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## Swedish economic integration into the European Union as a latecomer: Policy recommendations for Asian economic integration

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**ADB Working Paper Series**

**SWEDISH ECONOMIC INTEGRATION  
INTO THE EUROPEAN UNION  
AS A LATECOMER: POLICY  
RECOMMENDATIONS FOR ASIAN  
ECONOMIC INTEGRATION**

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**Abstract**

Sweden became a member of the European Union (EU) in 1995. Since then, she has been integrated into the EU's internal market under the Single Market Programme (SMP). Before Sweden's accession to the EU, she was a member of the European Free Trade Association (EFTA) signed with the EU in 1972. Later, Sweden signed to become a member of the European Economic Area (EEA) in 1992, which ensures participation in the SMP for nations that are not members of the EU. Despite her long membership, the twin faces of a Euro outsider still exist in public opinion. It is divided on the issue of further European integration. Her position has faced highly skeptical EU public opinion, particularly in the Economic and Monetary Union (EMU). Moreover, her positioning as a euro outsider has been perceived by the euro member nations as that of a selective supranationalist despite the desire of the Swedish government to build a good European nation with a mixed policy portfolio. The Swedish economy has benefited since its full accession to the EU compared with the EEA. This paper discusses whether the Swedish EU membership has contributed to the economic integration with the EU positively or not. Furthermore, it analyzes which actors have been the biggest winners and losers from the full accession to the EU. Last but not least it also investigates the challenges and prospects for the Swedish economy in the near future.

**Keywords:** economic integration, single market, trade, FTA, EU, EMU

**JEL Classification:** F15, F16

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# 1. INTRODUCTION

The process of European integration has lasted more than half a century since the Treaty of Rome in 1958. The core motivation of European integration, which stems from the Second World War, is the prevention of war in the European continent. It started for political and security reasons. Nevertheless, its economic benefits have always been the most important issue for all member nations. Therefore, there have been extensive debates about the economic benefits generated by the process of European integration, which are measured by economic growth, productivity, trade liberalization, the single market, the common currency of the euro, etc. In reality, however, it is an extremely difficult challenge due to endogeneity problems, omitted variables, measurement errors, etc. (Martin, Mayer, and Thoening 2012; Campos, Corricelli, and Morretti 2013).

So far, the European Union (EU) has created the most advanced regional economic integration in the world. It is absolutely true that the Single European Market (SEM) is regarded as the core architecture of European economic integration. The EU adopted the Single European Act (SEA) in 1986 and created the SEM. It enabled the free movement of people, products and capital in the European Economic Area (EEA) to be guaranteed. The EU has continuously been modified to develop its economic structure since it was launched as an economic union in 1993. As a result, all member nations have agreed that the SEM has generated substantial positive economic growth effects, although the EU's target predicted by the Cecchini Report in 1988 has not been met (Vetter 2013; Park 2017).

More than two decades has passed since Sweden became a member nation of the EU in 1995. Since then, she has been integrated into the EU's internal market under the SEA. Before her accession to the EU, the process of Swedish economic integration into the EU market was composed of three different stages. The first stage was to establish a bilateral free trade agreement (FTA) with the European Economic Community (EEC) in 1972. The second step was that the Swedish economy was included in the European Economic Area (EEA). The EEA was an agreement ensuring participation in the Single Market Programme (SMP) of the European Community (EC) for nonmember nations. In 1992, Sweden signed an agreement to join the EEA, and this came into force in 1994. Last, Sweden became a full member of the EU in 1995 when the EU implemented its third enlargement (Murayama 2017).

As Sweden became a member of the EU, the regionalism in Europe was overwhelmed in the 1990s and this turned to federalism in the 2000s. It was a totally different economic and political situation compared to the EU skepticism in the 2010s. Under the overwhelmed regionalism, Sweden decided to participate in the EU and its public opinion was divided between those who were pro the EU and those who were anti it. In fact, Swedish participation in the EU was based on a marginal vote in a membership referendum in 1994 with 52% voting yes and 47% no (Petersson 2000; Statistics Sweden 2007).

The accession of the Swedish economy to the EU was mainly based on the national economic interests, particularly for large-sized companies operating globally and playing important roles in the Swedish industry. It was an inevitable choice for Sweden as a small-sized nation within Europe to become a full member of the EU in order to expand its market because the EU as an economic union excludes nonmember nations from all economic benefits. This means that the EU is regarded as a process of protecting its internal market from outsiders and has thus become a members-only economic club. It is the reason why other nations such as Austria and Finland became members of the EU along with Sweden during the third enlargement of the EU.

