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# The EU Accession Revisited: Why Did Sweden Join the EU in 1995? \*

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## Abstract

This paper investigates the reason behind the EU accession of Sweden in 1995 focusing on the economic aspects. The main findings are threefold. First, driving forces for Sweden to join the EU involved international factors such as economic and political transition of the communist bloc, as well as domestic factors such as a prolonged economic stagnation in the 1980s and an economic crisis in the beginning of the 1990s. Second, Sweden preferred the EU to pursue economic benefits which were not provided in the FTAs including the European Economic Area. Third, there were major benefits for Swedish companies, such as reduction of transaction costs, more diverse options for financing and ownership, and the unification of economic conditions with the EU market. In addition, Sweden could obtain the right to participate in the decision-making process of the EU.

**Keywords :** Economic Integration, EU, EEA, FTA, Sweden

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## 1. Introduction

Two decades have passed since the Swedish accession to the European Union (hereafter EU) in 1995. Sweden is now integrated into the internal market of the EU under the Single Market Programme (SMP). Before the accession, Sweden had experienced three different stages of integration into the EU market. The first stage was establishing bilateral free trade agreements (FTA), which each member of European Free Trade Association, EFTA, must sign with the EEC/ECSC. This “Sweden-EEC FTA” was put into effect in 1973. The second stage was inclusion in the European Economic Area (EEA). The EEA is an agreement which assures participation in the SMP of the EU for non-Member States. Sweden signed the EEA in 1992 and it came into effect in 1994. After these two stages, Sweden acquired full membership in the EU in 1995 as the third stage of integration.

In contrast to the current rise of ‘EU scepticism’, the 1990s was an era of regionalism. The accession to the EU seems to have been a reasonable choice for Sweden. Meanwhile, there was an option to stay outside of the EU as Sweden had kept outside for so long. This situation of Sweden at that time raises several questions. Why did Sweden decide to join the EU in the beginning of the 1990s? Why did Sweden prefer the EU full membership rather than the FTA or the EEA? What were supposed to be the benefits for Sweden? The purpose of this paper is to examine these questions focusing on the economic aspects of the EU accession.

Sweden is an interesting case, having experienced three different stages of regional integration with the EU. In this context, the experience of Sweden is useful for identifying the difference between those forms of integration. This provides a helpful perspective for making decisions about other regional integrations, for example, Japanese participation in regional integration in Asia and the Pacific. Currently, Japan is negotiating a number of regional agreements of differing depths and scales, and with different types of partners. Furthermore, looking at the Swedish case helps us to understand what can happen in the process of withdrawal from the EU. ‘Brexit’, the UK’s withdrawal from the EU, is a reverse process of the EU accession; the analysis of the economic benefits of Swedish EU accession also reveals what the UK may face with Brexit.

This paper surveys literature on the Swedish EU accession to review policy changes implemented along with the accession as well as costs and benefits discussed before the accession. With regard to assessing advantages and disadvantages supposed before the EU accession, two comprehensive reports serve as a reference. One is SOU (1994), a report issued by the Swedish government which examined effects of joining the EEA and the EU. This report assumes three possible cases for Sweden: staying outside, joining the EEA, and gaining EU membership. In addition, it includes supplemental chapters with economic analyses. Another literature is Industriförbundet (ed.) (1994). It is an informative report issued by the Swedish industrial organisation. This report focuses on the four freedoms of movement and their effects on Swedish industries. Some of their findings are introduced in this paper.

This paper is organised as follows. In section 2, the process of integration and changes of relation between Sweden and the EU are overviewed. In section 3, the function of the SMP is explained. In section 4, effects on Swedish companies are discussed. Section 5 summarises the findings and offers concluding remarks.

## 2. Process of integration to the EU market

The development of the Swedish economy started later than other European countries. Industrialisation began at the end of the 19th century. After the Second World War, Sweden was on a growth trajectory. Sweden enjoyed a booming economy in the 1950s and 1960s by responding to reconstruction demands in Europe, and because Swedish land had not suffered in the war due to its political neutrality. In this period, Sweden became an original member of the EFTA in 1960 along with the UK, Denmark, Norway, Austria, Portugal, and Switzerland.

