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Why Have Policies to Support Small and Medium Sized Retailers not Been Successful in South Korea?

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Abstract

Purpose: Support policies for small and medium-sized retailers (SMSRs) have been promoted in various ways over the past 20 years, but they are generally regarded as unsuccessful. The purpose of this study is to analyze the process and impact of policy changes, identify the reasons for the lack of success, and explore policy alternatives. **Research design, data and methodology:** This study explored major policies in various categories such as the retail industry, traditional markets, and Micro-Enterprises from the mid-1990s to the present. It also analyzed the short- and long-term impacts of major policies at the retail format level like SMSRs, using data from Statistics Korea's service industry survey. **Results:** This research found that sudden shifts in policy philosophy conflicted with the existing market structure and reduced the effectiveness of policies. It also found that policies aimed at improving competitiveness at the SMSRs-level had some effect, while policies aimed at supporting expenses at the individual store-level were difficult to achieve their intended purpose. **Conclusions:** The failure of the policy to support SMSRs is fundamentally due to the late response and conflicts between policies. It was also not successful due to the policy's focus on individual store-level expenses and maintaining employment rather than structural improvements of SMSRs format.

Keywords : South Korea, Retail Policy, Small and Medium Sized Retailer, Traditional Market, Large Discount Store

JEL Classification Code: L81, M38, N15, O14, O25

1. Introduction

Policy support for small and medium-sized retailers (SMSRs), including traditional markets, has been in place for more than 20 years. Despite many efforts, it is difficult to assess their success. The status of SMSRs has been declining, and in recent years, they have even been said to be at risk of collapse. Despite the fact that various laws have been enacted to support them, direct and indirect funding, and financial tax incentives, why are Korean SMSRs still not out of the woods?

This study started with this question. The development of industries in the Korean economy is closely linked to

government policies. South Korea is considered to be the epitome of a developmental state where the government creates markets and fosters industry (Amsden, 1989; Wade, 1990; Evans, 1995). The growth of export conglomerates and the development of manufacturing industries are the results of this process. Until the 1980s, retail industry was an excluded sector from these industrial policies, but this changed in the 1990s with the progress of market liberalization. Retail industry emerged as a sector that needed industrial development in preparation for market liberalization (Yi, 2016). Since then, the retail industry has undergone an evolutionary development process that is heavily influenced by the policy and institutions set by the

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government. In this respect, the crisis of SMSRs in South Korea is closely related to the government's policy direction for the retail industry and the industrial structure formed as a result. In addition, the policy framework and subsequent policy process are crucial to understanding the current crisis, as it is a cumulative result of a long period of time. The collapse of SMSRs and the crisis can be interpreted in terms of policy failure.

Once a certain industrial structure has been established under the influence of existing policies, it is difficult to change the existing framework due to the interests and institutional inertia that have been formed. Even if the government shows policy will to change the situation, it is not easy to achieve the intended purpose if it conflicts with the existing structure. This problem is even more pronounced when the government's authoritarian power is difficult to operate, as it has been in the past. This is what happened in South Korea's retail industry policy around 2010. The government changed its policy stance and sought a strategy of coexistence between large retailers and SMSRs. In response to the government's policy to adjust the structure, the market structure centered on large retailers responded with a strategy to neutralize the policy by flexibly evading its intent. In this process, various innovations have emerged in the retail industry and the industry has become more developed. This market behavior may be behind the lack of success of government policies to support SMSRs. Of course, there are some measures that have been taken to support SMSRs until recently that have had some short-term success. However, it is difficult to evaluate the success of these efforts as they have failed to create structural changes and realize the intentions of the policies. This study analyzes the failure of retail policies from the perspective of SMSRs, which, despite various government support policies, are heading towards crisis. This is an attempt to discover the lessons that can be learned from the failure and to identify successful policies for the future.

To this end, this study will analyze the changes in the nature of the Distribution Industry Development Act before and after 2010, which marked a significant shift in distribution industry policy, and will analyze the main policies that have been implemented until recently and their effects. The policies supporting SMSRs in South Korea are not unified. There are policies that support SMSRs at the level of the distribution industry as a whole, and various policies that support the traditional market separately. In addition, Micro-Enterprise policies that support self-employment in general also target SMSRs to a large extent. Therefore, they should be analyzed together to understand the structural changes in the retail industry. This study will synthesize all of them, classify them according to policy philosophy, and explore the emergence of main policies and the overall change process. It will evaluate the

appropriateness and effectiveness of policies by connecting the flow of policies with the process of structural changes in the retail industry. The structure of the retail industry will be analyzed at the retail format level, and the process of change by major retail format such as large discount stores and retail sales not in stores, which compete with SMSRs in the overall retail market, will be analyzed and identified. Most existing studies on policy effects are often geographically and temporally limited or limited to specific stores or format, making it difficult to capture changes in the structure of retail market (Ryu, 2004; Kwon & Park, 2013; Suh & Hahn, 2015; Suh & Jo, 2019; Kim et al., 2022). This study will comprehensively identify the effectiveness of the policy in the long run through a comparative analysis of sales changes in major retail format from 2000 to recently.

This study will be organized as follows. First, it will review the existing studies and present the differences and implications of this study. It will explore the emergence of the Distribution Industry Development Act in the late 1990s, the change in government policy philosophy that began with support for traditional markets around 2005, and the overall change in character around 2010. It will examine the major policies that have been developed since then and analyze the changes in each retail format to understand the relationship between policy and retail structure. From this, we will extract the factors that made the policies unsuccessful and draw lessons from them, and finally propose a discussion on alternative policies.

