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국제학석사학위논문

Restructuring Distribution Service Market

: Focus on Korean Retail Market

유통서비스 시장 개방의 문제점과 개선방안-국내 소매업의 중심으로

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Restructuring Distribution Service Market
: Focus on Korean Retail Market

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Abstract

Restructuring Distribution Service Market:

Focus on Korean Retail Market

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The paper aims at understanding the regulations that have been implemented by South Korean government on large scale retailers that aims at protecting small scale retailers in South Korea. In particular, the paper gives an insight on how the traditional retailers also known as “Shi-jang” have been over protected by the government because it is assumed that the Shi-jang conserves national heritage. The regulations have led to shutdowns of large scale retailers mainly on Sunday to improve employees’ welfare and to reduce competition among the traditional retailers. The paper further outlines the reasons why distribution services are important to the South Korean economy. The Korean economy have in the past relied on manufacturing sector, however, as it stands, the manufacturing industry has been exhausted hence the need to diversify the

economy. Distribution services have all along provided customized goods and services to consumers within the South Korean economy. It further analyses the important roles that distribution services will offer to the economy should it be given more attention just like manufacturing industry. In addition, it offers an overview of the South Korean's retail industry and its development. The first large retail industry was established in 1993 with inception of E-mart. The regulations of the retail sector are also highlighted within the paper. It further compares South Korean case with selected countries like France, Germany, and Japan. Just like South Korean, the paper found out that retail shutdowns began long ago though most of the countries have fully liberalized the operations unlike South Korea. Possible solutions to the problems that are witnessed within the Republic of South Korea have also been outlined. In particular the paper suggested that it would be necessary for the economy to operate freely with little or without government interference.

Keyword: Shi-jang, distribution service, large-scale retailers, retail sector

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1. Introduction

The ultimate goal of production of goods and services is to satisfy the final consumers' needs and wants. For that to happen, an effective use of distribution services are needed as it acts as a core in linking consumers and producers. Government's involvement is unavoidable in the whole process as it acts as a regulator of all businesses. Too much government involvement, however, may be harmful to the firms. A good example of imposing too many regulations is the case of the service industry in South Korea. The regulations range from shutdowns, perimeter controls, fines, and business suspensions. Besides, the service sector is ailing a dual structure of anti-competitive knowledge based service and over competitive labor-intensive service.

As Table 1 shows, the annual traditional markets sales in S. Korea in trillions have shown a declining trend for the indicated years, whereas in figure 1, the sales of large scale stores and SSMs increase time to time.

Table 1 (Traditional Market Sales in trillion KRW)

Year	Traditional Market Sales
2005	27
2006	25
2008	22
2010	21
2012	20
2013	19
2014	20

Source: 중소기업청

Figure 1 (Traditional Market Sales in billion KRW)



Source: 중소기업청

Figure 2 (Large Retail and SSM Sales in billion KRW)



Source: 중소기업청

This has coincided with the introduction of large-scale discount stores from 244 stores in 2002 to 472 stores in 2011 like E-mart, Lotte Mart, and Homeplus since 1996 (HIET Industrial Economic Review 2015). The growth of large-scale discount stores has eroded market shares from traditional markets and small retailers. This eventually led to a loss of profits by the traditional markets which provoked the government to implement the Distribution Industry Development Act in 2012. The loss came through the ability of the large-scale stores to use their ‘buyer power’ to determine the consumer prices. Through large-scale purchases, the large scale retailers can enjoy getting lower prices which they can eventually pass on to the final consumer in form of low priced

products. Alternatively, the large scale retailers can take advantage and enjoy large profit margins by charging the normal market prices which mean the consumer does not enjoy lowered prices.

Also, the loss to the small scale retailers came due to the fact that consumers prefer to do their shopping in the large-scale discount shops as they prefer to pick and get everything under one roof. Traditional markets lacked the above benefits as compared to the large-scale stores which posed huge competition. Therefore the government came up with an act that could shield the small scale retailers. The act has barred further entries by large-scale stores, as well as dictating that they close business from midnight to 10:00 AM and two days every month. Developing service sector, thus, becomes important to ensure smooth business operations and to supplement economic growth and their global competitiveness. The economy is already over-relying on one sector to support the GDP (Chun, 2015).

1.1 South Korea's Retail Sector Overview

The turning point of the retail industry in South Korea was in the year 1993 when the first hypermarket also known as E-Mart under the ownership of Shinsegae Co. was opened. The introduction of large-scale stores was immediately followed by the market liberalization in the retail business in 1996,

which further allowed development of large scale stores as it allowed foreign firms to enter into the market. (Grosso et al. 2015). Due to this liberalization, Macro, the first foreign store owned by Dutch was opened in 1996. The two changes led to growth and development of the industry to what it is today through the invasion of foreign investors since the environment looked lucrative. Other aspects like online retailing, groceries among others also came onboard as a result of the changes. Consumers could now access products conveniently and at affordable rates from a single store. The net effect has been tremendous growth of the retail industry to overtake the usually dominant departmental stores by the year 2012 when an overall contribution of 12.2% was recorded from hypermarkets (Grosso et al. 2015).

