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CAPTURING VALUE WORLDWIDE<sup>SM</sup>



## Country Profile: Denmark

April 2010

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A handwritten signature in dark blue ink that reads "James S. White, Jr." The signature is written in a cursive style with a large, stylized initial 'J'.

# Denmark: Down But Not Out



In terms of GNP per capita, today Denmark is ranked among the top seven countries in the world. It has the lowest unemployment rate in the world with the highest degree of income equality.

The Kingdom of Denmark is the southernmost and the smallest of the Scandinavian countries and borders the Baltic and the North Sea. Denmark was one of the first European colonial powers controlling Iceland, Greenland, and parts of Asia and Africa. Today, Denmark is a highly developed welfare state ensuring free health care and promoting secure public sector employment. It has been ranked first in the European pension barometer survey. The large public sector, which forms around 30% of the entire workforce, is financed by the world's highest taxes, overtaking Sweden. Denmark's current income tax average is 47.4%. Denmark has few natural resources, but manages to keep itself self-sufficient in energy. Its principal exports are machinery, instruments and food products, with the U.S. being its biggest non-European trader accounting for 5% of total trade volumes.

## Of Kings and Vikings

Denmark was peopled by reindeer hunters during the melting moments of the last Ice Age, and the post-glacial period saw the growth of settlements and the creation of deep fjords which are some of the most beautiful places in the country today.

With the arrival of the fierce Vikings from Norway around 800 AD, Denmark entered the European historical scene. The Danish monarchy, which is the Western world's oldest, traces its roots back to the Norwegian Viking chieftain Hardegon's son, Gorm the Old, who established his reign early in the 10th century. Gorm's son, Harald Blataand, completed the conquest of the Danes, speeding their conversion to Christianity. The word "Bluetooth" is the anglicized version of Blataand's name and is popularized today through the eponymous electronic device. Blataand, whose biography is recorded on the famous carved Jelling rune stones, was responsible for uniting the Danes. Under his leadership, Denmark emerged as an independent state. The Viking Age lasted for three centuries and during this time they settled in Iceland, Greenland and Newfoundland. This time was crucial for the establishment of Denmark's identity, and transformed the country from an unknown heathen land to an organized kingdom.

The murder in 1086 of Canute the Holy (Canute IV) by the Danish nobles put an end to the great Viking Age and medieval Denmark underwent dark upheavals until the momentous marriage of King Valdemar's daughter Margrethe to the King of Norway, Hakon IV. Margrethe was soon appointed Queen of Denmark in 1387 after Hakon's death, and she successfully united Denmark, Norway and Sweden forming the Kalmar Union.

However, in the 16th century the Union dissolved and the Reformation ravaged the country with burnt churches and massive civil wars all around. This movement lasted until the powerful Catholic Church was ousted and the Danish Lutheran Church was established in its place, with the monarchy at its head. Denmark was involved in numerous wars for almost two centuries, but it recovered and prospered during the latter half of the 18th century.

### A constitution is laid



Denmark has highly skilled and trained military personnel, who have been particularly active in Afghanistan. However, the relatively high Danish casualties in Afghanistan have raised concerns on the political front back home.

declared its complete independence from Denmark in 1944 and although Greenland and the Faroe Islands still come under the purview of the Kingdom of Denmark, they are essentially self-governing.

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Denmark and the World	
Nominal GDP	\$342.7 billion
GDP Rank	28/186
Per Capita GNI (\$)	59,130
Per Capita GNI Rank	7/210
Population Rank	109/227
Geographical Area Rank	133/249
Global Competitiveness Rank	5/133
Economic Freedom Index Rank	8/179
Human Development Index Rank	16/182
Major Industries	Chemicals, Food Processing, Machinery & Equipment, Electronics, Construction

Democratic movements in Denmark led to the adoption of a constitution in 1849,

which created a constitutional monarchy. But the country was forced to give up Schleswig in southern Jutland to Germany after its inhabitants, people of both Danish and German heritage, revolted against the new constitution. The 19th century was not just a time for political revolution but also a time of economic and cultural changes. The Industrial Revolution changed the face of Denmark by modernizing agricultural equipment and bringing railroad networks. The world famous Tivoli amusement park was established in 1843. Hans Christian Andersen's stories began to be popular and Søren Kierkegaard's existentialist philosophies launched new ways of thinking.

