

CHAPTER III

UNIQLO IN CHINA

In this chapter, the author will explain UNIQLO's expansion in China. The author wants to explain how UNIQLO's business in China is influential.

A. UNIQLO's Work and Production Network System

UNIQLO, as a subsidiary of Fast Retailing, certainly follows a business operating model that is in line with the principles of Fast Retailing, where Fast Retailing has the goal of becoming the No.1 digital consumer retail company in the world and striving to expand its business operations in accordance with the principles stated in the company's statement: "Changing clothes. Changing conventional policies. Changing the world". Not only that, Fast Retailing is determined to build a timely and transparent management system that meets the needs of customers, business partners, shareholders, and all other stakeholders through serious pursuit of sustainability activities that focus on clothing.⁴⁹

To achieve this goal, Fast Retailing works hard to build an effective corporate governance structure. The company has adopted the corporate auditor governance model. To increase the independence of the Board and strengthen its oversight capabilities, the majority of directors on the Board are external directors. The company has introduced a system of corporate officials designed to divide the functions of management decision making and business conduct, and facilitate rapid management decisions and business implementation. In addition, Fast Retailing has formed various committees to complete the effective functions of the Board,

⁴⁹ Fast Retailing, Co, Ltd. (2019, November 29). *Corporate governance*. Retrieved from Fast Retailing: <https://www.fastretailing.com/eng/about/governance/corpogovernance.html>

including Human Resources, Sustainability, Disclosure, IT Investment, Code of Ethics, Business Ethics, and Human Rights committees. Each committee encourages effective open debate and decision making to meet the stated goals and responsibilities.⁵⁰

All senior officials of Fast Retailing operations serve on the Sustainability Committee to ensure that Sustainability goals and activities are based on sound business judgment. As an important decision-making body, the Code of Ethics Committee (CoC) and the Business Ethics Committee also include executive officers and external experts among their members. The committee secretariat at the Tokyo headquarters works with relevant divisions in each country to advance a series of Sustainability initiatives throughout the global Fast Retail Group.⁵¹

This initiative was implemented by a global framework led by the Sustainability Department at the Tokyo headquarters and by managers in each of the key regions. Every six months, managers around the world gather for the Global Conference at Tokyo headquarters to discuss the challenges and current activities in their countries and region.⁵² UNIQLO was the primary organization in Japan to build up an SPA (Specialty store/retailer of Private Label Apparel) model including all phases of the business—from structure and creation to final sale. By persistently refining its model of SPA, UNIQLO effectively separates itself from different companies by creating unique items. UNIQLO rapidly make changes in accordance with creation to mirror the most recent deals patterns and to limit store activity costs, for example, staff costs and lease.⁵³

⁵⁰ *Ibid.*

⁵¹ Fast Retailing. Co, Ltd. (2018, May 25). *Promotional Network*. Retrieved from Fast Retailing: fastretailing.com/eng/sustainability/vision/organization.html.

⁵² *Ibid.*

⁵³ Fast Retailing Co., L. (2012). Annual Report UNIQLO. Tokyo: Fast Retailing.

This is the way that UNIQLO give such top-notch attire at such sensible costs. And UNIQLO have a process business model in its company to creating the best quality products with the third party.⁵⁴

The role of Fast Retailing Group is seen in its commitment to ensuring safety at work and strict compliance with labor laws. It actively implements measures to improve labor conditions in its partner factories through third-party monitoring of all manufacturing operations. Such initiatives ensure that working conditions in FR partner factories are safe, without tolerance of child labor, forced labor or hazardous working conditions.⁵⁵

In applying the quality and safety standards of all its products very tightly throughout the markets in which they operate, Fast Retailing Group sends what they call 'Takumi'. Takumi is a highly experienced expert technician, at least 20 years of experience in the Japanese textile industry and has worked in more than 70 garment factories throughout the world, to their partner factories to provide technical assistance, process management assistance and resource development within the factory. Divided into material experts and sewing experts, the factory's production leaders can utilize the knowledge and experience of these Takumi to collaborate well and ensure that all standards are set for all UNIQLO products.⁵⁶ In every week, UNIQLO visits a partner factory every week to solve the quality problems of production, management, and also its workers. To improve quality, customer problems are communicated to the production department.

