

Sweden's role in international economic cooperation – then, now and looking ahead

Stefan Ingves *

Stefan Ingves has been Governor of the Riksbank since 2006.

Sweden has for a long time had a relatively strong voice in international economic cooperation. This has enabled us to contribute to the development of common regulations and frameworks without being dependent on passively accepting what others have decided. The conditions for a small country such as Sweden to make its voice heard in this cooperation are now changing dramatically, partly as a result of changing global power relations and radical changes within the EU. There is therefore a need for a discussion about Sweden's future role in, for example, EU cooperation, based on the understanding that things are changing rapidly and that we, as a small country dependent on foreign trade, have to deal with these new conditions.

1 Introduction

During the last century, Sweden has been very much involved in international cooperation, a cooperation that has been very favourable for Swedish economic development. The conditions for this economic cooperation are now changing considerably. This is partly due to the fact that the international power balance is shifting. The most recent example of this is, of course, not to be found in the economic but the geopolitical field and Russia's invasion of Ukraine. The full consequences of this action both in the short and long term are hard to grasp, and beyond the scope of this article. What is quite clear, however, is that it will have important repercussions on multilateral cooperation, also in the economic field, even if it is hard to say how. Another sign of the shifting power balance is the fact that China and other emerging economies are growing in strength and political influence, while the opposite is true of Europe. There are also rapid changes taking place in Europe, beyond the crisis in Ukraine. On the one hand, there are the euro countries, which are striving for a better functioning of monetary union and want to deepen their cooperation, not least in the financial field. And on the other hand, we have the

* This article is an adaptation and further development of ideas and thoughts I have put forward at various seminars and presentations in recent years, for instance at the Association of Foreign Affairs in Uppsala in 2019 and the Association of Foreign Affairs in Lund in 2020. I would like to thank Mattias Hector for his help in transforming the lectures into an article. I would also like to thank Mira Barkå, Emma Bylund, José Camacho, Åsa Ekelund, Frida Fallan, Anders Lindström, Marianne Nessén, Jonas Niemeyer, Christina Nordh-Berntsson, Elisabeth Nilsson, Lena Strömberg, Ulf Söderström and Katarina Werder for valuable contributions.

United Kingdom, which recently took the step of leaving the European Union because it believes it is stronger outside.

In this article, I reflect on Sweden's attitude to international cooperation, how the conditions have changed and what challenges Sweden faces in the future. The reflections I make are based on my experience from international contexts, where I have been working in different roles for almost 40 years, something I consider to be a form of economic diplomacy.

2 An historical retrospective

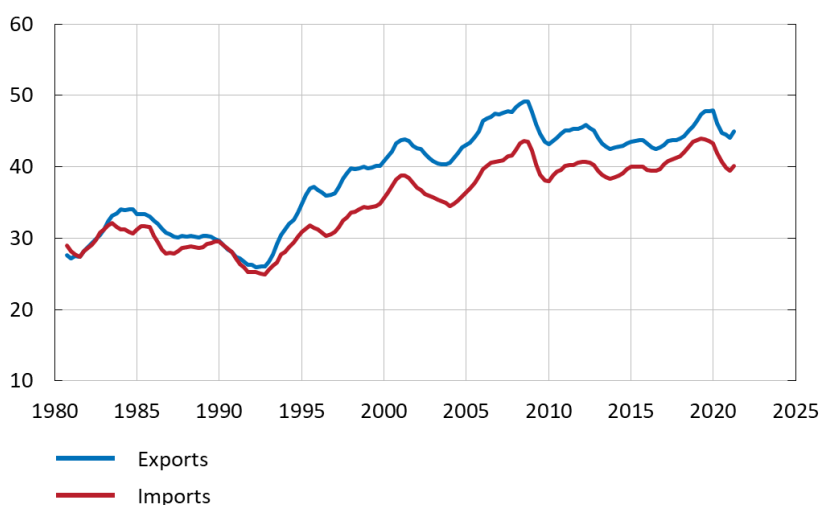
2.1 A small country is dependent on the world around it

The development of the Swedish economy in the 20th century is remarkable. From being classified in the late 19th century as one of the poorest countries in Europe, Sweden is now ranked as the tenth richest country in the world – during parts of the 1970s we were actually as high as fourth ranked – when calculated as GDP per capita, see Bergh (2008) and OECD (2021).

It is not possible to explain this economic success with just one single factor, but one important explanation could be that Swedish decision-makers, both private and elected, appear to have realised at an early stage what particular challenges Sweden faces as a small country. As a small country, for example, we cannot achieve real prosperity by relying solely on our own markets, which is to some extent possible for a larger country. Nor can we impose our will on other countries by our size; we must use other means.

Figure 1. Swedish exports and imports

Current prices, percentage of GDP



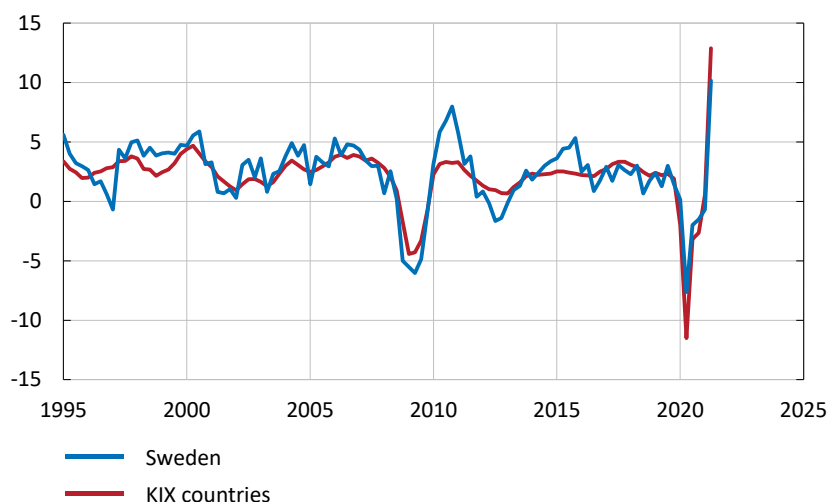
Source: Statistics Sweden

For a small country to achieve economic prosperity, it is instead absolutely necessary to have openness and cooperation with the outside world – something that becomes

