

The Pacific Region Should Become a Free Trade Area

— An interview with Yanai Tadashi, President of Fast Retailing Co. —

By Yanai Tadashi

Interviewer — Ito Shuichi

- There are no national borders in business.
- Japan is lucky to be a neighbor of China, which has a colossal production-consumption center.
- Japan could be better off if half the companies in Japan were owned by foreigners.

(Yanai Tadashi)

Few Japanese have not heard of the UNIQLO brand of casual clothing, which has won over fickle Japanese consumers with its low price, stylish designs and high quality. Yanai Tadashi, president of Fast Retailing Co., which operates the UNIQLO store chain, has launched a revolution in the Japanese consumer and distribution markets through what is called “good deflation.” He aims to surpass GAP Inc. of the United States, currently the world’s leading casual clothing chain, and become the world’s No. 1 clothing distributor.

In the following interview, Yanai outlined his globalization strategy based on his free trade philosophy.

Ito: Due partly to the prolonged stagnation of the Japanese economy, there are fears in domestic manufacturing industries and production centers that overseas outsourcing could result in a hollowing-out of Japanese industries.

Yanai: Quite the contrary. I think closing the market would rather result in a hollowing-out, because actually there are no national borders in business. These days, both money and people, as well as products, can flow freely. Merchandise can be manufactured anywhere. Only people in a production center think that their places are the only sources of production. Whether they are producers, distributors or consumers, people can move freely. If a businessman wants to sur-

vive in his present profession or trade, he should produce or market merchandise in the most optimum place. If he closes the door of his business and persists in his interests, he is destined to self-destruction. Anybody can conduct business anywhere. In our sector, anybody who wants to survive is doing business this way.

No right-minded person in the textile industry would believe that added-value would be obtained in the process of textile production. Production costs, or knitting costs, are only less than one-tenth of retail prices. Very little added-value will be created in this process. If we can find a place where there is abundant manpower suited for textile production, clothes should be produced there. This is a natural economic act. It is entirely wrong to restrict such an activity or close the domestic market. I understand that the number of Japanese who are engaged in sewing has dwindled to about 180,000. Where in Japan can we produce clothing? No company can. Some Japanese business people talk about a Chinese threat, but, at least currently, China is only involved in production. A business or an industry is made up of a combination of various things. There is management, marketing, merchandizing and distribution. In our sector, procurement of materials and processing are also involved. We must carefully see where we get profits from. A businessman who doesn’t do so is practically saying that he doesn’t care for profits.

Nobody can make profits in Japan out of just making something with no added value. I simply cannot understand why some people do business that way. Rather, Japan should take advantage of China and developing countries. Japan should share production centers and markets with these countries and mutually gain profits.

Ito: Do you pay any particular attention to your production operations in China?

Yanai: As a matter of course, we help our partners facilitate production both in Japan and overseas. We must put ourselves in our business partners’ position. We do business with our partners so that both sides can benefit. Both sides must grow together. If we do business in such a way, it doesn’t matter whether we produce in Japan or China.

Ito: You commission production to Chinese. Do you plan to build a factory in China and produce commodities there?

Yanai: Production has low added value, so we prefer not to own factories. Instead, we cooperate with those who have production facilities and help upgrade their production capabilities so that both sides can benefit. This is important. I don’t see any meaning in investing in production.

Ito: But your products are end products and directly linked to consumers. You need speed and must be constantly aware of trends. Don’t you think the distance between production and consumption should be shortened?

Yanai: The UNIQLO brand accounts for at least one-third, and in some cases as much as two-thirds, of the total production of factories to which we are outsourcing. I may be going too far to say so, but we practically control the factories. Even when there are as many as 100 factories which are our prospective business partners, we choose only one or two as actual partners. We strictly examine whether the factory owners really intend to produce good merchandise and whether the factory

managers are capable of managing the factories and adopting our production technology. We use only those factories that can share our production system and can produce good merchandise. We won't own factories because if we own them, they become members of our family, and as a result we become excessively intimate and indulgent. Then we will become hesitant to give them straight instructions.

Many Chinese company owners are young and eager to grow. They spare no efforts to cooperate with us if they are given opportunities to produce internationally-competitive commodities. Textile workers in Japan are mostly aged over 50. But Chinese workers are in their late teens or early 20s and came from inland areas. They live together in dormitories and work very seriously. They remind us of young Japanese girls working in textile factories in the old days. They are unsophisticated, have good sense and learn fast. Their productivity is much higher than their Japanese peers now.

Ito: *Japan's industrial structure will inevitably change through the promotion of trade with China and Southeast Asian countries. But don't you think we have to consider the speed and other factors of structural changes?*

Yanai: It's not a matter of whether we like it or not. We, as individuals or as industries, must survive. That is, we must change ourselves according to the trends of the society or the world. This is not a matter of taste but we cannot survive otherwise. This is a reality. There are a large number of people who don't understand this. They misinterpret it as a matter of taste or as a matter of principle. People who do business cannot survive otherwise. That is all. They cannot help doing so.

