

ROUTLEDGE ADVANCES IN GEOGRAPHY

China's New Retail Economy

A Geographic Perspective

Shuguang Wang



China's New Retail Economy

Retail is the essential link between production and consumption. The dynamics of a nation's economy cannot be fully understood without a good understanding of its retail sector. This book is written to achieve three broad objectives. First, it provides a comprehensive assessment of the changes in consumption patterns in China, the current size of the Chinese consumer market, and the regional variations. Second, it presents an interpretation of the changes in the country's regulatory system and the corresponding policy initiatives, including the new state spatial strategies devised after its admission to the WTO. Third, it delivers a systematic analysis of the transformation of China's retail sector. This includes the entry and expansion of foreign retailers, the development of indigenous retail chains as a national strategy to modernize China's retail industry, and the changing retailer-supplier relations. This book is a useful reference not only for university students and faculty researchers, but also for international retailers and commercial real estate developers who contemplate business and investment opportunities in China.

Shuguang Wang is Professor of Geography at Ryerson University in Canada.

Routledge Advances in Geography

- 1 The Other Global City**
Edited by Shail Mayaram
- 2 Branding Cities**
Cosmopolitanism, Parochialism,
and Social Change
*Edited by Stephanie Hemelryk
Donald, Eleonore Kofman and
Catherine Kevin*
- 3 Transforming Urban Waterfronts**
Fixity and Flow
*Edited by Gene Desfor, Jennefer
Laidley, Dirk Schubert and
Quentin Stevens*
- 4 Spatial Regulation in New York
City**
From Urban Renewal to Zero
Tolerance
Themis Chronopoulos
- 5 Selling Ethnic Neighborhoods**
The Rise of Neighborhoods as
Places of Leisure and Consumption
*Edited by Volkan Aytar and
Jan Rath*
- 6 The Gentrification of Nightlife
and the Right to the City**
Regulating Spaces of Social
Dancing in New York
Laam Hae
- 7 Rethinking Global Urbanism**
Comparative Insights from
Secondary Cities
*Edited by Xiangming Chen and
Ahmed Kanna*
- 8 Shrinking Cities**
International Perspectives and
Policy Implications
*Edited by Karina Pallagst,
Thorsten Wiechmann and
Cristina Martinez-Fernandez*
- 9 For Creative Geographies**
Geography, Visual Arts and the
Making of Worlds
Harriet Hawkins
- 10 Eurasian Corridors of
Interconnection**
From the South China to the
Caspian Sea
*Edited by Susan M. Walcott and
Corey Johnson*
- 11 China's New Retail Economy**
A Geographic Perspective
Shuguang Wang

China's New Retail Economy

A Geographic Perspective

Shuguang Wang

First published 2014
by Routledge
711 Third Avenue, New York, NY 10017

and by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

*Routledge is an imprint of the Taylor & Francis Group,
an informa business*

© 2014 Taylor & Francis

The right of Shuguang Wang to be identified as author of this work has been asserted in accordance with sections 77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Trademark Notice: Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

Library of Congress Cataloging-in-Publication Data

Wang, Shuguang, 1956–

China's new retail economy : a geographic perspective / Shuguang Wang.

pages cm. — (Routledge advances in geography ; 11)

Includes bibliographical references and index.

1. Retail trade—China. 2. Consumption (Economics)—China.
3. Business enterprises, Foreign—China. I. Title.
HF5429.6.C5W36 2014
381'.10951—dc23
2013032050

ISBN13: 978-0-415-63623-0 (hbk)

ISBN13: 978-1-315-81716-3 (ebk)

Typeset in Sabon
by IBT Global.

This book is dedicated to Feng and Jia.

