

Unclassified

**TD/TC/WP(99)41/FINAL**



Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

**OLIS : 29-Sep-2000**  
**Dist. : 02-Oct-2000**

**Or. Eng.**

PARIS

**TRADE DIRECTORATE  
TRADE COMMITTEE**

**TD/TC/WP(99)41/FINAL**  
**Unclassified**

**Working Party of the Trade Committee**

**ASSESSING BARRIERS TO TRADE IN SERVICES: RETAIL TRADE SERVICES**

**95964**

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## **ASSESSING BARRIERS TO TRADE IN SERVICES: RETAIL TRADE SERVICES**

### **I. Introduction**

1. This note has been prepared in the context of the ongoing project of the Trade Committee Working Party to assess barriers to trade in selected services sectors. It follows the same organisation as its counterpart paper on wholesale: definition and classification of retail activities, economic importance and structure of retail, international business in retailing and barriers affecting retail activities.

2. Retailing raises interesting issues in the GATS context. There is little doubt that there are substantial barriers limiting international business in retail. However, at least initially, these barriers have often been framed in a non-discriminatory manner: they have been triggered by concerns about adjustments between different kinds of domestic retailers (large stores vs small stores) not by international competition. Such barriers can thus be cast in terms that do not necessarily fall under GATS Art XVI (market access) or XVII (national treatment); however, GATS disciplines on domestic regulation (Article VI) may be relevant.

3. The most significant mode of supply for international trade in retail services is commercial presence (mode 3) - cross border supply tends to be less important, except for non-store retailing such as mail order. A number of horizontal and sector-specific barriers apply for mode 3 retail, in particular restrictions on a key input of retailing: commercial land. Their enforcement in the past has considerably influenced the prices of commercial land (an economic phenomenon quite similar to the shaping of the prices of farmland by agricultural policies in many OECD countries). As a result, the withdrawal of these barriers will not be followed by immediate changes: adjustments will require changes in the prices of commercial land which "embody" these barriers. The liberalization process will thus take time, all the more because consumers' tastes and reactions differ enough between countries to oblige retailers to be cautious in their international business. These economic realities suggest that there will be constraints on speeding up liberalization of retail services.

### **II. Definition and classification**

4. The Services Sectoral Classification List (MTN.GNS/W/120) developed during the Uruguay Round defines "4. Distribution Services" as: "A. Commission Agents' Services"; "B. Wholesale Trade Services"; "C. Retailing services" "D. Franchising"; and "E. other". For "retailing services" the corresponding Provisional CPC classifications are 631 (food retailing services) + 632 (non food retailing services); 6111 (sales of motor vehicles) + 6113 (sales of parts and accessories of motor vehicles) + 6121 (sales of motorcycles and snowmobiles and related parts and accessories). The CPC Rev 1 subsequently classified retail outlets by type of shops instead of by type of goods.<sup>1</sup> CPC Rev 1 "Division 62 Retail Trade Services" is divided into "621 non-specialised store retail trade services" (including supermarkets and department stores carrying a wide range of new or second hand goods displayed on racks or shelves

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<sup>1</sup>. *Source:* WTO Secretariat S/CSC/W/9 of 9 October 1997 "A Qualitative Assessment of the Relevance of the Changes Resulting from CPC Rev 1 for Trade Negotiating Purposes".

for the customer to make their own choice and carry up to the cashier to make payment), "622 specialised store retail trade services" (including stores carrying a narrow range of related new or second hand goods and where assistance is often provided to the customer by the sales staff or owner), "623 mail order retail services", "624 other non-store retail trade services" and "625 retail services on a fee or contract basis" (i.e., commission agents).

5. The WTO Secretariat notes that the distinction between wholesale (sales to retailers, to industrial, commercial, institutional or other professional business users, or to other wholesalers) and retail (sales for personal or household consumption) is not always clear as many firms perform several functions and manufacturers can also perform distribution.<sup>2</sup> Indeed, the borders between retail, wholesale and production have always been fluctuating, depending on the economic conditions of the time and on the individual decisions and strategies of the firms. Firms are continuously integrating or "disintegrating" (downwards or upwards) activities, either directly or indirectly through contracts which amount to sophisticated "quasi-integration" devices. For instance, Promodes (France) is a wholesale firm which has expanded its activities downwards (to retail) directly through its own large scale outlets (supermarkets or hypermarkets) and indirectly through providing logistics to many "independent" retailers. Conversely, Carrefour is a retailer which has integrated certain wholesale or production (through "own-brand products") activities in order to enhance its profitability. These fluctuating borders also involve services used by retailers, as well as services produced by retailers. For instance, Leclerc has "disintegrated" its trucking activity, and sub-contracted it to specialised firms, whereas during the last decade, many retailers have entered banking or other services.

6. Of course, such decisions take into account the legal and economic environment and firms can take different decisions in different countries. For instance, there is little choice for an automobile firm in Europe except to build a retail network, and to integrate it, whereas in the U.S., there is the choice (at least, for the upper end of the market) between building a retail branch or turning to car-dealers.

7. This brief overview of the variety and flexibility of firms' decisions about vertical integration related to retail activity suggests that no classification will be appropriate to all situations encountered by firms in the OECD countries (a fortiori, in the world). Changes in technology are likely to make this conclusion even stronger because retail firms will adapt differently (and often rapidly) to these changes, according to their assets and strengths. The current CPC classification ("retailing") seems to cover the battalions of small or medium size retailers which still constitute an important part of the sector, and grasps the retail activities of the large firms (most retail firms are structured in such a way that it is easy to separate their retail activities from their non-retail activities).

8. The following text relies on three assumptions.

- (i) It treats differently car distribution in the various countries covered: this activity is excluded from the European description of retail, while it is included in the U.S. case. This is due to the current situation in terms of data (but, as said above, it has also an economic rationale). Our perception (based on the expectation that the U.S. system of car-dealers will emerge in Europe, once the EC car market becomes fully integrated) is that it would be useful to get data harmonisation so that this sub-sector could be incorporated in retail.
- (ii) It leaves aside "retail" pharmacies in the description of retail economic activity, again because these are not always covered by national data. But, it includes retail pharmacies in the description of barriers (when needed) because there are specific barriers at this level.

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<sup>2</sup> Source: S/C/W/37 of 10 June 1998 "Distribution Services: Background Note by the Secretariat".

- (iii) It also leaves aside “franchising” for statistical reasons (the quality of data varies according to countries). But there is also an economic reason for doing so: franchising is a way to create a firm which could be (indeed is) in manufacturing as well as in distribution. In fact, many franchisees produce more than pure retail services: they often contribute to production *per se*.<sup>3</sup>

### III. Economic importance and structure

#### *United States*

9. Retail services accounted for 8.8% of GDP of the United States and 17.4% of employment (21% of private non-farm employment) in 1997 (see Table 1). According to the latest available US census of retail trade, the number of retail establishments was 1 526 215 in 1992, with an employment of 1 840 7453 persons and annual sales of \$1 894 880 209 000 (see Table 2). In terms of number of establishments, eating and drinking places accounted for 28% of the retail sector, followed by miscellaneous retail (20%), food stores (21%), apparel and accessory stores (10%). In terms of number of employees, eating and drinking places ranked number 1 with a share of 36% of all retail employment, followed by food stores (16%) and general merchandise stores (11%). Automobile retailers generated 21% of retail sales, while food stores represented the second and general merchandise stores the third largest sub-sector. Not surprisingly, the automobile retailing sub-sector was by far the most productive measured in terms of sales per employee (almost US\$ 312 000).

10. According to the McKinsey Institute, the United States has a highly volatile and one of the world’s most competitive retail industries.<sup>4</sup> U.S. retailers have become highly efficient at the fundamental elements of retailing, (such as sourcing, logistics, and merchandising) and have developed the skills necessary to provide services such as credit card financing, installation and repair, or systems integration services. While the US real GDP grew from 1992 to 1997 at an annual average rate of 3.1%, the real gross product of retail trade increased at an average of 5.6%. Annual per cent changes were the following (the respective GDP increases of all US private industries are in parentheses): in 4.0% in 1993 (2.3), 6.2% in 1994 (3.5), 4.2% in 1995 (2.3), 6.3% in 1996 (3.4) and 7.2 in 1997 (3.9).

11. Tables 3 and 4 show the concentration of retail establishments and structure of the U.S. retail sector, while Table 5 contains summary statistics for retail establishments.

#### *European Community*

12. Table 6 indicates that there are roughly 3.2 million of retail firms (three times more than in wholesale) in the EC-15 economy, with the EC clearly divided in two groups of countries. Eight Member states have a higher number of firms per inhabitant than the EC average (8.6 firms per 1 000 inhabitants). This structure is likely to reflect a survival of the established retail structure (based on small and scattered shops) for three possible economic reasons: a lower level of per capita GDP (Greece, Italy, Portugal and Spain), a concentrated population (Belgium, Denmark, Finland, and Luxembourg), and, as shown below, regulations biased against the emergence of large stores. Seven Member states have a lower number of firms than the EC average: all of them (except Ireland) have a higher level of per capita GDP. It is

<sup>3</sup>. Franchising is listed under "Distribution Services" in W/120 (with corresponding CPC code 8929 - other non-tangible financial assets), but is part of Section 5, Division 51 "Intangible Assets" in CPC Version I.O.

<sup>4</sup>. The McKinsey Quarterly, 1996, Number 3.

interesting to note that the first subset of EC-15 Member states is relatively close to the Japanese average, whereas the second subset is relatively similar to the U.S. average.

13. The retail sector is an important part of economic activity, with a turnover of 1.4 trillion ECUs. As is well known, it is a labour intensive sector: its labour force amounts to 12.9 million people compared with the 33 million people employed in EC-15 manufacturing (39%, compared to roughly 30%, in terms of value added). Relating the number of employed people in retail and in industrial activities by EC Member state gives a sense of how many people will be affected by liberalisation in retailing (compared to how many have been by liberalisation in manufacturing). There are, again, wide differences between EC Member states. For instance, there is much less labour affected by liberalisation in retail services (compared to manufacturing) in Germany or Portugal, whereas workers affected by liberalisation in retail services represent half of those involved in industrial liberalisation in Britain or France (and an even higher proportion in Greece). It should be noted that these differences do not match the two-subset picture coming from the number of firms: hence, the forces favouring or opposing liberalisation in EC retail are quite complex.

14. Table 7 presents the breakdown of retail firms by main sector of activity. It shows another quite different structure of retail firms among the EC-15 Member states. As could be expected (if one relates a lower level of per capita GDP with a higher income share devoted to food products), EC Member states with a relatively large number of firms per inhabitant and a relatively low level of per capita GDP are characterised by a concentration of retail firms in food products, whereas countries with a relatively large number of retail firms and a high level of per capita GDP exhibit a concentration of food retail firms quite similar to the group of Member states with a number of retail firms per inhabitants lower than the EC average. However, this broad correspondence is not always verified.

15. Table 8 focuses on retail services as a source of employment, and suggests three observations. First, Member states with a “modern” retail industry show a quite high share of salaried workers, close to the level which can be observed in manufacturing. Second, retail services tend to be provided more by female workers in the Member states with a modern retail sector but by male workers in relatively low income Member states. Third, retail services have a relatively intensive use of part-time workers: in five Member states, part-time workers represent more than one-third of the labour force.

#### *The structure of the retail industry*

16. Many of the above observations suggest that retail services in the European Communities are provided by very different “industrial” structures, depending upon the level of development, the demogeographical pattern of the country, and the policy followed. A key aspect of market structure is the level of concentration. Table 9 provides information on the number of retail outlets, including the average number of retail outlets by firm which is a first indicator of the level of concentration (it has the advantage of including large firms networking “mom & pop” shops). Table 10 provides other indicators of the level of concentration, focusing on modern retailing based on large stores (super- and hypermarkets). It also highlights an important difference between French modern retail and other EC modern retail: the percentage of food business is higher in French-based hypermarkets (which dominate France, Spain and Portugal) than in other EC Member states. It remains to be seen whether this technically important feature will play a role in international competition.

17. A further indication of concentration can be drawn from data referring to specific goods sold (food, clothes, furniture, etc.). For the largest market - the food retail market - the combined market share of the 10 top retailers is roughly 78% in the EC -- most of the Member states being relatively close to this level, except Greece, Portugal and Spain (60%) and Italy (30%) (M+M Eurodata as quoted by CA-I-C,

1999). Member state food retail markets can be described as "national oligopolies." However, the structure of these oligopolies differs noticeably -- from a handful of national firms in Britain or France to more numerous and regionally-based retailers in Germany, and from a strong presence of co-operatives in Germany to a more modest share in France. The existence of such marked "national oligopolies" after forty years of Common Market will be examined in section V because it provides lessons about what barriers and liberalisation mean in retail and their relevance for the GATS.

### *Central European countries*

18. As of 1997, Central European countries (CECs) had a fragmented retail industry (due to the almost total absence of modern retail under the centrally-planned regime and to the fact that this retail structure had only recently been privatised). For example, there were approximately 25, 18, and 12 stores per 1 000 inhabitants in the Czech Republic, Hungary and Poland, respectively (compared to the EC average of 8.6 in 1993).

19. CECs have been rapidly perceived by large store retailers (particularly from Western Europe) as offering growth opportunities equivalent to those offered by Spain twenty years ago. By 1997, the top ten retailers held 53% of food sales in Hungary (close to the EC average, but based on a different mix of supermarkets and shopping centers), 16% in the Czech Republic, and 2% in Poland. The corresponding figures for total (food and non-food) sales were, respectively, 25, 11, and 1.5%, indicating that the non-food sector remained slightly more fragmented. These figures are likely to increase rapidly with many ongoing constructions of large stores (alone or integrated in shopping centers). Most of the top ten retailers are from the EC (6, 4, 6 in the Czech Republic, Hungary and Poland, respectively) with Tengelmann, Julius Meinl and Ahold taking the lead. However, an initially Czech firm (Interkontakt) was by far the largest retailer in the Czech Republic and Poland in 1997.

20. However, since 1997, the retail sector in the Czech Republic has undergone significant internationalisation, and concentration, with a substantial growth in discount chains and hypermarkets, along with new firms entering the market (Kaufland, Carrefour, Interkontakt group, Tesco) and expansion by existing enterprises (Interspar, Globus, Pronto Plus). According to the Czech Government, while this has helped to modernise the retail sector, Czech companies have encountered difficulties in competing with the large financial resources of multinational corporations and the number of Czech companies among the top market players is limited. Interkontakt has lost its dominant position and the Czech food retailer Vit, another top ten retailer in 1997, terminated its activities in 1999.

21. The extent of growth opportunities will depend on the rapidity with which restrictive regulations on large scale business are introduced. Pressures for regulation could come from domestic large store firms which may feel they have insufficient financial capacities to face foreign competition (including to pay the skyrocketing prices for commercial land) and/or from foreign firms already established and willing to curb the pace of investments in CEC modern retailing.

### *Japan*

22. A prominent and frequently cited feature of Japan's distribution system is the large number of retailers and wholesalers compared to other industrialised countries. According to the Japan External Trade Organisation (JETRO), small and medium-sized stores continue to occupy the largest proportion of the retail industry despite the emergence of some large stores.<sup>5</sup> Compared with other developed countries,

<sup>5</sup> JETRO, Overview of the Japanese Retail Industry, [www.jetro.go.jp/Changing/1out.html](http://www.jetro.go.jp/Changing/1out.html). Factors mentioned by JETRO include regulatory framework, primarily the Large-Scale Retail Store Law, as well as the limited

there are fewer high-volume discount stores and retailers are supplied by a large number of wholesalers. Consumer product distribution in Japan has been characterised as vertically integrated and manufacturer-centred.<sup>6</sup> Deregulation and price competition, however, have resulted in extensive market restructuring and the degree of control exercised by manufacturers has declined both in terms of intensity and numbers of products. The dominant actors in retailing and distribution are now large-scale retailers, chain-store operators and franchisers. The rapid shift toward electronic transactions and the computerised integration of manufacturers and retailers suggest that this trend is intensifying.<sup>7</sup>

23. According to statistics released by MITI,<sup>8</sup> the gap between labour productivity in the retailing sector and of manufacturing has somewhat decreased during the period FY1997 to FY1998. While in FY1997 retailing labour productivity was 56.0% of manufacturing, in FY1998 this amounted to 57.2%. (See Table 11) In recent years, evidence has begun to emerge that significant changes may be under way. Sales through convenience, discount and chain stores, as well as direct mail, have grown. A recent report suggests that, as a result of the recession, a new group of chain stores - low price, high volume speciality stores dealing in household goods, furniture and, more recently, clothing - are emerging as major players in the Japanese market [*The Economist*, June 3, 2000, p. 75]. Performance of traditional department stores, on the other hand, has slumped since 1991. Since mid-1994, the sector has been characterised by falling prices, increased competition and reduced costs. The number of larger stores has risen due to the relaxation of entry barriers - according to the latest WTO Trade Policy Review of Japan<sup>9</sup> - motorization, diversification of goods and an increase in the number of complex stores.

24. In 1997, there were 1.42 million retail stores in Japan compared to 1.6 million in 1991, employing 7.35 and 7.0 million people respectively (Table 12). In 1997, 50% of all retail establishments (709 000 stores) employed one or two persons. (This figure compares with 54% in 1988.) These establishments employed altogether 1.15 million people, i.e. only 15.8% of all retail employees. In 1997, there were 3 185 large stores (of which 432 department stores and 2 753 supermarkets) compared with 2 291 in 1985. Annual sales of Japan's top 500 retailers in fiscal year 1997 represented 29.1% of the sector's sale. (Tables 13 to 15 show the structure of Japanese retail establishments and data for large stores. Table 16 contains the list of the Top 10 Japanese retailers.)

### **Korea**

25. In 1995, the Korean retail sector accounted for 11.7% of GDP. This share is lower than the comparable figures of 12.8% for Japan but higher than the 8.3% for Germany, 9% for the US, and 10.4% for France.<sup>10</sup> Retail companies and retail employees totalled respectively 759 000 and 1 548 000 in 1993, and 763 000 and 1 665 000 in 1997 (see Table 17).

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storage space in Japanese homes, the importance of fresh food in the Japanese diet that require frequent shopping trips, crowded urban areas, congested roads and expensive parking facilities.

<sup>6</sup> Veronica Taylor, *Global Access to Deregulated Market in Asia: Is Competition Policy The Key?* OECD document TD/TC/RD(96)9.

<sup>7</sup> Ibid.