Furthermore, online retailing has also witnessed tremendous growth accounting for about 11.9% of the retail sale volume in 2012 (Grosso et al. 2015). The growth of online retailer puts them second after the hypermarkets since 2007. Due to increased consumer behavior towards online shopping, the growth of online retail is expected to rise. Consumers are attracted to the e-stores due to the current technology that allows them to purchase goods at their comfort and convenience. Grocery supermarket growth until 2012 had been stimulated by the emergence of supermarkets (Oh, 2013).

The supermarket operated under the umbrella of the large scale retailers to ensure maximum competition with other retailers. The supermarket mainly targets the congested residential areas that hypermarkets cannot access. This expansion, however, did not last as local government and nongovernmental organizations have criticized them for pushing out small scale grocers out of the market. The growth of supermarket by 2012 had received too opposition and this led to the implementation of the Distribution Act to force shutdowns and enforce restrictions. Convenient stores play important role in the retailing industry too. Family owned groceries and street markets still have advantages in areas that have not been penetrated by the large scale retailers. After the 2012 when the regulation limiting the operations of large scale retailers was implemented, the performance of these retailers has since been affected. The policies requiring the retailers to shut down their operations during Sundays and holidays are a clear indication of government interference.

1.2 The Need to Develop Service Sector in South Korea

It is important for the service sector to be developed to improve the value of GDP of the economy. Statistically, the South Korean economy is doing great. South Korea's GDP has since 1970 recorded an upward trend in annual growth rate, except 1980 and 1998 (World Bank, 2016). After 1980s, South Korea has

been placed among the giant economies in the world. However, the biggest difference between South Korea and other OECD countries is the imbalance in its industrial development, especially the manufacturing and the service industries. The manufacturing industry has for long been flourishing as compared to the ever struggling service industry in South Korea.

Over the years, the government has not created an enabling environment that could lead to innovativeness in the service industry. It is this imbalance that calls for the combined effort of the South Korean government and private players to develop the service industry.

The country's per capita income is already at peak and, thus, there is less room for expansion than contraction. Because of this exhaustion, there is a need to change to increase economic dynamism. Some of the reasons for developing service sector include the following.

Manufacturing Industry Are Already Operating at Full Capacity

The South Korea's manufacturing industry is doing so well that there may be little or no room to develop the service sector. South Korea's manufacturing industry boasts of production of products such as automobiles, mobile phones, steel, electronics, and much more. This has already stretched the economy to full capacity making it almost unnecessary to introduce more sectors

in the economy. All the available manufacturing sectors have already been exploited and there is little improvement to expect.

It is such an inelastic nature of the manufacturing industry that now turns attention to the service industry. It is common knowledge that manufacturing industries are coincidentally accompanied by enormous services with them. It would, therefore, mean South Korea is outsourcing many of these services which might prove expensive with time. The above reason plus the urge for a balanced economy points to the inevitable need to develop the service industry. With export accounting for about 50% of the Country's GDP and the composition being the manufacturing sector which is at its highest point. In addition, in the long run, it is necessary for South Korea to exploit other sectors and not rely solely on manufacturing (Emmott, 2010). The table below shows exports in million dollars as from 2011 to 2015.

Table 2 (South Korea's Export (Goods) in Million)

Year	Goods Exported
2011	US\$ 587,099
2012	US\$ 603,509
2013	US\$ 618,156
2014	US\$ 613,020
2015	US\$ 548,837

Source: OECD, 2016.

Service Industry Underutilized

The one-sided focus on the manufacturing sector has led to the service industry being forgotten. As a result, the service industry is not fully exploited. Given the performance of the manufacturing sector which is highly prosperous, it is expected that the service sector does well too. The service sector has performed dismally to the extent that economists feel that the sector is a liability to the economic productivity. The sector has recorded declined performances since 2002. Research indicates that labor productivity of the service sector compared to manufacturing is on the decline from 62% in 2002 to 47 % in the year 2012 (OECD). This decrease has placed South Korea in the lowest pyramid of the OECD indicating that it's not at a full capacity. With the population structure changing, it is estimated that the majority of the populace will be aging. An aged population requires more services and, hence, there is the need to invest and put more effort in the service sector. The current data indicates that in 2015, service export amounted to USD \$97,877 million against the expected USD \$113,585 million. This is a true reflection of how much service industry within the South Korea is underutilized. The table below shows service export for the last five years in million dollars (OECD).

