Over the Conflicts: Japan and China Relations from the Business Scenes

Date: 10th January, THU
Venue: Setagaya Campus, No.34 building, B303 classroom
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Akihiko Hanawa
Thank you very much indeed for the opportunity to speak today at the Kokushikan University.

I went to China in 1996. It was in the shareholder's meeting of May 1996 that Ito-Yokado Co., Ltd. announced its advance into China. At the time, I was a Senior Sales Director at Ito-Yokado Co., Ltd. and was responsible for around 25,000 junior staff members including 8-hour flexi-time part-timers. With the advance into China, I assumed that someone would have to be sent over there, and I was unexpectedly called and told that they wanted that person to be me. So it happened that I would move from working with 25,000 people to going to China alone.

Generally speaking, while this could have been called "demotion" on the part of the human resources department, ever since I was in junior-high school I have put faith in the words "Everything in life is a winning ticket!" These were my mother's words, which she repeated throughout my impoverished childhood with an absent father. When I received the appointment letter to go to China, amidst this adversity I thought, "This is a winning ticket." Indeed, there may also be some hardships in store for you all in the future. You will leave school, get a job, and receive various letters of appointment. At those times, however, if you think, "This is a losing ticket," then it will inevitably become a loss. Whatever you encounter, if you consider it a winning ticket, then life will surely open its doors to you.

In 2003, I wrote on a New Year's card, "Japan looks down while China looks forward." In the original Japanese, there is only one character different between the two. While Japan looks downward somewhat dejectedly, China is enthusiastically looking forward. It has been said for some time that at some point, this difference will create an inversion; just as predicted, China surpassed Japan in terms of overall GDP in 2010 to become the world's second largest economy. The recipient of that New Year's card wrote in the Nikkei Business magazine, "Someone sent me a New Year's card with this written on it. While there is only one character different between looking down and looking forward, the difference is major. Japan must strive to switch those characters, or there will be no revival." The person who wrote this was the Director of Itochu Corporation at the time and Japanese Ambassador to China, Uichiro Niwa.
When contemplating the issue regarding China, we have to consider whether it is expected or unexpected. I was in China for 13 years, and with a change of regime, there was always some kind of movement. During the Koizumi Administration, the Yasukuni problem erupted into major turmoil resulting in anti-Japanese demonstrations. However, these kinds of things can happen in China. Press coverage always gives the impression that something extreme has occurred, but then China returns to peace and quiet, soon ended. That said, Ito-Yokado's turnover in Beijing and Chengdu has not been restored to its previous level. When I went to China, the executives assembled, and I described how the cause was insufficient effort on our part. Redirecting the blame for the drop in turnover to the anti-Japanese demonstrations and the Senkaku Islands issue is not an option within the retail industry. Whatever the circumstances, there is still something to be done, and something to be strived for. In this belief, I asserted that this is where the battle begins.

These are "10 Articles of Business (China)" that I prepared for today:

1. In life, everything is a winning ticket!
2. Become immersed in China, but do not become too immersed.
3. Water cannot be drawn from a dry well.
4. Better the grandma next door than the distant beauty.
5. Use the field well and look to the forest.
6. Start with courtesy, end with courtesy.
7. If you do not change, you will not change.
8. Take initiative, make decisions, and act quickly. (See eye-to-eye with Chinese people.)
9. Hit home like a lightweight boxer!
10. History is written by the winners: Even when starving, a samurai acts as if his stomach is full.

I will choose a few of these articles to discuss further.

