Development of Retail Industry in China
Brief History of Retailing in China after the Establishment of People’s Republic of China

- Two important periods
  - 1949-1978
    - Before Reforms: Planned Economy
  - 1979-Present
    - The Reforms: Socialist Market Economy with Chinese Characteristics
Before Reforms (1949-1978)

- Set deadline of 1956 to transform private businesses into “whole people enterprises”
- In next 5 years, state expropriates all major industries
- Wholesalers and retailers were state-owned, and just storage facilities.
- Luxury department stores taken over by government and renamed, e.g., Number One Department Store
- Closing of ties between China and the West
Before Reforms (1949-1978)

- **FENPEI: Allocation System**
  - 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 in Tianjin, Shanghai, Guangzhou, and then distributed to 2\textsuperscript{nd} and 3\textsuperscript{rd} tier DCs at local level.
  - Wholesalers and retailers were government-owned, and weren’t really “market players”, just storage facilities.
Before Reforms (1949-1978) (Cont.)

- Distribution System
  - Components
    - Manufacturers/Importers
    - Wholesalers
      - Three Levels
    - Retailers
  - Controlled by Ministry of Commerce
  - Operated by Special State-Owned Companies
  - Prices were determined by the government not market.
  - Philosophical belief that “production” is the goal, and “distribution” doesn’t add much value
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

3rd Level District
- Retailer

2nd Level Provincial

3rd Level District
- Retailer
- Retailer

3rd Level District
- Retailer
- Retailer
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
Ownership of the Distribution System

- State-Owned
  - Monopolize Distribution Channels
- Collective
  - Less Important
- Private
  - Negligible
The Reforms (1979-present)

- Decentralization of the 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
  - Prices could be negotiated.
  - Foreign retailers could operate in China.

- Retail Ownership Become Diversified
  - State-Ownership Decreased
  - Private and Foreign Ownership Increased

- Consumers Have Greater Freedom
  - Product shortages ended and food coupons were abandoned in the early 1990’s.
Development of Retail Industry

- **Starting Period (1980’s)**
  - Dominated by old department stores, traditional grocery stores, and specialized stores.
- **Introduction Period (early 1990’s)**
  - There were fewer than 10 chain stores.
  - Different formats emerge
- **Growth Period (middle and late 1990’s)**
  - Different Formats grew: Hypermarkets, Supermarkets, Convenience Stores, and Specialty Stores
  - Entries of foreign retailers
- **Mature (the 21st century)**
  - Large scale chain stores across the countries.
  - Market competition became intensive.
The Overall Trend of the Development

- From Single Stores to Chain Stores
- Form Regional to National
- From Eastern Coast to Western Inland
- From First and Second Tier Cities to Lower Tier Cities
- From Joint Venture to Wholly Owned for international retailers
- Market concentration increased and market competition became more intensive.
Liberalization of Foreign Entries

- Forbidden Period (1978-1991)
  - Foreign investments were forbidden in retailing, wholesaling, and other fields of business.
Liberalization of Foreign Entries

- **Step 1: 1992**
  - **Experimental Cities:**
    - Beijing, Shanghai, Tianjin, Guangzhou, Qingdao, and Dalian
  - **5 Special Economic Zones**
    - Shenzhen, Zhouhai, Shentou, Xiamen, and Hainan
  - Each city could have 1-2 foreign retailers (Shanghai had 4). Other cities were forbidden to accept foreign retail investment.
  - The retail stores had to be joint ventures. The Chinese partners had to have at least 51% ownership.
  - They could not be wholesalers.
  - No more than 30% of imported products.
Liberalization of Foreign Entries (Cont.)

- **Step 2: 1995**
  - Foreign retailers could operate chain stores in Beijing.
  - Foreign retailers could partially enter wholesale sector.
    - They had to be joint ventures and 51% Chinese ownership was required.
  - Licenses were for no more than 30 years.

- **Step 3: 1999**
  - Foreign retailers could 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.
“Let China sleep, for when she wakes, she will shake the world"

-Napoleon Bonaparte