Denmark maintained its policy of neutrality during both the World Wars. But during World War II, the country was stormed by "Operation Weserübung" in 1940, and submitted to the Germans. Even as Germany took control of Denmark, the Norwegian colonies of Iceland, Greenland and the Faroe Islands now began to break away from Danish dominance. Iceland

## Win some, lose some

Post-war Denmark became one of the founding members of the United Nations and NATO, and in 1973 joined the European Community (now the European Union). The Danes have always been hesitant in supporting the expansion of the EU. Denmark rejected the EU's ratification of the Maastricht Treaty, which established the terms of a European economic and political union. Many surmise that Denmark is simply wary of losing its political independence and national sovereignty.

Although known for its cynicism of a pan-European identity, Denmark is also recognized for running one of the healthiest economies in the world. The country's employment levels are the envy of other countries. Today Denmark is ruled by Queen Margrethe II, together with Prime Minister Lars Lokke Rasmussen. The incumbent came to power in April 2009 after his namesake predecessor was elected the secretary-general of NATO. The new premier, who had held the health and finance portfolios in the earlier government, has considerable domestic experience, but almost no foreign exposure.

## A global meeting point

Denmark has something for everyone. Copenhagen delights people with its sultry nightlife, while the city of Aarhus pleases with its music festivals and performances. History buffs can scout around the city of Roskilde, which echoes the time of the Vikings, while swimmers and surfers can hit the Skagen shores. Sport enthusiasts can go cycling, as Denmark is quite cycle-friendly with wide and extensive biking routes laid throughout the country. The more sedate can go canal hopping since much of Denmark is built along canals, and shoppers can walk along Stroget, the longest pedestrian shopping area in Europe.



The LEGO Group was founded in 1932 by Ole Kirk Christiansen, a carpenter. Now owned by one of his grandchildren, the Lego Company claims that the popular toy bricks are so meticulously manufactured that out of every one million pieces made, just 18 will be declared defective. In 2008, the company's revenue was \$164 million, compared with \$138 million in 2007, representing an 18.7% increase.

Denmark's icons range from golden beer and Legos to deep fjords and fairy tales. The ubiquitous Lego bricks had humble beginnings and were originally invented in Denmark in 1932 by a carpenter. The name Lego comes from the Danish phrase "leg godt" which means "play well". Hans Christian Andersen wrote his stories sitting in a house in Odense on the island of Funen, which makes for an enriching visit. Danish architects of the last century such as Arne Jacobsen, Jørn Utzon, Hans J. Wegner and Børge Mogensen are revered icons of the design world. Boasting Danish modern design, it is common to see minimalist cafes dotting the cityscape and funky buildings made of an assortment of materials lining the harbors and squares.

Food and drink are much loved by the Danes and probably form the basis for the well known Danish saying that the only time one is likely to find a Dane with a knife in hand is when s/he has a fork in the other. *Pølsevogns*<sup>1</sup> are found around every other corner while the *Smørrebrød*<sup>2</sup> is a staple food in every house. The *Frikadeller* is the Danish national dish, consisting of fried flat dumplings of minced meat, a popular treat with visitors and locals alike. The Danes consume more beer on average than any other country in the world, and Denmark has a number of beer gardens where people unwind in the evenings. Carlsberg, one of the most popular brands across the globe, is made in Denmark and has its brewery in Copenhagen. Culturally, vibrant Denmark regales locals and visitors alike with its evident love for the lighter side of life.

## Grassroots economy



Built in the 17<sup>th</sup> century, the Danish Stock Exchange, or Børsen, is a historical icon of Denmark. Active until Copenhagen Stock Exchange took it over in 1974, it is rated as one of the best in the world today.