In the 1970s, the Swedish economy was damaged by the two oil crises. Leading industries at the time were the steel industry and the shipbuilding industry, which were sensitive to the business climate. Although the government supported some major companies with subsidies, the economy did not recover. In addition, the UK and Denmark withdrew from the EFTA and joined the EU (EEC at the time) in the beginning of the 1970s, which contracted the market of the EFTA. Member countries of the EFTA had to reconsider their relationship with the EU, and each of them concluded bilateral FTAs with the EU in 1972. Nevertheless, economic stagnation in Sweden continued in the 1980s. This stagnation motivated the Swedish government to implement a series of reforms in the 1980s and 1990s such as reforms of the financial, taxation and welfare systems.

After an economic boom at the end of the 1980s, Sweden experienced negative growth in 1991-1993 due to the collapse of its bubble economy. In the same period, the relationship between Sweden and the EU changed drastically. The agreement on the EEA was concluded in 1992, and was in operation from 1994. Soon after this, Sweden joined the EU in 1995. After the EU accession, economic growth in the 1990s and 2000s was fairly stable except for the years 2008-2009 when the Global Financial Crisis occurred.

The conclusion of the EEA and the subsequent EU accession in the 1990s was a significant policy change for Sweden. The attitude of Sweden towards the EU had long been to stand “outside of the EU”. This was based on the traditional policy of neutrality which started in the nineteenth century and was maintained even during the Second World War. Moreover, Swedes used to their own high standard of welfare were sceptical of the EU, because accession to the EU, which had lower standard in fields such as welfare, the labour market, and environmental issues, meant the deterioration of these standards.

Two factors became a driving force of the policy turnaround<sup>1</sup>. One factor was a change of international circumstances. A series of events, such as the fall of the Berlin Wall, the disintegration of the Soviet Union, and the transition of Central and Eastern European countries from Communism to Capitalism strongly influenced Sweden. These diminished threats from the East that had existed during the Cold War. At the same time, the traditional policy of neutrality was no longer a sufficient reason for being outside of the EU. This led to a redefinition of the neutrality of Swedish policy. Some political parties in Sweden provided a new perception that the EU was recognised as “a pan-European peace project”, taking into account future membership of Central and Eastern European countries (Beiler, 2000, p.113). This change of attitude affected the turnaround towards the EU accession.

The other factor was the collapse of the bubble economy in Sweden and the subsequent economic crisis that occurred in the beginning of the 1990s. This was induced by deregulation of the financial sector under the financial reforms of the 1970s and 1980s. In the 1970s, the capital markets of many developed countries went in the direction

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<sup>1</sup> Beiler points out two additional reasons for the turnaround of the Swedish government for the EU membership (Beiler, 2000, p.81). One reason is Swedish trade dependence on the EU. The other reason is electoral reasons in the domestic politics.

of liberalisation. The Swedish market could not ignore this movement due to the increasing globalisation of its economy. The financial reform gradually proceeded with the abolishment or relaxation of regulations from the end of the 1970s. The main purposes of the reform was to bring the modern system concerning laws and institutions in accordance with the progress of technology and globalization in the financial markets (Kazarian, 1994). However, this deregulation led to domestic credit expansion. Investments flew into the real estate market, and the bubble economy was generated at the end of the 1980s. After the peak of growth in 1990, the bubble economy burst and the economic boom turned into an economic contraction. Some banks went bankrupt due to non-performing loans. Furthermore, there was an outbreak of a currency crisis for the Swedish Krona in 1992. These crises caused heavy damage to the Swedish economy, and GDP indicated negative growth during 1991-1993.

The Swedish government made an application to the EU for full membership on July 1st, 1991. The referendum on the EU accession, which had no binding force on the political decision, was held on the 13th of November 1994. The vote for 'yes' won a majority slightly: the result was 52.7 percent for 'yes', and 47.3 percent for 'no'. During the campaign business groups expressed support for the accession, because many Swedish companies were export-oriented (Beiler, 2000, pp.116-117). Why then did they prefer the EU membership to the FTA and the EEA? In the next section, the function of the SMP is explained to clarify the difference between the FTA, the EEA, and the EU full membership.

### **3. The Single Market**

Swedish integration into the EU internal market was carried out in three stages involving the Sweden-EEC FTA, the EEA, and EU membership. In this section, the difference between these stages is examined. First, the four freedoms of movement, the core function of the SMP, are summarised. Second, the differences between the FTA, the EEA and the EU are analysed.