The first one has already been mentioned, but for the second I wrote, "Become immersed in China, but do not become too immersed." This is true of any country one may travel to, and the phrase means that we must become immersed in the country's customs, traditions, food culture, and flavors. Every day, I would go to restaurants where only local people ate. I did not speak Chinese, so I ordered by pointing, saying, "I want that, this, and this"—every day for a year. In this way, gradually, one gets to know the local flavors. On the other hand, Japanese tastes are different from that of the Chinese. Those of Beijing, Chengdu, and Shanghai are also all different. If doing business in Beijing, it is important to know exactly what and how the people of Beijing think. There is a saying, "Jinkan itaru tokoro seizan ari" or "Home is wherever one lays one's hat." "Seizan" means "grave," so when in Beijing, I had to have the kind of resolve of having settled there, and that my grave would also be dug there. I studied every flavor, culinary method, and ingredient in China thoroughly. I learned what kind of things people were eating, and in what way they live. I recognize that everything begins from knowledge. Other than meals, I went to observe around 1,000 homes in Beijing, and I looked in detail at, for example, the length of the curtains, size of clothes, size of the kitchens, type of cookware, number of plates, and so on. It is this level of familiarity that brings knowledge.

One more important thing is not to assume, "Now I understand." People are quick to think that they know about China after merely two years. This is a mistake. China's population and land mass are over 10 times and 26 times that of Japan, respectively. Despite this, people think they can
understand China in the space of two years or so. We have stores in Beijing and Chengdu, and, for example, the clothing sizes are different. In Beijing, there are many large sizes, while in Chengdu, smaller S and M sizes sell. Such points cannot be understood without thorough immersion. Hence, even if you think you have understood, try to become immersed again.

At the same time, too much immersion leaves us unable to see. One example is from a discussion concerning what time to close the Beijing store on the Millennium New Year's Eve. I learned that the other department stores in Beijing were closing at six and the supermarkets at seven. However, I decided to shut down at two a.m. If we were to shut at six, we would never know what response we may have had later on. We would not be able to learn what people really want. For example, we reduced the prices and gave out champagne at midnight, and the store was packed to capacity. In short, there were needs. It is important not to get caught up in the past, but rather to continually challenge, and try. In doing so, I assert that new China sales channels can be found.

Seven & i Holdings and Ito-Yokado Co., Ltd have the maxim, "Respond to change and reinforce the basics." Keep pace with the changing social situation; that is responding to change. In addition to this, customer service and personal appearance are the fundamentals that should be reinforced. The same is true in China. Inability to respond to change causes many undue sufferings.

It is essential to not give up. This follows the example of Konosuke Matsushita, who was described thusly by the mass media: "You were called the King of Home Electronics. You succeeded in every area. You are a genius!" To which, apparently Matsushita replied, "Even when other manufacturers gave up, I did not. My only success was in not giving up." Such successes, of course, arise only out of the perseverance of not giving up.

Article 7 of the 10, "If you do not change, you will not change," is based on the words of my teacher: "If you do not come close, you will not get close." The same is true within the retail industry and also of human relationships; in other words, if you do not yourself come close positively, you will be unable to get close. In the same way, I always said to the Chinese, "If you yourself do not change, nothing will change." As such, if you will not change because the other person will not change, then the problem will never end. If you change, the other person will certainly change.

In essence, what I am telling you about how I would like you to be—and this is true of China and anywhere else—has three elements: "inspiration, enthusiasm, and gratitude." This applies not just exclusively within business. If in life, we as people have inspiration, enthusiasm, and gratitude, then we will think, "Well, let's try our best again tomorrow." Day-to-day living without any reflection is flawed. In terms of work, these three elements in actual practice are inspirational products, enthusiastic customer service, and grateful etiquette and sentiment. On returning from China, I became President of Denny's for three and a half to four years, and was the President of a consolidated company of around 900 restaurants. At the time, the founder of Ito-Yokado told me to think up a new phrase because "inspiration, enthusiasm, and gratitude" had gotten old. The answer was given to me by a mother and child who came to a restaurant on a rainy day. The mother declared, "That tasted good, didn't it?" to which the child replied, "That was fun, wasn't it?" With that the mother smiled, and said, "Let's come again." This is undoubtedly the same in both the restaurant industry and the customer service industry.

Today, while various China issues may occur, I believe it is important that we all continue to
do as much as we can within our respective areas, and that we strive to change ourselves. If we do not change, we will not change. If we do not come close, we will not get close. It is important to act with this in our hearts.