The Danish economy witnessed great growth during the 19th century, outperforming most other European countries. Denmark began as an agricultural economy, and the arrival of industrialization in the 1870s served to accelerate and improve the agricultural sector. With the gaining popularity of cooperatives starting in the 1880s, creameries began to be set up where steam driven cream separators were used, hastening the process. This gave birth to the iconic Danish dairy. The Danish dairy industry captured over a third of the rapidly expanding British butter-import market, establishing a reputation for consistent quality that was reflected in high prices. Today, Denmark is among the world's top five exporting nations for dairy products.

Denmark's traditional neutralism left the country unaffected during World War I and it was even allowed to continue exporting from both sides of the conflict. By the time the Great Depression hit Denmark, agriculture still employed one-third of the workforce and agricultural goods made up 80% of total exports. During World War II, Denmark once again was spared the worst consequence due to its neutrality and the Marshall Plan supported the country's rapid economic reconstruction.

- 1: Sausage wagons, which are common quick food alternatives
- 2: The Danish open sandwich where *smør og brød*, means "butter and bread"

Denmark was exhausted after the war and its economy still subsisted on agriculture and agro food. The industrial base was quite thin and whatever private services existed were involved with agriculture, construction or shipping. The fifties brought in a slow but major transformation in the economy with the shifting of labor from agriculture to manufacturing and services and towards the end of the decade the manufacturing industry had overtaken that of agriculture. In the next decade, there was a strong growth in public sector activities related to education, health and childcare. Agriculture began to dwindle as trade among countries began to flourish due to liberalization of the flow of goods and capital in Western Europe within the framework of the Organization for European Economic Cooperation (OEEC). The export share of industrial production doubled from 10% to 20% around 1957, at about the same time that employment in industry surpassed agricultural employment.

In the 1960s, several major developments took place. Denmark joined the European Free Trade Association (EFTA) created under the British, its largest trading partner. Denmark then went through a high growth period as the importance of agriculture waned and the share of employment in the public sector began to grow rapidly. The modern Scandinavian welfare state began to reprise when public expenditure as a share of the GDP exceeded that of most other countries. The public health care system and education expanded, both free for all citizens even today. With the expansion of public facilities for the aged and children in day care, the number of public employees increased as married women were now able to join the workforce.

Denmark's golden period lasted until the mid-70s when unemployment started dipping and economic growth slackened. GDP growth stood at 2.3% per year, down from a rate of about 4.5% during 1960-70, due to a spate of structural problems like deficits in the public budget and balance of payments. This forced the Danish government to increase its intervention in the economy. Subsequent oil shocks compounded the country's problems, causing serious internal recession. The government counteracted through fiscal policy adjustments, which included devaluing the Danish Krone twice. The decade from 1973 to 1982 is known as the period of stagflation, characterized by low economic growth, averaging less than 2% a year.

During the 1970s, which was one of the worst times for the Danish economy, the only industry that was given attention was wind power. Propelled by the energy crisis, Denmark focused its attention on the fledgling wind power industry and the government promoted the industry through tax incentives and subsidies enabling it to grow. But it was the emergence of the IT sector in the late 1980s and 1990s that whipped the economy into action. From 1992 to 2002, the IT sector experienced a very high growth of employment of 131%, growing from 18,100 to 41,700 employees.

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Denmark has been partying since economic growth gained momentum in 2004 and the upturn continued until 2007. However, the end of property boom and collapse of global trade hit the country hard as the recession set in during the second half of 2008.

## Transition Years

In the 1980s, interest rates rose to over 20% and national debt ballooned drastically. But a host of policy measures including a tight income policy, the reining in of public expenditure, and the



Denmark today relies heavily on renewable energy resources, with around 20% of its energy being supplied by wind power. Danish companies manufacture 40% of the world's supply of wind turbines and exported US\$7.45 billion in energy technology and equipment in 2005.

reworking of exchange rate policies brought a turnaround to the economy by 1986. The steep interest rates slid with the deregulation of capital movements between Denmark and other countries, which in turn led to ballooning property prices, rising private consumption and an increase in investment activity. From 1983 to 1986, annual economic growth averaged over 3.5%, and unemployment fell to below 8% in 1987, the second-lowest level in the EU. As such, the country achieved a public budget surplus in 1986-87 for the first time since 1975. Then Denmark tried the “potato cure<sup>3</sup>”, which consisted of a package of direct and indirect tax hikes, to counter erosion of competitiveness. This led to a very high current account deficit and a surge in overseas debt. Growth in private consumption and investment was curbed and the potato cure miraculously healed the imbalanced economy leading to a substantial drop in property prices.

