CHAPTER 3

HYPERMARKET GROWTH AND RETAIL MODERNISATION IN MALAYSIA

This chapter is in answer to Research Question 1.6.2. It analyses and seeks to articulate the modernisation of the retail of provisions, and implications. The analysis is by review of literature, secondary data, and synthesis in structural, spatial and macro/socio-economic terms.

3.0 Introduction

Retailing in urban areas across the globe was dominated by small to medium-size shops / stores until the 1950s. At the lowest level, neighbourhood centres contained the retail selling household provisions. Higher level shopping typically needed to take place at mono or multi-nuclei city centres, e.g. fashion; durables. This traditional structure of retail environments began to change, chiefly in developed economies, as affluence and demand increased after the 1950s. Wrigley and Lowe's (2002) 'retail revolution', the decade of the 1990s, began with the modernisation of and by retail subsequent to the 1970s and spread across the globe, e.g. Malaysia (Rohaizat, 1997).

The structure of retail would change drastically when rising consumer affluence combined with a set of demographic, technological, and life-style changes. Demographic changes included reduced importance of traditional family followed by growth of the number of households and decrease in the average household size; a growing proportion of women participating into the labour force; declining birth rates and aging population; increasing level of education followed by increasingly sophisticated consumer tastes and preferences; expanding flexible life-styles and time-budgets. Further, increase in car ownership and technological development in household refrigerators and freezers also contributed the nature of the retail trade. These impacts were realized in a number of ways: deepening market segmentation for a variety of customers and products; growth of specialty retailing; increased proportion of non-food and durable consumer goods in total retail expenditures; increased proportion of food eaten away from home and rapidly growing restaurant industry; flexible shopping times and extended working hours in retail; growing sensitivity to personal health and eventual increase in use of medications and cosmetics (Rogers, 1984; McGoldrick, 1984). These changes and impacts on retail were basically demand led.

Responses by the supply side, the retailers, were to maximise profitability by reducing operational expenses, reducing costs per unit sold, and benefiting from economies of scale to increase competitiveness by carrying a diversified range of products and occupying very large floor spaces. From these factors flowed structural retail change with organisational and spatial characteristics. Typology, marketing, scale, and location of retail establishments changed (Bromley and Thomas, 1993).

New store types and retail formats emerged on larger scales via multiple stores, chains, e.g. hypermarkets; department stores; specialty retailing. This was at the expense of small scale independent retailers with mostly the one shop. The rapid changes in retail structures reduced traditional dominance of downtown retailing in favour of the suburbanisation of retail outlets that is replacing the 'corner shops' with supermarkets, the clustered shops with shopping malls and retailing strips, and corner shops and clustered shops with hypermarkets (Fotheringham and O'Kelly, 1989). These developments have made some policy makers and public officials concerned about the spatial and socioeconomic consequences of retail modernisation.

3.1 Structural effects of retail modernisation

Compiled from the national Survey of Wholesale and Retail Trades and Catering 1993 (Retail Census 1993) and Census of the Distributive Trades 2001 (Retail Census 2001), Table 3.1.01 shows the growth of supermarkets and hypermarkets, and of non-food retail, and the decline of the small trade with provisions, the traditional trade that prior to the 1990s supplied essentially all the provisions needs of Malaysian households,

Table 3.1.0.1: Retail outlet and sales changes during the 1990s

(in million Ringgit Malaysia)	1993 outlets	2001 outlets	*Change (pct)*	1993 sales	2001 sales	*Change (pct)*
Non-specialised trade						
Provision and sundry shops	55,869	44,990	*-19.5*	7,908	6,926	*-12.4*
Mini-markets	1,535	3,632	*136.6*	1,248	1,816	*45.5*
Supermarkets (SM)	349	588	*68.5*	3,813	3,297	*-13.5*
Department stores with SM attached, and hypermarkets	80	205	*156.3*	1,975	6,190	*213.4*
Department stores	43	302	*602.3*	501	1,780	*255.3*
Others	4,060	1,124	*-72.3*	1,262	475	*-62.4*
Sub-total, non-specialised	**61,936**	**50,841**	***-17.9***	**16,707**	**20,484**	***22.6***
Specialised trade						
Food shops incl. stalls	37,467	30,845	*-17.7*	3,233	3,931	*21.6*
Non-food shops incl. stalls	41,059	64,411	*56.9*	20,204	35,644	*76.4*
Petrol stations w/shops	2,533	2,493	*-1.6*	6,189	9,469	*53.0*
Others	3,423	5,070	*48.1*	3,374	2,123	*-37.1*
Sub-total	**84,482**	**102,819**	***21.7***	**33,000**	**51,167**	***55.1***
Total	**146,418**	**153,660**	***4.9***	**49,707**	**71,651**	***44.1***
Motor sales; parts; service	7,662	31,800	*315.0*	16,453	48,862	*197.0*
Sub-total, specialized	154,080	185,460	*20.4*	66,160	120,513	*82.2*
Restaurants; coffee shops; food stalls	81,134	82,325	*1.5*	7,109	13,272	*86.7*
Grand total	**389,294**	**453,245**	***16.4***	**139,429**	**254,298**	***82.4***

Sources: Survey of Wholesale and Retail Trades and Catering 1993 (1996) (Retail Census 1993). Census of the Distributive Trades 2001, released 16 April, 2004 (Retail Census 2001).

Among the small non-specialised shops, provisions retail, only mini-markets grew. Inquiries by the Study suggested this growth was less at the expense of the provisions/sundry shops and more because small traders in the latter category had reinvented their shops and practices. Mini-markets represented an upgrading of the latter category, by carrying an, or a larger, assortment of fresh and chilled foods, and being self-service. Nevertheless, mini-markets remained in the traditional category.

Data for Retail Census 2010 are in the process of being collected by Department of Statistics Malaysia and will illuminate the further structural change to the retail in Malaysia.

Comparing Table 3.1.0.1 with Table 3.1.0.2 suggested the pattern of decline began circa the mid 1990s, coinciding with the entry and growth by the hypermarket,

Table 3.1.0.2: Selected retail outlet changes

	1990	1995	*Change (pct)*
Supermarkets and mini-markets	940	1,430	*52.1*
Department stores	218	289	*32.6*
Provision shops	36,977	38,358	*3.7*

Source: Seventh Malaysia Plan, 1996

From interviews with branded provisions goods wholesalers distributing peninsula-wide, the Study was able to compile Table 3.1.0.3 which table suggests a measure of hardship for the retail owned by Malaysians, and which hardship, according to some wholesalers interviewed, was on the increase in 2002. In all, the wholesaler lists carried fewer customers than the Retail Census 2001 enumerated. Individual wholesalers ordered retailers in their list by perceived financial stability, and purchase volume. A high position in the list implied a greater attractiveness for wholesale distributors to service them (Russell, 2002),

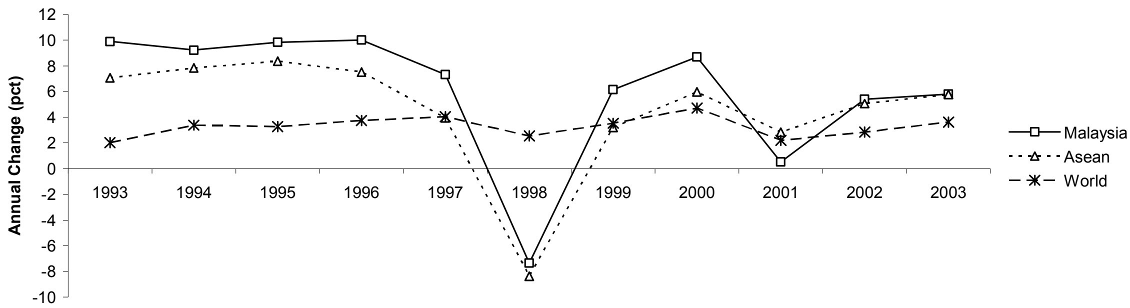
Table 3.1.0.3: Wholesale distributor perspective of the retailers

Outlet Category	2001 Retail Census	2002 by Wholesale Distributors	*Diff. (pct)*
P/Sundry shops; Chinese medical halls; mini-markets	48,662	34,675	*28.7*
Supermarkets; hypermarkets	793	604	*23.8*
Other food shops and licensed stalls	30,845	12,014	*61.1*
Non-food shops and licensed stalls	42,308	37,325	*11.8*
Total	**122,787**	**84,618**	***31.1***

Sources: Retail Census 2001, adjusted to product categories relative to hypermarkets; interviews with selected wholesale distributors in Malaysia; PWC (2002)

The difference in the number of retailers across the two data sets of approximately 38,000, or thirty one percent compiled from the Census, can be ascribed to the exclusion from the wholesale distributor lists of those retail outlets deemed to be of high counterparty risk, assessed by characteristics such as poor credit, negative sales trends and such like. Insofar as this interpretation of the data is correct, it coincided with the economic downturns in 1998 and 2001, illustrated in Figure 3.1.0.1, and the growth of hypermarkets, foreign owned, by Carrefour, Giant, and Tesco,

Figure 3.1.0.1 Malaysia, Asean and World real GDP growth, local currency



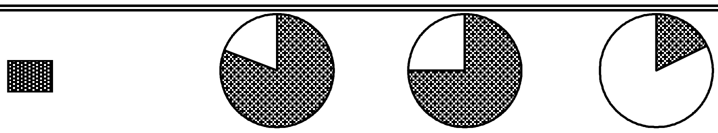
Source: International Monetary Fund, World Economic Outlook Database

Table 3.1.0.3 suggests supermarkets / hypermarkets were less negatively impacted by the market situation, as indicated by a greater proportion included in the wholesale distributor customer lists. This would be explained by their greater scale and therefore natural attractiveness to wholesale distributors, and retail pricing advantages over the small trade.

Table 3.1.0.4: 20 largest retail chains in Malaysia in 2004

Retail Brand	Ownership of Chain	Total Outlets	Supermarket	Superstore Hypermarket
Tesco	UK	15		15
Giant	Hong Kong	60	46	14
Carrefour	France	8		8
Xtra/Food Connect.	Malaysia	6	3	3
The Store	Malaysia	39	37	2
Sui Wah	Malaysia	8	7	1
Servay	Malaysia	7	6	1
Bestmart	Malaysia	3	2	1
Billion-Pantai Timor-Ceria Group	Malaysia	24	24	
Fajar	Malaysia	16	16	
Econsave	Malaysia	14	14	
Hiong Kong/Ocean	Malaysia	14	14	
Everrise	Malaysia	13	13	
Millimewa	Malaysia	12	12	
Ngui Kee	Malaysia	11	11	
Jusco/Aeon	Japan	11	11	
Bintang	Malaysia	8	8	
Uda-Ocean	Malaysia	4	4	
7-Eleven franchisee	Malaysia	217		
Total		**490**	**228**	**45**

Proportion Malaysian



Sources: Company reports; interviews.

For Table 3.1.0.4 the Study analysed the retail trade across Malaysia to identify the twenty largest provisions / grocery chains, by number of stores, and the nationality of their ownership. Of the 490 stores across the twenty chains in 2004, 273 were supermarkets-and-larger, the 7-Eleven convenience stores by Malaysian franchisee, Berjaya Group, representing 217 stores. With 2 supermarkets and 1 hypermarket, Malaysian owned Bestmart represented the smallest chain. By the UK definition of an 'independent', that is, less than ten outlets for an independent retailer, six of the fourteen Malaysian owned chains in the top-20 with supermarkets-and-larger counted as independents in 2004. By the same definition, circa 75 percent of existing supermarkets were independents, and chiefly individually owned, in 2004.

4/5th of the hypermarkets were foreign owned, and were typically larger in size, and better arranged, than the Malaysian owned hypermarkets, the Study had observed. The foreign hypermarkets were contesting in the markets most attractive to them, in Peninsular Malaysia. When the hypermarkets arrived in Malaysia they sought out those areas with the highest household incomes and the largest concentration of potential customers, e.g. Johor Bahru, Penang and the Klang Valley. Neither of Carrefour, Giant, Jusco and Tesco was represented in East Malaysia, with hypermarkets and supermarkets.

In the five years to 2009, the twenty largest chains grew the number of their stores, the foreign chains by the greater proportion and the most substance, followed by 7-Eleven, Berjaya Group. Carrefour grew to 23 hypermarkets, from 8. Tesco grew to 33 hypermarkets, from 15. Dairy Farm International, by its Giant and Cold Storage banners, to 121 stores, from 60, and was reportedly in negotiations to acquire the Bintang Group, which had grown to 16 stores, from 8. Further, Giant was now in East Malaysia with 2 supermarkets and 1 hypermarket, the latter to open in 2010.

The Store acquired Millimewa, taking The Store to circa 60 stores. Ngui Kee became an independent, with 9 stores, by exiting 2 stores. With 4 stores, Uda-Ocean remained an independent. Everise stood still, and with 13 stores remained a small chain, as with Billion-Pantai-Ceria Group. Sui Wah remained an independent. Further, from near invisibility around 2004, Malaysian owned chains Mydin and 99'Speedmart grew rapidly by 2009, Mydin with a mixture of mini-marts, supermarkets and hypermarkets to circa 50 stores across Peninsular Malaysia, and 99'Speedmart, with mini-marts exclusively, to circa 120 stores in 2009, the latter stores, of 600 - 1,200 square meters, located in Klang Valley only. 99'Speedmart's mini-marts and marketing vaguely resemble the format of deep-discounter of provisions Aldi, a German chain, and a marketing / format approach not present in Malaysia.

By 2009, Berjaya had grown 7-Eleven to circa 900 stores. As Table 3.1.04 shows, growth to 2004 had been tardy since the first 7-Eleven in 1984. The Study thought 7-Eleven Japan would have terminated Berjaya's franchise had Berjaya not seriously accelerated the development of new stores. In terms of small-scale outlets and large-scale organisation, the slow development of the 24-hour convenience store concept in Malaysia contrasted with the concept being long established in Japan, including in rural areas, and becoming widespread and successful in Hong Kong, Thailand, Philippines and Taiwan where there was keen competition between the convenience store-brands of 7-Eleven, OK-Mart, Hi-Life, Family Mart, Circle-K, Ministop, Lawson and AM-PM (Trappey and Meng, 1996; Feeny *et al*, 1996). The 24-hour convenience format represented a snack and food retail service and a multitude of other services to the local community and passers-by, e.g. banking, utility bill payments, photo-copying, fax/email, selling both "merchandise and time" (Terasaka, 1998). These chains were based on sophisticated management and logistics systems. In Malaysia the concept was chiefly limited to 7-Eleven, the petrol station kiosks, and a small number of small-scale initiatives by Malaysians, e.g. D-Lima. By not admitting foreign retailers on small retail floor space, Malaysia regulation had shut out foreign direct participation in the 24-hour convenience store segment.

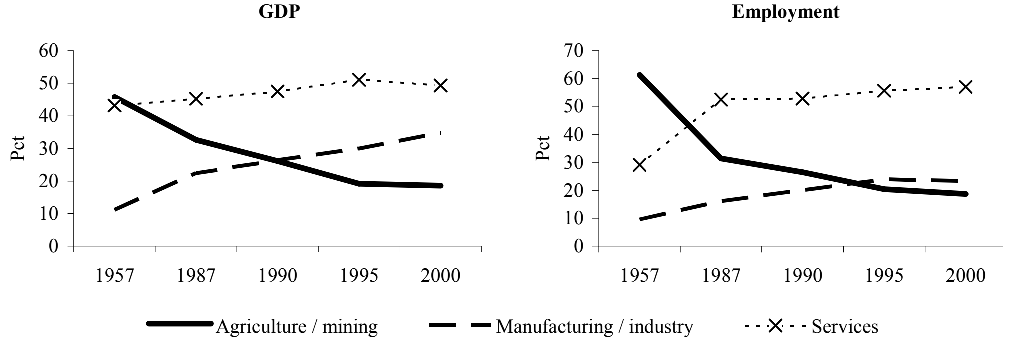
Malaysian owned chains, bar Berjaya, typically possessed less financial and procurement resources as compared with their foreign counterparts. Limited resources represented a barrier to the modernisation of existing stores, establishing additional stores, acquisitions, and organisation. Competition for market shares had stiffened, the most attractive retail markets being strongly contested by Carrefour, Giant, Jusco and Tesco. These four were able to leverage their international resources to Malaysia and could move fast when they deemed a town sufficiently attractive to expand to, and subject to the policies of the Malaysian government. In the meantime there was a tendency among Malaysian chains and individual retail entrepreneurs to seek growth in towns and regions where the four foreign chains were absent, e.g. Kota Bahru; Kuala Terengganu; Sabah; Sarawak.

3.2 The economy and retail modernisation

3.2.1 The services sector in the economy

Table 3.2.1.0: Malaysian economic development (Percent)

	Primary sector *Agriculture / mining*		Secondary sector *Manufacturing / industry*		Tertiary sector *Services*	
	Proportion of		Proportion of		Proportion of	
Year	GDP	Employment	GDP	Employment	GDP	Employment
1957	45.7	61.3	11.1	9.6	43.2	29.1
1987	32.6	31.4	22.4	16.1	45.2	52.5
1990	26.1	26.5	26.4	20.1	47.5	52.8
1995	19.2	20.4	30.0	23.9	51.1	55.7
2000	18.6	18.7	34.8	23.3	49.3	57.0
Change over the period	*-27.1*	*-42.6*	*23.7*	*13.7*	*6.1*	*27.9*



Sources: Department of Statistics, Time Series (2003). Fong (1989); Okposin et al (1999)

At the time Malaya obtained her independence from British colonial rule in 1957 the economy *"can safely be said to be based on agriculture and mining and highly trade-oriented production"* for which support services were needed (Okposin *et al*, 1999). Three decades earlier, the colonial economy depended on immigration for the necessary labour. At the time of Independence, available Malaysian workers exceeded demand, the population growing at 3.4 percent, one of the highest rates of natural increase in the world. Okposin *et al* noted; "*a final feature of the economy was a low level of human development, which resulted in a shortage of many skills required for development to take place*".

Malaysia was predominantly an export economy in 1957 and remains one today, albeit today manufactured goods lead commodities. Beginning in the 1980s, the domestic Malaysian workforce became insufficient to sustain economic development.

Manufacturing displaced the wholesale and retail trades in 1970, as the second largest contributor to Malaysian GDP, after agriculture (Sieh, 1974).

Since the mid 1980s, the Malaysian government had pursued a policy of economic deregulation. Sieh *et al* (2000a) suggested the Malaysian economy was "very open". During the 1990s and until the 'Asian financial crisis' in 1997 the Malaysian economy grew in excess of its potential output, fuelled by foreign direct investment largely from Japan, America, Taiwan, Singapore and South Korea, directed to high-tech manufacturing industries, and causing a new demand for foreign workers. The forty years of economic development since Independence had been a success story (Okposin *et al*, 1999).

Economists classified economic production into primary, secondary and tertiary modes to denote stages of economic and social development, e.g. Fisher (1935); Clark (1940); Fourastie (1949); Rostow (1953). The development of the tertiary sector, better known today as the 'services sector', created the notion of an emerging modern economy or post-industrialisation. According to Fisher, "*the shifts of employment toward … tertiary production … are the inescapable reflection of economic progress*." An economy with more than half its labour employed in service sectors became, basically, a service economy. By Fisher's definition, Malaysia became a service economy in the 1980s, albeit Malaysia's economy was composed differently than those of developed economies, both then and now,

Table 3.2.1.1: Comparing economies by GDP (Percent)

Sector	Primary		Secondary		Tertiary		Retail / Wholesale *	
Economy	**1999**	**1989**	**1999**	**1989**	**1999**	**1989**	**1999**	**1989**
Denmark	2.7	4.8	25.4	27.0	71.9	68.2	15.3	13.2
Germany	1.2	1.9	31.1	38.6	67.7	59.5	12.1	17.7
France	3.0	3.9	25.0	30.2	72.0	65.9	13.8	13.9
Japan	1.7	2.6	36.1	40.9	62.2	56.5	11.8	13.4
UK	1.2	2.0	28.6	36.3	70.2	61.7	14.9	14.0
USA	1.7	2.0	26.1	29.1	72.2	68.9	17.0	16.8
Mean	**1.9**	**2.9**	**28.7**	**33.7**	**69.4**	**63.5**	**14.2**	**14.8**
Malaysia	**17.5**	**27.3**	**32.1**	**25.2**	**50.4**	**47.5**	**14.7**	**12.6**
Var. from mean	*15.6*	*24.4*	*3.4*	*-8.5*	*-19.0*	*-16.0*	*0.5*	*-2.2*

** Retail, wholesale, restaurants and hotels*

Sources: OECD, Services: Statistics non Value Added and Employment, 2001 (Paris). National Accounts of OECD Countries: 1988-1999, 2001 (Paris)

The idea of a growth regime based on services is a source of concern for some economists (Ughetto, 2004 and Petit, 1986). For example, services at the interface with consumers required an increasing number of service workers (Gadrey, 2002), albeit services growth generated a low-wage workforce and might create class tensions (Kaldor, 1966). A case in point, according to Meisenheimer (1998), the quality of jobs created by the American "*job machine*" in the 1980s was a recent issue in debates about the services economy. Cohen and Zysman, 1987 suggested this paradox in the development of services pointed to the importance of manufacturing as the latter would more than ever be looked to for creating value for the rest of the economy. By Cohen and Zysman, Malaysia was on the right track.

While the economy of Malaysia, and developing economies, as a category, and developed economies were converging, the Malaysian economy differed against important criteria at the turn of the millennium. Underneath the 'picture' presented in Tables 3.2.1.0 and 3.2.1.1 some unique factors worked to the advantage of Malaysia, specifically, access to flexible, low cost non-Malaysian workers, different from the colonial labour supply, yet with a similar effect on production and export. Further, Malaysia enjoys superb conditions for large-scale growing of rubber and oil palm. Natural and socio-economic factors combined to making Malaysia attractive to foreign investors toward increasing manufacturing's share of the (export) economy while manufacturing's share declined in developed economies.

The Malaysian retail and wholesale component of the services sector remained broadly constant, by share of economic contribution, to that of developed economies during the decade of the 1990s. Further, trends in the Malaysian agricultural sector remained similar to those in developed economies, albeit the importance to Malaysia of this sector remained higher, for natural reasons, and represented the main structural difference between the Malaysian economy and developed economies.

Private consumption's share in the Malaysian GDP declined to forty four percent in 2002 from seventy seven percent in 1982 as the share of services in the GDP increased (World Bank, 2003). The declining share of private consumption relative to the structure of the Malaysian economy indicated both the impetus and potential of the linkages between the services and manufacturing (Sieh, 2000a). The two sectors fed on each other. The services sector became associated with a rise in both female- and youth participation in the workforce (OECD, 2000). This implied an association between services sector growth and increasing household incomes. OECD suggested national employment structures were converging even if there were substantial differences between economies.

According to Sieh (1974, 2000b), the retail and wholesale trade contribution to Malaysia's GDP remained relatively stable at between 15 and 16 percent until 1969 when the contribution fell for the first time, to circa fourteen percent. After 1969, there followed a slow annual decline in the proportionate contribution of retail and wholesale trade until the 1990s, when the latter contribution resumed its growth in proportion to the sector and the economy. Sieh's timeline coincided with the rapid growth of manufacturing industry and the data from Okposin *et al* about the 1990s. The increasing share contributed by the retail and wholesale trades to the Malaysian economy was not linear,

Table 3.2.1.2: Retail/wholesale contribution to the Malaysian economy (Pct)

	1987	1990	1993	1995	2000
Contribution to GDP	10.8	13.6	15.1	15.3	14.0
Contribution to employment	16.4	18.2	18.0	17.9	19.2

Source: DOSM 2002 Time Series

The decline in the share of GDP in 2000 might be ascribed to the Asian financial crisis beginning in 1997 and that markedly affected the real economy by 2000. Perhaps the 2000 contribution to employment suggests a high degree of employment resilience for the retail trade in an economic downturn. A comparison of the Retail Census 1993 and Retail Census 2002 suggested the retail trade in Malaysia increased its productivity by circa forty five percent and the wholesale trade by circa fifty nine percent, in nominal terms, in the period between the two censuses.

