Commercial History of China
China has a long retail history and rich commercial past. Since Marco Polo’s time, it has been sought as trading partner by the West. However, China has gone through periods of outreach and isolationism. Its planned Communist economy and trade with the West are very recent phenomena.
Qin Dynasty (221 – 206 B.C.E.)

- First united Chinese state
- Standardized Chinese language, measurements, and currency.
- Construction of the Great Wall of China began.
Han Dynasty (207 B.C.E. to 220 C.E.)
Han Dynasty (207 B.C.E. – 220)

- Silk Road
- 59 million people
Tang Dynasty (618-907 AD)
Tang Dynasty (618-907)

- The most prominent historic period
- The most powerful and prosperous country in the world.
  - Chang’an (modern Xi’an), the national capital, is thought to have been the world's largest city at the time.
- Continue to expand trade route
- Exerted a powerful cultural influence over neighboring states
- Buddhism predominant religion
Ming Dynasty (368-1644)

- Built bureaucracy
- More introspective
- Focus on agriculture, small scale capitalism
- Class system emerges
Qing Dynasty (1644 to 1911)

- Reversed encouragement of capitalistic tendencies
- Limit size of factories
- High taxes on merchants
- Closed-door policy
- Only Guangzhou kept open, to trade tea, silk, medicine and porcelain for woolens, cotton textiles, spices
Qing Dynasty

- First Opium War (1839) and Treaty of Nanjing (1842)
- Second Opium War (1856) and as a series of unequal treaties
  - Purchase British products, especially Opium.
  - Opened the Shanghai port and various other ports of Western trade
- China became an half feudal and half colonial society
  - Government powerless to stop foreign land grabs and mistreatment of citizens
  - Gambling, opium, prostitution in Shanghai
Republic of China-1911
Republic of China

- Modern China
  - Republic of China (1912)
    - Fights among provincial military leaders
    - Sino-Japanese War (1937-1945)
    - Civil War (1945-1949)
Flag of the People’s Republic of China
Retail Development 1912-1948

- Many foreign investors – but also a ruling merchant class of Chinese
- Foreign goods gain increasing acceptance
- About 200 newspapers and magazines were published
- Major department stores opened on Nanjing Road in Shanghai: Sincere, Wing On, and Shui Hing
- Shanghai department store Sun Sun established radio station in 1927
People’s Republic of Chia

- People’s Republic of China
  - Communists founded the People’s Republic of China in 1949
  - Nationalists Kuomintang retreated to Taiwan and became the government of the Republic of China
Basic facts

- Political system
  - Communist Party-led state
  - Chinese Communist Party
1949 – Formal Beginning of PRC

- Set deadline of 1956 to transform private businesses into “whole people enterprises”
- In next 5 years, state expropriates all major industries
- Cultural Revolution (1966-1976) creates poor climate for “retailing” as typically known
Impact of Communism: Off-shore Retailing in China

- Communists seize power in early 1950s
- Defeated Nationalist group heads to Taiwan
- “Commercial” group goes to Hong Kong
- These two groups create thriving retail communities

Aberdeen St.   
Hong Kong   
1960
Brief History of Retailing in China after the Establishment of P. R. China

▶ Two important periods

■ 1949-1978
  ● Before Reforms: planned economy

■ 1979-present
  ● The reforms: socialist market economy with Chinese characteristics. Reforms occurred first in major special economic zones and cities, then spread to the whole country.
Shopping During Mao Era

Ration coupons were required to buy cloth, but a selection of fabric drew customers to Beijing Department Store on Wangfujing Street in 1983.
Socialist Planned Economy before 1978

- Set deadline of 1956 to transform private businesses into “whole people enterprises”
- In next 5 years, state expropriates all major industries
- State Planning Commission decides factory production goals, allocates raw materials.
- Wholesalers and retailers were government-owned, and just storage facilities.
FENPEI allocation system (1949-1978)

- The State Planning Commission decided on general production goals for the factories in China.
- The factories would then be allocated raw materials and told to produce necessary products.
- After production, the goods would be shipped to the Ministry of Commerce Central Distribution Centers.
- Products were distributed to consumers through national distribution systems.
Pre-Reform: “Soviet” (“Fenpei”) Approach: 3 Product Categories

- Category 1: vital to national economy and people’s livelihood (rice, cotton, coal, fuel); distribution run by state units
- Category 2: includes things like bicycles, watches, sewing machines, radios; controlled by industrial ministries
- Category 3: “non-essential” items
Before Reform (1949-1978)

- Under merchandise shortage, how much each kind of product a consumer could purchase each month was determined by the government.