Denmark’s bleak period was almost coming to an end. In 1993, the Social Democrats came into power and tried to stimulate production and employment by abolishing some of the fiscal policies introduced during the potato cure. This led to a fall in interest rates and a decline in unemployment to just below 7% in 1997,

resulting in growth in the economy. In 1998, the “Whitsun package” was adopted, which included increased pension contributions, heavier property taxation and additional green taxes, all of which, swung back the current account to a surplus in 1999.

The 21st century dawned on Denmark with the burst of the IT bubble, critically affecting exports and bringing the average annual growth down to a mere 0.6%. The employment rate which had been falling since 1993 suddenly shot up to 7% in 2003. But during 2004, the economy pulled itself up by the bootstraps. The recovery was driven by a boost in private consumption, as income tax breaks and large wealth gains substantially increased household purchasing power.

3: Potatoes have been used as a traditional medicine around the world against different kinds of diseases. A potato water cure is especially popular in Denmark as an effective treatment for arthritis.



Copenhagen is the largest cruise port in northern Europe. In 2007, more than 420,000 passengers arrived in the city on 289 cruise ships, providing a total turnover of approximately \$134.68 million. Tourism is an important source of foreign currency and employment in this city. In 2007, the tourist sector in Copenhagen alone employed around 52,300 people and had a turnover of \$ \$5.4 billion.

In 2006, Denmark was voted the most competitive and dynamic economy by the World Economic Forum. The Danish economy reaped multiple benefits from globalization and its export-oriented economy profited from the general expansion in international trade. Denmark's exports of products and services now constitute approximately 50% of GDP and around 75% of the exported goods include a wide range of industrial products. Machinery and instruments comprise the largest individual category. Services make up around 74% of GDP while industry represents 24.6%. Foreign trade is very important to the Danish economy, and 65% of the trade is engaged with other EU countries, with Germany as the country's most important trading partner.

Over the last decade, Denmark has had fiscal surpluses, with the country's public debt coming down drastically from 81% of GDP to around 26%. The country's fiscal surplus, which amounted to nearly 5% of the GDP from 2005-2007, was among the highest in Europe for several years. Denmark, an oil exporter and a shipping nation, also benefited from the rising oil prices and higher freight rates during this period.

## **An idea whose time has come**

A somewhat skeptical member of the European Union, Denmark has been reluctant to adopt the euro, dragging its heels despite its own krone being pegged to the EU's single currency. Concerned about relinquishing its financial independence, Denmark chose to vote out a proposal to embrace the euro in 2000. Notably, Finland has been the only Nordic country to adopt the currency so far. But the financial crisis, which rattled the country in the latter half of 2008, rekindled the debate. The credit crisis also drove home the point that no single country can afford to go it alone in an increasingly globalized world.

The ruling government under Prime Minister Rasmussen has continued to argue that higher interest rates in Denmark are the result of the decision to steer away from the euro. In fact, Denmark twice raised interest rates in October 2009 to help protect its currency, the krone.

However, those who continue to oppose the adoption of the euro instead point the finger of blame for rising interest rates on a combination of soaring house prices and the introduction of

interest-only mortgages. The government has also been trying to garner support for its proposal by waving the flag of patriotism, warning that the country will risk losing its political influence by yielding to the euro.

With the government serving as protector during this economic recovery period, the timing might be right for the country to adopt the euro as it gradually emerges from the recession.