Economists have shown the positive association between economic growth and the share of services in the industrial distribution, e.g. Fisher (1935); Clark (1940); Kuznets (1957); Chenery (1979); Fuchs (1980); Inman (1985); Fagerberg (1987). Economic and social development in developing economies was associated with the emergence of rapidly growing consumer markets and changing consumer behaviour. Consumer wants could be satisfied in a number of ways, some involving a service and others involving commodity substitution; higher incomes might lead to the substitution of rice and meat for bread, that is, of one commodity for another, the substitution of a restaurant meal for a MacDonald's meal, that is, of one service with another or the substitution of supermarket ready-to-serve food for household help, that is, of a commodity with a service (Kravis *et al*, 1983). Increasing incomes and affluence made consumers demand more variety, and enabled individuals to strive for "higher" needs (Jackson, 1984). These were economic and retail trade drivers.

Engel's law suggested increasing per capita income had two effects, rising demand for existing products and changing consumption patterns. Per capita aggregate incomes and disposable incomes were associated with both the amount of resources the consumers allocated to lasting consumer goods including refrigerators, freezers and cars that supported the modern mass market retail formats, e.g. Kim *et al* (2002); Johansson and Moinpour (1997); Chan (1995); Tse *et al* (1989), Inkeles (1983). Confronted with these economic indicators, Malaysian consumers increasingly responded to them. The relative importance of retail increased with incomes, conversely the importance of retail tended to be greater in developing economies as compared with developed economies as consumer demand in the former grew rapidly, albeit from a much lower base (Hoekman and Braga, 1997).

Economic growth was also associated with urbanisation (Perkins *et al*, 1983; Kutznets 1973; Harris and Todaro, 1970). The proportion of the population residing in core economic areas was associated with scale and agglomeration economies (MacKellar *et al*, 1995). Incomes in the urban areas were higher relative to rural areas which led to increased demand for services and service in urban areas as compared with rural areas. A study by Hu *et al* (2004) found, for China, a near linear relationship between increase in supermarket sales and rising incomes and urbanisation. A one percent increase in urbanisation would raise annual per capita supermarket sales by five percent. An increase in disposable income would raise supermarket sales by one quarter of the income increase.

Higher incomes propelled private car ownership. Social and demographic changes affected car use, e.g. individual car use correlated with single-person households and the number of women who drove a car was much higher in younger age groups (OECD, 2002; Romilly *et al* 1998; Karmokolias, 1990). Urbanisation growth concentrated consumer demand spatially and, vice versa, spatially concentrated consumer demand provided access to scale economies and dense communications facilities. It was, therefore, natural that new retail trade entrants to Malaysia focused on urban locations and among these the most dynamic locations first. This approach was implemented by Aeon, Carrefour, Dairy Farm International and Tesco, the foreign entrants.

A study by Nik Mustapha *et al* (2001) "*indicated a clear move towards high value and superior foods as per capita income of Malaysians increases and the level of affluence of Malaysian society rises*." Other studies by scholars at the Institute of Agricultural and Food Policy Studies, Universiti Putra Malaysia, found a trend in the

Malaysian diet toward a “western” diet, e.g. proportionately more wheat, eggs, meat, fish, and less rice.

3.2.2 Malaysia and the services economy ‘model’

An ‘ideal’ pattern for the share of contribution to both GDP and employment by the services sector in a mature, developed economy appeared to be circa seventy percent (Hauknes, 2000; Elfring, 1992, 1989 and 1988).

Employment in the wholesale and retail trades, together with hotels and restaurants, in the developed economies typically exceeded employment in the manufacturing industries in 1990. Malaysia was different, with employment in these two trades amounting to circa seventy two percent of employment in manufacturing in 2002 (DOSM, 2003). Proportional employment in manufacturing in Malaysia remained at a high level relative to the economy as compared with the tendency in developed economies. Labour costs in developed economies made some production there non-competitive, typically resulting in the ‘export’ of production processes to economies with lower costs, thus replacing domestic manufacturing with imports. Malaysia continued to attract new export industries, both manufacturing and agriculture grew and there was no real shortage of workers. Malaysia had since the 1980s ‘again’ grown its manufacturing and agricultural sectors beyond the capacity of the work force of Malaysians, albeit typically had abundant and flexible access to workers from abroad as compared with the developed economies. The Malaysian economy, as it has evolved up to the present, suggested that the economy might not benefit by a strategy emulating the seventy-seventy GDP and employments ratio of the services contribution to the economy in the developed economies.

3.3 Modernisation by large-scale retail

3.3.1 Hypermarkets driving supply chain productivity and retail modernisation in Malaysia

According to Reardon *et al* (2004), supermarkets and hypermarkets are “*no longer just niche players for rich consumers in the capital cities in developing regions*”. The rapid rise of these large-scale retail structures in developing economies since circa 1990 had transformed the traditional retail and wholesale system at different rates and depths across regions and countries. Modern food retailing and its procurement system(s) were emerging fast.

According to Dawson and Shaw (1990), contemporary retail trade energised and drove productivity of trade goods suppliers and providers of intermediate services. The fresh vegetable and fruits supply chains in Malaysia was a case in point. The hypermarkets depended on high quality, variety and volume of fresh vegetables and fruits to increasing customer traffic. Supermarkets were equally dependent, the dependence, on volume and homogeneity, of supermarket chains being different as compared with individually owned supermarkets, which made up the majority of Malaysian supermarkets. To obtain these supplies, the hypermarket chains were prepared to work with wholesale incumbents capable of aligning with the former's requirements for fresh produce. These requirements put great pressure on the traditional vegetable and fruit grower-wholesaler relationships. Fresh produce supply conditions in Malaysia circa 2000 did not comply with the requirements of the hypermarkets, e.g. production planning was non-existent; there was an indiscriminate use of pesticide (UNESCARP, 2002; Nik Mustapha *et al*, 2001). The wholesalers traditionally played a crucial role in matching supply and demand, this role being dominated by ethnic Chinese wholesalers in the supply chain of vegetables and fruits in Malaysia (Mohtar (2000).

Bridging the gap between embedded customs and performance(s), infrastructure, and the requirements of modern retail was difficult for the modern retail, and painful for the suppliers, even if the objective of increased productivity / efficiency, consistency, and lowering of unit costs throughout the system was fundamentally easy to subscribe to. This complexity was not limited to Malaysia. Inadequate supply chain performance in vegetables and fruits also confounded modern retail in Thailand, a country renowned for its vegetables and fruits industry (Boselie, 2002). Boselie described Royal Ahold's problems obtaining produce for its thirty supermarkets in Thailand: it was impossible to trace products back to the farm and there was no insight into farmer's growing and processing practices; lead-times between the farms and supermarket shelves were as long as 60 hours and losses were high due to lack of pre-cooling and cooled transportation. Suppliers delivered produce at least three times a week directly to the supermarkets. The situation for Ahold was inconsistent with its actual requirements and demand from consumers, e.g. freshness; high safety; broad assortment; high availability; acceptable prices. Food safety assurance and certification by the Department of Agriculture were weakly enforced.

By 2001, and through direct intervention, Ahold had reduced the number of suppliers to sixty from two hundred fifty. Further, Ahold built a produce distribution centre which at first bundled the value adding processes internally, subsequently relocated a large portion of the value adding processes to some of the main suppliers, and concentrated on cross-docking, thereby increasing the service level to ninety eight percent. Continuous performance benchmarking kept the sixty suppliers "*sharp*" and alert and occasionally there was a re-shuffle of suppliers. Boselie suggested there was a "*considerable gap in mutual understanding and worldview*" of the stakeholders and that "*actors will only be willing to improve performance if it earns them something extra*". This implied the risk of exclusion was not an important factor with Thai suppliers prior to 2000. Anecdotal evidence suggested the Malaysia situation was quite similar to the situation in Thailand at the time.

Subsequently, the domestic produce supply situation to supermarket chains in both Thailand and Malaysia gradually improved, and did so by the interventions of the foreign retail chains. To assist linking Malaysian growers with hypermarkets, the Federal Agricultural Marketing Authority had since 2001 developed contract farming for small-scale farmers especially in fresh fruits and vegetables and supervised adherence to the *Eurepgap* quality requirements of the 'Malaysia Best' produce logo. The increase of quasi-formal and formal contracts in the produce sector was relatively new for it had been the tradition in the produce supply chain that 'doing one's best in the given circumstances was sufficient' and supplies and sometimes purchases varied unpredictably. Investments by the wholesalers were limited. Given the natural produce resources of Malaysia it could reasonably be said that the self-interested intervention by the foreign retail chains was bringing new technology and incentives to outlying areas in Malaysia that needed them even, if at first the intervention caused many stresses to the growers and the supply chain forward to the hypermarkets and supermarkets. Hypermarket development in Malaysia was associated with a difficult, yet rapid, change at the grower-wholesaler level, and increased efficiency in the fresh produce supply chains (Unescarp, 2002; Boselie, 2002; Krider *et al*, 2002). Performance, trust and relations took on a special dimension in modernising retail markets, when the goods were as perishable as fresh produce, e.g. Reardon and Farina (2002); Armstrong and Siew (2001); Fafchamps and Minten (1999); Tuan *et al* (1999); Braadbaart (1994).

Foreign hypermarket and supermarket chains in Malaysia, Indonesia and Thailand, and in other developing economies, in their own interest, challenged the domestic wholesalers and produce growers to change their practices to become compliant with the formers' rules, the result of which the chains benefited from, independents possibly too, and consumers welcomed. This was an important productivity driver, and development to the rural areas, for the opened economies newly hosting these leading international chains which had the ability to import from wherever they wanted.

3.3.2 The services sector and new technology and efficiency by hypermarkets

The services sector in Malaysia was perceived as a productivity laggard prior to the domestic markets being opened up to foreign competition during the 1990s. This was seen as a 'technology gap'. The rapid growth of hypermarkets in Peninsular Malaysia had potential to energise services sector productivity.

The services sector was associated with technology. Fagerberg (1987) summarised four hypotheses for economic growth 'driven' by the technology gap. Technology was associated with declining application of workers in manufacturing and with increased productivity. The latter was relevant to Malaysia. Fagerberg confirmed the four hypotheses by using OECD data for periods prior to the early 1980s. Fagerberg and Verspagen (2001) tested Fagerberg's hypotheses relative to both OECD economies and developing economies including Malaysia for the periods tested by Fagerberg (1987) and for subsequent periods up to 1995. The latter tests confirmed the former hypotheses and suggested the idea of an "Asia effect". Economic growth in the face of a technology gap was stronger in the Asian economies as compared with the OECD economies. Fagerberg and Verspagen's (2001) study suggested some developing economies sought to close their relative technology gap and were catching up, by imitating technology or importing it, to aid industry expansion and efficiency and, thereby, economic growth. Further, Fagerberg's tests showed the importance of innovation to economic growth appeared to increase over time and significantly so in the more recent periods. Malaysia had, so to speak, leap-frogged a technology gap in its services sector, by 'importing' the hypermarket by experienced, leading chains.

As recently as the early 1990s, service and services businesses in developed economies were largely perceived as non-innovative, passive adopters of technologies developed by the manufacturers (McKinsey, 2001). By the end of the 1990s, there was growing evidence this view was an oversimplification, particularly in a retail trade perspective. Service businesses were major users of information and communication technologies and frequently used these in creative rather than standard ways and provided major stimulus to innovation by manufacturers and computer software creators, e.g. Carrefour; Tesco.

Some innovation is science-based while other innovation is more mundane, albeit is not less inspired even if it might appear obvious once the innovation has been applied. The hypermarket and chain store organisations are examples of mundane innovation, as were the public market, the department store and the self-service supermarket at the time these first appeared in history. While emanating through mundane innovation, these innovations changed the retail trade and its suppliers by eyeing and connecting with larger numbers of people, as compared with previously, and became contributors to economic growth. The leading mass market retailers in Malaysia established and grew their hypermarket concepts in their home countries, and internationally, before entering Malaysia, where they controlled and adapted their concepts to the local environment by utilising technology that, in the context of retailing, was new to Malaysia. The science-based innovation that supported productivity improvement for the benefit of both the national economy and the retail chains who adopted and adapted the innovation allowed rapid growth by making it possible to quickly disperse "doing things differently" innovations and controlling the former 'things', e.g. electronic data capture; mining of the data; telecommunications. While finding 'new ways' of doing things might be as important to economic activity as compared with traditional capital and labour, it was electronic technology and its usage that made the new ways of retailing distinctly different from the up-scaling of retailing concepts in the past, and from small traders.

Betancourt and Gautschi (2001) suggested the rapid expansion of retail formats with broad and deep assortments, e.g. hypermarkets, would not have been feasible without the economies created at the check-out counter and in the inventory management the Uniform Product Code (UPC), bar code, and electronic scanning. The UPC and bar code scanners were adopted and adapted by American supermarket retailers beginning in the mid-1970s (UCC, 2003). UPC diffusion to other areas of the retail trade and beyond the confines of the retail trade and America was quick (Betancourt and Gautschi, 2001; Brown, 1997a and 1997b; Bluestone *et al*, 1981). With the introduction of UPC and scanning for administrative purposes linked to accounting and supply chain management software, retailers became able to 'mine' data produced with each customer purchase and acquire information that could be turned into knowledge with which to better understand consumer behaviours and by which to quickly address customers at the level of the individual. The new technology was also applied to implementing quick adjustments to sale prices (Nakamura, 1999; Slade, 1998), e.g. the EDLP[1] and HI-LO[2] pricing strategies of the mass-market chains.

Foster *et al (*2002) and McKinsey (2001) showed for America that productivity for traditional retail, small retail, was sixty percent of that for hypermarkets. At fifty percent, the productivity differential in the Netherlands was even greater. Productivity growth in retail trade could be ascribed to the use of information technology along with the diffusion of best practices and the reallocation of inputs and outputs from less productive to more productive retailers within narrowly defined retail format segments. Leading mass market retail chains accounted for a large portion of the productivity growth. This was also the case in Malaysia, especially the foreign chains, e.g. Carrefour; Giant; Tesco. Hypermarket domination of Malaysian retail modernisation benefited Malaysian productivity, and Malaysian suppliers to the retail (Shivee *et al*, 2009).

Malaysia had imported the hypermarket which was known to be a prime transformer of retail trade efficiency, e.g. Gielens and Dekimpe (2001); Vida *et al* (2000); McGoldrich; Davies (1995); Thurik (1989). The new- and higher level of competition affected all retailers both directly and indirectly, increasing small trader and supplier efficiency, e.g. Singh *et al* (2004); Colla (2004); Dawson (2002); Michman and Mazze (1998); Lyle (1995).

The tenor of government policy in Malaysia from the mid-1980s onward was a developmental 'catch up' drive relative to the technology gap(s) in the domestic services trades. This was a sound macro economic decision. Economies protecting their domestic industries and trade from foreign competition had significantly lower rates of productivity as compared with economies that did not protect domestic industries and trade (Baily and Solow, 2001). Nevertheless, the decision to share domestic markets with foreign direct competitors, especially of the gravity of the newcomers to Malaysia, carried with it negative effects for incumbents and raised entry barriers to newcomers. The newcomers to Malaysia had, with other large international retail chains, been instrumental in configuring the shift in the global balance of power between the retail chains and their suppliers during the 1990s, e.g. ESRC (2003); Guptill and Wilkins (2002); Marsden *et al* (2000); Burch and Goss (1999); Buck *et al* (1997); Gereffi (1994); Winson (1993). The

[1] Every-Day-Low-Prices.
[2] LOw prices, bargain prices, of key products, in the expectation the customers would buy HIgh price products too, while in the store.

new entrants were both uniquely resourceful and resources full as compared with their Malaysian counterparts in the previously protected Malaysian domestic market.

According to Reardon and Berdeque (2002), wholesale trade consolidation led consolidation in the retail trade, with both proceeding at different rates across regions and countries. This was the case for Malaysia where the 1990s wholesale trade consolidation coincided with actions directly taken by the foreign mass markets entrants and indirectly taken by consumer brand-owners. The beginning of retail trade consolidation followed toward the close of the 1990s, coinciding with the growth of hypermarkets.

3.3.3 Economic contribution by retail services is difficult to measure

According to Harbour (2004), economists traditionally neglected the retail trade. Even if many studies on the share of services in employment and in nominal GDP had been produced over many years, the relative amount of studies on the retail trade in economic activity was lagging behind that of other services (Gadrey and Gallouj, 2002). The structure of modern mass-market retailing was not gaining the attention that its size and prominence would suggest it deserved (Myers, 1995; Pioch and Brook, 1994). Bryson *et al* (2004) suggested modern economic analysis be service-centred, "*events have moved on in the past ten years*", to countering the manufacturing centred bias of analysis in economics. Consumer services had become, or were always, central, not peripheral, activities and in the past twenty years these services had taken on a whole new economic and societal scope.

Economists theorised that manufacturers sold directly to consumers and had no influence on upstream prices and vice versa (Steiner, 2004), e.g. factory price change was assumed to be the price change at the retail level. Economists were challenged in accounting for the contribution of value by the retail trade to the services- and the national economy. Economists were troubled by material pre-produced goods and the services component of the retail offer to consumers.

The product of a retail service rendered lacked the objective visibility equivalent to the production of a good. The resources used to create the service and the measurement of the service, frequently involved methods that amounted to assimilating the service, considered as a process, as compared with the service considered as a product. On this basis, it would follow that the resulting economic productivity nominally calculated was nil. 18th century's economist and philosopher Adam Smith alluded to this problem when he suggested that the perishable characteristic of services was problematic to measure as they perished in the very instant of their performance (Adam Smith, 1776). As this non-material aspect did not easily allow for storage or further transaction, services did not contribute to an increase in the volume of exchange and were, in this sense, unproductive (Petit, 1998, 1986). Gadrey (1988) suggested the perceived problem with services growth was due to the difficulties of measuring the efficiency improvements in the production of services rather than due to any "*intrinsic insusceptibility*" of services to productivity growth. Steiner (2004) put retail productivity in perspective by his description of 20th century chain store-scale development in America, by examples: the typical 55 square meter grocery shop of A&P in 1912[3], America's largest grocery retail chain at the time, carried 300 stock-keeping-units (SKUs) of goods from which customers' purchases were prepared and handed over the counter to the customers. In contrast, in 2002 the conventional American supermarket covered 2,200 square meters and carried 22,000 SKUs, and supercenters of 18,000 square meters carried 125,000 SKUs. From Steiner's it is not difficult to fathom productivity gains by 20th century retail evolution.

Even if it appeared that the value contribution to the economy from modern retailing was greater than, or different from, the measured contribution, there does not seem to be an alternative way of expressing the contribution in the context of the economy as a whole. The contribution in socio-economic terms was equally difficult to measure, e.g. modern retail's dislocation of traditional / independent shops; increased travel distance for consumers to buy provisions.

3.4 The socio-economy and retail modernisation

Steiner (2004) had put retail productivity in perspective by his description, for food retail, of 20th century chain store-scale development in America. If the process of the retail service led to fewer employees handling higher sales, the higher productivity by displacing small retail traders in effect transferred a socio-economic cost from one institution to another. In this context, employment contributed by new hypermarkets was typically immediately credited to the new service without regard for the long-term effects on employment in the retail trade, and without considering that retail trade was growing

[3] A&P (original name: The Great Atlantic & Pacific Tea Company) was America's largest grocery chain at the time, remaining the largest through the 1930s when it crested at circa 16,000 stores and whereupon the number of stores declined continually with A&P gradual conversion to self-service supermarkets. A&P fell behind its competitors in the 1960s and is a shadow of its former self in today's grocery chain ranking.

with and without the new service of the hypermarkets. Employment by modern large-scale retail was ambiguous. On the one hand, growth by large-scale outlets might imply a reduction in the sales at the competitor outlets. On the other hand, the effects might not be strong enough to affect the competitors' employment levels, at least not immediately. Job creation by new outlets might be sufficient to offset the job destruction by the reduction in the sales at competing outlets and, in some cases, by the closing of the latter. Guariglia (2002) suggested competitors were not necessarily strongly affected by the superstores in the structure of British society, as competitors were located in the village, town and suburban centres and many people who did not own a car would continue to use the latter rather than the out-of-town superstores that were frequently difficult to reach by public transportation. Further, consumers tended to go to superstores once or twice a week only and to do top up shopping at the local, nearby outlets. Guariglia (2002), Hamilton *et al* (2002), McGee *et al* (1999), 1997 and McGee (1996) pointed out convenient shop location relative to the shoppers was a positive the small retail shops had working for them, a case in point being Malaysia. Nevertheless, to the Study, how much modern chain retail, when coming into a new location, was influencing incumbents and employment, was difficult to assess when there was ‘economic growth’ at the location, e.g. growing incomes; growing population. In Malaysia, economic growth and retail modernisation was typically widespread and persistent and, so, covered over effects by a new entry, which would have been apparent, had growth been minimal.

Retail modernisation both impacted the socio-economy and received impetus from it. Malaysian government policy of gradually opening the distributive trades to foreign direct investment effectively began with the 1990s. This was the decade during which the hypermarket was first introduced and supermarkets and hypermarkets began to grow rapidly. It was also a decade of unprecedented economic growth for Malaysia, albeit temporarily halted by the Asian Financial Crisis. As the population living in the rural areas remained relatively unchanged, at circa 9.5 million, throughout the 1990s, the population increase of 4.9 million was correspondingly added to the urban areas which encompassed circa two thirds of Malaysia’s population by 2000. The level of urbanisation had increased by between five and six percent annually 1970 - 1990 (Rozlan *et al*, 2001; Seventh and Eighth Malaysia Plan). The rate of increase in the household formation exceeded the rate of increase in the population. Urbanisation and household formation in Malaysia had grown since the 1960s, as implied by the economic development notions (Kuznets, 1973; Harris and Todaro, 1970),

Table 3.4.1.0: Increasing number of households

	1991	2000	*Change (pct)*
Selangor/Klang Valley*	710,309	1,240,379	*74.6*
Sabah	336,602	477,638	*41.9*
Johor	423,130	580,423	*37.2*
Penang	212,663	284,969	*34.0*
Malacca	102,158	135,590	*32.7*
Labuan	10,787	14,227	*31.9*
Pahang	210,811	276,149	*31.0*
Negri Sembilan	144,175	186,844	*29.6*
Sarawak	329,558	423,944	*28.6*
Kedah	271,175	342,163	*26.2*
Terengganu	144,683	175,079	*21.0*
Perak	398,994	471,715	*18.2*
Perlis	39,973	44,887	*12.3*
Kelantan	231,641	256,914	*10.9*
Total	**3,566,659**	**4,910,921**	*37.7*

** An urban conurbation of 4.8 million people (2000) in the state of Selangor, incorporating Kuala Lumpur (Kuala Lumpur City Hall). The Klang Valley hosts the largest conglomeration of modern retail symbols in Malaysia.*

Source: Department of Statistics Preliminary Count Report for Urban and Rural Areas, Population and Housing Census of Malaysia 2000.

The Malaysian economy generated increased household incomes,

Table 3.4.1.1: Growth of average annual household incomes

Peninsular Malaysia	**1990**	**1997**	***Change (pct)***
Rural	11,124	20,952	*88.3*
Urban	19,092	41,616	*118.0*
Overall	**13,956**	**32,784**	***134.9***

Source: Ismail (2002), in Ragayah Haji Mat Zin (2003), Ringgit Malaysia.