Table 3 (South Korea's Export (Service) in Million)

Year	Service Exported
2011	US\$ 90,900
2012	US\$ 103,533
2013	US\$ 103,739
2014	US\$ 112,105
2015	US\$ 97,877

Source: OECD, 2016.

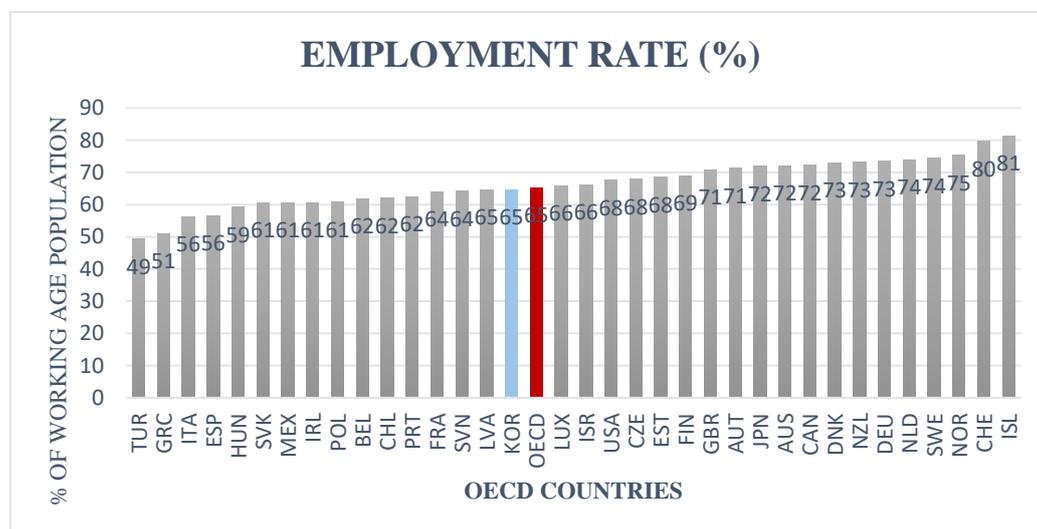
From the above table, it is evident that the service sector's performance in South Korea has been on the decline for the last few years. The underperformance in service is an opportunity that South Korea can take to increase its economic fortunes.

Growing Level of Income Inequality

Income inequality leads to such factors as underutilized capacity and the risk of economic crashing should anything happen to the relied-on-sector. Based on such facts, because of increased level of income inequality in South Korea, there is hope for service industry to help streamline the economy through proper income distributions. If the economy is diversified to a more balanced economy between manufacturing and service provision, the poverty relativity will also reduce. This is because a more balanced economy utilizes production factors from across board leaving no idle or underutilized capacity. With the

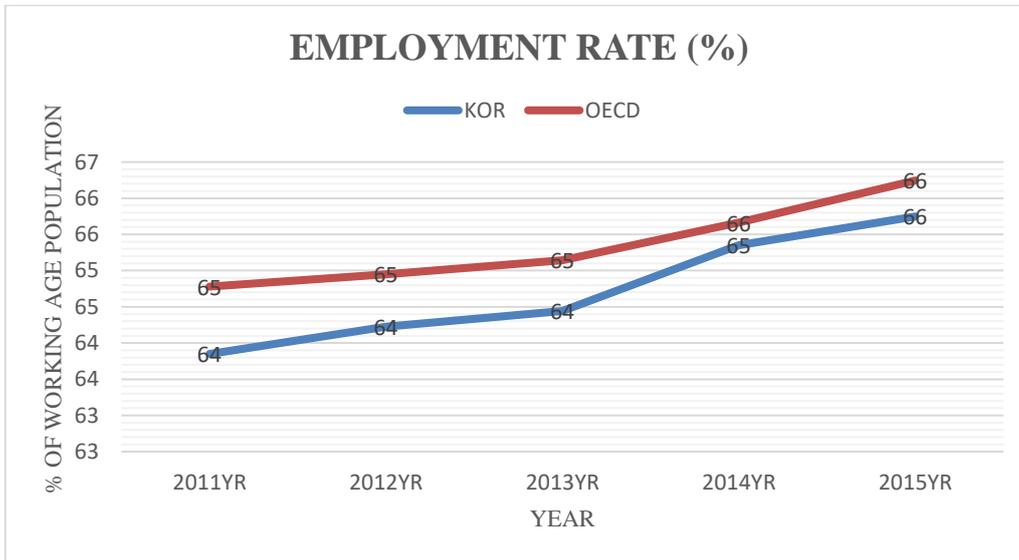
diversification of economic sectors, many benefits will help to drive the economy. Expanding the scope of service sector will create employment. Moreover, it will generate revenue to the government, and in addition, it will increase a balance of trade. The effect is an increase in GDP and, thus, remaining competitive (Grosso et al 2015). The graph below compares the percentage of working age population of South Korea versus the average rate of OECD countries. The percentage of working age population in this context refers to people aged 15 to 64 in the workforce. South Korea has still low employment rate in compared to other advanced countries; therefore, it is vital to extent available labor resources.