#### **3.1 Four freedoms of movement**

The SMP was introduced into the EU internal market with the Single European Act in 1987. The SMP is a framework to promote the free movement of products and production factors in the common market. Here, products include 'goods' and 'services', and production factors include 'people/labour' and 'capital'. This is referred to as the 'four freedoms of movement'.

How can those free movements be achieved? First, the free movement of goods is ensured with the abolishment of tariffs and non-tariff barriers. Non-tariff barriers involve trade impediments such as quantity restrictions, technical barriers, and access to government procurement. The abolishment of these barriers is introduced in FTAs in general as well as the SMP. In the case of the SMP, removal of technical barriers was introduced. Technical barriers are trade impediments due to the existence of different industrial standards between trade partners. The removal of technical barriers as well as the abolishment of tariffs reduce trade costs and provide opportunities for companies to expand their market through exports. For consumers, these measures are beneficial in terms of lower prices due to cost reduction and the increasing variety of imported goods.

Second, the free movement of services is usually provided with the relaxation of entry regulation in the service sector, because activities in the service sector are often regulated in many countries. Trade in services is defined as four modes in the General Agreement of Trade in Services (GATS): cross-border supply, consumption abroad,

commercial presence, and presence of natural persons. The relaxation of regulation encourages commercial presence; it makes it easier for a company in one Member State to set up an establishment in other Member States. In addition, the SMP carried out the convergence of supervisory practices in the fields such as financial services, transport, telecommunications, and broadcasting<sup>2</sup>. For this purpose, the ‘single passport’ system was introduced. The system enabled companies to operate in a number of Member States only with authorisation from one Member State. This reduced the costs of operating in foreign countries. Moreover, the mutual recognition of professional qualifications was also introduced in the SMP. The presence of natural persons, defined as the cross-border movement of persons who supply a service, is assured when the qualification or certificate of a certain job is recognised in common among Member States.

Third, the free movement of people is ensured with the relaxation of requirements for cross-border movement of people. In the SMP, this was achieved with the Schengen Agreement and EU citizenship. In the Schengen Area, “[a]ny person, irrespective of nationality, may cross the internal borders without being subjected to border checks.”<sup>3</sup> People in the Schengen Area do not need visa nor taking passport controls when they move to other countries in the area. In addition, non-EU Member States such as Norway, Switzerland and Iceland join the agreement to enjoy the free movement of people, although the UK and Ireland do not join the agreement. EU citizenship ensures the right of free movement of people as follows: “[a]ny person who holds the nationality of an EU country is automatically also an EU citizen. EU citizenship is additional to and does not replace national citizenship. It is for each EU country to lay down the conditions for the acquisition and loss of nationality of that country.”<sup>4</sup> This right provides opportunities for residents in Member States to choose where to live and work. EU citizenship is applied even in Member States which do not join the Schengen Agreement.

Fourth, the free movement of capital involves relaxation or abolishment of the restrictions on capital markets in each Member State. In many countries, the capital market is highly regulated in order to protect domestic industries from foreign capital as well as to control capital inflows for macroeconomic stability. These regulations limit opportunities and sources of financing for companies at the same time. Therefore, in the SMP, the opening of the capital market was carried out according to the Capital Liberalisation Directive (Council Directive 88/361/EEC) in 1988. Furthermore, several directives related to foreign direct investment (FDI) were implemented, because the opening of the capital market was expected to stimulate new establishments of foreign-owned enterprises and cross-border M&As. This was introduced with several directives such as the Merger Directive (Council Directive 90/434/EEC), the Parents-Subsidiary Directive (Council Directive 90/435/EEC), and the Interests and Royalties Directive (Council Directive 2003/49/EC). These directives aim to set the rules for the taxation concerning cross-border acquisition of stock and profit transfer.

These four freedoms of movement in the EU internal market are assured for non-Member States in the EEA as well, however, there is a clear difference from the full membership of the EU. To understand this, classification of economic integration by Balassa is helpful. Balassa (1961) classifies economic integration into five categories: a free trade area, a customs union, a common market, an economic union, and complete economic integration (Table 1). Sweden-EEC FTA is included in the FTA, the loosest integration, which basically deals with the movement of products, namely trade in goods and services. Meanwhile, the SMP of the EU is a common market which involves

<sup>2</sup> See Financial Services Action Plan for the case of financial services (COM(1999)232, 11.05.99).

