

English summary

Denmark Tomorrow

Ten themes for Denmark
to prosper in a new era



Denmark Tomorrow – ten themes for Denmark to prosper in a new era

The world is potentially on the cusp of a new era. This creates new opportunities for Denmark and our businesses

Several era-defining events have shaken our world in the last three years. Comparisons can be drawn to previous historical disruptions that ushered in new eras: in the immediate aftermath of World War II (1944-46), the oil crisis in the early 1970s (1971-73), and during the time of the break-up of the Soviet Union (1989-92). In particular, we are reminded of the implications of the oil crises in the 1970s, which share several familiar features with current events: the energy crisis, the decline in asset values, rising inflation, rising multi-polar tensions, competition for resources, and diminishing productivity growth in the West. We believe that the world, including Denmark, once again may be on the cusp of a new era, which can imply new realities within geopolitics, global trade, energy supplies, and demand for health services and technology¹.

How will Denmark continue being one of the happiest, wealthiest and most

prosperous countries in the world? The question is wide in scope, and applies to all levels of society. The private sector will be challenged on competitiveness and productivity. The public sector will face a combination of steadily rising expectations from the public, an aging population, which will put pressure on the financing of welfare services and trigger growing problems with recruitment, especially within the health and care sectors. Members of all age groups are struggling with their well-being and mental health in their efforts to coordinate their private lives, work and education. Finally, we as a society face the biggest changes in the economy and production of our lifetime, if we are to reach the current goal of a 70% reduction in greenhouse gases by 2030.

This report looks at the global forces shaping this new era. We also look at opportunities for Denmark, particularly how Denmark will continue to prosper,

and how we can build on the strong position created over the last 50 years. We hope the report can provide inspiration on how Denmark can continue being, not only one of the wealthiest countries in the world, but also one of the most inclusive and sustainable.

The main theme of the report is that Danish industry can still look to the future with optimism, despite the difficult global situation. Denmark is a frontrunner within several sectors with leading companies addressing the global challenges brought on by the new era, including energy transition, sustainable transport and biotech. Accordingly, we believe that the new era will bring significant opportunities to create new wealth for Denmark, with the aim of improving the lives of citizens and helping fund the future Danish welfare society and the green transition.

¹ On the cusp of a new era?, McKinsey Global Institute (2022)

The opportunities presented focus primarily on Denmark's globally oriented sectors – progress across these platforms can accelerate economic growth

Success in Denmark's globally oriented sectors – that are naturally exposed to the global forces affecting the coming era – can bolster growth in the Danish economy. Even though these sectors currently only constitute ~30% of the Danish economy as a

whole², they have, to a wide extent, driven productivity growth in the last decades. Furthermore, when Danish exporters produce high-demand goods for a global market, it fosters growth for a wide range of their Danish sub-suppliers, often in adjacent industries.

For example, analyses show that each time value is created for DKK 1 by Danish-owned multinational companies, a further DKK 1.1 is created for Danish suppliers³.

Four global forces shaping the new era – Danish businesses must be prepared to seize the opportunities

Our society and export niches can be strengthened and expanded if Danish companies succeed in seizing the opportunities offered by this possible new era. We see four global forces shaping the new era:

1. From unipolar to multipolar world order. The world order that appeared in the years following the downfall of the Berlin Wall is potentially shifting. Upon decades of expanding international economic integration and trade based on global cost arbitrage, these flows are changing. Recent years have demonstrated clear tendencies towards multipolarity with collaboration often defined regionally and/or ideologically. However, globalization is not going away, but rather changing.

Today, more than half of the world's goods and services (based on value) cross regional boundaries, with no region being self-sufficient⁴. We believe that trade patterns and supply chains will become more complex and that the degree of international trade will be adjusted from one product category to another, defined not least based on security policies⁵.

2. The green transition. The world's climate changes create an acute need for a transition to green solutions. Worldwide, governments and organizations have, to a wide extent, set targets on climate neutrality, however, current investments are insufficient to fulfill these ambitions. At a global level, we estimate that an average of 7.5% of global GDP will need to be invested annually until

2050 to reach the ambition of limiting a global temperature increase of 1.5 °C⁶. This will cause the largest and fastest reallocation of capital seen in generations. The switch from fossil fuels as part of the green transition will shape industries, consumption, and geopolitics for decades to come.

