



EU Japan Economic Relations Lecture No.12

– A Partnership for the Twenty-First Century? –

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Autumn Term, 2006

Review of Lecture No.11

- The WTO rules allow member countries to conclude customs unions and FTAs as an exception but there is debate over the desirability of FTAs/EPAs.
- Japan and the EU are both actively pursuing completion of FTAs/EPAs with many countries, all the while emphasising the importance of the WTO.
- Zara's strategy is to maintain costs of production low, by shortening the time between product development, production and final sales and employing low-cost labour. It maintains the image of a high-quality brand by opening boutiques close to other high-quality/high-price brand boutiques.

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Agenda for Lecture No.12

- Partnership for the Twenty-First Century?
(pp.166-172)
- Enlargement of the EU
- The enlarged EU and Japan
- Case study: Yazaki Sogyo

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The Importance of Institutionalisation (1)

- In responding to a changing economic and political international system, the ad hoc initiatives undertaken by Japan and the EC/EU have developed into a more permanent channel of communication.
- The institutionalisation of relations has several important implications for the structure of Japan-EU interaction.

(p.168)

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The Importance of Institutionalisation (2)

- Firstly, the structure of the bilateral relationship itself has been instrumental in developing the dialogue and, in the absence of major socio-political or economic conflicts, relations between Japan and the EU have been sustained to a large extent by the slow accumulation over four decades of modes of understanding, accepted responses and channels for communication.

(p.168)

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The Importance of Institutionalisation (3)

- Japan-EU relations are now premised upon a fairly unassuming document that was signed in 1991. Despite the somewhat vague nature of its proposals and its non-treaty status, however, the Hague Declaration represented a significant step forward for the bilateral relationship.
- The declaration laid down in a coherent and legitimate document the range of relations which already existed between Japan and the EU.

(p.168)

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The Importance of Institutionalisation (4)

- What is more, the declaration served to legitimise these bilateral relations, by reformulating a mechanism already in place between the EC and the US, and by drawing upon the joint Japan-EC recognition of the changing global environment.
- (T)he Hague Declaration provides ... the *raison d'être* of Japan-EU dialogue and has become the explicit basis upon which joint actions are undertaken.

(p.169)

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The Importance of Institutionalisation (5)

- (T)he declaration served to develop regularised institutions --- at all levels --- which provide Japan and the EU with mutually recognised forums in which to air their differences and seek compromises.
- (R)egularised contract helps the bilateral partners to delimit the parameters of their mutual interaction, and to clarify channels for action when the nature of the decision-making process is fragmented, as is the case in Japan where no single government division deals with 'regional' European issues.

(p.169)

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The Importance of Institutionalisation (6)

- At the important level of issue linkage, ... the overarching structure created by the Hague Declaration means that issues of different natures (trade, environment, security) can be associated within one umbrella grouping (Japan-EU relations).
- This consolidation of different issues within the bilateral framework has also been important in promoting Japan and the EU's potential as global civilian powers.

(p.169)

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Enlargement (1)

- The EU currently has 27 Member States.
- The Original Six Member States -- Belgium, France, Germany, Italy, Luxembourg and the Netherlands
 - * 1973: Denmark, Ireland and the United Kingdom
 - * 1981: Greece
 - * 1986: Spain and Portugal
 - * 1995: Austria, Finland and Sweden
 - * 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia ('EU-10')
 - * 2007: Bulgaria, Romania

http://europa.eu/scadplus/glossary/enlargement_en.htm

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Enlargement (2)

- Candidate countries:
Croatia, the Former Yugoslav Republic of Macedonia and Turkey. Accession negotiations with Croatia and Turkey opened on 3 October 2005.
- Countries of the Western Balkans engaged in the stabilisation and association process:
Croatia and the Former Yugoslav Republic of Macedonia (Candidate countries),
Albania, Bosnia and Herzegovina, Montenegro and Serbia, including Kosovo, under United Nations tutelage (Potential candidate countries)

http://europa.eu/scadplus/glossary/enlargement_en.htm

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Enlargement (3)

- *Attitudes towards European Union Enlargement*

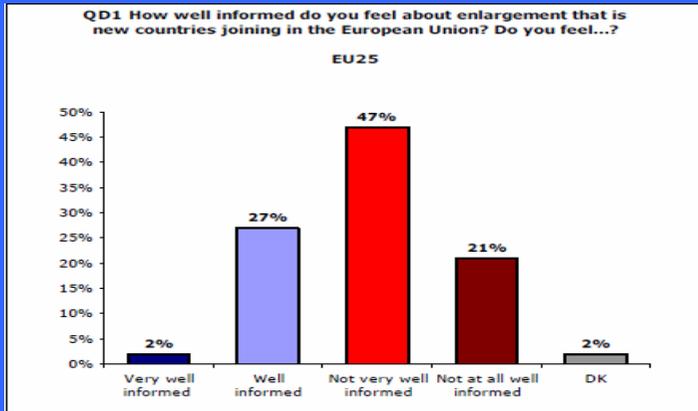
Fieldwork March-May 2006, Publication July 2006

http://ec.europa.eu/public_opinion/archives/ebs/ebs_255_en.pdf

Coverage: the population of the respective nationalities of the European Union Member States, resident in each of the Member States and aged 15 years and over. Also conducted in the two acceding countries (Bulgaria and Romania) and in the two candidate countries (Croatia and Turkey) and in the Turkish Cypriot Community.(cf. Technical Specifications in the Annex)

