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Research Global

Are Nordic companies deglobalising?

- According to the IMF, large multinational firms have recently expressed a growing interest in reshoring production. We conducted a similar text-mining study for renowned Nordic companies based on annual reports in lieu of earnings calls, and find somewhat different results.
- Undeniably, Nordic businesses have lately discussed supply chains more often compared to the pre-pandemic period. However, they do not seem to share a similar level of interest to *reshoring* or *friend-shoring* as their multinational peers, nor has China been mentioned any more frequently than before.
- Our results could reflect that Nordic firms see some risks related to geopolitics and China differently compared to their multinational peers. Alternatively, it could reflect that the Nordics just lag behind, and that while concerns inside boardrooms are on the rise, publicly, a diplomatic tone is preferred.

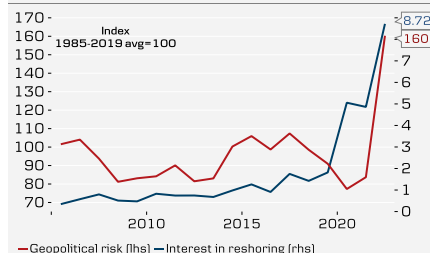
In recent years, the COVID-19 pandemic and rising geopolitical tensions have severely disrupted supply chains of those firms operating globally. Together with growing emphasis on sustainability, these developments have spurred a debate about geoeconomic fragmentation – the concept of a policy-driven reversal of economic integration. The pace and magnitude of geoeconomic fragmentation, if it was to happen, would also redefine globalisation. As we have argued in our *Research Global – Deglobalisation, is it really happening?* 13 March, the outcome is not necessarily deglobalisation in the sense of less trade and investments, but rather a re-shuffling of trade patterns and investment flows.

When analysing geoeconomic fragmentation, macro-level data is often scarce and lagging, and hence, it is worthwhile to develop other measures. For instance, in their April WEO, the IMF conducted a *text-mining analysis of earnings calls from a large sample of multinational firms*, which showed firms' increasingly focus on re- and friend-shoring coinciding with greater geopolitical risk. **On the back of the IMF's conclusions, we conducted an alike study, with our main emphasis being 51 of the most renowned Nordic companies.** Additionally, our research has been extended to annual reports across 2013-2022 including the search of buzzwords such as “supply chain”, “China” and a wide range of “shoring”-keywords.¹

Our analysis finds that ‘shoring’-keywords are not very present in the annual reports as only 2 out of 51 companies mention these in their annual reports. This is a stark contrast to the IMF study, where mentioning of ‘shoring’ words had increased coinciding with greater geopolitical risks. Firstly, the divergent results can be attributed to the different data sources being used. IMF rely on earnings calls which generally tend to be more open-mouthed, while annual reports reflect a more hesitant approach in terms of politically sensitive thinking. Moreover, analysts have addressed these issues more frequently during earnings calls. However, it is important to note that other factors may also explain the difference in results.

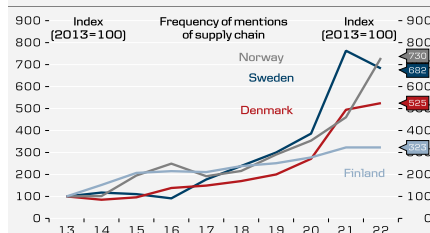
¹ Reshoring, friend-shoring, on-shoring, near-shoring, back-sourcing, back-shoring, inshoring

Multinational firms express growing interest in reshoring in IMF study



Source: IMF WEO April 2023

'Supply chain' is increasingly mentioned in Nordic annual reports



Source: Annual reports, Macrobond Financial, Danske Bank

Note: Frequency of mentions of supply chain measures the frequency supply chain appears in firms' annual reports

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We believe that the difference may also partly be explained by the fact that supply chain reshuffling has been a relevant theme for US firms since the onset of the US-China trade war in 2016. In our view, the results could also reflect geographical location and fewer options for *re- and friend-shoring* for Nordic companies. For example, **US businesses could consider relocating to Mexico, whereas Nordic firms do not have a similar cost-efficient alternative nearby. If that is the case, Nordic companies could also use different terminology even when considering relocation.**

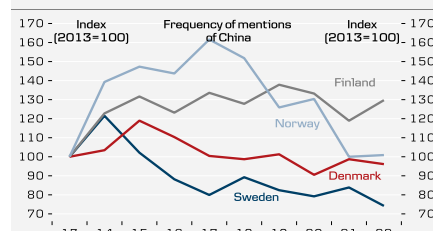
Whereas Nordic firms express less interest in types of ‘shoring’ compared to their multinational peers, they do mention *supply chains* frequently. Mentioning of supply chains increased dramatically in 2021 reporting, which can be explained by the pandemic-related disruptions and the blockage of Suez Canal in March 2021. In 2022 reporting, focus on supply chains remained despite bottlenecks easing during the second half of the year, and hence, was probably reflecting the rise in geopolitical tensions.

Interestingly, mentioning of supply chains was already on the rise before the pandemic. We attribute this to companies’ growing focus on sustainability reporting coupled with the fact that annual reports simply also tend to get longer page-wise. Accordingly, other variables that we have not identified could also explain the increased emphasis on supply chains. **Nevertheless, we recommend companies and investors keep an eye out for this potential trend.**

In the context of rising tensions between superpowers and a growing interest towards strategic autonomy in Europe and in the US, we also studied how frequently companies mention the word ‘China’ in their annual reports. Quite surprisingly, companies do not mention China any more often than before. Here, we think the results could be slightly misleading though. When doing business in China, it is imperative for multinational firms to maintain a good relationship with the Chinese Communist Party (CCP). Thus, it is possible that Nordic firms are more reluctant to express a cautious stance towards China in public even if they may be discussing precautionary plans behind closed doors.

Overall, we caution that in reality the picture could be less favourable, particularly towards future investments in China, even if such views are rarely expressed in public. Furthermore, we have a few interesting examples recently that could encourage such thinking. In April, Russia approved a legislation that allows Moscow to seize the assets of companies associated with so-called “unfriendly” states (see *Russia seized control of Danone and Carlsberg’s Russian activities* in July). This, in tandem with the *Chinese government tightening control over foreign businesses* might prompt firms to re-evaluate their strategies in regions with conflicting values and political ambitions, and unpredictable regulatory landscapes. In their annual survey published in June, the European Union Chamber of Commerce in China, found that *there has been a significant deterioration of business sentiment*, and that one in ten companies reported to have shifted (or indicated a plan to shift) their Asia headquarters out of mainland China. In this context, we look forward to updating our study next year when 2023 annual reports become available.

Nordic firms seem less concerned about China



Source: Annual reports, Macrobond Financial, Danske Bank

Note: Frequency of mentions of China measures the frequency China appears in firms' annual reports

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Oscar Christian Dahl Pedersen, Assistant Analyst and Minna Kuusisto, Director.

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Ad-hoc

Date of first publication

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