Osman and Ismail (1989) showed urban household income influenced consumers' attraction to different types of outlets in Malaysia, e.g. supermarkets; provisions shops; wet markets. Traditional outlets "*attracted low and middle income shoppers, and supermarkets the upper middle income shoppers and beyond…. This, however appears to be changing as improved consumer lifestyles and changing preferences are altering the way Malaysian consumers shop.*"

The Klang Valley, in Selangor state, and Kuala Lumpur enjoyed the largest incomes,

Table 3.5.1.2: Urban household average annual incomes by selected states

State	1997	*Std. Devs. From Mean*
Kuala Lumpur	67,236	*2.24*
Selangor	50,700	*1.10*
Johor	41,568	*0.46*
Penang	41,532	*0.46*
Malacca	36,660	*0.12*
Perak	27,660	*(0.50)*
Kedah	25,524	*(0.65)*
Pahang	25,368	*(0.66)*
Perlis	24,372	*(0.73)*
Terengganu	22,788	*(0.84)*
Kelantan	20,832	*(0.98)*
Mean	*34,931*	
Median	*27,660*	
Standard Deviation	*14,399*	

Source: Ismail (2002), in Ragayah Haji Mat Zin (2003), Ringgit Malaya

The retail outlets developed as follows during the decade of the 1990s,

Table 3.4.1.3: Retail outlet growth

(number of outlets)	**Urban location 1993**	**2001**	***Change (pct)***
Johor	9,659	13,700	*41.8*
Malacca	1,937	2,660	*37.3*
Negri Sembilan	2,820	3,627	*28.6*
Penang	7,185	9,038	*25.8*
Sabah	9,889	12,190	*23.3*
Perlis	585	708	*21.0*
Terengganu	4,362	5,249	*20.3*
Sel./Klang Valley	23,025	27,141	*17.9*
Kedah	4,646	5,286	*13.8*
Pahang	3,794	4,293	*13.2*
Perak	11,028	11,078	*0.5*
Labuan	768	682	*-11.2*
Kelantan	7,836	6,873	*-12.3*
Sarawak	10,095	8,288	*-17.9*
Total	**97,629**	**110,813**	***13.5***

(number of outlets)	**Rural location 1993**	**2001**	***Change (pct)***
Labuan	101	29	*-71.3*
Malacca	2,195	761	*-65.3*
Sel./Klang Valley	3,013	1,134	*-62.4*
Perak	4,640	2,982	*-35.7*
Sarawak	8,662	6,104	*-29.5*
Sabah	6,356	4,500	*-29.2*
Perlis	977	720	*-26.3*
Penang	1,418	1,097	*-22.6*
Johor	6,129	4,835	*-21.1*
Pahang	3,668	2,979	*-18.8*
Terengganu	3,982	3,305	*-17.0*
Negri Sembilan	2,240	1,934	*-13.7*
Kedah	5,793	5,298	*-8.5*
Kelantan	7,277	7,169	*-1.5*
Total	**56,451**	**42,847**	***-24.1***

Sources: Retail Census 1993; Retail Census 2001.

The increase in retail outlets was unevenly distributed in socio-economic terms. Rural outlets decreased in all of the States. Urban outlets increased in all but three of the fourteen States in Malaysia. Wholesale establishments declined in all the states. Sections 3.2 and 3.3 offered explanations for these developments.

The decline of rural outlets, in combination with flat rural populations, was tantamount to a decrease in rural outlet density occurring during the 1990s. The Study was unable to extract the household growth distributed by urban and rural areas from the Population and Housing Census of Malaysia 2000, albeit Tables 3.4.0.1 and 3.4.0.4 showed growth in urban outlets had not kept up with growth of urban households. Retail outlet density across Malaysia was circa 6.6 per 1,000 population in 2000/2001 as compared with circa 8.0 in 1993. The data of Sieh (1974) suggested outlet density was circa 5.8 in 1966/68. From the time of Sieh's data, Malaysia's retail outlet density rose until the 1990s and then fell, at a time associated with the introduction and rapid growth of the hypermarket in Peninsular Malaysia's large urban centres, and with supermarket growth,

Table 3.4.1.4: Retail outlet density in selected states in Malaysia, 2001

		Per 1,000:		*(Std.devs. from mean)*	
	Retail Outlets	**Households**	**Population**	*Households*	*Population*
Selangor/Klang Valley	28,275	22.8	5.4	*-1.3*	*-1.2*
Johor	18,535	32.0	7.2	*-0.4*	*-0.2*
Perak	14,060	50.9	6.9	*1.3*	*-0.3*
Kelantan	14,042	54.6	10.9	*1.7*	*2.1*
Kedah	10,584	30.9	6.7	*-0.5*	*-0.5*
Penang	10,135	41.4	8.2	*0.4*	*0.4*
Terengganu	8,554	48.9	9.7	*1.1*	*1.4*
Pahang	7,272	26.3	5.9	*-1.0*	*-0.9*
Negri Sembilan	5,561	29.7	6.7	*-0.7*	*-0.5*
Malacca	3,421	25.1	5.7	*-1.1*	*-1.1*
Perlis	1,428	31.7	7.2	*-0.5*	*-0.2*
Sabah	16,690	34.9	6.8	*-0.2*	*-0.4*
Sarawak	14,392	33.9	7.1	*-0.3*	*-0.2*
Labuan	711	50.8	10.0	*1.3*	*1.5*
	Mean	*36.7*	*7.5*		
	Median	*33.0*	*7.0*		
	Std. Dev.	*10.6*	*1.7*		
Peninsular Malaysia	121,867	30.5	6.6	*-0.6*	*-0.5*
East Malaysia	31,793	34.7	7.0	*-0.2*	*-0.3*

Sources: Population and Household Census 2000; Retail Census 2001 excluding the auto- and restaurant segments.

Outlet density was uneven across Malaysia and lowest in Selangor/Klang Valley, the wealthiest and most populated area, with the smallest households and largest incomes, on average, in Malaysia. By Table 3.1.0.1 and Sieh (1974), the outlets traditionally provisioning Malaysian households had decreased, for the first time since Independence, relative to the population and the households. These were well known concomitants of economic development (Perkins *et al*, 1983),

Table 3.4.1.5: Retail outlet density in selected economies (estimates)

Economy	**Outlets**	**Per 1,000 Population**	*(Std.Devs. from Mean)*
South Korea [a]	n/a	18.6	*2.3*
Spain	523,604	13.3	*1.1*
Italy	738,794	12.9	*1.1*
Japan [b]	n/a	11.2	*0.7*
Belgium	75,869	7.4	*-0.1*
Malaysia [c]	***153,660***	***6.6***	***-0.3***
France	380,380	6.4	*-0.3*
Sweden	56,834	6.4	*-0.3*
Netherlands	85,615	5.4	*-0.5*
Denmark	24,363	4.6	*-0.7*
America [d]	995,815	3.6	*-0.9*
UK	211,049	3.5	*-0.9*
Germany	266,611	3.3	*-1.0*
	Mean	*7.9*	
	Median	*6.4*	
	Std. Dev.	*4.7*	

Non-motor; non-hotels/restaurants. Sources: Eurostat; NACE 52, 2001. OECD 2001: (a) 1995, (b) 1996 or 1997, (c) Malaysia Retail Trade Census 2001. (d) US Bureau of Census, Retail Trade Census 1997, NAICS 44-45.

Malaysian density of 6.6 was both higher and lower as compared with developed economies. Retail outlet density varied widely between individual economies, within economic blocks and neighbouring geographies. Sieh (1974) suggested different expectations of retailers and consumers as a possible cause for the retail trade conditions in Malaysia in the 1960s. There was little economic development in Malaysia then as compared with the following decades and during which the density apparently increased, until the 1990s. The Study estimated supermarket and hypermarket density for Malaysia and selected economies, per 100,000 population,

Table 3.4.1.6: Supermarket and hypermarket densities (per 100,000 population, 1997)

Supermarkets		*(Std.Devs. from Mean)*	Hypermarkets		*(Std.Devs. from Mean)*
Sweden	23.5	1.7	France	1.9	2.0
Spain	19.1	1.1	Germany	1.4	1.1
Denmark	17.3	0.8	UK	1.3	0.9
UK	12.9	0.1	Sweden	0.8	0.1
France	12.6	0.1	Spain	0.6	-0.3
Germany	12.1	0.0	Taiwan [a]	0.5	-0.4
Italy	7.5	-0.7	Denmark	0.3	-0.8
Portugal	6.2	-0.9	Italy	0.3	-0.8
Taiwan [a]	4.7	-1.1	Portugal	0.3	-0.8
***Malaysia* [b]**	***3.2***	***-1.3***	***Malaysia* [b]**	***0.2***	***-1.0***
Mean	*11.9*		*Mean*	*0.8*	
Median	*12.4*		*Median*	*0.6*	
Std. Dev.	*6.6*		*Std. Dev.*	*0.6*	

Definitions: *Supermarkets* *< 2,500 m2* *Hypermarkets* *> 2,500 m2*

Source: OECD/KMPG 1997: (a) 2001, (b) 2004

According to Tables 3.4.1.0 - 3.4.1.6 and the literature reviewed, there was no 'template' or pattern for retail outlet/format distribution in an economy at any level, e.g. national, state or local market. There was some convergence by modern outlets, the supermarket being embedded in largely all urban economies and the hypermarket showing the similar tendency. Literature suggested a myriad of reasons for the differences and these reasons could be categorised as economic, political and social (not necessarily in that order), e.g. Japan was well known for its high proportion of small retail outlets; France, UK and America for the onward march there of the hypermarket, superstore and the supercenter respectively. Nevertheless, on the surface, and based on Malaysia socio-economic trends, Malaysia looked to be fertile ground for more hypermarkets and supermarkets, suggesting an ongoing future reduction of small provisions shops and traders, and independent supermarkets.

3.4.1 Attractiveness of the Malaysian retail market

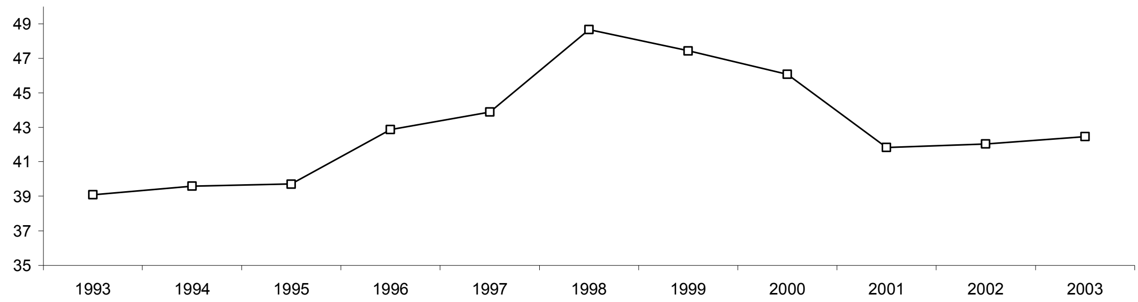
Malaysia had a number of additional attributes making the urban areas an attractive market to both Malaysian and foreign retailers (Athukorala, 2001). Malaysians were known to have one of the highest propensities for saving in the world. This suggested a reservoir of household savings that might be applied, or tapped, for investment and consumption (Perkins *et al*, 1983). According to Muraduglo and Taskin (1996), households in the developing economies tended to change spending patterns in favour of consumption as permanent or working incomes increased. Amongst Asian nations, Malaysia was itself prominent with a high, and increasing, domestic saving rate,

Table 3.4.1.7: Selected domestic savings

(Percent of GDP)	**1980**	**1990**	**1999**	***Annual avg. chg.*** '80 - '90	'90 - '99
Malaysia	32.9	34.4	47.0	*0.15*	*1.40*
Asean	29.2	32.1	29.3	*0.29*	*-0.31*
North East Asia	31.0	34.4	34.2	*0.34*	*-0.02*

Source: Unctad, Statistical Yearbook

Figure 3.4.1.0: Malaysia's gross domestic saving (pct of GDP)



Source: Asian Development Bank, Key Indicators for Asia and the Pacific

Further, the high household saving rate in Asia more generally contrasted markedly with the developed economies where low household savings implied retail trade dependence on current, permanent, or working, incomes, of consumers, e.g. America; UK,

Table 3.4.1.8: Household savings in selected economies

(Percent of GDP)	**1990**	**1999**	*Change (pct)*
Malaysia ***(estimate)***	***15.0***	***20.0***	***33.3***
Italy	16.7	14.5	*-13.2*
Japan	12.1	13.4	*10.7*
Germany	13.8	9.2	*-33.3*
America	8.0	1.0	*-87.5*
UK	3.3	0.9	*-72.7*

Source: Bank of Japan (1999). Malaysia estimate by the Study, based on Bank Negara other years than BOJ (1999)

It was a challenge to the new, modern retailers in Asia to motivate a shift from household savings into consumption. Price sensitivity was prominent in Malaysia and placed the uniquely high domestic and household saving in a relief. According to ACNielsen (2002), the price elasticity in Malaysia was second only to that of Hong Kong in Asia-Pacific. Malaysian shoppers were amongst the most price-sensitive shoppers in Asia, more price-sensitive than the shoppers in Singapore and Taiwan. This price-sensitivity of Malaysians contributed to the rapid success hypermarkets had achieved in attracting customers, through price promotions and ongoing special sales, facilitated by their purchasing-, operational- and financial scale, that is, economy of scale. Coincidentally with the relatively high price elasticity in Malaysia and Hong Kong, the development of the premium price 24-hour convenience chain store, e.g. 7-Eleven, in these two countries was slow and uneven while convenience chains rapidly flourished in South Korea, Taiwan and Thailand.

Nevertheless, relative to the price-sensitivity of Malaysian consumers, the Study noted that the deep discount food retail concept was absent in Malaysia, even if Malaysian owned relative newcomer 99'Speedmart chain connoted, to the Study, a food discount format based on 600 - 1,200 square meter marts, in residential areas. The deep discount food format, spearheaded by international European retail chains Aldi, Lidl, and Netto, was based on carrying up to fourteen hundred SKUs in compact outlets. The concept thrived in some developed economies, e.g. Denmark; Germany; France, and was growing in others, e.g. Australia; Norway; UK. The potential effect on Malaysian consumers of an Aldi or a Netto could be gathered by the AGB Retailer Price Track (1995) for same food products in the UK,

Table 3.4.1.9: Pricing levels by food retail chains in the UK (1995)

Retailer		Relative to Index (100)	
Independents		110	*Above index*
Safeway		108	*Above index*
Sainsbury		105	*Above index*
Tesco		105	*Above index*
UK Co-ops		104	*Above index*
Asda (Wal-Mart)		*Below index*	98
Aldi	*Deep discounters*	*Below index*	77
Netto	*Deep discounters*	*Below index*	71

Source: AGB Retailer Price Track

To the Study, the absence in Malaysia of the international deep discount food format represents a gap, the only modern food retail gap in Malaysia.

Another market attraction that Malaysia offered modern retail was the rising trend in the ratio of working population to the non-working population in the country. A high number of working to non-working population implies that relatively few economically ‘unproductive’ individuals depend on those who actively participate in the creation of economic wealth, which in turn implies greater availability of capital for unencumbered allocation. Economic theory suggests that, ceteris paribus, this should positively impact the potential for consumer demand. In Malaysia, the working-age population increased by circa three percent annually and the dependent population by less than two percent annually, between 1971 and 2001 (Chew and Wong, 2002). Further, unemployment in Malaysia was low as compared with developed economies and some developing economies in 2004. The proportion of the working-age population contrasted with the developed economies where the dependent populations typically increased at a higher rate as compared with the working-age population.

In developed economies where economic growth was low as compared with Malaysia, slow indigenous market growth was leading to increased competition, consolidation among the retail chains, rising barriers to entry in the core retail segments, and to the leading chains looking abroad for new markets to establish in (Dawson, 2003). The competitive barriers to entry had risen in the core retail segments in the largest towns in Malaysia and by 2004 there was modest consolidation activity, by acquisition, in the supermarket segment, e.g. Dairy Farm; The Store, as pointed to by Dawson for the developed economies. Retail change in Malaysia was driven by the economic and demographical developments and had taken on a new form with the entry by foreign retailers. As the hypermarket arrived, it began to drive the change. As the mass market entrants from abroad were not free to engage in new supermarket development, prevented by Malaysian government policy, they typically had to seek the scale they sought by establishing new hypermarkets. Nevertheless, the foreign entrants were immensely resources-full and resourceful and moved massively by establishing new hypermarkets as compared with their Malaysian counterparts.

3.4.2 The changing environment by retail outlets and their suppliers

The overall number of retail outlets in Malaysia stagnated in the 1990s and the number of suppliers was decimated. Incumbent retail and wholesale had run into difficult times,

Table 3.4.2.0: Retail outlets and suppliers

	Retail 1993	Retail 2001	*Change (pct)*
*Penang**	8,603	10,135	*17.8*
*Johor**	15,788	18,535	*17.4*
*Negri Sembilan**	5060	5561	*9.9*
Sabah	16,245	16,690	*2.7*
Terengganu	8,344	8,554	*2.5*
Kedah*	10,439	10,584	*1.4*
Pahang	7,462	7,272	*-2.5*
Kelantan	15,113	14,042	*-7.1*
Perlis*	1,562	1,428	*-8.6*
Perak*	15,668	14,060	*-10.3*
*Malacca**	4,132	3,421	*-17.2*
Labuan	869	711	*-18.2*
Sarawak	18757	14392	*-23.3*
*Sel./Klang Valley**	26,038	28,275	*8.6*
Total	**154,080**	**153,660**	*-0.3*
Peninsular Malaysia	118,209	121,867	*3.1*
(West Coast only)	*87,290*	*91,999*	*5.4*
East Malaysia	35,871	31,793	*-11.4*

	Wholesale 1993	Wholesale 2001	*Change (pct)*
Kelantan	703	867	*23.3*
Terengganu	690	726	*5.2*
*Penang**	1,643	1,485	*-9.6*
Sarawak	2,420	2,155	*-11.0*
Pahang	812	709	*-12.7*
Kedah*	1,158	948	*-18.1*
*Negri Sembilan**	490	330	*-32.7*
*Sel./Klang Valley**	7,061	4,743	*-32.8*
Perak*	1,909	1,261	*-33.9*
Perlis*	172	112	*-34.9*
Sabah	1,319	762	*-42.2*
*Johor**	3874	1970	*-49.1*
*Malacca**	605	288	*-52.4*
Labuan	84	30	*-64.3*
Total	**22,940**	**16,386**	*-28.6*
Peninsular Malaysia	19,117	13,439	*-29.7*
(West Coast only)	*16,912*	*11,137*	*-34.1*
East Malaysia	3,823	2,947	*-22.9*

Sources: Retail Census 1993; Retail Census 2001.

Hypermarket occurrences in italics. *** West Coast of Peninsular Malaysia, the stronger economy.**

The effect of both retail modernisation and economic growth became visible during the 1990s. Some states in which hypermarkets were growing experienced overall growth of retail outlets. This could be ascribed to economic growth and high rate of urbanisation. Suppliers, wholesalers, were decimated except in Kelantan and Terengganu, states with relatively low economic development and which were free of hypermarkets during the decade. Outcomes of retail modernisation elsewhere could be observed in Malaysia.

By Table 3.1.0.1, non-specialised and specialised provisions trade, by the small outlets, accounted for between fifty and sixty percent of the grocery sales in 2001, a decline from circa seventy percent in 1993. ACNielsen (2003) and DKSH (2004) estimated that supermarkets and hypermarkets, the modern retail, in Malaysia accounted for between twenty five and thirty percent of the grocery sales. Between Table 3.4.0.1 and

ACNielsen and DKSH there emerged a structural and economic profile of the grocery retail circa 2001: hypermarkets and supermarkets represented less than one percent of the outlets and accounted for between twenty five and forty percent of grocery sales; the small outlets represented circa ninety nine percent of the outlets, accounting for between sixty and seventy five percent of grocery sales. This suggested that outlet consolidation in the provisions trade in Malaysia had further to go if going by the similar progression in developed economies. Tabulating from the two retail censuses retail engaged an additional 60,282 persons and wholesale incurred 73,303 redundancies. Both phenomena were associated with hypermarket, supermarket, and department store / mall growth. In a perspective of job creation by the modern retail, one can only guess what retail employment would have been, had the traditional retail not been challenged, so abruptly, by the admission of foreign direct competition and the nature of this competition. A good guess would be: it would undoubtedly have been higher. Nevertheless, for the UK, Sparks (2000) suggested a both a practical and learned perspective *"..we probably couldn't find out one way or the other <u>for certain</u> whether superstore employment was a creator or destroyer of jobs over various timescales, or more pertinently address the more enlightened question of impact and adjustment to employment...Superstores are here and have their impacts, including on employment. But so has technology, car ownership, taxation and a host of other factors. Isolating employment is a fascination.....essentially an empty one. Twenty years ago there might have been a point if we had wished to base consumer policy decisions on employment impact."* As suggested by Sparks for UK 2000, for Malaysia the time has probably now passed when it might be useful for policy makers to ponder employment effects of hypermarket development. Further, to Sparks, "*What is of consequence is the way in which we meet our social and economic obligations to provide food retailing and shopping that meets consumer demands…Superstores however do concentrate employment and modernise facilities through their efficiency and approach. The modernisation aspect is surely the more important point at this time and it is understandable if some local authorities and retailers seek to develop such stores in particular areas to improve the locality and to provide a local job focus. They have to recognise however that there will be both positive and negative consequences of this decision."* For lack of a government published retail modernisation vision for Malaysia, Sparks puts in a nutshell what such a vision might be based on. Further, Sparks is accurate that the consequences of admitting large-scale retail outlets into a local area must be analysed and dealt with the level of local authorities.

Beyond the reduction of suppliers associated with the hypermarket arrival during the 1990s, the reduction could be partially explained by the information the Study obtained in interviews with a number of local representatives and subcontractors for foreign producers of international big-brand goods marketing in Malaysia. These bodies sought to bring changes to an embedded if not archaic wholesale trade and to obtain economic efficiencies as well as improved services for both themselves and the retail trade through forcing consolidation of the wholesale trade with only the most competent regional and area wholesalers surviving. These would then scale up as dedicated distributors to materially improve efficiency and wholesale service levels, e.g. unit cost reductions; enhanced logistics; comprehensive data collection and utilisation. Some of these bodies apparently read the writing on the wall when the Malaysian government began to liberalise the retail trade. They were familiar with the impact the mass-market retail chains could be expected to have on margins, and prices, and required service levels, by which brands would typically be required to abide in the future. Consolidation of the wholesale segment can therefore been seen to be leading retail trade consolidation in Malaysia. This was the first step in retail modernisation (Reardon and Berdequé, 2002). In and of itself, the consolidation of wholesalers in Malaysia was instigated by brand-owners and the foreign hypermarket entrants, including cash-and-carry wholesaler Makro[4], throughout the 1990s.

3.5 Government policy for the retail trade and related economic policies

The government began to open up to foreign direct investment in the wholesale and retail trades in the mid 1980s. The 1985 Guidelines on Privatization promulgated by the Economic Planning Unit can be seen as a pre-cursor to the change that was to come. The 2nd section of the Guidelines introduced the policy to "*promote competition, improve efficiency, and increase productivity of services*".

The Sixth Malaysia Plan (1991-1995) stated Malaysia was an open economy and the "*services sector which provides a strong supportive role to the other sectors will be modernised*" to creating a competitive environment, invited "*professional consultancy services, repair and maintenance services, leisure and recreational facilities as well as computer related services*" and did not single out the retail trade.

[4] Makro entered Malaysia in the early 1990s, grew to 8 cash-and-carry hypermarkets during the 1990s, in Peninsular Malaysia, for card carrying members of the retail, wholesale, and food services trade. Stores sold to Tesco in 2006 and converted to Tesco hypermarkets (Tesco Xtra).

The Seventh Malaysia Plan (1996-2000) "*sets out a new phase of development with the objective of transforming the economy from being input-driven to one which is premised on productivity and quality*." The government 1999 Review of the progress of the Seventh Malaysia Plan noted the retail trade was "*undergoing structural changes. This has resulted in an increase in the number of supermarkets and department stores as well as the emergence of large retail outlets called hypermarkets. Generally, hypermarkets were located in suburban areas, where real-estate prices and operating costs were lower, and in sizeable middle- to upper middle-income residential areas. With the establishment of hypermarkets, small retail outlets such as sundry or provision shops faced stiff competition in terms of lower prices and variety of products.*" The Review went on to state the traditional sundry or provision shops remained the most popular shopping outlet for groceries and wet markets, farmer's markets, and night markets continued to play an important role in the Malaysian shopping environment.