3. Aging populations and rising demand for health care. The global life expectancy will continue to increase in the coming 50 years⁷, and thanks to health care innovations, we are able to live good lives with certain chronic diseases. The coming decades will be characterized by an increasing share of aging citizens relative to the rest of the population. Today, there are 29 people over 65 in Europe for every 100 people of working age, a proportion that will rise to 50 by 2050⁸. Contrary to recent

² Measured on gross value added

³ Nordic Companies in Global Value Chains, Danmarks Statistik (2017)

⁴ Global flows: The ties that bind in an interconnected world, McKinsey Global Institute (2022)

⁵ How to build geopolitical resilience amid a fragmenting global order, McKinsey (2022)

⁶ The net-zero transition: What it would cost, what it could bring, McKinsey Global Institute (2022)

⁷ The World Bank (2022)

⁸ World Population Prospects, Forenede Nationer (2022)

decades, similar patterns can now be observed across the globe, including in non-Western countries such as China. Aging populations have a more extensive need for health care services and thus, this development will put many society models and health care sectors under pressure. This pressure will be reinforced by us not only wanting to live longer but also better. Health care – in its broadest sense – and our ability to cope with the significant productivity challenges faced by the health care sector, will therefore be one of the defining areas shaping our world in the new era.

4. The emergence of groundbreaking technologies.

Technological development will continue to be a primary catalyst for change. We have identified 14 emerging technologies that – in the coming years – can imply progress for companies and states, boost productivity, create new or improved products, and contribute to better lives. These technologies are either digital technologies – particularly AI – or physical technologies, e.g., within energy, transport, and biotechnology. Compared to US and China, Europe is falling behind in most of these technologies on development as well as implementation. The

shortage of technology-developing companies in Europe can explain more than 60% of the difference in economic growth between US and Europe from 2014-19. We estimate that Europe can create value of up to EUR 2,000 – 4,000 billion by 2040, provided that European companies are able to adopt emerging technologies⁹. This equates to six times the amount necessary to achieve climate neutrality in Europe by 2050.

Denmark has several strengths closely related to these global forces. Denmark has a number of exceptionally strong life science and health care clusters, each of which develops leading technology within their field to help populations live longer and better. Similarly, Denmark is a front-runner on the green transition. We believe Denmark can become a vital part of a new Nordic “Sustainability Valley” being home to some of the leading ecosystems that can help decarbonize not only Denmark, but the rest of the world. Finally, Denmark has a high level of technology-readiness that can help us benefit from new technological developments, and therefore also a growing group of key technology businesses.

Based on +150 interviews, extensive research, and collaboration with leading Danish executives and business leaders, we have identified ten growth platforms that link Denmark’s existing strengths with the global forces shaping the new era.

⁹ Securing Europe's competitiveness: Addressing its technology gap, McKinsey Global Institute (2022)

10

growth platforms towards 2030

315

billion

DKK in GDP by 2030

225,000

potential new jobs

Figure 1:
Ten growth platforms for Denmark



Succeeding with the ten growth platforms requires targeted scaling. Action is needed across the Danish private sector, the public sector and in the broader society. In order to succeed, we have identified seven focus areas to address:

Considerations for society, the state, and the public sector.

1. Develop solutions for the future in the Danish market accelerated by transparent and stable regulatory conditions. Success in our globally oriented sectors is often realized in the global market, however, the solutions are often developed nationally. Scaling of the ten growth platforms can thus be accelerated by continued high Danish ambitions on the green transition, health care solutions and technology adoption. To ensure that Denmark remains a front-runner on key topics in the new era, high ambitions are needed in the private and public sectors, as well as through public/private partnerships. Denmark has a long tradition of such collaboration, and it has helped establish our current positions of strength. In the coming years, the Danish public sector can thus play a key role in launching carefully targeted initiatives, supporting demonstration projects, and using public spending as a force. Finally, to make it attractive to invest in Denmark, it is essential that

we can ensure transparent, stable, and attractive regulatory conditions.