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Enlargement (4)



http://ec.europa.eu/public_opinion/archives/ebs/ebs_255_en.pdf

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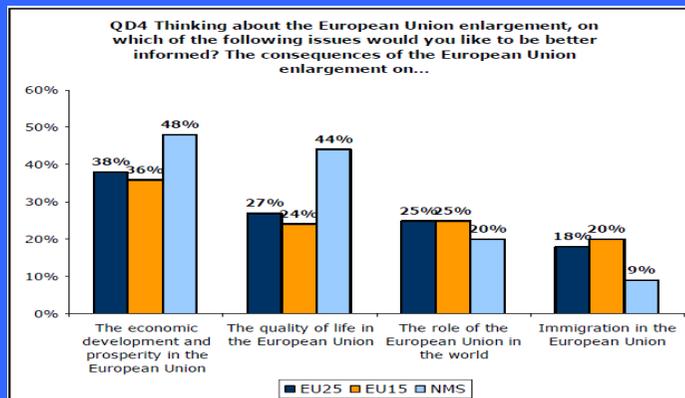
Enlargement (5)

EU25	FOR	AGAINST	DK
Total	45%	42%	13%
Well informed	53%	41%	6%
Not well informed	41%	43%	15%

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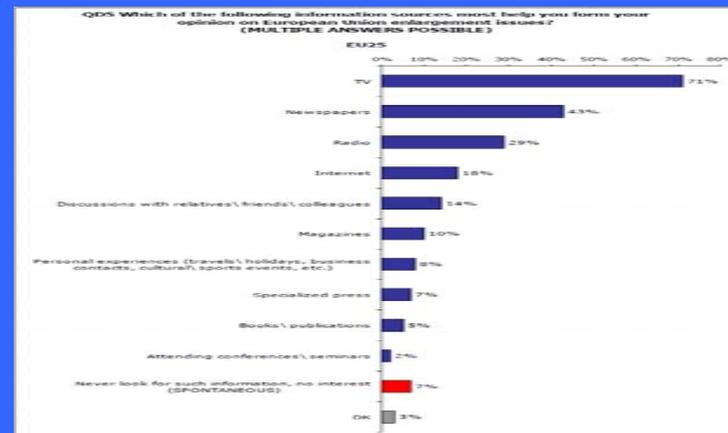
Enlargement (6)



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Enlargement (7)

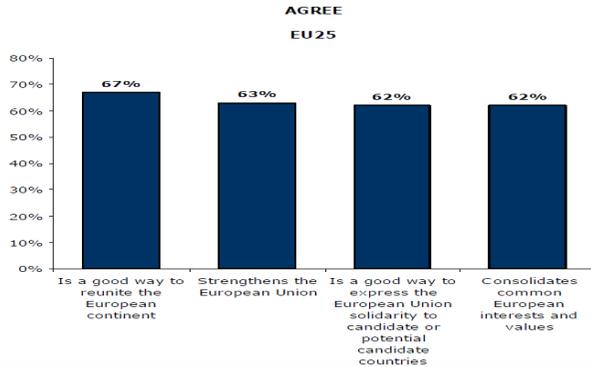


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Enlargement (8)

QD8 Please tell me, for each of the following statements, if you agree or disagree with it. In general terms, the enlargement of the European Union...



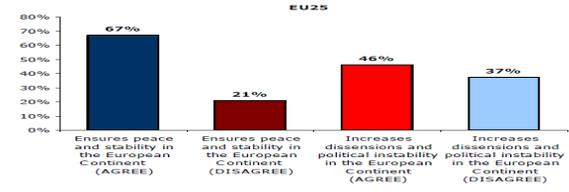
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Enlargement (9)

N.B. With respect to the same issue, more interviewees agreed with the positive statements than with the negative ones. It seems that for most respondents it is easier to affirm a positive pronouncement than to object to a negative one. In addition negatively phrased questions seem to confuse several respondents. (p.28)

QD9.1 Do you agree or disagree with this:
a) Ensures peace and stability in the European Continent (+)
b) Increases dissensions and political instability in the European Continent (-)

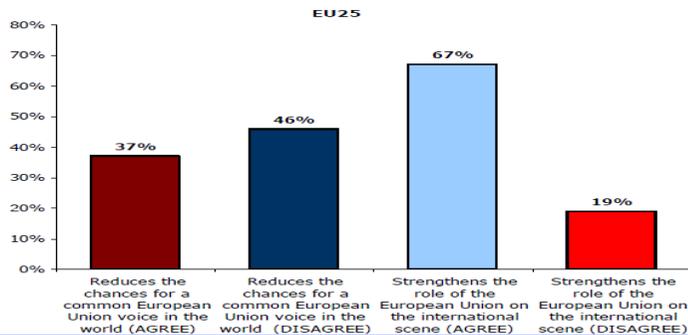


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Enlargement (10)

QD9.2 Do you agree or disagree with this:
In political terms, the enlargement of the European Union...
a) Reduces the chances for a common European Union voice in the world (-)
b) Strengthens the role of the EU on the international scene (+)