Figure 3



Source: OECD, 2016

Figure 4



Source: OECD, 2016

2.1 The Future Role of Services to the Korean Economy

Looking at the global service contributions to various economies, it is indeed a noble course for the South Korea to put more emphasis to the service sector. It will become the source of employment and, thus, economic prosperity. It is important to note the fact that countries like Italy and France do well in terms of services export yet they fall below the South Korea's global export ranking when it comes to goods. Other countries such as Japan, China, and the United States of America do have a lot of service exportation and this is a major contributor towards their GDP.

Because South Korea's manufacturing industry is already at its

maximum point, it becomes difficult to make any meaningful impact on the GDP even if it were to be improved. The only way South Korea can have huge impact on their GDP and the global competitiveness is not only to diversify their economy to avoid reliance on manufacturing but also to include service industry on a larger scale. More people will be employed if the service industry is expanded (Oh, 2015).

One of the first steps towards service industry improvement is to reduce barriers towards the trade. The government has always regulated and put stricter policies towards distribution services and this has led to poor contribution towards the economy. Limiting operations for the large scale retailers for instance has created loss of job and has also reduced profit margin.

2.2 Market Liberalization

Market liberalization allows trade to take place freely without interference. Extreme government meddling often hinders free flow of factors of production. It inhibits entrepreneurship within the country. In a situation where government liberalizes economy, more people or entities are willing to start businesses. New firms require human resources to run and, hence, serve to eliminate unemployment. Newly started companies further make good use of existing resources which serve to increase the GDP. The market liberalization

began in 1980 when the government started to abandon some of the unfavorable policies. It, however, sped up in 1990s when government introduced market based exchange rate. The government also in 1992 partly liberalized the capital market by allowing a number of foreigners to invest. A liberalized market has the potential of increasing economies of scale and fostering management efficiency. In addition the liberalized encourages innovation and competitiveness (Cho and Koh, 1996).

2.3 Distribution Industry Act

The regulation is meant to protect the traditional retails herein referred to us as traditional Shi-jang. In this connection, the Distribution Act is meant to contain the operation of supermarket (SSMs) and large scale retailers. Any retailer operating on a 3000 squared meters and above qualifies as large scale retailers and those often engage in retailers selling electronics, food, and electronics. Supermarkets, however, are larger than small scale retailers and operated by conglomerate. The Distribution Act allows local government to conduct shutdowns as they may find it necessary to practice. To achieve this objective, the Act in its articles imposes fines that ensure that the large scale retailers and supermarkets oblige to compulsory shutdown. For stores that disobey the shutdown order three times a year, the Act provides business

suspension. The affectivity of the Distribution Act is also strengthened by the municipal ordinance that ensures the shutdowns are implemented. The Distribution Act has been applied to restrict operating hours, weekend shutdowns, and to entry regulations. The retailing sector often had been under instruction to operate from 8 AM to 12 AM as in 2012. The same, however, changed to 10 AM to 10 PM in the year 2013. The Distribution Act also directed the large scale retailers to close two days a month, and that would be the second Sunday and the last Sunday of the month. This temporary shutdown, is under a government review, to be increased to three days a month in 2013 as a way to improve the welfare of the employees. The temporal shut down is, however, underway to extend it to four days in a month going forward. The Distribution Act also specifies the entry requirements before establishing large discount stores and supermarkets. In specific, large scale retailers under Mutual Cooperation Act are allowed to establish their firms 3km away from the traditional Shi-jang. The supermarket, however, should maintain a radius of 500 meters away from traditionally operated Shi-jang retailers (Park and Shin, 2012). Due to this Distribution Act and Mutual Cooperation Act, the large-scale retail shops' profit dramatically decreased year on year. As shown in the Table 4 and Figure 3, large-scale retailers had 2.9 of profit in 2011 and started to decrease from 2012, in the year when the government regulations were enforced. However, due to their