"*A significant change, however, was the rapid increase in the number of shoppers at supermarkets and hypermarkets. Shoppers at supermarkets increased 1.5 times, while hypermarket shoppers more than doubled since 1995. In view of these changes, the Government commissioned a study on the impact of hypermarkets on the distributive sector*."

The Eighth Malaysia Plan (2001-2005) referred to this study. The hypermarkets "*affected the sales of 58 percent of the retailers in the neighbouring areas where hypermarkets were located. With respect to prices, 35 percent of the retailers surveyed lowered their prices in response to competition from the hypermarkets*." The study had the hypermarkets accounting for RM 700 million, or 0.4 percent of total sales in the wholesale trade in 1999. The Plan suggested the impact hypermarket growth was having since the first hypermarket in 1994. Further, the Plan directed development toward instituting a favourable legal framework and facilitating the development of new retail modes, providing opportunities for self-employment, increasing Bumiputera participation and developing strong supporting services and supply chain linkages. The Plan singled out the franchising, direct sales and warehouse sales as among the new retail modes that should be pursued and did not 'single out' existing small-scale retail modes for support or incentives, beyond explicit support for Bumiputera[5]-based retail initiatives. The new

[5] Definition by MARA, Majlis Amanah Rakyat: Bumiputera, Malaysian citizen: If one of the parents is a Malay and practicing Islam, or Bumiputera (aborigines/indigenous for Sabah and Sarawak) therefore his/her children are Bumiputeras. The criteria to qualify for Bumiputera Status in the corporate world is set out in Treasury Circulars No. 3/2007 and 4/1995. *Bumiputera* or *Bumiputra* is from a Sanskrit word Bhumiputra,

retail modes receiving encouragement were no less or more complex as compared with existing modes, e.g. franchising (Bates, 1995). Further, the Plan recognised consumer preferences were becoming increasingly demanding and the retail trade was the link to increasing the consumer welfare and the quality of life. Lastly paragraph 16.32 of the Plan can be seen to mandate, for the first time, the formulation of a competition policy. An early competition policy was important for dealing with potential local market concentration as at this stage of the retail modernisation it would be meaningless to address retail market concentration by or at national and state levels of concentration.

When Carrefour and Dairy Farm International arrived in Malaysia the government developmental policies for the retail and wholesale and trades became hypermarket oriented. The hypermarket oriented policies were tantamount to greater efficiencies in the retail trade overall and in the supply chain of growers, manufacturers, and intermediaries, or wholesalers. The leading retail chains relatively rapidly increased their share of the markets they entered. Therefore, developmental policy needed to focus on a small number of retail corporations even if the policy makers were concerned with or for all the retail and wholesale trade participants. The OECD economies typically focused the public interest by the behaviours that obstructed competition, as in competition opposite monopoly, and focused the 'business interest', e.g. torts, the causing of an economic injury to a business through deceptive or otherwise unfair acts, e.g. collusion, cartel price fixing, market allocation and abuse of market power. Similar concerns and foci were only generally addressed and expressed in Malaysia post the government's decision to liberalise the retail markets.

A comprehensive competition and/or fair trade policy for mass-market retail in Malaysia was therefore advisable. Malaysia's situation had developed very quickly. This was different as compared with the gradual consolidation and concentration developed economies had experienced in their mass-markets, even if attention to local market concentration increased late in the chain of events, in the latter part of the 1990s. Further, in the case of Malaysia, Carrefour, Dairy Farm, Jusco and Tesco had settled into the areas with dense population in the western seaboard of Peninsular Malaysia where they had grown rapidly by 2004 and from where they might expand into other regions of the

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literally translated meaning "son of the Earth". Guidelines on Foreign Participation in the Distributive Trade Services Malaysia 2010 defined Bumiputera by Articles 160(2), 161A (a) (b) of the Federal Constitution, and as a 'corporate entity', a local company or institution "*whereby Bumiputera holds more than 50% of the voting rights in the company or institution*".

peninsula and Malaysia as markets became 'ripe' and were accessible to them. While these new, and formidable, entrants were competing with each other, the backdrop for the overall competition was the previous less competitive era and, until the mid 1990s, a relatively unprepared traditional retail trade and newly awakened consumers enthusiastic about the new choices introduced from abroad.

Paradoxically, the 1985 Guidelines on Privatization had also set out the policy "*to stimulate private entrepreneurship and investment in order to accelerate the rate of growth of the economy*", a policy emphasised in subsequent Malaysia Plans. That policy became exceedingly difficult to implement in the retail sector as new competition from hypermarkets and new supermarkets developed. Although the new retail and newly arrived retailers created employment for thousands of people, it was unclear how many jobs they displaced in other, existing retail, and potentially prevented. In addition, transparency was low without an explicit competition policy to define and enforce fair trade and concentration across constituents.

Small food retail outlets declined during the 1990s. Even if the number of non-food outlets increased by 56.9 percent during the same period, Table 3.1.0.1, the rapidly growing non-food offer by the hypermarkets would possibly make this growth by small outlets unsustainable, or potentially reverse it. Government hypermarket policy mandated spaces for small traders in hypermarket building corridors, albeit the Study was unable to identify data or other studies indicating how these small retail outlets, typically specialised, were faring. If the specialised small food and non-food outlets hosted by new hypermarkets, and shopping malls, were receiving high foot traffic by consumers, they had not, in effect, become more competitive as compared with the past when they typically resided in local communities. Further, non-specialised provisions shops were typically not to be found in hypermarket corridors or in shopping malls.

The previous era had guaranteed the supply of food at fair prices and under acceptable hygienic conditions (FAO, 2002). FAO suggested for the retail trade in developing economies that in the next phase, the modernising phase, government commercial policy should foster "*development of small/medium self-service outlets*" and in the final, modern phase, "*guarantee a range of different modern retail systems*". The Malaysian government was successful relative to the FAO concept: indigenous supermarkets and self-service mini-markets grew and seemed to gradually improve the quality of their retail service. With this said, development was commercially polarised by the hypermarket development that was driven by leading international mass market retail chains barred from entering the retail spaces typically occupied by the supermarkets and mini-markets, even if there were non-transparent exceptions, such as Jusco and Giant continuing to grow supermarkets, albeit relatively slowly. The effect of this policy was to restrict foreign retail chains to developing hypermarkets in order to obtain and maintain the scale targeted for their Malaysian activities, as determined by their market-entry strategies. This was a conundrum, albeit one that could be expected to create a strongly competitive environment in grocery retail. Further, the existing situation made it very difficult for the much more numerous small traders, and independent supermarkets, to survive, and for aspiring traders to enter the retail business in line with government policy encouragement.

Within the frameworks of the National Economic Policy 1971 (NEP) and the National Development Policy 1991 (NDP) the Malaysian government had not considered the retail trade for commitment to the World Trade Organization 'General Agreement on Trade in Services' (1995), or GATS, and instead implemented a pragmatic policy about hypermarket development, and about Giant, and Jusco, owning and expanding supermarkets (Sieh *et al*, 2000, Heng, 1997). In addition to a request by America, the EU Council for Trade in Services resolution of 29 March, 2001 requested Malaysia to revise its commitments to include distributive trade (EC, 2002). A GATS commitment by Malaysia would limit the ability of the government to influence or control the expansion of foreign retail chains.

In comparison, retail in Thailand was gradually liberalised beginning in the late 1980s. By a 1998 directive, Thailand's Board of Investment (BOI) allowed one hundred percent foreign equity to joint ventures in the retail trade that were in operation prior to 1 January, 1999. Subsequently the Alien Business Act 2000 opened wholesale and retail trade to foreign ownership with the proviso that one hundred percent foreign ownership of new retail trade ventures remained subject to a case-by-case consideration by the BOI. The latter Act replaced the National Executive Council No. 281 of 1972. Malaysia did not, and is still not, allowing one hundred percent foreign ownership of a retail business in Malaysia. On the other hand, Thailand was very badly affected by the 1997 Asian Economic Crisis and this perhaps influenced Thailand's stance on, and need for, foreign direct investment. Malaysia's NEP mandated a thirty percent share of the foreign owned retail businesses in Malaysia be invested by the Bumiputera investment community, for reasons illuminated by Chapter 2. As of 2009, Dairy Farm International had not yet agreed with a Bumiputera partner about a 30 percent share in its Malaysian subsidiaries, or vice versa. Carrefour and Tesco both have the required Bumiputera partner. Aeon's retail activities in Malaysia by Jusco are publicly listed, on Bursa Malaysia.

In Thailand, the retail trade liberalisation provoked strong popular opposition (UNI, 2003). There was no similar popular opposition in Malaysia. Like Malaysia, Thailand did not lock the retail trade liberalisation into GATS commitments. Malaysia and Thailand each adopted different regulatory regimes to deal with the foreign retail chains. Both Malaysia and Thailand had property legislation making acquisition of sites suitable for hypermarkets difficult for foreign retail chains. Malaysia had not enacted competition legislation for the retail trade as at 2004. Thailand had enacted competition legislation for the retail trade, the Trade Competition Act 1999. Similarly, Indonesia had enacted Law No. 5 year 1999 for Prohibition of Monopolistic Practices and Unfair Business, with the foreign retail corporations in mind. Neither the Thai nor the Indonesian legislation had the detail or organisation the similar UK legislation adopted in 2002 and which was based on actual experience in the UK retail trade. For Malaysia and other newly liberalised domestic markets the extent and nature of the competition among the leading grocery retail chains, largely foreign corporations, was a central problem even if potential local market concentration was first a localised problem that would find it difficult to 'get a hearing' because of weak overseer institutions. According to Christopherson (1999), comparative studies showed how national regulatory frameworks shaped the character of inter-firm competitive relations and had the potential to produce very different spatial outcomes in local markets and across national boundaries. Christopherson suggested one way to think about market rules was in terms of how they solved problems central to the operation of liberalised and liberalising market economies. Even if Malaysia policy in the Malaysia Plans were unfailing in dealing with the Distributive Trade, a clarifying synthesis of problems and solutions was missing.

That the foreign hypermarket chains could not themselves purchase development land for the hypermarkets might be complicating the Malaysian process of controlling the spread of hypermarkets and local market concentration. Malaysian real estate developers, when obtaining buildings approvals from the local authorities, might not know or wish to disclose the lessee of a major space, e.g. hypermarket. For example, the Competition Commission (2000) in the UK had found that local authorities issuing development permits for large-scale retail structures were applicant blind. For Malaysia, at both the state and local authority levels, it would be important to know if it were a Carrefour or a

Tesco hypermarket entering into the rental locality. Because of the latter's resources, this 'applicant' situation should be considered by the Ministry of Domestic Trade and Consumer Affairs issuing the hypermarket permits to the foreign hypermarket chains in the first place.

The Committee on Wholesale and Retail Trade was formed by the Ministry of Domestic Trade and Consumer Affairs in 1995. Effective by ministerial directive on 1 November, 1995 all companies with foreign equity participation and involved in the distributive trade sector were required to apply for approvals to carry out any new business in the wholesale and retail trades. New foreign entrants were required to apply to enter and incumbent foreign retail investors were required to apply to open new outlets and when seeking to relocate existing outlets. The Ministry had the foreign retail investors in full view. Not so the Malaysian retail investors, who transacted with State and local levels of government.

The Ministry required Malaysian incorporation of foreign retail and wholesale activities and required a paid up capital of Ringgit Malaysia (RM) 1 million for the specialty outlets, RM 5 million for supermarkets, RM 10 million for department stores and RM 50 million for hypermarkets. Foreign retail chains were required to meet the Foreign Investment Committee guidelines for allowing maximum 70 percent foreign equity. The 30 percent were reserved for the Bumiputera community in accordance with the NEP framework. The government stance on the foreign equity criteria was pragmatic: Carrefour and Ahold (the latter with 34 supermarkets, which were acquired by Giant/Dairy Farm International of Hong Kong, in 2003) acquired 100 percent ownership in 1999-2000, when their Bumiputera partners wished to sell. Tesco entered by a seventy/thirty investment with Sime Darby, a Malaysian conglomerate plc that had foreign portfolio investment. Carrefour and Dairy Farm were given a number of years in which to comply with the thirty percent Bumiputera participation, reinforcing the pragmatic stance of the government. By 2009, Carrefour had complied, Dairy Farm not.

Consumer interests were overseen by the Price Control Act 1946, the Trade Descriptions Act 1972, the Weights and Measures Act 1972, the Direct Sales Act 1993 and the Consumer Protection Act 1999. These acts regulated the distributive trade (Lee, 2002). Further, there was a legal framework for regulating acquisitions and mergers, albeit according to Lee, the provisions did not consider impact on competition by such acquisitions and mergers. The Securities Commission regulated acquisition and merger activities by the Securities Commission Act 1993 and the Malaysian Code on Take-Over and Mergers 1998. The Ministry of Domestic Trade and Consumer Affairs began drafting fair trade regulations in 1993 (Lee, 2002). As at the end of 2009, fair trade regulations had not been issued in the form of an Act specifically for the retail trade, even if brief fair trading provisions on the Ministry's website 'regulated' the downstream and upstream behaviours of retailers and wholesalers.

OECD economies typically had both a competition act and a fair trading act. Fair trade offices were charged with surveying and investigating and refer investigated cases to a competition commission for decisions. Mirroring the intensifying changes in UK retail trade throughout the 1990s, the UK government amended the Fair Trading Act 1973 a number of times for the Act to reflect recent events and experiences and finally replaced it with the Enterprise Act 2002. The watch-dog and investigator role in the UK was with the Office of Fair Trading that referred cases to the Competition Commission that focused monopoly characteristics and tendencies and competition legislation. The Fair Trade Office in the UK used its own specialists, private consultancy firms, and a compulsory reporting regime with the leading retailers. The latter reporting regime was different from the statistical reporting by firms and was a part of the Fair Trading Code. The Malaysian government did not have similar 'rules of the game', much less legislation.

Lee (2002) described the evolution and the status of institutional and policy framework for regulation and competition in Malaysia as "*competition regulation is still at a fairly nascent stage in Malaysia*". Only the communications, multimedia and energy sectors in Malaysia had competition legislation. This legislation operated on the national level and not the local level (OECD, 2003). The process of regulatory reforms for the retail trade was challenging. The foreign change leaders were in a different league as compared with Malaysian retail industry norms of less than a decade ago. Domestic capital investment had been seeking out the non-manufacturing sectors because foreign firms were increasingly dominant in the export-oriented manufacturing sector and now services sectors were no longer protected from direct foreign competition (Nesadurai, 2002; Khoo, 2000), yet domestic capital was far from aggressive in the mass-market retail sector.

A mid-1980s recession had caused a division of the focus to now also include meeting the challenges of the global economy. Equity conditions of The Investment Coordination Act were amended in 1985 and foreign firms could apply for one hundred percent ownership subject to the export element of the business involved. If a foreign investment exported all its production, one hundred percent ownership of the business was likely to be granted. From an NEP perspective the latter was seen as consistent by the addition of new incomes and jobs with no negative impact on manufacturers for the domestic market. The existing domestic position thus remained protected and would as a minimum remain protected by the requirement of a thirty percent shareholding for the Bumiputera community. However, the need to improve competitiveness and productivity received a place in the vision and the forward-oriented economic plans of Malaysia. The national policy had shifted to a pro-growth and individual centred approach from a state interventionist and collective agenda (Lee, 2001a).

According to Lee the proportion of manufacturing capital accruing to wholly owned Malaysian and Malaysian joint-venture firms had declined significantly between 1985 and 1995; in this period foreign ownership and, coincidentally, foreign investment increased to account for circa fifty five percent of new investments in manufacturing between 1990 and 1999. The equity ownership in hypermarket development was similarly foreign. Nevertheless, if increased foreign market share, in a sector, reduced acquisitive and under-productive behaviour, this development contributed toward the objective of the Malaysian government (Lee, 2001a), a policy view that cannot be faulted on economic grounds.

Nesudurai (2002) associated the latter ownership liberalisation with the Asean Investment Area initiative of December 1998 and the Asean decision of September 2001 to allow market access and national treatment for all investors, irrespective of nationality, in the non-manufacturing sectors by 2010. Even if the 1998 and 2001 initiatives were directed at Asean entrepreneurs and investors the initiatives accelerated national treatment by citing the need to be countering the diversion of foreign direct investment to China. 2010 was a target date and left it to the individual Asean member countries to act in accordance with the perceived needs of each member country relative to Asean. The Malaysian government was pragmatic in its implementation of both policy and specific policies, e.g. permitting Giant and Jusco to own supermarkets and to expand within the supermarket segment. The opening of the retail trade to foreign direct investment and relinquishment of investment control and returns by Malaysians to foreign investors were consummated pragmatically. Yet it was not apparent if a great deal of thought was given to potential effects of the growth of large-scale shopping venues on small retail traders and local communities, e.g. hypermarkets; shopping malls.

3.6 Allowing foreign direct competition in the domestic market

On the one hand, it was possible to view Malaysian government policy as tardy in connection with admitting foreign direct investment and competition to Malaysia's distributive trade markets, against the backdrop of the global wave of direct investment liberalisation and the calls by the developed economies and especially America, for Malaysia and all restricted economies to open wide the domestic economies to foreign direct investments and, thereby, to potential control by foreign corporations of both some domestic companies and trade segments. There were Malaysian sentiments, political and business community, against passing large slices of the retail market to foreign corporations. On the other hand, Malaysians seemed to possess neither the sufficient expertise and technology, or the willing capital, for the government to be meeting the objective of rapidly increasing the economic contribution to the economy by the wholesale and retail trades. On this basis, Malaysian sentiments could not and should not be ridiculed. It could be observed and confirmed around the world how some leading international retail chains rapidly captured market shares and changed both the retail and wholesale trades once they entered a newly opened economy and, if unopposed by regulation, left little room and / or time for the business communities in the host economy to try and respond in a similar vein. The state of preparedness was entirely different as compared with that of for example America and Europe where domestic markets had typically been gradually liberalised for decades. For the Malaysian government to be obtaining a whole new economic impetus from long protected retail and wholesale trades the benefits would come with strings attached: the present and future costs of relinquishing ownership control to the direct foreign investors. The resulting, future socio-economic and political costs could not be accurately assessed, albeit here-and-now productivity improvements to the domestic economy, and typically happy consumers, could. The near-term economic benefits to Malaysia and increased choice to consumers from the rapid modernisation of the previously protected distributive trades were tangible as compared with future scenarios.

Indigenous retail in some economies allowed the foreign chains smaller market share gains as compared with the retail trade of some other economies, or some retailers possessed or acquired the resources to emulate the foreign chains. This resilience seemed to be associated with the length of time an economy took with opening its retail markets and the level of incomes in the population when the opening of the markets began. The more gradual the opening of the markets and the higher the incomes the slower the growth of the foreign retail chains relative to the size of the retail market, e.g. Chile.

The retail and wholesale trades in Malaysia had little incentive to break out of the competitive status quo prior to the 1990s and were relatively unprepared when leading, international retail chains in the mass-market arrived from abroad within a short time, and retail markets in the economic growth centres were ripe for the picking, so to speak. Malaysian policymakers expected the global rules would prevail at some future stage and allow foreign firms unrestricted access to the domestic market (Nesudurai, 2002). Loh (2004) referred to the emergence of a new political culture of "*developmentalism*" that allowed *"economic growth to occur, and, ultimately, for the enjoyment of higher standards of living and consumption."* and dated this reorientation to the early 1990s.

3.7 Malaysia regulating hypermarkets

There were 42 hypermarkets in Malaysia by mid 2004, Table 3.1.0.4, twice the number in 2002 by Lim *et al* (2003). For the Eighth Malaysia Plan (2006 - 2010) the government counted 81 one hypermarkets. Of these, sixty eight were by Carrefour, Giant and Tesco, the foreign hypermarket chains, and of circa 8,000 square meters each. The thirteen hypermarkets ascribed to Malaysians ranged below that, typically to circa 4,500 square metres.

The hypermarket, in a spatial and international perspective, might be likened to a dear child with many names. Its scale connoted in the mind of the public, variously and colloquially, a hypermarket, supercenter, superstore, physically imposing self-service selling spaces, typically in a free standing building and, for the superstore, in a shopping mall, with hundreds or thousands of parking spaces underneath and/or around the building, a long line of check-out counters and a conglomeration of products on offer, with 40 - 60 percent of the selling space allocated to food products. The supercenter was considered the largest of the three and exceeded 15,000 square meters, e.g. USA, Wal-Mart. The superstore was the smallest space with 3,000 - 5,000 square metres, e.g. UK, Sainsbury; Tesco. The three names reflected geographical preferences. In continental Europe, Asia and Latin America the name hypermarket applied, in UK, superstore, and in North America, supercenter. Overall, the names of hypermarket, supercenter and superstore implied differences that besides space were at once subtle and important, depending on the beholder. For Malaysia, by reducing the definition of hypermarket size to >5,000 square meters, from >8,000, and thereafter introducing the superstore size of

<5,000 >3,000 square meters, in 2004, incumbent foreign chains were able to expand to smaller towns in Malaysia with the ‘new’ hypermarket if they wished, and were, at least theoretically, able to obtain the required licenses from the Ministry.

Hypermarket spread by the foreign corporations is regulated by the Ministry of Domestic Trade and Consumer Affairs, by its Committee on Distributive Trade. Effective April 2002, there could be only one hypermarket of >8,000 square meters for every 350,000 persons. New hypermarkets must be in a building of their own, not sharing in another retail complex, be 3.5 km from the nearest housing area and town centre, and were subject to an impact study, an environmental study that included an assessment of impact on the incumbent retail trade, to be submitted together with the hypermarket application, and before a local authority was approached about planning approval. Further, hypermarkets must provide rental space for small ‘supporting’ businesses, at fair rentals. New hypermarkets must have a minimum of 8 check-out counters, defined as 1 check-out counter for each 1,000 square meter business space, and minimum 400 parking spaces, defined as 50 per 1,000 square meters business space. Applications for new hypermarkets must be submitted two years in advance of the targeted establishment. The Study found the requirement of ‘a minimum of 8 check-out counters and 400 parking spaces’ suggested unfamiliarity with the functioning of hypermarkets. In 1987, a newly built 8,000 square meter Carrefour hypermarket in Sao Paolo, Brazil[6], had 46 check-out counters, typically fully manned during peak shopping hours, and 580 parking spaces, the latter insufficient at most times. Inquiries by the Study suggested both the ‘counter’ requirement and the 50 parking spaces per 1,000 square meters business space was a standard Local Authorities and Town Council regulation for retail, retail of the past era, the Study thought.

The hypermarket investor must incorporate the business in Malaysia, with a paid-up capital of RM 50 million in the Malaysian incorporated company. The Ministry issued the hypermarket permits to the foreign retail chains and thereby controlled the number of foreign hypermarkets in Malaysia first. Malaysian hypermarket investors were not subject to the ministerial licensing. Hypermarkets, and superstores, by Malaysians were left for State and local authority levels to decide on. The Ministry was concerned “*about competition from massive multinational corporations*” and “*with pursuing measures to promote the growth of strong domestic corporations*” (Shila, 2002).

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[6] In which this student shopped over several weeks.

In April 2002, the Ministry heralded a shift in government policy: hypermarket development should be curtailed (Bernama News Agency, 10 April, 2002). The Star newspaper quoted the Minister as saying,

'….many customers who usually go to small businesses have shifted to hypermarkets. If this is not curbed, then the number of small businesses will shrink in the future….We may impose new conditions on the existing businessmen and maybe we won't allow new hypermarkets to invest in Malaysia'.

The minister's quoted statement seemed astute in the context of public perceptions of hypermarket encounters. By a November 1, 2003 directive, the Ministry placed a five-year ban on construction of new hypermarkets in Johor, Klang Valley and Penang, and extended the approval time for new hypermarkets in other areas to two years from four months. In announcing the new policy the Minister said the three regions were saturated with hypermarkets and additional large stores would adversely impact thousands of small businesses (Bernama). At the time, Klang Valley reportedly had one hypermarket for every 278,000 persons as compared with the regulation of one hypermarket for every 350,000 persons.