2. Literature Review

2.1. Existing Studies in Korea

SMSRs are heavily influenced by policy, which is why there is a lot of research on policy-related topics. In terms of time, various researches have emerged mainly since the 2000s, when retail industry policies were promoted in earnest. Most of the policy studies are evaluations of their effectiveness and suggestions for improvement. They have focused on major policy proposals. The Nadle-store policy, which was promoted in 2009 in accordance with the plan to innovate the distribution system of SMSRs, is a typical example. The Nadle-store project was promoted to complement the logistics competitiveness of SMSRs and was aimed at joint purchasing with public chain stores. As it was launched with great interest, various studies have been conducted on the joint logistics of Nadle-store and SMSRs (Seo et al., 2011; Jeong & Park, 2015; Jung, 2015; Suh et al., 2015; Park & Kwon, 2016). They argued that reducing logistics costs should be a priority to increase the competitiveness of SMSRs, and emphasized the need for policy measures to complement this in the public sector.

In a similar trend, a number of studies have explored the fragile survival conditions of traditional markets, emphasizing the effectiveness and necessity of government policies. Lee and Kim (2015) and Lee (2019) analyzed the effects of policies related to improving the environment of traditional markets and argued that modernization support projects for them led to an increase in consumer inflows. Kim and Kim (2013) pointed out the legislative problems of traditional market maintenance projects and suggested alternatives. In addition, studies on how to efficiently support traditional markets through consumer surveys have also emerged. Studies that analyzed consumers' revisit intentions (Kim, 2017) or explored service quality factors or socio-cultural values of traditional markets (Choo & Jung, 2015; Kim et al., 2017) used the analysis to suggest efficient support policies for traditional markets.

The regulation of large discount stores, which has been controversial until recently, is also a key research topic that has been the subject of various studies. Studies in this area are largely divided into those that show policy effects and those that do not. Using commercial district analysis of Seoul and data from credit card companies, Suh et al. (2015, 2019) analyzed the regulatory effects of restricting the business of large discount stores, but found no support for traditional markets. They argue that the relationship between regulated large discount stores and super-super markets (SSMs) and traditional markets is rather complementary. Kwon et al. (2013), and An and Park (2020) found the regulatory effects on large discount stores and SSMs after the regulatory policy on them, but the effect was not transferred to SMSRs. On the other hand, Park (2003) found that there is a competitive relationship between large discount stores and SMSRs through a consumer perception survey, and Lee and Cho (2007) also argued that they are in competition. From the same perspective, Ryu (2004) analyzed that the establishment of large discount stores leads to changes in the retail spatial structure, highlighting the closure of existing small and medium-sized food and beverage retailers, and Kwon and Sung (2014) found that the entry of large discount stores led to a decline in small supermarkets and grocery retailers. Shin (2012) found in a consumer survey in Daegu Metropolitan City that the holiday effect of large discount stores leads to an increase in sales of SMSRs including traditional markets. As such, regulatory policies for large discount stores have yielded different results depending on the target and scope of the study.

2.2. Existing Studies in Foreign Countries

Research on competition between large retailers and SMSRs, and the effects of large retailer regulation, varies by country. In the U.S., where there are no direct regulations

restricting their operations, studies have mainly focused on how the rise of large retailer affects existing retailers and employment. As in Korea, these studies have produced mixed results, depending on the population and scope of the study. While the entry of large retailers such as Wal-Mart has been shown to have a significant negative effect on existing food retailers in the neighborhood, causing them to lose sales or go out of business (Capps & Griffin, 1998; Singh et al., 2006; Jia, 2008; Ailawadi et al., 2010), it has also been argued that it has had a positive impact on the retail industry and consumers in general, due to the emergence of new players and innovation in retailing due to competition (Foster et al., 2006; Hausman & Leibtag, 2007; Matsa, 2011). In terms of employment creation, studies have found mixed results. Some studies have found positive effects (Hicks & Wilburn, 2001) and others have found negative effects (Neumark et al., 2008). Other studies have found no significant effect on employment, suggesting that the presence of large retailer induces business closures as well as start-ups (Sobel & Dean, 2008).

In Europe, regulations on large retailers have been imposed on their opening hours due to a variety of factors, including protection of small retailers, ensuring workers' right to rest, protecting family ties, and religious practices (Williamson et al., 2006). In this context, studies in Europe have taken various perspectives on the effects of regulated hours. They have generally found that the removal of hours regulation leads to differences in the ability of retailers to respond to longer hours, and that existing SMSRs suffer as consumers shift their purchases to larger retailers (Tanguay et al., 1995; Inderst & Irmen, 2005; Williamson et al., 2006). However, when the effects of deregulation are extended to the retail industry as a whole or to the national economy, there is a large body of research that suggests that the benefits of deregulation are largely positive, leading to increased consumer welfare and increased industry efficiency (Boylaud & Nicoletti, 2001; Schivardi & Viviano, 2010; Griffith & Harmgart, 2012), i.e., regulation does not have a positive impact on the industry and the economy. Accordingly, European countries have been pursuing a policy of gradual deregulation since the 1990s.