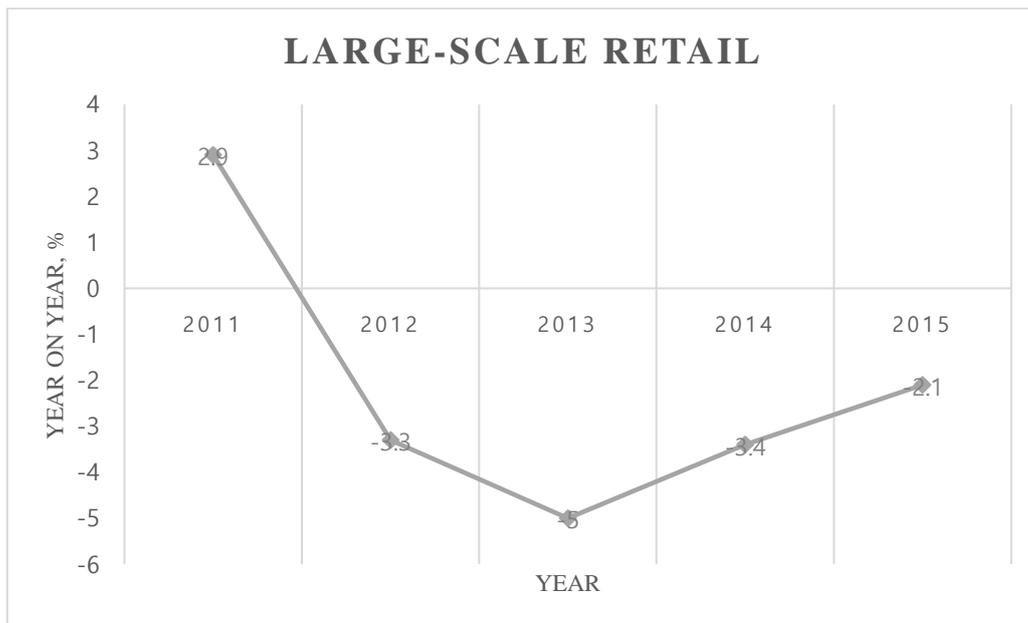
incomparable services provided from large-scale shops, large-scale retailers' profit is escalating from 2014 once again.

Table 4

Market Size	2011	2012	2013	2014	2015
Large-Scale	2.9	-3.3	-5	-3.4	-2.1

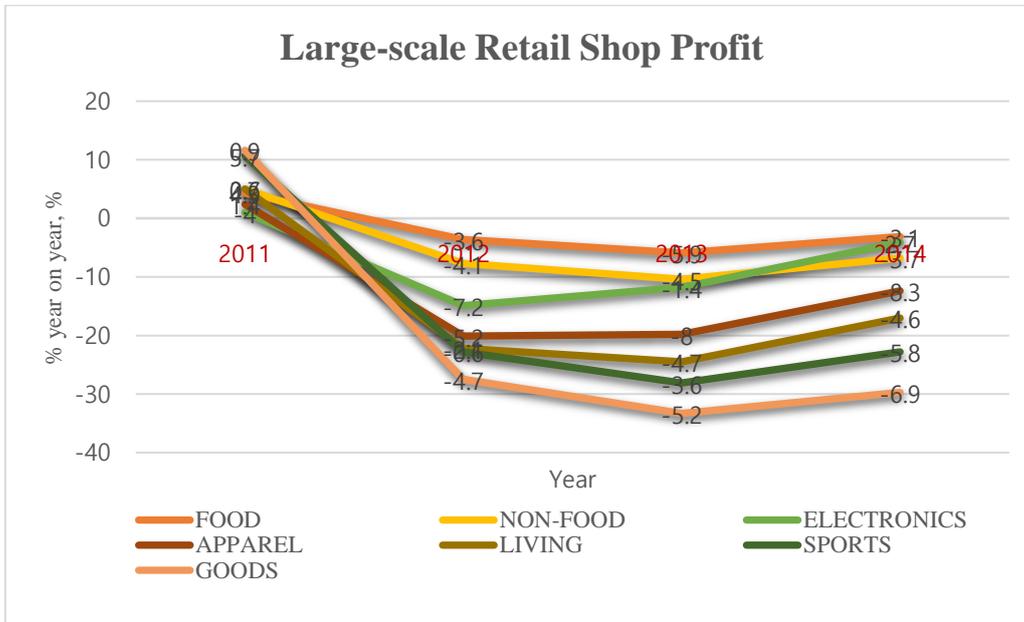
※ Year on year percent elongation, measured in %

Figure 5



Source: 산업통상자원부 「주요 유통업체 매출동향」

Figure 6



※ Profit scaled for each category

Source: 산업통상자원부 「주요 유통업체 매출동향」

2.4 Distribution Problems

Until the 1990s, the retail distribution sector had been represented as one of the most backward lagging and the least productive sector as well in Korea. However, global developments have seen Korea transform the sector to be among the most formidable forces in the retail industry in the world. It was after joining blocs such as the World Trade Organization (WTO) in 1996 that sparked the bright moments of the sector. Through joining the WTO, Korea implemented the General Agreement on Trade in Services (GATS) and eventually from the effects

of the implementation, rose to the OECD.

