UNIVERSITI MALAYA

INAUGURAL LECTURE

Is WTO a Boon or a Bane for Shoppers and Retailers in Malaysia?

Professor Dr. Sieh Lee Mei Ling
Faculty of Business and Accountancy

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17 October 2003

Syarahan Perdana ini diadakan sebagai pengiktirafan jawatan Profesor di Universiti Malaya

Preliminary Remarks

First and foremost thanks be to Almighty God my Lord Jesus Christ for life and time today. I am grateful to the Vice Chancellors of the University of Malaya, past and present who provided the opportunities for my life-long career, especially in supporting my research interests for three decades.

Today, I am honoured that Professor Datuk Dr. A. Hamid A. Hadi, Deputy Vice Chancellor (Academic) is chairing this lecture. Thank you Professor for taking time off to be here.

My inaugural lecture should have been delivered in 1989. If not for the revival of the practice, it may never have been given. For me, it is more apt to label today's event as my formal farewell lecture because I have no plans for myself after my next birthday. To my friends and family, I truly appreciate your presence and your patience in bearing with me as I share my thoughts. Before I begin, I should thank all my students who enrolled in my classes and who unknowingly have taught me many things. I am also thankful to my well wishers for providing the goody bags that help me practice what I teach.

Curriculum Vitae

Profesor Dr. Sieh Lee Mei Ling

Chair Professor of Business Administration, Faculty of Business and Accountancy, University of Malaya. Her **research interests** include :

- w International Economic-Business Linkages ; FDI and Trade Issues ; Policies on Interface between Economic Regulation and Business Development;
- w Marketing Management; International Marketing; Marketing Research;
- w Servives Sector Development and Trade;
- w Manufacturing Industries; Corporate Ownership and Control;
- w Others - Women in Business and Management
  - Small Business and Entrepreneurship

Among her **publications** are 22 books/monographs, 42 chapters of books and 83 journal papers and articles in economics, business and management. Professor Sieh has extensive **consultancy experience**, having worked with government agencies, inter-government agencies (such as UNCTAD, ESCAP, Secretariat, Asian Productivity Organisation, SEACEN), professional bodies, industry associations, Multi-national corporations, large private companies, Hong Leong Group etc.

She has also been in various **honorary and voluntary positions** including on the Board of Employees Provident Fund, Malaysia; Advisor to the Foundation of Asian Management Development; Founder Member of Women, Malaysia; Advisor to Palm Oil Research Institute of Malaysia; a Board Member of the National Accreditation Board; Honorary Advisor of the Master Builders Association of Malaysia; Member of E-Economy Working Group of the National Information Technology Committee; Founding Member and Inaugural Steering Chair of Asian Development Research Forum Chairman of Investment Committee, BHLB Berhad and SBBMutual Berhad, of the Southern Bank Group.

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Introduction

In early 2001, I was shopping for Chinese New Year lanterns made of bright red Chinese silk over 16 inch circular bamboo frames. Whilst bargaining for a discount in a small shop, I said to the shopkeeper that if he refused to lower the price, he would be in trouble if he held on to unsold inventory because new stocks the following year would cost less than that for the current year. In dismay he asked how I knew. He then told me that cost had already fallen compared to the year before. My answer was China's entry to "WTO".

The acronym WTO for the World Trade Organisation, is becoming a familiar term for referring to matters related to economic and business globalization. WTO is commonly regarded as a force that has driven, and is still driving, many of the evolutionary changes in economic and business relationships among countries, directly by opening markets through trade liberalization and indirectly through capital flows as foreign direct investment and as portfolio financial investment.

A visible outcome of WTO is significant improvement in market access for goods and services to export markets. World wide tariffs for industrial or manufactured goods have reduced to an average of less than 20 percent partly because of WTO and regional free trade area obligations. The average tariff is 12 percent and 9.2 percent for ASEAN and for Malaysia respectively. Trade in services has also grown in an unprecedented manner since the General Agreement on Trade in Services, GATS, which for the first time gathered traders of commercial services on a global scale under the WTO umbrella of agreements.

Economic globalization has bought about expansion of world merchandise export as new market opportunities are opened through easier access and lower price levels. Consumers are able to enjoy goods and services produced world wide because of more efficient production processes through technological innovations in telecommunication, transportation and logistics management. Trade expansion also permits specialization based on comparative advantage of producing countries. The benefits of higher productivity and cost savings through greater regional and global trade in goods and services are also experienced in the form of more efficient distribution services obtainable from newer, larger modes of wholesale and retail methods. This is true even in developing economies such as Malaysia where the cost of living and of doing business have seen positive impacts.