Although Sweden became a member of the EU, it rejected the proposed membership of the eurozone in the referendum in 2003. Since then, she has developed a twin-faced strategy of being an outsider, yet also on the inside in order to implement its European economic integration. As regards membership of the eurozone, the Swedish public was considerably more cautious than the elite group, and this has lasted until now due to the global financial crisis in 2008 and the EU's sovereignty debt crisis in 2010/11. This paper will look at the economic benefits for the Swedish economy after its full accession to the EU. It also illustrates the impacts of the EU on the Swedish economy and answers the question of why Sweden became a member of the EU.

The research motivation for choosing Swedish economic integration into the EU is crystal clear. The Swedish case has positive implications for Asian economies in general, and latecomers and relatively small economies joining the Asian economic integration process in particular. The Swedish integration into the EU indicates that a nation possessing a strong industrial competitiveness can generate more economic benefits than others that are less industrially competitive in the process of economic integration.

## **2. THEORETICAL DEBATES ON INTERNATIONAL ECONOMIC INTEGRATION**

The notion of international and regional economic integration means that economic integration is a process of removing discriminations in markets taking place at the national level. It ends discrimination between economic actors. Economic integration is the creation of the most desirable structure for the international economy that removes all artificial hindrances to the optimal operation and introduces all the desirable elements of coordination. Countries participating in the process start from a free trade zone that is rather a simple form of economic integration. Later they implement more advanced forms such as a customs union, a common market, and an economic union. In practice, however, the sequence of process in economic integration does not always occur because the achievement of the final stage needs a high level of political integration that causes a loss of sovereignty in the member nations (Tinbergen 1954; Balassa 1961; Hosney 2013; Park and Pasierbiak 2018).

Countries participating in economic integration must consider the benefits and costs of the process, which are not only based on economic but also political and social perspectives. In economic terms, benefits must be larger than costs. However, it is also worth emphasizing that an efficient integration process requires a fair division of political and social benefits and costs between member nations. Based on the economic sphere, the benefits of economic integration are regarded as a growth of trade turnover among the member nations in the short run, while they rely on increasing production and improving productivity in the long run. This results in economic growth among the member nations. When implementing the integration process, a reduction of barriers enables wider openness among member nations to foreign companies, which leads to increased competition and efficiency. Furthermore, a larger market attracts new business activities, including investment, and existing companies make a greater effort to compete with foreign companies. As a result, it increases productivity and allocates resources and technology transfer efficiently, which generates a positive effect on the demand side and wealth among the member nations (Molle 1990; Siddique 2007).

Theories of economic integration discuss the benefits and costs of regional economic integration and also explain the effects of integration. The traditional economic group presents a model for free trade and estimated welfare gains that reduces or eliminates

trade barriers. It is a static approach based on the short term. The dynamic economic group takes into account the ever-changing economic conditions so that free trade generates societal benefits through gaining quality and variety. It also strengthens industrial competitiveness through technology transfer and innovation. It is a dynamic approach based on the long term (Bhagwati and Panagariya 1996; Krugman 1979; Krugman and Obstfeld 2009; Broda and Weinstein 2006).

This study adopts a dynamic model rather than a static model because the former can explain the long-term benefits of free trade more precisely than the latter. Moreover, the dynamic model based on long-term efficiency gains and economic growth can be emphasized in order to justify Swedish economic integration into the EU. It can also be adopted to Asian economies for implementing a regional economic integration.

### **3. SWEDISH ECONOMIC INTEGRATION INTO THE EU**

#### **3.1 Background**

Sweden was a latecomer in the industrialization process in Europe that started at the end of the 19th century. It began with a complete transformation from an agrarian society in the 19th century to an industrialized nation in the early 20th century. Sweden's industrialization process presents a classic course based on the movement of labor forces from the countryside to the urban areas for industrial development that generated a rapid economic growth. As a result, Sweden became a new urbanized, industrialized, democratized, and modernized nation (Rojas 2005).

In terms of economy, Sweden is a small country and has been open to foreign influences. Therefore, it relies heavily on the world economy. Accordingly, successive economic structural changes generated high economic growth at the end of the 19th century and during the 20th century. In particular, the hundred years from the 1870s to the 1970s was the most successful period for Swedish industrialization and economic growth because the Swedish economy had been integrated rapidly into the European and world economies based on free trade. The average economic growth rate was 2.4%, which was higher than in Western Europe and the US. During this period, only Japan performed equally well. From the 1970s to the middle of the 2000s, Swedish economic growth started to slow down compared with that of Western Europe, the US, and Japan. However, it increased again from 2006 and its growth rate from 2006 to 2018 was higher than in any other industrialized nations in the world. As a result, Sweden became one of the highest-income nations in Europe and the world in the 1970s having been one of the poorest nations in Europe in the 1870s (Maddison 2006; Krantz and Schön 2007; World Bank 2001, 2020; Lobell, Schön, and Krantz 2008) (see Table 1).