<sup>8</sup> MITI, *Preliminary report of 1997 (4th) Basic Survey of Japanese Business Structure and Activities*, June 15, 1998 (Definite Reports)

<sup>9</sup> *Trade Policy Review of Japan*, Report by the WTO Secretariat, WT/TPR/S/32, 5 January 1998.

<sup>10</sup> *The Retailing of Manufactured Goods in Korea*, The Korea Chamber of Commerce and Industry Business Journal, March 1997. It should be mentioned that another Korean publication gives the same figure of

26. Korea's retail sector is reported to have the lowest productivity rate per employee among OECD economies. In 1995, Korea's labour productivity in retail was only 32% of that of the US.<sup>11</sup> The retail sector was starved of capital, resulting in companies which were below scale and inefficient. In addition, their performance was further hindered by regulations, zoning laws, that dampened competition.<sup>12</sup>

27. The Korean retail sector has traditionally been composed of "mom and pop" stores and conventional markets. Nine out of ten retail shops had fewer than two employees, with an average sales floor space of 10 square meters.<sup>13</sup> Korea had until very recently almost no modern retailing formats. Most distribution businesses were non-corporate, small-scale organisations. The share of businesses operating in the form of corporations among all retail enterprises, as of the end of 1994, was only 2.0% of all retail business, as compared with 25% in Japan.<sup>14</sup> (According to the Korea Chamber of Commerce and Industry, this ratio was only 0.9% in 1995.<sup>15</sup>) Family-run stores accounted for 70% of retail employment, compared with less than 20% in the United States.<sup>16</sup> Retail stores with four or less employees accounted for 80.2% of all retail outlets in 1995, and 67.7% of all retail outlets were shops with sales-floor areas measuring less than 50m<sup>2</sup>.<sup>17</sup> In contrast to most developed countries, where chain store organisations have long been developed to ensure competitiveness of the small-medium distribution companies, the number of Korean stores participating in chain store systems remain low: they accounted for less than 6% of the total number of retail businesses in 1995.<sup>18</sup>

28. Until recently, Korean retail trade remained almost exclusively a domestically owned and operated industry with limited competition. Before the Korean retail sector was opened to international competition in 1996, the retail market was composed of 98 department stores, about 2 000 conventional markets, and a great number of "mom-and-pop" stores. Since Korea's first mass discounter, E-Mart, opened its first store in 1993, the total number of discount stores has increased to 71 (1997 figure). Foreign discount retailers such as Makro and Carrefour joined the market in 1994.

29. As foreign retailers enter the market, retail formats are becoming more diverse. Diversification of retail formats in Korea is shown in Table 18. Tables 19 and 20 show the market size and share of retailers and the major players in Korea's retail market. The sales volume of the small stores accounted for about 80% of the total market even in 1995, while the market share held by the department stores, which represented the only modern retailing format since 1960, grew from 7% in 1990 to 14% in 1994, and remained stagnant between 1994 and 1996, reflecting increasing competition with discount stores. Though sales of mass-discount stores accounted for only 3% of total sales in 1997, discount stores are expected to drive the restructuring of the retail business in Korea. In 1999, total retail turnover is expected to reach 97.7 trillion won, with department stores bringing in 12.5 trillion won, an increase of 9.7% from 1998, and hypermarkets grossing 5 to 6 trillion won, an increase of over 51.7% from 1998.

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contribution to the GDP for the whole distribution sector. See "Strengthening Distribution Industry Competitiveness", Korea Investment Service Center.

<sup>11</sup> The Roots of Korea's Crisis, The McKinsey Quarterly, 1998 Number 2.

<sup>12</sup> "The roots of Korea's crisis", The McKinsey Quarterly, 1998 Number 2.

<sup>13</sup> Retail Market Opportunities, The Korea Chamber of Commerce and Industry, December 1998

<sup>14</sup> "Strengthening Distribution Industry Competitiveness", Korea Investment Service Center.

<sup>15</sup> The Retailing of Manufactured Goods in Korea, KCCI Business Journal, Vol. 40, March 1997

<sup>16</sup> The Roots of Korea's Crisis, The McKinsey Quarterly, 1998 Number 2

<sup>17</sup> "Strengthening Distribution Industry Competitiveness", Korea Investment Service Center.

<sup>18</sup> Ibid.

*Other selected Asian countries*

*Hong-Kong, China*

30. There were 53 500 retail establishments in Hong Kong China in 1997. The sector generated total receipts of HK\$283 billion in 1997 and value added amounted to HK\$38 billion. Selected statistical data for 1996 and 1997 as well as comparison with the wholesale trade sector are contained in Table 21.

31. A recent survey found that the pricing of twelve high-end brands in Hong Kong China, such as leather goods, ready-to-wear clothing and cosmetics products - was lower than in six major Asian cities, with the margins ranging from 2% to 29%. Compared with Tokyo, luxury goods are on average 29% cheaper in Hong Kong China, while average Hong Kong China prices are 14% lower than Bangkok, 12% lower than Seoul, but only 2% under Singapore's.<sup>19</sup>

*Singapore*

32. In 1993, commercial services as a whole was the third largest sector in the Singapore economy accounting for 18% of the GDP.<sup>20</sup> Retail trade, totalling 19 700 retailers in 1993, was the second largest employer within the commerce sector, with 86 300 workers representing 26% of total employment in the sector. Retail turnover in 1993 amounted to \$24 billion or 9% of the total. In terms of value added and operating surplus, retail's shares were 25% and 15% respectively.

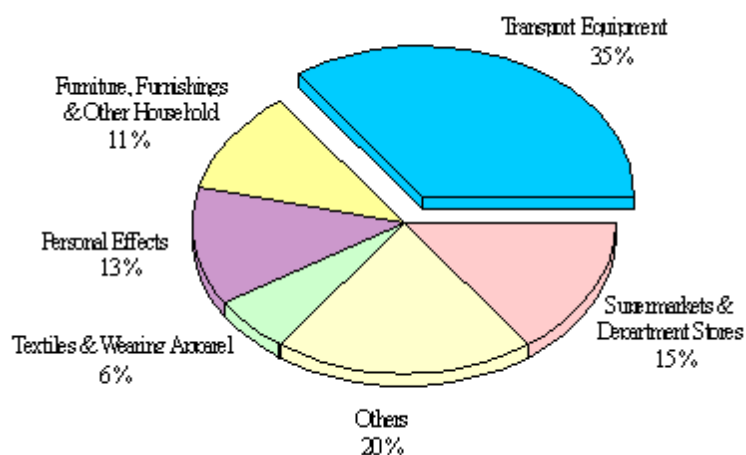
33. In terms of the structure of the retail sector, mini-marts, dry markets, provision and sundry shops formed the largest category (17%), followed by retailers of textiles and clothing (16%). Retailers of personal effects and furniture, furnishings and household equipment ranked next with 10% each. Total retail turnover amounted to Singapore\$24billion in 1993, an average annual increase of 9% from 1983. Retail sales of transport equipment, motor vehicles in particular, dominated the retail sector. Chart 1 shows the structure of retail sales for 1993. In terms of value added, though retailers registered a growth of 16% per annum over the period 1983-1993, retail trade was much less profitable than wholesaling. Its operating surplus was the lowest at \$55 000 per establishment in 1993. Tables 22 and 23 contain basic statistical data on Singapore's retail sector.

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<sup>19</sup> Asia Pulse 21 July 1998

<sup>20</sup> The Commercial sector includes "Catering trade" and "Hotel industry"

Chart 1  
Structure of retail sales in Singapore, 1993



Source: Statistical Singapore Newsletter, Vol. 19, No. 1, July 1996.

#### Thailand

34. No recent and detailed data are available on the sales volume, production, employment and store structure of Thai retailing. In addition, data usually relate to the whole distribution sector so that retail data can not be separated from wholesale. However, Table 24 provides data on the share of wholesale and retail establishments in the services industry for Bangkok Metropolis, the Municipal Area and Sanitary District and suggests that the retail sector may continue to be characterised by traditional markets and small shops. The number of employed persons in distributive commerce was 4 861.9 in May 1998.<sup>21</sup>

#### IV. International business in retail services

35. Cross-border supply (mode 1) is not yet a major feature of trade in retail services although sales by non-store retailers over the Internet have growth potential for order-taking, as well as for particular products that can be delivered online (see paragraphs 40-47 on the impact of electronic commerce on retail services and Section VI on non-store retail services more broadly). Generally, retail firms have been reluctant to be involved in cross-border deals for several reasons. First, the vast majority of retail firms are small, and like all small firms, they tend to avoid being directly involved in cross-border trade. Second, large retail firms operate tens of thousands of products (and varieties of products) and to be strongly involved in the trade of so many products would be a source of excessive risks. Some of these risks are common to other activities (exchange rates, legal certainty, etc.), there are other risks which are quite specific to retail services. In particular, modern retail operated by large firms relies on small stocks and delayed payments. Both conditions require a strong hand on business -- the certainty that products are delivered "just in time" to stores, and that regulations on payment conditions are skilfully used. These conditions do not favour cross-border activities. Activities directly related to cross-border trade are largely left by retailers to producers or to wholesalers: it is estimated that less than 10% of the turnover of the large modern retail firms is directly based on cross-border trade.

<sup>21</sup> Source : Labor Force Survey by the National Statistical Office of Thailand, <http://www.nso.go.th/eng/stat/lfs/tab2.htm>, retrieved on 29 June 1999.

*The mode of internationalisation*

36. As a result of this limited cross-border activity, the core of international retail consists of building new stores in foreign countries or of buying existing retail firms -- that is, through commercial presence (mode 3). Table 25 presents the 20 most important world retail firms in the mid-1990s, with the main countries where they operate stores. It suggests three interesting observations.

37. First, EC firms are relatively more involved in operations in foreign countries. According to Table 25, the largest U.S. firms operate in a limited number of foreign markets (mostly Canada and Mexico), and have only recently entered EC markets. However, this does not include certain retailers, such as fast food restaurants. It should be noted that, according to the US survey of sales and purchases by foreign affiliates, overall the EU accounts for the bulk of US retail sales and purchases by foreign affiliates (see Table 26). Japanese retailers tend to be focused on North American and Asian markets and have not yet entered the EC markets. EC firms are characterised by the fact that they operate in a relatively large number of foreign countries, although most of them stay in Europe. However, there is a handful of firms operating in many markets around the world: Metro and Tengelmann from Germany, and Carrefour from France.

38. Second, the share of foreign sales in the total sales of these firms varies greatly. It is higher than 15% for two U.S. firms operating essentially in Canada (this percentage suggests that these firms try to counterbalance their relatively small size in the U.S. market). It can be much higher for EC firms -- more than 50% for Tengelmann.

39. Third, the average growth rate of the foreign markets targeted by these large retailers provides an interesting observation: during the period of reference (1980-1993) only four firms operated in foreign markets with a noticeably higher growth rate than in their own domestic market (Wal-Mart, Price-Costco, Carrefour and Promodes). In other words, the growth strategy of OECD retailers seems to rely on more complex motives than a quest for foreign markets to provide the kind of rapid growth which had been the source of their rapid development in their initial (domestic) markets. A likely reason for such behaviour is that past and existing barriers (described below) are such that entrance in new retail markets is a very long process. For instance, the acquisition of a south-west German company (Wertkauf) by Wal-Mart in 1998 gave to the U.S. retailer a current market share of 4.4% which is qualified by certain experts as "insignificant" (Deutsche Morgan Grenfell, 1998). This assessment is based on the fact that existing regulations and procedures can require a decade for reshuffling a store of 13 000 square meters (the average size of Wertkauf stores). In other words, Wal-Mart will be in a better position to influence the German retail market after 2005 than before. Under such conditions, the motives for entering a foreign retail market cannot be limited to relatively volatile short-term growth considerations. Further details of US international retail activity and of retail activity in Korea are contained in boxes 1 and 2.

### **Box 1. US international retail activity**

Sales of retail services through retailing affiliates of U.S. parent companies increased during the period of 1991-96, except for a slight decline in 1993. Corresponding purchases increased in 1995 and 1996 which represented a sharp reversal to an average annual decline of 15% during the period of 1991-94 (except for an increase in 1992).<sup>22</sup> In 1996, U.S. sales of services through foreign retail affiliates measured \$1.2 billion, while purchases from US affiliates of foreign companies amounted to \$481 million (see Table 26).

Germany, Canada, and the United Kingdom accounted for most sales of services from retailing affiliates of U.S. firms in 1995, with sales of \$251 million (22%), \$138 million (12%), and \$100 million (9%), respectively (these figures include specialised retailers). Reflecting a high level of investment in the United States, 20 Japanese firms accounted for 22% of total U.S. purchases of services through affiliates of foreign firms, amounting to \$125 million. U.S. consumers purchased services from retailing affiliates of U.K. firms, valued at \$85 million, or 15% of total U.S. purchases.<sup>23</sup>

Foreign direct investment positions of major countries in the U.S. retail sector are shown in Table 27. FDI outlays in U.S. retailing are shown in Tables 28, 29 and 30. Table 31 contains selected operating data of U.S. retail enterprises acquired or established by foreigners.

Table 32 contains the World's Top 20 retailers' list together with their countries of origin and countries of operation. It shows that with the exception of three companies, five US retailers of the Top 20s have international retailing operations.

### **Box 2. Foreign retail activity in Korea**

Table 33 summarises foreign investments in the Korean distribution sector from 1982 to August 1998. In the last five years, several European retailers opened their stores in Korea. The most important foreign retailer is Carrefour, the French hypermarket chain, entered the Korean market in 1993 and opened its first stores in 1996. In 1997 it had four stores in operation and planned to raise the number of its stores to nine by the end of 1998 which would allow to compete with E-Mart, the biggest Korean discount chain with 11 stores. Sales of Carrefour in 1997 reached 275 billion won (which is four times the 1996 sales) and made a profit of 9.6 billion won only two years after it started operation in the Korean market. Makro, the Dutch discount store operator, also established itself in Korea in 1993. Wal-Mart of the United States, the world's largest retailer, took over Korea Makro's existing shops, and was reported to plan to build additional 6 outlets in Korea. Other European retailers present in the Korean market are Marks & Spencer and Body Shop (which entered the market in 1997).

<sup>22</sup> U.S. International Trade Commission, Recent Trends in U.S. Services Trade, 1998 Annual Report, Washington, and U.S. International Sales and Purchases of Private Services, Survey of Current Business, October 1998

<sup>23</sup> U.S. International Trade Commission, Recent Trends in U.S. Services Trade, 1998 Annual Report, Washington

*The Impact of Electronic Commerce*

40. Electronic commerce is assuming two main roles in the retailing process: first, in improving retailers' inventory management and streamlining of their supply chains; and second, as a new channel for retail sales via online ordering processes. (See also Section VI on non-store retail services.)

41. In the business-to-consumer end of the online retail market, the most popular tangible products continue to be computers, books, CDs and videos, apparel, toys, pharmaceuticals, groceries, food and drink, gifts and flowers. For example, estimates for the United States suggest that book sales by electronic commerce now represent over 20% of all book sales in the US; and that by 2000, a similar proportion of new and used cars will be bought using the Internet. However, "intangibles" that can be delivered online, such as entertainment, software, financial services, travel and other ticketing, have a higher share of the online business-to-consumer market. This is because, although delivery costs can increase the cost of many products purchased via electronic commerce and add substantially to the final price, distribution costs are significantly reduced (by 50-90%) for electronically-deliverable products such as financial services, software and travel.

42. All over the world, more and more large "bricks and mortar" retailers, department stores and supermarkets are establishing websites to provide online retail services for all the main product groups noted above. Thus for example, whilst Amazon.com had a clear advantage in online book sales two years ago, this is now being eroded by online ventures by established large bookstore retailers such as Barnes & Noble and Fnac, and publishers such as Bertelsmann. Amazon meanwhile is diversifying into music, pharmaceuticals and toys. (It is an open question whether Amazon is in fact a retailer or a wholesaler of these products, which it does not itself own but rather sells as the middleman between the producer and consumer).

43. Additionally, small and medium-sized retailers are joining "shopping sites" to capitalise on consumer traffic and search/browse options. A useful example is [www.gift-net.com](http://www.gift-net.com) which provides links to hundreds of websites, in over 30 countries, that sell books, CDs and videos, food and wine, gifts, homewares, clothing and flowers.

**Box 3. Web-Shopping: percentage of Adults who bought products over the Web in 1998\***

United States:	10.1%
Sweden	3.8%
Finland	3.7%
Netherlands	2.8%
United Kingdom	2.0%
Germany	2.0%
Ireland	1.4%
Italy	0.7%
Spain	0.7%
France	0.7%

\*Quarterly Web Buyers as Share of Adult Population by Country  
 Source: International Data Corp.

44. The French department store Printemps has recently started a novel website ([www.webcamer.com](http://www.webcamer.com)) that aims to combine the convenience of online shopping with the in-store experience. The online shopper registers on the site, then waits for a "Webcamer" (a salesperson equipped

with a video camera linked to a computer and mobile phone) to become available. The consumer and the Webcamer communicate by exchanging typed messages. The consumer indicates the product s/he is interested in, the Webcamer finds that product in the store and transmits video of the product and answers to queries to the consumer, who can choose whether or not to put it in his/her virtual shopping basket. Thereafter the transaction is accomplished in the same way as for other online purchases.

46. In terms of cross-border retail sales, the biggest impact of Internet retailing is for standardised products with low bulk and low fragility risk (e.g. books, CDs and videos, clothing) and those products where international supplier-networks can supply a product ordered in one country to a consumer in another country (e.g. flowers, wine). In these terms, Internet retailing can be seen as an online version of traditional mail or telephone ordering systems, albeit with lower transaction costs for both supplier and consumer.

47. The principal inhibitors of online retail sales are (in no particular order):

- High timed-local telephone charges for time spent on the Internet arising from lack of competition in local telephony markets.
- High connection charges for (or lack of availability of) high speed Internet access services such as cable or ISDN lines.
- Cost of parcel delivery.
- Fees and charges for the consumer's use of his/her credit cards to make online purchases.
- High value-added taxes in the country of purchase, added to the cost of the product.
- Consumer uncertainty/lack of confidence (tends to diminish after the first few purchases) and lack of PC and/or Internet access; lack of Internet navigation skills; lack of interest.

#### *Internationalisation and competition*

48. There have been concerns about the "dominant" market power that large retail firms could progressively develop. These firms own a relatively "fixed" factor -- namely shelves on which they show the available products (this factor is relatively fixed to the extent that land granted to retail activities is itself fixed). As a result, there are growing concerns that international retail alliances or mergers could threaten the level of competition between retailers and could give to retailers a "monopsony" power over producers.