Effective 1 December 2004, the Ministry's Guidelines on Foreign Participation in the Distributive Trade Services Malaysia 2004 could be said to 'normalise' past events in the mass-market retail, by the foreign corporations and the initiatives by Malaysians. The directive reduced the hypermarket sales floor area to >5,000 square metres, from >8,000 square metres, and introduced the superstore > 2,000 < 4,500 square meters. Supermarkets attached to departmental stores were limited to < 2,000 square meters. Effects of this included bringing foreign owned hypermarkets and hypermarkets by Malaysians into one size category, 5,000 square meters & up, and grandfathering supermarkets and drug stores by International Dairy Farm's Malaysian holdings, Giant, Cold Storage, and Guardian, and the departmental stores' supermarkets of Aeon's Jusco. Further, the Guidelines 2004 specified "*No foreign involvement in the sector as below: supermarket (400 to 2,000 square meters sales floor area); minimarket (less than 400 square meters sales floor area); provision shop / general vendor; convenience store (that opens for business for 24 hours); news agent and miscellaneous goods store; medical hall (inclined towards traditional alternative medicines plus general dry foodstuff); fuel station with, and without, convenience store; permanent wet market store; permanent pavement store"*. Outside of the foreign departmental store establishments, the < 2,000 segment was limited to Malaysians and was, further limiting the foreign retail corporations to seek growth by the hypermarket or superstores to obtain the scale these corporations needed, and desired, for their Malaysian activities.

The regulation afforded supermarkets owned by Malaysians a degree of protection from foreign direct competition by similar supermarkets. Further, in effect, the regime protected incumbents, national and foreign, from the potential entry by foreign direct investment by one or more of the leading international deep discount mini-supermarket chains, e.g. Aldi; Lidl; Netto, and 24-hour convenience store chains, e.g. CircleK; FamilyMart; Lawson.

Hypermarkets grew by circa 100 percent in the five years to 2009. On May 4th, 2009, Bernama, the Government news agency, informed that seventy eight hypermarkets were in operation in Peninsular Malaysia between hypermarket chains Carrefour, Tesco and Giant, and one hundred and seven hypermarket licenses in all were issued between the three chains. Hypermarkets by Malaysians numbered circa fifteen, the Study estimated.

Outside the timeframe of the analysis and report by the Study, Guidelines on Foreign Participation in the Distributive Trade Services Malaysia 2010, effective 6 January 2010, revised Guidelines 2004. Foreign participation was now limited to superstores > 3,000 < 5,000 square metres, albeit foreign departmental stores were allowed "*a supermarket of not more than 2,000 square metres*", e.g. Jusco. Hypermarkets remained > 5,000 square meters. The "*No involvement in the sector"* paragraph now combined supermarket and minimarket as follows, *"supermarket / mini market (less than 3,000 square meters sales floor area)"*. The foreign chains were given 3 years to comply with the 30 percent Bumiputera equity requirement, and, in the meantime, would not receive permission to expand, by hypermarkets or superstores, until the 30 percent was complied with, e.g. International Dairy Farm's holdings in Malaysia. New hypermarkets must begin operation within 2 years from the date of approval, and "*One hypermarket allowed for every 250,000 residents*". Further, for the first time, Guidelines 2010 stipulated opening hours for the foreign owned stores: 10 am to 10 pm on Monday to Thursday and Sunday; 10 am to 12 midnight on Thursday and Friday and Saturday, albeit the States of Kedah, Kelantan and Terengganu had opening hours 10 am to 10 pm on Sunday to Wednesday and Saturday; and 10 am to 12 midnight on Thursday and Friday. On public holidays, 10 am to 12 midnight. At major festivals, 10 am to 12 midnight.

In a social perspective, the most notable difference between Guidelines 2004 and 2010 was the addition of a paragraph in Guidelines 2010, in the section Environment and Public Interest Conditions: *"An early indicative study to be carried out incorporating the views of local traders and residents"*. Whether or not this was going to make a difference to the evaluation / approval process, and at the level of local authorities, this paragraph reflected policy long embedded in developed economies of letting local communities be heard in the development of large-scale retail, e.g UK, the case of Brookfield, Birmingham, page 131; Denmark; Germany; Sweden.

Guidelines 2010 'normalised' events in the sector since 2004, and highlighted polarisation of the past structural change, and modernisation: in the interface with hypermarkets and superstores, independent supermarkets and small retail outlets would typically be compelled to look to inclusion in corporate and/ or voluntary procurement and / or marketing chains to improving their chances of survival. A large portion of the independent supermarkets were likely to be acquired by incumbent Malaysian and foreign chains, or to close down, when a chain entered the area of an independent supermarket.

Hypermarket and supermarket growth rates in Malaysia by early 2000s might be likened to the superstore growth in the UK in the 1980s. The latter growth put into a UK regulatory perspective the challenge the changing 1990s retail scenario in Malaysia posed to retail trade policy.

The superstore development in the UK began in the 1960s and provided a mechanism for the operation of a modern and efficient food distribution sector. Initial UK experiments with the French hypermarket format were unsuccessful and the French format was not adopted in the UK. Both the scale and product content of UK superstores therefore remain different as compared with the hypermarkets in other parts of Europe, e.g. Bromley and Thomas (1993); Guy (1994); Wrigley and Lowe (1995). Once the leading UK grocery chains decided to develop superstores the strategy became the sole focus of the latter's activity for achieving increased scale, e.g. Tesco; Sainsbury. According to Shaw *et al* (1989) the latter strategy characterised the 1980s as a decade of 'conforming' superstore development by the leading chains. The leading chains became engaged in an increasingly competitive search for sites as success became predicated on new store openings and the ability to locate and develop sites. By the early 1990s more than seven hundred new superstores had been established throughout the UK, mostly by the leading chains, and on average these superstores were circa 5,000 square meters, as large as some hypermarkets in France and Germany at the time. The smaller chains apparently struggled with finding locations and capital, e.g. Asda, subsequently acquired by Wal-Mart (Wrigley, 1994). The superstore emerged as the dominant format through which retail chains became increasingly successful at building market share. These UK developments seemed to reflect owner strategies for the hypermarket in Malaysia, whereas supermarket development by Malaysians did not typically conform to any particular concept, other than 'supermarket', as the Study observed. The superstore remained the dominant format in the UK despite slower growth and attacks from new formats, e.g. deep discount food formats and 24-hour convenience outlets. The leading UK chains were building new outlets whenever possible in the areas where planning, zoning or site regulations were not fully restrictive. This seemed similar to developments in Malaysia, inside and out-of-town in urban areas assessed as 'ready' for a supermarket-and-larger.

3.8 Regulating in the public interest

According to OECD (2001b), services and service have traditionally been a highly regulated area in OECD economies. Regulation typically concerned the entry, output and/or price choices of firms and restricting the actual and potential competition. The range of service activities was broad and heterogeneous including both industries that were fully competitive and industries in which competitive and non-competitive markets coexisted, e.g. the retail and wholesale trades. Traditionally the retail trade market structure in individual economies was characterised by a fear of monopolistic competition (Pilat, 1997, Scherer, 1979). Entry barriers were low. There were large numbers of relatively small competitors and high entry and exit rates.

In some OECD economies, professional associations representing incumbent firms had a say in decisions concerning entry at the local level. This slowed modernisation of the retail trade. The context of private interests needed modification as excessive concentration might be harmful to competition and ultimately to consumer welfare: efficiency gains in the modern retail trade were passed on to consumers only if the competitive pressures remained strong and the increasing buying and market power of chain store mass retailers did not reduce competition among the retail firms (OECD, 1999). The main forms of regulation affecting the retail trade were legal or administrative entry barriers (Boylaud and Nicoletti, 2001), e.g. restrictions on large outlets; limitations on product ranges; requirements for setting up businesses; provisions that constrained business operation, e.g. opening hours; pricing restrictions.

In a macro-perspective, evidence of a link between long-term growth and the prevalence of regulation was weak. For example, it was unclear if policy intervention had been hindering growth in South Korea, Taiwan, Singapore and Malaysia. Further, as compared with America the economies of Europe and Japan were relatively highly regulated for long periods following World War II and yet they still grew faster (Vanston, 1997). Developing economies were thought to be able to leapfrog historical industry changes in the developed economies. Nevertheless, it could not be assumed that a suitable mechanism exists.

Regulation had a variety of motivations, some based on economics and others on political reasons. Becker (1983) suggested regulation was the result of competition for power between different interests groups in society. Federal, state, and local governments deliberated and introduced policy by legislation and regulation ‘in the public interest’. Regulation was in response to perceived ‘market failures’ and aimed at achieving social goals, such as eliminating undesirable market structures (concentration), undesirable market or other conduct of a firm, e.g. price discrimination, and negative economic externalities associated with the activities of firms, e.g. impairment of the natural or community environment. Regulating business implied legally enforceable standards for conducting what was considered to be legitimate business activities, e.g. standards by which goods and services must be produced, marketed, transported, financed, sold or disposed of. The term of market failure implied the market was a means to certain desired ends. If these ends were not achieved, a deficiency was said to exist in the market system. Oppositely, deregulation was based on an ethical perspective recognising the primacy of conscious and informed individual choice and responsibility for one's own actions.

The government public-interest perspective viewed government as composed of individuals who were motivated by a desire to serve the public by doing what is ‘right’. That is, the government will or can improve society. Nevertheless, the exact meaning of the term ‘public interest’ was not clear. Van Doren and Firey (2002) suggested there was considerable evidence in America that public interest theory was faulty if the objective was to meet consumer needs as they developed. The government frequently enacted regulation that offered political gains, not public ones, and taxed certain firms and consumers. Further, proponents of market failure theory argued certain public goods may be provided efficiently in a market setting while proponents of economic theory, private-interest, argued regulation provided economic inefficiency (Ogus, 1994). In the latter regulation those who are involved in government have the same motivations that those in the private sector have: motivation by a narrow concept of self interest. If what was in the public interest was also in the private interest of government decision makers, the public interest would be served. Conversely, if there was a conflict, the public interest would lose. Incentive structure determined behaviours. In a free democracy, the private-interest view of government assumed politicians wanted to be elected or re-elected. In effect this view of public sector interest was analogous to profit maximisation theory in the private sector. In a way, similarly to businesses needing to respond to customers in some societies, the politicians needed to respond to voters.

The marketing field contributed insights to understanding ‘public interest’, e.g. Kotler and Levy (1969) extend the market concept to "*a pervasive societal activity that goes considerably beyond the selling of toothpaste, soap and steel*". Wiebe (1951; 1952) posed and answered the question “*why can’t you sell brotherhood like you sell soap?*” Kotler and Levy and Wiebe extended the domain of marketing to encompass non-business and non-profit organisations that involved in both bilateral exchange processes and the planning and implementing of social change. The business heritage of marketing provided a set of concepts for guiding all organisations, profit oriented or not, involved with marketing toothpaste or persons and the latter’s ideas. Even if marketing scholars accepted this broadened and socially useful concept of marketing, some authors acknowledged it was more difficult to sell brotherhood as compared with soap (Barach, 1984; Bloom & Novelli, 1981; Rothschild, 1979). This implied extending the domain of marketing might not be without difficulties. Kotler and Levy (1969) suggested the choice facing non-business organisations was not whether to use marketing or not but whether to use it "*well or poorly*". Lauffer (1984) suggested many public servants assumed their products, the services they provide, were in the best interest of the public, good for the people, and there was a need even if sometimes there was no demand. Nevertheless, programs of planned social change rarely sought the views of the existing and targeted customers whose needs and wants were being addressed. The prevailing views were typically the views of those in positions of power, influence and sometimes knowledge, who knew ‘what is best’ for the target market or ‘what the target market really needs’ or wanted, or ought to be wanting. Products were not modified to make them acceptable to the target market in contrast to what happened in economic exchanges in the market place, albeit efforts were expanded to making the target market better understand what was good or best for it. The contribution by marketing to understanding 'public interest' complexity was illuminating. For Malaysia, the Study thought the liberalisation of the retail market was clearly in the public interest, whereas the direction of the modernisation, the hypermarket focus, tied to foreign corporations, was less clearly in the public interest.

Economists tended to associate public interest with economic efficiency. From within their field, Stigler (1971) argued government regulation can protect incumbent firms from price wars and prevent entry into lucrative markets. The implication of a lucrative market suggested the presence of excess profits and thus a loss of value to consumers. The regulated firm frequently had a more comfortable and profitable existence as compared with the non-regulated firm. Nevertheless, according to Stigler, and Peltzman (1976), private economic interests drove regulation.

Further, albeit not entirely relevant to this section even if relevant to the discussion of services in a broader perspective, some economists looked askance at the potential of services to manipulate consumers. For example, Galbraith (1958) in his seminal 'The Affluent Society' suggested "*one cannot defend production as satisfying wants if that production creates the wants*". Hayek (1961) suggested Galbraith's argument "*starts from the assertion that a great part of the wants, which are still unsatisfied in modern society are not wants which would be experienced spontaneously by the individual if left to himself but are wants which are created by the process by which they are satisfied*". Both Galbraith and Hayek argued against consumers being manipulated by the process of marketing. Marketers learned how consumer demand could be manipulated (Marion, 2001). Boone and Kurtz (2002) were clear on the responsibility to society of marketing activities as the responsibility "*assumes that the marketing effort will proceed in accordance with ethical practices and that it will effectively serve the interests of both society and the organization*". If hypermarket methods were an element in the learning process of consumers, hypermarket methods had the potential to be manipulating consumers in greater numbers as compared with other outlets. It was therefore significant that the policy of Carrefour, Giant, Jusco and Tesco in Malaysia to take back products from the customers 'no questions asked' directly or indirectly addressed the concerns of some economists about the power of market service, and of advertising and promotion, and the potential exploitation of the consumers by the mass-market retail chains.

Some instances of regulation or changes in regulatory policy cannot be explained by existing theory (Mutebi, 2003). Mutebi suggested a broadened conceptual view was required of the regulatory institutions and mechanisms in order to be able to understand the controversy related to the retail trade. Regulation encompassed self-regulation, through quasi-regulation to explicit government regulation, and included any regulation that influenced the manner in which retail firms behaved. Thus, regulation was not limited to government intervention and it needed not be mandatory (Mutebi, 2003). At the top, the retail trade formulated and enforced its own rules or self-regulation while at the bottom governments formulated and enforced legislation. Government regulation encompassed primary and subordinate legislation distinguished by legal mechanisms. Primary legislation represented the acts of the legislature and subordinate regulation represented the acts of an authority to which the legislature had delegated the specific power, e.g. local / municipal authority. The various consumer and trade Acts in Malaysia and a yet-to-be-issued competition Act for the retail trade were primary legislation. Self-regulation reflected regulatory regimes developed by the international retail firms in the public interest and enforced exclusively by the retail firms, e.g. customer policy; standards for the supply chain (Mutebi, 2003). This regulatory approach was mainly followed by the international mass market retailers operating in the developing economies, while in developed economies a large portion of the privately produced regulation was administered by trade associations and other independent bodies. Quasi-regulation referred to the rules, instruments and standards the governments influenced businesses to follow short of explicit government legislation, e.g. Malaysia's restriction on hypermarket development; hypermarket assortment content of Malaysian produced products.

OECD governments extensively reformed regulatory environments in the 1990s in both competitive and network service industries by generally moving regulation closer to market mechanisms. Initial regulatory conditions and the pace and extent of reform differed across economies and within each services sector, and had scope for further reform. This can be exemplified by regulations for opening hours and pricing, e.g. price control, in the retail trade and which affected retail operations.

3.8.1 Deregulating the domestic market

Practically all developed economies had embarked on growth behind tariff barriers and had reduced protection subsequently and gradually (Rodrik, 2000). Rodrik and Rodriguez (2001) argued that standard gains from trade liberalisation in developing economies tended to be small and there was a considerable gap between what the literature claimed of gains and what it demonstrated.

No country had developed simply by opening itself up to foreign investment and trade, albeit there was no evidence that trade protection could systematically be associated with high growth. Economics literature showed both protection and liberalisation generally produced positive effects for some people and households and negative effects for others. Even if liberalisation was overall income enhancing over time it created both winners and losers. In the case of import and retail trade liberalisation real income was typically redistributed from goods producers to consumers and from existing traders to new entrants (Winters, 2000), e.g. Malaysia. Trade liberalisation resulted in institutional reform and frequently entailed the importation of institutions from abroad (Rodrik, 2000), e.g. hypermarket chains in Malaysia.

Studies on the effects of retail trade liberalisation pointed to potentially large welfare gains from the liberalisation of market entry and retail trade price setting mechanisms, such as distribution systems, became more efficient particularly as restrictions on large-scale outlets were removed. Employment and the volume of sales increased when and where retail trade liberalisation was implemented. Margins declined putting downward pressure on consumer prices (Pilat, 1997; OECD, 1997; van Bergeijk and Haffner, 1997; Hoj *et al*, 1995). For example, Pellegrini (2000) estimated the real income gain obtained from liberalisation in Italy was one percent of GDP. Further, gains from retail trade liberalisation pointed to the lack of solid economic rationales for restricting access, service provision and prices. Winters (2000) and Vanston (1997) argued that trade liberalisation typically contributed to changes resulting in improved standards of living and alleviating poverty while simultaneously inducing efficiency in the use and allocation of resources to foster long-term growth without long term adverse effects. There were temporary, domestic adjustment costs, usually hidden, that reduced some incomes immediately even if these costs were almost always outweighed by the long-term benefits, e.g. the traditional retail trade in Malaysia came into hard times, while sector productivity and consumers gained. Nevertheless, these were relatively immediate effects. Long-term effects for Malaysia were unclear, e.g. Stigler (1986, 1971) argued that the widespread benefits to be obtained from regulatory reform were a reflection of private interest factors that drove regulation in the first place. It was unclear which private interests, if any, had been involved with Malaysian government policy to channel retail modernisation in the mass-market by hypermarket development by foreigners and, typically, or thereby, supermarket development by Malaysians.

Economists generally analysed trade change in terms of changes in tariff levels and import restrictions, which represented changes in relative prices that manipulations of the two former brought about, and trade flows. Governments in developing economies frequently had a different perspective as trade policy typically went beyond tariffs and import restrictions. By liberalising and opening the domestic economy, governments began affecting changes to patterns of behaviour in government relationships with the private sector, other countries as well as within the public sector itself. Household behaviour and investment decisions changed as liberalisation policy introduced new constraints and opportunities by creating new stakeholders and disenfranchising previous ones (Rodrik, 2000). Rodrik suggested we should think of trade regimes and WTO rules as servicing the institutional needs of developing economies, and not vice-versa.

According to Viscusi *et al* (2000), regulation was the manifestation of political pressure brought to bear by the public demanding a market failure be corrected. Regulation occurred when it should occur because the potential for a net social welfare gain generated a public demand for regulation. The Study was unable to identify references to the Malaysian public having brought pressure to bear on the government to liberalise or modernise the distributive trade sector and, logically, Malaysian business interests must have been reluctant if not outright against liberalisation of services and the distributive trade.

Regulating was approached from different angles in different socio economic environments. America and the UK espoused mainstream economic thinking that a well functioning market economy allocated scarce resources more efficiently as compared with alternative systems. America and UK were reactive rather than proactive to sector developments and viewed regulations as imperfections that can introduce inefficiency and reduce long-term growth. Nevertheless, wholesale and retail trade ‘playing fields’ in America and the UK were overarched by legislated competition policy that extended from the national level to the local level, e.g. local retail market concentration, and in recent years the competition commissions in both America and the UK significantly tightened enforcement to preclude excessive local market concentration.

3.8.2 Regulating retail operations

The shopping experience in Europe could not be more different as compared with the USA where unlimited shopping hours were a part of the history and culture. Restrictions on opening hours form the main body of operating restrictions in Europe. For example, Germany was one of the most regulated countries in Europe concerning opening hours, with regulation in place since the 14th century when the church first banned Sunday trading. The 1956 legislation was first changed in 1996, allowing the retail outlets to extend opening hours to 8 pm from 6.30 pm on weekdays and to 4 pm from 2 pm on Saturdays. Saturday opening hours were extended to 8 pm in 2003. Sunday shopping remained largely banned. Loopholes by exemptions had for years undermined the German restrictions, particularly on Sundays. Subsequent to the 2003 easing, the largest retailer in Germany, Kaufhof, challenged the regulations on the grounds the regulations were anti-constitutional. Kaufhof lost. Germany's high court upheld the regulations and stated the regulations were neither discriminatory nor violated freedom to practice one's profession. Despite this ruling, a 2004 survey by the German business newspaper Handelsblatt showed ten of the sixteen German states wished to extend the opening hours. The ten states claimed retail trade should allow longer opening hours on Sundays as this would create more job opportunities and be in line with the wishes of consumers.

Danish regulations allowed all retailers to be open 24 hours from Monday 6 am to Saturday 5pm. Sunday opening was however prohibited for all retailers except for provisions outlets with annual sales of less than the equivalent of RM 14 million, and petrol stations, railway station outlets and airport outlets. As an explicit exception, all retailers were allowed to be open four Sundays of their choice each year except on the public holidays December 25 and July 5. Retailers could apply to be open on four additional Sundays in July and August, during the holiday and tourist season.

Sweden, another Nordic country, abandoned regulating opening hours altogether in 1984. In the UK the retail outlets can decide for themselves when to be open except the outlets that are larger than 300 square meters can only be open for six hours on Sundays. The latter regulation was intended to protect the small retailers - and left room for the 24-hour convenience store chains to expand as well. In France and Spain shopping was permitted 24 hours a day on workdays. There were some restrictions for week-ends. In the Netherlands the retail outlets must close by 10 pm Monday through Saturday and were permitted to be open twelve Sundays a year, albeit in the large cities the outlets in the city centre were open on most Sundays, e.g. Amsterdam and Rotterdam.

Opening hours in Malaysia were liberal, albeit 24 hours opening by the hypermarkets was prohibited and upheld in May 2004. Tesco had obtained permission from the Selangor state government for its hypermarket in Puchong to be open 24 hours. However the Selangor state permission was overruled by the federal government. As a result of this ruling, 24 opening hours remained in the domain of Malaysian owned retail outlets, e.g. 7-Eleven; petrol station convenience stores.

On retail product and outlet safety, health and otherwise, Malaysian regulations were generally on par with those of developed economies. Generally, price controls concerned relatively few products, e.g. certain food products; pharmaceuticals; tobacco; petrol; regulation of promotional retail activities were frequent and related to measures to counter unfair practices, and consumer protection, e.g. product safety; hygiene; labelling; quality standards. OECD (2001) implied that there was no consensus as to whether or not it is justifiable to regulate promotional activities. Some countries regulated all areas of promotional activities, e.g. Denmark; Germany; Finland. Loss-leading was frequently restricted or prohibited. Malaysian measures to counter unfair trading practices were opaque as at 2009. Further, Malaysia does not restrict loss-leading sales techniques in the retail trade. Little was known about retail trade regulation enforcement in individual economies, beyond the knowledge that could be obtained from 1990s - 2002 proceedings of government hearings on fair trading and concentration issues, e.g. America; Australia; UK. Enforcement was being tightened up, having previously tended to be lagging behind the intention by regulation.

Enforcing existing regulation and introducing and enforcing new regulation implied intervention and causing change. Intervention can take the form of gradually easing or tightening or both and in sequences designed to make ‘the best’ of a given environment and government developmental framework, that is, a pragmatic approach, e.g. Malaysia; Indonesia; Thailand. The rate and locations at which hypermarkets were shooting up in Malaysia appeared to contradict a notion of spatial and local market regulation, albeit might align with pragmatic developmental government policy.