The Swedish economy was severely hit by the two oil crises in the 1970s, which caused an economic stagnation in the 1980s. In order to overcome this economic stagnation, the Swedish government carried out several reforms in the 1980s and 1990s, including financial, taxation, and welfare reforms. Since the 1960s, Sweden has been involved continuously in economic cooperation with European countries as a member of the European Free Trade Association (EFTA), which she joined in 1960, and the European Union (EU) from 1995.



**Table 1: Average Economic Growth Rate in Various Industrialized Nations and the World Economy (1871–2018)**

Year	Sweden	Rest of Western Europe	US	Japan	World Economy
1871/1875–1971/1975	2.4	1.7	1.8	2.4	1.5
1971/1975–2001/2005	1.7	1.9	2.0	2.2	1.6
2006–2018	1.98	1.02	1.55	0.52	2.18

Source: Maddison (2006); Krantz and Schön (2007); World Bank (2001, 2020).

### 3.2 Process of Economic Integration into the EU

The Swedish economy was on a growth trajectory after the Second World War because the demand for reconstruction in Europe was very high. Compared to other European countries, Sweden did not suffer from the war because of its political stance as a neutral country along with Switzerland. As a result, it enjoyed a booming economy in the 1950s and 1960s. During this period, Swedish companies obtained a better position in terms of technological competitiveness and forged ahead, which speeded up the pace of industrial structural change in the economy. In addition, new conditions had arisen during the rapid economic growth. It required profound adaptation, renewal of entrepreneurial activity, and new economic policies (Lobell, Schön, and Krantz 2008; Murayama 2017).

After the Second World War, the “inner six” nations, namely France, Germany, Italy, and the three Benelux countries (Belgium, the Netherlands, and Luxembourg), created the European Coal and Steel Community (ECSC) to regulate their industrial production under a centralized authority, which was formally established in 1951 by the Treaty of Paris. The ECSC was the first international organization based on the principle of supranationalism. It started the process of formal economic integration that led to the ECC, the EC, and ultimately the EU more than four decades later (König 2014).

As a response, the “outer seven” nations, namely Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the UK, created their own economic cooperation mechanism established by the EFTA in 1960. The EFTA member nations generated high economic growth based on the framework of their economic cooperation in the 1960s, while the EEC member nations continued their economic integration process and upgraded their level to the Common Market in 1967 and built the EC. This meant that the EC expanded faster than the EFTA and built a higher economic integration than the EFTA. The rapid and comprehensive policy of trade liberalization generated high economic growth, particularly in the 1960s in the context of both the EC and the EFTA. It is worth noting that the process of European economic integration has progressed and never reversed since the 1950s. Moreover, both the EC and the EFTA memberships generated a positive and significant effect on economic growth. Therefore, regional economic integration affects not only resource allocation but also the long-run growth rate (Campos, Corricelli, and Morretti 2013).

In the 1970s, the Swedish economy started to slow down. The economic growth of other nations declined in the 1970s only in relation to growth rates in the high economic growth period after the Second World War, while Swedish economic growth fell clearly below the long-run economic growth trend, which was very low even at international level. This meant the end of the growth trajectory for the Swedish economy. At the same time, new growth forces emerged with electronic technology and the advance of a more service-oriented economy. This structural change damaged the Swedish economy more than other economies, particularly in Europe. Therefore, Sweden was forced to transform its industrial structure and political economy in the 1970s and 1980s more profoundly than

in most other Western countries. As a result, the total factor productivity (TFP) played a more important role in the economic growth during this period. At the same time, the growth in TFP increased continuously and the role of labor in the economic growth declined heavily from the middle of the 1970s (Lobell, Schön, and Krantz 2008; FRED Economic Data 2020) (see Table 2).

**Table 2: Contribution of Total Factor Productivity in Economic Growth and Its Growth Rate (1870–2017)**

Period	TFP Growth (%)	Capital	Labor	TFP
1870–1910	0.7	50	18	32
1910–1950	1.0	39	24	37
1950–1975	2.1	45	7	48
1975–2000	1.0	44	1	55
2000–2017	0.93	42	1	57

Source: Krantz and Schön (2007); FRED Economic Data (2020).

Furthermore, the Swedish economy was hit by the two international oil crises during the 1970s and was damaged heavily because its main industries were steel and shipbuilding, which were sensitive to the high energy costs. The Swedish government supported major companies with subsidies in order to overcome the crises. However, the Swedish economy was unable to recover fully. In addition, Denmark and the UK withdrew from the EFTA and joined the EC in their national economic interests at the beginning of the 1970s, which contracted the market of the EFTA. As a result, the remaining member nations of the EFTA concluded bilateral FTAs with the EC in 1972. The Swedish economic recovery took longer than expected and continued into the 1980s, which resulted in several reforms in the 1980s and 1990s, including financial, taxation, and welfare reforms.

