



# Sweden in the EU

## Trade, investments, freedom of movement, economic growth and productivity

### Executive Summary

Sweden's *openness* to the rest of the world, measured as the proportion of foreign trade in GDP, has more than doubled in the past 50 years, especially since Sweden became a member of the EU and thus part of the EU's internal market. Sweden's openness to trade<sup>1</sup> was in 2016 ranked as number eleven of the 25 primary export nations<sup>2</sup> in the world. The internal market has long been Sweden's main trading partner, both in terms of export and import.

In 2017, 69 per cent of Swedish *exports of goods* went to the internal market. Road vehicles, machinery, forest products and electrical and telecommunication equipment were among the largest sectors in Sweden's exports to the internal market. In the same way as the internal market is Sweden's dominant export market, it is also the most important source for Swedish *imports of goods*, accounting for 76 per cent of total imports. Apart from food and chemical products, Sweden imports mainly the same type of goods that it exports. Sweden's trade with the internal market was more diversified than our trade with third party countries (that is, countries outside the internal market).

Moving from trade in goods to trade in services, the picture remains the same. Sweden's *export of services* to the internal market accounted for about 68 per cent of the total services exported. The *import share of services* amounts to 79 per cent of total services imported. Sweden's imports and exports of services mainly consists of business services, travel, transport services and ITC services.

Between 1995 and 2017, the share of EU's share of world GDP fell, and taking this relative decline into account (weighting Swedish trade with the EU with its relative weight of world GDP), Sweden's trade with the internal market has increased by 42 per cent.

Despite the fact that the EU's share of world GDP has declined during this period, the share of Swedish trade with the internal market has remained relatively stable.

Of the Swedish exported value added to the EU's internal market, 56 per cent was created in the service sector, 40 per cent in the manufacturing sector, and 4 per cent in the so-called primary sector.<sup>3</sup> To third party countries, the corresponding numbers were 64 per cent in the service sector, 33 per cent in the manufacturing sector, and 3 per cent in the primary sector. The Swedish manufacturing sector is in other words more prominent in creating value for the exports to the internal market than to third party countries.

1.3 million workers in Sweden were supported by exports in 2014. Of these, 730,000, or 56 per cent, were supported by exports directed to the internal market. Of these, 61 per cent worked in the service sector, 33 per cent in the manufacturing sector, and 6 per cent in the primary sector. The number of workers supported by final demand on the internal market was lower than the number of workers supported by exports to the internal market.<sup>4</sup> This is in line with the idea that the internal market is functioning as a 'stepping stone' for exports of Swedish value added to the rest of the world. For exports to the USA and

China, the reverse is true: the number of Swedish jobs supported by *final demand* in these countries was higher than the number of workers supported by the exports to these countries.

Looking at Swedish *direct investment assets* on the internal market, these averaged SEK 3,200 billion between 2014 and 2016. This is an increase of SEK 386 billion, 20 per cent, since 2008. Foreign direct investment assets in Sweden from the internal market averaged SEK 2,600 billion between 2014 and 2016. This is an increase of SEK 427 billion, 23 per cent, since 2008. 84 per cent of the foreign direct investment assets in Sweden came from the internal market.

It is often argued that the internal market is facilitating for particularly small and medium-sized companies to trade outside Sweden. The average company size, measured in number of employees, also turns out to be smaller for Swedish companies that only trade with countries on the internal market compared to companies who trade both with the internal market and third party countries.<sup>5</sup>

In terms of jobs and investments, Swedish companies had over 540,000 employees in the EU15<sup>6</sup> and Norway in 2015, which is an increase by 48 per cent since 1996. Additionally, around 130,000 people were employed by Swedish companies in Poland, Estonia, Hungary, the Czech Republic, Slovakia and Latvia, an increase of 339 per cent since 1996. Companies from the EU15 and Norway had 445,000 employees in Sweden in 2015, which is an increase of 183 per cent compared to 1995.

Between 2005 and 2015, the number of Swedish subsidiaries in the EU15 and Norway increased by 162 per cent. In 2015, around 3,000 Swedish subsidiaries existed on the internal market. The number of companies from the EU15 and Norway that operated in Sweden increased by 342 per cent between 1995 and 2015. The number of subsidiaries in Sweden originating from the internal market was over 10,000 in 2015. In summary, these numbers show that Sweden is closely integrated with other EU countries, both in terms of trade and investment.

With free movement of goods, services, and capital, persons also need to move freely within the internal market. In 2017, almost 360,000 *citizens* from other EU/EEA countries were living in Sweden, equal to 3.5 per cent of Sweden's total population. This is an increase of 100,000 persons since 1992. 82 per cent of EU/EEA nationals living in Sweden in 2017 were of working age (15–74 years). Among third country citizens, the corresponding number was 78 per cent. Among Swedish citizens living in Sweden, 73 per cent were of working age.

Over 185,000 Swedes were living in another EU/EEA country in 2017, according to official statistics,

which most likely underestimate the actual number. It is estimated that around 385,000 Swedes lived in these countries during 2014–2015.

GDP trends at sector level show that the service sector has had a higher growth rate than the manufacturing sector, but that both sectors have increased their production since Sweden became part of the internal market. Average labour productivity has increased since 1980, even if the growth has been slightly lower for both the service and manufacturing sectors in the years after Sweden became part of the internal market.

All four freedoms on the internal market are important and mutually dependent on one another. Trade often brings investments and a need to move capital and labour across national borders. The statistics regarding, for example, value added, show how interconnected the sectors of the economy are. The success of one sector is affected by the competitiveness in other sectors. The manufacturing sector needs the service sector just as the service sector requires the manufacturing sector. Even if it is hard to define certain products as goods or services, or even if they are sold together with one or more related services, the same principle of free movement applies.

- 1 Calculated as the ratio between each country's total export to GDP and total GDP.
- 2 The term export nation here refers to countries with at least one per cent of the world's total exports.
- 3 The primary sector includes industries such as agriculture and forestry.
- 4 Final demand refers to the market where the goods and services will ultimately be consumed.
- 5 For accounting reasons, it is difficult to identify the exact company size.
- 6 The countries that constituted the EU before the enlargement, EU15, were Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom.



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