very clear when you look at some key facts for the Swedish economy. The importance of foreign trade, for example, has shown a trend increase, and the value of both exports and imports now corresponds to between 40 and 50 per cent of GDP, see Figure 1. It is therefore not surprising that our GDP growth is so closely linked to developments abroad, as shown in Figure 2, which shows how close GDP growth in Sweden co-varies with growth in a weighted average of our main trading partners. However, we are not only dependent on the outside world for trade in goods and services – this becomes clear if we look at capital flows and the financial sector. The stock of Swedish direct investment abroad is the twelfth largest in the world, in relation to our GDP, see the National Board of Trade (2021). The corresponding figure for foreign direct investment in Sweden is the eighteenth highest.¹ The Swedish banks are not only big in relation to Sweden's GDP, but also have extensive international operations, especially in the Nordic-Baltic region, see Figure 3. Free movement of capital is thus an important prerequisite for Swedish companies, financial as well as non-financial, to thrive. Figure 4 illustrates that Swedish authorities are also dependent on the outside world. It shows the limited ability of national central banks to pursue a sovereign interest rate policy, as real interest rates in different countries tend to be strongly correlated.

Figure 2. GDP growth in Sweden and abroad

Annual percentage change



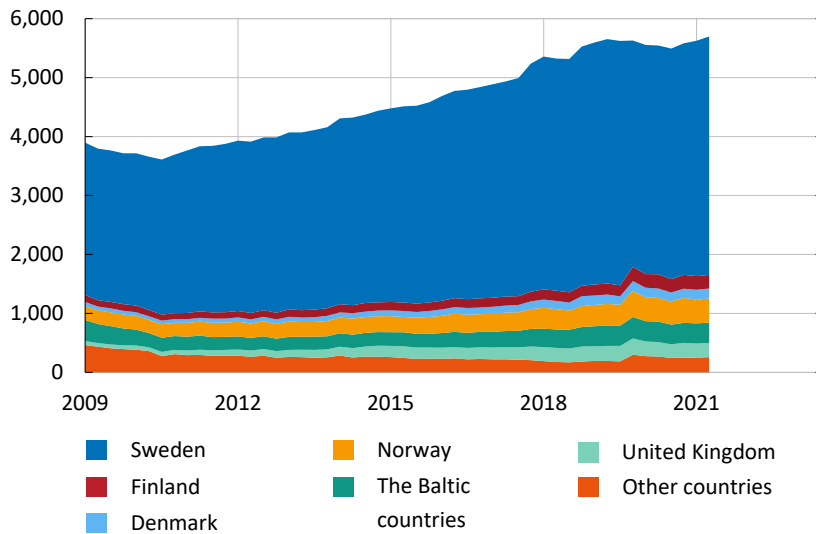
Note: KIX is a weighted geometric chain index, where the weights are based on total flows of processed goods and commodities for just over 30 countries. The weights are updated each year, and are based on data with a time lag of a few years.

Sources: Statistics Sweden and Sveriges Riksbank

¹ Here it should be noted that some of the countries that are higher up on the list are so-called tax havens, where direct investment is not always linked to any real economic activity. Instead, they are motivated by tax advantages of using companies registered in these countries for transactions of various types.

Figure 3. The major Swedish banks' lending in different countries and regions

SEK billion

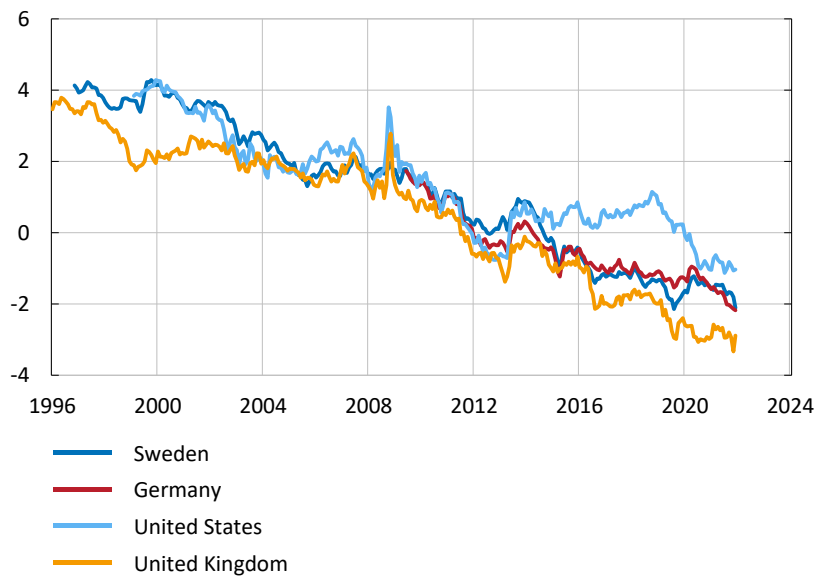


Note: Refers to lending to the public by Handelsbanken, SEB and Swedbank.

Sources: The banks' interim reports and Sveriges Riksbank

Figure 4. Real interest rates in different countries

Per cent



Note: 10-year real interest rates on government bonds. Data for Germany starting in 2009.

Sources: National central banks and Sveriges Riksbank.

It goes without saying that a country like Sweden, with such a strong dependency on the outside world, therefore has a vested interest in international talks and negotiations which seek to reach agreement on common regulations and institutions, as we benefit from the fact that international integration can take place in a safe and

fair manner. Such negotiations can take place bilaterally, that is, between two individual countries, but for a small country it is a great advantage if they are multilateral, between several countries at the same time. On the one hand, this ensures a more uniform playing field, since the agreements cover several countries, and on the other hand it reduces the opportunities for large players to dominate the smaller ones.