The Danish organic industry is a vital contributor to the economy with a 65% increase in organic sales in the past three years. The consumption of organic foodstuff grew from a market share of 5.5% to 7.5% in 2007, while turnover increased by 33% in 2007 year-on-year. Denmark, recently chosen as the Organic Country of the Year 2009, was the first country in the world to introduce a state-controlled organic certification represented by the red Ø-label as far back as 1989.

## **Dream run comes to an end**

Denmark had been partying since economic growth gained momentum in 2004, and the upturn continued through 2006. However, the financial crisis caught up with the country in the second half of 2008. Denmark became the first European Union member technically in recession in 2008 when it announced two

consecutive quarters of negative growth, the final quarter of 2007 and the first quarter of 2008. The ending of the property boom and the collapse of global trade hit the country hard. The consumption-driven upswing slowed down, pulled down by the credit crisis, which increased borrowing costs. Strangely, the fall in GDP was not as sharp as experienced by some neighboring countries.

The country's abysmally low unemployment rate has become a thing of the past with the sharp rise in bankruptcies. Like many of its peers, the country's financial sector suffered, though it has shown signs of returning to normalcy. Profits of banks have slumped, while loan losses have surged. Tighter lending standards and low demand for credit have led to slower lending growth by financial institutions. The sharp fall in equity prices and housing downturn took a heavy toll on household incomes. Now, the mortgage debt taken by households could weigh heavily on consumption growth essential to any economic recovery. The country's economic recovery could also be hampered by the loss of competitiveness over the past few years due to rising wages. Since a jump in employment is expected to be weak due to a reduction in working-age population, the potential for the economy to expand will remain subdued for a number of years. As a result of these factors, the country's output growth has declined 1.7% on average over 2006-08 and is forecasted to fall 0.5% in 2009-10 and 1.1% between 2011 and 2017.

Encouragingly, the Danish government's policy responses were decisive and timely. The Parliament approved a government-backed crisis plan, which included an unlimited guarantee on savings deposits. Many smaller banks were bailed out and more stimulus measures have been

planned. The government also established a new process to rescue financial institutions with less capital adequacy and pumped in money to make up for the shortfall. However, an undesirable byproduct of this initiative could be that the government will end up owning significant stakes in many of the banks. The Danish government could afford to dole out these incentives only because it had large fiscal surpluses accumulated over the years, which helped reduce the country's foreign debt. To come to the aid of the average citizen, the administration has implemented huge tax cuts, which will encourage households to spend. Another initiative which will help boost household income was the release of funds from the compulsory private Special Pension scheme.

## **The Road Ahead**

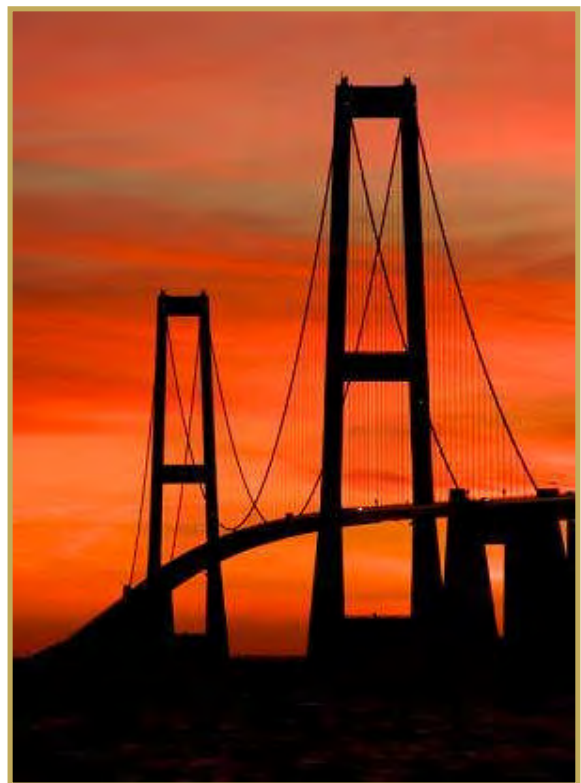
The Danish economy is experiencing one of its longest and deepest recessions. The small, open economy has been hit hard by the collapse of the world trade. Notwithstanding the government's wholehearted efforts to rev up the economy, the Danish central bank has warned the administration that it would not be advisable to consider any additional fiscal easing in light of the deterioration in public finances. The bank also called for reforms to increase the labor supply, which is a daunting proposition considering the rising unemployment. Not heeding these concerns, the government has been advocating tax cuts and increases in public spending to arrest the downturn. The Danish government has also declared its intent to launch large infrastructure projects despite the fiscal pressures.

