

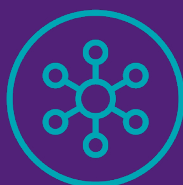
New globalisation: reshaping supply chains and evolving trade routes

2022





Against a backdrop of rising inflation, a talent war, political upheaval and economic contraction, the mid-market is maintaining optimism over export growth. But is that optimism justified, and what can mid-market businesses do to weather rising economic uncertainty?



Trend 1:

Appetite for international expansion remains strong within the mid-market

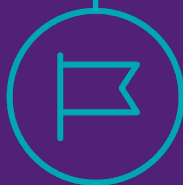
Business leaders could be forgiven for taking a cautious approach to international trade. Ongoing conflicts, including Russia's invasion of Ukraine, have resulted in growing international sanctions and redrawn political alliances leading to reshaped trade routes. Combined with the differing degrees to which various regions are (or are not) overcoming the pandemic, this makes a 'wait and see' approach look like good business sense.



Trend 2:

Global trade routes and supply chains are reshaping along geographic and political lines

These fundamental shifts in the global landscape are contributing to rising economic uncertainty with Grant Thornton's latest International Business Report (IBR) showing that 63% of respondents cite economic uncertainty as a major constraint to growth, closely followed by energy costs (62%) and labour costs (57%). The IBR, which spans 28 countries and has monitored mid-market business opinion for over a decade, also shows that with historically high inflation and recession anticipated in many countries, these businesses around the world are rapidly reassessing their expansion plans.



Trend 3:

International plans and pressures differ markedly across regions



Trend 4:

Inflation is still rising. Mitigating its impact is central to international success



Trend 1:

Appetite for international expansion remains strong within the mid-market

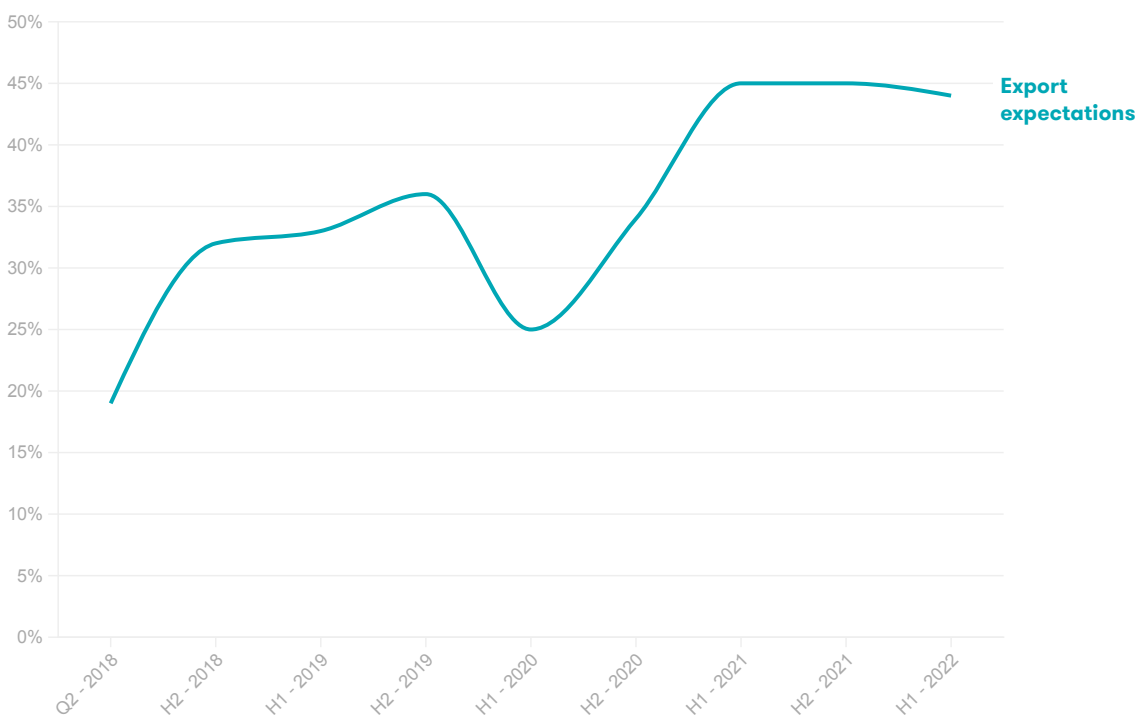
Despite the uncertainty, the IBR shows export expectations remain near record highs, with nearly half (44%) of respondents anticipating increases in the next 12 months globally. Likewise, 42% expect to increase both their international revenue and the number of countries they sell to.