After the reforms, the Swedish economy recovered at the end of the 1980s and generated successive economic growth again, which led to an economic boom from 1987 to 1990 as well as a lending boom from the financial institutions. The Swedish economy peaked in 1990. However, this positive economic environment turned to negative growth between 1991 and 1993 and Sweden faced a severe economic crisis caused by the banking crisis in 1991. During this period, the economic integration between Sweden and the EU changed rapidly as well. In 1992, the agreement on the EEA was completed and it came into force in 1994. A year later, Sweden joined the EU, instigating its third enlargement after deepening its single market policy substantially (Englund 2015; Campos, Corricelli, and Morretti 2013; Murayama 2017).

### 3.3 Reasons for Economic Integration into the EU

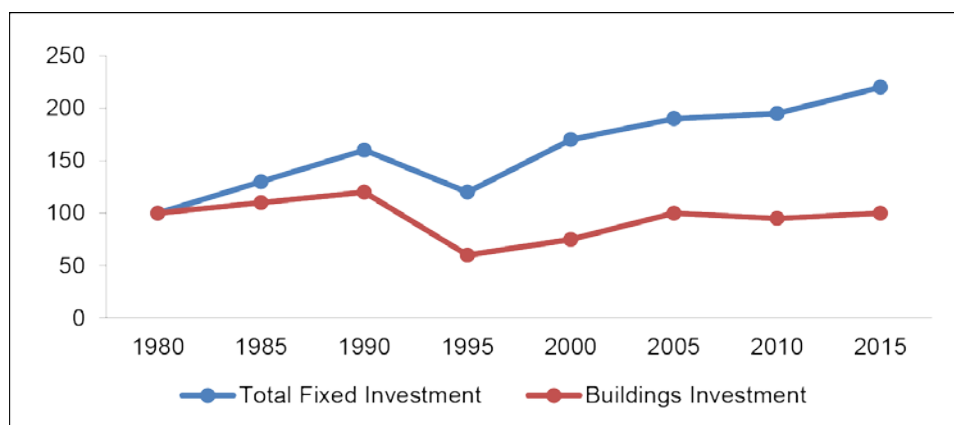
The Swedish economic integration into the EU comprised three stages, namely the Sweden EEC FTA, the EEA, and EU membership. The Sweden EEC FTA was to build a pure free trade area (FTA) between the two economies that was the loosest economic integration and dealt basically with the movement of products. In the FTA, a common trade policy towards external trade was not possible, but the discretionary imposing of tariffs remained. Additionally, rules of origin were introduced in order to prevent possible cheating on tariffs while trading. The main reason for the Sweden EEC FTA was based on the trade strategy of both sides aimed at increasing their exports. In particular, the Swedish economy has been heavily dependent on trade because its internal market is

extremely small. The EEC was a larger market than the EFTA for Sweden. Therefore, the Sweden EEC FTA was needed.

Despite the Sweden EEC FTA in 1972, the Swedish economy had entered a phase of slow and difficult growth by the middle of 1970s. It was obvious that the Swedish economy had started to lose ground to other industrialized nations. This economic slowdown continued in the 1980s and became an economic stagnation. This motivated the Swedish government to implement several economic reforms, including financial reform, taxation, and the welfare system in the 1980s and 1990s. Among these, the financial reform was based on the deregulation of the capital market, which led to the liberalization of the markets. Since the 1970s, many industrialized nations had carried out processes of liberalization of the financial market, and the Swedish financial market could not ignore such a global market trend because of increasing globalization of its economy. In order to minimize the negative effects of the market liberalization, the process started gradually in the 1970s and 1980s as active markets started to develop and regulations were modified. Finally, in the mid-1980s, regulations were largely abolished (Rojas 2005; Englund 2015; Murayama 2017).

Financial deregulation caused domestic credit expansion, which led investments into the real estate market due to the lending boom. After the currency regulations were fully abolished in 1989, the deregulation stimulated bank lending and increased credit market competition. In order to counter these effects, the Swedish central bank (Riksbank) increased the cash reserve requirement for banks from 1% to 3% without changing monetary and fiscal policy. As a result, the financial institutions, such as banks, mortgage institutions, finance companies, etc., entered a new environment to compete freely on the loan market. After the peak of economic growth in 1990, the economic boom turned into an economic contraction, which led to the bankruptcy of some banks due to nonperforming loans. In addition, the Swedish currency crisis in 1992 affected the national economy negatively, and the fixed exchange rate policy was abandoned (Jennergren 2002; Rojas 2005; Englund 2015) (see Figure 1).