These differences in the form and history of regulation across countries have led to differences in research trends. In South Korea, there have been many micro-level studies analyzing the effects of regulations by focusing on specific retail format or stores, while overseas, there have been many macro-level studies analyzing the implications of regulations in terms of efficiency of the industry and the economy as a whole, such as employment. This study differs from the existing studies in that it is a meso-level study that tracks the effects of policies through trends of main retail formats in the overall retail industry and focuses not only on

specific policies, but also on the trends and long-term effects of policies.

3. Changes in Retail Policy Philosophy since the Mid-1990s

3.1. Mid-1990s to around 2010: Large Retailer-oriented Policy Philosophy under Market Liberalization

The 1990s can be characterized as a period of great transition for the South Korean retail industry. Ahead of the liberalization of the distribution industry in 1996, the Korean government pushed for opening up the industry to domestic large corporations. This was a time when the distribution structure based on SMSRs was rapidly reorganized into a market dominated by modern large retailers. Even when the plan to liberalize the distribution industry was announced in 1986, the policy was still focused on SMSRs. The Wholesale and Retail Industry Promotion Act, which served as the basic law for the distribution industry during this period, regulated large retailers such as department stores, while supporting and fostering SMSRs (Kim & Kwon, 2013, p. 91). However, as the schedule for market liberalization took shape in the 1990s, in order to improve the competitiveness of the retail industry in preparation for the opening up, the retail policy clearly took on an efficiency orientation led by large retailers. The Distribution Industry Development Act was enacted in 1997. This law explicitly stated the purpose of strengthening competitiveness by deregulating the distribution industry. Along with this, it also changed the regulations for establishing large retailers from a permit system to a registration system to ease various regulations (MOLEG, 1997).

Although the law was enacted in 1997, these initiatives were already being promoted as part of the opening-up plan since the early 1990s. In this atmosphere, in 1993, the first large discount store in South Korea opened in Changdong, Dobong-gu, Seoul (E-Mart Changdong). Unlike department stores, which were synonymous with large retailers until then, large discount stores overlapped with traditional markets in terms of product assortment. With the bargaining power of large-scale transactions and their own logistics system, large discount stores have emerged as the dominant player in the South Korean retail industry, encroaching on the retail market dominated by traditional markets. The Distribution Industry Development Act, enacted in 1997 and revised in 1999, further facilitated the registration of large discount stores and the establishment of their own logistics centers (MOLEG, 1999). The system was set up so that large discount stores could expand their market share and

strengthen their logistics competitiveness. With the removal of regulations and legal support for large discount stores, the South Korean retail market entered a period of rapid structural change, with large capitalization and intensified competition. The number of large discount stores, which first appeared in 1993, increased to 93 in 1998, 244 in 2002, 316 in 2005, and 458 in 2010 (Statistics Korea, Wholesale and Retail Survey). As a result, the market share of large discount stores, which accounted for only 0.84% of total retail sales in 1995, increased to 16% in 2006, leading to changes in the retail market (Statistics Korea, Sales Index by Retail Business Type). In this respect, the period from the mid-1990s to the mid-2000s can be considered a period when South Korean retail industry entered a full-scale reorganization led by modern large retailers in accordance with the policy philosophy of The Distribution Industry Development Act.

However, the restructuring of the retail industry did not proceed smoothly without any problems, as SMSRs, which were responsible for most of the retail market in the previous period, sharply contracted and fell into crisis. From the early 2000s, there was a nationwide outcry about the collapse of local traditional markets. The demand for supporting traditional markets began to be strongly raised in local and central political circles. Accordingly, policies to support traditional markets emerged. The Special Act for the Development of Traditional Markets enacted in 2005. This law established traditional markets as the core of the SMSRs and emphasized the need to support the modernization of facilities and management (MOLEG, 2005). Since then, sanitary facilities such as roofs, toilets, and parking lots have been installed in traditional markets across the country to improve consumer convenience. In 2006, the government decided to expand the scope of support to include shopping streets in addition to traditional markets with the Special Act for the Development of Traditional Markets and Shopping Streets (MOLEG, 2006), and further strengthened the protection and support for them with another amendment in 2010 (MOLEG, 2010). The specialized stores which represents SMSRs including traditional markets in Korean Standard Industrial Classification (8th revision) (Statistics Korea, 2000), has been experiencing a steady decline in sales since the mid-1990s, but as a result of this support, there was a brief reversal in 2006 and 2007 (Statistics Korea, Sales Index by Retail Business Type). As such, the policy direction of the retail industry has been shifting away from large retailers, starting with support for traditional markets around 2005. However, the government's policies in the 2000s were still based on the Distribution Industry Development Act, which basically strengthened the efficiency of retailing led by large retailers. In part, it can be said that this was a period when the government promoted

support policies for traditional markets in the form of special laws.

3.2. Transformation of Retail Policy Philosophy around 2010: Regulation on Large Retailer and Support on SMSRs

Before and after 2010, support for SMSRs, including traditional markets, was expanded in various ways. The issuance of Onnuri-vouchers, which can only be used in traditional markets and shopping centers, began in 2009. Onnuri-voucher is a system that restricts its use to SMSRs, including traditional markets, to encourage consumption at these outlets. Onnuri-vouchers are sold at a discount of 5%-10% off the face value, giving consumers the benefit of price discounts. The government bears the cost of the price reduction to help drive sales of SMSRs. The issuance value of Onnuri-voucher started at 20 billion won in 2009, the first year of its implementation, and has steadily increased to over 1 trillion won in 2016. The effectiveness of the Onnuri-voucher policy is generally accepted that it increases sales of SMSRs in general as the amount issued increases (Lee et al., 2018; Back, 2019).