“But building a sustainable long-term strategy requires a clear understanding of the different dynamics in each market. Those dynamics might be the regulatory environment, a different business culture, or how to access funding to launch in a new

market, but businesses need to make sure they understand the whole picture and how best to execute their plans, despite the current challenges.” says Peter Bodin, global CEO at Grant Thornton International Ltd.

One challenge is the volatility in foreign exchange markets, which impacts supply chain costs and then profits when trading in weakening currencies. When countries increase interest rates to manage inflation, foreign currency pours in, and exchange rates rocket.

Percentage expecting a rise in global exports in next 12 months, 2018-2022



“Whether the drive to expand into new markets is by design or out of necessity due to geopolitical factors beyond their control, international expansion for the mid-market has definitely shifted a gear as companies continue to seek new sources of revenue.”

Peter Bodin, global CEO at Grant Thornton International Ltd

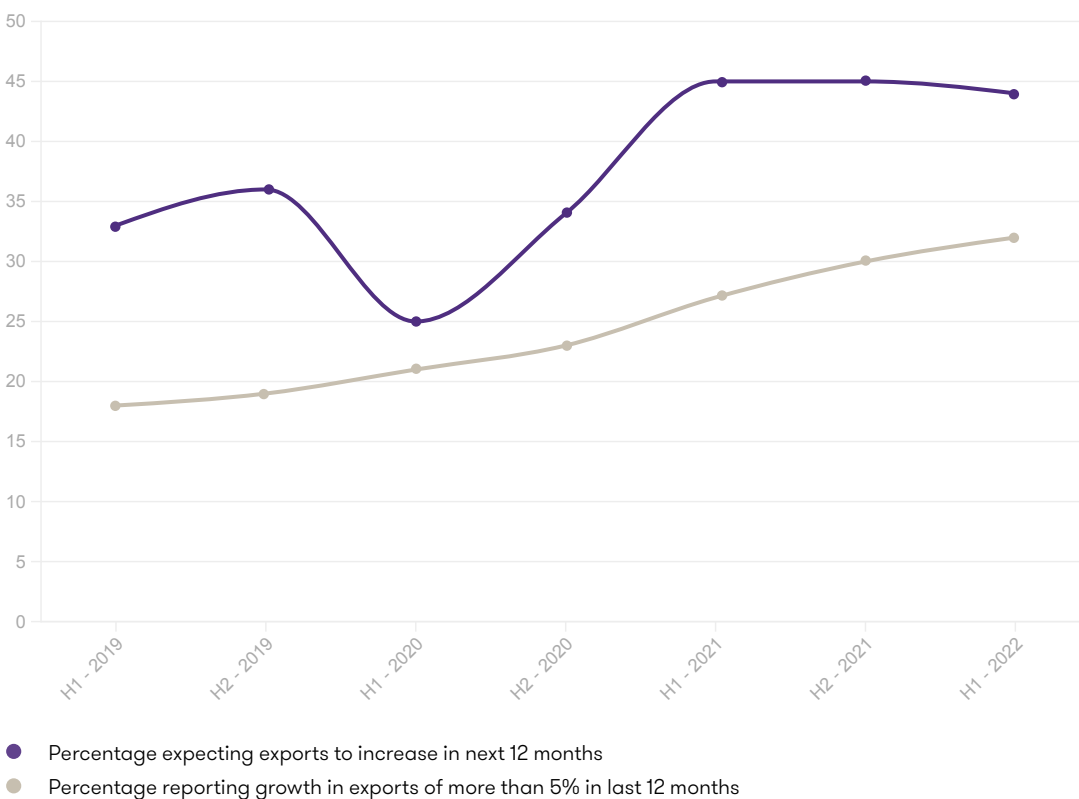


“In Brazil, it’s a favourable time for exports, because the dollar is overvalued compared to our national currency, but for importers, this is a challenge. Businesses must try to find cheaper partners or local suppliers to help increase prices without reducing quality.”

Glória de Lucena Ribeiro, partner and IBC director at Grant Thornton Brazil

IBR data reveals that 58% of mid-market businesses globally expect to increase revenues over the next 12 months with exports playing a key role – as noted above. Businesses are also channelling more resource to international expansion, with 73% intending to increase or continue with the ratio of employees focused on international markets. But that buoyant view may yet change. Much like in the pandemic, a new form of globalisation is still emerging and businesses will have to continue to map it, understand it and learn how best to manage it.