If we want to take advantage of the benefits of trading with the outside world, it is important that we make our voice heard. In the multilateral dialogue, in which several countries participate, we can do so in a way that is not possible in a world where each country negotiates for itself and where the largest tend to go first. The realisation of this crass reality has certainly contributed to the Swedish Parliament, Government and authorities having attached such importance to multilateral cooperation within organisations such as the United Nations, the World Trade Organisation, the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS) and various regional development banks.² The path to joining different organisations has not always been uncomplicated and has sometimes been lined with caution and hesitation, but in the end the benefits of joining have carried the most weight.

2.2 Our early position on the BIS Board has been important for our influence

Sweden's multilateral engagement thus began early and this is a contributing factor in its success, not least with regard to the Riksbank. Through international lobbying and a great deal of luck, for example, the Riksbank succeeded in becoming a partner in the world's first multilateral financial institution, Bank for International Settlements (BIS) right from the start in 1930, and since 1931 the Riksbank has been represented on the Board, see Rooth (1930) and Sveriges Riksbank (1930). As we will see, it is hardly possible to overestimate the value of this, either for the Riksbank or for Sweden.

The BIS is known as the central banks' central bank and offers, possibly in competition with the IMF, the most important forum for international central bank cooperation. It is no exaggeration to claim that everything of importance that takes place in the world of central banks is somehow discussed in one of the various BIS groups. However, not all BIS members are allowed to participate in the various groups and committees – our Nordic neighbours, for example, participate in a very limited number of groups, which, moreover, applies to the vast majority of countries around the world. However, as a member of the Board, the door has been open for the Riksbank to participate, in principle, everywhere. For example, since the 1930s, Riksbank governors have been going to Basel every two months to meet the heads of the world's leading central banks and discuss current issues in groups with very limited participation.³ We have also been able to influence the shaping of global guidelines for both banks and infrastructure companies, as we are members of the Basel Committee for Banking supervision (BCBS) and the Committee on Payments and

² For a description of various international organisations, see the Appendix.

³ From the beginning, these meetings took place every month. Since 2002, the meetings are held every two months, see Toniolo (2005).

Market Infrastructures (CPMI).⁴ I also had the honour of heading up the Basel Committee two terms of office, between 2011 and 2018. This was a very interesting period, when the Committee had an important role to play in reforming banking regulations, based on the experiences from the global financial crisis. Having access to this exclusive platform, which is a direct consequence of the fact that we managed to join the Board so early, is something that few European countries, and no other Nordic country, have succeeded in.⁵

2.3 Leadership of the IMF and the UN

Sweden was not quite as quick to join the so-called Bretton Woods institutions: The International Monetary Fund and the World Bank. This seems to have been partly due to some doubts in Sweden as to whether membership of the Bretton Woods institutions was appropriate from a stabilisation policy perspective. However, Swedish foreign trade dependence seems to have been an important explanation for the fact that the Swedish position changed – membership of the International Trade Organization (ITO) and the GATT negotiations were namely judged to require IMF membership. Alternatively, it could have been possible to establish foreign currency agreements with the IMF member countries that were based on the IMF's Articles of Agreement, see Ahlström and Carlsson (2005). Faced with this choice, the government applied for membership of the IMF – it was apparently deemed better for Sweden to be part of the organisation, and thereby gain influence, than to remain outside and still have to observe its rules.

However, the delay in joining the IMF was not only due to doubts on the part of Sweden. Our neutrality during the Second World War appears to have led to some suspicion from, for instance, the United States, see Ahlström and Carlsson (2005). However, the distrust was no greater than that Riksbank Governor Ivar Rooth became the head of the International Monetary Fund, as soon as Sweden had become a member in the early 1950s, only to be succeeded by another Swede, Per Jacobsson.⁶ The fact that this happened at the same time as Dag Hammarskjöld was head of the United Nations was no less impressive.⁷ Sweden is thus one of the small number of countries that have had the top post at the International Monetary Fund, and is the only country apart from France that has had the post more than once.

⁴ For a description of the BIS committees, see the BIS website, www.bis.org.

⁵ It was not until 1994 that the Board was expanded to include the governors of the central banks in Japan and Canada. In the same year, the American Central Bank chose to take up its seat on the board, see Toniolo (2005). As one of the founding countries, Japan was represented on the board from the beginning, but it lost its seat in the aftermath of the Second World War. The United States had since 1935 renounced its seat for domestic policy reasons, see Toniolo (2005).

⁶ Ivar Rooth was Managing Director of the IMF from 1951 to 1956 and Per Jacobsson from 1956 to 1963.

⁷ Dag Hammarskjöld was the UN Secretary General from 1953 to 1961. During most of the 1940s, Ivar Rooth and Dag Hammarskjöld managed the Riksbank, Rooth as Governor, Hammarskjöld as Chairman of the Riksbank's General Council, see Barvell et al. (2019).

2.4 Success factors behind international influence

Small countries must be constructive

It is difficult, as a small country, to exert real influence in international contexts. In negotiations with individual, large countries, I believe that it is more or less impossible, but even in a multilateral context, there are certain factors that I consider to be crucial to whether or not a country can gain influence.

Taking part and sitting at the table when international issues are negotiated is of course a prerequisite for gaining influence, but it is equally important to be committed and constructive, especially if you come from a small country. It is important to show that one contributes to moving matters forward, and not just acting as a brake by taking into account special domestic interests. I believe that we in Sweden have long had a civil service with just that attitude, both within the cabinet offices and in public authorities. We may not always be as well-spoken and elegant as the French and British, but we are diligent and focused on finding effective consensus solutions that are good for everyone – not just individual interest groups. My experience is that the world around us also knows that Swedish civil servants are trained in how to act to get forward and get the job done. This has contributed to the fact that Swedish representatives have sometimes succeeded in gaining an influence that is greater than can be justified by Sweden's economic and political importance. There are surveys that confirm this picture. For example, researchers at the University of Gothenburg have measured the so-called network capital of different EU countries. Sweden is in an honourable fourth place, see Johansson et al. (2019). It is also significant that former first Deputy Governor Kerstin af Jochnick was appointed to be a member of the Banking Union's Supervisory Board as one of four representatives of the European Central Bank (ECB) – even though Sweden is not a member of the Banking Union. I am also sure that this constructive view of my colleagues at various levels can explain to a large extent the fact that I have had the privilege of becoming first Vice-President of the European Systemic Risk Board (ESRB) and Vice-President of the BIS Board of Directors.