Another support policy implemented is the chaining of SMSRs and the establishment of integrated logistics centers to support them. In October 2009, the government announced the Plan for Innovation of Distribution System for SMSRs as a policy to strengthen the self-sustainability of SMSRs, and selected Nadle-stores, which are public chain stores, to establish a joint purchasing system. By 2012, the government plans to expand the number of Nadle-stores

(Smart shops) to 10,000 by investing a total of 700 billion won. It also plans to build 20 integrated logistics centers nationwide for them (Small and Medium Business Administration, 2009). Considering that the competitiveness of large discount stores and SSMs is fundamentally derived from bulk purchasing and their own logistics systems, the policy was to build a similar system for SMSRs with policy support. Therefore, the policy was promoted with high interest and expectations from SMSRs. The fact that the first Nadle-store had a high competition rate of 12 to 1 in the selection process speaks to the atmosphere at the time. However, the project was hampered early on by disagreements between government agencies over the operating system of the integrated logistics center. As a result, the center was downgraded to a pilot logistics center, and the construction of the center did not proceed as planned due to difficulties in budget allocation (Jung, 2015). As the project of the integrated logistics center, which was supposed to serve as a center for joint purchasing, stalled, the Nadle-store also failed to achieve the expected effect. The Nadle-store policy has since become famously ineffective as it has been transformed into an individual store level support without an integrated logistics system. The integrated logistics centers were reduced to individual operations (Wholesale Logistics Centers for SMSRs), which were built by supermarket cooperatives in each region with government support and their own investments.

Nevertheless, the demand for logistics support for SMSRs was strong, and the local government participated in supporting them, and the centers were established one after another in each region (Table 1).

Table 1: Wholesale Logistics Center for SMSRs

	Seoul	Busan	Daejeon	Incheon	Gwangju	Daejeon	Gyeonggi	Chungbuk	Chungnam	Jeonbuk	Jeonnam	Gyeongbuk	Gyeongnam	Gangwon	Jeju	Total
In operation	1	3	1	1	1	1	8	3	3	5	2	4	3	1	1	38
Under construction										1			1			2

Source: Ministry of SMEs and Startups, Micro-Enterprise Assistance Division (2021)

However, it was found that the range of products handled by the centers was narrow, skewed toward alcoholic beverages, and the proportion of direct purchases from producers is low, and price competitiveness is not high. As a result, the utilization rate of logistics centers by member retailers is low, and logistics centers rarely performed joint purchasing functions (Jung, 2015; Park & Kwon, 2016).

The policies on the distribution industry promoted before and after 2010 show that the government's policy philosophy is shifting from the large retailers to the coexistence and co-benefit of large retailers and SMSRs. However, the retail market was already in a situation where large retailers were dominating and SMSRs were being pushed out at an accelerated pace due to the government's existing policies. As a result, the government's distribution

policy has been more protective of the traditional market and SMSRs. The Distribution Industry Development Act, which had previously played a key role in the large retailers-oriented distribution policy, has undergone a complete reorientation towards regulating large retailers and protecting SMSRs (Table 2). For the first time in the 2010 revision, the Act emphasized the protection of SMSRs and regulated large discount stores and SSMs. It stated that the establishment of large discount stores could be restricted within 500 meters of the boundaries of traditional markets or traditional shopping streets (MOLEG, 2010). In response to SMSRs' increasingly assertive demands for their right to survive, the government amended the law in 2012 to authorize local governments to restrict opening hours and order mandatory closures for large discount stores and

SSMs (MOLEG, 2012a). This was the beginning of the regulation of large discount stores, which has been controversial until recently. In 2013, the government further strengthened registration requirements by requiring new large discount stores to attach a community cooperation development plan and a commercial impact assessment. In addition, it extended the opening hours restriction of large discount stores and SSMs by two hours from 0:00 am to 8:00 am to 0:00 am to 10:00 am (MOLEG, 2013a). In 2014, the law further strengthened protections for SMSRs by prohibiting large discount stores from gradually expanding their existing stores to circumvent regulations (MOLEG, 2014). In 2016, the Distribution Industry Development Act was amended again to require win-win cooperation in regional cooperation plans for new large discount stores and

to further strengthen commercial impact assessments (MOLEG, 2016). The Distribution Industry Development Act has been amended almost every year since 2010, repeatedly strengthening regulations on large discount stores and protections for SMSRs. Nevertheless, the status of SMSRs has continued to decline. Since 2016, the existing protections for SMSRs have continued, but nothing new has been added to the law to strengthen their protection, other than an amendment to extend existing regulations (MOLEG, 2020a). This is not unrelated to the ongoing debate on regulation, but may also indicate the limitations of the policy in protecting and supporting SMSRs. Recently the ineffectiveness of regulation of large discount stores has been strongly criticized, and there has been an emerging debate on the need to reorient the policy.