UNIQLO is able to produce so many unique products because their business models unite the entire process of

⁵⁴ UNIQLO *Quality and Safety Control System* can be seen page 65

⁵⁵ Fast Retailing. Co,Ltd. (2013). *FAST RETAILING CSR REPORT 2013*. Tokyo: Fast Retailing. Page 4

⁵⁶ Raymond, R. (2015, January 20). *UNIQLO dan Takumi-nya: Begini Cara Mereka Menjaga Kualitas Mereka*. Retrieved from Random Thoughts: <https://rizalraymond.wordpress.com/2015/01/20/uniqlo-dan-takumi-nya-begini-cara-mereka-menjaga-kualitas-mereka/>

making clothes - from planning and design to production, distribution and retail. The market share of UNIQLO is growing worldwide because it is developing radical new materials together with the world's best fabric technology innovators and creating basic designs using superior natural materials. UNIQLO can secure a stable supply of high-quality materials at high volumes at low costs by negotiating directly with material manufacturers and placing large volumes of orders. UNIQLO makes use of the increasingly digital world today to communicate directly with customers and quickly turn their desires into true products.⁵⁷

The UNIQLO clothing production model is based on global operations and is in accordance with the expansion mechanism of capitalism, and the production system is outsourced manufacturing because UNIQLO products are actually designed in Japan, but the workers employed to make clothing come from countries in Asia which are known for their low wages. While UNIQLO only focuses on developing its products, UNIQLO has been building strong trust relationships with their partner factories over the years, and holding annual conventions to promote dialogue with plant managers. UNIQLO has the role of monitoring work conditions and environmental protection in textile factories and major fabric suppliers and helping factories implement improvements as needed.⁵⁸ UNIQLO also utilizes raw materials from several countries, as well as marketing worldwide. This production operation is a common method used by other large industries, such as clothing, toys, automotive and electronics. This global-based production involves various countries, each concentrating on a particular part of the overall production process according to their capabilities, or according to what they can do more efficiently and cheaply.

⁵⁷ Fast Retailing. Co, Ltd. (2019, January 31). *Uniqlo Business Model*. Retrieved from Posted on 2019.01.31. Retrieved from Fast Retailing: <https://www.fastretailing.com/eng/group/strategy/uniqlobusiness.htm>

⁵⁸ *Ibid.*

Out of many UNIQLO partner factories around the world, 70% of UNIQLO production is carried out in China. UNIQLO collaborates with its partner factories in China with 155 partner factories, 127 of which are core sewing factories, while 28 of them are core mills.⁵⁹ From the large number of factories owned by UNIQLO, there are several factories known to the public because of problems with its workforce such as Pacific (panyu) textile Ltd. located in Guangzhou City, Jintan Chenfeng Clothing Co. Ltd. located in Jintan, and Dongguan Tomwell garment Ltd which is the subsidiary company of Dongguan Luen Thai Garment Co Ltd (hereinafter Tomwell) and Dongguan Crystal Knitting & garment Company Limited, both located in Dongguan city.

To deal with globalization, each country participates in economic activities in accordance with the comparative advantage that it promotes. For most Asian countries, the comparative advantage it has is large numbers of cheap labor or labor, which is the result of a less developed country and has an impact on poverty which results in overworked labor but few jobs where they are willing to work. Alone in order to get a living including in factories that do not care about a comfortable work environment. In this case, cheap labor is a strategic resource owned by Asian countries in general and China in particular as a country that is still in the developing category. Opening factories in developing countries including China is certainly far more profitable because it can reduce production costs.

B. UNIQLO's Investment in China which Causes Dependency

The entry of UNIQLO in China considered the Foreign Investment Law in China which provides facilities and investment related to investment security and market

⁵⁹ FAST RETAILING CO., LTD. (2019, May 17). *Partner Factory List*. Retrieved from Fast Retailing : <https://www.fastretailing.com/eng/sustainability/labor/list.html>

liberalization and guarantees the protection of intellectual property. This is seen in Article 22. Direct foreign investment from China where the state will protect the intellectual property rights of foreign-funded investors and companies, and protect the rights and interests of relevant intellectual property rights holders and rights holders; in the event of a violation of intellectual property rights, legal liability must be strictly saved in accordance with the law.⁶⁰ UNIQLO has issued investment funds in China with a sizable amount. It is estimated that the total investment of UNIQLO in China with an investment of 1.2 billion yen in its subsidiary and investment of 10.4 billion yen for opening stores.⁶¹ Recorded from 2014 to 2018, this casual clothing company from Japan has helped successful development and was able to reach its market from 0.7 percent to 1.2 percent in the Chinese market.

UNIQLO entered the mainland market in 2002. Until August 2017, there were 555 stores in China, including in Beijing, Guangzhou, Chongqing, Chengdu, Nanjing, Ningbo, Shanghai, Shenzhen, Shijia, Tianjin, and Xi'an.⁶² With the large number of stores conducted by UNIQLO, it is not surprising that in 2018 UNIQLO already had 21,300 workers throughout China.⁶³ By spending so much investment in China, of course UNIQLO earned 502.5 billion yen in revenue and earned an operating profit of 89.0 billion yen.⁶⁴ Shop sales conducted by

⁶⁰ Zhang, L. (2019, May 30). *China: Foreign Investment Law Passed*. Retrieved from The laws library of congress. : <https://www.loc.gov/law/foreign-news/article/china-foreign-investment-law-passed/>

⁶¹ Fast Retailing. (2002). *2002 Annual Report UNIQLO*. Tokyo: Fast retailing.