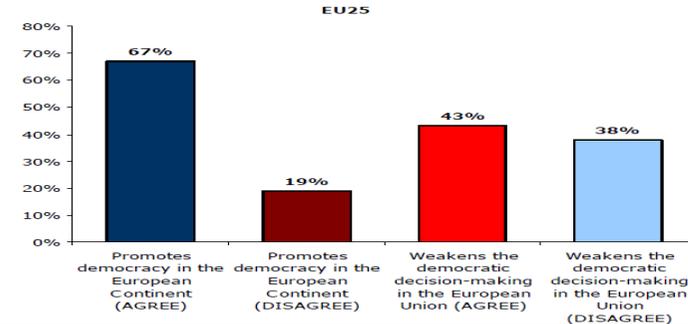


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Enlargement (11)

QD9.3 Do you agree or disagree with this:
In political terms, the enlargement of the European Union...
a) Promotes democracy in the European Continent (+)
b) Weakens the democratic decision-making in the European Union (-)

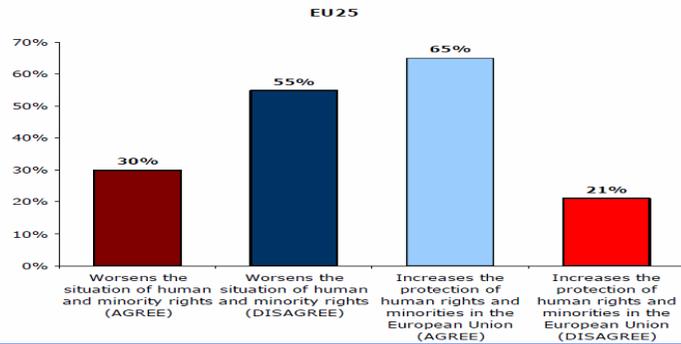


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Enlargement (12)

QD9.4 Do you agree or disagree with this:
In political terms, the enlargement of the European Union...
a) Worsens the situation of human and minority rights (-)
b) Increases the protection of human rights and minorities in the European Union (+)

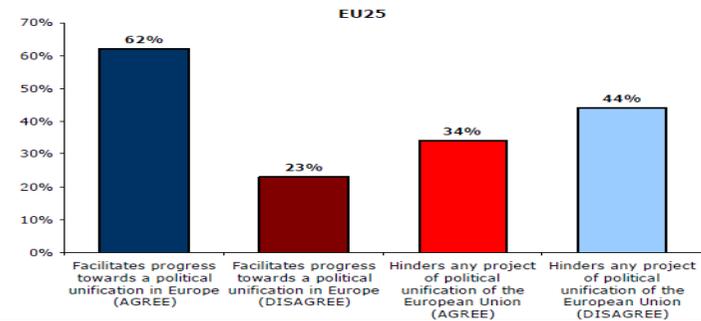


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Enlargement (13)

QD9.5 Do you agree or disagree with this:
In political terms, the enlargement of the European Union...
a) Facilitates progress towards a political unification in Europe (+)
b) Hinders any project of political unification of the European Union (-)



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Enlargement (14)

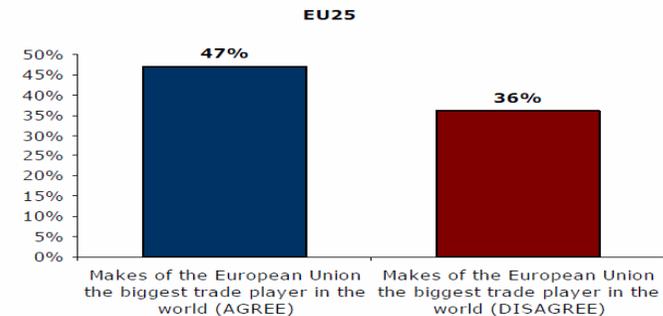
In relation to 'globalisation',

- Citizens of the EU25 are not totally convinced that a larger European Union would have a better chance of meeting the challenges of globalisation and enhancing its capacity to compete with other international players.
- They are also quite divided about whether enlargement encourages economic development, moreover many think it increases labour transfer to countries where it is cheaper. (p.41)

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Enlargement (15)

QD10.1 And in economic terms, the enlargement of the European Union...
a) Makes of the European Union the biggest trade player in the world (+)

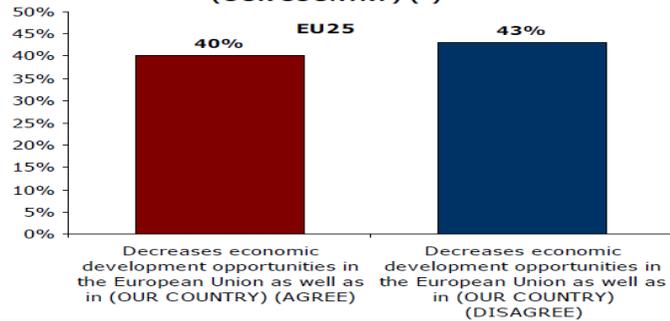


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Enlargement (16)

QD10.1 And in economic terms, the enlargement of the European Union...
b) Decreases economic development opportunities in the European Union as well as in (OUR COUNTRY) (-)