Future export expectations compared with actual levels of growth, 2019-2022





Trend 2:

Global trade routes and supply chains are reshaping along geographic and political lines

Although business leaders anticipate increased international activity, the mid-market isn't expecting business as usual. Our IBR data shows many markets are shifting from their traditional trade routes, for several reasons.

We see Sweden leaning towards trade with EU compatriot Germany, having previously prioritised the US. Meanwhile, Japan is choosing the US and south-east Asia over China, ranking political affiliation over proximity. Australia is cooling off on New Zealand as its immediate growth priority to create bonds with Canada, strengthening its G20 and NATO connections.

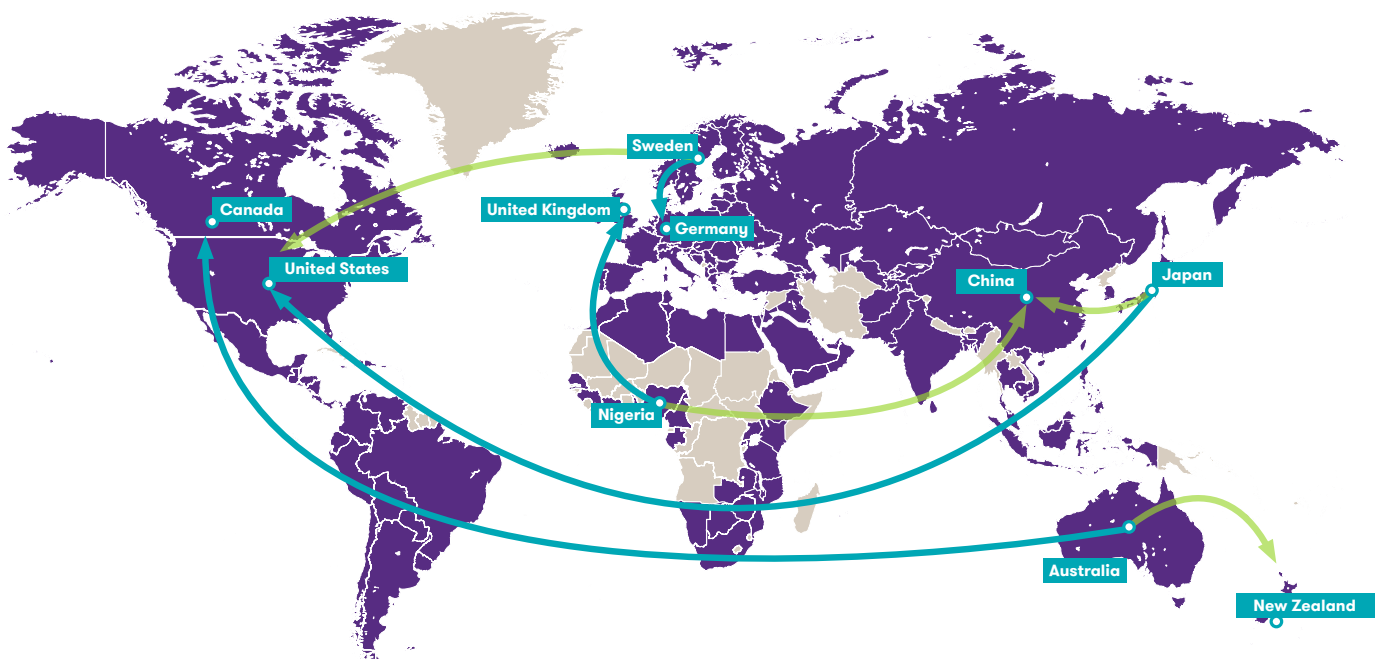
“Japanese companies, for example, are relocating manufacturing from China to South East Asia where cost is still relatively competitive compared to local prices in Japan. Maybe not as low as China, but there's a lot more security and confidence in the supply chain operating in those jurisdictions.”

Scott Farber, network capabilities team regional head for the Americas, Grant Thornton International Ltd

Key changes in top country destinations for sales growth in next 12 months

Please follow [link](#) to full interactive version of the world map.

- H2 - 2021
- H1 - 2022



Supply chains are also reshaping, as new deals are struck along political lines, and companies prioritise contracting with known, trusted suppliers. This new version of globalisation places greater value on political certainty.

As a result, companies are reducing risk in their supply chains. There is also scope to improve resilience, flexibility and sustainability of supply chains by setting up more local manufacturing hubs.

“At a global macro level, we are seeing businesses valuing resilience far more highly than they used to. They’re ‘friendshoring’; going to sympathetic countries that are more palatable to stakeholders.”