<sup>3</sup> European Commission website (accessed February 9th 2017). [http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/schengen/index\\_en.htm](http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/schengen/index_en.htm)

<sup>4</sup> European Commission website (accessed February 9th 2017). <http://ec.europa.eu/justice/citizen/>

the movement of both products and production factors as well as providing the function of a customs union. The difference between FTAs and customs unions is whether they introduce common trade policy. In the FTAs without a common trade policy towards external trade, the discretion of imposing tariffs remains. At the same time, rules of origin, which are unnecessary in the customs unions, are introduced to avoid possible trade deflections, or cheating on tariffs through roundabout trade. The EEA is an agreement of a common market which covers the movement of products and production factors, however, it is not a customs union but a FTA. Therefore, the procedures of trade in goods remain in FTAs.

Table 1. Balassa's classification of economic integration

Type of integration	Function
Free trade area (FTA)	Abolishment of trade barriers between member countries
A customs union (CU)	FTA + equalisation of tariff with non-member countries
A common market (CM)	CU + abolishment of restrictions on factor movements
An economic union (EU)	CM + harmonisation of national economic policies
Complete economic integration	EU + unification of monetary, fiscal, social, countercyclical policies and setting-up of supra-national authority

(Source) Balassa (1961), p.2.

### 3.2 Difference between the Sweden-EEC FTA and the EEA

As mentioned above, the Sweden-EEC FTA and the EEA are both categorised as FTAs. With this in mind, how are they different? In the EEA, trade in services, movement of labour and capital, technical barriers in trade, common competition law, government procurement, and common rules for state aid were additionally covered (Table 2). Trade in services was not covered in the Sweden-EEC FTA, because it was a fairly new topic which appeared in WTO negotiations since the 1980s, namely the Uruguay Rounds.

Table 2. Comparison of EEA agreement and EU membership

	EEA	EU
Free movement of goods, services, capital and people	X	X
Elimination of technical barriers	X	X
Common competition law	X	X
Access to government procurement	X	X
Common rules for state aids	X	X
Participation in the SME programme of the EU	Partly	X
Abolishment of border controls		X
Participation in VAT operation of the EU		X
Customs union		X
Common trade policy		X
Common regional policy		X
Common agricultural and fishery policy		X
Participation in environmental policy of the EU		X
Economic and political cooperation		X
Participation in the institutions and decision-making organisation of the EU		X

(Source) Own translation of Tabell 3.1 from Norén (1994), p.27.

Focusing on the four freedoms of movement, more detailed differences are summarised as follows. The free movement of goods, a basic function of regional integration, had already been introduced under the Sweden-EEC FTA<sup>5</sup>. Alvstam (2014) points out that tariffs were in principle abolished totally in the middle of the 1980s. The additional effect of tariff reductions was expected to be small when Sweden joined the EEA. Meanwhile, removal of technical barriers was a new policy measure introduced with the EEA. This was carried out as an introduction of EU standards into Sweden (Dahl and Torstensson, 1996). In the long term, this was a benefit for Swedish companies who could obtain a larger export market, although this could induce adjustment costs in the short term.

Under the EEA, the free movement of services advanced in the area of financial services such as banking, securities, and insurance. In order to pursue efficiency, the principle of mutual recognition and the single passport system were introduced in financial services.

The free movement of people was also introduced with the EEA. Sweden joined the Schengen agreement to abolish border control. Meanwhile, the EEA was not the first experience for cross-border free movement of the labour force in Sweden; it was already implemented in the Nordic countries. Among the Nordic countries, which consist of Sweden, Denmark, Norway, Finland and Iceland, the free movement of people without a passport had already been introduced in 1952<sup>6</sup>. In addition, these countries signed an agreement concerning a Common Nordic Labour Market in 1982 (coming in effect in 1983). Within this framework, Sweden was basically the recipient of immigration. In contrast, Jagrén (1994) estimated that the effect of free movement of people in the EU would be small due to the economic size and income level of Sweden as well as cultural and linguistic differences between Member States.