Sweden has been there for others when it was needed

Another important condition for a country to have real influence is that other countries understand that it can be relied on if there are problems. In plain language, this means that you are prepared to put your money where your mouth is and offer a loan when others hesitate. And over the years we in Sweden have shown that we are ready to do so. For example, the Riksdag (Swedish parliament) decided that we should be one of the countries that formed the General Arrangements to Borrow in 1962 (GAB), the 'reserve fund' that the IMF could use if its regular sources of funding were not sufficient. Sweden has also provided bilateral loans to the IMF on various occasions, and we are also participating in the so-called New Arrangements to Borrow (NAB) which has replaced GAB as the IMF's reserve financing. In addition, the Riksdag set up bilateral loans to Iceland, Latvia and Ireland in connection with the most recent

financial crisis.⁸ In the same vein, the Riksbank also set up swap lines for other central banks to address their urgent needs before support from governments and the IMF/EU had been put in place, see Leung (2020). In 2015 the Riksbank also entered into a swap agreement with the central bank of Ukraine, see Sveriges Riksbank (2015). One can also add to this the whole of Sweden's foreign aid. Part of this consists of the Riksbank's involvement in so-called technical assistance, financed by Sida. The Riksbank is currently working on projects with the central banks of Namibia, Palestine, Rwanda and Ukraine. In relation to the size of the Swedish economy, Sweden is one of the largest foreign aid donors in the world – so it can probably be said that we have done our bit.

This willingness to provide resources, in the case of the Riksbank through loans, has been important for our international influence.⁹ By way of example, I would like to highlight Sweden's membership of the so-called G10 group, which consists of the countries that formed the GAB, namely the G7 countries plus the Netherlands, Belgium and Sweden. After two years, Switzerland also joined, so the number of countries was eleven, but the name G10 was retained. The fact that Sweden came to belong to this group has been extremely important for our international influence. It has offered direct access to the G7 countries and has made it easier for our decision-makers to build relationships with their counterparts in the most powerful countries in the world. Swedish representatives have thus belonged to a circle of trusted people who have been given access to information that we would not otherwise have received. It is an interesting fact that the same group of countries are those that have formed the board of the BIS for a long time. The fact that we managed to join the BIS Board in 1931, by luck and skill, has thus, in my opinion, been a very important explanation for our relatively strong international influence during the remainder of the 20th century.

2.5 We benefit from the good health of those around us

However, helping others has not only given Sweden influence in various organisations. It is just as much a question of the simple truth that instability risks spreading from one country to another, something that is painfully obvious in the case of Ukraine, although this is primarily a geopolitical issue rather than economic. As a small country, we have a particular interest in preventing instability in the world around us, since we are economically entirely dependent on the outside world to be able to export and maintain our financial stability. This means that “what's good for you is good for me”. This is another way of saying that international trade and growth is not a zero-sum game, but an example of a classic win-win situation. From this perspective, it is commendable, for instance, that the EU has managed to agree on

⁸ For information on the various credits (in Swedish), see, Committee on Finance (2009, 2010, 2012). On 28 February 2022, following the Russian invasion of Ukraine, the Swedish Parliament decided to provide not only humanitarian aid, but also support in terms of funding, weapons and protective equipment to the armed forces of Ukraine.

⁹ It is worth noting that the Riksbank has never made any loan losses on its credits to the IMF or other central banks.

financial support for Ukraine as well as the countries that have been relatively hard hit by the pandemic.

3 Challenges for Sweden

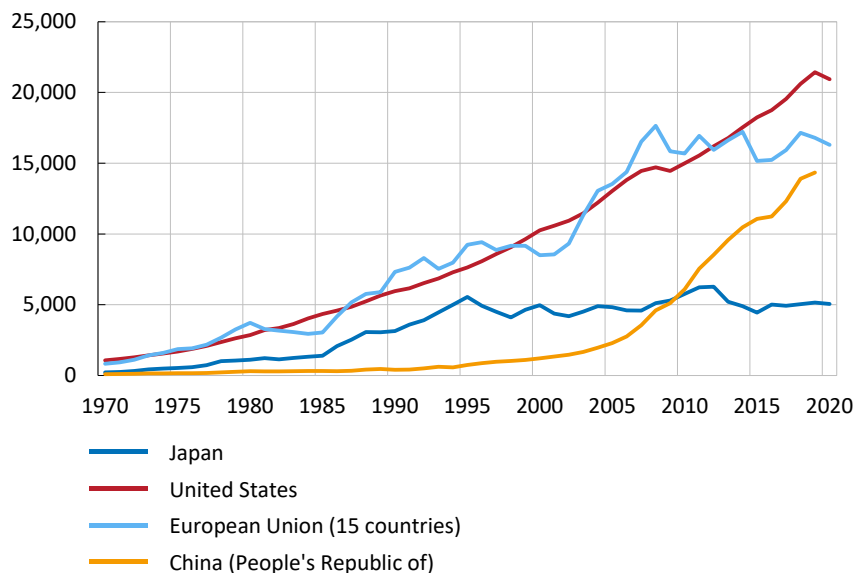
Sweden's ability to participate in, and exert influence on, international cooperation is not without challenges, however. As a result of globalisation, the international environment in which Sweden is active is changing rapidly and significantly.