Oliver W Bridge, head of operational consulting at Grant Thornton UK

However, international alliances still need to make commercial sense, and not all businesses have the luxury of changing where they can afford to go for the materials, products, services and sales they need.

“It differs by sector. Aviation, automotive and other large production and asset intensive sites have a bigger challenge to localise than some other sectors, such as healthcare,” says Monique Pisters, tax partner and IBC director at Grant Thornton Netherlands.

In Brazil, Glória is still seeing optimism among clients considering new international relationships. As well as the traditional markets of the US, China and Argentina, Brazil is looking to Europe to trade. “Germany and the Netherlands are important countries for Brazil’s import and export”, she says.





Trend 3:

International plans and pressures differ markedly across regions

Our IBR data suggests that regions are responding differently, depending on local political, social and economic views. This creates a more nuanced picture of broader global trends.

In Latin America, inflationary pressures are hitting hard. “Inflation in Brazil is high, at around 12% in the last 12 months. In Argentina, it’s around 6% monthly. Chile has very high inflation right now. Prices are increasing and salaries cannot keep up,” reports Glória.

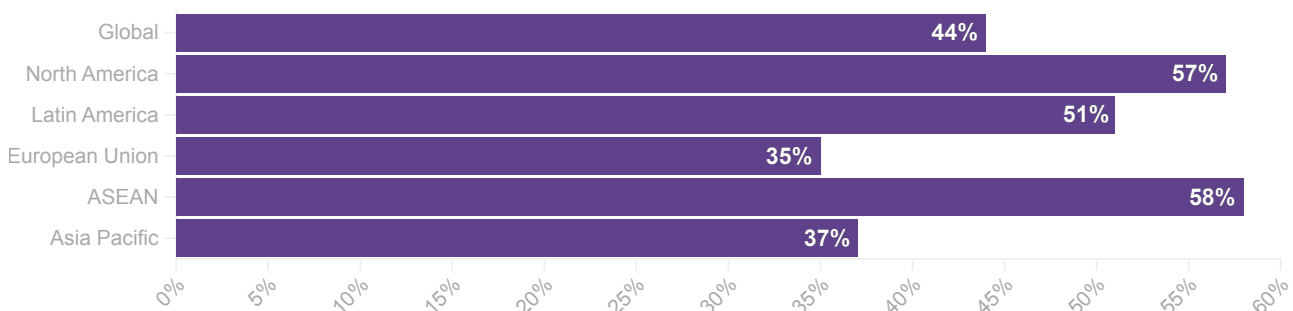
“Companies are seeing a reduction in margins. They are fighting to be competitive, but it’s very challenging. It’s hard to navigate in a world with such high inflation rates. It’s also very expensive to get money in terms of bank loans.”

In the EU, there’s more caution. “I see some moderate optimism, but mostly people feel we will be facing economically tougher

times in the coming period, with a mild recession in late 2022 and early 2023,” says Monique. “People and businesses face high inflation that will most likely suppress domestic and foreign investment.”

North America appears largely insulated from the politically driven challenges facing the EU, although this may change if more trade sanctions are imposed. “I can’t recall a time where there’s been so many different, variable factors in play. We’re just coming out of Covid, then you have the Russia-Ukraine conflict, which really drove up energy prices, and we’ve had the great resignation, causing a strain on employment. There’s a lot of different pressures, most recently inflation and interest rates,” says Luciano Centanni, audit partner and IBC director at Grant Thornton LLP in the US.

Differences in export growth expectations by major regions, latest wave*



*Percentage expecting exports to increase in next 12 months

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Trend 4:

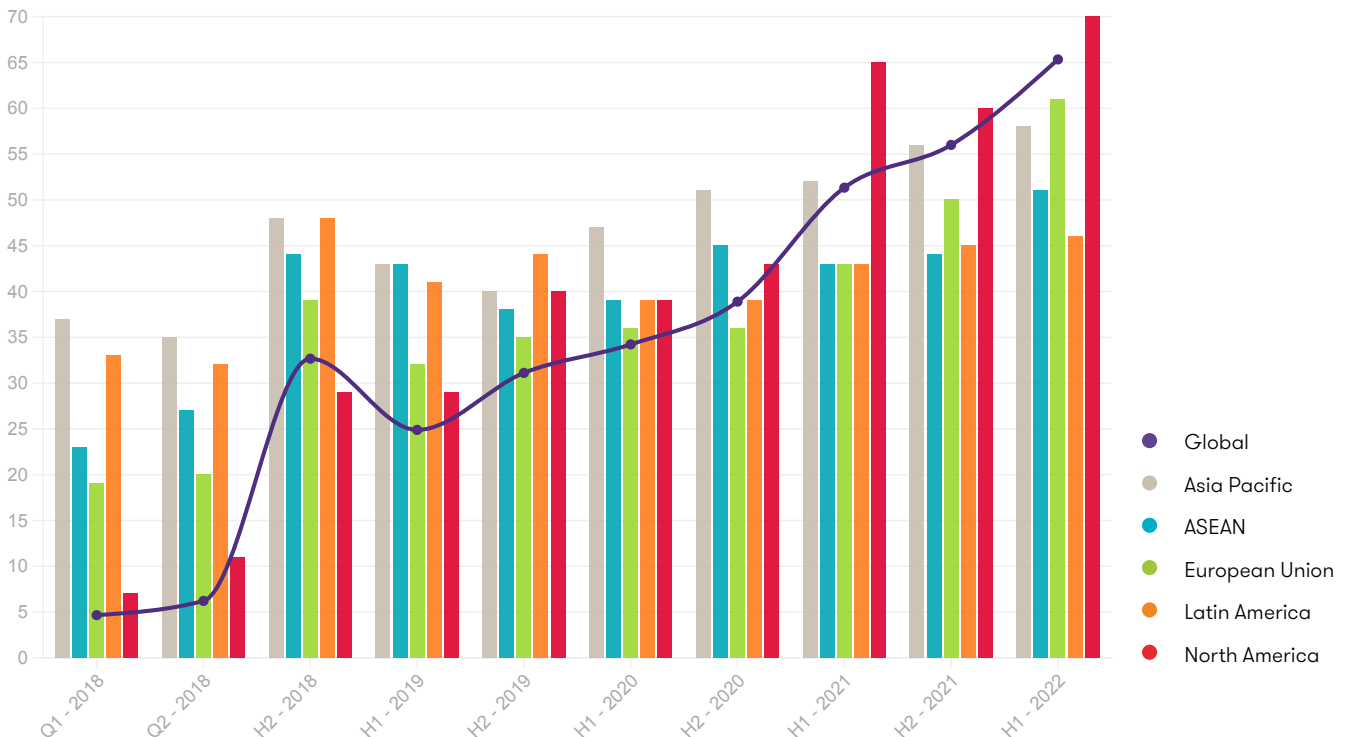
Inflation is still rising. Mitigating its impact is central to international success

Since the last time we conducted this research, the real effects of inflation have taken hold, with businesses seeking to mitigate rising costs. More than half (53%) of International Business Report respondents predict an increase in their selling prices over the coming months. “Many of my clients have been able to pass costs for both labour and materials on to customers by raising prices, because the demand has still been strong, but at some point, the demand might weaken,” warns Luciano “Companies need to brace themselves for that.”

While we have seen a sharp spike in concerns about energy costs recently (see below), inflation will eventually fall, and businesses that act intelligently through the intervening period will be well placed to take advantage when prices normalise.

“In building resilience, there are lessons that can be drawn from how businesses responded to Covid-19,” says Dave Munton, global head, international business support for Grant Thornton International Ltd. “It’s about scenario planning, doing the basics well, building resilience and not taking too many risks. Businesses need to do less, better.”

Percentage identifying energy costs as a key constraint



For advice on countering the impacts of inflation, take a look at the Grant Thornton inflation action plan.

Find out more at: grantthornton.global/en/insights/articles/all-rise-actions-to-take-now-to-counter-inflation/



For bespoke advice and support on preparing for, and thriving through, ongoing economic uncertainty, consult your **local GT agent**

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Methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 5,000 senior executives biannually in listed and privately held companies all over the world. Launched in 1992 in nine European countries, the report now surveys around 10,000 business leaders in 28 countries on an annual basis, providing insights on the economic and commercial issues affecting the growth prospects of companies globally.

The findings in this report are drawn from around 5,000 interviews and surveys conducted between May and June 2022 with chief executive officers, managing directors, chairs, and other senior decision-makers from all industry sectors in mid-market businesses in 28 countries. The definition of mid-market varies across the world: in mainland China, we interview businesses with USD 5 million to USD 500 million in revenue; in the United States, those with USD 100 million to USD 4 billion in annual revenues; in Europe, it is commonly those with 50 to 500 employees.

We have rounded the percentages and data points explored in this report to the nearest whole number. For this reason, some charts may not total 100%.



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