This page intentionally left blanks

Contents

<i>List of Figures</i>	ix
<i>List of Tables</i>	xi
<i>Foreword</i>	xiii
<i>Preface</i>	xv
<i>Acknowledgments</i>	xvii
1 Introduction	1
2 The Consumer Market: Size, Consumption Patterns, and Regional Variations	15
3 Building a Modern Regulatory Regime	35
4 Trajectories of Growth and Changes in Retail Structure	52
5 Penetrating the Great Wall and Conquering the Middle Kingdom	69
6 Nurturing National Champions	95
7 The Setback of Best Buy and Media Markt: An Analysis of China's Consumer Electronics Retailing	113
8 Development of Shopping Centers as New Consumption Space	130
9 Luxury Retailing	148
10 Conclusions	161
<i>Appendix 1: Cluster Analysis of the Chinese Cities</i>	169
<i>Appendix 2: The Hierarchy of China's Urban Markets by City Tier, 2010 (with Data for City Proper)</i>	175
<i>Notes</i>	191
<i>References</i>	193
<i>Index</i>	213

This page intentionally left blanks

Figures

1.1	The role of retailing in the system of commodity circulation.	1
2.1	Administrative division of China with population distribution, 2010.	16
2.2	Rank-size relationship of the Chinese cities.	30
2.3	Geographical distribution of mega urban markets and Tier 1 and Tier 2 cities.	33
5.1	Distribution of Wal-Mart stores in China, before and after WTO.	74
5.2	Distribution of Carrefour stores in China, before and after WTO.	75
5.3	Free shuttle bus provided by a Carrefour hypermarket in Minhang District of Shanghai.	84
6.1	The changing composition of Bailian Group, 2003–2011.	96
7.1	Growth of Gome, Suning, and Five Star, 2001–2010.	118
7.2	Major acquisitions made by Gome, 2005–2008.	120
7.3	Comparison of Gome, Suning, and Five Star by per-store retail sales, 2001–2010.	121
7.4	Distribution of Gome and Suning stores in 2013.	126
7.5	Distribution of Five Star stores in 2010 and 2013.	127

This page intentionally left blanks

Tables

2.1	Administrative Division of China and Population Distribution, 2010	17
2.2	Changes in per Capita Income, Expenditure, and Ownership of Consumables, 1990–2010, Urban vs. Rural	19
2.3	Income, Expenditure, and Disparities in Urban Areas of China, 2010	20
2.4	Classification Variables	27
2.5	City Tiers	31
2.6	Market Conditions of Different City Tiers	31
4.1	Changes of Key Retail Enterprises by Ownership, 2000 and 2010	54
4.2	Retail Chains by Ownership and Format, 2010	63
4.3	Regional Variations in Retail Supply, with Reference to Population Shares, 2010 (All in Percentage)	67
5.1	Major Foreign Retailers in China, 2010	71
5.2	Geographical Distribution of Foreign Retailers by City Tiers, 2010 (All in Percentage)	76
5.3	Rating of Foreign Retailers by Chinese Suppliers, 2006	88
6.1	Members of the National Team among the Top 100 Retail Chains, 2010	101
7.1	Milestones of Gome and Suning Development	115
9.1	Major Luxury Goods Retailers in China—Store Distribution by City, 2012	151
A.1	Cluster Centers, from the First Run with $K = 8$	171
A.2	Cluster Centers, from the Second Run with $K = 2$ (This Run Is to Break Up Cluster 7 from the First Run)	172
A.3	Distances Between Cluster Centers, from the First Run with $K = 8$ (Number of Cases = 287)	173
A.4	Natural Clusters and City Tiers	174

This page intentionally left blanks

Foreword

Dr. Wang has made a significant contribution to our understanding of one of the greatest consumer revolutions in history. Long before it became fashionable, Dr. Wang, through personal observation and detailed empirical work, documented the evolution of the contemporary Chinese retail system. Over the last two decades, he has witnessed and measured the emergence of the Chinese consumer society that has altered the flow of goods and capital in the global economy. This transformation has been led, in large part, by the emergence of, and response of retailers to, the large Chinese middle class. This demographic segment now is larger than the total population of the United States. Further, it is estimated that this group will continue to explode and soon will approach the total population of Europe.

The book uses a geo-spatial approach to examine the growth and characteristics of the Chinese retail economy from a variety of perspectives. The book can be divided into two parts. The first focuses on a detailed empirical examination of the fundamental agents of change that have been responsible for shaping Chinese retailing. Initially, the geography of demand is discussed. Here various fundamental indicators of the burgeoning Chinese market are presented such as the growth of market income, changing consumption patterns, and regional variations in demand. This is followed by a discussion of the regulatory environment that has controlled and shaped China's retail transformation. This chapter is fundamental to any understanding of retailing in post-reform China. The fourth chapter concludes the first section of the book with an interpretation of the nature of the various retail structures and formats that now characterize the Chinese distributive system.