Mo Bangfu

First of all, let me ask you a question. If a new supermarket opened in Kinshi-cho in Sumida Ward, would you travel from Setagaya to shop there? No doubt, many would say no. When I visited Beijing, I asked a member of staff at the hotel where I stayed what he planned to do on his next day off. He replied that he was going to a store named Hua Tang to do some shopping. When I asked where that was, he told me that it was on the other side of town. It would be much the same as travelling from here to Kinshi-cho. I was very surprised to hear that he would travel across Beijing to shop at that supermarket, and so I accompanied him. When I arrived, in all honesty I thought, “What's this?” Because it was Ito-Yokado. I reckoned, “I've travelled across Beijing for this? I've been misled.” But as I went in, it was very crowded. As I am something of a journalist, my curiosity was piqued and I figured that there must be something special about this supermarket. “Why are so many people here?” I pondered, “Why do they so strongly want to come here that they have taken the trouble to ride a subway train?” I figured I would offer to cover the store in an article after visiting several times and acquiring more information.

One of my assessment criteria for a store is the steamed meat buns. Of course, I had also tried them at the Chengdu Ito-Yokado, and they were very delicious. I had tried them at other places too, but the ones at Chengdu Ito-Yokado were the most delicious. So I decided to write an article on the store. The Deputy Editor of *Diamond Weekly* at the time said to me, “Mr. Mo, shall I come with you?” So off we went together to Beijing’s first Ito-Yokado store. Thankfully because of this, I was mistaken for an interpreter and was therefore able to observe from a distance.

There were no complaints whatsoever from the people who served us, which I admired. They said many positive things, such as, “I want to study more.” Also, I was surprised that the President’s office was very plain. He used a rattling desk. Next to the desk was a large portrait that covered one wall. The first time I saw that, I honestly supposed, “How self-important; does he think he's a king?” The portrait was of Akihiko Hanawa. I didn't know who he was at the time, but later when I asked about it, I learned that the staff had ordered it to be made at their own expense. It was too large to take back to Japan and hang in a Japanese house, so he had apparently left it here in the office in China. After that, when I was treated to a meal, rather than business entertainment, it was more like an ordinary restaurant with regular cuisine.

Ito-Yokado Chengdu excels in terms of both turnover and profits, and in that regard, there is generally a 30-minute wait just to enter the car park. However, another Japanese department store located directly next door was not like this. There are other similar examples; before I write an article, I basically conduct a preliminary investigation on a subject. Once, I received an enquiry from another supermarket in China asking why I did not cover their store. Such a decision depends on certain characteristics, such as whether the store stocks products suited to a variety of clothes sizes and other needs. Managerial staff cannot grasp such points unless they have been in China for long term. In the first year, they understand hardly anything. By the second year, they gradually begin to grasp some knowledge. By the third, they become able to select products and give leadership suited to the locale. However, then they must return to Japan. This is true of almost all Japanese-affiliated companies. However, It-Yokado was different and that is why I became
interested in. I think using the example of a continually striving company perhaps enables us to
discuss what is visible from business at the ground level, and what is happening or what is
required in China.

There is a four-character idiom in Chinese, Jing Wei Tian Hai. It means, "Endeavor like a
little bird striving in vain to fill an ocean with twigs." When I wrote that in terms of Chinese-
Japanese relations as "We must strive to maintain an exchange even if we sometimes feel
powerless," I received a massive response. As you may know, tension arose between Japan and
China concerning the Senkaku Islands (or the Diaoyu Islands in Chinese), and some young people
in China are insisting on a boycott of Japanese products. Likewise, in Japan there have been
demonstrations asserting that foreign students are not wanted, and that all Japanese corporations
should withdraw from China. While Japan's universities would still thrive without foreign
students, their incomes would undoubtedly be greatly reduced. If all Japanese corporations were to
withdraw from China, the salaries of the parents of your students would fall considerably. I believe
that we must not be misled by strong words. However, such reporting does affect business, and
Japanese-Chinese exchange does reduce accordingly. Empty planes fly from Shanghai to Japan;
the number of airline passengers is an indication of relations. It is entirely because of a connection
that people get on planes. I feel that both sides will undoubtedly suffer if these circumstances
persist.