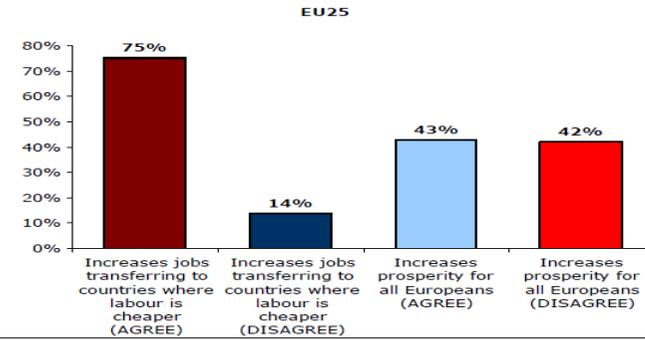


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Enlargement (17)

QD10.2 And in economic terms, the enlargement of the European Union...
a) Increases jobs transferring to countries where labour is cheaper (-)
b) Increases prosperity for all Europeans (+)

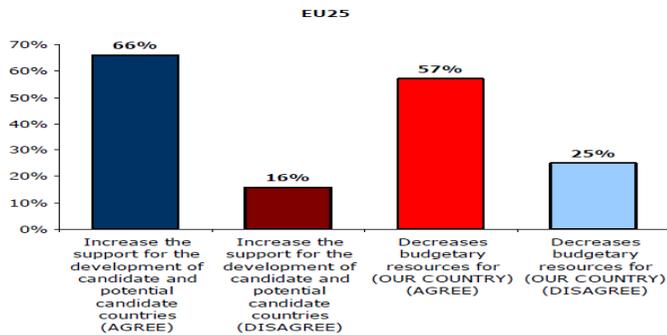


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Enlargement (18)

QD10a.3 And in economic terms, the enlargement of the European Union...
a) Increase the support for the development of candidate and potential candidate countries (+)
b) Decreases budgetary resources for (OUR COUNTRY) (-)

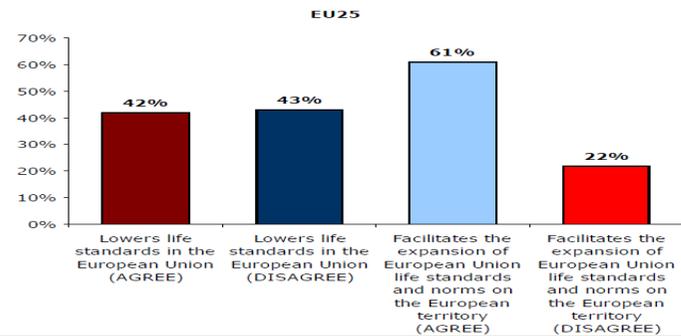


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Enlargement (19)

QD11.2 And in social terms, the enlargement of the European Union...
a) Lowers life standards in the European Union (-)
b) Facilitates the expansion of European Union life standards and norms on the European territory (+)

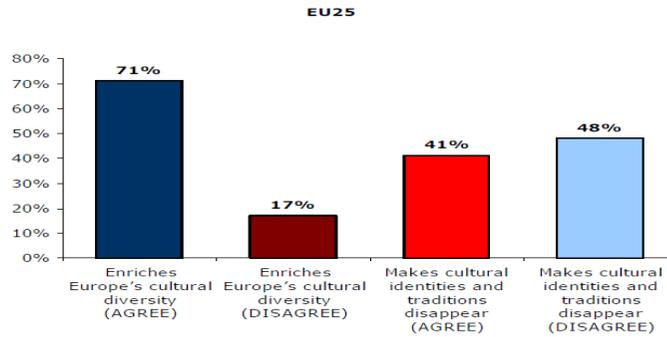


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Enlargement (20)

QD11.3 And in social terms, the enlargement of the European Union...
a) Enriches Europe's cultural diversity (+)
b) Makes cultural identities and traditions disappear (-)

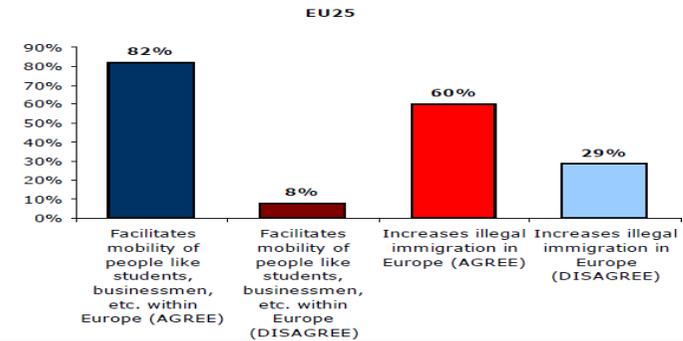


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Enlargement (21)

QD11.4 And in social terms, the enlargement of the European Union...
a) Facilitates mobility of people like students, businessmen, etc. within Europe (+)
b) Increases illegal immigration in Europe (-)

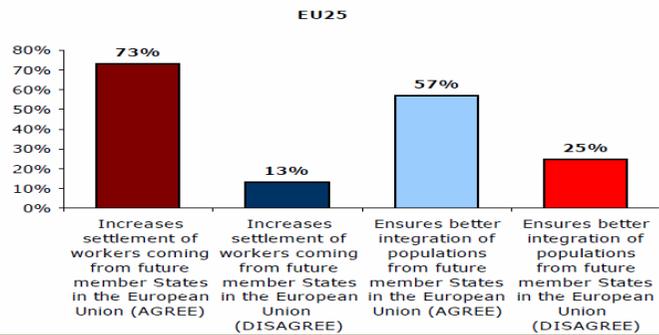


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Enlargement (22)