49. Europe-based alliances are not a new phenomenon, though they are much more common than a few decades ago. A few firms are more involved than others: Argyll, Metro, Rinascente, Ahold (in addition to Coop and Spar) and a few Member states seem to generate more incentives for their domestic firms to be involved in such alliances: Italy, Netherlands, Britain and France.

50. However, it seems that if European central purchasing agencies ("Eurocentrales") have considerable power in theory (the members of the 17 largest Eurocentrales accounted for almost 69% of the European retail market), their effective role is very limited. For instance, EMD (the largest Eurocentrale), which has a potential turnover of 14% of the European food market, is estimated to account for less than 2% of its associate/shareholders' purchases (CA-I-C, 1999). Reasons invoked for the limited impact of Eurocentrales are difficulties in defining common products to be purchased, risks of potential

competition between retailers considering moves to enter other EC markets, and the difficulty of "sharing" negotiating leverage (purchasing conditions) over major brand purchases. However, the "consolidation" process which could occur in EC retail markets during the coming years (purchases of large retailers by large retailers from other EC Member states which could be accelerated by the entrance of U.S. retailers in EC retail markets) may reduce these difficulties. As a result, Eurocentrales could magnify quite "mechanically" the magnitude of this consolidation process (certain surviving retailers may feel more comfortable in co-operating, in particular vis-à-vis producers).

51. This slow interpenetration of EC national oligopolies deserves a comment which is relevant from a GATS perspective. It has occurred despite the strong jurisprudence from the European Court of Justice aiming at eliminating any kind of intra-EC barriers "having equivalent effects" of non-tariff barriers (NTBs) (Article 30 of the Treaty of Rome). The Court has consistently enforced this provision in retailing: in particular, it has systematically fought limitations to parallel trade (in order to allow for the maximum amount of arbitrage), and it has recognised that if restrictions on distribution could be justified for efficiency reasons, they should not lead to explicit or implicit restrictions on parallel imports. In sum, a Treaty based on powerful provisions combined with a very active Court jurisprudence, has not been able to dismantle the existing barriers to establishment, nor to alleviate their consequences. The reasons for this relative impotence are twofold: many of the EC barriers to international competition in retail are cast in terms which makes them appear non-discriminatory -- making it difficult for the Treaty's provisions to bite; these barriers have been embodied in economic indicators, such as the prices of commercial land. As usual, such mechanisms generate complex inter-active strategies which tend to keep prices of commercial land high for a while, as illustrated by the Wal-Mart purchase of Wertkauf: Metro AG (the biggest European retailer) reacted immediately to Wal-Mart entry into German market by purchasing Allkauf and Kriegbaum (10.7% of the German hypermarket sector) leaving Wal-Mart with only one additional possible purchase (Globus, with 9% of the German market).

## V. Barriers affecting retailing

52. The following provides first an overview of the major types of restrictions affecting trade in retail services, then gives a description of the barriers that retailers may find in the reviewed markets. This latter part starts with a description of sector specific commitments undertaken in the framework of the GATS, then discusses actually applied barriers to trade in retail services. Barriers in this context covers both restrictions within the meaning of GATS Articles XVI and XVII and measures implemented by way of domestic regulations falling under GATS Article VI.<sup>24</sup>

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<sup>24</sup>. Art VI generally requires that, in sectors where specific commitments have been undertaken, all measures of general application affecting trade in services be administered in a reasonable, objective and impartial manner (Art VI.1). Other Article VI disciplines may also apply to retail trade services if authorisation is required for the supply of a retail service (decisions on applications to be provided within a reasonable period of time - Art VI.3), or if provision of retail services depends upon qualification requirements and procedures, technical standards or licensing. In the latter case, requirements should be based on objective and transparent criteria, be not more burdensome than necessary and not in themselves a restriction on the supply of the service. Additionally, they should not be applied in a way that could not reasonably have been expected at the time the specific commitments were undertaken (Art VI.5). It is important to note that these disciplines only apply in sectors where specific commitments have been made. Art VI also imposes a general requirement for the provision of objective and impartial review of administrative decisions. Negotiations are underway in the WTO pursuant to Art VI.4 to further develop disciplines on domestic regulation. Work to date in the Working Party on Domestic Regulation has focused on the application of the principles of necessity, transparency, equivalence and international standards - see WTO Council for Trade in Services "Article VI.4 of the GATS: Disciplines on Domestic Regulation Applicable to all Services - Note by the Secretariat" S/C/W/96 of 1 March 1999.

53. Distribution services trade takes place principally through commercial presence (mode 3) and cross-border supply (mode 1). Retail services are supplied mainly through mode 3, although given the labour intensity associated with this service, the sector can also be affected by limitations on mode 4 (movement of natural persons). The market specific section below thus focuses on restrictions related to modes 3 and 4. Compared with wholesale trade services, measures most seriously affecting retailing are sector specific rather than horizontal, both in terms of restrictive foreign investment policy with respect to retailing and relevant domestic regulations.

54. Restrictions on mode 3 (commercial presence) can include requirements that the majority of the board of directors and or the managing director be citizens of the host country,<sup>25</sup> and limitations on essential factors of production such as real estate. A total ban or severe limitation on acquisition of non-residential real estate by foreign retailers amounts to a prohibition or severe restriction to provide retail services. However, even in those countries where access to real estate by foreigners or foreign-controlled companies is not prohibited, but subject to approval mechanisms, foreign retailers' competitive situations can be affected by the absence of clear criteria and/or of impartial administration of such procedures.

55. All selected countries seem to apply mode 4 restrictions on a horizontal level. Most common restrictions are nationality and residency requirements and limitations to entry and length of temporary stay. These measures restrict the ability of foreign retailers either to run their affiliates through staff of their choice or to provide retail services as natural persons. However, it may also be argued that large retail companies entering a foreign market will be careful to limit the number of people they send because the success of their new operation relies heavily on the capacity to stay close to local consumers, a requirement likely to be better met by locally hired staff. For instance, a large retailer may be inclined to send a few high level officials who know the strengths of the company, but it will hire local medium and junior staff for a number of reasons (ranging from language to general behaviour). Hence, the degree to which mode 4 is unbound may not necessarily be a major constraint. On the other hand, it is true that small retail companies are less able to make this distinction between specialists and salespeople directly in contact with the public. As a result, they be more affected by mode 4 restrictions. However, it could also be argued that small retailing requires a good knowledge of local customs and is therefore more likely to be associated with residency in any event.

56. Restrictions on sales area could constitute another barrier, as even when these are formally also applied to national operators, they could be used as a de facto discriminatory measure if enforcement is not transparent. In some countries, including in the OECD, discriminatory taxes and fees are also applied to foreign retailers. Product exclusions and state trading requirements also affect the operations of foreign providers of retail services.

57. A number of restrictive measures applied to other services may also negatively affect the ability of retailers to compete in foreign markets. These services may be divided into two broad categories. The first category includes measures affecting trade in services that are "related" or "subordinated" services to retailing, for example, measures limiting the use of warehouses by retailers (warehousing is considered by the Central Product Classification as related to retail services). The second category concerns restrictions on the provision of other services to retailers - whether these are discriminatory or not. The most important among such restrictions are those that are applied to advertising and transportation services. For example, restricting or prohibiting the provision of advertising services for alcohol or pharmaceuticals limits the provision of retail services. Similarly, measures concerning transport services may also affect the use of necessary inputs to the production of retail services.

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<sup>25</sup>. Such measures have also been scheduled by some WTO members as mode 4 restrictions.

58. Given that there are a number of related services where the degree of liberalisation may impact upon retail, retail could be considered as a sector which might benefit from a possible cluster approach to negotiations in GATS 2000. While the operation of clusters is still unclear, it may be useful to identify those other services (or even aspects of those services) with the greatest potential impact upon retail and aim for liberalisation in these areas to complement and reinforce any efforts on retail. Suggested services which may be considered for inclusion in a possible cluster approach could include: wholesale trade services (W/120 4B); advertising services (W/120 1F(a); Prov. CPC 871); construction and related engineering services (W/120 3); and freight transportation services (W/120 11A(b), 11B(b), 11C(b), 11E(b), 11F(b) and storage and warehouse services (W/120 11H(b)). The selection of these related services raises some general issues relevant to consideration of clusters, in particular relating to the treatment and scheduling of commitments for infrastructure-type services which could be included in a number of possible clusters (e.g., construction), and the selection of sub-sectors at the appropriate level of detail (e.g., freight and storage from transportation).

### *European Community*

59. A whole range of measures may affect international business in retail services, from a ban on entry imposed on foreign firms to limits on the use of necessary inputs (such as land) for operating retail activities, or domestic regulations and litigations on parallel imports. What follows focuses on the measures limiting relatively directly the ability of foreign retailers to enter a domestic market. This survey of direct measures suggests that comparing the measures listed in the EC schedule of GATS commitments (horizontal and specific to retail services) and the measures evoked as potential impediments to intra-EC trade in retailing, GATS schedules of EC Member states do not provide a completely accurate view of the barriers in place -- a conclusion consistent with the observed limited entry of the major retailers in the past.

60. Other -- more indirect -- measures, such as price, promotional or payment regulations (e.g., resale price maintenance, strict limits on promotional offers or regulations on payment delays) may be considered as barriers to the extent that they impose a "disproportionate" obstacle for new entrants. However, to the extent that retailers tend to keep their transactions within a country, the protectionist impact of indirect measures such as resale price maintenance or payment delays on foreign *retailers* may be considered as small (but it is likely to be of higher importance for the foreign *producers* of the goods involved). By contrast, strict limits on promotional offers may be more harmful to retailers *per se* -- hence the very recent (July 1999) referral of Germany to the EC Court of Justice by the Commission because German regulations prohibit discounts of more than 3% (such limits make entry difficult for foreign retailers without brand name, and favour well-established incumbents).

### *Measures directly restricting entry in retail markets*

61. Entry in retailing could be restrained by the following basic instruments: exclusivity granted to some domestic firms (producer, exporter, importer or retailer), limits on the provision of retail services by limiting access to key inputs (land) to foreign retailers, and nationality or residency requirements for retailers. Most restrictions apply to Modes 3 or 4. For the EC, Mode 4 in the horizontal section is unbound (except for intra-corporate transferees, business sellers and specialists) and this horizontal provision is confirmed by the sector-specific section on retail services.

62. However, the main focus is measures affecting Mode 3. Echoing the EC horizontal restrictions on the establishment of branches, many EC Member states list restrictions on the acquisition of non-residential commercial real estate (land being a key input in retailing), the necessity of prior authorisation of investment by foreign firms and restrictions on investment by foreign state-owned firms. There is also

an “economic needs test” in 5 out of the 12 EC Member states for building new stores. In terms of products, only tobacco (and alcohol in Ireland) are closed to foreign competition in terms of retail (there is no mention of restrictions on creation of retail pharmacies).

63. This description of the restrictions by GATS commitments does not fit well with the picture given by the Single Market Review [1997] (hereafter, the SMR) on impediments on intra-EC trade in retail (and one can argue that barriers to intra-EC trade in retail are not less serious for non-EC retailers wishing to enter the EC markets). The SMR has identified four key impediments to intra-EC trade in retail: retail development (which corresponds to the “economic needs test” for new large stores), opening hours, promotional techniques and labour market legislation. Table 34 summarises the results of the SMR: it should be noted that the SMR has left aside the specific regulations governing retail pharmacies (for instance, opening a retail pharmacy in France is subject to a minimum number of inhabitants not being covered by existing pharmacies). Being limited to 1997, Table 34 also does not give any information on the *evolution* of these restrictions. Available (though partial) evidence suggests the following developments: restrictions on commercial land use have tended to increase in South Europe (Spain and Portugal) and Central Europe (prices of commercial land have doubled in Poland in 1997-1998); restrictions on opening hours have tended to soften in North Europe (particularly in Germany, but also in Austria and Netherlands).

64. One could argue that none of the impediments listed in Table 34 is discriminatory in its letter - and even maybe in its intent. However, it is clear that the first two measures, and to a large extent the third measure, constitute barriers to entry for foreign retailers. This flows from the fact that services are less foot-loose in terms of their process of production than goods: a higher portion of production has to be provided in-country for services than for goods, and providing services depends more on access to “essential facilities” (be it the use of land, advertising and time) located in the host country than producing goods.

### ***Central European Countries***

65. The horizontal commitments of the three CECs examined in this note are relatively similar. They include restrictions on real estate acquisition (land acquisition by foreign entities or persons is subject to authorisation in the Czech Republic under Mode 3, Hungary under Mode 4, and Poland under Modes 3 and 4), on legal forms available to foreign firms (Hungary and Poland under Mode 3), labour movements (Czech Republic, Hungary and Poland under Mode 4).

66. CEC specific commitments on retailing services are more dissimilar. Czech specific commitments on retail are unbound (except for mail order, where none) for market access under Mode 1, bound as none for modes 2 and 3 and refer to horizontal commitments for Mode 4. Hungarian specific commitments feature no restrictions for modes 1, 2 and 3 and refer to horizontal commitments for Mode 4. Lastly, Polish specific commitments on retailing services are unbound for market access and national treatment under Mode 1 and bound modes 2 and 3 as “none” refer to horizontal commitments for Mode 4 (but for market access only).<sup>26</sup>

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<sup>26.</sup> While there are no limitations regulating the construction of super and hypermarkets in the Czech Republic, decisions relating to the construction of new trade centres are made by municipal authorities taking account of legal acts on urban planning. In 1997, following analysis of the development of trading network and chains by the Ministry of Industry and Trade and the Trade Association of the Czech Republic, urban planning guidelines were developed for local administrations with the aim of ensuring that new large capacity units were built in balance with other commercial activities in city centres, while respecting small and medium size retailers [Source: Ministry of Industry and Trade, Czech Republic].

### *United States*

67. The conditions for market access and national treatment in the retail sector as provided for in the US Schedule of specific commitments are rather liberal: the United States has committed to grant full market access and full national treatment for all the four Modes, except Mode 4, market access, where commitments do not go beyond horizontal ones. Thus, entry to the retail market is generally free in the United States, with the exception of specific products, mainly alcoholic beverages, but also firearms and military equipment which are excluded from the scope of commitments.<sup>27</sup> With regard to the sale of alcoholic beverages, some American states include residency requirements as a condition for obtaining a licence.

### *Japan*

68. Japan has also made liberal specific commitments with respect to retail services. Full market access and national treatment is bound for cross-border supply (Mode 1), consumption abroad (Mode 2) and commercial presence (Mode 3), with one exception - national treatment under Mode 3 is not bound with respect to research and development subsidies. For movement of natural persons (Mode 4), commitments relate only to the entry of the categories of persons committed to in the horizontal part of the Schedule.

### *Regulatory barriers in Japan*

69. An earlier OECD study suggested that retail in Japan has traditionally been tightly regulated.<sup>28</sup> The Japanese retail regulatory system was designed in the context of an economy dominated by small shops. The Large-Scale Retail Store Law<sup>29</sup> (LSRL), more than any other factor, shaped Japanese retailing over the past decades.<sup>30</sup> The purpose of the law was to foster the sound development of the national economy and the retailing sector by ensuring reasonable opportunities for business with due consideration to the protection of consumers' interests. The Large-Scale Retail Store Law required retailers to notify a business plan to a local government or MITI. According to "News from MITI", before the deregulation of the LSRL in 1988, the average time required for the co-ordination procedures for opening a large-scale retail store was approximately 34 months, and in some cases it took over 10 years. Since the 1988 deregulation, applications have been dealt with within one year, and the average time has been approximately 8 months.<sup>31</sup> Successive amendments to the LSRL have increased the size threshold at which approval must be sought. Applications for establishing large stores in Japan have increased from 1 667 in 1990 to 2 206 in 1995.<sup>32</sup>

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<sup>27</sup> Firearms and military equipment are excluded by almost all WTO members.

<sup>28</sup> Regulatory Reform, Industrial Competitiveness and Innovation, DAFFE/CP(96)22.

<sup>29</sup> Law Concerning the Adjustment of Retail Business Operations at Large-Scale Retail Stores (1973 Law No. 109)

<sup>30</sup> JETRO: The Large-scale Retail Store Law

<sup>31</sup> On the Revision of the Deregulation Promotion Plan, "News from MITI", Ministry of International Trade & Industry, 29 March 1996 (<http://www.jef.or.jp/news/dereg.html>)

<sup>32</sup> Regulatory Reform, Industrial Competitiveness and Innovation, DAFFE/CP(96)22

*Proposed regulation of large scale retailers*

70. Regulations of the Japanese distribution sector, and in particular retail services, have long been a matter of trade frictions with key partners. Concerns had been raised regularly both at multilateral and bilateral levels.<sup>33</sup> In 1998, the Japanese Diet passed legislation to abolish the Large-Scale Retail Store Law and replace it with the Large-Scale Retail Store Location Law (LSRSLL) on 1 June 2000. The new LSRSLL provides that regulation of large stores will no longer be based on supply/demand considerations, but on the basis of environment impact assessments, i.e. upon the degree to which a large store opening or expansion affects the local environment, particularly traffic, noise, parking, and garbage removal.<sup>34</sup> (Chart 2 gives an overview of the major content of the LSRL and the LSRL.) Local governments will be given the authority to implement the new law.<sup>35</sup> It is difficult to predict the extent to which the new regulation will result in greater market access for large stores. Both foreign trading partners and domestic operators have already expressed concerns relating to the discretionary power of local public bodies and possible abuse or inconsistent application by local governments.<sup>36</sup> A further concern was that applicants would be subject to a prior evaluation system (instead of an *ex post* verification).<sup>37</sup>

71. The new guidelines do not require store openers to comply with all the standards they set out under all circumstances but allow “a selection of reasonable measures, in combination with other measures when necessary”. However, the standards may impede the establishment and operation of large retail stores. For example, concern has been expressed that local governments would require store openers to build extra parking facilities considering the "peak hour" requirement described. In addition, the new requirements could place new store openers in competitive disadvantages over existing stores and shopping centres, which did not have to meet new standards.