After these changes, Korea was committed to lead liberalization in the retail industry. Some of the immediate changes were that multinationals were allowed to operate businesses or buy land in Korea for the construction of stores without the limitation which used to be there. Further, multinationals could operate as many stores as they could manage. For example, Outlets, Duty Free shops and foreign-owned large-scale retailers such as Ikea, are still excluded from the business hour restriction and mandatory holidays. Whereas as per the General Agreement on Trade in Services, there should be no discrimination on trade, the shutdowns particularly on weekends.

It is a fact that consumer is often referred to as the “king” of the decision. Distribution Act has worked against the principle as it limits consumers’ sovereignty - the right to choose among variety of choices conveniently and at any time. When large scale retailers are closed during certain periods, consumers are denied the access to variety of goods and services. They are also forced to dig deeper into their pockets as there are a few firms open that could take advantage of the many customers. The Act further limits fair competition as it allows other firms to operate while restricting others’ operation.

The distribution service is also faced with waste management problems;

the government of South Korea has strict policies regarding the use of the waste according to Wastes Control Act of 1986. The retail sector is crowded and this is yet another problem that drags the growth of distribution services. This crowding effect makes entry into the sector very difficult with the South Korea. The traditional Shi-jang retailers suffer a lot of stiff competition from large scale retailers and this makes them vulnerable to losses, eventually leading to their closure.

The liberalization process took place in three different phases. The first one came in 1989 when the Korean government opened wholesale and distribution technology industry. In 1991, another change took place with the retail industry being opened up with a maximum of 10 stores which had a maximum of 1,000 square meters or less of floor space for multinationals. Finally, in 1993, the limit of outlets per company was increased to 20 and floor space increased to 2,000 meters for each store. The above changes created quite a problem for local small scale retailers as the competition became too much for them to bear. The government had tried to control the issue through the opening of state-owned corporations to stabilize the local small scale and traditional market, which was not successfully occurred as a result. The multinationals offered a wide variety of products all under one roof from where the customer could shop at once, enjoy the services that they provide which are great and the

environment is very comfortable. Also, their low price strategy was supported by their economies of scale hence there was no point of people going to a traditional market.

Also, increasing the floor space coverage from 1,000 square meters meant the small scale retails cannot compete for space with the well-financed multinationals which had huge amounts of money at their disposal for investment. Some discount stores enjoyed up to 3,000 square meters of space and to acquire such spaces, some small retails had to be chased away to create space. Rent rates equally went up for at least there were market players who could afford to pay the huge rents. Economies of scale enabled the SSMs operate comfortably even when charged such rates, unlike for the small scale enterprises. The net effect was to kick out small scale enterprises out of some regions.

Since liberalization process took place, companies have been growing through mergers and acquisitions and some have grown to the extent of imposing market entry barriers to new entrants, e.g. E- mart. The market is becoming more than liberal since individual companies are more of controlling the market. Such actions represent a legislation lag from the government to control the unfair competition from some players. The more the Korean government fails to impose healthy regulations on the sector, the more the damage in terms of small retailers

being pushed out of the market by the financially muscular discount shops and SSMs. Given the close cultural ties the Koreans hold, this may mean more customers are shifting away from retail shopping for they prefer culturally displayed items which many multinationals don't take into consideration. The Supermarkets have served as best strategy that aims to drive away the traditional markets (Ministry of Land, Infrastructure, Transport and Tourism).

2.5 Legal Cases

South Korea Retail Market vs Foreign Retail Market (Walmart and Carrefour)

The South Korean retail market has been very competitive and has grown to maturity levels. The fierce competition from the local retailers backed up by the Korean government has created a hostile environment for foreign retailers to survive. On the same, there is a significant consumer power given the purchase habits of Koreans who prefer quality and culture to pricing. It was under such conditions that Wal-Mart and Carrefour from the UK withdrew their services from Korea. The retail environments did not give the space and time required to achieve the optimum growth levels. Culture was at the core of their inability to coexist. For example the failure to provide eye-catching displays in outlets, focusing on food and beverage sections, and positioning strategically near to urban areas (Sung 2008) proved key to their failure.

South Korea Retail Market vs Foreign Retail Market (Costco)

In October 2012, Costco, one of the many international retailers who had opened operations in South Korea after the liberalization in 1996 was aggrieved by the government's effort to protect local small scale retails through imposing legal restrictions on operating hours after regulating Distribution Act policy in 2012. However, the Seoul Administrative Court ruled in favor of the government that the restrictions on the operating hours should remain imposable as against the wish of the Costco's Yeongdeungpo-gu Office which called for the lifting of restrictions on its operating hours. The court maintained that the restrictions which mandated the closure of discount stores by three district offices in Seoul were valid.