Table 2: The Evolution of Support Policies for SMSRs

	Mid-1990s - Mid-2000s	Mid-2000s – around 2010	Post-2010
Distribution Industry Development Act	Large retailers-oriented policies	Large retailers-oriented policies	SMSRs-oriented policies - Regulation on large retailers - Restriction on establishment of large discount stores within 500 meters of traditional markets (2010) - Restriction on opening hours of large retailers (2012) - Strengthened requirements for the establishment of large discount stores and extension of the opening hours restriction by 2 hours (2013) - Blocking the bypass expansion strategy of large retailers (2014)
Policies supporting traditional markets and SMSRs	Absence	Modernization of facilities and consumer amenities - Special Act for the Development of Traditional Markets (2005) - Special Act for the Development of Traditional Markets and Shopping Streets (2006, 2010)	Strengthening consumer incentive and logistics system - Issuance of Onnuri-voucher (since 2009) - Chain Nadle-store (since 2010) - Wholesale Logistics Center for SMSRs (2009)
Policies to support micro-enterprises	Manufacturing-oriented	Manufacturing-oriented	Retail-oriented from an employment policy at individual store level - Emphasized support for traditional markets and shopping Streets (2012) - Establishment of Micro-Enterprise Market Promotion Corporation and support for SMSRs (2013) - Principles for lifecycle support, including start-up, growth, and exit from an employment perspective (2014) - Enactment of the Micro-Enterprises Act for SMSRs etc. (2020)

Source: Author's analysis from each policy and law

Since 2010, the Distribution Industry Development Act has not been the only one to protect SMSRs. micro-enterprises policies, which cover all micro business self-employment, including SMSRs, have also provided protection and support for SMSRs (Table 2). In 2012, the Special Act for Supporting Micro-Enterprises expanded the scope of the Micro-Enterprise Promotion Fund, which was previously focused on manufacturing, to include traditional markets and shopping streets (MOLEG, 2012b). In 2013, it was decided to establish the Micro-Enterprise Market

Promotion Corporation for supporting SMSRs and other micro-enterprises (MOLEG, 2013b). This support system has been continued in the Micro-Enterprise Act enacted in 2020. In its rationale for enacting the Micro-Enterprise Act, it noted that several individual laws for supporting micro-enterprises, SMSRs and traditional markets, had been in effect but had limitations, and stated that it was enacting a basic law specific to small and medium-sized enterprises as an independent sector of economic policy (MOLEG, 2020b). Policies to support traditional markets and SMSRs are key

components of a legal framework that provides protection and support not only for retail, but also for self-employment as a whole. Since 2010, the intensity of policy support for SMSRs has been akin to an all-out war, with major deployments at various levels.

However, policies related to micro-enterprise have not focused on increasing the efficiency of the retail format to make SMSRs more competitive. This is related to the government's view of approaching the issue of micro-enterprises from an employment perspective. The government has divided the life cycle of the self-employed into three stages: start-up, growth, and exit, and has stated that it will provide customized support at each stage to maintain employment (Ministry of Economy and Finance, 2014). This means that support will be provided to self-employed individuals and individual stores to help them maintain their livelihoods. Since then, most of the support policies have been focused on supporting the operation and expenses of individual stores, such as low-interest loans, rent support, protection of tenancy. The phased reduction of card fees, which was implemented after a public controversy, is a typical policy in the same vein. However, it is difficult for SMSRs that are at a structural competitive disadvantage to regain competitiveness by supporting short-term expenses for individual stores. This is reflected in the decline of the traditional market and SMSRs in general, despite the supportive policies that have been in place since the 2010s. However, this trend was intensified in 2020 when the crisis of self-employment emerged as a serious social issue due to the COVID-19 pandemic. Between 2020 and

2022, seven to eight rounds of cash assistance totaling about \$40 trillion were provided to micro-enterprises, including traditional markets and SMSRs, in the form of temporary measures and special support (Yi & Lee, 2022, p.154). Given that the crisis in SMSRs and self-employment in general is still ongoing, it is difficult to assess the contribution of these measures to strengthening the viability of micro-enterprises.

4. Effect of Support Policies on SMSRs

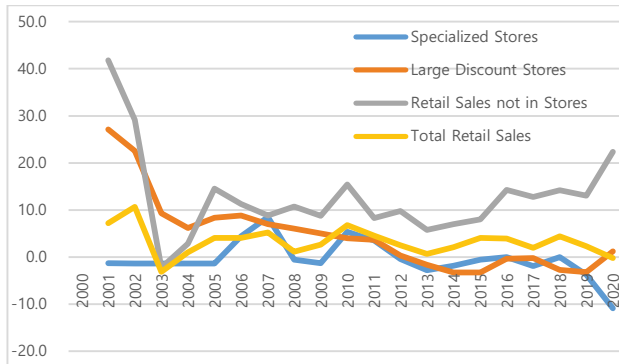
Not only did the government's retail policy shift in favor of SMSRs in the 2010s, but until recently, there were actually various policies in place to support SMSRs including traditional markets, but they were not very effective. While some of the policies have had some effect, they have not been able to stop the structural decline of the SMSRs. In other words, they have only been able to temporarily control the rapid decline. In the following analysis, this study uses Statistics Korea's Sales Index by Retail Business Type (retail format) to compare the sales growth trends of specialized stores (SSs) and major retail formats from 2000 to 2020. The main retail formats consist of large discount stores (LDSs), retail sales not in stores (RSSs) and SSs which denote SMSRs, according to the Korean Standard Industrial Classification (8th revision) (Statistics Korea, 2000). It then estimates the impact of the supportive policies implemented for SSs during this period by retail format level.

