related to the issue of branding, is the visibility of Scotland in China. While this may have increased in certain export areas such as salmon and whisky, the Committee has heard that there is still progress to be made in representing Scotland in China. The majority of the Scottish financial sector representatives that gave oral evidence to the Committee, made mention of their companies’ offices in China itself. James Anderson remarked that Baillie Gifford has an office in Shanghai, which is very important to the company’s establishment of connections there. CBBC also added that it has 13 offices in China and that SDI uses this broad network to support and develop its own work.

82. The CBBC further discussed the idea of having a ‘footprint’ in China and what it and other agencies like SDI could do to strengthen Scottish companies through their China based offices. As expressed by various stakeholders, China is a large and disparate market, and while having offices in the major cities is useful, having representation in the interior of the country, is the way to access a wider market.\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report, 2 May 2013}, Col 1164.}

83. Angus Tulloch, however, suggested that given the importance of personal relationships and contacts to doing business in China, it might be of more value if SDI and similar agencies, concentrated on having a “few, very high quality people, who are well connected, running three or four offices, with one in the west.”

84. Reference has also been made to the importance for Scottish businesses themselves, to have an office in China. The CBBC said there was clear evidence to support the fact that some companies with offices in China, were doing more business than those that did not. The need for staff ‘on the ground’ is of particular relevance in China, given the numerous differences to other markets and the cultural traits that make personal relationships in business necessary. CBBC states—

“We must rise to the challenge of making our companies more visible and giving them greater prospects. The mixture of SDI’s and the CBBC’s networks and the links to Government can all help in that but, sometimes, a company needs practical help.”\footnote{Scottish Parliament European and External Relations Committee. \textit{Official Report, 2 May 2013}, Col 1167.}

85. The SSC found that while China had been a welcome addition to its export markets, significant resources were needed to establish and maintain, its contacts there, and having no representation based in the country made trade very difficult and time consuming. As discussed by SDI and the CBBC, the role of such agencies and organisations is to support businesses, particularly those unable to...
acquire their own China offices, to participate in the trade and investment opportunities possible.

86. In his evidence, the Minister backed the CBBC’s suggestion of an incubation scheme could help a company build its presence in China, without immediately requiring it to lay out all of the resources necessary to support an office there.82

87. The Committee is interested to hear about the value placed on having a physical presence in China, both for support agencies and for Scottish businesses themselves. It is also aware of how difficult establishing such a presence can be in China and therefore the necessity of having the requisite support to acquire an office and local staff.

88. The Committee recommends that the SDI place more emphasis on developing ‘business incubation schemes’ and making these more available to the businesses looking to move into the Chinese market. The Committee further suggests that SDI investigate how to use its own network of offices in China to provide greater support to companies unable to support their own China office thereby preventing smaller businesses being deterred from beginning engagement there.

Conclusion

89. The Committee notes and appreciates the progress and achievements made by the Scottish Government since the publication of the previous plan, and the value of the letter received by the Scottish Government from the Consul General in China, welcoming the China Plan.83

90. The Committee welcomes the opportunity to review the updated China Plan and hopes that the suggestions and recommendations contained within this report will be developed into the next publication of the Plan. While the Committee believes that the Plan provides a useful framework for engagement with China, it does, however, feel that it could go further in strengthening the delivery of its objectives. The Plan states that its objectives are to be delivered through the combined efforts of stakeholders and the Scottish Government. However, the evidence gathered during this inquiry suggests a limited awareness of the Plan amongst some of the stakeholders with potential interests in engaging with China.

91. The Committee asks the Scottish Government to consider how it can better promote the Plan and the opportunities offered by SDI amongst stakeholders, in particular those SMEs who will need support to be introduced to the Chinese market. This is crucial for the plan to be effective. The Committee looks forward to receiving the regular updates on a variety of matters arising from this inquiry, as offered by the Minister for External Affairs and International Relations, and will continue to take acute interest in the development of Scotland’s relationship with China.

83 Minister for External Affairs and International Development. Written evidence. Annexe A.
ANNEXE A: EXTRACT FROM THE MINUTES OF THE EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

15th Meeting, 2012 (Session 4) Thursday 15 November 2012

The Committee will meet at 9.00 am in Committee Room 2.