3.1 Changed global power relations pressuring Sweden

The most direct result of globalisation is that economic power relations have changed. This is a process that has been going on for a long time and the result is, above all, that so-called emerging economies in Asia and Latin America have grown in strength compared to Europe and the United States. Of course, the Chinese development has been particularly remarkable, see Figure 4. The fact that these countries are growing faster than we are is in itself nothing to complain about, even if it would have been nice if certain European countries, in particular, could have performed better. In fact, the world economy would have developed considerably weaker without the impetus provided by these emerging markets. Not least, it would have been felt by Europe over the last ten years. As I mentioned earlier, this is an illustration of the fact that economic growth is not a zero-sum game – in absolute terms, it is better for us if things are better for the world around us.

Figure 5. Production in various countries and regions

GDP at current prices, USD billion



Source: The OECD

Sweden has not been able to join the G20 and the FSB

The drawback for Sweden lies instead at the political level, and our scope to pursue economic diplomacy. The emerging economies have legitimate expectations of having political representation in the international community that reflects their growing economic strength. And, to a large extent, it is Europe that is expected to make room. Perhaps the most obvious illustration is the emergence of the G20 and the Financial Stability Board (FSB). These groups were formed because the large countries saw a need to create forums that better reflected the changing global economic power relations than the existing organizations did. On the initiative of the G7 countries, the G20 was therefore created in 1999. The group is not a formal organisation, but rather an organised cooperation. It consists of the G7 countries and a number of the largest and fastest-growing emerging markets, none of which is European. In the same year, the G7 also created the Financial Stability Forum (FSF), which at that time did not include any emerging markets. However, this was changed in the context of the global financial crisis, and in 2009 the FSF became the FSB, with all G20 countries participating, plus the Netherlands, Spain and Switzerland.

By looking at the composition of the G20 and the FSB, we can clearly see the particularly vulnerable position that Sweden has: Instead of making these groups consist of G10 plus strong emerging markets, it was decided to let the FSB consist of G10 minus Sweden and Belgium, but plus Spain and a number of emerging markets.

This is the clearest illustration so far of the fact that Europe in general, and Sweden in particular, no longer enjoys the same privileged position in international cooperation as before. The Riksbank has argued that Sweden should be a Member of the FSB as a representative of the Nordic region, but without much success. We did manage to get the Riksbank and Finansinspektionen (the Swedish Financial Supervisory Authority) included in certain committees where we were deemed particularly relevant, but the Swedish authorities were not made full members. The Riksbank has then delegated to the Swedish National Debt Office to participate as the authority responsible for resolution of banks. The main reason why Sweden managed to get a certain representation was that we were home to the only global systemically important bank in the Nordic region, Nordea – should Nordea get into trouble, it was practical to have the responsible authorities nearby. However, as Nordea has now moved to Finland, Swedish participation in the FSB committees has already begun to decline.¹⁰

Another illustration of Sweden's decreasing role internationally is how our access to swap lines with other central banks has changed. As recently as during the financial crisis in 2008–2009, Sweden was among the countries that were offered a swap line with the US Federal Reserve in the first round. The Riksbank was then in the company of, amongst others, central banks in countries such as Canada, Japan, Switzerland and the United Kingdom, as well as the ECB. The central banks of these other countries have had a standing swap-line with Federal Reserve since 2013. When the Federal Reserve at the beginning of the pandemic offered temporary swap lines to other central banks, the Riksbank was one of nine central banks to be offered one. With

¹⁰ In 2018, Finland took over participation in the FSB group to identify data requirements for globally systemically important banks.

regard to other central banks in need of dollar a new lending facility was introduced.¹¹ The Federal Reserve has since ended the temporary swap-lines and the Riksbank has joined the lending facility.

Europe under pressure in the IMF

Another clear example of Europe and Sweden being pushed back on the international stage can be seen within the IMF. Here, there is great pressure from fast-growing emerging markets for their new economic strength to be reflected in their relative voting power. This is, of course, a legitimate requirement, but at the same time it is not clear how it should be adjusted and calculated technically. Countries such as China, for example, are not shy and if we are not careful, we risk being hit harder than is reasonable. How this is to be achieved in practice is therefore something that civil servants in the cabinet offices and at the Riksbank have to put quite a lot of common effort into negotiating internationally.

This global negotiating game has resulted, among other things, in a commitment from Europe's developed economies to reduce their representation on the IMF's Executive Board.¹² The idea is that this representation should be reduced by the equivalent of two executive director posts. It has developed into a form of bickering within Europe, where the larger EU countries have made it clear that they have no interest whatsoever in contributing to this.¹³ Here, too, we need to be vigilant in guarding our interests. Otherwise, there is a risk that the Nordic-Baltic constituency to which Sweden now belongs will be dissolved and, ultimately, we will have a considerably worse national representation in the IMF.

Sweden's position in the BIS is uncertain

A further organisation in which the Riksbank, and thus Sweden, risks losing influence in the not too distant future is the BIS. As I mentioned earlier, Riksbank governors have been members of the Board since the 1930s, see Toniolo (2005). Until now, each new Governor of the Riksbank has in practice been automatically elected. In fact, from 1942 to 2009, the President of the Board was appointed from one of what we often call the junior countries, that is, Belgium, the Netherlands, Switzerland and Sweden, which makes it clear what a strong influence these countries had at the time. Since then, the model for the appointment of a President has changed, and no

¹¹ Slightly simplified, in using the facility, which is known as the Foreign and International Monetary Authorities (FIMA) Repo Facility, a central bank enters into an agreement to sell US government bonds to the Federal Reserve while simultaneously promising to repurchase them the day after. Contrary to a swap-line, where the central bank in need of dollars can create its own currency to get dollars, making use of the lending facility requires the central bank in question to own US government bonds.

¹² The Executive Board is responsible for the day-to-day operations of the IMF and consists of a representative of each constituency, under the chairmanship of the Executive Director of the IMF. Other important bodies within the IMF are the Board of Governors, which is responsible for the IMF's strategic governance, and the International Monetary and Financial Committee (IMFC), which is the IMF's highest policy-making body.