72. Other market adjustment laws affecting retail trade services include the Retail Trade Adjustment Law (Shochoho Law) and the Bunyahoho Law. The Bunyahoho Law affects the business activities of large-scale enterprises to ensure business opportunities for small and medium-sized enterprises and is used to restrict the opening of new multiplex cinema complexes.<sup>38</sup> Prior to its 1988 amendment, the City Planning Law also restricted opening of large retail stores through the classifications of Special Use Districts. The amended Law provides authority to local governments for designating Special Land Use Districts. It provides for public reviews and require the City Planning Council to conduct an objective and transparent review of the comments received. Finally, some products are also subject to strict regulations or

<sup>33</sup> The United States requested on 13 June 1996 the establishment of a dispute settlement panel concerning Japan's measures affecting distribution services through the operation of the Large-Scale Retail Store Law. Alleged violations concerned GATS Article III (Transparency) and Article XVI (Market Access) and nullification or impairment of benefits (non-violation claim).

<sup>34</sup> USTR 1999 National Trade Estimate Report on Foreign Trade Barriers

<sup>35</sup> Second Joint Status Report under the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy, Fact Sheet, 3 May 1999

<sup>36</sup> For example, Keidanren urged the government to “take all conceivable steps to make a clean sweep of all ordinances and guidelines at the level of municipalities which are aimed at restricting commercial activities and check the spread of supercharged regulations as soon as possible, so as to banish fears of the new system becoming a Law Concerning the Adjustment of Retail Business Operations of Large-Scale Retail Stores in a changed guise”. Keidanren's Position on a Draft of Guidelines under Article 4 of Law Concerning the Measures by Large Scale Retail Stores for Preservations of Living Environment, May 20, 1999

<sup>37</sup> Submission by the United States concerning the Guidelines under the Large-Scale Retail Store Location Law, 20 May 1999

<sup>38</sup> USTR 1998 National Trade Estimate Report on Foreign Trade Barriers.

restrictions. For example, permits for sales of over-the-counter drugs are restricted to pharmacies. In the liquor sales sector, there are restrictions on proximity to existing premises.<sup>39</sup>

*Resale price maintenance (RPM)*

73. In Japan, RPM is considered an unfair trade practice and is prohibited by the Antimonopoly Act (AMA). However, the AMA has long exempted certain cases, under specific conditions, from the general prohibition. For example, products that were exempted included commodities designated by the Fair Trade Commission of Japan (JFTC) and certain cosmetics, or certain non-prescription medicines for general use. Products currently exempted are copyrighted works (books, magazines, newspapers, record disks, music tapes, and music CDs).<sup>40</sup> In 1998, a study group recommended to the JFTC a phased elimination of this exemption, and the JFTC announced its decision on March 31, 1998, which stated:<sup>41</sup> Even though the resale price maintenance exemption should be abolished from the viewpoint of competition policy, the issue should be further examined by carefully considering cultural impacts and influences. Until the final decision is made, the exemption is limitedly applied to books, magazines, newspapers, music CDs, cassettes and records; and the relevant industries should therefore make determined efforts to reduce the adverse effects of this system.

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<sup>39</sup> These restrictions will be abolished on September 1, 2000. The following restrictions were previously reported: new operators are not permitted to sell beer and most kinds of liquor for three years after opening; liquor licenses are not granted automatically to stores under 10,000 m<sup>2</sup>.

<sup>40</sup> Mini-Roundtable on Resale Price Maintenance, DAFFE/CLP/WD(97)2

<sup>41</sup> 1999 National Trade Estimate Report on Foreign Trade Barriers

**Chart 2. Regulation of large stores under the LSRL and the LSRL**

	Large-Scale Retail Store Law			Law Concerning the Measures by Large Scale Retail Stores for Preservation of Living Environment			
	Floor space	Business hours	Closing days	Noise	Parking	Traffic	Garbage
Main requirement	Restrictions applied at opening or expansion stage of large stores	Notification of closing time	Notification of closing days (lower than the number allowed to small retailers)				
Content				Estimation of future noise levels from multiple sources, including equipment, delivery, customers' automobiles and garbage collection.	The number of parking spaces should be sufficient to satisfy the number of customers who would drive automobiles at the peak hour of a holiday, the busiest time of the year.	Enable customers to select appropriate access methods E.g. asking customers not to drive cars to store; guiding cars at parking entrances and exits in order to ensure safety and avoid illegal parking	

## *Korea*

74. Korea's horizontal commitments include Mode 3 restrictions (including for acquisition of land) and Mode 4 restrictions. Korea did not bind cross-border supply (Mode 1) and consumption abroad (Mode 2) of retail trade services. For commercial presence (Mode 3), Korea undertook to grant full market access with the exception of two significant restrictions with regard to foreign retailers: retailing by foreigners in department stores and shopping centers is prohibited and an "economic needs test" applies to retailing services for used cars and gaseous fuels.<sup>42</sup>

75. Korea has gradually been opening the sector to foreign investment since 1988 and major restrictions to foreign retailers entering the Korean market have been removed. From 1991, foreign retailers could open stores at a maximum size of 1 000m<sup>2</sup>, but the number of stores was limited to 10. The regulations on the number and size of foreign retail outlets were further relaxed beginning in 1993, when foreign companies were allowed to open up to 20 stores, with each store not to exceed 3 000m<sup>2</sup>.<sup>43</sup> Foreign commercial presence in department stores and shopping centres were prohibited until January 1996. Foreign land ownership restrictions have also been eased.

76. Up to 1996, new market entries and capacity expansions in petroleum retailing were subject to licensing restrictions. From January 1997, entry into the retailing industry was to be deregulated.<sup>44</sup>

77. Retail selling of grain was opened to foreign investment as from 1 January 1997 in accordance with a liberalisation commitment made by Korea at the time of its accession to the OECD.<sup>45</sup>

## *Domestic regulations*<sup>46</sup>

78. A host of regulations with the objectives of protecting small "mom and pop" stores and promoting more investment in manufacturing industries have long impeded the development of Korea's retail industry and have contributed to the country's low productivity in distribution services.<sup>47</sup> The cumbersome process through which retailers acquire licenses to open large stores was also an important barrier in the retail market. For formats defined as equal to or larger than 1 000m<sup>3</sup>, an approval from the

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<sup>42</sup> Other restrictions in Korea's Schedule were to be eliminated by 1 January 1996. These related to numerical restrictions to the number of shops owned by one foreign retailer (20 shops) and the maximum sales area for these shops (3,000 m<sup>2</sup>). The respective figures for a branch were one shop and 700 m<sup>2</sup>.

<sup>43</sup> Retail Market Opportunities, The Korea Chamber of Commerce and Industry, December 1998. Before July 1993, foreign investment was only approved, under the "Regulations on Foreign Investment" of the Foreign Capital Inducement Act, for floor areas of under 1,000 square meters and for 20 or fewer outlets. (Trade Policy Review of Korea, Report by the WTO Secretariat, WTO document WT/TPR/S/19).

<sup>44</sup> Trade Policy Review of Korea, Report by the WTO Secretariat, WTO document WT/TPR/S/19

<sup>45</sup> Korea: Examination of position under the Codes of Liberalisation and the Declaration and Decisions on International Investment and Multinational Enterprises, DAFI/INV/IME(99)2

<sup>46</sup> This and the following sections draw on a publication by the Korea Chamber of Commerce and Industry: "Retail Market Opportunities", The Korea Chamber of Commerce and Industry, December 1998

<sup>47</sup> These regulations included restrictions on Chaebol activity in retail and an arduous evaluation process for opening a large-scale store. To reduce Chaebol ownership of non-operational real estate, banks were advised against extending loans to Chaebols' for the purchase of real estate and land development. As a result, Chaebols were not able to easily acquire and own strategic locations for future retail operation.

relevant local government advisory was required. Such regulations limited investment and competition levels in the Korean market.

Since the 1990s the Korean Government's changed industrial policy and market liberalisation in distribution has driven reforms to the restrictive regulations.

#### **A. Zoning regulation**

79. Restrictive zoning and land development laws, as well as a scarcity of land in Korea, reduce the availability of land. Only 0.2% of the total country is completely free of regulation for building mega-size retail formats such as shopping malls.

80. The quasi-agricultural and forest areas surrounding major cities, which occupy 27.3% of total land, had been restricted for the operation of retail stores. In 1993, however, this zone was redefined to allow retail stores which occupy less than 30 000m<sup>3</sup> in land to be built. In May 1998, the Korean Government allowed construction of hypermarkets in quasi-industrial zones and eliminated the need for obtaining government permission when establishing a discount store, under 10 000m<sup>2</sup> in land size, within the natural green belt area.<sup>48</sup> Also the Korean government is planning to increase the ceiling of developable space from the previous 10 000 m<sup>2</sup> to 20 000 m<sup>2</sup> in the natural green area by the end of the first half of the year 2000.

81. Despite these deregulation measures, strict zoning laws and bureaucracy continue to create substantial barriers to retailing by blocking the development of larger, more productive stores in the suburbs. According to the McKinsey Institute, only an additional 4% of existing commercial land or 0.1% of undeveloped but usable land would be needed to raise Korea's labor productivity in retailing to 69% of the US level.<sup>49</sup>

#### **B. Operation regulations**

82. Until 1996, the opening of a large-scale store over 3 000m<sup>3</sup> was subject to permission. In 1997, the Korean government adopted the "Distribution Industry Development Act" which governs Korea's distribution industry. According to this legislation, large-scale retailers must register their stores with the authorities. The requirements to register as a large-scale store are summarised in Chart 5. According to the Korea Chamber of Commerce and Industry, the complicated and time-consuming application process for building a large-scale store acts as an indirect barrier to foreign investment. A survey quoted by the Korea Chamber of Commerce and Industry asserts that it can take about 790 days to prepare, file and get approval from the government to operate large-size retail shops in Korea. This registration and approval process applies to both domestic and foreign firms; however, it is more cumbersome to foreigners considering their lack of knowledge of the local regulatory environment, which can be exacerbated by a lack of transparency.

83. The revision of the "Distribution Industry Development Act" in 1999, abolished regulations governing large-scale stores, including direct operation ratio and mandatory facilities.

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<sup>48</sup> The green belt accounts for a little more than 10% of total land.

<sup>49</sup> The Roots of Korea's Crisis, The McKinsey Quarterly, 1998 Number 2.

**Chart 3. Korea: regulations of large scale stores**

<b>Retailer Type</b>	<b>Store size</b>	<b>Facilities</b>	<b>Direct Operation</b>	<b>Sale in Lots</b>
Conventional Market	> 3000m <sup>3</sup>	No regulations	No Limits	Organising Sales Committee
Large Scale Store	> 3000m <sup>3</sup>	More than 5 POS per 1000m <sup>3</sup> Reporting place for consumer injury	100%	Not allowed
Department Stores	>= 4000m <sup>3</sup>	More than 3 POS per 1000m <sup>3</sup> Reporting place for consumer injury Customer lounge	>=30%	Not allowed
Shopping Centre	>= 6000m <sup>3</sup>		>= 30%	Not allowed
Wholesale Center	>= 3000m <sup>3</sup>	more than 3 POS per 1000m <sup>3</sup> Logistics facilities must be over 10% of the floor space	>=10%	Not allowed

Note: POS = Point of sale

Source: Retail Market Opportunities, The Korea Chamber of Commerce and Industry, December 1998.

### **C. Chain store system regulations**

84. The chain-store system regulations were introduced by the government in 1974. A revision of the “Retail Chain Store Business Guidelines”, adopted in June 1996, relaxed minimum qualification standards, such as the number of stores and store floor areas. The Guidelines require, for association-type designated chain-store operators, minimum capitalisation of 300 million won; and for co-operative associations, minimum capitalisation of 100 million won. (The average contribution for a supermarket co-operative association is 95 million won.)<sup>50</sup> The current guidelines were adopted in August 1997 and were included in the “Enforcement Regulations, Distribution Industry Development Act”.

#### *Subsidies*

85. Different types of financial support are granted to traditional domestic retailers in order to enable them to cope with increased competition. Major support policies and committed subsidies are summarised in Chart 4.

<sup>50</sup> Strengthening Distribution Industry Competitiveness, Korea Investment Service Center.

**Chart 4. Major support policies and subsidies to the distribution sector (billion won)**

<b>Supported projects</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>Financial support for small-medium distribution enterprises</b>			
Distribution rationalisation projects			
Distribution computerisation	4.0	4.8	6.0
Joint distribution complexes	24.8	16.0	29.0
Co-operative projects	8.0	-	-
Logistics standardisation	6.6	14.1	18.0
Joint logistics computerisation by type of business	-	1.5	-
Joint logistics projects	-	25.0	14.0
Distribution centres	-	20.0	10.0
<b>Sub-total</b>	<b>43.4</b>	<b>81.4</b>	<b>77.0</b>
<b>Local small-medium industry promotion funds</b>			
Conventional market redevelopment	44.3	73.5	69.4
Temporary market installation	-	2.2	3.0
Small store improvements	18.3	19.8	19.3
Joint warehouse construction	6.5	8.6	4.3
Market facility improvements	-	6.7	3.0
<b>Sub-total</b>	<b>69.1</b>	<b>110.8</b>	<b>99.0</b>
<b>Small-medium industry structure improvement funds</b>			
Joint computerisation	4.2	5.3	2.2
<b>Sub-total</b>	<b>4.2</b>	<b>5.3</b>	<b>2.2</b>
<b>Grand total</b>	<b>116.7</b>	<b>197.5</b>	<b>178.2</b>

Source: Ministry of Commerce, Industry and Energy: "Commerce, Industry and Energy White Book", in "Strengthening Distribution Industry Competitiveness", Korea Investment Service Center

#### *Financial support for small-medium distribution enterprises*

86. To improve competitiveness of small-medium distribution enterprises, the government provided financial support amounting to 43.4 billion won in 1996, and 81.4 billion won in 1997, and planned to disburse 77.0 billion won in 1998.

#### *Financial support for conventional market redevelopment*

87. As part of a series of regulations adopted in order to increase relative competitiveness of conventional small-scale retailers,<sup>51</sup> the following subsidies are granted:

- The revised (January 1997) "Special Act governing Small and Medium Enterprise Restructuring and Management Stabilisation Support" allowed capital gains tax exemptions for market redevelopment projects.

<sup>51</sup> The problems facing conventional markets are identified as follows: (1) Reduced trading zones due to distribution market opening and the rapid growth of large distribution organisations. (2) Archaic management systems, ageing buildings and lack of parking spaces. (3) Changed consumer consumption patterns (speed, convenience, car usage, and increased numbers of employed females).

- Financial support conditions have also been improved as loan ratios for small-medium markets have been increased to 75% from 50%, and loan limits have been expanded to 8 billion won from 5 billion won for large markets.
- Local government ordinances have been revised in 1997, allowing acquisition tax and registration tax exemptions, and 50% reductions for 5 years of property taxes and aggregate land taxes for market redevelopers.

*“Systemisation of commercial co-operative association”*

88. Financial assistance is provided on preferential terms to organised chain-store operators and co-operative associations to cover expenses required for distribution computerisation, construction of joint warehouses, joint purchasing, and construction of joint distribution complexes and to small-medium distribution enterprise systemisation. The objective of this subsidy scheme is to encourage low-end small-medium distribution enterprises to enter store-chains and establish co-operative associations in areas where foreign wholesalers and retailers are expected to succeed.<sup>52</sup>

***Hong Kong China***

89. Hong Kong China left cross-border supply (Mode 1), movement of natural persons (Mode 4) and national treatment for consumption abroad (Mode 2) of retail services unbound. On the other hand, it is committed to unrestricted market access and national treatment for commercial presence (Mode 3), a commitment that reflects Hong Kong China’s open and non-discriminatory investment and services regime, with only a few restrictions in a few other sectors. (Unlike most other WTO members, Hong Kong China has no restrictions on commercial presence of a general application.)

***Malaysia***

90. Malaysia's horizontal commitments include restrictions on Mode 3 (including acquisition of land) and Mode 4. No specific commitments were scheduled for distribution services. Major restrictions to foreign retailing in Malaysia are applied to commercial presence (Mode 3). In general, foreign direct investment is subject to prior approval. The starting assumption of the General Policy Guidelines on foreign investment is that foreign ownership and control in Malaysia’s economy are already substantial and the imbalance in ownership between Malaysian and foreigners should be curtailed. Therefore, only foreign investment with a “balanced” structure of ownership, which brings benefit to the country is encouraged and investment with the objective of gaining ownership in businesses, without giving visible benefits to Malaysia, will be discouraged. Accordingly, the authorisation procedure includes criteria of Malaysian, particularly Bumiputera, participation. Furthermore, the onus of proving that the proposed investment is not against the objectives of the New Economic Policy/National Development Policy is on the investing parties. In addition, the licensing authority may prescribe conditions which it deems to be necessary, such as equity structure and employment structure as well as distributorship.

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<sup>52</sup> The following areas were identified where associations should be established: home appliances, watches and clocks, toys, musical instruments, spectacle frames, gas boilers, and tires. "Strengthening Distribution Industry Competitiveness", Korea Investment Service Center.

91. Since the introduction of the New Economic Policy, foreign ownership in general is restricted to a maximum of 30% equity participation in local companies with a minimum of at least 30% Bumiputera participation, particularly in domestic-oriented activities, including distribution services.

92. Malaysia imposes strict conditions on the acquisition of properties by foreign retailers. In the case of purchase of shops, the property must be held under a locally incorporated company with 70% Malaysian equity, including 30% Bumiputera equity, and 49% Malaysian equity, including 30% Bumiputera, if the property is for ownership *per se*.<sup>53</sup>

### ***Thailand***

93. Thailand's horizontal commitments include restrictions on Mode 3 (including types of equity, acquisition of land) and Mode 3. As with most other Asian countries, Thailand made no specific commitments for retail services.

94. In Thailand, foreign investment in retailing, as in other sectors, is subject to strict regulations and restrictions. Foreign investment in retailing is subject to authorisation by the Board of Investment. The following figures give an example of the restrictive nature of the Thai regulations: during the period of 26 November 1976 to 31 March 1999, the Department of Commercial Registration issued 209 retail licences while 186 licences expired. At the end of March 1999, there were no more than 23 foreign retail licensees.

95. Foreign nationals are not permitted to engage in new operations in retailing of products other than machines, engines and tools, except if they receive promotional certificates from the Board of Investment. In order to operate retail businesses of machines, engines and tools, foreign nationals have to apply for permission from the Department of Commercial Registration. These businesses have to rely on foreign capital and technology.