Finally, the effect of the free movement of capital was more controversial. Because the restrictions on the capital market in Sweden were strict, deregulation in this field was supposed to bring a critical change for the Swedish economy. Article 6 of the Capital Liberalisation Directive in 1988 states that the purpose of the free movement of capital is to bring cross-border financing at EU levels and appropriate allocation of savings in the EU, because many countries including Sweden restricted activities of foreign investors. Thus, the free movement of capital was achieved with the relaxation or abolishment of restrictions in the stock markets. This deregulation made cross-border M&As in the EU easier. At the same time, it was necessary to converge the rules of Member States concerning corporation taxation and competition rules.

### **3.3 Difference between the EEA and EU membership**

Although Sweden had already joined the SMP with the EEA, full membership in the EU was of significance to Sweden. Since the four freedoms of movement had already been introduced, a clear change was made through the transition of function from the FTA to the customs union. This involved the introduction of common trade policy as well as abolishment of certificates of origin and border controls.

First, the common trade policy was introduced to impose common tariffs to non-aligned countries. Because the liberalisation of market access made progress at multilateral level, the difference in the external tariffs between Sweden and the EU was small in general. Meanwhile, the introduction of the common trade policy meant losing a loss of its discretion in trade policy for Sweden; Sweden could no longer set up trade barriers to protect domestic industry unilaterally. At the same time, the establishment of a new regional trade agreement was organised at the

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<sup>5</sup> For the detail of Sweden-EEC FTA, see: EUR-Lex - 21972A0722(02).

<sup>6</sup> It was clearly defined as Nordic Passport Union in 1958. For details, see the Nordic Council website. <http://www.norden.org/en>



EU level. Second, certificates of origin and border controls for EU internal trades were abolished. A customs union does not require certificates of origin, because trade deflection does not occur when the common tariff rates are introduced<sup>7</sup>. These measures were expected to reduce costs of operation for companies significantly.

Moreover, some of the policy fields which were not adapted in the SMP were introduced. These policies involve such things as agricultural policy, fishery policy, and regional policy. Therefore, farmers and fishers in Sweden were newly supported by EU policy measures after the EU accession. Furthermore, local governments at the sub-national level could obtain subsidies to support small- and medium-sized enterprises (SMEs) with this EU regional policy. The EU makes an investment in a region which applies to a subsidy for improving economic conditions<sup>8</sup>. Although there is no direct finance from the EU to companies, this suggests that companies can obtain indirect financial support, having an alternative to the support by national governments.

In addition to these policy changes, Sweden obtained a right to participate in the decision-making process of the EU. Rules for the SMP in the EEA were enacted as legislation of ‘directives’. Directives are legislation which binds Member States of the EU to achieve a particular objective. In order to come into effect, Member states need to amend their domestic laws in accordance with directives. This process is called ‘harmonisation’. The EU directives are decided only by the EU Member States. Member countries of the EEA outside the EU cannot participate in the decision-making process of EU directives, nonetheless, they have to accept the directives unilaterally. Sweden realised this disadvantage under long negotiation for the EEA (Norén, 1994; Bieler, 2000). Full membership of the EU meant the participation in the decision-making process, especially in new fields of coordination such as trade in services and environmental issues (Wijkman, 1994).

One example of harmonisation is an amendment of Swedish competition law in 1993. The first competition law in Sweden, *Konkurrensbegränsningslagen*, was introduced in 1953 in order to eliminate monopoly, duopoly and oligopoly which impede fair competition in the market. In 1982, the competition law was amended as *Konkurrenslagen*. With the amendment, Konkurrensverket, a supervisory authority of competition policy, was established in order to control the effect of M&As by large enterprises. However, the authority did not have sufficient force to prevent large-scaled M&As which took a majority of the market. Therefore, the framework to examine the effect of M&As was strengthened in the amendment in 1993.

In the amendment in 1993, harmonisation to the EU competition law was also intended in view of future membership. The Swedish competition law needed to be converged with the EU competition law to avoid an inconsistency, because the EU competition law becomes effective in Sweden when Sweden joins the EU (Bernitz, 2015). In the EU, large M&As over a certain scale are examined by the European Commission, according to the EU competition law. When the scale of M&As is below the criteria, the assessment is at the discretion of the national authorities. Therefore, Sweden still requires its own competition law and authority (SOU 1998). Even in such cases, it is preferable that the judgement by the EU and the national authorities be close. This is why harmonisation was necessary in the amendment of the Swedish competition law.