¹³ In many cases, European countries share constituencies with countries from other parts of the world. A reduction in the board representation can then be achieved by adjusting the rotation schemes that govern how often and for how long each constituency country is represented on the Executive Board. Other ways of achieving a reduction are to combine constituencies, or to create more purely European constituencies.

President from these four countries has been appointed. I was actually appointed Vice-President of the Board as recently as November 2021, but it is clear that the position of the small countries in the BIS is weakening. Recently, a reform of the board was made, which entails, for instance, the maximum number of board members being reduced and that it is no longer self-evident that countries will gain renewed confidence, see BIS (2016). Here, too, Sweden is living dangerously - if a new member is to be elected to the Board, there is an imminent risk that a new Governor of Sveriges Riksbank will not have a seat.

3.2 Multilateralism in danger of losing ground

The tougher reality is seen not only in individual organisations, but also in the fact that multilateral cooperation itself is increasingly under pressure, in favour of negotiations between individual countries. This became particularly clear during the previous US administration. Hopefully it will change under the new President, but to some extent this remains to be seen. China is also showing an increasingly clear tendency to use its economic strength to put pressure on individual countries, not least in political contexts. Such pressure can be very difficult to deal with if there are no international regulations and institutions to fall back on. For a free trade-dependent nation like Sweden, it would therefore be very serious if the countries of the world moved away from multilateral cooperation. Weakened multilateral organisations inevitably mean a direct weakening of Sweden's ability to assert its interests in the international negotiating game. This applies not only to the economy; the political effects are at least as worrying, not least linked to China's increasing international self-confidence and Russia's aggressive expansion policy.

3.3 Strengthened role of euro, and Brexit make our exclusion clearer

Within the EU too, there are changes that affect Sweden's ability to exert influence.

For example, one effect of the economic and financial crisis in 2008–2009, which developed into a crisis for the whole of the euro area, has been that the euro area countries have intensified and deepened their economic and political cooperation with a view to improving the functioning of the monetary union. The enhanced cooperation in the euro area is illustrated, among other things, by the clearer role of the so-called Eurogroup, that is, the finance ministers of the euro area countries. They meet regularly on the eve of the ECOFIN meetings and are thus able to coordinate positions for the formal decisions of the ECOFIN Council. Euro area countries also meet in preparation for meetings of Heads of State or Government of the European Council, in so-called euro summits, which provide political guidance on issues of particular importance to the euro area countries, see the Euro Summit Statement (2011).

The work has been particularly intensive in developing a framework for dealing with the deeply interconnected European banking system. With the so-called Banking Union, the European Union has created a system of joint supervision of the major European banks through the ECB and joint resolution of failing banks through the

Single Resolution Board.¹⁴ Work is also underway to create the so-called third leg of the Banking Union – a system for a joint deposit guarantee – but this has not yet been achieved.¹⁵ The Banking Union is a response to the so-called financial trilemma, which states that one cannot simultaneously have 1) integrated financial markets and 2) financial stability with 3) national responsibility for supervision and resolution. The countries of the Banking Union have thus given up some national autonomy in exchange for a more integrated and more stable banking system. Through the Banking Union, the euro countries have further reason to cooperate to influence the formulation of EU regulations to suit their own interests. All in all, this means that it is becoming more difficult for countries outside the euro area or the Banking Union to influence the shaping of the rules that will apply to us.

The second important change in Sweden's ability to exert influence within the EU is linked to the United Kingdom's withdrawal from the EU. Brexit is in many ways a tragedy for Europe and will lead to a loss of economic and political strength in both the EU and the UK. The economic consequences will be more serious for the UK, but the EU will also be affected. This is particularly true in the financial field, where London is a global financial centre. The way in which the EU chooses to deal with the fact that this financial centre is now outside the EU is something that will be of great importance to the financial sector in the EU.

Prior to the British withdrawal, the United Kingdom was a very important partner for Sweden in the EU work. The group of non-euro countries, through the UK's involvement, had a political and economic weight which made it difficult for euro countries to ignore this group, particularly regarding issues with bearing on the financial markets.¹⁶ However, with the British withdrawal, this situation has changed radically, with a clear shift of power from non-euro countries to euro countries in terms of power over financial market issues. This is particularly unfortunate for a country like Sweden, with its relatively large financial sector and internationalised business sector. After Brexit, we belong to a far less influential group of countries, a group with which we also have much less in common than with the United Kingdom. We also know that some of these countries have a clear ambition to join the monetary union in the near term. As the group of non-euro countries shrinks, it will become increasingly peripheral in an EU perspective.

¹⁴ For information on the Banking Union, see www.consilium.europa.eu/en/policies/banking-union/.

¹⁵ For information on joint deposit guarantee work, see www.consilium.europa.eu/en/policies/banking-union/risk-reduction-european-deposit-insurance-scheme/.

¹⁶ The group of non-euro countries consists of Bulgaria, Denmark, Croatia, Poland, Romania, Sweden, the Czech Republic and Hungary.

4 What does the future have in store?

4.1 Globalisation cannot be stopped – we must do what is necessary to meet the requirements

In my analysis of how we in Sweden should deal with the challenges we face, I use as a starting point two basic circumstances, one of which is the one I mentioned at the beginning: Sweden is still a small country. And in relative terms, this is even more true now than it was 40 to 50 years ago. The second point is that the continued internationalisation process cannot be stopped and that our economic wealth is actually dependent on internationalisation. There are, of course, protectionist forces operating in the opposite direction, but in the long run I find it hard to see that internationalisation would not continue. If nothing else, it will be an inevitable consequence of technological development.