Food Coupons

Cloth Coupons

Vegetable Coupon

Soap Coupon
Distribution System (1949-1978)

- Components
  - Manufacturers/Importer
  - Wholesalers
    - Three Levels
  - Retailers
- Controlled by Ministry of Commerce
- Operated by special state-owned companies
- Price, gross margins were determined by the government, not the market.
Figure 1 China’s Distribution System before Reforms (Tseng, Kwan, and Cheung, 1995)

Manufacturers/Importers

1st level wholesalers

2nd level provincial

3rd level district

Retailer

Retailer

Retailer

2nd level Provincial

3rd level district

Retailer

Retailer

Retailer

Retailer
Before Reforms (1949-1978)

- Ownership of the Distribution System
  - State-owned
    - Monopolized distribution channels
  - Collective
    - Less important
  - Private
    - Negligible
The Reforms (1979-present)

- **Decentralization of Distribution Authority**
  - Going through state-owned wholesale channels became non-mandatory.

- **Management Reforms in Retail Outlets**
  - State-owned wholesalers and retailers were held accountable for their own profits.

- **Lift of Restrictions on Retailing**
  - Price could be negotiated.
  - Foreign retailers could operate in China.

- **Retail Ownership Become diversified**
  - State-owned ↓, Private and foreign ↑

- **Consumers have greater freedom.**
  - Product shortage ended and food coupons were abandoned at the early 1990’s.
Liberalization of Foreign Entries

- **Step 1: 1992**
  - Experimental cities: 6 cities (Beijing, Shanghai, Tianjin, Guangzhou, Qingdao, and Dalian) and 5 special economic zones (Shenzhen, Zhouhai, Shentou, Xiamen, and Hainan)

  - Each city could have 1-2 foreign retailers (Shanghai had 4). Other cities are forbidden to accept foreign retail investment.

  - The retail stores must be joint venture. Sole-owned foreign retailer is forbidden. Chinese partner should have at least 51% of shares.

  - They could not be wholesalers.

  - No more than 30% of imported products.
### Liberalization of Foreign Entries (Cont.)

- **Step 2: 1995**
  - Foreign retailers can operate chain stores in Beijing.
  - Foreign retailers can partially enter wholesale section.
  - They must be joint venture and 51% share is owned by for Chinese partners.
  - Licenses are for no more than 30 years.

- **Step 3: 1999**
  - Foreign retailers can enter the capitals of provinces and autonomous regions.
  - The number and scope of the foreign retailers operating in China increased.

- **Step 4: 2004**
  - 2001, China joined WTO
  - Three years later, all restrictions on foreign retailers were removed.
Summary

- China has a long history of retail and wholesale trade
- Vacillates between periods of isolationistic and expansive policies
- Period of planned economy under Communism is a small slice of China’s history but till affects retail development
- Government and party plays a major in developing strategic direction
- Since joining WTO, there are few impediments to foreign entry and the growth of modern retailing
Hong Kong Retailing History

- Secured by England after 2nd Opium War in 1841
- Was center of opium trade – the main Western export to China
- 1898: British forced 99-year lease; reverted to China in 1997
- After Communist takeover in 1949, millions fled mainland for Hong Kong
- By 1980s, Hong Kong was one of richest business centers in the world
- Over 50% of tourist spending is on shopping!
Major Retailers in Hong Kong

- **Japanese**: Seibu (now Dixon Concepts luxury group), Seiyu, Ito-Yokado *[Note: others have exited H.K., including Mitsukoshi]*
- Recent increase in hypermarkets, convenience stores, supermarkets, including Watson’s, ParknShop, Fortress (all part of #1 retailer Watson & Co.)
- Dairy Farm operates 7-11 Stores, Wellcome (drugstore), IKEA stores
- Jusco (department stores)
- Many independent and open-air markets
“Retail” History of Taiwan

- Original inhabitants: non-Chinese
- Chinese immigrants from Giangdong and Fujian arrive in 1400s
- Europeans (Portuguese, Dutch) during 1500s and 1600s, followed by Ming and Qing Dynasties (Qing from 1683-1895), then Japanese (1895 – WWII)
- Nationalists under Chiang Kai-shek established martial law in 1949 – 1987
- Gradual loosening/freedom 1987-present
Major Retail Forces in Taiwan

- Uni-President Enterprises is leading group, with major ownership shares of 7-Eleven, Carrefour
- #2 is Shin Kong Mitsukoshi Department Store
- Far Eastern Group: SOGO
Major Retail Forces in Taiwan

- Internet and home shopping popular
- Internet and catalogue orders picked up at convenience stores following home ordering
- Hypermarkets -- Makro, Carrefour, Geant, B&Q – beginning in 1996
- Many small, independent shops remain: account for 87% of retail sales