QD10.4 (...) the enlargement of the European Union...
a) Increases settlement of workers coming from future member States in the European Union
b) Ensures better integration of populations from future member States in the European Union

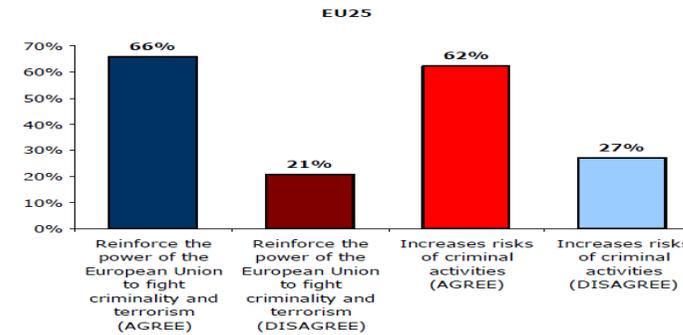


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Enlargement (23)

QD11.1 And in social terms, the enlargement of the European Union...
a) Reinforce the power of the European Union to fight criminality and terrorism (+)
b) Increases risks of criminal activities (-)

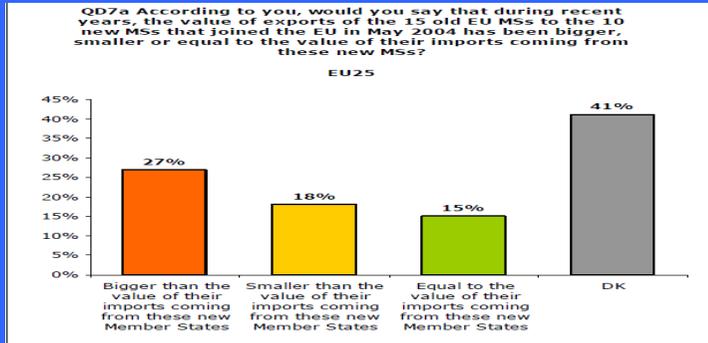


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Enlargement (24)

Apparently there are some differences between the perception of respondents regarding the trade and migration aspects of enlargement and the reality. (p.60)



http://ec.europa.eu/public_opinion/archives/ebs/ebs_255_en.pdf

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Enlargement (25)

Enlargement, Two Years After – An Economic Success, COM(2006)200, adopted on 03 May 2006

http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/ocp24en.pdf

- The EU-10 countries are very open economies with trade (exports plus imports) representing an average of 93% of GDP compared with an EU-15 average of 55%.
- The EU-15 share in total EU-10 trade has risen from about 56% in 1993 to 62% in 2005.

(COM(2006)200, p.2)

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Enlargement (26)

- The EU-10 market share in EU-15 imports has also increased by 8 percentage points to about 13% over the period 1993–2005 (excluding intra-EU-15 trade) with the Czech Republic and Poland (with market share of about 3.5%, each) being the largest exporters.
- While the market gains of the EU-10 have been significant, reflecting competitive labour cost conditions, the EU-15 continue to run a substantial trade surplus with the new Member States.

(COM(2006)200, p.2)

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Enlargement (27)

- To a large extent, the pattern of trade integration reflects complementarities between Member States. Comparative advantage estimates confirm that the trade of EU-10 is so far dominated by low- and medium-low technology specialisation using labour intensively. The trade of the EU-15 is more specialised in products requiring a higher skill and capital intensity.
- Upon enlargement, the average tariff applied by the EU-10 to imports from third countries decreased from 8.9% to the EU average of 4.1%.

(COM(2006)200, p.3)

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Enlargement (28)

- Although they face increased competition from emerging markets, in particular China and India, the EU-10 have significantly increased their share in world markets, with exports rising from 1% in 1992 of the world total to 2.8% in 2003.
- As it can be expected of catching up economies, the EU-10 have been running relatively large trade deficits, which have been easily financed by inward foreign direct investment.

(COM(2006)200, p.3)

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Enlargement (29)

- In spite of the reduction in tariffs and competition from emerging markets, the **average trade deficit** has strongly diminished in recent years to about **3% of GDP by 2005**. In a number of countries however, external imbalances remain sizeable, warranting – especially when coupled with high inflation – close policy surveillance.
- Since the mid-1990s the presence of foreign firms in the new Member States has grown rapidly, with the stock of foreign direct investment (FDI), which was virtually non-existent some ten years earlier, reached over € 190 billion in 2004, or **40% of local GDP**.

(COM(2006)200, p.3)

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Enlargement (30)

- With a share of three quarters of the total FDI to new Member States, the old Member States are the main investor.
- Germany is the top investor and is particularly active in the Czech Republic, Hungary, Poland and Slovakia while the Nordic countries are the main investors in the three Baltic States.
- The largest part of FDI (55%) is invested in services, followed by manufacturing (37%).

(COM(2006)200, p.3)

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Enlargement (31)

- While in the Baltic States and to a lesser extent in Poland manufacturing FDI is still concentrated in traditional industries like food processing, textiles and wood products, in Hungary, the Czech Republic and Slovakia foreign investors are focusing increasingly on modern manufacturing sectors (e.g. office machinery, computers, telecommunication, cars).