1. Decision on taking business in private: The Committee agreed to take item 6 in private.


3rd Meeting, 2013 (Session 4) Thursday 7 February 2013

1. Decision on taking business in private: The Committee agreed to take items 6 and 7 in private.


5th Meeting, 2013 (Session 4) Thursday 07 March 2013
Scottish Government's Country Plan for China and International Framework: The Convener and Clare Adamson reported to the Committee on the launch of the inquiry.

7th Meeting, 2013 (Session 4) Thursday 18 April 2013
Scottish Government's Country Plan for China and International Framework: Helen Eadie and Roderick Campbell reported to the Committee on their recent visit to Todd & Duncan Ltd.

8th Meeting, 2013 (Session 4) Thursday 2 May 2013

1. Decision on taking business in private: The Committee agreed to take item 7 in private and to take consideration of evidence heard at future meetings and consideration of a draft report on its inquiry, in private.

   Ed Payne, Head of Strategy, and Julian Taylor, Executive Director, Strategy and Economics for Scottish Enterprise, Scottish Development International;
   Denis Taylor, Hidden Office Ltd;
   Owen Kelly, Chief Executive, Scottish Financial Enterprise;
   James Brodie, Manager and China Business Adviser Scotland, and Giles Blackburne, Director, China Britain Business Council;
   Angus Tulloch, Joint Managing Partner of the Asia Pacific and Global
7. **Scottish Government's Country Plan for China and International Framework (in private):** The Committee discussed the evidence heard on its inquiry at this meeting.

9th Meeting, 2013 (Session 4) Thursday 16 May 2013

1. **Decision on taking business in private:** The Committee agreed to take item 6 in private.

2. **Scottish Government's Country Plan for China and International Framework:** The Committee took evidence from—
   Humza Yousaf, Minister for External Affairs and International Development, Heather Jones, Deputy Director of International Division, and Ed Payne, Head of Strategy, Scottish Development International, Scottish Government.

5. **Scottish Government's Country Plan for China and International Framework (in private):** The Committee considered the evidence taken during the inquiry.


11th Meeting, 2013 (Session 4) Thursday 13 June 2013

Scottish Government’s Country Plan for China and International Framework (in private): The Committee considered and agreed a draft report subject to amendments.
ANNEXE B: ORAL EVIDENCE AND ASSOCIATED WRITTEN EVIDENCE

8th Meeting, 2013 (Session 4) Thursday 2 May 2013

Oral evidence

Ed Payne, Head of Strategy, Scottish Development International
Julian Taylor, Executive Director, Strategy and Economics for Scottish Enterprise, Scottish Development International
Denis Taylor, Hidden Office Ltd
Owen Kelly, Chief Executive, Scottish Financial Enterprise
James Brodie, Manager and China Business Adviser Scotland
Giles Blackburne, Director, China Britain Business Council
Angus Tulloch, Joint Managing Partner of the Asia Pacific and Global Emerging Markets Equity Team, First State Investments (UK)
James Anderson, Partner and Head of Global Equities, Baillie Gifford

Written evidence

Scottish Development International
Hidden Office Ltd.

Supplementary written evidence

Angus Tulloch
Scottish Development International – 1
Scottish Development International – 2

9th Meeting, 2013 (Session 4) Thursday 16 May 2013

Oral evidence

Humza Yousaf, Minister for External Affairs and International Development, Scottish Government
Heather Jones, Deputy Director of International Division, Scottish Government
Ed Payne, Head of Strategy, Scottish Development International, Scottish Government

Supplementary written evidence

Minister for External Affairs and International Development
ANNEXE C: OTHER WRITTEN EVIDENCE

- Angus Tulloch (106KB pdf)
- British Council Scotland (45KB pdf)
- Dr Judith McClure (163KB pdf)
- Elimpus Ltd. (46KB pdf)
- Philip Morgan (15KB pdf)
- Scottish Qualifications Authority (40KB pdf)
- Scotland Development International (113KB pdf)
- Scottish Salmon Company (260KB pdf)
- The Hidden Office (356KB pdf)
- Young Chinese Professionals Scotland (147KB pdf)

Supplementary written evidence

- Scotland Development International (344KB pdf)
- Scotland Development International - SME support (83KB pdf)
- The Minister for External Affairs and International Relations (785KB pdf)
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