3.8.3 Regulating retail outlets spatially

For Europe, OECD (2001) found 24 percent of countries did not regulate the size of a retail outlet, 13 percent put the regulation threshold at 5,000 square meters, above which regulation sets in and possibly exclude a larger outlet, 21 percent at 2 - 3,000 square meters, 25 percent at 1 - 2,000 square meters, 13 percent at 500 - 1,000 square meters, and 4 percent at less than 500 square meters. For Denmark, the maximum size allowed for an outlet in the mass market was 3,000 square meters, classified as a superstore. In 2004 there was talk that this limit might be increased by 20 percent. According to the OECD, outlet size regulation is the main restriction to market entry because large outlets could conflict with urban planning and require access by private cars which together with the need for large car parks lead to substantial impacts on the environment. Further, restrictions on large outlets are frequently designed to protect small outlets from competition, with the aim of safeguarding both the employment and the proximity services to the local community that small shops provide. OECD (2001) implied that there is a generalised trend towards more stringent outlet size legislation in OECD countries, albeit the restrictive nature of legislation masked decisions taken at the level of local authorities which were often influenced by pressure groups. As such, France, with restrictive legislation, had a relatively high density of hypermarkets while the Netherlands, with no size restrictions, had a relatively low density of large-scale outlets. In Malaysia, the Federal level regulated foreign owned retail structures spatially. All investors had to go through retail planning permission and approval at the local area-authority levels, to whom was left the decision making about size of the retail structures and commercial and economic impacts, for which there was no national policy beyond the guidelines for the foreign owned retail establishments.

Regulatory trends focused on the 'location' of the outlets to achieve environmental, social and commercial objectives in that order (Howe, 2003). Controlling out-of-centre and out-of-town retail trade development had become a major political issue in Western Europe in the 1990s. The governments of the UK, Ireland, France, Germany, the Netherlands, Belgium, Greece, Denmark, Sweden, Norway and Finland intervened in order to direct the establishment of new retail outlets away from outlying areas that were becoming inundated with large-scale outlets and into central city areas (Guy, 1998; Davies, 1995). Many new measures had been adopted by the governments since the mid 1990s, e.g. PriceWaterhouse (1998) "*Today governments in much of Western Europe are tightening regulations aimed at protecting the small. In the process, they are imposing a* *nearly impossible cost on large retailers interested in green field development*". Government interest in potential local market concentration, 'inundation' by new, large-scale shopping venues, shopping malls, some with superstores as 'anchor tenants', in communities not near central city areas, dated to the latter part of the 1990s and was not a moment too soon (Poole *et al*, 2002a, 2002b).

3.8.4 Competition regulation at the local market level

As a result of intensified retail trade change and potential local market concentration in the UK throughout the 1990s, the UK government replaced the Fair Trading Act 1973 with the Enterprise Act 2002. The 'watch dog' and investigative powers were now vested with the Office of Fair Trading that referred the prepared cases to the Competition Commission that again referred to the Secretary of State. The Maastrict Treaty 1992 provisions introduced strong competition guidelines to the countries across the European Union that were gradually becoming fully reflected by domestic legislation of individual EU member countries. Changes in methods of goods distribution in Europe and other OECD countries were rapid. Existing regulatory policies became increasingly outdated in the 1990s and created fresh policy intervention (Dawson, 1995).

In the meantime, Malaysia had never before experienced the growth rate of supermarkets and hypermarkets that was unfolding in the first decade of the 21st century and which had potential to cause concentrations in local markets, e.g. Poole *et al* (2002a, 2002b). Nevertheless, Malaysia did not have competition legislation focusing retail market concentration.

In Malaysia and elsewhere, market concentration would typically be addressed at the merger and acquisition level, e.g. retail chains in the mass-market, that is, above the level of the local jurisdiction, or authority, which would deal with building, and renovation/expansion permits. The local authority appeared to be a weak spot in connection with protecting consumers against market concentration (UK Competition Commission, 2000). In practice, local authorities had incentives to attract firms by lowering standards and thereby gaining benefits in terms of employment 'creation' and widening the local tax base (Oates and Schwab, 1988). The situation in France under the Loi Royer retail legislation was a mirror of this. Pennington (2003) suggested the history of urban policy, or similar legislation, in America and other developed economies had been one of chronic failure. The sense of individual responsibility that property rights bring was eroded as control over land use and other urban services was transferred to urban planners and politicians. Pennington implied the future of urban policy should be concerned with the return of responsibility to individuals and voluntary groups for the management of communities. If the latter happened, land-use and other planning controls would return to the community and to the market. This placed in a perspective the paradoxes that arose in France and UK by zoning decisions that had great impact on the retail trade development there. For example, France's 1973 Loi Royer legislation sought to restrict retail outlets of over 1,500 square meters in municipalities with a population over 40,000. Despite these rules, in the following thirty years, the number of hypermarkets grossly larger than this threshold that called for municipal review, increased to 1,000 from two 200. The France experience in regulating retail store development implied regulators, hypermarket chains, and consumers interacted in a pattern that might be self-serving. Instead of being protected by the Loi Royer legislation, small traders were compelled to change or exit the retail trade (Davies, 1995). It took the Loi Rafferin 1996 legislation to compel local planning authorities, at the municipal level, to consider existing retailing and local market conditions in connection with approving new retail applications for outlets larger than 300 square meters. Retail trade change in France and the UK brought forth new legislation and regulations during the 1990s, these processes culminating in 2000-2003. The growth of large-scale retail development there was slowed. Anecdotal evidence and media mention in Malaysia suggested the problems addressed by the Loi Rafferin legislation in France and UK Competition Commission findings existed at the level of local authority in Malaysia.

Corporate policy typically led government policy, and government policy reacted to the behaviours of the leading mass-market retail chains. By government policy appearing to be catching up with the activities of the leading mass retailers, the policy frequently appeared to be taking on a negative role of limiting the activities of retailers instead of promoting their development (Freathy and Sparks, 1995). Nevertheless, market forces could be seen as imposing a form of self-regulation on the retail chains: increased competition forced the latter to place more emphasis on customer service lest they risk losing market shares. Therefore, it could be inferred that large retailers act in the public interest and like to be seen as doing so. According to Tiebout (1956), "*just as competition forces producers to manufacture the products that consumers want so competition will produce the regulatory regimes that consumers and citizens want*". Tiebout's notion suggested retailers acting in the public interest do so for economic gain that is greater as compared with ignoring public interest. Nevertheless, in the newly competitive environment in Malaysia there was a rush by retail corporations in the mass-market to obtain sites to positioning themselves ahead of, or near rivals, whom they expected to be able to keep at bay or to outcompete. Tiebout's key insight was that if citizens were faced with an array of communities offering different types or levels of public goods and services then each citizen will choose the community that best satisfied his/her own particular demands. In other words, individuals effectively revealed their preferences by "voting with their feet" on communities - and retail outlets. Contrasting the prevailing assumption that government will frequently provide inefficient levels of public goods, Tiebout showed that the decentralised systems acted as regular markets. Other scholars built on Tiebout’s model to explain how zoning laws were tools of urban and regional governments. In a way, the notions by Tiebout were demonstrated on 6 April 2004 when voters in Inglewood, a suburb of Los Angeles, California, rejected a Wal-Mart initiative to exempt that company from certain zoning and environmental restrictions in its attempt to build a supercenter there. A similar opportunity to vote was not given to voters in Malaysian towns in advance of a hypermarket development. Samuelson (1954) argued markets failed to provide public goods efficiently, e.g. access to retail, and some form of government intervention was needed. Tiebout suggested this might not be so if consumers were recognised as significant players in their own right and as groups. There were, so far, few attempts in Asia to directly involve local communities in the decision making about large-scale retail outlets establishing in the community, e.g. Japan; South Korea; Taiwan.

Malaysia essentially regulates the spread of large-scale retail outlets through the provision of permits, at the federal level for the foreign retailers, and at state and local levels for Malaysian retailers. All retailers, directly or through property developers, must obtain building and various operating permits from state and local authorities. For new large-scale retail structures the Planning Permission Application Declaration, under the Town and Country Planning Act 1976, as amended, must enclose an environmental and commercial impact study, for the local authority to act on the application. It appeared to the Study that these environmental and commercial impact studies were not typically scrutinised, and questioned, at local authority levels in Malaysia. Further, the Study was able to ascertain, in a few cases, the studies were lacking in methodical analysis of the market area.

Sections 3.4.5 - 3.4.10 examined regulation, and examples of regulation and policy, for the retail trade in developed economies in a perspective of Malaysian regulation. Relative to events and analysis of the concentration problem and new regulation in developed economies, the absence of Malaysian competition legislation, focusing on the mass-market retail, was troubling to the Study.

3.9 Small retail in the economy

Figure 3.9.0.1: Small retail's socio-economic contribution

Traditional stage	Modernising stage	Modern stage
Small retail traders serve areas neglected by large outlets, e.g. an area might not be large enough to accommodate a large outlet or the area is comparatively less profitable compared to other areas	Small retail traders offer different services and serve segments of demand that are ignored or poorly served on the same spatial market that large retailers operate on, e.g. very small quantities, high quality, convenience, more personalised attention	Small retail traders create employment particularly self-employment and family employment opportunities, and safeguard employment levels

Source: FAO (2002)

Davies and Harris (1990) outlined the position and strategy options of independent retailers in a context of the competitive environment. McGee and associates researched it, in America (Rubach and McGee (2002); Hamilton *et al* (2002); McGee and Festervand (2000); McGee and Peterson (2000); McGee and Love (1999); McGee *et al* (1999); McGee and Love (1999); McGee and Finney (1997); McGee and Rubach (1996).

A family operating a retail outlet was both a small retail business and a firm (Webster's 1913; Demsetz, 1995; 1997), albeit Spence and Rutherfoord (2001) suggested the "*making a living priority*" of small traders was not compatible with maximising profit. Ellis (2000, 1998) made the association of small-scale retailing and livelihood diversification. A small retail business might be grounded in lifestyle (Reid and Adams, 2001; Reid *et al* 1999). Carskey *et al* (1991) suggested the family business worker experienced feelings of control and independence and was better able to share time with his/her family. Some family businesses used methods that were short of logic and set the businesses apart from rational economic ventures (Reid *et al*, 1999; Dunn, 1996). According to Longenecker *et al* (2006), independence is an advantage of owning a small business; freedom to operate independently is a reward for small business owners; many people desire to make their own decisions, take their own risks, and reap the rewards of their efforts, and have the satisfaction of doing so within the constraints imposed by economic and other environmental factors. These business owners, or entrepreneurs, have to work very long hours and usually understand that ultimately 'the customer is king'. Bechhofer *et al* (1974) expanded on these characteristics.

Cash income from petty trade was necessary to sustain households in Africa (Boahen, 1987). The dictionaries explained 'petty' variously as a degree of smallness, e.g. small-scale; sale of inexpensive items; small importance; secondary; subordinate; trivial. The term and terms connoted petty trade's position in the economy, albeit this could not be further from small traders place in the socio-economy, e.g. Veblen (1904), Ashley (1900). While the economic significance of the self-employed business sector is in providing employment, generating new jobs, and stimulating innovation, Bechhofer and Elliott (1985) suggested that though this sector's role in the political life of particular societies showed considerable variation it is everywhere an important repository of ideas and sentiments supportive of capitalism and the institutions of liberal democracy, a socially distinctive and persistent element in capitalist societies. Factors that do much to account for this sector's reproduction include the effects of recession, processes of technical change, and government policies that support and encourage small-scale entrepreneurial activity. Even in economies dominated by large corporations, these small businesses continue to provide jobs for a substantial proportion of the population and the most personal and direct experience of capitalism for many citizens (Bechhofer and Elliott, 1985).

By social science definitions, small retail traders were entrepreneurs, someone who organised a business venture and assumed the risk for it. Being an entrepreneur can be likened to possessing a mentality '*that aspires to obtain a profit exerting systematically a profession*' (Weber, 1904). Nevertheless, Bechhofer *et al* (1974) suggested otherwise in the case of retail traders in Edinburgh, Scotland. Despite their importance to the economy and to consumers, long-term success for an independent retailer can be elusive and, as Corcoran (2002) aptly put it: *'on the surface, retailing is the home of many of the world's most dedicated optimists.'* Further, to the Study, Corcoran's reference to optimists reflected well the impression of traders in small shops and stalls that one could take away from shopping malls and hypermarket corridors in Malaysia. These new, rapidly growing, large-scale venues were, for retail trade, the anti-thesis to the local community row or rows of shophouses and public and periodic markets. A modern habitat did not fundamentally alter the competitiveness of the independent and family mode trader.

Trader wits, within her/his specialty, possibly made a difference in the competition with the other similar traders.

Vorzimer (1973) suggested that if community retail requirements were carefully analysed, the demand for small retailers would become clear, even if "*most in government and business consider the plight of the small retailer to be unsolvable*". Vorzimer's was at a time in America when small retailer exit had begun to rise. Dichtl and Leibold (1983) challenged the popular premise that only the existence of a particular number and/or certain types of retail establishments guarantees an adequate or satisfactory provisioning solution and suggested that the concern for the "*underprivileged minority*" of consumers, and also retailers who have not accommodated to the challenges of the time, lies more in the realm of social policy than in trade policy. According to Dawson and Kirby (1977), the problems faced by small shop retailers were given increased awareness by policy makers and planners at both the national and local level, albeit there have been few attempts to solve the problems that were neither new nor unique, to Britain. In America, for example, research in the 1930s defined particular problems and subsequent studies attempted to determine the future of the small shop in the American retail system in which communities can mostly interact with retail planning for large-scale shopping venues. In contrast, early UK researchers focused the trading characteristics of small unit retailing and it was not until the publication of the Bolton Committee findings in 1971 that attention was focused specifically on the operational problems of the small retail unit. As a consequence, UK retail planning, in contrast to many other European countries, possessed few formal policies of direct relevance to the small shop. At the opposite end of the, socially loaded, 'doing something' spectrum, Loo (1999) suggested the Singapore government should introduce schemes to encourage marginally performing small-scale retail businesses to exit from the sector so that the sector overall could become more efficient and competitive.

Typically, studies on small trade and small traders were far between, e.g. Tandy (1997); Fontaine (1996); Danhaeuser (1991); Cheung and Mui (1989); Man (1985); McGee and Yeung (1977); Adburgham (1964); Defoe (1839, 1726), as were mention of small trade in history and economic literature e.g. Wood (2002); Finley (1973). On balance, it was not possible to tell if, from a societal perspective small retail traders in Malaysia had made progress or not in recent decades. Previous consumer surveys had focused on attitudes to modern retailing phenomena and not put these attitudes in a perspective of traditional shops. Nevertheless, it could be determined from the Retail

Censuses that provisions traders, non-specialised, were on the decline and non-food traders, specialised were on the increase, during the 1990s.

3.9.1 Small retail traders in the micro market: the local community

A *small business* is a business that is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are normally sole proprietorships and privately owned corporations or partnerships. The legal definition of *small* varies by country and by industry. The smallest businesses are called *microbusinesses*, a term used by international organisations such as the World Bank and the International Finance Corporation, e.g. small provisions shops; specialised food and non-food shops; hairdressers; restaurants; layers; accountants,. The term *mom and pop business* is a common colloquial expression for a single-family operated business with few (or no) employees other than the owners. When judged by the number of employees, the American and European definitions of a micro-business are the same: under 10 employees. There is a notable trend to further segment different-sized micro-businesses, that is, the term *Very Small Business*, or *Small-Small Business*, the smallest of the smallest, referring to businesses operated completely by one person or by 1 - 3 employees, e.g. Malaysia's traditional provisions trade; Denmark provisions retail,

Table 3.9.1.0: Denmark retail overview, modernisation ongoing

	1994	2000	Change pct
Denmark population, 000'	5,200	5,350	2.9
Households, 000'; 1999 Census	2,423	2,423	n/a
Food shops/supermarkets/hypermarkets	9,527	8,401	- 11.8
- shops per 1,000 households	4	4	- 10.3
- shops per 1,000 population	2	2	- 11.1
Mean shop-size, square meters	230	274	19.1

Source: Stockman (2001); Denmark National Statistics.

Table 3.9.1.1: Denmark provisions retail on shop sizes

Type of store	1994 Outlets	Share pct	Sales pct	Mean size*	2000 Outlets	Share pct	Sales pct	Mean size*
Hypermarkets	79	0.8	13.7	55,906	87	1.0	15.1	53,628
Big supermarkets	280	2.9	18.8	15,674	343	4.1	22.8	15,489
Small supermarkets	996	10.5	26.6	6,224	1,215	14.5	30.7	6,104
Superettes	2,108	22.1	20.5	2,322	1,481	17.6	13.6	2,507
Mini-markets	706	7.4	2.4	698	262	3.2	0.9	719
Big small shops	2,922	30.7	12.2	927	3,045	36.2	13.4	1,014
Small small shops	2,436	25.6	5.8	327	1,968	23.4	3.5	334
Total	**9,527**	**100.0**	**100.0**		**8,401**	**100.0**	**100.0**	

Source: Stockmann (2001). **** Square feet.***

The composition of provisions retail in modernised economies differs from country to country. Denmark retail is a case in point, and very different to Malaysia, a developing economy. The Study thought to highlight the example of Denmark, in which competition from supermarkets and superstores did not result in the demise of small shops of near equivalent size(s) to the typical shop the Study observed in Malaysia.

Small shops and small chains, independents, in Denmark retail had typically joined buying and marketing groups, voluntary chains, for survival. Such voluntary chains covered circa 95 percent of independents and accounted for twice as many shops as compared with the corporate chains (Stockman, 2001).

Dawson (2002) suggested the equivalent of mom-and-pop retailing is "*at one with location, location, location*". Neither a cost nor a low price leadership role is any longer an option to small retail traders (McGee and Love, 1999; Taylor and Archer, 1994; Stone, 1995; Mammarella, 1994; McCune, 1994; Covin and Covin, 1990) and even if cost minimisation is relevant to the latter there is a limit (Cox and Gresham, 1997), e.g. lighting; ventilation; cleanliness. Retail prices of small traders were usually higher than prices in large-scale outlets (Guy, 1991). On the other hand, McGee (1996) suggested pricing was an important element of successful competitive behaviour among small retailers in hostile environments. At odds with prevailing wisdom, McGee found small retailers who followed some form of pricing strategy outperformed small retailers exhibiting other competitive behaviour, albeit the sampled retailers were not competing solely by low price. McGee suggested remaining 'price competitive' and offering other inducements was a direct reflection of entrepreneurial competitive behaviour, e.g. aiming for superior service. Location inside a local community or neighbourhood within easy reach of consumers reduced purchase costs to consumers (Farina *et al*, 2004). Productive retail sites were generally located in the midst of consumer populations or were readily accessible to consumers (Morrison and Abrahamse, 1996). Penrose (1959) suggested local customers encouraged niche markets. According to Julien (1993) there were interstices or empty market spaces between large firms that small firms might be able to fill particularly if small firms focus, or specialise, in certain demands and customers. Surveying independents, Hamilton *et al* (2002), Baron et al (2001), McGee and Love (1999) and McGee and Finney (1997) found differentiation, customer service and personal service, adaptability to the local community, distance to the nearest retail chain competitor, and collaboration with other similar retailers were key contributors to small retail firm success and longevity in business.

For Malaysia, it should here be mentioned that in agricultural and rural areas, on some of which arose to-day's urban areas, some provisions traders were, and still are, extending retail credit and crop loans to customers, and act as middlemen, and -women, in crop distribution, even as cooperative consumer and finance societies have ameliorated the traditional middleman role, and image, of the pre 1960s and 70s, e.g. Mokhzani (2006); Ungku Aziz (1964); Bauer (1954, 1948).

3.9.2 Small retail traders and the lack of scale: cooperation, a remedy?

In familiarising itself with the small trade, the Study had visited numerous small provisions shops around Malaysia to view the shops and speak with the traders. The Study learned from the traders that they supplied themselves by wholesalers only. None of the traders visited were a part of a buying alliance with other traders that might have improved the traders' cost prices, e.g. volume. The only consistent answer, by the traders, why this was so, was that there were no alliances to be joined. Interviews the Study had with a number of wholesale distributors confirmed that traders typically were independent to the extent of not banding together, or seeking to, for the purpose of participating in economies of scale on the buying side.

Dobson (2005) and Dobson *et al* (2001) illuminated the importance of scale economies in buying, and the power of retail chain corporations in Europe to impact competition in the food retail sector, contrasting the lack of this and other scale economies of small retail traders. According to Guthrie (1976), voluntary purchasing chains, including retailer-owned cooperatives, were born as a survival technique. Guthrie suggested that both independent retailers and independent wholesalers could quite clearly see that advantages by chain stores lay in the latter's method of organisation. They therefore concluded that some of the advantages of the chain system would have to be reproduced if their own operations were to survive. According to McGee's studies, cooperative arrangements play a significant role in cost-minimisation among small retailers, e.g. small retail firms entering into or forming buying and/or marketing groups. This was also the topic of the two closing sentences of the Small Business Administration's (2004) message about small retailers in America, '*...As national chains and discounters cut an ever-widening swath across the country, many small businesses are shuddering in trepidation. Others conjure up the image of David and Goliath and* *bravely sally forth, confident that the armor of these formidable giants has chinks ready to be exploited. And they're right. Savvy merchants are learning fast that smallness has its advantages. They are capitalizing on what differentiates them from larger competitors and turning these differences into reasons customers should walk through their doors. Some business owners figure out how to succeed on their own. Others are banding together*'. Howe (2003), Wrigley (2002a) and Zanderighi (1994) reviewed buying and marketing groups and their role and importance to retail independents in the EU, Tokatli and Boyaci (1998) in Turkey, and Shaw and Dawson (1995) in UK. Kirby (1987) argued similarly about retail independents in isolated communities. Dwyer and Oh (1988) and Hardy and Magrath (1987) made similar argument regarding retail independents in America. Craig (1976) and Hollander (1970) outlined origins and dissemination of cooperative initiatives and nuances between initiatives. Reardon *et al* (1996) found that firms in co-operative arrangements tend to innovate more than their counterparts who are on their own.

In some developed economies small retailers can elect to join a chain in the nature of a voluntary buying and/or marketing group, set up by retailers to obtain their own wholesale supply organisation and, sometimes, to share marketing instruments, e.g. store fascias; store design; advertising. The small retailer lost a measure of independence by joining, albeit remained the owner and operator of the business. This avenue was only an option if there were buying and/or marketing chains to be joined and the applicant was acceptable to the retailer collaboration. The option was not available in Malaysia where there are no such cooperative initiatives to be found in the retail trade.

Malaysia had long ago adopted cooperative consumer societies, albeit none were concerned with the competitive sourcing of retail trading goods. The cooperative movement in Malaysia dated back to the 1920s, to rural problems relating to credit and indebtedness, i.e. ethnic Malay smallholders; farmers; fishermen. The thinking was that these societies would help to eliminate exploitative middlemen credit sources. Later on the aim became nurturing and developing independent society based on the cooperative principles (Alip *et al*, 2001). Cooperative societies in Malaysia covered credit and marketing originally in developing the rural areas and subsequently for the towns. The cooperative movement had grown into thousands of societies with more than five million members and five billion ringgit in capital and four times the capital in assets (Halim Wahab, 2005). The societies were regulated by the Cooperative Societies Act 1993 and amendments were contemplated in 2004 for improving governance in the societies.

Cooperative consumer societies in the retail trade had existed for generations, e.g. Denmark; Norway; Sweden; Switzerland; UK, and held and defended significant grocery market shares at the national level, e.g. Hill (1998). By cooperative modes, consumer owned grocery retail chains succeeded, and grocery and non-grocery retailers cooperating in buying and/or marketing chains succeeded. The common denominator was the need to create scale economies. Cooperative formations in retailing therefore had scope for Malaysia, already familiar with consumer cooperatives, and in a position to evaluate with the aid of past experience, and Malaysia should explore this further, e.g. Freathy and Hare (2004); DSK (2003).