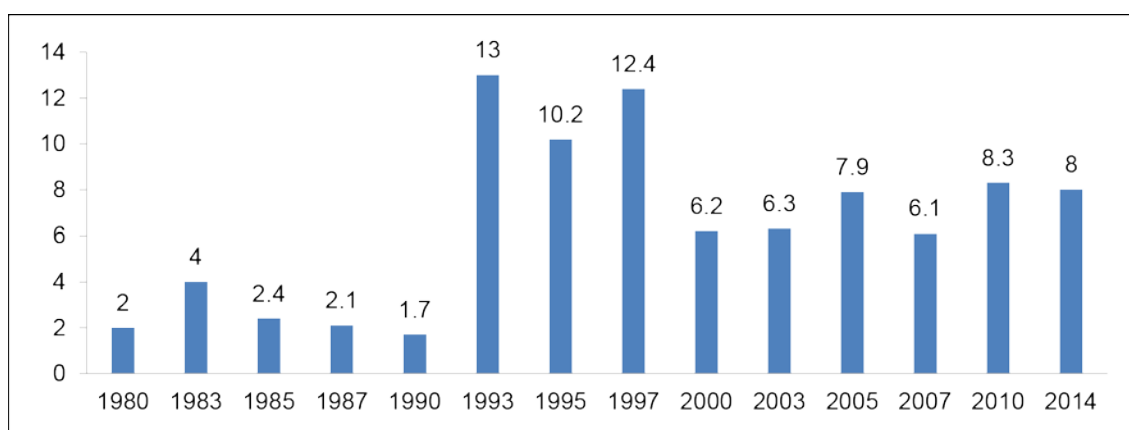
**Figure 1: Total Fixed Investment and Buildings Investment Based on Fixed Prices in 1981**



Source: Statistics Sweden, National Accounts, 1980–2015.

The Swedish economic crisis caused by the currency crisis was the worst crisis since the Great Depression in 1929/30. Owing to the economic crisis, more than 500,000 jobs were lost between 1990 and 1994, which represented about 10% of the total workforce. As a result, the unemployment rate rose from 1.7% to 12.6% in the same period. The economic crisis began in the private sector. However, it spread rapidly to the public sector because weak tax collection deepened the crisis. The unemployment compensation and other social benefits paid by the government increased rapidly, while tax revenue declined. As a result, public spending hit a record high of 72.8% of GDP, and public deficit accounted for 12.3% of GDP in 1993. However, the government could not raise the tax rate because it had already reached high levels before the crisis. Overall, it damaged the Swedish economy heavily, which resulted in a negative economic growth from 1991 to 1993 (IMF 2015; Rojas 2005; Murayama 2017) (see Figure 2).

**Figure 2: Unemployment Rate in Sweden between 1980 and 2014**



Source: IMF, World Economic Outlook database 2015.

In order to overcome the economic crisis, the Swedish government completed the agreement of the EEA in 1992 that enabled a closer economic integration into the EU than the Sweden EEC FTA. The agreement of the EEA came into force in 1994 and allowed the Swedish economy to gain access to the EU's single market governed by the same basic rules. These rules aim to enable free movement of labor, goods, services, and capital within the EU, including the freedom to choose residency within any EU member nation, although there are limited opportunities to cooperate with the EU compared with the EU member nations. Despite this limitation, the Swedish private sector became competitive by implementing deregulation processes. So Sweden became a member of the EU a year later. Sweden's entry into the EU in 1995 resulted in lowering tariff barriers between Sweden and other EU member nations, which increased competition from abroad. It enabled Swedish companies to boost their efficiency and strengthened their competitiveness in the EU market (EFTA 2017; McKinsey Global Institute 2006; Noren 1994) (see Table 3).

**Table 3: Areas of Cooperation between EEA Agreement and EU Membership**

Areas	EEA Agreement	EU Membership
Free movement of goods, services, capital, and people	Yes	Yes
Elimination of technical barriers	Yes	Yes
Common competition law	Yes	Yes
Access to government procurement	Yes	Yes
Common rules for state aid	Yes	Yes
Participation in the SME program of the EU	Partly	Yes
Abolishment of border control	No	Yes
Participation in VAT operation of the EU	No	Yes
Customs union	No	Yes
Common trade policy	No	Yes
Common regional policy	No	Yes
Common agricultural and fishery policy	No	Yes
Participation in environmental policy of the EU	No	Yes
Economic and political cooperation	No	Yes
Participation in institutions and decision-making organizations of the EU	No	Yes

Source: Noren (1994).

