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Danish companies still embrace globalisation

International conflicts have prompted Danish businesses to increase their global engagement. Businesses want to expand primarily in the West and Asia – with the exception of China, where their interest is waning.

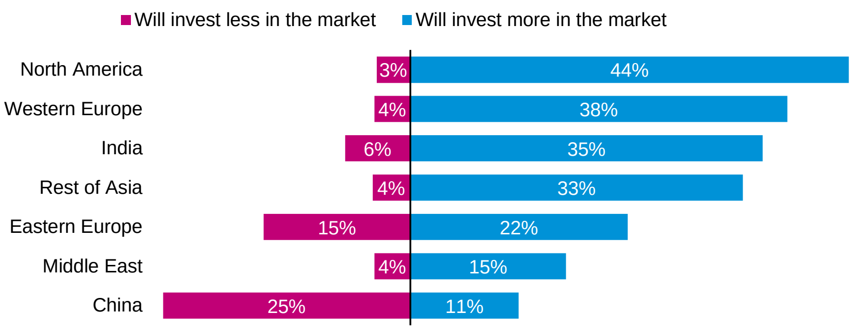
The war in Ukraine and Western sanctions against Russia have propelled international conflicts higher up on the agenda for many companies. The intensified rivalry between China and the USA – particularly the tensions surrounding Taiwan – has caused many companies to rethink their presence in Asia.

Every other company with an international presence wants to increase its activities

Danish companies are reacting to the international conflicts by adjusting their plans to invest beyond Denmark's borders. In DI's most recent survey, half of the companies with a presence abroad responded that they intended on increasing their activities in one or

Wars and crises are increasing companies' global involvement

Percentage of companies that intend increasing or reducing their involvement in various markets as a result of major international conflicts in 2022



Note: The figure only includes responses from companies that already have economic activities in the specific markets (380 responses). The figures do not total 100% because a large percentage intend to continue their involvement as-is (not shown).
Source: The Confederation of Danish Industry, survey in September 2022

more markets because of this year's major international conflicts, which include Russia's invasion of Ukraine and the intensifying rivalry between China and the USA. In other words, these conflicts are not deterring Danish companies from engaging in global markets – quite the opposite, in fact.

Companies want to boost their presence primarily in North America and Western Europe

Danish companies find North America and Western Europe particularly interesting. For example, 44% of the companies present in the North American market want to bolster their involvement by such means as finding more sub-suppliers, increasing production and acquiring other companies. These figures may reflect a tendency that US Secretary of the Treasury Janet Yellen has dubbed 'friend-shoring' – a concept that denotes companies' growing interest in establishing production facilities and supply chains in countries that share common values and regulations.[1] Friend-shoring advocates argue that more trade between like-minded, democratic countries will strengthen companies' supply chains and minimise the risk of economic blackmail. However, economic analyses point out that friend-shoring might lead to significantly higher prices and less prosperity as a result of lower productivity and higher production costs.[2]

One in four companies in China wants to reduce its activities in the country

In China, most companies will retain their present involvement, but a substantial percentage – 25% – foresee reducing their activities in the country. This year, concerns about future conflicts have risen significantly owing to Chinese threats to launch a military attack on Taiwan, causing many companies to curb their plans to invest in China. However, the figures also reflect another trend: in recent years, several major Danish companies have recalibrated activities in China and shifted production to other countries, one reason being the rise in wage costs in China compared with other competitive Asian countries like Vietnam, India, Indonesia and Malaysia. At the same time, China's strict handling of the COVID-19 crisis, with stringent lockdowns, has made it harder to run business operations in the country.

Companies generally want to increase their activities in Asia

Companies generally want to increase their presence in Asia. The survey showed that 35% of companies in the Indian market want to increase their presence there, while only 6% want to reduce it. The same trends can be seen for the rest of Asia.

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[1] The term is derived from 'off-shoring', the term for a company's transfer of its activities out of the country in which it is located.
[2] See, for example, the OECD analysis Global value chains: Efficiency and risks in the context of COVID-19 from February 2021.

No re-shoring trends in Denmark

Some opinion-makers are talking about 're-shoring' ...