While Japan's media frequently circulates news that corporations are to pull out of China,
data shows that 70% of corporations intend either to maintain the status quo or expand. Other data
also shows results that more than half will maintain their current scale. Of course, some
corporations will undoubtedly withdraw, since the labor costs are rising; I estimate that for
corporations with labor-intensive factories, this will not be advantageous in terms of added value.
On the contrary, corporations expanding their operations in the Chinese market will no doubt
increase. Looking at data on levels of trade dependency, the situation is, in fact, inverting. While
previously China was heavily dependent on Japan, today China's level of dependency on Japan is
around 11%, while Japan's dependency on China is approximately double that. And, the cabinet
office estimates have been announced that China's GDP will triple by 2030, while America and
Japan will apparently shrink to two thirds of their current GDP.

After the September 2012 incident, I boarded a JAL flight and took a photo of the inflight
meal. It was a special menu of Western-style food, albeit accompanied by some kind of panda
mousse for dessert. When I uploaded the photo to the Chinese social networking site Weibo, it was
shared 700 times over two days. I have around 54,000 followers, so after some calculation, this
means around a million people saw the post over two days. On JAL's official Weibo, with the
exception of prize-related shares, this was in second place in terms of the number of shares. This
was directly after the incident. As many people paid attention to it, and looking at the messages,
around 99% evaluated it favorably. However, there was no coverage of this in the Japanese media,
and it is a fact that there is a difference of interests of the public and that of the media.

To cite another example of this incident's effects, the number of tourists visiting from China
has fallen. Last year around 77 million Chinese travelled abroad as tourists, and roughly between 1
and 1.5 million visited Japan. Without the effect of the incident, this number would no doubt be
near 2 million. Many other countries are trying to attract these Chinese tourists, and this year
Thailand received its highest ever number of tourists from China, a record 2.5 million people.
Even if Chinese–Japanese relations deteriorate, the needs of Chinese people wanting to travel
foreign countries will not disappear. Clearly, other countries take the opportunity to attract them. Korea is also hurriedly making adjustments so that it can issue multiple-entry visas, which is one form of visitor lock-in. As a result, it has achieved a performance of more than 2.4 million Chinese tourists—another historical record-breaker. The US is also developing tourist products in an attempt to attract customers, such as celebrating dinners aboard an aircraft carrier on Chinese New Year.

By contrast, Japan is desolate. I have travelled throughout Japan's prefectures, and empty shopping districts are becoming increasingly obvious. This is not just in rural areas. In Tokyo, advertisements are even disappearing on the platform of the Ginza subway station. Trains run on the Hanzomon line with almost no advertisements inside the coaches. Those advertisements that do remain are related to debt or funerals. Shops continue to close in the shopping district near my home, too. In Sumida Ward, the number of small to mid-sized business has diminished by as much as 25 percent in just two years. In 2011, I had a chat with the director of a local credit association (Shinkin Bank), and he remarked, “In two years, the same number of corporations will have disappeared.” In other words, over the space of four years, the number of corporations will have more or less halved. This is the current situation in Japan, and in this sense, it is plainly obvious why we must not withdraw from the market in China. Inside the Ito-Yokado Chengdu store, crowds of consumers bustle. The food floor boasts of the longest sushi counter in Western China, and Hefei City in Anhui Province is home to an overseas-affiliated supermarket with reputedly 80 cash registers. In fact, there were 78, but at any rate, it's quite a number for an area called backland China! There is nothing of this scale in Japan. In China's agricultural communities, there are fine houses, substantial facilities, and even areas in which the villages provide educational support from kindergarten through graduate school. I believe that such places signify China's rapid consumer expansion.

Since I have reached my allotted time, I will close at this point. Thank you very much.