Table 3: Sales Trends of Main Retail Formats

	Total Retail Sales	Increasing Rate (%)	Large Discount Stores	Increasing Rate (%)	Retail Sales not in Stores	Increasing Rate (%)	Specialized Stores	Increasing Rate (%)
2000	59.5		39.6		19.4		93.4	
2001	63.8	7.2	50.3	27.1	27.5	41.8	92.2	-1.3
2002	70.6	10.7	61.7	22.6	35.5	29.1	90.9	-1.4
2003	68.4	-3.1	67.4	9.2	34.7	-2.3	89.7	-1.4
2004	69.1	1.0	71.6	6.2	35.7	2.9	88.4	-1.4
2005	71.9	4.1	77.5	8.3	40.9	14.6	87.2	-1.4
2006	74.8	4.0	84.4	8.8	45.5	11.2	91.0	4.4
2007	78.7	5.2	90.3	7.0	49.5	8.8	98.7	8.5
2008	79.6	1.1	95.7	6.0	54.8	10.7	98.2	-0.5
2009	81.7	2.6	100.5	5.0	59.6	8.8	96.9	-1.3
2010	87.2	6.7	104.5	4.0	68.8	15.4	102.1	5.4
2011	91.2	4.6	108.3	3.6	74.5	8.3	105.7	3.5
2012	93.5	2.5	108.7	0.4	81.8	9.8	105.3	-0.4
2013	94.1	0.6	106.9	-1.7	86.5	5.7	102.4	-2.8
2014	96.1	2.1	103.4	-3.3	92.6	7.1	100.5	-1.9
2015	100.0	4.1	100.0	-3.3	100.0	8.0	100.0	-0.5
2016	103.9	3.9	99.7	-0.3	114.2	14.2	100.0	0.0
2017	105.9	1.9	99.5	-0.2	128.8	12.8	98.1	-1.9
2018	110.5	4.3	96.8	-2.7	147.0	14.1	98.1	0.0
2019	113.1	2.4	93.7	-3.2	166.2	13.1	94.4	-3.8
2020	112.9	-0.2	94.	1.2	203.4	22.4	84.1	-10.9

Unit: 2015=100, Volume Index

Specialized Stores denote SMSRs (Statistics Korea, 2000). Source: Statistics Korea, Sales Index by Retail Business Type



Unit: 2015=100, Volume Index

Specialized Stores denote SMSRs (Statistics Korea, 2000).

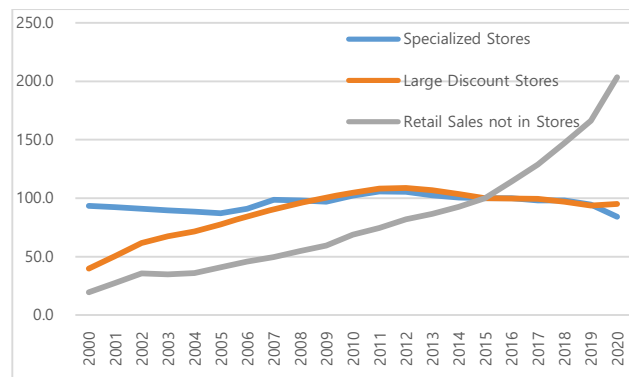
Source: Statistics Korea, Sales Index by Retail Business Type

Figure 1: Increasing Rates of Main Retail Formats in Sales

The SSs show two periods of real growth by revenue between 2005 and 2012 after a period of consistent negative growth in the 2000s (Figure 1): The 2005-2007 period and the 2010-2012 period. The first period was a period of massive support for facility modernization, which dramatically increased consumer convenience compared to the previous period. It is believed that consumers responded favorably as the crisis of the traditional market emerged as a social concern along with the increase in convenience. At the level of the retail market as a whole, this was also the period when SSs briefly exceeded the sales growth rate of the entire retail market. In 2007, the year-on-year growth rate of total retail sales was 5.2%, while the growth rate of SSs was 8.5% (Table 3). The second upswing, in 2010, coincided with the launch of Onnuri-voucher (which began in 2009), the wholesale logistics center for SMSRs, and regulations on LDSs. In particular, Onnuri-voucher, which is sold at a discount of 5-10% from the face value, is estimated to have had a strong incentive effect on the traditional market by providing consumers with a price reduction benefit. Regulation of LDSs began in 2010 by restricting new establishments within 500 meters of traditional markets and shopping streets. Since this was a restriction on new establishments, the effect of boosting traditional markets was not immediately apparent. It was only in 2012 that the full-scale regulation of opening hours began, so it is unlikely that the regulation of LDSs had a significant impact on the increase in sales of SSs during the 2010-2012 period. The impact of the LDSs regulations may have been felt after 2012, when sales of both SSs and LDSs continued to decline together. During the second bull market, sales growth in SSs did not keep pace with overall retail sales growth. In 2010, year-over-year sales growth in SSs rose to 5.4%, compared to 6.7% growth in total retail sales (Table 3). This suggests that growth in other retail formats

was stronger. Since then, sales changes in SSs have increasingly diverged from the overall retail sales trend.