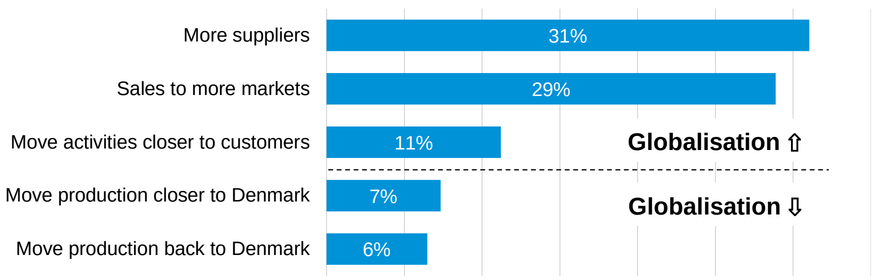
In the past five years, trade disputes, the COVID-19 crisis, supply chain problems and the war in Ukraine have disrupted or halted numerous companies' global activities. This has prompted many opinion-makers to speculate about whether Danish enterprises with plants abroad will move more production or production processes back to Denmark. The trend has been coined 're-shoring' – the opposite of 'off-shoring', which denotes a situation in which a company transfers its production operations outside its country of origin.

... but no signs of re-shoring are being seen in Denmark

In a survey of Danish industrial exporting companies, only 6% responded that they would return their activities to Denmark as a consequence of the last few years' events. Instead, many (11%) would move their activities closer to their international customers, and even more would sell to additional markets (29%) and secure more sub-suppliers to lessen their vulnerability to crises in individual markets (31%).[3] So, according to the survey, Danish businesses show no signs of considering re-shoring.

Few companies want to move production back to Denmark

Companies' strategic changes after covid-19 and the war in Ukraine



Note: The figure shows responses from industrial companies with international sales. The question was: What strategic changes have you implemented or will you implement following the events of the past two years (such as covid-19, rising energy prices, supply chain disruptions and the war in Ukraine)? Companies were free to give more than one answer.
Source: The Confederation of Danish Industry, 232 responses in Februar and March 2022.

Globalisation is thriving in Denmark and many other countries

How has Danish trade developed in the recent crisis years, compared with the rest of the world? We can examine this simply by looking at trends in overall exports and imports of goods and services. By calculating exports and imports as a percentage of the economy as a whole measured by GDP, we get a measure we can use for comparison with other countries.

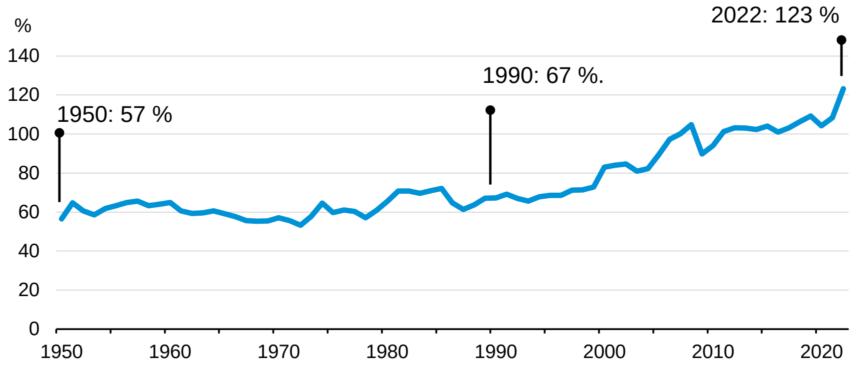
[3] Read more in the DI analysis 'After two years of disruptions: Higher inventories and more suppliers' from April 2022.

During the crisis years, Denmark's trade with the rest of the world rose to the highest level in modern times

Since 2019, Denmark's trade with the rest of the world has grown from 109% to 123% of GDP – the highest percentage in recent times. This increase comes after a long period of trade expansion that started in the 1990s, during which technological advances, fewer trade barriers and lower transport costs induced many businesses to establish production abroad. Since 1990, trade has grown 1.8 times faster than GDP.

Denmark's trade increases to the highest level ever

Development in trade measured by total exports and imports as a share of GDP



Source: DI Calculations based on Macrobond and Kim Abildgren (2017)

Since 2008, world trade has risen at a slower rate than the economy as a whole

A look at total global trade measured by all imports and exports as a percentage of GDP for the whole world shows an increase from 39% in 1990 to 58% today. This rise occurred particularly in the period from 1990 to 2008, when globalisation (defined here as more cross-border trade) became a genuine source of increased growth and prosperity for many countries, including Denmark.