2. Ensure better access to future talent. Apart from certain geographical advantages, the potential of the ten growth platforms is primarily based on human capital. Therefore, scaling of the growth platforms is contingent on Denmark's ability to educate, train, retrain, and attract talent, which will be required in the future. This challenge is pertinent across educational programs and disciplines, but we identify two essential areas: Firstly, the importance of having sufficient technical talent, including more STEM¹⁰-graduates. Today, STEM accounts for only 23% of students in higher education, one of the lowest levels in Europe¹¹. Secondly, the importance of having access to international talent. Several Danish companies experience considerable issues attracting and hiring international talent. If Denmark is to have world-leading companies with global reach, companies need to have better access to global talent.

3. Raise ambition within research, innovation, and development. Internationally, Denmark is a leading country within investment in research and development. Denmark is in the European top five regarding public spending on research measured per capita¹², and has two universities in the top 100 of the world's best universities¹³. Reinforcing and retaining this position

in the future is essential. Considering the increase in innovative performance in recent years, it becomes evident that several countries are accelerating, thus narrowing the innovation gap between European countries. For Denmark to utilize its strengths within the areas identified, it is imperative to keep up with development and retain its leading position within innovation. This is essential, as each of the ten growth platforms is both technology- and knowledge-intensive, requiring solutions not yet fully established. This requires furthering ambitious collaboration on research and development across universities, research institutions, and the private sector.

4. Reinvent the Danish ownership and funding model. The majority of Denmark's most valuable companies were founded more than 40 years ago, with many being closer to 100 years¹⁴. Danish alternative ownership structures – not least fund ownership and cooperatives – have enabled this group of companies to convert global success into Danish jobs and investments, along with the expansion of very strong local ecosystems. However, the model has not encompassed new companies to the same extent. Though more than ten so-called 'unicorns'¹⁵ have been founded in Denmark since year 2000, seven of these unicorns no longer

¹⁰ Science, technology, engineering, and mathematics

¹¹ Eurostat (2020)

¹² Eurostat (2022)

¹³ Shanghai Ranking (2022)

¹⁴ S&P Global, Corporate Performance Analytics by McKinsey (2022)

¹⁵ Companies valued at >1 bn. USD

have a Danish headquarter¹⁶. To scale the ten growth platforms and build a new generation of global successes that remain Danish, Denmark need to rethink a model that takes into account ownership structures and funding from early stage to global scaling. A fundamental element of this is to ensure that the regulatory conditions for investment in Denmark are kept attractive.

Considerations for companies, entrepreneurs, and investors

5. Strengthen the resilience of global supply chains. A new geopolitical reality will impact all globally oriented companies. Danish business leaders should consider revisiting their global supply chains, determine which parts are potentially exposed to geopolitical tension and how to mitigate such risks. The war in Ukraine serves as a sharp reminder of the importance of this and has also demonstrated how many Western consumers make more challenging (and faster) demands to political and ideological stances from companies than solely complying with international sanctions.

6. Identify future growth markets.

The fallout from economic growth will shift from the preceding era in the coming decades, and Danish business leaders should consider revisiting the focus areas of their companies. For example, China has been a strategic market for many years, but will likely face a slowdown in economic growth and population growth¹⁷. In contrast,

countries such as India, Indonesia, and Vietnam can offer significant new growth opportunities.

7. Build and strengthen business units able to accelerate the new growth platforms. Danish businesses can benefit from significant, favorable tailwinds in the coming era. Several companies are already launching initiatives within the ten growth platforms, we have identified in this report. We believe that both extensive ‘business-building’ within established companies and continued entrepreneurship will be required. An important key to success will be the ability of Danish companies to build holistic solutions together. The challenges faced by the world in the coming era will to a high degree span across the traditional range of industries. The Danish private sector has demonstrated outstanding abilities to create joint solutions adapted to this reality, especially within the green transition. This advantage, enabled by the broad societal trust, and the fact that Denmark is a small economy, is essential across all of the identified growth platforms.

Finally, it is critical to state that Denmark cannot face the challenges alone. Initiatives and focused collaboration in Europe will be particularly important, as Europe is vital to Denmark’s export markets, and will be of considerable importance in several areas, including energy supply, defense collaboration, legislation, etc.

¹⁶ Denmark: A Unicorn factory – but why do they leave?, Dansk Erhverv (2022)

¹⁷ The China imperative for multinational companies, McKinsey Global Institute (2023)