96. The Alien Business Law, which restricts foreign ownership, including in retailing, was not yet amended in January 1999 despite commitments made to the IMF. A draft law, adopted in 1998, amending this regulation would ease somewhat the restrictions imposed upon retailers but still defines retailing as restricted business. If approved, it would require in retail operations a minimum Thai holding of 25%, in which foreigners have capital of less than 10 million baht.<sup>54</sup>

97. However, the Board of Investment, at their December 25, 1998 meeting, approved foreign majority ownership in retail projects, and opened two new categories of activities eligible for investment promotion. In December 1998, the Thai Board of Investment liberalised foreign equity limitations in existing retailing operations. It allowed foreign investors to acquire up to 100% of joint venture retail projects that were in operation prior to 1 January 1999. The relaxation of FDI restrictions is, however not extended to new retail projects, for which the Alien Business Law should be revised.

98. There are also restrictions on the expansion of branches of existing retail projects: such expansion in Bangkok and its vicinity is permitted only if the branches have at least 1 000 square meters of sales

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<sup>53</sup> It is worth mentioning that a very temporary relaxation was introduced last year under the "Home Ownership Campaign" guideline for purchases of retail units in shopping complexes and shop houses/offices. Conditions for benefiting of these relaxations were also strict: the window of opportunity allowed for signing the purchase agreement was from 12 December 1998 to 12 January 1999, and the project should have been a "completed projects".

<sup>54</sup> BOI Bulletin, 5 January 1999, <http://www.boi.go.th/main/owner.html>

floors. Expansion of businesses in the provinces would not be permitted, as the Board of Investment is concerned about the impact on local retailers.

99. Strict restriction of the acquisition of land is also applied. Currently only foreigners whose businesses have received Board of Investment privileges can own land. According to plans that aim at relaxing this restriction, foreign investors will be permitted to buy one rai of land if they bring at least 25 million baht in funds into Thailand. According to the Prime Minister, “foreigners in the future would be able to lease land for more than 30 years provided they met certain conditions set by the Government”.

100. Under the Thai-U.S. Treaty of Amity and Economic Relations signed in 1966, U.S. companies in Thailand are granted equal treatment with Thai companies. This permits 100% U.S.-owned companies to operate in sectors where other foreign companies are generally allowed a maximum ownership level of 49%. The treaty does not apply to certain sectors such as telecommunications, banking and fiduciary functions. According to the authorities, the proposed revision of the Alien Business Law would simplify procedures and groupings of sectors in the Annexes; the revision is not expected to affect the acquired rights of U.S. companies under the Thai-U.S. Treaty.

## **VI. Non-store retail services<sup>55</sup>**

### ***Description of non-store retailing***

101. Non-store retailing is a wide sub-sector and includes all retail services in goods for personal or household consumption provided beyond traditional brick-and-mortar retail outlets. It ranges from direct selling to electronic commerce retailing. The provisional CPC that was adopted during the Uruguay Round by most participants as the basis for scheduling specific commitments does not distinguish non-store retailing from other forms of retail trade services. The revised version of the CPC (CPC V1.0), however, introduced two Groups into Division 62 (Retail Trade Services) that specifically address non-store retailing. These are Groups “623 Mail order retail trade services” and “624 other non-store retail trade services”. Table 35 shows the definitions of non-store retail services in the CPC Version 1.0 at four-digit level.

102. At the national level, both the North American services classification system, the NAICS, and the EU’s “*Nomenclature des activités économiques dans les Communautés Européennes*” (NACE Rev 1) include subheadings for non-store retail services. The (NAICS) defines non-store retailing as industries that retail merchandise using methods, such as the broadcasting of infomercials, the broadcasting and publishing of direct-response advertising, the publishing of paper and electronic catalogues, door-to-door solicitation, in-home demonstration, selling from portable stalls and distribution through vending machines. Non-store retailing establishments include mail-order houses, vending machine operators, home delivery sales, door-to-door sales, party plan sales, electronic shopping, and sales through portable stalls (e.g., street vendors, except food). Establishments engaged in the direct sale (i.e., non-store retail) of products, such as home heating oil dealers or newspaper delivery, are included in the non-store retail sub-sector. (See Table 36 for NAICS definitions.) In NACE Rev1 non-store retailing is sub-divided into (NACE 52.61) retail sale via mail order houses, (52.62) retail sale via stalls and markets and (NACE 52.63) other (non-specified) non-store retail trade services. (See Table 37 for the structuring of non-store retail services in NACE Rev.1 and the respective explanatory notes of ISIC Rev.1.)

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<sup>55</sup> Due to data availability, country coverage of this chapter is different from the previous part of the paper: the Republic of Korea is omitted and reference is made to regulations in China and India.

103. Worldwide, catalogue and mail order retailers are the most important part of non-store retail in terms of sales, while the fastest growing non-store retail format is undoubtedly Internet retailing. Other forms of direct marketing, including direct mail, direct response television shopping and telephone marketing are also rapidly expanding. There are no global statistics for these retail markets and national data, if any, are rarely comparable. Direct selling,<sup>56</sup> one of the most traditional ways of non-store retailing has been rapidly expanding due to the low start-up costs and skills involved. The World Federation of Direct Sellers Associations estimates that in 1997 world-wide retail sales by its members (some 50 countries) accounted for more than US\$80 billion through the activities of more than 25 million independent salespersons.<sup>57</sup> Table 38 contains sales data for direct selling in OECD members and selected non-OECD-economies. Multilevel direct selling<sup>58</sup> represent 65% of direct sales in the United States and a similar trend is being reflected in Europe, for example, in the United Kingdom direct sales accounted for approximately ECU 1.2 billion in 1996, approximately half of which were through multilevel direct selling.

#### *United States*<sup>59</sup>

104. In 1997, the US non-store retail sub-sector represented (on 1997 NAICS basis) 44 582 establishments and 516 436 paid employees. Their total sales amounted to US\$ 109 072 million in 1997.<sup>60</sup> Compared to 1992, the number of establishments and employees increased by 60 and 52% respectively while total sales grew by 113%.<sup>61</sup> According to the 1997 Census, non-store retail represented 4% of all retail establishments and 4.4% of total retail sales. Available latest (non-adjusted) statistical data show that in 1998 non-store retailers' sales amounted to US\$95 152 million (on SIC basis) which represented 3.5% of all retail trade sales. Table 39 contains data for the Top 14 US non-store retailers. Catalogue and mail order retail accounts for the largest part of the non-store retail business (representing 76.9% of non-store retailers' sales).<sup>62</sup> Though the share of non-store retailing in the retail industry was still modest in 1997 and 1998, certain segments of this sub-sector are developing fast. The most dynamic component of the non-store retail sub-sector is undoubtedly Internet retailing. On-line retail sales for 1998 in the United States

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<sup>56</sup> Direct selling refers to the marketing of products and services directly to consumers in a face to face manner.

<sup>57</sup> The products typically sold in direct selling include cosmetics, laundry, home appliances, household cleaning products, food and nutrition products; toys, books, clothing, jewellery and fashion accessories. Generally, these products are sold in the context of group presentations (Party Plan), or on a person to person basis (one-to-one).

<sup>58</sup> A much debated component of direct selling is multilevel marketing (or network marketing) in which salespeople may receive remuneration in two ways: (1) from their personal sales of goods and services to consumers and (2) from the sales or purchases of those persons they have recruited or sponsored into the plan. In addition they may also earn remuneration from the sales of the group or network recruited into the plan by those they have originally recruited.

<sup>59</sup> Data in the following country-sections do not lend themselves to direct comparisons, either between countries, or between different businesses. Indeed, most data provided by business associations concerning different non-store retailing activities, such as Internet shopping and direct marketing sales, include business-to-business sale and/or sale of goods and services which do not fall under retailing. Varying definitions and scope of the various businesses add to the difficulty of making direct comparisons.

<sup>60</sup> 1997 Economic Census: Advance Summary Statistics for the United States 1997, U.S. Department of Commerce, Washington, March 1999.

<sup>61</sup> 1997 Census of Retail Trade, Establishment and Firm Size, U.S. Department of Commerce, Washington

<sup>62</sup> Annual Benchmark Report for Retail Trade, January 1989 to December, 1998: US Department of Commerce, Washington, D.C., August, 1999

were estimated between US\$7 billion and US\$13 billion.<sup>63</sup> According to one estimate, which puts Internet-based retail sales for 1998 at approximately US\$9 billion, this commerce has tripled compared to 1997.<sup>64</sup> The US Direct Marketing Association expected mail order and catalogue retailers to generate 5% of their sales on the Internet in 1999 -- more than double their online sales in 1998. Chain Store Age (August 1999) puts retail catalogue sales at a higher level than official, non-adjusted, US statistics: it estimates catalogue sales increased by 8% compared to 1997 and reached US\$98 million in 1998. It also puts television direct-marketing sales for 1998 at US\$4 million. In total, US direct selling sales were estimated at US\$23.17 billion for 1998 generated by 9.7 million salespeople.

### *European Union*

105. In the European Union, 15% of retail enterprises are characterised as non-store retailers. According to the World Federation of Direct Selling Associations, 1.6 million people in the European Union were engaged in direct sales in 1996, persons employed in non-store accounted for 4.3% of total retail employment in Spain, 9.6% in Germany, 8.9% in France. Estimated retail sales through distance selling<sup>65</sup> in some European countries are contained in Table 40.

106. Limited figures on non-store retailing are available for selected EU member states. For example, in France, non-store retail enterprises numbered 59 041 in 1995 (of which 1 087 were mail order houses and 57 954 were stalls, markets and other non-store retail), with a total turnover of FF89 000 000 (of which FF44 000 000 were mail order houses and FF45 000 000 were stalls, markets and other non-store retail). Similarly, in 1994-1995, non-store retail accounted for 21 300 enterprises in the Netherlands (of which 500 were mail order houses and 20 800 were stalls, markets and other non-store retail) with a turnover of NLG6 100 000. [*Retailing in the European Economic Area 1997*, Eurostat, Luxembourg, 1998].

### *Japan*

107. In Japan, a clear-cut definition of non-store retail services has not yet been adopted. However, for statistical purposes, non-store retail sales are defined as all sales other than by store-based retailers. These sales accounted for 20% of total retail sales in 1998 (see Table 41.) For some products, however, (e.g. traditional Japanese costumes, agricultural machinery, books, cigarettes, etc.) non-store retail account for 40% of the total volume sold. Total direct marketing sales for fiscal year 1998 (April 1998 - March 1999) are estimated at ¥2.18 trillion.<sup>66</sup> Table 42 shows sales data for the Japanese direct marketing industry and its share in the retail sector. Tables 43 and 44 indicate that, though trade in mail order retail services with Japan remain modest, foreign cataloguers are experiencing much faster growth in Japan than their Japanese counterparts. Another aspect to foreign mail-order houses' activities in the Japanese market is "private import". Private imports by individuals through mail order were close to ¥100 billion in 1997. Sales by

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<sup>63</sup> The notable divergences in Internet retail statistics and estimates by different research firms may be explained, *inter alia*, by the fact that many analysts include only the transactions that are actually carried out on the Internet. However, many consumers undertake their shopping research on the Internet but transact their orders in more traditional ways.

<sup>64</sup> Chain Store Age, State of the Industry, August 1999

<sup>65</sup> The EU Directive on distance selling defines this very broad concept as the conclusion of a contract regarding the provision of goods or services whereby the contact between the consumer and the supplier takes place by means of technology for communication at a distance. This form of non-store retailing covers a wide range of activities, from mail-order and catalogue sales, direct mail sales, to Internet, e-mail, and telemarketing sales.

<sup>66</sup> Japan Direct Marketing Association, July 1999.

foreign multilevel companies in the Japanese market reflect more important activities than their mail order counterparts. Sales of Amway Japan for example were ¥192.5 billion in 1998, almost double its Japanese counterpart, SANKI-SHOJI. Internet sales (including both retail and business-to-business e-commerce) reached ¥81.8 billion in fiscal year 1998, an almost three-fold increase over the previous year and Internet-based sales are expected to benefit from high growth in the coming years to reach ¥1.1 trillion by 2005.<sup>67</sup> JADMA, the Japanese direct marketing association, estimates that approximately 10 000 Japan-based shops existed on the web in June 1998.

#### *Trade in non-store retail services*

108. Trade in non-store retail services may take place in all four modes of supply defined by the GATS. However, according to the type of commercial communications that characterises the given service, i.e. whether the retailing format requires face-to-face contact or distance communication with the buyers, non-store retail services may be divided in three main groups.<sup>68</sup> The first group is composed of non-store retail services that *can* be supplied without market presence, i.e., that can be delivered via Modes 1 and 2. The second group includes those services which necessitate direct contact between the seller and the buyer and thus relies on commercial presence (Mode 3) or the presence of natural persons (Mode 4). A third category concerns sales through automatic vending machines, i.e., via Mode 3 (commercial presence).

109. It should be underlined that these groupings are not necessarily strict; for example, retailers in group 1 may also provide services through commercial presence (Mode 3), and presence of natural persons (Mode 4).

110. Mail order and catalogue sales services typically are supplied in cross-border mode (Mode 1) when foreign mail order houses or catalogue companies supply goods from their home country. However, depending on the marketing strategies chosen by mail order houses and catalogue sellers, commercial presence (Mode 3) can also be an important way of supplying these services. For example, foreign service suppliers retailing goods produced in the host country may need to establish commercial presence or commercial presence may be needed to maintain storage, physical distribution facilities, after-sales services points etc. The main Modes of supply for internet-based retail services are Modes 1 and 2. However, as with catalogue and mail order retailers, commercial presence might also be required. Retail services through telephone marketing generally takes place via Mode 3 (although Modes 1 and 2 may be possible, but not common). The provision of all retail services requiring direct contact between buyers and sellers, such as door-to-door sales, multilevel marketing and sales in markets stalls, takes place through Modes 3 and 4.

#### *Barriers to trade in non-store retailing*

111. An overview of available information on market access barriers seems to suggest that Articles XVI and XVII restrictions/limitations specifically on non-store retail activities are infrequently used in those countries which made GATS commitments in the retail sector. (It is noted that less than one

<sup>67</sup> JETRO, Japanese Market Report, No. 29, March 1999.

<sup>68</sup> Other categorizations may also be possible. The reason for the one chosen here is to try to identify the types of possible obstacles to trade in different non-store retail services. Obstacle here is meant per GATS Articles XVI and XVII. The above categorisation also reflects consumer protection practices in major markets, inasmuch as they tend to regulate differently non-store retailing according to the types of marketing communication (i.e. face-to-face marketing vs. distant communication).

third of WTO members made commitments on retailing.) With the exception of three WTO Members, specific commitments on retailing services fully cover all forms of non-store retail services. One WTO Member (Mexico) made no commitments on non-store-based retail trade services and two others (Liechtenstein and Switzerland) excluded one particular form of non-store retail service (retailing through mobile sales units). There is one WTO Member (Canada) whose Schedule indicates specific restrictions to the provision of some non-store retail services (retailing by itinerant sellers and direct sellers and mail delivery). Table 45 shows sub-sector specific restrictions/limitations to market access and national treatment in GATS Schedules.

112. Among the 34 WTO Members whose specific commitments cover non-store retailing services, eight left unbound Mode 1, which mainly affects access to the mail order and catalogue, as well as Internet retail markets.<sup>69</sup> (These are Brazil, Bulgaria, Hong Kong China, Korea, Kuwait, Mongolia, Peru, and Poland.). There is a further group of four WTO Members (Australia, the Czech Republic, the EC (12) and the Slovak Republic) which - for Mode 1 - have only bound mail order retailing. This absence of binding seems to concern mainly such non-store-retailing format as Internet sales.<sup>70</sup>

113. In Mode 4, the lack of any binding commitment by any WTO Member on the entry and temporary stay of natural persons providing direct sales suggests the wide existence of cross-sectoral barriers to this category of non-store retailing. (Almost all Schedules contain the entry "Unbound except as indicated in the Horizontal Part". In addition, Switzerland and Liechtenstein require for the presence of natural persons that commercial presence be established.) It should be noted, however, that in some sub-categories of direct selling (e.g. multilevel marketing), services are provided by foreign establishments through locally recruited persons. Restrictions and limitations to market access and national treatment in Mode 3, either on a horizontal or a sector-wide basis, or those which directly target direct-selling organisations, may limit access or exclude foreign suppliers from this type of service market. GATS Schedules reflect such Mode 3 restrictions and limitations in the following cases: In Spain, France and Italy, tobacco retail is subject to State monopoly. In Sweden, an economic needs test is applied to "temporary trade in clothing, shoes and foodstuffs that are not consumed at the point of sale". In the case of Ireland, National Treatment is left unbound for commercial presence in retailing of alcoholic beverages. In Mongolia and Senegal market access in Mode 3 is left unbound. National Treatment for Mode 3 is unbound (except as indicated in the horizontal part of the schedule) for Japan and Mongolia and a 2-year prior residency requirement applies in Norway.

114. Activities in, and access to, markets of non-store retailing services are affected by regulatory barriers in some Asian markets. The objectives of some of those regulations can be mixed and are not always clearly announced. Malaysia's policy with regard to the direct marketing industry is both to provide for "an orderly development of the domestic trade sector" and to grant greater protection to consumers.<sup>71</sup> The specific legislation, the "Direct Sales Act 1993" requires direct selling companies, including mail order companies, to apply for an operating license. However, in March 1998, Malaysia required direct marketing companies to source 80% or more of their products locally as a condition for annual license renewal. At the same time the Malaysian Government began to enforce more rigidly the restrictions on foreign participation in retail trade requiring 30% of the equity in direct marketing companies for

<sup>69</sup> The OECD Secretariat recently reviewed market access issues of electronic commerce of distribution services. See documents TD/TC/WP(99)37/REV1 and TD/TC/WP(99)37/REV1/ADD.

<sup>70</sup> However, this suggestion may be disputed in the absence of agreed classification of non-store retail services. As mentioned above, the provisional CPC referred to by MTN.GNS/W/120 does not distinguish between store-based and non-store retail services, and consequently between mail-order, catalogue and Internet sales, etc.