The second part of the book provides insights into four major shifts that have fundamentally changed the distribution and supply of retail goods in modern China. First, the experiences, entry strategies, successes and failures of various international retail chains are discussed. The following two chapters evaluate both the national strategy that was implemented in 2004 to support the competitive position of 20 domestic chains and the particular strength of the two dominant Chinese retail chains in the consumer electronics sector. Finally, the book provides insights and raises

fundamental questions regarding the growth of shopping centres in China and the strength of the luxury retail market in China.

Wang's work fills a missing void in our understanding of the retail economy in China. It is timely, relevant and improves our understanding of the transformation of one of world's major economies. Anyone with an interest in the current and future growth of Chinese market should find this book invaluable.

Ken Jones
Professor Emeritus
Ryerson University
Toronto, Canada

Preface

Retailing is the essential link between production and consumption. The dynamics of a nation's economy cannot be fully understood without a good understanding of its retail sector. Despite this importance, there has been a lack of attention to the transformation of China's retail sector in the large body of literature concerning economic reform and regional development in China. For one example, among Routledge's Contemporary China Series of publications and its series of Studies on China in Transition (over 60 titles in total), no book deals with China's burgeoning retail economy, leaving a gap to be filled.

Traditionally, retailing was geographically tied and retailers were embedded in their local market. But this has been changing in the last two decades. In the early 1990s, the orthodox retail geography was re-theorized by Wrigley, Lowe, and a few other European economic geographers, and a new geography of retailing was advocated to reflect a series of important changes in the global economy. The main concern of the new geography of retailing is the grounding of global flow of retail capital and its geographical expressions. It also calls for much more serious treatment of regulations because they are important forces influencing corporate strategies and geographical market structures.

The new geography of retailing is theorized in the context of the Western market economies. Its testimony in the emerging markets is still limited. The current book follows this innovative approach in the case study of China—the world's largest emerging market resulting from extensive economic reforms in the last three decades. The book fills a void in the English literature on this important topic.

Unlike the existing books, this book moves away from the “firm centric” approach and focuses on the forces and the process of retail change in post-reform China, along with the geographical outcomes. Specifically, this book is written to achieve three broad objectives. First, it provides a comprehensive assessment of the changes in consumption patterns in China, the current size of the Chinese consumer market, and the regional variations, to establish the context of *demand*. Second, it presents a systematic interpretation of the progressive retail *de-regulation* and *re-regulation* process

to provide the legal context for the understanding of the retail changes. Third, it delivers a systematic analysis of the transformation of China's retail sector to gauge the changes in the *supply* side. This includes the entry and expansion of foreign retailers, the development of indigenous retail chains as a national strategy to modernize China's retail industry, and the more recent pattern of capital groundings in commercial real estate developments that create new consumption spaces.

This book results from decade-long observations and study of China's retail economy. I made extensive field studies in China in the last 10 years, including visiting every shopping center and commercial node in Beijing and Shanghai, and interviews with key retailers and relevant government officials. The book is not just packaged with information and data. The information and data are processed and analyzed to reconstruct the process of change and growth, and to reveal the impact and consequences. It should not only be a useful reader for university students and faculty researchers, but also be an informative reference for international retailers and transnational real estate developers, who complete business and investment opportunities in China.

While this book is comprehensive in scope, it does not include every aspect of China's vast retail economy. Research gaps remain, which hopefully will be filled by other interested researchers.

Shuguang Wang
Department of Geography
Center for the Study of
Commercial Activity
Ryerson University

Acknowledgments

I wish to thank the following individuals and institutions for their support and assistance in producing this book:

Mr. Paul Du, GIS Analyst at Ryerson University's Center for the Study of Commercial Activity, made all the maps. His excellent cartographic skills greatly enhanced the quality of the presentation of the research results.