(COM(2006)200, p.3)

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Enlargement (32)

- (B)arriers to trade, foreign direct investment and other capital movements had already been removed prior to enlargement
- the free movement of persons and workers constituted the most significant new dimension of economic integration on 1 May 2004.
- (T)he 2003 Accession Treaty granted the possibility – for a transitory period of up to 7 years – to invoke a derogation from the principle of the free movement of workers ... by allowing national restrictions on workers from all new Member States except Cyprus and Malta. (COM(2006)200, p.5)

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Enlargement (33)

- During the first–two year phase of the transitional arrangements, Ireland, Sweden and the UK decided not to apply restrictions, although the UK adopted a mandatory registration scheme.
- The other EU–15 Member States maintained a work–permit regime, sometimes combined with a quota system.
- During the first phase of the transitory period all new Member States opened their labour markets to each other, but Poland, Slovenia and Hungary apply reciprocal restrictions to EU–15 workers. (COM(2006)200, p.5)

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Enlargement (34)

- These transitional arrangements were up for review after two years.
- Following the first review in early 2006, four Member States (Greece, Spain, Portugal and Finland) have decided to lift restrictions for the second, three–year phase of the transitional arrangements starting on 1 May 2006, while six others (Belgium, Denmark, France, Italy, the Netherlands and Luxembourg) have decided to alleviate them. (COM(2006)200, p.5)

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Enlargement (35)

- Migratory flows from the EU–10 have in general been small, even towards countries that have allowed unrestricted movement of workers, and there have been no substantial disruptions of recipient national labour market.
- Indeed, if anything foreign workers have complemented the existing skill base of the EU–15 labour markets. In fact, the first review of the Transitional Arrangements confirmed that migration from third countries is far greater than intra–EU mobility. (COM(2006)200, p.5)

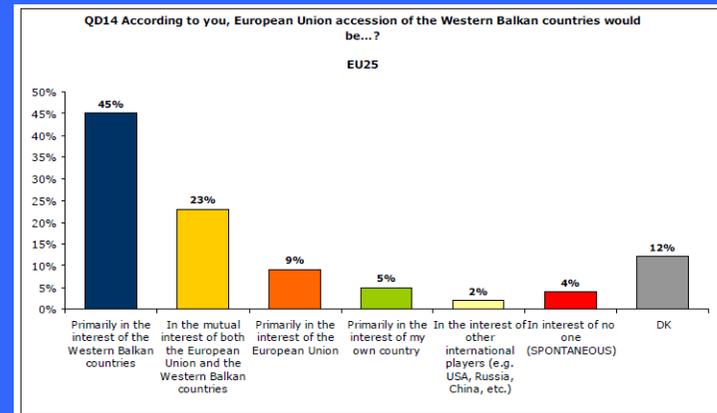
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Enlargement (36)

- In 2005, in the two countries with the highest shares of non-nationals in the working-age population, namely **Austria** and **Germany** (at about 10%), only a small share (1.5% and 0.6%, respectively) comes from the EU-10 (while about **7% are non-EU nationals**). The largest share of EU-10 nationals (about 2%, against a total of 8% for all non-nationals) is in **Ireland**.
- Interestingly, but it is difficult to establish the direction of causality, those Member States without restrictions for EU-10 workers (e.g. Ireland and the UK) are the ones which experienced a better employment performance. (COM(2006)200, pp.5-6)

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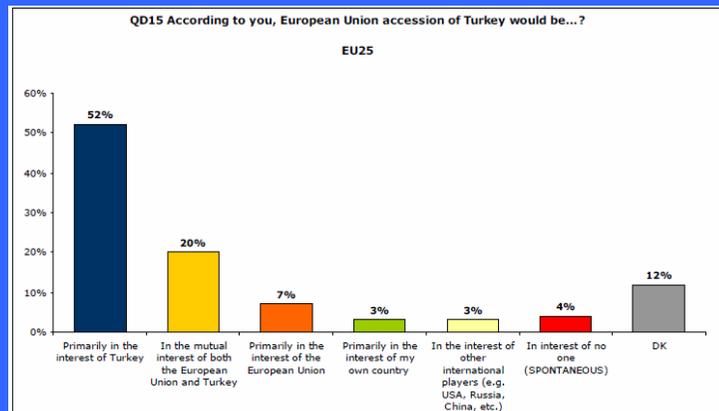
Enlargement (37)



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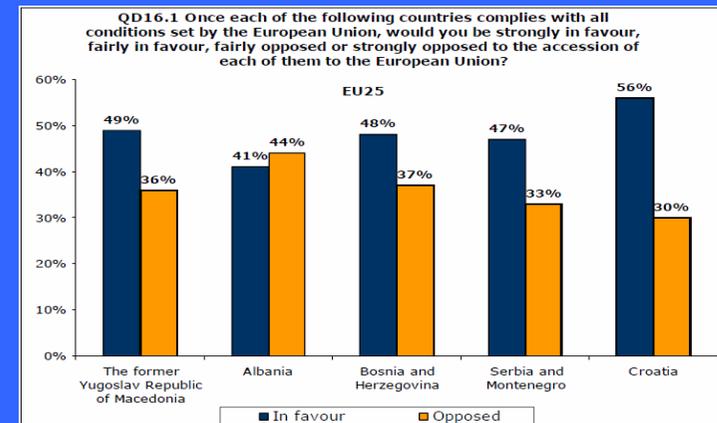
Enlargement (38)