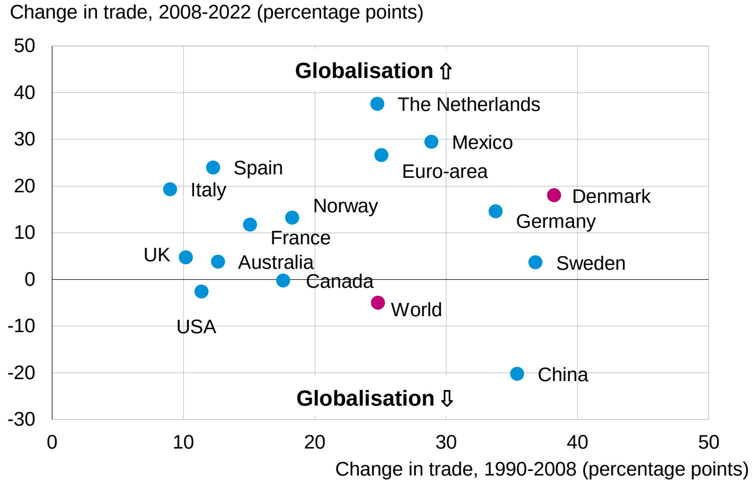
In most countries, trade has risen faster than the economy

However, since 2008 world trade has grown at a slower rate than the economy as a whole. This might initially suggest that globalisation has come to a halt or even gone into reverse. But this development is due primarily to the fact that the world's two largest economies, the USA and China, have boosted their domestic production significantly more than their trade with the rest of the world. As the figure below shows, most countries have actually increased their trade since 2008.

With Danish companies maintaining their heavy international involvement, globalisation looks set to continue in the years to come. However, Danish focus is expected to be aimed more at markets in North America, Western Europe and Asia – with the exception of

China – rather than at countries where the risk of international conflict is greatest.

Most countries have increased their trade since the financial crisis
Development in trade measured by exports and imports as a share of GDP

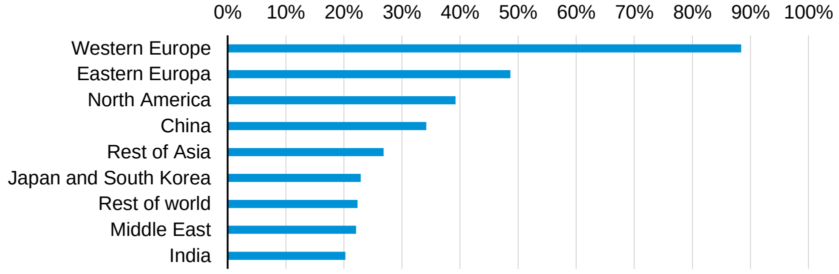


Note: The figure shows development in trade measured by (exports + imports)/GDP. The first axis shows development from the first half of 1990 to the first half of 2008. For a few countries, lack of data means development has been plotted from 1995. The second axis shows development in trade from the first half of 2008 to the first half of 2022. For China and the World, development has been measured at year-level, while the second axis shows development from 2008 to 2021 due to lack of data.
Source: DI calculations based on data from Macrobond and UNCTAD.

What we did

The first figure in the analysis is based on responses from DI's Virksomhedspanel, a business panel comprising a representative cross-section of DI company members. The responses were collected in the period 6–15 September 2022, when 635 companies participated in the survey. For the figure, we only used responses from the 380 companies indicating that they have economic activities (sub-suppliers, subsidiaries, etc.) in one of the international markets. The figure below shows areas where companies indicated they had an economic involvement.

In which countries/regions does your company have an economic involvement (business partners, subsidiaries, etc.)?



Source: Confederation of Danish Industry, survey in September 2022 (380 responses)

In the first figure of the analysis, Japan and South Korea are grouped in the 'Rest of Asia' category.

The data for the second figure of the analysis comes from the DI analysis 'After two years of disruptions: Higher inventories and more suppliers' from April 2022.