Objectives

There are doubts, dissatisfaction and unhappiness over how the trading system under WTO principles affects the lives of ordinary people particularly in developing countries. In one short lecture, I will attempt to focus on the impact of WTO on ordinary folks in Malaysia such as shoppers and consumers of final goods and services, on distributors and retailers who are also purchasers of intermediate or business goods and services but for businesses objectives, and on the country as a whole. My purpose is to briefly explain how the core principles that underlie the scope of WTO particularly GATS, relate to a common albeit significant aspect of daily living, that is, the distribution of goods and services within the Malaysian economy especially as changes continue to emanate from WTO.

Outline

In Part One, we will consider the question: What is WTO and how is GATS connected to Malaysia's distributive trade? The broad structure of WTO and the principles of GATS will be discussed briefly because the services agreement is relevant for our present discussion due to the rise in foreign wholesale and retail businesses in the country.

Part Two considers the specificities of Malaysia's distributive trade. In particular, we shall review the past and highlight recent trends in wholesale and retail services. How has the distributive sub-sector in Malaysia been changing particularly after WTO came into force, and why?

In Part Three the question is: In what ways have shoppers and retailers in Malaysia been affected, and how should Malaysia respond to the globally induced changes in its distributive trades to safeguard the people's welfare and the nation's economic future?

Part One: What is WTO and how is GATS connected to Malaysia's distributive trade?

Intergovernmental Agreements

Put simply, WTO is a set of multilateral intergovernmental agreements for regulating international trade in goods and services among 146 countries. Without going into the detail structure of the WTO agreements it is sufficient for our purpose to know that there are agreements on substantive trade and trade policy issues that govern the conduct of international transactions in categories of tradeables, such as for agriculture goods, manufactured goods, services, trade related intellectual property rights, trade related investment measures and for some sub-categories of goods, such as textiles and phyto-sanitary products. There are also agreements on rules and procedures, implementation timing, enforcement and dispute settlement mechanisms and so on, so that the substantive agreements can be achieved.

GATS and Services Sector

As distributive services such as wholesale and retail trade fall under the scope of the services agreement GATS, it is important for us to consider the significance of services and the principles of GATS. Today, the services sector is the largest and the fastest growing sector. It accounts for over 60 percent of global output and 37 percent of world employment. World trade in services has grown faster than that of goods trade over the last twenty years. In 1999, cross border trade in commercial services accounted for 23 percent of total international merchandise trade after having expanded from US$750 billion in 1990 to US$1,279 billion in 1998 (Finger 2002). If trade conducted through ways that are now accepted as transactions that should be counted as services trade, that is, through consumption abroad as exemplified by tourists traveling overseas, through commercial presence in export markets such as the establishment of operations overseas for performing services, and through movement of service personnel abroad to deliver services, the value of world trade in services would have been larger.

Within ASEAN for 2000, services ranged from Singapore's high of 65.4 percent GDP share to LAO PDR's low of 25.4 percent. In between, Malaysia's services sector accounted for 47.1 percent, Thailand 45.7 percent, the Philippines 45.6 percent, Brunei 42.7 percent, Vietnam 41.4 percent, Indonesia 39.8 percent, Myanmar 39.7 percent, and Cambodia 36.4 percent. In 1999, the proportion of services trade of total international trade in the region ranged from Singapore's high of 32 percent to the lowest of 18 percent for Malaysia, Lao PDR and the Philippines. (Finger 2002). In 2001, Malaysia exported 0.96 percent and imported 1.14 percent of world commercially traded services, ranking as the 26th exporter and 24th importer for that year according to the Hong Kong Coalition of Services. For 2002, Malaysia's services share of GDP was 57 percent. (Malaysia 2003)

The most fundamental reality of the WTO trading system is that member countries have agreed to abide by the core principles of non-discriminatory market access, national treatment and transparency when trading amongst themselves. Briefly, the key principles of GATS, which are WTO consistent, are members' **general obligations** and **specific obligations** as explained below.