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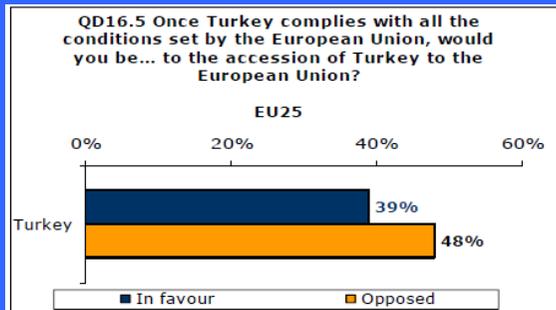
Enlargement (39)



http://ec.europa.eu/public_opinion/archives/ebs/ebs_255_en.pdf

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Enlargement (40)



http://ec.europa.eu/public_opinion/archives/ebs/ebs_255_en.pdf

On 11th December 2006, EU Foreign Ministers agreed to suspend 8 out of 35 'chapters' in Turkey's accession negotiations.

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Enlargement (41)

- On 1 January 2007, Bulgaria and Romania joined the European Union, 'completing' the fifth enlargement of the EU.
- Except for Finland and Sweden, most of the EU15 have placed restrictions on the movement of labour from Bulgaria and Romania.
- On 14th December 2006, The European Commission organised a popular event hosted by President José Manuel Barroso and Enlargement Commissioner Olli Rehn which took place in Brussels in the presence of the President of Romania and the Prime Minister of Bulgaria. http://ec.europa.eu/enlargement/index_en.htm

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Enlargement (42)

- The world's biggest ever gingerbread, representing a giant map of the EU, (was) unveiled. The map ... (3x3 metres) ... has been submitted for an entry in the Guinness Book of Records.
- The President of Romania and the Prime Minister of Bulgaria (completed) the enlarged EU's map by inserting two pieces corresponding to the maps of their countries into the gingerbread map of the EU.
- A 'Human Chain' initiative (was) launched in cooperation with the music channel MTV.

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1801&format=HTML&aged=0%3Cuage=EN&guiLanguage=en>

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The Enlarged EU and Japan (1)

- Cf. The Delegation of the European Commission to Japan, 'European Union Enlargement: The Implications for Japan', August 2006

http://jpn.cec.eu.int/data/current/IMPLICATIONS_0608.pdf

1.1 A larger market

p.ex. A Japanese investor established in Romania will have the freedom to provide services throughout the EU 27 under the same conditions as operators from other Member States.

(p.7)

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The Enlarged EU and Japan (2)

1.2 A single set of rules for business

A single set of trade rules, a single tariff, a single set of administrative procedures will apply right across the enlarged Union. This will greatly simplify the dealings that Japanese operators have within Europe.

1.3 A more open economy with a high standard of rules

Japanese and other foreign investors will benefit from the fact that: (pp.7-8)

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The Enlarged EU and Japan (3)

- (A) All new Member States will automatically be subject to the WTO's Government Procurement Agreement (GPA) via membership of the European Community (EC), and they will apply the EC legislation on public procurement.
- Current EU commitment to Japan under the GPA will not be affected and Japanese goods, services and suppliers may benefit from new opportunities in the enlarged EU.

(p.8)

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The Enlarged EU and Japan (4)

1.4 New opportunities for Japanese businesses

Japanese entrepreneurs can benefit from developments in Europe through the obvious advantages of being locally present in a market of nearly half a billion consumers with no impediments to free trade, agreed standards and harmonized legal frameworks and regulation.

- Particularly in areas where Japan has an international comparative advantage, ... Japanese companies will be in a favourable position to benefit from faster growth rates and increasing living standards in the Union. (p.8)

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The Enlarged EU and Japan (5)

- Based on earlier examples of EU enlargement, ... strong growth impetus is expected in the new Member States. Dynamic development will, ... also extend through the entire (EU) and its neighbouring regions.
- Production in any of the new Member States now can serve customers in all areas of Europe.
- Building upon their comparative advantage of lower labor cost and upgraded infrastructure, the accession countries will enable cost-efficient production, facilitate access to all Member States, and serve as a gateway to other eastern European countries and Russia.

(p.8)

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The Enlarged EU and Japan (6)

6.1 Trade defence instruments

The EU does not expect any increase in TDI (Trade defence instruments) cases after enlargement, for both legal and economic reasons.

Given that EU trade defence action is very limited, and even more so regarding Japan, enlargement will have no impact for Japan in this field. (P.15)

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The Enlarged EU and Japan (7)

6.2 Bilateral Agreements: the Mutual Recognition Agreement (MRA) and the Agreement concerning Cooperation on Anti-Competitive Activities

The extension of the MRA to 10 more Member States offers new possibilities to Japan as products certified under the terms of the MRA will circulate freely in these countries. There will be no need to amend the body of the agreement, though minor amendments will need to be introduced ...

As the agreement (concerning Cooperation on Anti-Competitive Activities) has been concluded by the European Community, no changes will be necessary ... as there is no change in the contracting party. (pp.16-17)

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The Enlarged EU and Japan (8)

6.3 Dialogue between the EU and Japan:

In addition to the official bilateral agreements that exist between the EU and Japan, there are also a number of non-legal agreements in which the new Member States will participate after accession:

- The EU-Japan Action Plan: Since December 2001, the EU and Japan have been implementing the Action Plan, which has four main objectives:

(p.17)

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The Enlarged EU and Japan (9)

promoting peace and security, strengthening the economic and trade partnership, coping with global and social challenges, and bringing together people and cultures. Implementation of the Action Plan is reviewed at each EU-Japan Summit.