As I have noted, Swedish decision-makers have for a long time shown an understanding of what this requires. The Swedish, or Nordic, model is not based on protecting individual sectors and companies, as in some other countries. Instead, it is a question of facilitating production changeovers by, for example, providing social safety nets for individuals. This unsentimental attitude toward replacing individual industries with new ones is, I believe, fundamental to us being able to survive in an increasingly internationalised world. Having a well-managed, strong economy is also something that gives the necessary weight in a European discussion that will increasingly be dominated by the euro countries.

4.2 Nordic Baltic cooperation can safeguard influence

The fact that Sweden belongs to a region that in many ways is economically and technologically successful is also something that could be used more as an argument in the discussion about representation in international organisations. The four largest Nordic countries each hold rankings located between 40 and 60 in the world in terms of total GDP. If you look to the Nordic countries as a region, however, we have the seventeenth highest GDP in the world. Moreover, the region is economically and financially well-integrated, with a very advanced position in terms of innovation. As an illustration, since 2006 Sweden has been among the top three ranked nations in the Network Readiness Index, which assesses how well countries are able to benefit from the possibilities provided by digitalisation.¹⁷ In the latest measurement in 2021, four of the nine top ranked countries were from the Nordic region, with Sweden and Denmark in second and third places. Therefore, if we could bring more of a 'constituency' way of thinking into different organisations, we might be able to retain more of our international influence. This could be relevant in several organisations, such as the G20, FSB and BIS.

In this context, I am pleased to note that the central banks of Denmark, Iceland, Norway and Sweden have succeeded in becoming host to a so-called BIS Innovation

¹⁷ The Network Readiness Index was initially developed by the World Economic Forum. From 2019, it is produced by the independent think tank Portulans Institute in Washington, DC.

Hub (BISIH), based in Stockholm. This Nordic Innovation Centre, which was officially opened on 16 June 2021, will focus on a more in-depth analysis of technological financial innovation relevant to central banks. The Centre will function as a hub for a network of innovation experts, for research on important trends in financial technology of significance for central banks, and for promoting international collaboration aimed at improving the functioning of the global financial system. The idea is to take advantage of the fact that Sweden and the Nordic-Baltic region are, in many respects, world leaders in innovation related to IT and financial services. The hub is one of seven BISIHs in total distributed around the world.¹⁸

4.3 Self-determination is a chimera

The fact that Sweden is losing relative economic strength and absolute political influence over time, I believe, increases the cost of remaining outside the cooperation that is available. In addition, I would like to argue that the independence and self-determination we in Sweden believe we gain from not belonging to one cooperation or another is increasingly a chimera. Allow me to give some examples: When the Riksdag decides on Swedish legislation in the financial market area, there are not many decisions they can take where there is no more or less restrictive legislation at EU level that must be complied with. EU legislation in turn must be based on global agreements, because the EU, too, is not acting in complete isolation from the outside world. Deals within, for example, the G20, the FSB and the Basel Committee on Banking supervision bind the EU, if not legally, but politically, as the EU and individual EU countries are represented in these groups.

This is, for example, an important aspect when discussing whether Sweden should participate in the Banking Union. The so-called bank package, which is now being implemented in Swedish law, restricts the scope of both the Financial Supervisory Authority and the Swedish National Debt Office quite significantly, and means that the independence we believe we should retain in the event of exclusion is eroded even further – and this development is unlikely to decline in strength.

If we talk about the need for national solutions in the area of payments, for example, we should be aware that the financial infrastructure is already very internationalised, see Segendorf and Skingsley (2022). For example, a payment between two Swedish banks that is settled in the Riksbank's RIX system typically requires the use of technical infrastructures in 4–5 countries. This indicates that it is far better to sit at the table and exert the little influence we have, than to stand alone and have to adopt rules without having any influence over the decision-making process. With Britain's withdrawal from the EU, Sweden's situation risks becoming more and more similar to that of Norway, if we do not have the courage to move closer to the core of EU cooperation.

A pedant might object that some EU countries actually have significant structural problems, and that the euro cooperation has sometimes appeared near to collapse –

¹⁸ The BIS has also opened hubs in Singapore, Hong Kong, Switzerland, Canada, the United Kingdom and the euro area (Frankfurt/Paris).

so is a closer cooperation with these countries really good for Sweden? It is true that there is much room for improvement, both in the way individual economies operate and in the way the cooperation works. For example, the EU's efforts to improve the potential growth and functioning of the Member States have been sluggish. In my view, this partly reflects the fact that the Member States of the Union in many cases focus on short-term costs of reforms and do not see the long-term benefits, as these often benefit future generations, and this is a group that has difficulty in making its voice heard in the debate. However, a stronger Swedish voice in this cooperation could help the EU to better focus on openness and free trade and address the challenges of internationalisation.

From my perspective, we in Sweden must consider what alternatives we actually have, given the changed global circumstances I have described. We must accept that Sweden is a small country and that our economic prosperity depends on free trade and openness. From this perspective, protecting national self-determination, which is in many respects a chimera, would in my opinion be counterproductive, bordering on illogical. If you want to be a little drastic, you could say that you can choose to reverse into the future in the hope that we will be stronger on the sidelines. Or, we can accept that the world is becoming smaller and more competitive every day, and that this process makes new demands of us as a small country. The basic question that I think we in Sweden have to consider is whether it is better to sit at the table than to stand alone outside – in other words, whether we want to be a 'rule maker' or a 'rule taker'. Although our influence at the table will still be limited, I am convinced that we will gradually become more of the latter if we do not actively work to further deepen our international commitments. This is true even if, in some ways, it means that we have a reduction in nominal self-determination, which would be the case, for example, if we were to join the Banking Union and if we were to adopt the euro.