The international political situation also influenced Swedish accession to the EU. The end of the Cold War changed the political landscape fundamentally at the end of the 1980s. In particular, Europe was experiencing political turmoil with the collapse of the Soviet Union and Eastern European countries, German unification, etc. Under these circumstances, Sweden's traditional policy of being a neutral nation was not a sufficiently good reason for being outside of the EU. Furthermore, Sweden took into account the possible membership of transition countries due to the EU's enlargement policy in the 1990s. At the same time, Swedish trade was highly dependent on the EU market. Therefore, public opinion turned toward accession to the EU. Despite the positive public opinion of the EU, the Swedish internal Euroskeptic political arena continued with its pro EU membership but anti euro positioning towards the EU, which was the twin faces and a selective supranationalist mixed policy portfolio (Alvstam 2015; Beiler 2000; Lindahl and Naurin 2005; Miles 2011).

## 4. ANALYSIS OF THE SWEDISH ACCESSION TO THE EU

### 4.1 Cost Analysis

The costs of the EU Single Market are mostly due to overregulation, inefficient bureaucracy, and deficient allocation of tasks among the administrative levels in the EU's federal system. This leads to direct costs for companies of the member nations. Moreover, the market opening increases adjustment costs for member nations. These burden in particular less competitive companies more than their foreign rivals. Standardized regulations in the EU are able to simplify many national administrative matters and many of them have been abolished. Certainly, the ESM has caused additional bureaucratic and regulatory costs. Despite the additional costs, it is fully

dependent on how efficiently a national administrative system operates and how a member nation adapts to the transfer of the competences in the EU (Park 2017).

It was estimated in 2005 that the total administrative costs for companies in the EU accounted for around 3.5% of the EU's total GDP, with member nations' specific differences among the various member nations. The share of some member nations with efficient regulations such as Finland, the UK, and Sweden was only 1.5% of their GDP, while it was over 5% in most of the Eastern European member nations. This means that Sweden belonged to the most efficient group among the EU member nations, and the administrative costs after their accession to the EU were the lowest in the EU. The less competitive member nations and regions were supported by the EU Cohesion Fund in order to lessen the negative effects of liberalization in the ESM (Kox 2005; Vetter 2013) (see Table 4).

**Table 4: Administrative Costs by Member Nations in Share of GDP  
(as of 2005, %)**

AT	BL*	CZ	DE	DK	ES	FI	FR	UK	GR	HU
4.6	2.8	3.3	3.7	1.9	4.6	1.5	3.7	1.5	6.8	6.8
IE	IT	NL	PL	PT	RE**	SK	SI	SE	EU	
2.4	4.6	3.7	5.0	4.6	6.8	4.6	4.1	1.5	3.5	

Notes: AT (Austria), CZ (Czech Republic), DE (Germany), DK (Denmark), ES (Spain), FI (Finland), FR (France), UK (United Kingdom), GR (Greece), HU (Hungary), IE (Ireland), IT (Italy), NL (Netherlands), PL (Poland), PT (Portugal), SK (Slovakia), SI (Slovenia), SE (Sweden); \* BL combines Belgium and Luxembourg; \*\* RE combines the Baltic member nations, Malta and Cyprus.

Source: Based on Kox, Intra EU Differences in Regulation caused Administrative Burden for Companies, CPB Memorandum 2005.

In addition to the administrative costs in the ESM, local incumbents having market power, local regulations, weak connected infrastructures, subsidies, language and local barriers, and significant asymmetries of information among market players generate additional costs. Due to these costs, a majority of companies in the EU cannot participate actively in the internal market. Many Swedish companies are not exceptional, although the Swedish industry and workforces are comparatively competitive in the EU market compared to those of other member nations. This shows that the Single Market integration is still regarded as below standard despite the comparatively low additional cost to the Swedish economy as a whole (Mayer and Ottaviano 2007; Pelkmans 2012).

Sweden is used to maintaining a higher standard of welfare system than those of the EU member nations. In addition to the welfare system, the standard of the Swedish labor market environment has been higher than in the other EU member nations. Therefore, the accession to the EU has not caused additional costs in these areas. However, the global financial crisis (GFC) in 2008 and the euro crisis caused by the sovereignty debt crisis in 2010/2011 hit the Swedish economy negatively in terms of its macroeconomy. In particular, the latter has generated negative views on the EU integration due to the lack of policy tools for coping with the economic crisis in the ESM. As a result, the Euro perception turned to negative among the Swedish public, which is also an additional cost for the Swedish economy as an outsider of the eurozone.

## 4.2 Benefit Analysis

It is absolutely true that the ESM has generated enormous benefits in the Swedish economy. From the economic point of view, it created various opportunities for total

utility. First of all, it reduced direct costs by abolishing border formalities and national regulations. Secondly, it enlarged economies of scale, which enabled high sales potential among companies by accessing the bigger market. Thirdly, high competition due to lower entry barriers emerged. Fourthly, the labor force moved freely due to free cross-border mobility. Last, lower financial transaction costs were realized because the liberalization of capital flows and the financial integration made cross-border financial transactions easier and cheaper than ever (Vetter 2013).