- Regulatory reform dialogue: The EU and Japan have been actively participating in each other's regulatory reform efforts since 1995 through an intensive discussion on regulation. They cooperate closely, exchanging list of proposals

(p.17)

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The Enlarged EU and Japan (10)

for regulatory reform measures via the European Commission, and Japan will be in a position to **propose regulatory changes in the new Member States**.

- EU–Japan Business Dialogue Round Table

In order to provide a more focused and proactive business input into EU–Japan relations, the EUJBDRT was created in 1999 by merging the EU–Japan Industrial Round Table and the EU–Japan business forum.

(p.17)

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The Enlarged EU and Japan (11)

The board members of 44 leading EU and Japanese enterprises meet for a round table discussion once a year to review issues affecting the investment and industry, and to make policy recommendations to the EU and the Japanese government.

- Asia–Europe Meeting (ASEM):
New participants are admitted by a consensus decision of the ASEM Summit.
(pp.17–18)

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The Enlarged EU and Japan (12)

8.1 Schengen, the free movement of persons, immigration, visas and asylum

The Schengen acquis ... implies the removal of borders between EU Member States, referred to as internal borders. ... However, before internal borders can be lifted, a special evaluation process must conclude that the country concerned is able to apply the compensatory measures ” specified in the Schengen acquis. ... Most Member States already apply common rules in these areas as a result of the Schengen agreements, now incorporated into the Community framework (Articles 61 to 69 of the EC Treaty). In practice, the current EU border control acquis has been developed in the framework of Schengen and, in particular, the “Common manual on external borders”. (p.19)

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The Enlarged EU and Japan (13)

8.2 Increased mobility of Japanese nationals travelling to new Member States and within the EU

- Japanese nationals are exempted from the visa requirement, and thus be able to travel to all new Member States for a stay not exceeding three months without being submitted to visa formalities...
- Schengen does not deal with work permits; for new Member States, as for current Member States, work permits for Japanese and other non–EU nationals continue to be dealt with under national policy and legislation.
(p.19)

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The Enlarged EU and Japan (14)

- Statement by Ms. Yoriko Kawaguchi, Minister for Foreign Affairs, on the Enlarged EU (May 1, 2004)

Japan has been conducting various consultations and talks with the EU and its new member countries so that Japanese business circles and especially Japanese companies operating in Europe, for example, will not be disadvantaged by the enlargement.

Japan will continue to consult with the EU and its member countries, so that this enlargement will be beneficial to both Japan and the EU and their relations will be further strengthened.

<http://www.mofa.go.jp/announce/announce/2004/5/0501.html>

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The Enlarged EU and Japan (15)

- EU Enlargement and its impact on Business

Cf. the presentation (in Japanese) prepared by Jetro Brussels, November 9, 2006

<http://www.jetro.be/jp/business/seminar/euenlarge061109/shiryo1.pdf>

which, among other things, counts 174 Japanese manufacturers in 'central and eastern Europe' in 2005

and other information available from

<http://www.jetro.be/jp/>

or <http://www.jetro.go.jp/biz/world/europe/>

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Case Study: Yazaki Sogyo (1)

- Yazaki Sogyo (Yazaki Corporation) was established in 1941.
- It has 153 group companies (including 80 overseas companies), and 181,531 employees (including 162,099 overseas employees), as of June 2006.
- Yazaki Group boasts a diverse range of products in the global automotive and environmental systems sectors. Yazaki holds a leading position in wiring harnesses, compactly bundled electrical wires and data circuits for automobiles, and also produces environmentally friendly electrical wires and optical fibre.

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Case Study: Yazaki Sogyo (2)

- YAZAKI EUROPE LTD is in charge of group operations in Europe. Established in 1980, its head office is located in the suburbs of London.
- Yazaki has sales offices in Hemel Hempstead, Newcastle, Derby, Coventry, Swindon, Oplabbek, Gothenburg, Köln, Bremen, Frankfurt, Barcelona, Torino, Paris and Zagreb.
- Established in 1986, Yazaki Saltano in Portugal manufactures wiring harnesses for European Union automakers, and functions as Yazaki's central production facility in Europe.

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Case Study: Yazaki Sogyo (3)

- In 1994, Yazaki Slovakia, s.r.o. (YSK) was established in the Slovak Republic to serve as a new production base for wiring harnesses in Europe.
- In 1995, Yazaki Otomotive Yan Sanayi ve Ticaret A.S. (YOT) was established as their first production operation in Turkey.
- In 2003, Yazaki Ukraine LLC. and Yazaki MOROCCO S. were established to manufacture automotive wiring harnesses.

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Conclusions

- The Hague Declaration continues to provide the basis for EU-Japan relations and its significance in the world.
- Citizens of the EU are divided over enlargement, despite evidence of its economic (and other) benefits. The Commission has stated that a 'gradual and carefully managed enlargement policy is in the interest of the EU'.
- Japan's economic ties with the new Member States increased as a result of enlargement, including FDI.
- Yazaki Sogyo holds a leading position in labour intensive products such as wiring harnesses. The company also expanded their factories to emerging areas in Europe.

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