Sales in LDSs show a different trend over time. Their growth has already shown a weakening trend since the early 2000s, independent of regulations (Figure 1). By 2006, their sales growth rates were still high, approaching 10%, but the overall trend was slowing dramatically. In the first period (2005-2007) when the sales of SSs increased, the sales growth rate of LDSs maintained a moderate downward trend. It seems that the support policies for SSs have been effective and have not had a significant negative impact on LDSs. Compared to the overall retail market, LDSs' sales growth has outpaced overall retail sales during this period. This means that they are still driving overall retail sales growth. However, in the second period, the trend is reversed, with the growth rate of LDSs consistently underperforming total retail sales. In the second period, direct support for SSs does not seem to have affected LDSs. By 2011, during the rise of SSs, LDSs had maintained their existing modest slowdown. In 2012, when opening hours regulations began, LDSs finally turned their sales growth negative. The effect of the regulation has been seen. However, the decline in sales at LDSs did not translate into an increase in sales at SSs after 2012. Both retail formats have seen a concurrent decline in sales, so it appears that the regulation of LDSs has not explicitly boosted SSs. However, since the decline in sales of SSs after 2012 was similar to that of LDSs until the impact of COVID-19, it is possible that some of the effects of LDSs regulations were transferred to SSs. While LDSs regulation may not have had the effect of increasing the overall sales of SSs, it may have had a positive effect of cushioning the large decline. This may explain the conflicting results of existing studies on the effects of LDSs regulation, depending on the scope and timing of the study.



Unit: 2015=100, Volume Index

Specialized Stores denote SMSRs (Statistics Korea, 2000).

Source: Statistics Korea, Sales Index by Retail Business Type

Figure 2: Sales Trends of Main Retail Formats

This complex phenomenon is due to the existence of other competitors in the retail market. Therefore, it is necessary to check the effectiveness of the policy through the sales trend of RSSs, which is the strongest competitor of SSs in the retail market. This is because RSSs overlaps with SSs in terms of product assortment and has been growing rapidly since the mid-2000s. It was the only one of the three competitors to consistently outpace the growth rate of total retail sales in the 2000s, and the gap gradually widened over time. It began to surpass LDSs in 2005 and has steadily widened the gap since then (Figure 1). Regardless of the support for traditional markets or the regulation of LDSs, it was growing as a new player in the retail market. Even during the brief upturn in sales of SSs in the 2000s due to government support, the growth of RSSs was largely unaffected and continued to outpace the two competitors. In particular, while sales of LDSs reversed their decline after 2012, when they began to regulate their opening hours, the growth of RSSs accelerated. This trend suggests that the regulatory effects of LDSs may have been transferred more to the other competitor in the market, RSSs, than to SSs. Since 2012, sales of RSSs have continued to rise sharply at a time when sales of SSs and LDSs have fallen together (Figure 2). This trend became even more extreme during the COVID-19 pandemic in 2020. This phenomenon accelerated the decline of SSs in the 2010s and further amplified the social debate on the regulation of LDSs.

5. Conclusion and Discussion

This study seeks to understand why the policy support for SMSRs has been unsuccessful over the past two decades, despite a steady expansion of the program. To do so, it examined the transitions and highlights of policy philosophies from the mid-1990s until recently. It analyzed the characteristics of the policy frameworks by period and attempted to classify the periods of policy philosophy. At the retail format level, it estimated the short- and long-term effects of major policies by comparing the sales changes of SSs with their competitors, LDSs and RSSs. Retail format-level analysis is useful for identifying structural changes in the retail market and policy effects compared to micro-level studies at the regional or store level, which are common in existing research. While the study confirms that supportive policies for SMSRs have not been successful overall, it also finds that some policies have been effective depending on the targeting and content of the policy. This provides some insights into alternatives for improving the effectiveness of SMSRs policies.

The large retailer-oriented retail modernization policy that began in the mid-1990s has achieved considerable success in terms of industrial restructuring and

competitiveness. The period since the mid-1990s can be characterized as the period when South Korea's retail industry was established as a modern large retailer system, supported by government policies. However, there was a problem with the rapid decline of SMSRs, which were previously responsible for most of South Korea's retailing. The government was in a hurry to strengthen the competitiveness of the retail industry and did not consider the concept of win-win. In response to the outcry from SMSRs, including the traditional market, policy began to shift in the mid-2000s toward protecting SMSRs. However, the Distribution Industry Development Act, which is the basic law for the distribution industry, completely changed its character in the early 2010s to protect SMSRs and regulate large retailers. This dramatic shift in the policy philosophy of the retail industry continued throughout the 2010s, with a wide range of support measures for SMSRs. Nevertheless, the retail market, already structured around large retailers due to the effects of previous policies, clashed with the new policy philosophy, undermining the effectiveness of policies for SMSRs. While some of the policies were timely and effective, most of them failed to achieve their intended objectives.

Sales at SSs, which represent the SMSRs, increased during the 2-3 year period from 2005, when there was a major push to modernize their facilities, and also during the 2-3 year period from 2009, when the issuance of Onnuri-vouchers began. They are policies that focus on attracting consumers. The modernization of facilities, such as parking lots and sanitary facilities, was aimed at making them more accessible to consumers, and the Onnuri-voucher was a policy that provided consumers with price discounts. They also have in common that they focus on strengthening the attractiveness of the commercial area or retail format level rather than individual stores. The idea is to strengthen the competitiveness of SMSRs as a whole by compensating for their disadvantages compared to competitors such as LDSs. The initial impact of the policy was short-lived, however. It is believed that the modernization of facilities became a condition that was gradually accepted as a given and did not act as a new incentive for consumers. Onnuri-voucher did not lead to an uptick in sales at SSs, despite the fact that it contributed substantially to their sales by increasing their issuance. This suggests that the supportive effect of the policies was only a cushion to prevent a sharp decline.