<sup>71</sup> Seventh Malaysia Plan 1996 - 2000, Economic Planning Unit of the Prime Minister's Department, <http://epu.jpm.my>

Bumiputras and 70% overall domestic ownership. The Ministry of Domestic Trade and Consumer Affairs has indicated that it may grant exceptions to these rules on a case-by-case basis.<sup>72</sup> However, Malaysia has also announced that no new direct selling licenses would be issued to foreign firms.<sup>73</sup>

115. A further example of restrictions implemented both for economic and consumer protection purposes arises in China. China imposed delivery restrictions and commercial presence requirements on foreign non-store retailers and also banned direct sales activities as from 31 October 1998.<sup>74</sup> The ban was later modified to allow U.S. direct sellers to continue selling in China by allowing sales to Chinese consumers through Chinese sales promoters, who do not take title to the goods and who work solely on commission. However, direct sellers were required to also maintain retail sales outlets. An agreement with the United States provided for the removal of these market access restrictions by January 1, 2003, including the ban on direct selling, as well as the adoption by China of regulations for direct selling based on the World Federation of Direct Selling Association's World Code of Conduct.<sup>75</sup>

116. India has also imposed strict conditions on direct marketing companies.<sup>76</sup> Though the restrictions were justified on consumer protection grounds (i.e. combating pyramidal sales), direct marketing companies were required to either manufacture their products domestically or source them from the Indian small-scale industry sector. Imported products could not be marketed or sold by such firms.<sup>77</sup>

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<sup>72</sup> PricewaterhouseCoopers, May 1998 International Briefings: Southeast Asia and Tradeport report, <http://www.tradeport.org/ts/countries/malaysia/ecopol.html>

<sup>73</sup> US Country Commercial Guides, FY 1999: Malaysia

<sup>74</sup> The ban was justified by the need to end a decade of rampant pyramid sales abuses in the country, according to a circular issued by the State Industrial and Commercial Administration Bureau. In the circular, the bureau demanded that all its agencies nation-wide take tough measures to wipe out direct sales businesses, in response to the State Council's call for banning direct sales before 1 October 1998. Skali.com, 30 April 1998

<sup>75</sup> The agreement, as it was reported, is contingent upon successful completion of the WTO accession negotiations of China. Source: Babener & Associates, WWW.MLMLEGAL.COM

<sup>76</sup> The restrictions were approved by the federal minister for industry, following a recommendation by the Foreign Investment Promotion Board (FIPB).

<sup>77</sup> According to Skali, "Government officials said that "while a general feeling had gained ground that pyramidal marketing should be banned [...] a rethink was emphasised as it would send the right signals to foreign investors. India would not be perceived as rigid or restrictive as China, the officials said." Source: [www.skali.com](http://www.skali.com)

**Table 1. United States: share of the retail sector in the GDP and employment, 1990-97**

(Current US\$ billion and per cent)

	1991	1992	1993	1994	1995	1996	1997	1995-1997 (%)
<b>Share of GDP</b>								
<b>Total (US\$ billion)</b>	<b>5 916.7</b>	<b>6 244.4</b>	<b>6 558.1</b>	<b>6 947</b>	<b>7 269.6</b>	<b>7 661.6</b>	<b>8 110.9</b>	<b>5.6</b>
Retail trade	8.7	8.7	8.7	8.9	8.8	8.8	8.8	5.5
<b>Share of employment</b>								
<b>Total (million)</b>	<b>117.5</b>	<b>118.0</b>	<b>120.0</b>	<b>123.0</b>	<b>124.6</b>	<b>127.0</b>	<b>130.0</b>	<b>2.1</b>
Retail trade	16.9	17.0	17.0	17.2	17.6	17.5	17.4	1.7

Source: Trade Policy Review, United States, Report by the Secretariat, WTO document, 1 June 1999.

**Table 2. United States: number of establishments, sales and employment in the retail trade sector 1992**

SIC	Description	Establishments	Sales (\$1 000)	Employment	Payroll annual (\$1 000)
	Retail Trade	1 526 215	1 894 880 209	1 840 7453	222 867 879
52	Building material & garden supplies stores.	69 483	98 832 146	665 747	11 789 798
53	General merchandise stores	34 606	245 329 695	2 078 530	24 502 700
54	Food stores	180 568	369 198 584	2 969 317	37 227 785
55 ex.554	Automotive dealers	96 373	395 147 882	1 267 533	31 807 141
554	Gasoline service stations	105 334	134 705 359	675 080	7 569 143
Of which	Gasoline/convenie nce food	33 998	47 993 477	246 586	2 451 130
56	Apparel and accessory stores	145 490	101 714 474	1 144 587	12 038 524
57	Furniture and home furnishings	110 073	93 206 043	702 164	11 868 650
58	Eating and drinking places	433 608	195 316 992	6 547 908	52 569 715
591	Drug and proprietary stores	48 142	77 487 573	587 943	9 060 316
59 ex.591	Miscellaneous retail stores	302 538	183 941 461	1 768 644	24 434 107
592	Liquor stores	31 386	20 319 081	132 989	1 522 808
596	Non-store retailers	27 805	51 079 997	339 134	6 280 379

Source: 1992 Economic Census: Census of Retail Trade, U.S. Census Bureau -- last modified: 05/01/96  
Retrieved: 14 June 1999, <http://www.census.gov/epcd/ec92/rc92tabl.txt>

**Table 3. United States: concentration in the retail sector by largest firms (1992)**

	Establishments		Sales	
	(number)	As % of total	Amount (\$1 000)	As % of total
Total retail	1 526 215	100.0	1 894 880 209	100.0
4 largest firms	11 012	0.72	128 188 308	6.8
8 largest firms	17 202	1.13	193 611 596	10.2
20 largest firms	49 061	3.21	292 026 128	15.4
50 largest firms	92 484	6.05	423 674 807	22.4

Source: 1992 Census of Retail Trade, U.S. Department of Commerce, January 1995

**Table 4. United States: sales size of retail establishments firms (1992)**

	Establishments	Sales
	(number)	(\$1 000)
Total retail	1 526 215	1 894 880 209
Establishments operated entire year	1 309 420	1 825 437 218
With annual sales of		
\$25 000 000 or more	8 436	360 767 645
\$10 000 000 to \$24 999 999	26 214	405 015 880
\$5 000 000 to \$9 999 999	29 342	208 125 194
\$2 500 000 to \$4 999 999	53 359	182 640 697
\$1 000 000 to \$2 499 999	208 477	314 551 221
\$500 000 to \$999 999	274 201	194 654 123
\$250 000 to \$499 999	284 502	102 751 006
\$100 000 to \$249 999	285 176	48 283 161
\$50 000 to \$99 999	96 771	7 323 889
\$25 000 to \$49 999	29 471	1 126 182
\$10 000 to \$24 999	10 195	180 340
Less than \$10 000	3 276	17 880
Establishments not operated entire year	216 795	69 442 991

Source: 1992, Census of Retail Trade, U.S. Department of Commerce, January 1995

**Table 5. United States: summary statistics for all retail establishments (1992)**

SIC code	Kind of business	All establishments			
		Number	Sales (\$1 000)	Unincorporated businesses	
				Individual proprietorships (number)	Partnerships (number)
	Retail trade	2 671 715	1 949 192 730	1 413 862	129 833
52	Building materials and garden supplies stores	104 916	100 837 167	44 937	4 701
53	General merchandise stores	62 616	246 420 040	29 577	2 173
54	Food stores	277 629	377 098 256	142 695	15 886
55 ex. 554	Automotive dealers	206 706	406 935 763	117 090	7 738
554	Gasoline service stations	119 582	136 950 034	44 019	5 330
56	Apparel and accessory stores	220 806	104 210 690	88 064	9 276
57	Furniture and home furnishings stores	189 068	96 947 181	95 865	7 934
58	Eating and drinking places	557 879	200 163 488	232 047	35 198
591	Drug and proprietary stores	51 173	77 788 167	8 575	1 256
59 ex. 591	Miscellaneous retail stores	881 340	201 841 944	610 993	40 341

*Note:* Excludes non-employer direct sellers, SIC 5963.

*Source:* Census of Retail Trade, Non-employer Statistics Series, U.S. Department of Commerce, February 1995.

**Table 6. Number of firms, turnover and number of employed persons in retail services, 1993**

	Number of firms		Turnover		Employed persons [b]		
	Year (‘000)	per 1000 inhabitants [a]	million ECUs	Year [a]	Year (‘000) [a]	in % of industry	
Austria	36.6	4.5	34517		250.0	29.6	
Belgium	123.8	12.3	46763		181.1	23.3	
Britain	275.4	4.7	258841		2604.0	1992 47.4	
Denmark	47.6	1992 9.2	23450	1991	198.6	1992 38.5	
Finland	48.5	9.5	24125		175.3	36.9	
France	391.9	1992 6.7	277128	1992	1874.8	1992 41.1	
Germany	388.4	4.7	259606		2194.3	24.6	
Greece	198.6	18.9	22089		363.3	107.5	
Ireland	20.9	1991 5.8	10734	1991	109.1	1991 --	
Italy	888.3	1989 15.5	233464	1989	2389.0	1989 46.5	
Luxembourg	3.4	11.3	4174		19.6	--	
Netherlands	95.5	1992 6.2	65765	1992	669.5	1992 69.6	
Portugal	132.1	13.3	10417		149.4	13.2	
Spain	511.4	1992 13.0	76612	1988	1537.0	1992 54.4	
Sweden	44.4	1992 5.0	43402	1992	206.4	1992 21.6	
EC 15	3206.9	8.6	1391087		12921.3	38.8	
Iceland	1.6	4.6	--		8.0	1992 --	
Norway	38.3	[c] 8.7	--		123.0	--	
EEA	3246.8	8.6	--		13052.3	--	
United States	1589.1	6.0	--		12820.0	1987 --	
Japan	1300.0	10.4	--		6851.0	1991 --	

Sources: Panorama of the EC industry 1997. OECD Stan Database.

Notes: [a] If not 1993. [b] Full-time equivalents. [c] Establishments.

**Table 7. Breakdown of retail firms by main sector of activity (%)**

	<b>Food, Beverages Tobacco</b>	<b>Clothing footwear</b>	<b>Household Appliances</b>	<b>Motor vehicles fuel</b>	<b>Other goods</b>	<b>Year</b>
Austria	27.2	17.3	7.4	12.6	35.5	1994
Belgium	28.0	18.2	12.7	10.0	31.1	1988
Britain	36.7	8.6	15.7	24.6	14.4	1992
Denmark	24.5	16.4	16.8	13.9	28.4	1992
Finland	24.3	13.4	10.2	13.1	39.0	1993
France	26.1	19.0	11.2	15.3	28.4	1992
Germany	20.8	15.6	16.9	12.5	34.2	1992
Greece	29.5	19.5	14.8	7.7	28.5	1988
Ireland	54.1	9.0	4.4	11.5	21.0	1988
Italy	33.4	22.8	11.7	6.1	26.0	1991
Luxembourg	23.8	18.8	15.6	15.5	26.3	1993
Netherlands	20.0	18.3	21.1	8.3	32.3	1994
Portugal	39.7	18.8	7.4	5.5	28.6	1993
Spain	39.7	20.3	13.4	3.2	23.4	1988
Sweden	23.1	15.8	18.2	12.4	30.5	1993
Iceland	30.7	19.0	9.1	--	--	1992
Norway	29.2	16.3	8.3	12.1	34.1	1993
Switzerland	25.6	13.4	5.4	5.6	50.0	1994
Canada	25.5	18.3	11.7	--	--	1993
United States	19.1	12.9	10.1	18.9	39.0	1993
Australia	28.9	16.2	--	--	--	1992
Japan	39.1	9.6	9.9	10.4	31.0	1991

*Source:* EC [1996].

**Table 8. Employment characteristic of retailing (% of total), 1990**

	Salaried workers	Female workers	Part-time workers
Austria	83.6	64.4	13.0
Belgium	52.4	52.8	17.4
Britain	84.2	58.1	40.7
Denmark	84.0	52.8	38.3
Finland <sup>2</sup>	82.7	64.4	11.6
France	74.1	50.3	25.3
Germany	84.6	64.1	37.3
Greece	28.9	43.6	3.3
Ireland	70.2	45.6	13.4
Italy <sup>1</sup>	38.7	35.6	6.4
Luxembourg	80.6	51.6	11.5
Netherlands	79.1	56.7	47.3
Portugal	46.8	45.6	5.3
Spain	46.6	53.7	6.4
Sweden	82.8	60.5	37.3
Norway	82.0	64.0	22.0
Iceland	89.9	--	--
Switzerland	--	62.3	35.9
Canada	91.3	48.0	--
United States	92.6	47.2	33.5
Australia	79.7	51.2	54.0
Japan	68.1	45.7	--
Korea <sup>1</sup>	--	52.9	--
New Zealand	79.7	50.0	--

*Sources* : EC (1994), OECD (1996a) and national statistics.

*Notes* : (1) Data for employment structure cover wholesale and retail trade.

(2) Data for part-time workers cover total distribution.

**Table 9. Characteristics based on retail outlets, 1990**

	Number of retail outlets ( <sup>'000</sup> )	Retail outlets per retail firm	Employment per retail outlet	Employment per retail firm	Share of sole proprietors in total enterprises
Austria	53	1.45	4.8	6.4	83.0
Belgium	141	1.14	2.0	2.1	74.5
Britain	465	1.69	6.5	8.7	--
Denmark	51	1.07	3.9	4.2	76.6
Finland	38	--	4.1	6.2	41.9
France	547	1.40	3.8	4.5	71.8
Germany	537	1.38	4.4	5.4	81.5
Greece	186	--	1.8	1.9	80.1
Ireland	32	1.53	4.2	4.5	71.0
Italy	986	1.11	2.4	2.6	90.4
Luxembourg	4	1.18	4.2	5.1	62.5
Netherlands	120	1.26	5.3	6.7	70.1
Portugal	180	1.36	2.0	2.1	--
Spain	522	1.02	2.7	3.2	92.0
Sweden	80	1.80	3.9	4.7	29.8
Czech Rep.	52	--	2.4	--	--
Hungary	169	--	2.7	--	--
Iceland	2	1.25	4.7	5.3	26.1
Norway	39	1.02	3.2	3.2	18.0
Poland	376	--	2.0	--	--
Switzerland	56	--	6.8	7.7	70.6
Canada	157	--	8.6	--	76.0
United States	1986	1.25	6.6	8.1	68.8
Australia	154	--	6.7	--	--
Japan	1631	1.25	4.2	5.3	--
Korea	717	--	2.0	--	90.4
New Zealand	32	--	4.6	--	--

Sources : Pilat [1997]. Retailing employment and number of retail outlets and enterprises [EC, 1993a, 1994] and national sources.

**Table 10. The role of large stores in retail services**

	Supermarkets			Hypermarkets			Firms with more than 1000 persons (% of total) 1988	Sales area per store square meter end-1980
	Number	Density	Share of food retailing	Number	Density	Share of food retailing		
	1995 [a]	1995 [b]	1995	1995 [c]	1995 [b]	1995		
Austria	1764	217.8	47	83	10.2	13	--	--
Belgium	2003	198.3	58	98	9.7	18	--	--
Britain	--	--	31	733	12.5	24	58.7	--
Denmark	900	173.1	--	18	3.5	0	47.5	--
Finland	1047	205.3	47	75	14.7	13	--	--
France	7306	125.7	27	1074	18.5	42	50.6	111.1
Germany [d]	9831	120.0	32	1100	13.4	28	46.4	161.9
Greece	1521	144.9	67	21	2.0	0	--	--
Ireland	550	152.8	--	3	0.8	0	43.1	77.7
Italy	4253	74.4	19	182	3.2	5	34.8	70.7
Luxembourg	--	--	--	5	16.7	--	--	148.0
Netherlands	--	--	54	40	2.6	4	49.3	137.4
Portugal	613	61.9	25	31	3.1	40	5.3	--
Spain	7478	190.8	44	221	5.6	32	--	83.1
Sweden	2063	234.4	59	74	8.4	8	--	--
Norway	1343	31.0	63	30	0.7	--	--	--
Switzerland	548	7.8	--	55	0.8	--	--	--

Sources : EC (1993; 1993a; 1994) and national sources.

Notes: [a] Supermarkets are defined as covering between 400 and 2499 m<sup>2</sup>. [b] Density is per 1 million of inhabitants.

[c] Hypermarkets cover 2500m<sup>2</sup> and more. [d] German hypermarkets in 1995 consist of 554 superstores (over 1500m<sup>2</sup>) and 2038 large stores (over 1500m<sup>2</sup>). The number of German hypermarkets over 2500 m<sup>2</sup> is around 1100. The share of hypermarkets in food retailing covers superstores and large stores.

**Table 11. Japan: added value and labour productivity per manufacturing, wholesaling and retailing enterprises**

	Added value per enterprise			Labour productivity		
	(1 million yen)		Change (%)	(10 thousand yen)		Change (%)
	FY97	FY98	FY98/ FY97	FY97	FY98	FY98/ FY97
Commerce, mining and manufacturing	3 496	3 287	- 6.0	904	861	- 4.8
Manufacturing	4 300	3 990	- 7.2	1 060	1 013	- 4.4
Wholesaling	2 122	2 001	- 5.7	881	841	- 4.6
Retailing	3 044	3 028	- 0.5	594	580	- 2.3

Source: MITI, Preliminary report of 1999 (6th) Basic Survey of Japanese Business Structure and Activities, April 26, 2000.

**Table 12. Japan: overview of the retail sector**

	Number of establishments	Number of employees	Annual sales (million yen)
1982	1 721.5	6 369.4	93 971
1985	1 628.6	6 328.6	101 719
1988	1 619.8	6 851.3	114 840
1991	1 605.6	7 000.2	142 291
1994	1 450.0	7 384.2	143 325
1997	1 419.7	7 350.7	147 743

Source: USITC International Economic Review  
September/October 1997 and MITI Census of Commerce

**Table 13. Japan: structure of retail establishments (1985 and 1997)**

Number of employees per establishment	Number of establishments (thousand)		Number of employees (thousand)		Annual sales (¥ 1 billion)		Annual sales per employee (¥ 10 000)	
	1985	1997	1985	1997	1985	1997	1985	1997
1 ~ 2	940.0	709.0	1 523.0	1 146.0	12 942	12 485	850	1 089
3 ~ 4	408.2	350.3	1 372.3	1 186.6	18 761	19 573	1 367	1 649
5 ~ 9	190.4	212.4	1 180.8	1 342.5	21 951	28 556	1 859	2 127
10 ~ 19	57.9	93.5	758.3	1 248.2	13 694	26 050	1 806	2 087
20 ~ 49	25.4	43.3	735.3	1 232.2	13 402	25 195	1 823	2 045
1 ~ 49	1 621.9	1 408.5	5 569.6	6 155.4	80 750	111 859	1 450	1 817
> 50	6.7	11.2	759.0	1 196.7	20 969	35 895	2 763	3 002
Total	1 628.6	1 419.7	6 328.6	7 350.7	101 719	147 754	1 607	2 010

Source: MITI Census of Commerce

**Table 14. Japan: large retail stores**

	Department stores		Supermarkets	
	Number of establishments	Annual sales (¥ 1 billion)	Number of establishments	Annual sales (¥ 1 billion)
1985	360	7 982	1 931	7 299
1988	371	9 552	1 975	8 333
1991	416	12 085	2 013	10 079
1994	428	11 025	2 292	10 768
1997	432	11 109	2 753	12 304
1998	424	10 657	3 015	12 591

Source: MITI Yearbook of the Current Survey of Commerce.