Dr. Yongchang Zhang of East China Normal University assisted me in my site visits, interviews, and data collection in Shanghai in the last 8 years.

Dr. Chongyi Guo of Beijing Technology and Business University assisted me in my site visits, interviews, and data collection in Beijing several times.

The Society of Asian Retailing and Distribution at the University of Marketing and Distribution in Japan provided me with opportunities to test most of the chapters during its annual workshops.

The Office of Dean of the Faculty of Arts at Ryerson University provided a special project grant to help produce the final draft of the manuscript.

My wife Feng Wang did my share, as well as hers, of the household chores in the last twelve months, so that I could concentrate on writing the book during all my non-teaching hours.

This page intentionally left blanks

1 Introduction

The retail sector is an integral part of a nation’s economy. From the political economy point of view, all consumer goods have surplus values locked up in them; the surplus values are not realized until the consumer goods are purchased by consumers through various distribution channels (Blomley, 1996). As such, retailing is the essential link between production and consumption, and the accumulation of capital is achieved through “repeated acts of exchange” between consumers and retailers (Ducatel & Blomley, 1990, p. 218). The dynamics of a nation’s economy therefore cannot be fully understood without a good understanding of its retail sector (see Figure 1.1).

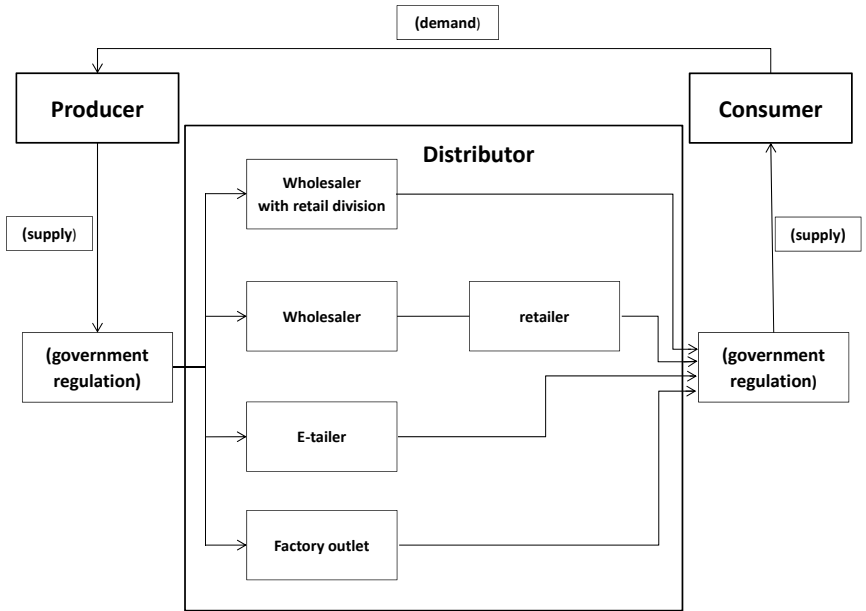


Figure 1.1 The role of retailing in the system of commodity circulation. (Retailing is carried out by a variety of distributors. They link forward with consumers, and backward with producers/suppliers. Governments regulate the circulation system and the relationships both between distributors and producers and between distributors and consumers.)

2 *China's New Retail Economy*

Retailing is especially important in the urban economy. Cities are not only centers of power and prestige; they are also centers of consumption and concentrations of retail businesses. Distribution of goods between retailers and consumers is among the chief economic activities of urban areas (Hartshorn, 1992). Knox (1991) even had the view that “the whole of the [urban] landscape is geared toward consumption.” Whereas retail activities occupy only a small proportion of the developed urban land, they play several important roles including the generation of large amounts of retail employment while serving as the centers of consumption (Yeates, 1998). As production firms become more mobile, the success of cities hinges more and more on the role of cities as centers of consumption (Glaeser et al., 2000).

In the last three decades, a series of revolutionary changes have taken place in the retail industry worldwide amid the process of globalization of the world economy. Most of these changes originated in the Western capitalist economies, but they quickly spread to the emerging markets in Asia, Latin America, and, to a lesser extent, Africa. Among the emerging markets, China has been the new frontier for much of international business, and the transformation of its retail economy should be the most profound, including the disengagement of the state in operating retail stores, the entry of international retailers, and the emergence of non-state enterprises.