5 Closing comments

In this article, I have tried to give my perspective on Sweden's role in international cooperation, what could also be called economic diplomacy: how it has developed historically, which factors explain our priorities for multilateral cooperation, and the relatively large influence we have had over a long period of time, but also the challenges we are facing now in terms of global, and regional, shifts in various power relationships. If you are not aware of these changed circumstances, it is easy to be led to believe that our international influence is greater than it is in reality, and that we will retain our self-determination and influence if we don't 'rock the boat'. I believe that this is a serious misconception. We must have a serious discussion about Sweden's future role in, for example, the EU cooperation, based on the understanding that things are changing rapidly and that we, as a small country dependent on foreign trade, must deal with these new conditions. Recent events in Eastern Europe put these challenges in the headlights and show just how rapidly and unexpectedly changes can occur, and how important preparedness and institutional knowledge are for managing unforeseen situations.

References

- Ahlström, Göran and Benny Carlsson (2005), 'Hammar skjöld, Sweden and Bretton Woods', *Sveriges Riksbank Economic Review*, no. 3, pp. 50–81.
- Barvèll, Kai, Marianne Nessén and Mikael Wendschlag (2019), 'The Riksbank's organisation and operations – a look back through history', *Sveriges Riksbank Economic Review*, no. 1, pp. 66–107.
- Berg, Andreas (2008), 'Hur blev Sverige rikt och jämlikt?' ('How did Sweden become rich and equal?'), *Ekonomisk debatt*, vol. 36, no. 5, pp. 41–53.
- BIS (2016), 'Statutes of the Bank for International Settlements'.
- Committee on Finance (2009), *Credit to Iceland*, Committee on Finance report 2008/09:FiU34. (*Kredit till Island*, Finansutskottets betänkande 2008/09:FiU34.)
- Committee on Finance (2010), *Conditions for Sweden's credit to Latvia*, Committee on Finance report 2010/11:FiU13. (*Villkoren för Sveriges kredit till Lettland*, Finansutskottets betänkande 2010/11:FiU13.)
- Committee on Finance (2012), *Lending to Ireland*, Committee on Finance report 2011/12:FiU41. (*Utlåning till Irland*, Finansutskottets betänkande 2011/12:FiU41.)
- Euro Summit Statement (2011), 'Euro Summit Statement', statement of EU heads of state or government, 26 October 2011.
- Johansson, Markus, Daniel Naurin and Rutger Lindahl (2019), 'Samarbete och inflytande i EU:s ministerråd' ('Cooperation and influence in the Council of Ministers of the EU'), *Europapolitisk analys*, Swedish Institute for European Policy Studies (SIEPS).
- National Board of Trade (2021), *Sveriges utrikeshandel med varor och tjänster samt direktinvesteringar, helåret 2020*. (*Sweden's foreign trade in goods and services and direct investment, whole year 2020*.)
- Leung, Caroline (2020), *The Riksbank's measures during the global financial crisis 2007–2010*, Riksbank Studies, February, Sveriges Riksbank.
- OECD (2021), *OECD Economic Outlook*.
- Rooth, Ivar (1930), 'Notenbanken und B.I.Z.', article in *Berliner Börsen-Courier*, June 26.
- Segendorf, Björn and Cecilia Skingsley (2022), 'Rebuilding the financial structures', *Sveriges Riksbank Economic Review*, no. 1, pp. 24–37.
- Sveriges Riksbank (2015), 'Riksbank concludes agreement with National Bank of Ukraine', press release 16 September 2015.

Sveriges Riksbank (2020), 'Sweden extends its loan commitments to the IMF', press release 22 October 2020.

Toniolo, Gianni (2005), *Central Bank Cooperation at the Bank for International Settlements, 1930–1973*, Cambridge University Press.

APPENDIX A – Glossary

BIS – Bank for International Settlements: The Bank was founded in 1930 and is thus the oldest international financial institution. An early task for the Bank was to participate in the settling of reparation payments imposed on Germany following the First World War. The Bank is owned by 63 central banks worldwide and its mission is to support central banks' pursuit of monetary and financial stability through international cooperation. To this end, extensive analysis and research work is carried out, including through a number of committees and working groups. It also hosts certain groups, such as the Basel Committee on Banking supervision, which sets global standards for banking supervision, and the Financial Stability Board (FSB). The BIS also serves as a bank for central banks. The bank's headquarters are in Basel, Switzerland.

FSB – Financial Stability Board: An organization of representatives from central banks, financial supervisory authorities and ministries of finance, established by the G20 in 2009, with the aim of promoting financial stability by coordinating national financial authorities and the work of international standard setting groups to strengthen the regulation and supervision of the financial sector. The predecessor to the FSB, the Financial Stability Forum (FSF), was founded by the G7 countries in 1999. The FSB secretariat is located in Basel and is financed by the BIS. Members are government agencies from Argentina, Australia, Brazil, the EU, France, India, Indonesia, Italy, Japan, Canada, China, Mexico, the Netherlands, Russia, Saudi Arabia, Switzerland, Spain, the United Kingdom, South Africa, South Korea, Turkey, Germany and the United States.

G20: An informal association of countries without a permanent organisation and with a rotating presidency. The group declared itself the primary forum for economic cooperation in 2009. Its members are Argentina, Australia, Brazil, the EU, France, India, Indonesia, Italy, Japan, Canada, China, Mexico, Russia, Saudi Arabia, the United Kingdom, South Africa, South Korea, Turkey, Germany and the United States. Spain has a seat as a permanently invited guest.

OECD – Organisation for Economic Cooperation and Development: Created in 1961 from the former OEEC (Organization for European Economic Cooperation), which in turn was a product of the Marshall Plan for the reconstruction of Europe. The organisation is a forum for cooperation between member states' governments and aims, among other things, to promote economic growth and employment and a higher standard of living in the Member States.

IMF – International Monetary Fund: Founded in 1944 as one of the two so-called Bretton-Woods institutions (the other is the World Bank). The IMF works to ensure the stability of the global financial system and to prevent international financial crises. The IMF monitors and analyses the development of the 190 countries that are members. The organisation also provides technical assistance and lends money to countries carrying out economic adjustment programmes. The IMF's Board of Directors consists of representatives of the IMF's 24 constituencies, where each constituency covers one country or group of countries.