However, the booming Danish farm sector seems to be the silver lining in the dark recessionary cloud. According to a study, the dairy industry in particular has experienced rapid growth during 2005-2009. Moreover, 148 new agricultural businesses were created in 2008, a jump of 43%.

## **Performing a balancing act**

In the wake of the recession, the government's past expansionary fiscal policies during the economic boom years of 2004-07 have come under attack. Critics are quick to point out that these policies have led to high wage growth and have resulted in a loss of export competitiveness. The Danish central bank has stated that the country's international competitiveness has deteriorated by about 25-30% since 2000. Weak growth in productivity and a strong krone exchange rate have also undermined the country's competitiveness in global trade. Adding fuel to the fire, the deterioration in public finances is more severe than the government had previously projected. The budget deficit, which currently remains at 1.3% of the GDP, is expected

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Despite the rising budget deficit, the Danish government has increased spending on major infrastructure projects.

to rise to 3.3% of GDP in 2009.

Bowing to political pressure, the Danish government has increased spending on ambitious public infrastructure projects such as a high-speed railway line between Copenhagen and Ringsted. However, the minority coalition government in power runs the risk that it will have a tough time restoring public finances once the country fully emerges from the recession. The Danish administration is also faced with the prospect of diminished revenues in the wake of shortfall in tax revenues as personal incomes shrink and corporate profits dwindle. The government may be forced to borrow more, which would lead to an increase in public debt. Thanks to years of economic prosperity, the country's unemployment rate had fallen significantly, before rising to 6.9% in October 2009 compared to a meager 3.6% a year ago. Strong wage increases during the period also undermined Denmark's international competitiveness.

Going forward, economists agree that the country is in need of labor reforms which would ensure medium-term fiscal sustainability. Labor productivity could be raised through initiatives in research and development, entrepreneurship, and product market regulation. Education has traditionally been a stronghold of the Danish economy, though the country needs to raise the contribution of human capital to productivity growth. The government should keep tabs on the high dropout rates in secondary education segment and encourage students to make the most of the training imparted to them at higher levels of study. As it emerges from the recession, the country would need to restore sustained robust growth beyond the projected cyclical recovery.

Despite getting rattled by the financial crisis, Denmark has been able to maintain its rankings in Global Competitiveness and Human Development indices. The country's unemployment rate still remains among the lowest in the European region. Denmark has the distinction of being the most networked economy, the happiest country, and the best place to do business in Europe, according to the World Bank. Its capital, Copenhagen, has been voted the most livable city and the best design city for its easy navigation and urban life-enhancing systems. For the fun-loving Danes, these accomplishments come naturally in their pursuit of *hygge*, (pronounced hoo-guh), a word roughly translated as a warm, cozy, snug and a comfortable feeling of well-being. Although reaching *hygge* is relative to an individual and it can be anything from soaking in the lightness of a chilled beer or sharing an evening by the fireside with family. Ultimately, it is a way of reaching personal peace. As a country then, Denmark has embraced *hygge* and has arrived. 

### **Thomas White International, Ltd.**

One Financial Place,  
440 South LaSalle Street,  
Suite 3900,  
Chicago, Illinois 60605.  
Email: [feedback@thomaswhite.com](mailto:feedback@thomaswhite.com)

### **Thomas White India Pvt., Ltd.**

Suite 300, 3<sup>rd</sup> Floor  
Phoenix Towers  
16/1 Museum Road  
Bangalore 560001  
Tel.: 91-80-40187777

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