Despite its importance, there has been a lack of attention to the restructuring and transformation of China's retail sector in the large body of literature concerning economic reform and regional development in China. For one example, among Routledge's publications of its *Contemporary China Series* and its series of *Studies on China in Transition* (over 60 titles in total), no book deals with China's burgeoning retail economy. The four existing books printed by other publishers all focus on one aspect of China's retail economy—retail internationalization—and their studies are “firm centric” (see Zhen, 2007; Chevalier & Lu, 2010; Gamble, 2011; Siebers, 2011). This book is written to fill the gap. It goes beyond retail internationalization and moves away from the “firm-centric” approach. The book aims to achieve three broad objectives. First, it provides a comprehensive assessment of the changing consumption patterns, the current size of the Chinese consumer market, and the regional variations within the vast country. This assessment of “demand” establishes the fundamental context for a subsequent examination of the changes in the “supply” side. Second, the book delivers a systematic interpretation of the transformation of China's retail economy in the last three decades. This includes the entry and expansion of foreign retailers, the development of indigenous retail chains as a national strategy to modernize China's retail industry, the changing retailer-supplier relations, and the resultant structural changes in the retail sector. Third, it examines the changes in the regulatory system and the corresponding policy initiatives. While all major retail corporations (both domestic and foreign) have their own *geo-strategies*, their *geo-strategies* are largely dictated by the *state spatial strategies* of the Chinese government.

The book is written with the approach of the new geography of retailing advocated by Lowe and Wrigley (1996) and using the economic transition process for post-socialist states, as generalized by Bradshaw (1996), as a theoretical framework, for a deep understanding of the transformation of China's retail economy. The changes in China are also analyzed and interpreted in contrast to the characteristics and recent trends of the contemporary capitalist retail economy.

CHARACTERISTICS OF THE CONTEMPORARY CAPITALIST RETAIL ECONOMY AND RECENT TRENDS

From the vast literature on retail structure and structural changes in the Western capitalist economies, it is possible to generalize the following major characteristics and trends.

1. *Private ownership predominates in the retailer sector, but government intervenes through regulatory measures.*

Within the capitalist market economy, retailing is defined as private sector activities that provide goods directly to consumers (Simmons & Kamikihara, 2003). Governments rarely own or operate retail businesses, except for a few selected consumer goods (i.e., non-merit goods such as alcoholic beverages and cigarettes). For example, in the Province of Ontario in Canada, all liquor stores are owned and operated by the Liquor Control Board of Ontario—a provincial government enterprise. Whereas corporations and individual entrepreneurs enjoy a high degree of freedom in business decision making, governments do intervene in the retail industry with regulatory measures, often in the form of public policies, to mitigate negative impacts (see Figure 1.1). In turn, these policies, which are supposed to reflect the values of society, impose limits on the retailer's freedom to deal with competitors and conduct business with suppliers and consumers, thus affecting retail operations and the overall market structure.

Dawson (1980) has generalized five types of public intervention that commonly exist in the Western capitalist economies: (1) **location restriction** through land use planning and zoning bylaws to minimize spatial externalities; (2) **price control** to protect consumers from inadequate advertising and predatory selling practices, and to generate revenues for governments; (3) **optimization of business structure** through fair competition laws to prevent monopoly and encourage innovation; (4) **promotion of business efficiency** by controlling new entries into a market to avoid excess retail capacities and waste of economic resources; and (5) **protection of consumer well-being and safety** through licensing/inspections and compulsory labeling. Dawson (1980) also pointed out that whereas direct policies toward retailing are few, indirect policies that aim at other sectors but impinge on

4 *China's New Retail Economy*

retailing are abundant. The various types of public intervention are often imposed by different levels of government and implemented at different spatial scales (Jones & Simmons, 1993).