In Thailand, the government appeared to be taking a cooperative approach for helping small retailers obtain scale economies by setting up an organisation to source products for small retailers across the country (Asia Times, 2002). The 'Allied Retail Trade Company' would be fifty one percent owned by the Small Industry Finance Corporation and forty nine percent by the Ministry of Finance and have a capital the equivalent of RM 50 million. The idea was for the company to operate as a non-profit organisation for five years and sell shares to the public in the sixth year. The Thai government would be encouraging shop owners to join by giving tax amnesty. Members would be obliged to enter the value-added tax system, and not face any repercussions for past avoidance of the 7 percent value added tax. Special deductions would be offered to shop owners investing in shop improvements, up to one and a half times the new investment. Krung Thai Bank and the Government Savings Bank would offer financing to participating shop owners for buying facilities and shop upgrades. Shop models on three sizes were being designed by marketing associations and the Thai Chamber of Commerce. Own-label goods would be promoted and advertised through the government media. The Thailand model does not guarantee improved competitiveness on the part of small retailers and might limit their options, albeit the initiative increased the awareness of the scale problems affecting small retailers and of small retailers' skills and techniques. The theory for this model was generated in Thaksin Shinawatra's time as prime minister and had not got off the ground by 2009.

For a buying and marketing group to be successful on the retailers' behalf, it must begin with a meeting of minds among a large number of same goods retailers and must be able to secure the capital and the necessary buying, marketing, logistics and management professionals. Both co-operative and the Thailand model were models worth considering for Malaysia, leaving aside the question of who should determine if cooperative measures were desirable and, if so, drive the strategising. The Study's review of cooperative initiatives for and among small retailers to share in scale economies suggested this was an extremely complex format to start up and, further, for Malaysia the format would have to be member wanted and driven, albeit by central control of the buying, and marketing, operations, and on market terms. Further, government financial support would no doubt be required for gestation and long into the life of such a procurement format.

Palaniappan and Norbani (2005) suggested Malaysian entrepreneurs might be less likely to accept authority, for example as members of a buying and/or marketing group, as compared with both Malaysian non-entrepreneurs and an American norm for entrepreneurs. Malaysian retail traders might therefore find a problem with business propositions that reduce independence. The former study also found that Malaysian entrepreneurs might be more self-assertive and self-confident as compared with the American norm, albeit might not differ as compared with Malaysian non-entrepreneurs. Nevertheless, by awareness of others the Malaysian entrepreneurs might prefer to work in groups as compared with the American norm (Palaniappan and Norbani, 2005). This was an interesting finding for Malaysia as it had an empirical parallel in the UK: in their empirical survey of small retail traders in Edinburgh, Scotland, Bechhofer *et al* (1974) found these traders held a deep belief in the advantages of 'independence'. The virtues of 'working for yourself' and succeeding through your own efforts reflected a moral rather than an economic assessment. Traders had a fear of 'control' and 'intervention' by bureaucratically structured organisation, and scepticism of the notion of rational planning. Further, the traders had a dislike of change; stability matters as do continuity and the traditional way of doing things. The reluctance with which Bechhofer's retail traders viewed changing the manner of trading and the traders' general economic conservatism were only partially explained by financial constraints and were essentially matters of general economic orientation. This stance is not that of the determined entrepreneur, according to Bechhofer *et al*.

There must be reasons why voluntary buying groups by small retailers do not exist in Malaysia while these groups have become familiar cooperative arrangements among small retailers in developed economies. New research should examine why alliances by small retail traders for sharing in scale-economies are absent in Malaysia.

3.9.3 Loss of small provisions outlets in the community

OECD (2001) implied that the net effect of large-scale retail growth is to increase specialisation in small-scale retail; food retail was no exception. For Malaysia, Table 3.1.0.1 does not clearly confirm this effect, both non-specialised and specialised food outlets declined, whole specialised non-food outlets increased. On the one hand, rapid supermarket and hypermarket, and department store, growth brought about new and harder competition in many non-food items and -segments. On the other hand, the increasing affluence of Malaysian consumers contributed increased demand for some retail services, e.g. home improvement and lifestyle outlets, by the wider definition of home improvement and lifestyle.

The geographical distance to larger, powerful competitors was a factor in small trader survival: the farther away from larger competitors the less threatened the small retail outlet (Hamilton *et al*, 2002; McGee and Love 1999; McGee and Finney, 1997). If small retail outlets were driven out of business a local community could become underserved or a shopping desert (Clarke *et al*, 2004; Shaw, 2003). Food security became threatened in a local community as grocery shops lost business to distant competitors and eventually exited the community. The small retailers in a community were both a risk to the community if the shops went out of business and were not replaced, and a shopping solution if the shops stayed open (GLA Economics, 2005; ICSC, 2002).

The small shops had have traditionally made food and household supplies available to the local community in which the shops were embedded. The security of this arrangement was not in question and local food security was not an issue in Malaysia in the past. This might have begun to change, in both rural and markets, as changing retail conditions and large-scale structures, the latter led by hypermarkets, can be associated with decline of small food retail outlets, e.g. Reardon and Berdeque (2002). Further, local communities, urban and rural, that experienced retailer exits typically experienced higher prices in the local shops (Guy, 1991) and to a degree that might be associated with the sourcing affiliations of the local shops (Kirby, 1987), such as membership of buying groups.

The strategies of large mass-market chains implicitly contributed to small outlet deprivation in local communities (Blythman, 2004; Haberberg and Rieple, 2001; Johnson, 1987; Tanburn, 1974). For Malaysia, this had the potential to make some local communities underserved and poorly served with food retail services and food quality in the future or, in the worst case, becoming deprived of retail services altogether, a situation with which Malaysian society would be unfamiliar. Retail services had become embedded in most communities over time and had together with the food distribution system influenced diets and produce, the 'garden' variety, at the local level (Nik Mustapha *et al*, 2001).

Social exclusion by food shop deprivation and inconsistent food retail services, and poor quality food products at the community level, was a growing problem in developed economies and was not limited to cases of urban regeneration (Fitch, 2004; Guy *et al,* 2004; Guy and David, 2004; Hills *et al*, 2002; Wrigley *et al*, 2002; Piacentini *et al*, 2001). Besides affecting low-income communities this problem affected the aged, infirm, consumers disadvantaged by lack of adequate transportation, own and public, and consumers who preferred not to be limited to shopping for necessities by car or public transportation (Guy, 2004; Ong, 2003; Wrigley; 2002b, Guy; 2002; Lang and Caraher, 1998).

The Study's analysis suggested that while, for example, the loss of small shops in the UK began several decades ago and first impacted the rural villages and towns and then urban areas (Shaw, 2003), it was not until the 1990s, when the UK retail market consolidation by the superstore chains was peaking, that the problem began to be translated into emotive and social terms, e.g. deprivation; security; food desert, and attracted political and policy planning attention. Harrison and Lang (1997) suggested that the term 'food desert' was first used in the UK in 1996, and in 1997 was defined by the then Minister of Health, Tessa Jowell, as an area "*where people do not have easy access to healthy, fresh foods particularly if they are poor and have limited mobility*."

The combination of the 1990s developments in Malaysia of, first, a significant loss of retail shops in the rural areas, a phenomenon that the Study, via previous studies, could not associate with the arrival of the hypermarkets in the large towns, second, the rapid growth of supermarkets and hypermarkets in the towns and, third, the decline of small food retail outlets overall, suggested a prospect for Malaysia that was similar in scope to that emerging in the UK, and in other developed economies, e.g. Denmark; Norway; Sweden. Further, the concept of food security, originally focusing on issues of hunger and lack of sufficient, healthy food, has expanded to address all aspects of the food system, including local and global food processing and distribution as well as food access and utilisation by individuals, communities and populations, in turn influenced by public policies. As local and global food processing and distribution is increasingly influenced by a relatively small number of very large transnational corporations, Hamm and Bellows (2003) emphasised the opposite of the current trend by their definition of Community Food Security, abbreviated into CFS: "*a situation in which all community residents obtain a safe, culturally acceptable, nutritionally adequate diet through a sustainable food system that maximizes self-reliance and social justice*."

Indirectly, Malaysian authorities were already involved with a form of food security by the Federal Land Development Authority's (FELDA) hundreds of provision shops, and some supermarkets, serving communities in FELDA rural plantation projects. By their FELDA ownership, these shops were referred to, by the government, as cooperatives. There were similar cooperative retail situations serving (outlying) rural communities in Sarawak and Sabah in East Malaysia.

For Malaysia the rapid structural change by large-scale retail in the towns, the loss of small provisions outlets overall, and the loss of outlets in rural villages projected future social concerns about local communities being underserved, or not served at all, by especially food retail. Further, these developments have potential to negatively affect local area nutrition in the future.

3.10 Hypermarket entrants: growth of large-scale non-specialised retail

The hypermarket, an edge-of-town or out-of-town phenomenon, arrived in Malaysia in 1994. Carrefour, the world's 2nd largest retailer opened Malaysia's first hypermarket in Subang Jaya, a major township in Klang Valley, Selangor. The following year a second hypermarket was in business, also in Subang Jaya. This hypermarket, Giant, was established by the local Teng family with roots going back half a century in non-specialised retail trade in the Klang Valley and who had developed a small chain of Giant supermarkets by the time of their first hypermarket. The Teng family sold the Giant business to Dairy Farm International of Hong Kong in 1999. Almost in the same breath, Dairy Farm acquired Dutch international Ahold's, 36 Malaysian supermarkets in 2003 and converted these supermarkets to the Giant brand. In the meantime, the large-scale segment in Malaysia had been energised by the arrival of the first modern department store with a supermarket attached, by Jusco, the Aeon Group of Japan, in downtown Kuala Lumpur, in 1985. The department store was traditionally a city-centre phenomenon, albeit spread along with, and in, shopping malls to other urban areas. The supermarket had arrived in Malaysia in 1993, when Cold Storage, a Singapore chain of supermarkets, since acquired by Dairy Farm International, first introduced it to Kuala Lumpur. By 1990 the supermarket had become embedded in the large towns and was chiefly by Malaysian retail entrepreneurs.

Retail sales in Malaysia circa doubled in the decade of the 1990s, and by number, retail outlets increased by circa 13 percent overall, in itself pointing to larger outlets, as Malaysia's population had increased to 23.3 million in 2000 from 18.4 million in 1991.

Beneath the increased retail activity a number of political, economic and demographic developments, as contained in this chapter, had contributed to structural change in the retail trade, retail modernisation, socalled. The introduction and subsequent rapid growth of hypermarkets, rapid growth of supermarkets, beginning decline of the small food retail outlets, and the increase in non-food outlets, were the four developments representative of the structural retail change during the 1990s. This was similar to retail modernisation in other developing economies and both similar and dissimilar to retail modernisation in developed economies. In the latter economies, stores as large as the hypermarket did not typically lead the retail modernisation, even if large-scale stores and organisation did so.

Organic growth by the Malaysian owned chains was rapidly becoming increasingly resources demanding in the towns contested by the foreign chains. Through their expansion strategies, Carrefour, Giant, Jusco and Tesco had set aggressive targets for scale by outlet growth in Malaysia, in the most attractive urban conurbations first. A few Malaysian owned chains acted similarly, albeit the Malaysians did so largely in urban conurbations that seemed less attractive, at least for now, e.g. The Store, to the foreign corporations. Malaysian regulations barred the foreign entrants from establishing new outlets of < 2,000 square meters, a regulation still in force in 2009.

Retail trade consolidation symptoms in Malaysia were similar to those evidenced historically in developed economies as well as some developing economies, e.g. Thailand; Indonesia. Supermarkets experienced intense local market share competition against other, similar supermarkets, and the hypermarkets. In some cases the modern trade was 'disadvantaged' vis-à-vis small non-specialised and specialised family owned shops and the public market halls with generally lower, nominal fixed costs and a different labour cost structure. Further, the family owned outlets had much smaller market shares to maintain, in a environment of growing demand, to remain viable as compared with the modern trade. At the market level of the small retail outlets, less tangible resources and more intangible resources might be needed in order to compete and remain in the business, such as family-sourced labour with typically associated lower labour costs (Hamilton et al, 2002; McGee and Love; 1999; McGee and Finney, 1997).

This discussion suggested that in the event the Malaysian retail markets were perfectly open to foreign retail chains to enter and expand in, e.g. retail spaces of less than 2,000 square meters, small Malaysian traders might be facing an unbearable competition in the long run, especially if they could not reduce procurement costs.

Experience from retail modernisation in some developed economies, indicated only a five to fifteen percent share of national retail sales would ultimately be contestable by the remaining family traders and independent retail chains as compared with the circa sixty percent that remained, in principle, contestable in Malaysia early in the first decade in the 21st century. As such, Malaysia circa 2000 with its growing incomes and population was to be viewed as a potentially, materially large contestable retail market. Despite the highly attractive underlying fundamentals, the rate of retail trade change appeared to depend as much, or potentially even more, on government policy, as on the aspirations and the resources of the retail trade community in Malaysia, Malaysian and foreign.

On the one hand, the large presence of Carrefour, Giant, Jusco, and Tesco in Malaysia might influence entry considerations in the mass-market by other leading foreign retail chains. If other leading retailers did not enter the Malaysian market it might decrease the competition among Carrefour, Giant, Jusco, and Tesco, slow retail development and efficiency gains, and be potentially detrimental to the Malaysian consumer. On the other hand, other leading international retailers might take comfort from the relative successes of Carrefour, Giant, Jusco, and Tesco in Malaysia and apply to enter. The latter was not likely, the Study thought, given the hypermarket scale Carrefour, Giant, and Tesco had obtained, and possibly still needed, individually, in the largest economic growth centres, and the limitation of foreign entrants to >2,000 square meters, ruling out entry by food deep discount specialists, e.g. Aldi, and Asian convenience chains, e.g. FamilyMart; Circle K. Either way, Malaysian owned retail businesses provisioning the Malaysian households were caught between a rock and a hard place, shielded, as a group, only by the impossibility, for now, of foreign direct competition in retail spaces < 2000 square meters.

The situation was complex and evolving rapidly. Further, for the government, and communities, there was potential concentration at the local level of 'provisions' markets to consider, e.g. monopoly, oligopoly. Market concentration at the national level was not going to become a near-term threat.

3.10.1 Retail consolidation, concentration, and the scenario for Malaysia

Steiner (2004) had placed 20th century food retail development in America in a structural and efficiency perspective. Shaw (2003) placed the last 50 years in UK in a socio-economic perspective,

Table 3.10.1.0: Loss of small retailers in the UK

	1950	1960	1970	1980	1990	2000
All single outlets	450,000	356,000	330,000	225,000	215,000	200,000
Per 1000 population	9	6.8	5.9	4	3.7	3.4
Single grocery/SM*	280,000	140,000	106,000	68,000	39,000	21,000
Share of sales/market (Pct)	54	51	43	32	25	18
Outlets per 1000 pop.	5.6	2.7	1.9	1.2	0.7	0.4

*Source: Shaw (2003). *Single outlet grocery/SM = small retail trader and independent supermarket.*

When Steiner's retail industry development by efficiency improvement was placed opposite Shaw's loss of small retail traders, Malaysia hosting some of the leading international mass-market retail chains virtually ensured massive, rapid structural change, potential concentration in the mass markets at local levels, and decline of business and independency for the small traders.

As for internet retailing, first predicted to spawn new retailers, internet retailing of fast moving consumer goods in the UK is the domain of leading superstore retailers, especially Tesco, the world's largest on-line grocer (Tesco, 2003).

Retail trade change highlighted differences in service performance by shifting customers and market shares from one retail format to another and from one retail firm to another. Carrefour, Giant and Tesco 'pulled' customers to their hypermarkets and away from the outlets of other retailers and made monetary and non-monetary exchanges with the individual customers. The latter exchanges resulted in both consummation of transactions and in customer satisfaction or dissatisfaction, chiefly the former, in the case of Malaysian consumers. Retail services could be repeated and were largely of a fixed cost nature. A service constituted a very specific activity, with its own production conditions and constraints, which were not always adequately captured by the statistical methods designed to measure output of the goods. The purely quantitative indicator of hypermarket sales supplied no information on the differences in the quality of the service rendered, e.g. the effect or quality of the customer services counter. Equally, Adam Smith's "wealth of nations" no longer depended on the mere volume of goods. To attract consumption, goods had increasingly become subject to the service quality and services rendered at the retail level. For example, hypermarket chains Carrefour, Giant and Tesco had reduced the complexity to the customers of the retail services by assuming the role of both warranting the manufacturers' products displayed on the shelves and taking back the same products, no questions asked, that their service(s) might have induced the customers to purchase, and that the customers did not need or really wanted to purchase (Ughetto, 2004). The service relationship between the provider and the beneficiary was secure and had transcended the manufacturer level (Gadrey, 1988). Among marketing practitioners customer satisfaction was considered the core of marketing: mutually satisfactory exchanges were at the centre of the interface of retailers and consumers. This interface led to economic transactions by which the retailers either grew or exited the business. The notions of Adam Smith (1776) and Petit (1986) were not practical for explaining current retail trade change in the mass-market, and the apparent success of the international mass-market retail chains in Malaysia and elsewhere.

Concentration and internationalisation in manufacturing industry had developed rapidly from 1945 onward. Similar trends were barely two decades old in retailing in 1990, e.g. none of the world's five largest retail chains ranked near the world's five largest automakers, by sales, in 1990. Ten years later American supercenter retailer Wal-Mart ranked as the largest company in the world by sales and Carrefour and Tesco ranked with the largest global automakers. This catch-up could be associated with internationalisation by leading mass-market retailers and growth and saturation in their home markets (Dawson, 2003). Nevertheless, there were fewer truly large international retail banner brands as compared with car banner brands, e.g. Carrefour and Toyota. Retail adopted techniques from manufacturing. Manufacturing firms changed by acquiring modern production machines, new methods and organisation. Retail chains changed similarly, albeit acquired modern selling spaces instead of machines, new methods, and electronic technology. Schmookler (1966) suggested the stimulus of innovation and technological progress "*was the recognition of a costly problem to be solved or a potentially profitable opportunity to be seized; in short, a technical problem or opportunity evaluated in economic terms*". Milgrom *et al* (1991) pointed to the importance of momentum and asserted that once a system began along a path of growth of the core variables it will continue forever along that path or until un-modelled forces disturbed the system, perhaps exemplified by the collision of traditional and modern retail.

For mass market retailers, as the Study's analysis suggested, the core variables were represented by organisation on chain outlets, hard and soft systems (proprietary), and capital. The variable by size of the outlet played a lesser role. Some leading international mass market retail chains adhered to a small-scale outlet concept and the method of deep discounting strategies, e.g. Aldi; Lidl; Netto, some followed a large-scale outlet concept and EDLP pricing, e.g. Wal-Mart, and some followed a mix of small-scale and large-scale outlets and HILO pricing, e.g. Carrefour; Dairy Farm; Jusco; Tesco. According to Wernerfeldt (1984) and Romer (1986), a combination of resources, superior to markets, and scale economies accounted for the existence of firms. Economic growth in America related to the emergence of the large industrial enterprise accompanied by complementary improvements that helped to create national markets and by innovations in hard and soft processes that were complementary to further growth of large enterprises (Chandler, 1977). Chandler's phenomena were unfamiliar to the growth pattern of Malaysia.

Scale in manufacturing was well documented and the growing scale enterprises encouraged continuing technological, organisational and managerial advances. The importance of scale in services had been hypothesised, albeit from a manufacturing platform. Dawson (1994) suggested manufacturing frameworks were unlikely to be directly applicable to the retail sector as the structures were different, change processes were different and behaviours of the various participants in the change processes were different. The literature documented past events rather than addressing the future of small-scale retailing, which was, beyond a doubt, employing more people as compared with large-scale retailing in the present and in the future, unless the future was reviewed at a future time when the small-scale retailing was nearing extinction.

The evolution of mass retail chains suggested scale and methods were as significant in the retail trade as they were in manufacturing. Further, industries grew fast when they used "core inputs" that were almost universally available and characterised by rapidly falling costs (Freeman and Louca, 2001), e.g. electronics tools. The core inputs gave rise to innovations in how to manage and organise processes using the new input, e.g. information technology. Information technology was typically absent in small retail in Malaysia, the Study had observed. Freeman et al (1982) found clusters of inter-related innovations, or technological systems, led to "*long waves*" if a system was very large and of long duration or if the "*bandwagons*" of several different systems "*roll*" together (Fagerberg, 2002). Freeman and Soete (1997) found how from the 1940s the assembly belt ideas of Henry Ford and the organisational ideas of Frederick Winslow Taylor diffused through the developed economies and how there was evidence the renewed upswing of economic growth in the 1990s was based, this time, on radical technological breakthroughs. Leading international mass-market retailers fit these moulds that related well to these retailers being able to configure ample suitable selling machines in new geographical markets and to the economic growth in the host markets, e.g. Malaysia.

Schumpeterian notions on enterprises might be more appropriate to retailing as compared with other economic thinking on services and service. Schumpeterian notions were more sensitive to the learning phenomenon and the mediums through which this phenomenon was routinely enacted, e.g. the 'black box' of the firm (Gadrey and Gallouj, 2002; Metfalfe, 1998), e.g. mass-market retailers Carrefour and Tesco. Large, and better performing, firms undertook greater investment in research and development resulting in more innovation as compared with small firms (Cainelli *et al*, 2003; Schumpeter, 1943; 1911). The Study thought the value that can least easily be replicated worldwide entailed services and service and their branding. Nevertheless, Schumpeter argued market power was only temporary because products and services were continually replaced by new and better ones, there was continuous entry and exit in all the markets and research and development was one of the driving factors in this process, "*the competition from the new commodity, the new technology, the new source of supply, the new type of organization.....competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of existing firms but at their foundations and very lives*" (Schumpeter, 1943).

Schumpeter also suggested that firms abandon the ideal of the 'rational man' and instead subscribe to a more economic, or realistic, strategy. While this was heresy in mainstream economics, Schumpeter's suggestion put into an economic perspective to-day's remarkable growth of the leading international mass-market retail chains and the apparent failure, by economic calculations, to capture the latter's 'new' contribution to the economy, positive and negative, beyond the internal productivity improvement by sales per employee. Schumpeter's reflections on the nature of competition appeared to the Study to relate well to the stance taken by leading international mass-market retailers.

Wrigley (2000b) suggested the "*literature which documents and debates globalisation and transformation of the world economy has, in practice, shown a myopic neglect of distribution systems and industries. In particular, the lack of consideration and insight into the increasingly global nature of retail distribution is profound*". According to Hauknes (2000), the 1980s and 1990s experienced an expanding literature on service production and its role in economic growth and development, albeit this literature remained "somewhat retracted" from the main avenues of economic research. Where economic literature accounted for the positive association between economic growth and the share of services in the industrial distribution the marketing literature accounted for the management of retail and wholesale that facilitated the consumption of industrial goods and services. Nevertheless, except for a myriad of marketing journal articles exploring innovation in the services marketing mix, the literature of economics and marketing appeared myopic concerning the pervasive dynamics of grocery retailing as a mass-market function on fewer and fewer hands and the implications of this change in the economy, particularly in developing economies. The rationality and equilibrium notions of economics theory did not appear suitable in the dynamic of retail trade services change.

The leading mass market retail chains were largely ignored by the politicians until the latter part of the 1990s (Dawson, 2002; 2003). During the 1990s retail trade issues resulted in a new political awareness of the sector: increased social exclusion or inclusion and reduced grocery provision in some town areas, food and other product safety, referrals to the Competition Commission in response to price gouging charges by suppliers and the public, and the delivery of low inflation. Wharton (2004) suggested the national and international expansion by the leading mass market retail chains might be the best thing that ever happened to low income consumers, mitigating the economic damage done to retail traders and retail workers displaced by the chains. On the one hand, the leading retailers became recognised as playing a significant role in lowering retail prices and limiting retail price inflation in fast moving consumer goods. On the other hand, the rapid rate of development arising from innovation and intense competition was causing difficulties of adjustment in the economic, social and political structures that generally were not suited to accommodating the rapid change. Retail trade consolidation and concentration was proceeding on fewer and larger mass-market retail chains in the developed economies and small retail traders were becoming fewer and this category's market share smaller. Leading international mass market retail chains reacted to competition and policy environment in new ways, e.g. Carrefour exchanging its outlets in Czechoslovakia and Slovenia with Tesco for the latter's outlets in Taiwan, by being pro-active.