⁶² Fast Retailing. Co.,Ltd. (n.d.). *China*. Retrieved from Fast Retailing: www.fastretailing.com

⁶³ Fast Retailing. Co.,Ltd. (2018). *Sustainability Report 2018*. Tokyo: Fast Retailing.

⁶⁴ Fast Retailing. Co.,Ltd. (2019, October 10). *Results Summary*. Retrieved from Fast Retailing: <https://www.fastretailing.com/eng/ir/financial/summary.html>

UNIQLO in China will continue to increase with local support, until UNIQLO registers itself as number 1 company in China.

The Chinese government was in dire need of UNIQLO because it was able to provide substantial investment for the development of the country. In 2014, China's main economic planning body in the government's financial statements was 17.5 percent in fixed asset investment and 14.5 percent in retail sales growth.⁶⁵

The entry of UNIQLO's investments and factories in China was an investment for the Chinese community. Workers do not trust workplaces that are inadequate and do not have other alternative jobs, because residents who work in these factories are in dire need with UNIQLO. Supported by outsources from the government, UNIQLO made use of this condition to do the same thing by utilizing Chinese workers to work for the benefit of UNIQLO.

The dependence of workers to factories and UNIQLO is caused by the dire need on jobs as their source of livelihood. The government, through the police, has to withhold this so that strikes do not occur. It is seen that the export volume of China's textile and garment products produced a total of 43.6 billion garments with an export value of \$ 153,219 billion and a sales value of 1.7 trillion RMB in the domestic market.⁶⁶ The Chinese government does not want UNIQLO to be away from China. Termination of contracts with these factories is related to business considerations and because these factories do not meet the high quality standards set by UNIQLO. The lack of other job alternatives related to lack of labor skills and ineffective training programs are the main causes of compatibility.

⁶⁵ Kevin Yao, P. S. (2015, January 20). *China's 2014 economic growth misses target, hits 24-year low*. Retrieved from Reuters: <https://www.reuters.com/article/us-china-economy/chinas-2014-economic-growth-misses-target-hits-24-year-low-idUSKBN0KT04920150120>

⁶⁶ Chan, A. (2015). *Investigative Report on the Working Conditions in UNIQLO's China Suppliers*. Hong Kong: SACOM.

An unbalanced dependency position, where these workers need more work, makes the company's bargaining position bigger so that it can ignore various demands regarding wages and factory conditions. In this case, the position of the Chinese government also cannot be helped because the government itself needs investment from foreign parties to guarantee the country's economic growth. Fear of the loss of investors' desire to invest makes the government try to create a friendly environment and regulations with these foreign investors, so it tends to ignore the condition of its own workforce.

C. The Outsourcing Regulation in China

Recalling the 2008 Labor Contract Law on manpower, outsourcing refers to providing labor services. When the Chinese economy slows down and labor costs rise, businesses need to be more strategic in allocating their resources. Manpower dispatch and outsourcing services are the two methods that can help businesses in China avoid the tedious administrative process and still meet the needs of the workforce. Both strategies allow the company to get temporary talents and specialists from outside the company. This means saving recruitment costs, time, resources, and minimizing risk and legal responsibility.⁶⁷

With the enactment of the Labor Contract Act in 2008, it has become increasingly common for employers to consider sending labor as an inexpensive and flexible alternative to recruiting ordinary employees. The regulation is certainly utilized by many companies both local and international, including in this case is UNIQLO because it is far more profitable compared to the system of recruiting workers directly

⁶⁷ Mao, A. X. (2018, September 11). *Labor Dispatching and Outsourcing in China: Choosing the Right Strategy*. Retrieved from China Briefing: <https://www.china-briefing.com/news/labor-dispatching-outsourcing-china-choosing-right-strategy/>.

by UNIQLO's contracting factories in China. Companies that use the services of outsourced workers, in this case, are contracting factories in China that produce UNIQLO products that do not need to bother providing facilities or benefits, especially food allowance, severance pay, and health insurance. This is partly a way for employers to avoid higher social insurance obligations and escape contractual terms.⁶⁸

UNIQLO is more focused on developing product design, while the production utilizes outsourcing services as they do in China. This shows that UNIQLO is a company that has successfully utilized outsourcing services and systems in China.⁶⁹

What happened next was a worse situation for UNIQLO workers in China. Most of the workers were outsourced. In fact, they were only bound with the outsourcing company, except for things that were written in an agreement between the UNIQLO contractor factory and the workers. This was the reason why the workers found it difficult to go against UNIQLO's factory. Furthermore, UNIQLO also did not provide some labor benefits including health insurance benefit. Even more, the contractor factory was also, apparently, another outsourcing company that worked to produce UNIQLO's products and to meet the target according to UNIQLO's quality standards. These made the workers/labors at UNIQLO to be helpless and increased the number of labor dispute cases.

⁶⁸ *Ibid.*

⁶⁹ *Fast Retailing Co., Ltd UNIQLO.* (2009). Retrieved from Porter Prize:
<https://www.porterprize.org/english/pastwinner/2009/12/03114807.html>