2. A planned hierarchy of shopping centers is common in metropolitan cities.

This is perhaps the most conspicuous in North American cities, where “there are more shopping centers than movie theatres; and there are more enclosed malls than cities” (Kowinski, 1985, p. 20). The rapid progress of suburbanization in the late 1950s and the 1960s required that cities be planned following “the principle of hierarchical organization” (Wang & Smith, 1997). Accordingly, a hierarchy of shopping centers was incorporated in this form of planning, consisting of neighborhood, community, and regional shopping centers. Each type of shopping center had a clearly prescribed tenant mix, trade area size, and even physical form (Urban Land Institute, 1985). In the 1970s, a newer and larger type of shopping center—the super-regional shopping center—began to be built. These centers often combine entertainment and recreation with shopping under one roof, becoming a new palace of consumption. Typical examples are the West Edmonton Mall in Canada (493,000m²) and the Mall of America in the United States (466,000m²). As suburbanization continued, the metropolitan city became multicentric, and a network of retail nodes evolved to serve the expansive city. Each regional and super-regional shopping center became a node, spatially distributed in a hierarchical fashion analogous to central places in Christaller’s Central Place Model (Yeates, 1998).

3. Big box stores and power centers have emerged to become new leading retailers.

By the late 1980s, retailing re-emerged as an important and dynamic economic sector in many developed nations. In addition, major technological innovations took place in the distribution system. The highly computerized goods-tracking systems and inventory control enabled direct communications with, and direct shipping from, manufacturers (Hughes & Seneca, 1997). In the process, it spawned urban shopping environments and led to the emergence of a new retail format, known as ‘big box’ stores. At first, such stores were freestanding outside shopping centers; but eventually several big box stores began to cluster together at one location in the form of a planned plaza, commonly called a ‘power center’ (also known as a retail park). In less than ten years, this new format has been adopted by a variety of retail businesses. The big box stores and power centers have become leading retailers in the Western retail system (Jones & Doucet, 1999; Hernandez & Simmons, 2006) and have been widely blamed as the cause of the ‘graying’ of regional and super-regional shopping centers and

the demise of department stores in North American cities (Kmitta & Ball, 2001; Doucet, 2001). These new retail spaces have been created and manipulated by the innovative retailers and commercial real estate developers to induce consumption.

4. *Retail chains continue to be the most important form of retail concentration, but significant restructuring and reshuffling have been taking place in the retail industry.*

With no exception, all retail giants are chain operators, as the retail chain provides a way of introducing scale economies while avoiding the restrictions of market size (Jones & Simmons, 1993). Retail chains often account for 70 percent or more of the total retail sales in a metropolitan market. The 1990s and the 2000s witnessed significant restructuring of retail chains, leading to concentration of retail capital into the hands of a few “super leagues” (Marsden & Wrigley, 1996). Some sought to acquire, or merge with, others to consolidate resources and rose to the status of global corporations. For example, in 1991, the French firm Carrefour took over two other domestic hypermarket chains: Euromarche and Montlaur. In 1999, it merged with Promodes to create the largest European food retailing group and the second largest worldwide.

In 2002, the American electronics retailer, Best Buy, expanded by acquiring Future Shop, a Canadian retail chain. Big capital retailers are better able to invest heavily in information technology and centralized distribution systems, the use of which enables the retailers to more effectively perform their competitive functions of reducing the turnover time of commodities (Hughes, 1996). Meanwhile, many other chains were not as fortunate and subsequently went under. Eaton’s, a Canadian department store chain with a history of more than 100 years, was one such victim.

5. *The retailer-supplier relationship has tipped toward retailers.*

For many years, producers of consumer goods effectively dictated brands and types of products being sold as well as their price in the retail market. Since the 1980s, retailing has been shifting from being the sales agent for manufacturing and agriculture to being the production agent for consumers, and the balance of the retailer-supplier relationship has tipped toward the large retail chains (Dawson, 2008). The significant retailers are no longer passive receivers of consumer goods supplied to them by producers. While still mediating between consumers and producers, they are no longer neutral mediators. Instead, they influence consumers by selecting goods with larger profit margins (Foord et al., 1996). They erode manufacturers’ share of the surplus value by influencing patterns of consumption in their own favor and by using their bargaining power to lock manufacturers into retailer-led supply situations (Hughes, 1996, p. 99). They also