However, the degree of impacts across member nations of the ESM varies, and the overall impact is very mixed. This means that benefits in the member nations are not equal, but different. The reason for this is that a series of factors have affected individual member nations' assessment. Sweden as one of the most competitive member nations has gained substantial benefits. As a result, in 2018 over 70% of Swedish exports went to the Single Market, and the export industry employed more than 1.4 million people. In addition, over 80% of all new jobs have been generated in the service sectors since the accession to the EU (Regeringen 2018).

According to the analysis of the Single Market integration, it progressed slowly on average across the member nations, but steadily after the EU's third enlargement. In 1995, the average index of the Single Market integration was only 58% and this increased continuously up to 75.9% in 2015. During this period, it increased by 30%. The Swedish index of Single Market integration accounted for only 53.5% as it entered the EU in 1995, which was 7.8% lower than the average. It increased to 69.5% in 2015, although it was still lower than the EU average of 75.9%. This means that the Swedish economy has been more integrated in the Single Market than before becoming a member nation of the EU (Muller et al. 2017).

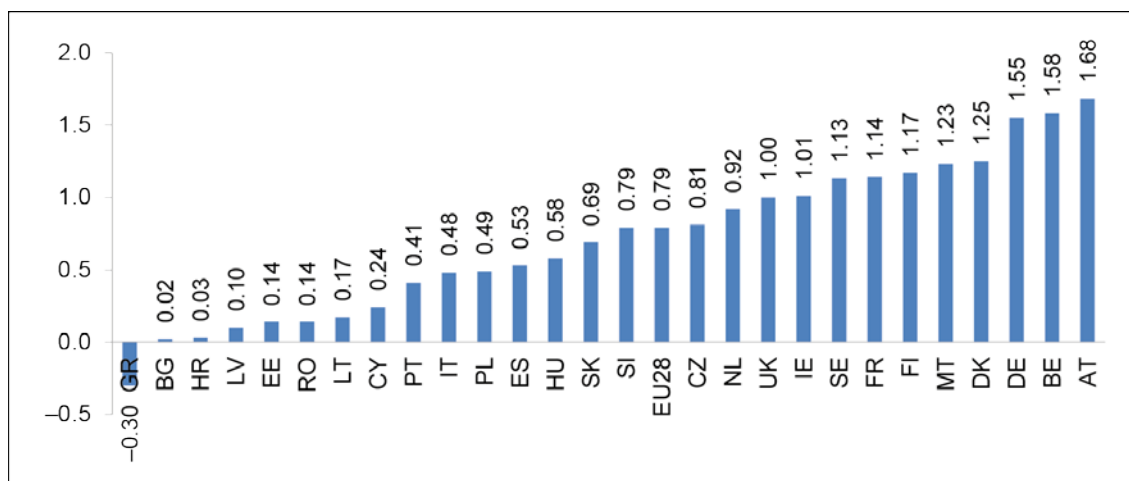
The economic impact of Single Market integration on GDP per capita in the EU member nations on average was 0.79% higher in 2015 than in the absence of further integration. In Sweden, it accounted for 1.13% in the same year, which was higher than the average. This means that the economic impact of Single Market integration affected the GDP per capita in Sweden more strongly than the average of the EU member nations. Only seven member nations, namely France, Finland, Malta, Denmark, Germany, Belgium, and Austria, felt a higher economic impact of Single Market integration than Sweden. Among these member nations, all of them except Denmark belong to the eurozone. Sweden, as a noneurozone member nation, had created substantial economic benefits after entering the EU (see Figure 3).

The Swedish macroeconomic development after the accession to the EU had been more positive than before the accession in most of the economic indicators. The economic growth during the 10 years before entering the EU accounted for 1.4% on average, while it grew to 2.8% during the first 10 years (1995–2004) following economic accession to the EU. It slowed down to 1.6% during the second 10 years (2005–2014). However, it was still a higher economic growth than before the accession. Furthermore, productivity increased from 2.1% to 2.7%, while it declined to 0.3% during the second 10 years due to the GFC in 2008 and the sovereignty debt crisis (SDC) in the EU in 2010/2011. These two economic crises impacted Swedish productivity severely.

Inflation rates declined from 5.7% to 1.2% and later to 1.3%. This meant that price stabilization after the EU accession was realized. In addition, interest rates both in the short and long term declined continuously and were stabilized. However, unemployment rates increased from 3.7% to 5.8% and later to 7.6% due to high competition in the private sectors. Based on these macroeconomic indicators, it is clear that the Swedish economic integration into the EU generated various benefits, such as economic growth, price stability, positive capital investment (FDI), etc. despite some

negative indicators such as productivity and unemployment (Calmfors 2005; www.oecd.org 2019; www.riksbank.se 2019) (see Table 5).