Costco filed a petition against the districts in October 2012, claiming that the ordinance was discriminatory. The court ruling further stated that all the large scale discount stores and the super supermarkets be closed on two Sundays ever month. This would also help the workers have enough time off, added the ruling.

The ruling did not stand for long as big supermarket chains e.g. E-Mart, Lotte-Mart and Home Plus filed lawsuits with the local courts in early 2013 against the mandatory closure and received favorable rulings. The court rulings agreed there were procedural errors on the previous ruling and the government

agreed to correct the errors in more than 25 business districts.

Traditional Market vs Conglomerates

In many of the cases involving traditional markets and conglomerates, the outcry of the players in the traditional market was on infringements of rights by the powerful foreign large scale discount shops. The traditional market players lamented also the increased rent fees arising from the presence of the conglomerates who were willing, ready and able to pay high rents provided; they get a space for running their businesses inconsiderate of the small scale counterparts who did not have the financial ability to match the high rent fees. For example, some conglomerates, however, adapted to the hostility through working together with the traditional markets. For example, Tesco and Costco remain and survived as large-scale retailers in South Korea up to the present. Both retailers have survived to penetrate the market through mergers and acquisitions. Tesco, for example, achieved speedy adaptation through a joint-venture with Samsung Corporation to launch Homeplus chains. Costco, on the other hand, has survived through sourcing American products for Korean market in the warehouse format. However, both of them are considered as a “domestic store”, which means that they are also applied to the Distribution Act policy.

Local Retailers vs The Government

After the liberalization process in 1996, the S. Korean business environment became lucrative for more foreign direct investments (FDIs). As a result, to cushion the local retailers, the Korean government added two more special acts. It added the provision in its revision of the law in November 2010 that the local government can build a protective area for the local markets where both the establishment and the operation of the discount shops and SSMs can be restricted (Moleg, 2011). As if this was not satisfactory, a further provision to curb the operation time and days of SSMs was introduced in 2012 (Moleg, 2012).

2.5 Overseas Case Study

Germany

The government of Germany had policies that would limit the access of large stores should there be sensed to be a 10% decrease in small scale retail operations leave alone the actual decrease occurring (Ricadela and Rach, 2014). Before they could enter the markets, large-scale outlets would wait for a minimum of 8 months to get approval and they would be well informed of zoning should they get the approval. Besides, Germany had had restrictive rules, named Shopping Closing Act which affected retail operations greatly. For example, before 2006, shops were allowed to operate every day except every Sundays as

per 1956 law and during the weekdays, they could open from 7:00am to 6:30pm and up to 2:00pm on Saturday (Ricadela and Rach, 2014). That changed in 2010 when liberalization was introduced and every state was granted authority to formulate its own operating time from Monday to Saturday except Sundays (Shopping Hours in Germany, 2016).

Japan

The Japan case was much similar to the South Korean; the operation of retailers was restricted. However, much caution was practiced before allowing any entrant into the market. It would take a whole year to get legal approval to enter the retail market in Japan. As from 1937 the regulation through the Ministry of Economy, Trade, and Industry, departmental stores with a floor area of more than 1500 square meters were prohibited from commencing operation without an approval. There were also regulations not to allow large-scale retailers build outlets on agricultural land close to the outskirts of cities. All these regulations served to ensure that the presence of large-scale outlets didn't immensely affect the small scale retailers. After 1974, the law on large stores came in and allowed the Ministry to assess the effect of new stores on small and medium enterprises.

France

The small scale retailers have experienced slow growth as compared to

hypermarkets that have grown with time. The supermarkets have too experienced tremendous growth. Shops are mostly closed during holidays and Sundays. In France, the retail business is mainly regulated through Mutual Cooperation Policy. There is restriction on distribution of professional services. The policy reduces hostility among the different market players. Medicine can only be supplied by professional. Price regulation is usually on certain commodities too.

There are three policies that were enforced in France. 1) La loi Royer of 1970 demands that there is a special permit for businesses occupying more than 1,000 square meters in towns with fewer than 40,000 residents (Allain, Chambolle and Verge, 2009). 2) Raffarin regulation which required retailers wishing to open stores of more than 300 square meters in surface area to obtain authorization from a regional zoning board (Allain, Chambolle and Verge, 2009). Lastly, 3) Galland which prohibited the French retailers from passing various supplier discounts on to their customers, thus, keeping prices artificially high in order to protect small stores from “unfair” competition (Boutin and Guerrero, 2008). The French have always battled the restricted shopping hours to 9:00 PM as opposed to 10:00 PM. Traditionally French shops would not operate on Sunday; however, this has since changed (Jacinto, 2013).