Since then, neither regulations on LDSs nor individual store-focused support policies seem to have contributed significantly to strengthening the competitiveness of SMSRs. The lifecycle support that began in earnest in 2014 focused on the survival of individual stores from an employment perspective. It lacked a retail format-wide structural perspective to improve the competitiveness of SMSRs. It is an unstable measure that has always generated

social controversy over its effectiveness, even as it is being financed. Regulation of LDSs has also not been as effective as expected. The effect of regulating competitors may have been partially positive for some SMSRs, but it is estimated that much of it was transferred to other, superior competitors. These policy limitations can be seen in the fact that the crisis of SMSRs has accelerated despite the massive support provided during COVID-19.

Along the way, we can find reasons for why supportive policies for SMSRs have not been successful. First, there is a clash in government policy. Since the mid-1990s, the policy of supporting large retailers has been largely successful, and in fact, the retail structure has been rapidly restructured. However, the extent and speed of the effect has been such that SMSRs, which were responsible for most of the existing retail market, have been in crisis. In response, the government began a policy shift around 2005, and in the early 2010s, it established a policy philosophy that is diametrically opposed to the previous one, in the direction of regulating large retailers. This shift was inevitably going to conflict with the retail market, which was already structured around large retailers. Large retailers evaded regulation in a variety of ways, undermining the effectiveness of the policy, and new players emerged to absorb the effects of the policy. While this is part of the innovation process in the retail sector, it was a major obstacle to the policy of supporting SMSRs, which was driven by economic and social needs.

A second, related factor is the late policy response. The government's responses have generally come after the crisis has surfaced. The crisis in SMSRs is not just an economic issue in terms of scale and impact, but a serious area that can escalate into socio-political issues. Structural crises show signs of agitation and crisis before they surface. The rapid growth of LDSs in the late 1990s was a clear indication of such a possibility, but the government's policy philosophy remained focused on them. In the years after the crisis emerges, it is difficult to find a solution due to structured conflicts of interest, and it is likely that the policy will be difficult to implement. The drastic shift in policy in the 2010s illustrates this. The same issue was also highlighted by the policy neglect of RSSs, which had already been growing rapidly since the mid-2000s. By the 2010s, new large retailers, which threatened not only SMSRs but also LDSs, was already growing, but government policies that cried win-win failed to capture it. This made the government's policies to support SMSRs since the mid-2010s even more ineffective.

Third is the confusion and expediency of policy implementation. At the beginning of the policy transition, the government announced the Nadle-store, a public chain store system, and the Wholesale Logistics Center for SMSRs as core projects to secure the competitiveness of

SMSRs. This policy took into account the fact that the source of competitiveness of large retailers is their bargaining power based on bulk purchases and their own logistics system to operate them. The policy is to complement the areas that SMSRs cannot do on their own. As it was a key issue, the industry's interest was high, but disagreements between the government agencies promoting it led to the stalling of the Nadle-store and Wholesale Logistics Center for SMSRs projects. Wholesale Logistics Centers for SMSRs were maintained in a small-scale decentralized form with the participation of local governments, but it also became an unsuccessful project due to government neglect and poor management. Since then, the majority of policies have been focused on financial and tax support for individual stores. In particular, with the establishment of lifecycle-specific support policies around 2015, support policies for SMSRs have become centered on funding individual stores from the perspective of employment policies rather than structural improvements to strengthen the competitiveness of the retail format. Funding-oriented policies are easy to implement as long as the budget is available. All that is needed is to allocate funds according to the criteria. On the other hand, structural improvement projects such as the Nadle-store and the integrated logistics center for SMSRs, which require consultation and coordination between participants, are premised on a long process that requires the government and stakeholders to work together. The government has tended to be unwilling to intervene in policies that require reconciliation of differences and mediation of interests. Nadle-store and integrated logistics center for SMSRs, which were considered the most important projects from the beginning of the support, became neglected policies that failed to achieve results in this process.

In the 2000s, the SMSRs support policies were so varied that it could be argued that they tried everything. Many of these policies continue to be pushed today, but they are not working. However, we have seen some important initiatives that have either been abandoned or have morphed into something other than what they were intended to be. They include the public franchising of SMSRs and the establishment of an integrated logistics center for SMSRs, which the government identified as a key project. The most important policies for structural reforms have not been implemented. These projects are not the result of ineffective policies, but a failure to implement them. Therefore, it is necessary to reinstate these policies that are currently neglected. If small-scale wholesale logistics centers for SMSRs operated by region are managed in a unified manner, they can become a central base for the public franchising of SMSRs and have similar bargaining power as large retailers. The Agricultural Wholesale Market (AWM), which operates in 32 locations across the country, including Garak

Market in Seoul, should be considered in this policy. Located in key locations across the country, AWMs are regional centers for perishables, a key commodity in retail market. They are operated under the management and supervision of local governments. Perishable goods are often transacted in small quantities because they are difficult to maintain freshness after purchase, and they tend to spoil easily. For this reason, these are items that are more likely to be purchased offline than online. By the way, SMSRs are usually located near residential areas or on roadsides, making them ideal for low-volume, high-frequency transactions. In this regard, making perishables the main products of SMSRs and establishing a supply chain system may mark a new turning point in SMSR policy. If the AWMs and the integrated logistics center for SMSRs are connected under the unified management of the government, SMSRs that receive supplies from them will have a competitive advantage. To achieve this, the government needs to establish a logistics system, chain the SMSRs, and organically link them with the AWM. This study analyzed support policies for SMSRs since the mid-1990s and proposed policy alternatives based on the findings. The specific implementation measures and the supply chain system of perishables should be supplemented by further research.

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