**Table 15. Japan: commercial sales**

(¥ billion)

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Retail trade	144 810	146 305	145 644	138 706
Department stores	10 825	11 039	11 109	10 657
Supermarkets	11 515	11 937	12 304	12 591
Wholesale trade	489 813	478 550	457 846	448 823

Source: Yearbook of the Current Survey of Commerce 1998 MITI

**Table 16. Top 10 Japanese retailers**

(Fiscal year 1998)

	<b>Sales (millions of yen)</b>	<b>Pre-tax profit (millions of yen)</b>
Daiei Inc.	2 342 643	1 036
Ito-Yokado Co.	1 563 338	71 202
Jusco Co.	1 314 363	24 782
Mycal Corp.	1 149 514	15 013
Takashimaya Co.	1 053 288	6 757
Seiyu Ltd.	952 633	10 281
Uny Co.	789 125	14 473
Mitsukoshi Ltd.	684 811	86
Seibu Dept Stores Ltd	586 429	6 352
Marui Co.	509 845	26 632

Source: Asia Pulse/The Nihon Keizai Shimbun

**Table 17. Korea: selected data for the distribution sector**

	Establishments		Employment		Sales (billion won)		Labour productivity (US 1995=100)
	1993	1997	1993	1997	1993	1997	
Retail trade	759 000	763 000	1 548 000	1 665 000	73 428	94 694	32
Wholesale trade	118 000	148 000	603 000	668 000	94 289	126 005	

**Table 18. Korea: structure of retail formats**

(in percentage of total number of businesses)

Year	1995	1996	1997	1998 (F)	2000 (F)	2003 (F)
<b>Formats</b>						
Department stores	12.7	14.2	14.7	15.2	16.0	16.9
Supermarkets	3.8	3.8	3.8	3.9	3.9	3.9
Discount stores	0.8	1.3	2.9	4.6	7.9	11.3
Non-store retailing	0.5	0.6	0.7	0.8	0.9	1.2
Conventional markets	82.8	80.0	77.9	75.5	71.3	66.7
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note:* (F) denotes forecast*Source:* Korea Super Chain Stores Association "The Yearbook of Distribution Industry" 1997 taken from Retail Market Opportunities The Korea Chamber of Commerce and Industry December 1998**Table 19. Korea: market size and share of retailers**

Year	1995		1996		1997	
	Trillion won	%	Trillion won	%	Trillion won	%
Category						
Department stores	12.4	13.8	14.8	15.5	14.8	14.8
Supermarkets	3.4	3.8	3.6	3.7	4	4
Mass discount stores	0.8	0.9	1.57	1.7	3	3
Non-store selling	0.4	0.4	0.56	0.6	0.73	0.73
Other	72.7	81	74.9	78.5	77.5	77.5
Total sales in retailing	89.7	100	95.43		100.03	100

*Source:* Retail Market Opportunities The Korea Chamber of Commerce and Industry December 1998

**Table 20. Korea: players in the retail market**

<b>Format of retailing</b>	<b>Company name</b>	<b>Store name</b>	<b>Number of stores</b>
Discount Store	New Core Co. Ltd.	Kim's Club/Outlet	21
	Shinsegae Department Store Co. Ltd.	E-Mart	13
	Costco Wholesale Korea	Price Club	3
	Korea Makro Company Ltd.	Makro	4
	Carrefour Korea Ltd.	Carrefour	4
Department Store	Lotte Department Store	Lotte Department Store	6
	Shinsegae Department Store Co. Ltd.	Shinsegae Department Store	6
	Kumkang Development Ind. Co. Ltd.	Hyundai Department store	8
Supermarket	Nongshimga Co. Ltd.	Nongshimga	588
	Hanwha Stores Co. Ltd.	Hanwha Store	48
	LG Mart Co. Ltd.	LG Mart	62
CVS	Bokwang Family Mart	Family Mart	473
	LG Mart Co. Ltd.	LG 25	476
	Circle-K Korea	Circle-K	133
	Lotteria Co. Ltd.	7-Eleven	165

*Note:* The number of stores includes the stores under direct operations and franchise contracts

*Source:* Korea Super Chain Stores Association *The Yearbook of Distribution Industry Discount Merchandiser* 1998 cited in Retail Market Opportunities The Korea Chamber of Commerce and Industry December 1998

**Table 21. Hong Kong China: selected statistical data for all establishments in the retail and wholesale sectors (1997-1996)**

Major industry group		Number of establishments	Number of persons engaged	Number of employees	Compensation of employees \$ Mn.	Operating expenses \$ Mn.	Cost of goods sold \$ Mn.	Gross surplus \$ Mn.	Sales and other receipts \$ Mn.	Value added \$ Mn.
Retail Trade	1997	53 502	244 255	170 659	22 467	51 105	193 996	15 772	283 341	38 409
	1996	56 500	232 978	159 948	21 718	46 497	192 494	15 860	276 569	38 491
Wholesale Trade	1997	22 482	75 029	54 371	8 311	11 107	164 488	6 795	190 701	15 760
	1996	24 429	80 491	58 803	7 370	10 658	165 291	8 126	191 445	16 100

*Notes:*

(1) Cost of goods sold is given by deducting the value of purchases of goods for sale by changes in stocks.

(2) Value added is a measure of the contribution of an economic sector/industry to Hong Kong China's Gross Domestic Product.

*Source:* Summary results of Hong Kong China's 1997 Annual Survey of Wholesale Retail and Import and Export Trades Restaurants and Hotels 7 June 1999 updated 7 June 1999 found at: <http://www.info.gov.hk/censtatd/intro/wrie97.htm>

**Table 22. Singapore: share of retail and wholesale trade services in the distribution sector 1993 (per cent)**

	Total distribution sector	Retail trade	Wholesale trade services
Establishments	100	41.4	58.6
Employment	100	33.6	66.4
Turnover	100	8.9	91.0
Value added	100	28.7	71.3
Operating surplus	100	17.4	82.6

*Source:* Statistical Singapore Newsletter Vol. 19 No. 1 July 1996

**Table 23. Singapore: principal statistics of retail trade 1983 and 1993**

	1983	1993	Average Annual Growth (%)
Establishments (No.)	16 029	19 731	2.1
Employment (No.)	66 096	86 316	2.7
Turnover (\$million)	10 020	24 119	9.2
Value added (\$million)	995	4 296	15.8
Operating surplus (\$million)	503	1 084	8.0
Turnover per establishment (\$'000)	625	1 222	6.9
Value added per establishment (\$'000)	62	218	13.4
Operating surplus per establishment (\$'000)	31	55	5.7
Remuneration per employee (\$'000)	9.4	18.0	6.7

*Source:* Statistical Singapore Newsletter Vol. 19, No. 1, July 1996.

**Table 24. Thailand: number and share of retail and wholesale establishments in the services industry**

	<b>Bangkok Metropolis</b>		<b>Municipal Area</b>		<b>Sanitary District</b>	
	Number	%	Number	%	Number	%
Services Total	153 643	100	195 472	100	161 611	100
Retail trade	68 332	44.5	97 760	50	93 218	57.7
Wholesale trade	14 678	9.5	6 935	3.6	5 503	3.4

*Source:* Report of the 1996 Listing of Industrial & Business Establishments (The 1997 Industrial Census) Whole Kingdom : Thai National Statistical Office

**Table 25. Internationalisation of retail firms. Average growth rates for period 1980-1993.**

Regions Countries	Wal- Mart USA	K-Mart USA	Sears USA	Kroger USA	J.C. Penney USA	Dayton USA	Americ. Stores USA	Price Costco USA	Safeway USA	Daiei JAP	Ito Yokado JAP	Jusco JAP	Metro GER	Tengel- man GER	Carre- four FRA	Aldi GER	Promo- des FRA	Sains- bury BRI	Ahold NET	Auchan FRA
Argentina															0.8					
Canada	2.6	2.6	2.6		2.6			2.6	2.6		2.6	2.6	2.6		2.6					
Chili																				
Mexico	1.6	1.6	1.6					1.6							1.6					
USA										2.7	2.7		2.7	2.7		2.7	2.7	2.7	2.7	2.7
Australia										3.1										
Hong Kong	6.5									6.5	6.5		6.5	6.5						
Japan																				
Korea								9.1							9.1					
Malaysia															6.2					
Singapore		6.9																		
Taiwan										8.0					8.0					
Thailand															8.2					
Austria													2.3	2.3		2.3				
Belgium													2.1		2.1	2.1				
Britain								2.5					2.5	2.5	2.5	2.5				
Czech Rep.		0.7											0.7	0.7					0.7	
Denmark													2.0			2.0				
France													2.1	2.1		2.1				
Germany																	2.6			
Greece													1.3				1.3			1.3
Italy													2.2	2.2	2.2	2.2	2.2			2.2
Netherland											2.3		2.3	2.3		2.3				
Poland													0.7	0.7		0.7				
Portugal															3.0		3.0		3.0	
Slovakia		0.7																		
Spain															3.1		3.1			3.1
Switzerland																				
Turkey															4.6					
Growth rates																				
domestic	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	4.0	4.0	4.0	2.3	2.6	2.1	2.6	2.1	2.5	2.3	2.1
foreign	3.6	2.5	2.1		2.6			4.0	2.6		4.6	3.5	2.3	2.4	4.2	2.1	2.5	2.7	2.1	2.3
global	3.4	2.5	2.3	2.7	2.7	2.7	2.7	3.7	2.7	4.0	4.5	3.6	2.3	2.5	4.0	2.2	2.4	2.6	2.2	2.3
Number of foreign countries covered																				
	3	5	2		1			4	1		5	4	13	9	13	9	6	1	3	4
Total foreign sale share																				
	2.9	3.5	1.2					16.4	21.7		23.9	10.0	24.0	50.5	37.1	--	39.4	12.3	48.3	12.0

**Table 26. United States: sales of retail services, (millions of dollars)**

	To foreign persons by majority-owned foreign affiliates of US companies		To US persons by majority-owned U.S. affiliates of foreign companies	
	1995	1996	1995	1996
All countries	1 192	1 213	474	481
Canada	143	(D)	21	21
Europe	785	(D)	212	227
<i>Of which:</i>				
France	(D)	(D)	24	49
Germany	(D)	(D)	(*)	0
Netherlands	(D)	3	37	39
Switzerland	33	36	3	3
United Kingdom	(D)	120	73	68
Latin America and Other Western Hemisphere	(D)	(D)	45	42
Other countries	(D)	(D)	196	191
<i>Of which:</i>				
Australia	(D)	(D)	4	3
Japan	5	(D)	102	105

*Notes:* (D) Suppressed to avoid disclosure of data of individual companies.

(\*) Less than \$500 000.

*Source:* U.S. International Sales and Purchases of Private Services, Survey of Current Business, October 1998

**Table 27. Foreign Direct Investment position in the US retail sector, (millions of dollars)**

	<b>1996</b>	<b>1997</b>
<b>All countries</b>	<b>13 733</b>	<b>16 093</b>
<b>Canada</b>	<b>849</b>	<b>1 376</b>
<b>Europe</b>	<b>8 188</b>	<b>9 196</b>
Austria	( D )	849
Belgium	806	882
Denmark	23	19
Finland	-30	1
France	209	231
Germany	1 453	1 654
Ireland	( D )	190
Italy	362	( D )
Liechtenstein	-1	0
Luxembourg	( D )	( D )
Netherlands	1 616	1 628
Norway	7	2
Spain	74	88
Sweden	( D )	( D )
Switzerland	230	272
United Kingdom	2 374	2 912
<b>Latin America and Other Western Hemisphere</b>	<b>2 803</b>	<b>3 185</b>
South and Central America	18	21
Brazil	4	5
Mexico	7	8
Other Western Hemisphere	2 784	3 165
<b>Asia and Pacific</b>	<b>1 851</b>	<b>1 892</b>
Australia	4	9
Hong Kong China	16	16
Japan	1 783	1 815

*Source:* Direct Investment Positions for 1997, Survey of Current Business July 1998

**Table 28. Investment outlays by type of investment and investor, by industry of US business enterprise, 1997-1998 (millions of dollars)**

	Total	By type of investment		By type of investor	
		U.S. businesses acquired	U.S. businesses established	Foreign direct investors	U.S. affiliates
<b>1997</b>					
<b>Retail trade</b>		435	(D)	(D)	(D)
General merchandise stores	0	0	0	0	0
Food stores	(D)	(D)	1	0	(D)
Apparel and accessory stores	(D)	0	(D)	(D)	2
Other	407	(D)	(D)	(D)	(D)
<b>1998</b>					
<b>Retail trade</b>	1 963	1 959	4	1 050	913
General merchandise stores	0	0	0	0	0
Food stores	0	0	0	0	0
Apparel and accessory stores	0	0	0	0	0
Other	1 963	1 959	4	1 050	913
<i>Note:</i> (D) = Suppressed to avoid disclosure of data of individual companies.					
<i>Source:</i> Foreign Direct Investment in the United States, Survey of Current Business, June 1999					

**Table 29. Investment outlays, country of ultimate beneficial owner by industry of US business enterprise (millions of dollars)**

	1997	1998
<b>All countries</b>	<b>435</b>	<b>1 963</b>
<b>Canada</b>	<b>0</b>	<b>( D )</b>
<b>Europe</b>	<b>( D )</b>	<b>1 814</b>
Belgium	( D )	0
France	( D )	1,153
Germany	1	660
Italy	2	0
United Kingdom	256	0
<b>Latin America and Other Western Hemisphere</b>	<b>4</b>	<b>0</b>
South and Central America	4	0
Mexico	4	0
<b>Middle East</b>	<b>0</b>	<b>9</b>
Israel	0	( D )
<b>Asia and Pacific</b>	<b>( D )</b>	<b>( D )</b>
Hong Kong China	3	0
Japan	( D )	( D )
Taiwan	1	0

*Source:* Foreign Direct Investment in the United States, Survey of Current Business, June 1999

**Table 30. Foreign investment outlays in US retail trade, 1992-98**

<b>Year</b>	1992	1993	1994	1995	1996	1997	1998
<b>Outlays (Millions of dollars)</b>	256	1 495	1 542	2 838	2 988	435	1 963

*Source:* Foreign Direct Investment in the United States, Survey of Current Business, June 1999

**Table 31. Selected operating data of US retail enterprises acquired or established by foreigners, 1997-1998**

<b>Year</b>	<b>Millions of dollars</b>			<b>Number of employees</b>	<b>Number of hectares of land owned</b>
	<b>Total assets</b>	<b>Sales</b>	<b>Net income</b>		
1997	561	1 526	(*)	11 002	27
1998	2 483	6 484	124	105 359	65

*Source:* Foreign Direct Investment in the United States, Survey of Current Business, June 1999

**Table 32. Top 20 Global retailers of the world (1997)**

Rank	Country of Origin	Name of Company	Formats	Retail Revenue (\$million)	Countries of Operation
1	US	Wal-Mart	Discount Warehouse	117 958	Argentina Brazil Canada China Germany Mexico Puerto Rico US
2	US	Sears	Department Specialty	41 296	US
3	France	Carrefour	Discount Hypermarket	32 901	Argentina Brazil China France Italy Malaysia Mexico Poland Portugal South Korea Spain Taiwan Thailand Turkey
4	Germany	METRO AG Gruppe	DIY Mail Order Specialty Supermarket Warehouse	32 304	Austria Belgium China Denmark France Germany Greece Hungary Italy Luxembourg Netherlands Poland Romania Spain Switzerland Turkey UK US
5	US	Kmart	Discount	32 183	Canada Guam Mexico Puerto Rico Virgin Islands US
6	US	JCPenney	Department Drug Mail Order	29 618	Chile Mexico US
7	US	Dayton Hudson	Department Discount	27 757	US
8	Germany	Tengelmann	Drug Specialty Supermarket	27 535	Austria Canada Czech Republic France Germany Hungary Italy Netherlands Spain US
9	UK	Tesco	Supermarket	27 001	Czech Republic France Hungary Poland Slovakia UK
10	US	Kroger	Convenience Supermarket	26 567	US
11	Germany	Rewe Gruppe	Supermarket	26 273	Austria Czech Republic France Germany Hungary Italy Netherlands Poland Slovakia
12	Germany	Edeka Zentrale	Department Supermarket	25 457	Austria Czech Republic Denmark Germany Netherlands
13	France	Auchan	Hypermarket Restaurant Specialty	25 286E	Europe France Hungary Italy Luxembourg Mexico Poland Portugal Southeast Asia Spain US
14	France	Leclerc	DIY Hypermarket Specialty Supermarket	24 925E	France Poland Portugal Spain US

*(continued)***Table 32. Top 20 Global retailers of the world (1997)**

<b>Rank</b>	<b>Country of Origin</b>	<b>Name of Company</b>	<b>Formats</b>	<b>Retail Revenue (\$million)</b>	<b>Countries of Operation</b>
15	Japan	Ito-Yokado	Convenience Department Discount Hypermarket Restaurant Specialty Supermarket	24 607	Japan US
16	France	Intermarche	Convenience Hypermarket Supermarket	24 324	Belgium France Germany Italy Portugal Poland Russia Spain US
17	US	Home Depot	DIY Specialty	24 156	Canada US
18	Japan	Daiei	Convenience Department Discount Hypermarket Specialty	23 890	China Japan US
19	US	Costco	Warehouse	23 830	Canada Mexico South Korea Taiwan UK US
20	UK	J. Sainsbury	DIY Hypermarket Specialty Supermarket	23 654	France UK US

Source: "Stores" The Magazine of the U.S. National Retail Federation, at <http://www.stores.org>, February 1999.