**Figure 3: Economic Impact of Single Market Integration on GDP per Capita (as of 2015, %)**



Source: London Economics, <https://londoneconomics.co.uk/blog/publication/eu-single-market-impact-member-states-december-2017/>, accessed on 14 April 2019.

**Table 5: Swedish Macroeconomic Development after Its Accession to the EU Single Market (1985–2014, average in % per year)**

Macroeconomic Indicators	1985–1994	1995–2004	2005–2014
GDP Growth Rate	1.4	2.8	1.6
Productivity	2.1	2.7	0.3
Unemployment Rate	3.7	5.8	7.6
FDI in GDP	-1.8	0.6	2.85
Inflation Rate	5.7	3.1	1.0
Interest Rate in Short Term (3 Months)	5.2	3.1	1.0
Interest Rate in Long Term (10 Years)	5.3	4.8	2.89

Source: www.oecd.org 2019; www.riksbank.se 2019; www.worldbank.org 2019.

## 5. CONCLUSION AND POLICY RECOMMENDATION

The Swedish economy grew rapidly after the end of the 19th century, although it was a latecomer to the industrialization process in Europe. As a result, it rose from being one of the poorest nations in the 19th century to one of the richest nations not only in Europe, but also in the world, in the 20th century. After the Second World War, Sweden was on the top level in terms of income per capita in the world along with Switzerland and the US, and that lasted until the mid-1970s. After that the Swedish economy started to slow down, while other major European nations, such as Germany, France, Italy, and the UK, created high economic growth after the destruction of the Second World War. The Swedish economy experienced high inflation in the 1980s and was hit by the economic crisis at the beginning of the 1990s that was the most severe economic crisis since the Great Depression.



The Swedish economy started to be integrated in the form of the EFTA as one of the outer seven member nations in 1960, while the EEC started with the inner six member nations in 1958. Due to the UK and Denmark's participation in the EC in 1972 with a view to accession to a bigger market than the EFTA, Sweden began to consider integrating into the Single European Market more than ever in order to overcome its economic hardship at the beginning of the 1990s. As a result, it participated in the EEA in 1992 and became a member nation of the EU in 1995. In the referendum, Sweden decided to enter the EU with a marginal vote in 1993, which was regarded as the right economic and political choice, although many stakeholders were reluctant to make their decisions. However, Sweden as a small nation in Europe in terms of its national economy and population cannot undermine its economic interests for its industry based on a large-sized company-oriented structure that must compete with foreign companies on the one hand and needs to direct market accession to the EU on the other. Without the accession to the EU Single Market, Swedish companies could not compete with other European or foreign companies properly and fairly in the EU Single Market due to the discrimination against nonmember nations.

There are various discussions and research analyses on the impacts of the Swedish economic integration into the EU Single Market. The core question is whether the Swedish economic integration has generated positive results in the national economy or not. Given the macroeconomic indicators such as economic growth, productivity, unemployment rate, FDI, interest rate, etc., the Swedish economic integration clearly created positive impacts on the national economy after its accession to the EU Single Market, particularly compared with the macroeconomic results before the accession to the EU Single Market, although some indicators such as the unemployment rate and productivity proved to be negative. However, these negative territories have been compensated for overall by other positive indicators.

The Swedish approach to its economic integration into the EU Single Market is quite unique compared with other latecomers such as Austria and Finland. Sweden has always been ready to cooperate closely with the EU in all areas as a member nation. However, it strongly insists on keeping its own currency instead of becoming a member of the EMU, although two other latecomers have participated in the EMU since January 1999 and used the common currency of the euro. In the euro referendum in 2003, the majority voted not to adopt the euro, and Sweden has remained as member nation nonbinding to the euro since then. This means that Sweden is ready to cooperate with the EU closely, but it will not give up its economic sovereignty, which has resulted in limited supranational cooperation in the EU. Therefore, it is known as the "twin faces approach", which is similar to the Danish approach. Despite its functional limitation, the Swedish economic integration into the EU Single Market created overall economic prosperity rather than illusion.

The Swedish strategy of economic integration can provide some valuable policy implications for Asian countries. First of all, a strong industrial competitiveness can maximize the economic benefits from integrating into a large market such as the EU despite the small size of the national economy. Secondly, a nation can be integrated into a regional economy with a limited form accessing a single market without giving up its own currency. Last but not least, a nation must establish an effective and efficient administrative system as well as good governance along with a competitive industrial structure before integrating into a regional economy that generates maximum benefits and minimum cost.

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