Ito: *You inherited your father's men's clothing shop, but launched UNIQLO 17 years ago and achieved great success. What motivated you to start your own business?*

Yanai: I went to Hong Kong in 1985 and 1986 at a time when the yen had appreciated against the dollar. At that time, we didn't make casual clothes but bought them from other manufacturers. But, despite the yen's appreciation, their prices didn't come down. I thought I could see how prices are decided in Hong Kong, because it is an open port. There, I found high-quality casual wear sold at prices much lower than ours. This prompted me to start transactions with Hong Kong manufacturers who had factories in China. Hong Kong has no market of its own, and so exports everything to developed countries such as the United States and Europe. Hong Kong manufacturers commission production not only to China but to the entire Southeast Asian region and markets all the brands of the world. This is what all Hong Kong businesses do, whether they are large companies or small companies. Manufacturers do retailing by themselves. There is no boundary between manufacturing and retailing. There is no national border either. I realized that if we compete with them, we will lose. I thought this is what business should be, and that Hong Kong's way of doing business is more normal than ours. After starting business with major Hong Kong traders, I learned how to do business and the basic idea about business. This was a turning point for me.

Ito: *How do you think UNIQLO is making contributions to the Japanese economy?*

Yanai: Our first contribution is paying high tax on the back of high earnings. We expect to pay about ¥50 billion in tax, including corporate tax, for the current fiscal year. In addition, employees and executives of UNIQLO, including myself, pay tax individually.

Secondly, we employ more than 20,000 people in our clothing chains. I am trying to nurture shop managers and other senior staff so that they will become corporate managers or merchants and can earn high salaries through

Photo: THE YOMIURI SHIMBUN



Yanai says Hong Kong's way of doing business has no boundaries among industries or countries

high efficiency like their peers in high-tech industries. Such a system is also making contributions to the economy.

Thirdly, from the consumers' viewpoint, UNIQLO's products are the best in the world in terms of cost-efficiency. No other company can offer products equal to ours in quality at such low prices. We are also making contributions to the economy in this respect.

Fourthly, we are indirectly promoting the efficiency of our industry. People who criticize UNIQLO for causing deflation and recession are missing the point. They are confusing recession with structural reform of businesses, industries and companies. Other industries can do business in similar ways. They can raise their efficiency and pay higher salaries to their employees. By raising the real value of their products, they can do many more things.

Ito: *Consumers can spend money in various ways if they increase disposable income and improve their balance sheets.*

Yanai: Consumers who previously spent ¥10,000 for clothes pay only ¥2,000 to ¥3,000 if they buy UNIQLO. Doesn't that make them better off?

Ito: *China is likely to become a member of the World Trade Organization (WTO) in November this year. Then, China will gain more clout as a market and a production base. There are fears among the Japanese that Japan and other Asian countries may be absorbed by China.*

Yanai: China's WTO membership should be welcomed, because that means China is going to open, not

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Yanai says Chinese textile workers are more productive than their Japanese peers

close, the country. We can take advantage of China as a production center and as a market. It is very good for Japan. Why object? China should rather become a free trade zone for each other's sake. Production alone will not yield added value. We are in a time when companies and individuals carry more weight than countries, which produce nothing. In a sense, Japan may be more closed than China. Japan has various non-tariff barriers including the mentality of its people. The two countries had better open to each other. If Japan or the Japanese are outperformed and absorbed by China, we cannot help it. But actually that won't happen, because China is joining the WTO as a team member according to international rules. China will be more of a threat if it stays outside the WTO. Japan should consider ways of prospering together with China. I think Japan should rather think positively and appreciate the fact that a gigantic production base as well as a huge future market exists in its neighborhood.

Ito: *Japan and Singapore plan to conclude a free trade agreement following the success of the North America Free Trade Agreement (NAFTA) and the European Union. Japan has belatedly awakened to the need for regional eco-*

conomic integration in Asia. How do you view Japan's trade policy?

Yanai: I think Japan should form a free trade area that includes the United States, China and South Korea. It is not advisable for the United States to close itself within NAFTA. Americans should think that their Pacific neighbor is Japan. The United States should join a Pacific grouping. If China and South Korea join as well, the grouping will be perfect. Almost everybody will stand to gain. The grouping will be the world's top growth area. Japan should encourage the formation of such a grouping. Actually, however, the United States will not join such a group because it wants to maintain its one-nation monolith. If the United States stays away, such a grouping had better be formed by Japan, South Korea and China, opening its doors to Southeast Asian countries. The United States has already formed the NAFTA bloc and Europe has also formed a bloc of its own, while Japan and China have no such bloc. We should regard such a grouping in a more positive light, if we take our national interests into account.