E = Estimate

**Table 33. Korea: foreign direct investment in the distribution sector**

<b>Year</b>	<b>Number of approved investments</b>	<b>Invested amount (million US\$)</b>
1982-1988	24	19
1989-1991	18	42
1992-1994	31	89
1995	42	138
1996	62	297
1997	66	892
January-August 1998	32	439
<b>Total</b>	<b>275</b>	<b>1 916</b>

*Source:* Ministry of Finance & Economy, "Trends in Foreign Investment", cited by "Retail Market Opportunities" Korea Chamber of Commerce and Industry, December 1998

**Table 34. Major impediments to intra-EC retail services, 1997**

Member state	Retail development		Opening hours		Promotional techniques [c]	
	Number of regulations [a]	Level of protection [b]	Existence of a regulation	Level of restriction [b]	authorized	prohibited
Austria	3-1	**	yes	***	--	--
Belgium	0-1	***	yes	*	9	3
Britain	8-1	**	yes	*	19	0
Denmark	2-1	**	--	--	7	3
Finland	1-0	*	yes	***	--	--
France	0-3	***	yes	**	16	0
Germany	2-1	***	yes	***	5	7
Greece	0-0	*	yes	*	19	0
Ireland	--	--	--	--	19	0
Italy	3-1	***	yes	**	15	1
Luxembourg	--	--	--	--	19	0
Netherlands	0-0	*	yes	**	10	2
Portugal	4-3	*	yes	*	19	0
Spain	1-1	*	yes	*	19	0
Sweden	1-0	*	yes	*	--	--

Source: Single Market Review, 1997.

Notes: [a] The first figure refers to zoning laws, the second figure to specific retail laws inhibating the development of large scale stores. [b] from \* (low level) to \*\*\* (high level of restriction). [c] There are a total of 19 techniques examined: the missing number of techniques corresponds to techniques which may be conditionnally used in the Member state.

**Table 35. Non-store retail services in the CPC Version 1.0**

<b>Group</b>	<b>Class</b>	
623	Mail order retail trade services	
<i>Explanatory note:</i> This group includes: mail, catalogue or internet sales services by stores that accept orders of new goods by mail, telephone, e-mail etc. and ship or deliver products to the customers door		
	6231	Mail order retail trade services, of agricultural raw materials and live animals
	6232	Mail order retail trade services, of food, beverages and tobacco
	6233	Mail order retail trade services, of textiles, clothing and footwear
	6234	Mail order retail trade services, of household appliances, articles and equipment
	6235	Mail order retail trade services, of miscellaneous consumer goods
	6236	Mail order retail trade services, of construction materials and hardware
	6237	Mail order retail trade services, of chemical and pharmaceutical products
	6238	Mail order retail trade services, of machinery, equipment and supplies
	6239	Mail order retail trade services, of other products
624	Other non-store retail trade services	
<i>Explanatory note:</i> This group includes: the retail trade services of market stalls; the retail trade services of door-to-door sales persons; retail trade sales through vending machines		
	6241	Other non-store retail trade services, of agricultural raw materials and live animals
	6242	Other non-store retail trade services, of food, beverages and tobacco
	6243	Other non-store retail trade services, of textiles, clothing and footwear
	6244	Other non-store retail trade services, of household appliances, articles and equipment
	6245	Other non-store retail trade services, of miscellaneous consumer goods
	6246	Other non-store retail trade services, of construction materials and hardware
	6247	Other non-store retail trade services, of chemical and pharmaceutical products
	6248	Other non-store retail trade services, of machinery, equipment and supplies
	6249	Other non-store retail trade services, of other products

**Table 36. The definition of non-store retailers in NAICS 1997**

454	<b>Non-store Retailers</b>	Industries in the Non-store Retailers sub-sector retail merchandise using methods, such as the broadcasting of infomercials, the broadcasting and publishing of direct-response advertising, the publishing of paper and electronic catalogues, door-to-door solicitation, in-home demonstration, selling from portable stalls and distribution through vending machines. Establishments in this sub-sector include mail-order houses, vending machine operators, home delivery sales, door-to-door sales, party plan sales, electronic shopping, and sales through portable stalls (e.g., street vendors, except food). Establishments engaged in the direct sale (i.e., non-store) of products, such as home heating oil dealers, newspaper delivery are included in this sub-sector.
	4541	<b>Electronic Shopping and Mail-Order Houses</b> This industry comprises establishments primarily engaged in retailing all types of merchandise by means of mail or by electronic media, such as interactive television or computer. Included in this industry are establishments primarily engaged in retailing from catalogue showrooms of mail-order houses.
	4542	<b>Vending Machine Operators</b> This industry comprises establishments primarily engaged in retailing merchandise through vending machines that they service.
	4543	<b>Direct Selling Establishments</b> This industry group comprises establishments primarily engaged in non-store retailing (except electronic, mail-order, or vending machine sales). These establishments typically go to the customers' location rather than the customer coming to them (e.g., door-to-door sales, home parties). Examples of establishments in this industry are home delivery newspaper routes; home delivery of heating oil, liquefied petroleum (LP) gas, and other fuels; locker meat provisioners; frozen food and freezer plan providers; coffee break services providers; and bottled water or water softener services.
	45431	<b>Fuel Dealers</b> This industry comprises establishments primarily engaged in retailing heating oil, liquefied petroleum (LP) gas, and other fuels via direct selling.
	454311	<b>Heating Oil Dealers</b> This U.S. industry comprises establishments primarily engaged in retailing heating oil via direct selling.
	454312	<b>Liquefied Petroleum Gas (Bottled Gas) Dealers</b> This U.S. industry comprises establishments primarily engaged in retailing liquefied petroleum (LP) gas via direct selling.
	454319	<b>Other Fuel Dealers</b> This U.S. industry comprises establishments primarily engaged in retailing fuels (except liquefied petroleum gas and heating oil) via direct selling.
	45439	<b>Other Direct Selling Establishments</b> This industry comprises establishments primarily engaged in retailing merchandise (except food for immediate consumption and fuel) via direct sale to the customer by means, such as in-house sales (i.e., party plan merchandising), truck or wagon sales, and portable stalls (i.e., street vendors).

Table 37. The definition of Non-store retail in NACE Rev.1

Division	Group	Class		ISIC Rev.3 reference	Explanatory note in ISIC Rev.1
52			Retail Trade, except of motor vehicles and motorcycles; repair of personal and household goods		
	52.6		<b>Retail sale not in stores</b>	525	
		52.61	Retail sale via mail order houses	5251	This class includes retail sale of any kind of product by catalogue and mail order. Goods are sent to the buyer who made his choice on the basis of catalogues, models or any other offer.
		52.62	Retail sale via stalls and markets	5252	This class includes retail sale of any kind of product in a usually movable stall either along a public road or on a fixed market place
		52.63	Other non-store retail sale	5259	This class includes retail sale of any kind of product in any way which is not included in previous classes, such as by salespersons who go from home to home trying to sell their products (canvassers) or by vending machines or on a fee or contract basis.

**Table 38. Direct selling sales data for OECD members and selected non-OECD economies**

	<b>Year</b>	<b>Retail Sales (million US\$)</b>	<b>Number of sales persons</b>
Argentina	1998	1 101	394 000
Australia	1997	1 200	650 000
Austria	1997	357	42 000
Belgium	1997	98	13 924
Brazil	1997	4 045	1 839 044
Canada	1997	1 600	1 300 000
Chile	1996	180	160 000
Czech Rep.	1998	73.3	93 785
Denmark	1997	40	30 000
Finland	1997	180	60 000
France	1997	1 160	163 468
Germany	1997	3 600	335 000
Greece	1998	70.5	134 214
Hong Kong China	1997	66	60 840
Hungary	1998	81.1	107 453
India	1998	140	500 000
Indonesia	1998	207	2 580 000
Ireland	1997	60	14 000
Italy	1997	2 100	340 000
Japan	1998	26 200	2 500 000
Korea	1997	2 100	909 000
Malaysia	1997	658	1 800 000
Mexico	1998	1 950	1 320 000
Netherlands	1997	158	50 000
New Zealand	1998	102	90 430
Norway	1997	80	81 600
Philippines	1997	172	1 008 513
Poland	1998	300	380 000
Portugal	1997	63	25 800
Singapore	1997	78	24 000
Spain	1995	652	123 656
Sweden	1997	120	50 000
Switzerland	1997	362	5 438
Thailand	1998	541	2 500 000
Turkey	1998	110	325 000
United Kingdom	1997	1 767	470 000
United States	1997	22 200	9 300 000

*Source:* World Federation of Direct Sellers Associations, copyright WFDSA 1999.

**Table 39. US: Top 14 non-store retailers**

	<b>Fiscal Year End</b>	<b>1997 Sales (\$000)</b>	<b>% Change Sales</b>	<b>% Change Operating Income</b>	<b>Operating Income as % of Sales</b>	<b>Operating Income as % of Total Assets</b>
Amazon.com	12/31/97	147 758	838.4%	DNA	DNA	DNA
Brylane	1/31/98	1 314 839	86.4%	105.3%	8.4%	15.6%
Damark International	12/31/97	594 627	15.8%	22.9%	1.9%	5.5%
Fingerhut	12/26/97	1 534 967	-7.1%	-68.0%	2.4%	2.1%
Gateway 2000	12/31/97	6 293 680	25.0%	-18.5%	4.6%	17.4%
Hanover Direct	12/27/97	557.638	-20.4%	DNA	0.7%	1.8%
J.C. Penney Catalogue	1/31/98	3 948 000	4.7%	NA	NA	NA
Lands' End	1/30/98	1 263 629	13.0%	15.7%	7.8%	22.7%
Lillian Vernon	2/28/98	258 224	7.6%	78.3%	5.6%	10.1%
Micro Warehouse	12/31/97	2 125 698	10.9%	-29.4%	2.2%	7.4%
QVC	12/31/97	2 082 000	13.4%	NA	NA	NA
Spiegel*	1/3/98	1 482 733	-8.0%	NA	NA	NA
Victoria's Secret Catalogue	1/31/98	734 000	7.3%	NA	NA	NA
Williams-Sonoma Catalogue	2/1/98	331 519	11.2%	NA	NA	NA
<b>Composite</b>	<b>1997</b>	<b>22 669 312</b>	<b>35.7%</b>	<b>-9.1</b>	<b>4.1%</b>	<b>9.9%</b>

Notes: Operating income is defined as sales less cost of goods sold less selling, general and administrative expenses. DNA = does not apply. NA = Not applicable.

\*Includes Spiegel Eddie Bauer and Newport News catalogues

Source: Chain Store Age <http://www.chainstoreage.com>

**Table 40. Europe: estimates for distance-selling for personal consumers****July 1999**

	<b>Total sales 1998 (millions of Euro)</b>	<b>Per cent change 1998/1997</b>	<b>Sales per inhabitant (In Euro)</b>	<b>Share in retail trade services</b>
Germany	20 145	-0.7	246	5.6
United Kingdom	10 947	7.8	186	3.8
France	7 683	4.1	126	2.4
Austria	1 105	-0.8	138	NA
Switzerland	1 092	0.0	154	2.2
Sweden	833	0.3	94	2.5
Italy	749	2.2	13	0.2
Finland	673	3.9	129	NA
Denmark	658	1.0	124	2.2
Belgium	654	6.1	64	NA
Spain	633	5.0	16	NA

Source : *Fédération des Entreprises de Vente à Distance* found at [www.sevpcd.com/generale/do/do\\_06.htm](http://www.sevpcd.com/generale/do/do_06.htm)

**Table 41. Japan: scale and relative importance of non-store retailing (1998)**

	<b>Number of outlets</b>	<b>Annual sales (in million ¥)</b>	<b>%</b>
Total retail services	1 966 721	145 576 552	100.0
Store-based retail	1 310 761	116 026 255	79.8
Non-store retail	655 960	29 550 296	20.2
Door-to-door sales	204 015	15 265 987	10.5
Phone/mail- order/catalogue retail	89 288	2 656 117	1.8
Vending machines	206 599	1 662 241	1.1
Other	206 058	9 965 951	6.8

Source: Government of Japan

**Table 42. Japan: direct marketing sales**

<b>Fiscal Year</b>	<b>Retail Sales ¥ 100 million (A)</b>	<b>Growth Rate</b>	<b>Direct Marketing Sales ¥ 100 million (B)</b>	<b>Growth Rate</b>	<b>Share of direct marketing in total retail (A)/(B)</b>
1988	1 183 540	7.6%	13 100	13.9%	1.11%
1989	1 273 100	7.6%	14 600	11.5%	1.15%
1990	1 379 460	8.4%	16 400	12.3%	1.29%
1991	1 457 090	5.6%	17 600	7.3%	1.21%
1992	1 461 700	3.2%	18 400	4.5%	1.25%
1993	1 433 280	-1.9%	19 100	3.8%	1.33%
1994	1 448 230	1.0%	20 005	4.7%	1.38%
1995	1 446 770	-0.1%	21 100	5.5%	1.46%
1996	1 459 200	0.9%	22 300	5.7%	1.53%
1997	1 456 440	0.2%	22 000	-1.3%	1.51%
1998	1 455 765		21 800	-0.9%	

Source: Japan Direct Marketing Association found at [www.jadma.org/org/e/growth.htm](http://www.jadma.org/org/e/growth.htm) and Japanese authorities.

**Table 43. Japan: top twelve domestic mail order companies**

(in ¥ million)

Company	Products	Sales 1995	Sales 1996	1996/ 1995
Cecile	Underwear/ apparel	195 261	194 639	-0.3%
Benesse	Education by mail	161 400	172 696	+7.0%
Senshukai	Apparel and Home Goods	165 828	168 206	+1.4%
Nissen	Apparel	131 317	162 700	+23.90
Muto	Apparel and Home Goods	71 990	67 727	-5.9%
Felissimo	Apparel Home Goods Cosmetics	52 000	63 000	+21.1%
Fuji Sankei Living Service	Apparel Home Goods Cosmetics	58 772	61 799	+5.2%
Takashimaya	Apparel Cosmetics Food	46 507	46 270	-0.5%
Belluna	Apparel Home Goods Cosmetics	42 610	45 550	+6.9%
Mitsukoshi	Apparel Home Goods Cosmetics	45 165	43 458	-3.8%
Nihon Tsushin Kyoiku Renmei	Education by Mail	43 000	43 000	0
Sotsu	Education by Mail	38 000	41 000	+7.9%
Top Twelve as a group	-	1 051 850	1 110 045	+5.53%

Source: Far East Direct Inc. found at <http://www.fareastdirect.com>

**Table 44. Japan: top twelve foreign mail order companies**

(in ¥ million)

Company	Based	Sales 1994	Sales 1995	Sales 1996	1996/ 1995
L. L. Bean	USA	12 000	19 600	19 600	+0.0%
Eddie Bauer	West Germany	900	3 500	7 349	+109.9%
Land's End	USA	600	3 000	6 000	+100.0%
Franklin Mint	USA	5 800	5 800	5 800	+0.0%
Damart	France	-	3 620	4 300	+18.8%
Freeman's	West Germany	1 000	1 850	1 850	+0%
Williams Sonoma	USA	-	1 500	1 750	+16.6%
Victoria's Secret	USA	200	500	1 500	+200.0%
Quelle	West Germany	-	1 000	1 250	+25.0%
Paul Frederick	USA	150	500	1 200	+140.0%
Neiman Marcus	USA	-	200	800	+300.0%
Cashmere Store	UK	-	-	500	n/a
Top 12 as a group		26 650	41 070	51 899	+26.4%

Note: Sales figures are estimates

Source: Far East Direct Inc. found at <http://www.fareastdirect.com>

**Table 45. Non-store retail services: sub-sector specific restrictions/limitations to Market Access and National Treatment in GATS Schedules**

WTO Member	Mode 1		Mode 2		Mode 3		Mode 4	
	MA	NT	MA	NT	MA	NT	MA	NT
Argentina	N	N	N	N	N	N	U/	U/
Australia	Unbound except for mail order	N	N	N	N	N	U/	U/
Brazil	U	U	U	U	N	N	U/	U/
Bulgaria	U	U	N	N	N	N	U/	U/
Canada	<u>Itinerant Sellers</u> (Ontario and Quebec): Commercial presence required <u>Direct Sellers</u> (Nova Scotia British Columbia): Services must be supplied through a commercial presence	<u>Direct Sellers</u> (Newfoundland): Residency requirement	N	N	N	N	U/	U/
Czech Republic	Unbound except for mail order: none	N	N	N	N	N	U/	U/
Estonia	N	N	N	N	N	N	U/	U/
European Communities (EC 12)	Unbound except for mail order: none	Unbound except for mail order: none	N	N	None other than: E F I: State monopoly on tobacco IRL: Unbound for retail of alcoholic beverages	N	U/	U/

(continued)

**Table 45. Non-store retail services: Sub-sector specific restrictions/limitations to Market Access and National Treatment in GATS Schedules**

	Mode 1		Mode 2		Mode 3		Mode 4	
Austria	N	N	N	N	N	N	U/	U/
Finland	N	N	N	N	N	N	U/	N
Sweden	N	N	N	N	ENT applied to temporary trade in clothing shoes and foodstuffs that are not consumed at the point of sale	N	U/	U/
Georgia	N	N	N	N	N	N	U/	U/
Hong Kong China	U	U	N	U	N	N	U	U
Hungary	N	N	N	N	N	N	U/	U/
Iceland	N	N	N	N	N	N	U/	N
Japan	N	N	N	N	N	N/	U/	U/
Republic of Korea	U	N	U	N	N	N	U/	U/
Kuwait	U	U	U	U	N	N	U/	U/
Kyrgyz Republic	N	N	N	N	N	N	U/	U/
Latvia	N	N	N	N	N	N	U/	N
Lesotho	N	N	N	N	N	N	U/	U/
Liechtenstein	N	N	N	N	N	N	U/ Commercial presence required	U/ Commercial presence required
Mongolia	U	U	N	N	U	U	U/	U/
New Zealand	N	N	N	N	N	N	U/	U/
Norway	N	N	N	N	N	2 years prior residency requirement	U/	U/ 2 years prior residency requirement

**Table 45. Non-store retail services: Sub-sector specific restrictions/limitations to Market Access and National Treatment in GATS Schedules**

	Mode 1		Mode 2		Mode 3		Mode 4	
Peru	U	U	U	U	N	N	U/	U/
Poland (retail trade within Poland)	U	U	N	N	N	N	U/	N/
Romania	N	N	N	N	N	N	U/	U/
Senegal	N	N	N	N	U	N	U	U
Slovak republic	Unbound except for mail order: none	U	N	N	N	N	U/	U/
Slovenia	N	N	N	N	N	N	U/	U/
South Africa	N	N	N	N	N	N	U/	U/
Switzerland (retailing through mobile sales unit not covered)	N	N	N	N	N	N	U/ Commercial presence required	U/ Commercial presence required
United States	N	N	N	N	N	N	U/	N

Notes: N = none; N/ = none except as indicated in the Horizontal Part of the respective Schedule U = unbound; U/ = unbound except as indicated in the Horizontal Part of the respective Schedule; ENT = economic needs test  
Product-based exclusions not reflected