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<sup>7</sup> See, for example, Baldwin and Wyplosz (2015), pp.131-132.

<sup>8</sup> One example is an investment by the EU structural fund to Lureå city for supporting establishment of a data center by Facebook.

#### **4. Effect on Swedish companies**

In the previous section, differences between the FTA, the EEA, and the EU were investigated. With these in mind, what could Swedish companies achieve with deeper integration into the EU internal market? The major effects on activities of Swedish companies are summarised into the following three points.

First, several kinds of transaction costs were removed. Abolishment of tariffs was one of them, however, this had already been achieved with the Sweden-EEC FTA. After becoming an EU Member State, further integration was achieved with abolishment of certificates of origin and border controls which were expected to be more effective for reducing costs. Moreover, the introduction of the EU single passport in the service sector reduced costs for entering the EU market. Note that these reductions of costs are recognised by companies rather than by consumers as benefits of EU membership. Meanwhile, these measures induced stiff competition in the Swedish market. Abolishment of tariffs and deregulation led to less protection for Swedish companies from imports and more entry of foreign companies into the Swedish market.

Second, options for financing and ownership of companies became diversified. Especially, more opportunities for foreign financing were brought by deregulation in the capital market. Opening the capital market at the EU level was effective in combination with domestic financial reforms in the 1970s and 1980s in Sweden, which partly intended harmonisation to the EU. This resulted in a drastic increase of foreign-owned companies in Sweden.

Finally, the introduction of common rules for the internal market made uniform economic conditions with the EU in Sweden. Elimination of technical barriers of trade is one example; export companies do not need to prepare for different rules and standards, therefore, this leads to reduction of costs. Another example is the harmonisation of the competition law aforementioned. Harmonisation was significant for Swedish companies because it required the amendment of domestic institutions. In contrast to the rules in the FTAs, which are generally applied solely to activities of international companies such as trade and FDI, harmonisation affects even companies which operate domestically. Due to such a strong impact on domestic institutions, Sweden preferred a full membership of the EU to participate in the decision-making process.

From the current analysis, some positive effects on Swedish companies are identified. Then, why is there growing scepticism toward the EU? One possible reason is that these economic benefits of integration are not always easy to recognise. In the case of a conventional topic such as tariffs, it is feasible to estimate the effects of integration quantitatively. Meanwhile, measures addressed in the EU as well as the EEA are extended to services and production factors. Effects of the abolishment of non-tariff barriers and deregulations are difficult to assess. Another reason is that economic benefits of the SMP tend to appear in measures for companies rather than those for consumers. For example, the effects of eliminating technical barriers on consumers are indirect and hardly perceptible. This tendency is true for recent FTAs which deal with a broad range of topics such as the TPP.

#### **5. Concluding remarks**

At the beginning of this paper, three questions were addressed. The answers to these questions are summarised as follows. First, driving forces for Sweden to join the EU in the beginning of the 1990s involved international and domestic factors. As for the international factors, economic and political transition of the communist bloc was identified. As the domestic factors, a prolonged economic stagnation in the 1980s and an economic crisis in the

beginning of the 1990s were identified. This change of circumstances forced Sweden to reconsider its relationship with the EU. Second, Sweden preferred the EU to pursue economic benefits which were not provided in the FTAs. Although participation in the EEA deepened integration into the internal market of the EU, the EEA was not sufficient integration due to the remaining trade procedures of FTAs. With a better access to the internal market of the EU, Sweden, whose domestic economy was stagnating and damaged, could gain a great opportunity for recovery. Third, there were major benefits for Swedish companies, such as reduction of transaction costs, more diverse options for financing and ownership, and the unification of economic conditions with the EU market. These benefits were introduced with the four freedoms of movement under the SMP. The full membership to the EU brought further cost reduction and integration.

In addition, Sweden could obtain the right to participate in the decision-making process of the EU. Because Sweden experienced a stage of the EEA, it realised the importance of this process. Withdrawal from the EU means loss of the right of participation in the decision-making process, even if a country holds market access under the framework of the EEA or the FTA. At the same time, the Swedish case suggests the importance of early involvement in the decision-making process of regional integration.

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