3. Suggestions for Improvement

The shutdowns are not the best way to regulate the market. Although constitution allows the government to come to the rescue of the economy in times of difficulty, the government should allow the economy to allocate resources fairly without interference. Free economies, where factors of production are allocated fairly, often create flexible economic conditions. Buyers and sellers can easily interact in the free market economy where prices and quantity are determined by market forces of demand and supply (Poulson, 2007). Thus, there is the urge to have the service sector operational for all the economic benefits discussed above. In order to achieve the best from the sector, there has to be a paradigm shift.

Restriction, furthermore, interferes with consumers' sovereignty to choose among variety. The government must analyze the legal purpose of the any policy to ensure it creates healthy working environment as stipulated in the constitution. The compulsory shutdowns contravene the constitution as it does not create balanced growth and economic stability. Furthermore, it does not aid proper distribution of resources. The Shi-jang retailers can learn to catch up with the large scale retailers by obtaining feedback from customers so as to come up with the right product that meets customer specifications. It is yet becomes

necessary in ensuring that Shi-jang improve their quality to ensure they meet customer expectation. (Cho Koh, 1996).

In addition, borrowing some lessons from Germany's service sector, South Korea should consider balancing between regulation and liberalization of the retail market which led to too much deindustrialization and underemployment in services. Germany on its side implements regulation as early as at the entry point to the markets. An approval will take more than 8 months in Germany while in South Korea the situation is the opposite with firms entering at will, it usually takes only 1 month to get the approval in South Korea. This is what caused the heavy competition that almost suffocated the local retailers leading to panic reaction of heavy regulations as well. The heavy regulations didn't go well with the large scale foreign discount shops with some closing business, such as Carrefour. Closure of business through government meant loss of employments, lack of consumer's freedom to choose whatever outlet they want etc. the exit was quite a great dent to the sector and one that the Korean government could have controlled through proper planning beforehand.

In addition, compared to Germany, South Korea spends less on R&D projects as well low investment in ICT. Through research and development, the Germany government has been able to identify what the consumers want and

they have tailor made their services to meet those specific needs. Also, further researches have enabled the government and all other service sector players remain speculative of any changes that might have occurred with potential to change the sector fortunes. That way, the sector has survived even hard economic times through preparedness. This is a big learning point for Korea to increase its overall expenditure as far as the service industry is concerned. There is need for more ICT engagements in the sector to achieve sustainable growth in the sector.

South Korea can as well decide to enforce specific regulations in advance to foreign large-scale retailers. Such a strategy combined with a policy not to seek rent from among the local retailers could act as a catalyst for the growth of the distribution sector. Shielding the local infant firms and creating favorable business environment would be key to the growth of the sector.

4. Limitations & Conclusion

The government of Korea has of late decided to play its role in the development of the domestic retailing industry as the manufacturing industry. The government nurtured the manufacturing industry to the extent that the local manufacturers were able to compete with other manufacturers throughout the world. The economy is ranked 5th within the world and its products are competitive around the world, thus, creating brand name. The retailers in Korea

have been caught in a situation between the powerful Korean manufacturers and foreign retail competitors who have developed the muscles to compete over the years through going head to head with world-class retailers. The choice by the government to use the manufacturing sector for aggressive economic might have not been good to the retail sector. Local retailers have been receiving heavy competition from the well-established international retailers and had suffered from various difficult situations.

The history of retail sector regulations has always been in favor of traditional markets that have family background. The government policy on the shutdowns is not the best choice government involvement in business that serves to create economic imbalance rather than balanced economic growth. The regulation began long ago and several changes have been done to reduce government involvement. However, in fact, it is difficult to control both markets in fair condition. In addition, South Korea seems to be reluctant in repealing or amending the Distribution Act to allow free market. Some countries like Japan, France, and Germany have, however, changed their stringent policies on retail operations. Because of this constant government regulation in retail sector, it's been hard for the large scale retailers to expand and achieve fully operations. Consumers too have not been spared; their ability to choose without limitation has been impaired. It would be important for the government to reevaluate its

policies on the retail sector in order to encourage the growth of distribution services.

Furthermore, the resulting government involvement has already led to some foreign investors exiting the market a situation which is equally harmful to the sector. Through such exists, unemployment rates have increased, loss of government revenues through lost taxes etc. are some of the detrimental impacts of the government involvement. Therefore, it is upon the government to balance between its involvement in the name of shielding the local retailers and at the same time not harming the foreign companies.

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