The rate of economic growth and changing demographics might obscure retail consolidation and concentration effects in some developing economies as compared with the developed economies. Nevertheless, in structural terms, in Malaysia, large mass-market retail chains will increasingly dominate by hypermarkets and superstores and, if they are allowed to, by small-scale chain stores. Concerning small-scale chain stores on large-scale organisation, an extreme test of mass-market retail in Malaysia would be the entry by one of the deep discount food formats, a format that is not currently available to the price conscious Malaysian consumers, e.g. Aldi; Lidl; Netto.

In spatial terms, consolidation and concentration by hypermarkets and superstores will potentially emanate from just about all accessible and suitable building sites on urban thoroughfares, aiming for customer catchment areas of much less than the government's declared 350,000 people catchment area per hypermarket, which is a variable size catchment area anyway, as incomes within the area rise. To illustrate similar large-scale spread elsewhere and signals about retail concentration symptoms, and local authority planning approval, the Study came across a situation in the Birmingham Metropolitan area, when reviewing documents of the UK Competition Commission's Grocery Market Inquiry 2007. Tesco was applying to build on land parcels it owned, a 4,400 square meter superstore and 8,500 square meter Tesco Extra / hypermarket, within circa 2 km of each other. If Tesco's applications were approved, Tesco would have 2 superstores, 1 Tesco Extra, and 1 Tesco Metro, a superstore of 6,500 square meter, within a 2 km radius catchment area, which already included 2 Asda[7] superstores. If this radius was extended to 5 km, another 7 superstores would become included, 2 by Tesco, 2 by Asda, 2 by W. M. Morrison, and 1 by Sainsbury. Tesco's applications had not been approved as at 2009. Nevertheless, as could be seen, in the Birmingham metropolitan area[8], within a circle 10 km across, its centre at Brookfield, at the rim of the city limit, there was 11 superstores, 5000 square meters on average, in 2007. The study estimated this to represent 1 superstore per 25,000 people. These superstores were owned by the 4 largest grocery

[7] Parent: Wal-Mart, an American corporation, the largest in the world by sales, and the largest mass-market retailer.
[8] Population circa 3.7 million in 2007.

chains in UK which together represented 65.4 percent of UK grocery sales in 2007 (Verdict Research, 2008). There was much to take from this and transpose to the Malaysia situation in 2009, and, potentially, the future, e.g. large-scale store spread still had a long way to go, among all the supermarket and hypermarket players; well considered and enforced regulation at the Federal and State / local levels were needed to counter potential oligopoly and prevent monopoly in, defined, local market areas. Oligopoly in an area would lead to extinction, or near extinction of independent, small, trade, and cause concern about prices consumers pay. In the monopoly, independents would be absent and consumers potentially be gouged. This being said, in the past, consumers in relatively isolated communities might have been exposed to both oligopoly and monopoly behaviours by the incumbent provisions traders. The outlook was for the number of independent, small, retail businesses overall to be peaking soon, if they had not already peaked. Fewer small traders will be starting up a retail business as compared with the past.

The leading chain will invest in new, growing urban communities in which, in the past, small retail traders would have become embedded, e.g. Setia Eco Park, Shah Alam, Selangor state. In UK retail change, the single provision shop was selectively the most precarious outlet on account of its small amount of business (Shaw, 2003; Monbiot, 2000). Isolated 'corner' shops were more likely to close as compared with shops in a busy parade, e.g. a line of shophouses. When one or two shops in a cluster of shops closed, the footfall to the remaining outlets shops diminished and they too were at risk. When a new supermarket arrived in the area the small shops around might not close immediately. The typical time lag was two to three years between the opening of a new supermarket and the closure of small shops that the supermarket supplanted. As shops closed the closure rate of the remaining shops might accelerate because there was synergy between some shops. The link between the new supermarket and small shop closures was blurred, as also suggested by Sparks (2000). Nevertheless, if a parade, a small rural town or a suburban centre lost a last outlet of its kind, e.g. greengrocer, shoppers wanting greens would have to travel to a larger centre to obtain the greens. Even though other goods were still available in the local community, these goods too would be increasingly bought away from there. The closure of one or two shops removed employment and spending power from the local community and reduced the trade to other outlets there. According to Shaw (2003), some shops did not help each other to survive.

The economic orientation of government and leading retail industry and property developers in Malaysia was toward large-scale shopping venues. In the Klang Valley alone, shopping mall space increased to an estimated 52 million square metres in 2010 from 45 million square meters in 2007 (Henry Butcher Retail, 2010), an increase of circa 15 percent. While this growth rate kept up with nominal population growth, it can be questioned if it is not ahead of demand for mall space.

Dawson (2002) suggested the new retailers, the foreign entrants, were "*a very large animal that can move very quickly*" while the traditional retail traders were "*at one with location, location, location*". Dawson's reflected the retail change in Malaysia and suggested the entirely different structures and economic, social and organisational foundations of participants that were trying to, or not, coexist by modern and traditional methods in the retail trade in Malaysia. Further, the new institutional instruments, e.g. hypermarkets, and/or their owners, the foreign corporations, seemed to require a new analytical appreciation, on the part of government and researchers, in order for the contributions to the economy to be adequately measured in the first place and the implications for the future better understood, in the second place.

By its review among the literature and analysis of the Malaysian scene, the Study concluded there was an important reason for the structural and competitive conditions in Malaysian mass-market retail as at 2004 and that should be borne in mind for the future. This reason consisted of two inseparable parts: the hypermarket, exemplifying the large-scale outlet, and the hypermarket as an instrument of a leading international mass-market chain. The combination of the two factors cannot be taken for the hypermarket as an instrument of, for example, a leading Malaysian retail chain. The Malaysian retail chains did not possess the financial resources or embedded hard and soft technologies that the foreign retail chains in Malaysia possess. This conclusion, about change driver and follower, assumed Malaysian government regulations did not treat the foreign entrant largely different from the Malaysian incumbent. Further, the conclusion suggested the need for a public Vision by the Malaysian government about the future mix of outlet-scale structures in the retail mass market.

If Malaysian academic studies of the retail change, by Dawson's two definitions of the leading retail chains being "*a very large animal that can move very quickly*" and the retail traders who were "*at one with location, location, location*", were in short supply, the reasons might originate with a preoccupation with marketing studies on large-scale retail outlets and shopping venues, rather than with the *"very large animal that can move very quickly*", e.g. International Dairy Farm International; Tesco.

Section 3.4.16 analysed by way of earlier studies and secondary data selected in the context of the competitive situation in mass-market retail in Malaysia. The analysis suggested that increased attention should be paid to the 'firm' as compared with the firm's instrument and technological 'black box', exemplified, in this case, by the hypermarket and the shopping mall that are mere concrete structures, and meaningless if not perceived within the context of the balance sheet, past performance, and business strategies of the firms originating and controlling the structures.

3.10.2 Potential local market concentration by the chain stores

In 2000, the UK Competition Commission found local authorities approving retail developments on an 'applicant blind' basis and not equipped to deal with the potential of local market concentration by the occupier or principal occupier of the retail development applied for. The Commission found 170 cases of local market concentration that hindered or potentially hindered competition. The Commission did not intervene at the time, albeit the former local market situations were placed on a watch list.

Via the Enterprise Act 2002, the Commission showed its teeth about spatial and local market concentration in the 2003 W. M. Morrison-Safeway grocery merger by requiring Morrison to dispose of forty eight superstores and five smaller outlets within two years and requiring the purchasers to gain approval from the Office of Fair Trading investigating the case for the Commission. At the national level the Morrison market share was six percent prior to the acquisition and sixteen percent with the allowed portion of the acquisition and therefore not of immediate concern as compared with local market concentration, where higher market shares were evident. The Commission considered a 25 percent local market area share by any one retail chain as a signal of over-concentration, albeit it was near impossible to agree how to define a local market area in a specific situation. Nevertheless, the Commission used it discretion / power and made decisions.

Similarly, in America the Federal Trade Commission viewed retail trade mergers and local market concentration issues during the 1990s that finally made the Commission take strong measures about local market concentration (Wrigley, 2001, 2000a, 2000b, 1999, 1997; Cotterill, 1999; Baer, 1996). According to Wrigley, the consolidation process in American grocery retailing came to a halt, at least temporarily, as protecting consumers in individual local markets came to the fore and was enforced. The new tenor by the Commission was also a signal to the local authorities to deal strictly with the potential for local market concentration by new entrants and/or the renovation and expansion of existing grocery outlets.

A key consideration and challenge in a forthcoming Malaysian competition policy would be to appropriately and effectively define the conceptual 'local market area', when individual cases are dealt with.

3.10.3 Issues relating to foreign retail chains in Malaysia

Dawson (2002) suggested with foreign ownership it was likely fewer items in the stores would be made in the host country. That mattered especially in mass market retailing. The Ministry of Trade and Consumer Affairs regulation required hypermarkets to carry not less that 30 percent of sales inventory, by SKUs, in Bumiputera manufactured goods and / or supplied, or intermediated, goods, and allocate not less than 30 percent of the shelf space to these goods. Anecdotal evidence suggested the 30 percent was not being reached either way, and this was a bone of contention between the Ministry and the foreign hypermarkets, the latter contending they were doing their best: the ratio of Bumiputra goods and intermediate services was increasing, but quality and performance was lagging. Ministry Guidelines 2010 gave the hypermarkets 3 years in which to comply with this regulation.

Further, it mattered if a market was large or small. In an economic and financial context, mass-market retailers entering a new geography must achieve significant gravity of operations on that market, and continue to have growth prospects, or relative smallness of a market might make it a peripheral part of the overall operations of the retail chain with extensive retail interests across several countries and continents. In a market that was peripheral relative to the retailer's overall operations a local operation might be vulnerable if the retailers experienced difficulties. For Malaysia, Ahold (2003) was a case in point. Ahold's difficulties, incurred in markets unconnected with Malaysia, contributed to Ahold's divestiture of its Malaysian operations to a direct competitor in the Malaysian market, Giant. This had the potential to reduce the competition in the market up to a point.

3.11 Retail change in Malaysia and extant theoretical change concepts

The retail literature referred to institutional theory, or concepts, that implied cycles, polarisation and conflicts, e.g. Wheel of Retailing (McNair, 1931), Retailing Accordion (Hollander, 1966), Retail Life Cycle (Davidson *et al*, 1976), Product Life Cycle (Vernon, 1966), Darwinian Theory (Veblen, 1904), and were frequently applied to 'explain' retail change, or structural reforms / new developments in retail. These institutional theories had in common an overlap of economics and marketing, e.g. corporations as organisations were fundamentally socially constructed and institutionalised (Berger and Luckmann, 1966); institutional and competitive processes were not necessarily oppositional (Powell, 1991); institutionalisation was not equivalent to stability or survival (Jepperson, 1991). In the retail market, the retail formats of hypermarket, superstore and supercenter were considered to be institutions as were the corporations fielding the formats, e.g. Coase, 1937; Rumelt, 1984; Williamson, 1985, e.g. Carrefour; Tesco; Wal-Mart.

The Study sought, via its analyses, to evaluate both the applicability of this institutional theory to past change events in Malaysia and the probability of future change, inasmuch as the institutions by Carrefour, International Dairy Farm, Tesco, and Wal-Mart appeared, to the Study, to represent an entirely new 'quantity' in business and marketing. Was it probable that mass-market behemoths like these might be overtaken by new innovation that made these four institutions redundant, not withstanding Hoch (2004) that in the last 20 years 25 major retail chains in America had been unable to withstand the competition by innovative new chains and went out of business as they lost their customers to other chains?

The change theories originated in the developed economies some time ago. Retail change there had been gradual. In comparison, retail change in Malaysia had been abrupt with internationally experienced, leading mass-market retail chains entering a retail market that had traditional retail structures late into the era of retail modernisation in some developed economies, on account of being closed to foreign direct competition, and ripe, or 'modern', consumer demographics. For example, by the Wheel of Retailing theory new types of retailing tended to enter the market by the characteristics of low(er) price, e.g. low(er) costs, and lower service, e.g. restricted assortment. Entry was followed by a gradual upward trend in these characteristics and eventually became high(er) price and high(er) service level, vulnerable to new, innovative competition. The Wheel suggested what had occurred in the past in some developed economies, e.g. the self-service discount department store and the hypermarket arrived on the scene to the detriment of the traditional department store and the supermarket, respectively. Of the Wheel elements only the low(er) price characteristic fit the entry by Carrefour and Tesco in Malaysia. Cost-wise, hypermarket establishment and selling costs were high in comparison with similar costs for the other outlets, albeit in terms of unit costs, hypermarket costs were potentially lower. Hypermarket service was higher as compared with the incumbent trade, albeit not in the nature of service at the shelves, e.g. the policy of return and refund of goods, no questions asked, arrived in Malaysia with the hypermarkets by the foreign corporations. Evidence hypermarket margins were low was weak, albeit Carrefour and Tesco sourced goods at low prices at compared with the incumbent trade. The hypermarket assortment did not have the Wheel characteristic of restricted assortment, as rather the opposite was the case. Therefore, the Wheel theory was not useful for explaining retail change in the mass-market in Malaysia in the 1990s. Similarly, Sieh (1979, 2000b) observed retail change in Malaysia prior to 1990 did not confirm the Wheel theory, as change did not come about in association with "*penetration pricing plus minimal service strategies….the new forms of retail succeeded on skimming prices plus more service*".

The Study similarly examined the other theories of repeating cycles and conflicts and polarisation. At the top, none of them could be seen to fit with the retail trade change in Malaysia, and vice versa. One reason for this, the Study thought, was that the hypermarket model was transplanted to Malaysia and in unique circumstances not foreseen by the originators of the change concepts. Among circumstances these concepts had not foreseen were Malaysian government policy, timing vis-à-vis the economic 'miracle' in Asia and Malaysia, and the foreign retailers about whom Dawson (2002) suggested they were "very large animals that can move very quickly". According to Shiu and Dawson (2002) the theory of the Wheel and Retail Life Cycle did not apply to mass-market retail trade change in Taiwan, another developing economy that had hosted Carrefour for circa a decade longer than Malaysia (Dawson and Larke, 2003). The Retail Accordion and polarisation principles were more in accord with the developments in Taiwan.

The Accordion theory explains retail change based on cyclical fluctuations in variety and assortment, suggesting retail institutions go from outlets with wide assortments to specialised narrow line retailers and then back again to the more general wide assortment institution, as in general-specific-general, as in polarisation.

For Malaysia and the Accordion, ‘general’ and ‘specific’ grew alongside each other in the 1990s. Even so, it suggested the Accordion, as there was polarisation, between traditional and modern. Nevertheless, this was not what the model originally intended to show, as it had not foreseen a retail market protected by government policy, the case in Malaysia until, basically 1990. It would have been different, and in support of the Accordion, if convenience store growth on chains, modern growth, had been as forceful in Malaysia as it was elsewhere in the 1990s, e.g. Taiwan; Thailand. Observations the Study made, and anecdotal evidence, suggested the specialised trade increased coincidentally with the rapid growth of shopping malls, e.g. lifestyle retailers in the shops; bric-a-brac retailers in the lobbies and corridors, and the allocation by hypermarkets of corridor space to specialised traders, what the government pressed hypermarket and mall developers for. Nevertheless, there appeared to be a clear polarisation trend by small-scale and large-scale outlets and by small-scale and large-scale organisation.

If anything, events in Malaysia mass-market retail suggested new form, antithesis, differentiated from the old, theses. While this was a dialectic process and typical of (retail) modernisation in the past, for Malaysia it was lacking the synthesis of a potential new form, e.g. the Malaysian market was, in effect, closed to deep discount provisions retail, e.g. Aldi.

The former change concepts did not seem to fit with the Malaysia change and vice versa. If so, what was then the probability that the retail change imposed on Malaysia by Carrefour, Dairy Farm and Tesco would change again in the future, by these three institutions and their instruments, also institutions, being overtaken by new innovation and new institutions as suggested, e.g. the Wheel? The Study thought the probability of this happening was low, for Malaysia, for the following reasons: first, the unprecedented resources embedded in the world’s leading international mass market chains, some of which Malaysia hosted as at 2004, allowed these chains to innovate and grow organically, seamlessly, on an almost daily and invisible basis. They were not likely to be ambushed by new innovation working from cost, service, margin, price and assortment. Second, shareholder changes and mergers and acquisitions among the leading international mass retail chains would not contribute motion to the conceptual change cycles. If there were a threat, this threat seemed to be in the nature of another extant retail institution, the deep discount mini supermarket, and by another corporate institution, Aldi, the world's leading deep discount food / provisions retail chain. Aldi entered Australia in 2001 and declared the philosophy, "*All people, wherever they live, should have the opportunity to buy everyday groceries of the highest quality at the lowest possible price.*" 200+ Aldi outlets in Australia seven years later suggested something about Aldi and about the deep discount food format, a gap, if only potential, in the grocery trade in Malaysia that foreign retail chains were not allowed to fill. Until the gap was filled by a Malaysian initiative[9], even if the requirements of chain scale and supply logistics are daunting, Carrefour, Giant and Tesco, and the supermarkets, were protected from mass market deep discounting activity other than their own special sale activities. Third, the instrument in the nature of the hypermarket or superstore, in the hands of Carrefour, Giant, and Tesco, was likely to internally be capable of accommodating changing trends in goods assortments and alternative strategies, e.g. pricing strategies.

The Study's review of literature and retail change in Malaysia suggested the Darwinian concept of "survival-of-the-fittest" best reflected the 1990s' change. This concept of natural selection was anathema to many groups and thinkers, even if it was often overlooked that there were no genes or genetics at play in Darwin's 'selection' in Darwin's own theory (1857). Therefore, work to associate Darwinian selection with the evolution of business institutions did not need to consider the morality issues that arose from discussions of genetics in neo-Darwinism. Linkages within biology were not introduced to evolutionary studies until neo-Darwinism emerged and made selection one of more mechanisms in evolution (Moran, 1993). If fitness was defined in terms of mere survival then 'survival of the fittest' became 'survival of those who survive'. Nevertheless, in a retail perspective, retailers must be able to adapt their formats to environmental changes, e.g. those best able to adapt are most likely to survive.

Veblen (1904) was the first economist to understand the implications of Darwinism for economics and related Darwinism to cumulative causation. Veblen put the businessman, e.g. retailers, squarely in the centre of development of economic society. Nevertheless, few economists have related with Darwinism since Veblen (Hodgson, 1999). Fagerberg (2002) suggested the prevailing view among evolutionary economists was that biological, economic, and social evolution differed too much to allow developing a common evolutionary theory and evolutionary economists found it increasingly difficult

[9] Malaysian 99'Speedmart might be candidate.

to get their articles accepted in American economics journals and were instead published in European journals. Fagerberg suggested the 19th century Austrian 'School of Economics' and mainstream thinking in Europe might be more open to augmenting prevailing research perspectives as compared with America. Austrian Economics held that there were no constant relations between factors and their effects: the practical value of Economics was in the power of predicting the outcome of definite measures, a qualitative rather than quantitative prediction (von Mises Institute, 2003).

Other economists were inclined to assume trends that prevailed in the recent past, frequently called the present, will also continue in the future. The weakness here was that trends manifest in history can change frequently or rather did always change and might change even in the immediate future. Change carried on indefinitely and was the only constant (James, 1904; Dewey, 1903). Further, change was determined by the interaction of organisms that could be institutions, e.g. retailing; retail corporations; hypermarkets; superstores; and the environment in which the organisms or institutions operate, e.g. policy; regulations; financials; consumption. Darwinian selection was already at work in economics by the position of maximisation, profit and profitability: firms that maximised and were profitable survived and firms that were unprofitable ceased to exist (Friedman, 1953; Alchian, 1950). Further, employment techniques using fitness of applicants was 'selection of the fittest' (Terpstra and Rozell, 1993; Rosse and Nowicki, 2002; California State Personnel Board, 2003; SIOP, 2003). Selection was very much at work in the state and corporations and in the lives of citizens, e.g. Malaysia admitting the large international foreign corporations to the retail, which was also astute or fortuitous. If a business was fit the business would survive, e.g. Carrefour; Tesco. If a national economy was fit, this meant its economic sub-sectors were fit, even if it were not possible to examine this via accepted scientific methods (Rajdeep and Ravi, 2001; Oliver, 1991; Scott, 1987; DiMaggio and Powell, 1983), e.g. Malaysia, the Study thought.

Economics and marketing thinkers on retail trade shied away from Darwinian notions, even if retail trade and marketing were functions and economic and social systems, e.g. Dixon (1967) "*by performing its societal functions, marketing creates change which in turn alters the very functions that the marketing system is responsible for performing*"; Durkheim (1914); Alderson (1957); Bartels (1965; 1963; 1961; 1951). Nevertheless, the process of (natural) selection being defined by its effect of survival the fundamental circularity of the concept rendered it impossible to examine via accepted scientific methods (Scully, 2001). Scully suggested we should not examine the annual report of the firm, but we should examine the firm's combination of investment, management, marketing, and production strategies in order to determine why the company made a good profit. Natural selection was as valid as any other scientific theory (Sonleitner, 1986). It was useful to explaining all open, complex and evolving systems, irrespective of the particular mechanisms of inheritance or replication (Hodgson, 2002) and contributed at the general theoretical level and specific levels of analogues and metaphors (Morgan, 1998).

The literature was persuasive that current retail trade change in Malaysia was associated with selection. At the level of economics and the economy, the polarisation was or ought to be seen as being by the hypermarket chains who happen to be impersonal corporations and the small retailers who happen to be personal family businesses. At the social level the polarisation was by, and inside, the physical hypermarket and by the physical shop and stall, with all that each entailed to the consumers. At the levels of the economy and economics the hypermarket chains and the government manipulated each other. Further, at the social level marketing manipulated the consumers and the consumers manipulated back. It was difficult to see how the foreign hypermarket chains could not but be dominating the market development within the rules promulgated by the government.

Evolution notions about the retail trade needed to pay greater attention to the 'modern' drivers of the change. In the case of Malaysia the two drivers, one of format, the hypermarket, the other of organisation ownership, as by Carrefour and Tesco, were institutions and inseparable and were introduced by Veblen's (1904) 'businessmen'. The institutions by Carrefour and Tesco were exogenous constraints and to which rational actors must adapt, the adaptation Sieh (1974) suggested was necessary as entrants in the retail market should consider conditions as given.

Supporting Veblen's, sociologists emphasised the internalised aspects of institutions, e.g. their values and cognitive frames by which institutions shaped their members as much as they constrained what the members can do. Sociologists suggested institutional rules must be understood by not only the constituents but by the entire market place. Friedman (1962) suggested "*to each according to what he and the instruments he owns produces*", "*he*" can do with "*what*" what he wants, including donating to charities. How Carrefour and Tesco applied the former values and cognitive frames in their businesses to attract custom and to manage their operations and affairs played a role in business fitness and in determining how well the enterprise fared relative to its competitors and its environment. How the retail enterprises fared in the aggregate had the identical relevance in the goods producing sector, albeit for causation and evolution, researchers needed to examine individual firms for clues why firms fared as they did (Coase, 1937). In economics, the market coordinated the institutions and was itself an institution. In sociology the links between the institutions were grasped through the concept of the social structure. The approach by sociology appeared to the Study to be accommodating of the existing complexity: institutions existed in order to solve rational action problems as compared with the functionalist approach by economists that does not involve any actor-related qualifications (Oberschall and Leifer, 1986; Powell and DiMaggio, 1991; Berger and Offe, 1982).

Retail trade interacted directly with consumers, with human beings, more broadly and frequently than any other economic sector and retail was increasingly made up of large corporations with unique ‘black boxes’, configured by human beings, besides capital. As human beings are the most complex organisms on earth it is to be expected that the retail trade is also the more complex of the economic sectors in which to analyse change. This complexity suggested researchers in economics and marketing can benefit from augmenting existing research approaches by adopting and adapting from both biology and sociology, e.g. Fagerberg (2002); Krugman (1996); Schumpeter (1943).

3.6 Summary

Chapter 3 described and analysed events of the 1990s and early 2000s retail change in the mass-retail, chiefly the retail provisioning the Malaysian households on a daily and frequent basis. Chapter 4 is drawing conclusions from Chapter 2 and 3.