Ito: *When we think of the creation of a free trade area, agriculture is a bone of contention.*

Yanai: I think such an argument is totally meaningless. I was told that investing only about ¥50 billion in Australia can yield all the rice that Japan needs. Japan spends more than ¥1 trillion to protect its agriculture. It's a total waste of money. Such spending is all right if it makes farmers better off, but very probably it doesn't. Most farmers have side jobs, because they cannot support themselves only with agriculture. I simply cannot fathom then why such a vast amount of money is spent on agriculture. And, why does Japan make its agriculture a sanctuary? If Japan's trade relations with foreign countries become severed and the supply of petroleum and other essential products is disrupted, what can Japan do? I don't think self-sufficiency in food would help much. Japanese should realize that food can be bought and produced anywhere in the world. Only until 40 to 50 years ago, most Japanese were engaged in agriculture, and this is why the farming mentality still exerts such a strong influence on Japanese. But this may turn out to be fatal for Japan. Japanese should take this more objectively and decide which is more important: the future or the past. We should think more of national interests.

Ito: *But Britain is trying to raise its food self-sufficiency rate.*

Yanai: It has nothing to do with the British economy. It is no good confusing political and economic issues. I am not necessarily opposed to raising the food self-sufficiency rate. But if we are to raise the food self-sufficiency rate, we must make agriculture competitive as an industry. Under the existing system, you cannot enter agriculture easily even if you want to, because there are so many restrictions. The Japanese government should have a clear idea about how the nation's agricultural industry should be and pursue a more cohesive policy in order to make the nation's agriculture more competitive.

Ito: *Do you plan to expand into China?*



President Yanai Tadashi giving an interview at his office

Yanai: Of course. I am afraid UNIQLO will fizzle out unless our overseas turnover equals domestic turnover within 10 years. We plan to expand into China under a 10-year plan. China will have grown into a colossal market by then. Currently, we just have our products made in China, but as a matter of course, we will be also selling in China then.

Ito: Do you think UNIQLO is not big enough yet to compete globally?

Yanai: There is a strong possibility that Japan will decline and become a ruined country in the future if its eccentric protectionism and economic ultranationalism persist. Japanese companies cannot exist in Japan if this happened. In that case, there is no use sticking it out in Japan. We wouldn't like to sink with it. We would like to move overseas. As a result, I think we can serve Japan better this way.

Ito: How do you evaluate Prime Minister Koizumi Jun'ichiro's reform initiatives?

Yanai: Everything he says is correct. He just has to do what he says. If he fails, I'm afraid that there is no future for Japan.

Ito: Why do you give Prime Minister Koizumi such high marks?

Yanai: In Japan, we have spent money on things which hardly benefit us, but still feel happy. We were illogically spending tax money only for vested interests. We must stop doing so. We must make Japan a country where capable individuals and companies can compete fairly and grow. But there are so many restraints that prevent fair competition. I want to see Japan dismantle all barriers and become the world's best market where everyone, whether they are foreign companies, foreign individuals, Japanese companies or Japanese individuals, can freely compete.

Ito: There is some resistance to structural reform for fear that it entails pain.

Yanai: I don't think Japan is in a recession. I have one complaint about Koizumi. Perhaps under American influence, he is trying to achieve two things at the same time: achieving economic growth and taking anti-recessionary measures. But if he is determined to carry out structural reform, he must be prepared to see the economy shrink by several percentage points and unemployment increase. Otherwise, he cannot achieve structural reform. This is the only chance for Japan to carry out reform, because Koizumi has a national mandate for reform. If this chance is missed, reform can never be achieved. If Japan fails in structural reform, companies and individuals seeking growth will move overseas. Japan will then face the worst scenario. Japan must build a society attractive enough to draw competent foreign companies and business people. This is the government's job. I think pain is merely an individual problem. If Japan is to survive as a capitalist country, it should get rid of inefficient companies. The government's job is to ease individuals' pain: extending relief measures and providing reeducation. I think there are only a few things the government can do. The government should devote itself to efforts to make Japan an attractive market for companies and individuals through free competition. The government should not use tax money

for other things.

Another thing we must note is that the Japanese tend to discriminate against foreign businesses, though we are not aware of this mentality ourselves. We should be more open to foreign companies. For example, we should give good foreign companies tax incentives when they expand into Japan. They are coming to Japan to make money.

Ito: Do you have any advice for foreign companies and foreigners?

Yanai: I want to welcome them all the time. I would like to see half of the companies in Japan owned by foreign investors. If Japanese think companies in Japan should be owned by Japanese, they must shed such a mentality.

Ito: Is education responsible for such a mentality?

Yanai: Not only education, but also because Japan has been a corporate-centered society. Japanese have only thought of making things in Japan and selling them to the world. No consideration was given to foreign companies. Now that Japan has become a major economic power, it should meet its responsibility as such on its own initiative. Otherwise, Japan cannot survive. JTI

Yanai Tadashi is the President of Fast Retailing Co. He was born in Yamaguchi Prefecture in 1949. After he graduated from the School of Political Science and Economics at Waseda University, he inherited his father's clothing company in 1972. He became the President of the same company in 1984, and began developing the UNIQLO clothing brand. He changed his company's name to Fast Retailing Co. in 1991.

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