Generally, **all services** are covered by GATS rules except government services and air traffic rights where separate agreements apply. **Most Favored Nation** or MFN treatment rules out discrimination among members for market access through trade, i.e. trade concessions negotiated between any two members must be extended unconditionally to all members. Individual countries are obliged to offer market access to WTO service suppliers in specific sectors according to the **four modes** of services trade, namely, cross border trade, movement of consumers, commercial presence in the importing country and movement of personnel to supply services abroad. This means that countries can select specific service sectors to liberalise through offering market access and may set their own terms and conditions for each of the four modes for those chosen sectors. These **specific market access obligations** are listed in their **nation's schedule of offers. National Treatment** refers to the obligation where a country grants to other members conditions that are no less favourable than those to one's own national service suppliers, i.e. foreign imports must be treated like domestic services as long as entry conditions are met. The **specific national treatment obligations** for selected services are spelt out in each country's national schedule that lists those specific commitments i.e. where a member country has specifically committed access to its domestic markets by foreign suppliers. The national schedules of GATS may include the limit foreign suppliers can participate in the importer's market. The number of foreign operators may be a market access limitation and the extent foreign operators can conduct business after gaining entry may be set as a national treatment limitation. Such market access and national treatment conditions are spelt out for each of the four modes of services trade in the national schedules after negotiations. **Transparency** in national regulations, including incentives, refers to the obligation of setting up inquiring points for trading partners and the obligation to notify WTO on changes in regulation for specific services where commitments for market access and national treatment are made. **Reciprocity** is generally applied to specific negotiation issues in the spirit of reasonable fairness. **Progressive liberalization** through periodic future negotiations is in line with the understanding that market access for services trade is to be widened continually, and this principle is behind the current negotiation initiated in 2000 for GATS. There are other less controversial principles such as normally unrestrictive methods for international payments, increasing participation of developing countries, recognition of criteria for licensing of service providers, discipline of monopolies, and restriction on terms of trade and balance of trade provisions, and obligation on consultative processes.

Distribution Services and Malaysia's GATS list

In Malaysia, distribution services are already open to foreign operators, suppliers and traders even when the country's national schedule of offer does not include wholesale and retail distribution services. Despite the fact that several requests for market access have been received in the current services negotiation that began in 2000, mostly from advanced and neighbouring countries, Malaysia's position is not expected to change much. Technically, Malaysia's distributive services sub-sector is not bound by the GATS **specific obligation** of market access and national treatment because wholesale and retail services are not listed in the GATS national schedule. This means that foreign operators do not have an automatic right to export their distributive services to Malaysia by establishing a commercial presence in the country. Nevertheless, foreign distributors particularly MNCs have entered the Malaysian market because of the **general obligations** of GATS that cover all services as enumerated above, and Malaysia is a WTO member.

Malaysia tends to share many of the concerns regarding the benefits of GATS. Without any systematic quantitative assessment of the impact of GATS and as hardship of implementing the agreement mounts, particularly in deriving gains from the new trading system, it is crucial to ask: How can our services exporters make inroads into foreign markets in future? Have our people benefited from WTO and GATS in terms of consumption, options for shoppers, opportunity for jobs, entrepreneurship, living standards and human development within the country?

With the notable exception of tourism, our services industries are **uncompetitive** and have not been able to take any significant advantage of GATS mainly because of their relatively **undeveloped state.** Liberalization does not appear to be closely linked with development because many Asian economies have already liberalised services sub-sectors that are of interest to advanced countries, such as financial services, telecommunication services and distributive services. Modes of supply scheduled in developing countries' national commitments for market access and national treatment favour MNCs from developed economies. The **absence of commercial readiness** to participate in international services trade in a meaningful way, despite substantial commitments for market access, hampers Malaysia's willingness to proceed much more in listing more services in the national GATS list of offers at the present time. (Sieh 2000a, 2003). Notwithstanding recent events at Cancun where developing countries drove home the point that they cannot be pushed around by rich countries, past attempts by developing countries to address the imbalances when implementing existing agreements had not been very successful. Difficulties range from changing laws and regulations to fulfill WTO obligations, staffing and equipping government agencies at different administration levels and other costs of GATS and WTO compliance (Hoekman et al 2002).

The **way decisions have been made** during the WTO Ministerial Meetings has often been a source of dissatisfaction to developing countries. As a result, a large number of **new issues** have been introduced into WTO and GATS by past Ministerial Meetings often in the name of progressive liberalization. Among the **contentious issues** that continue to pressurize developing countries in **GATS** are the relationship between trade and **investment,** interaction between trade and **competition policy,** transparency in **government procurement**, and **trade facilitation** – the four so-called "Singapore issues", as well as issues of trade and environment, electronic commerce, the relationship between trade, debt and finance and others. From the viewpoint of Malaysia, there is a lapse in executing GATS Article IV, which refers to the export interest of developing countries and Article XIX which stipulates that developing countries have the right to offer fewer sub-sectors and activities.

Part Two: How have the distributive trades in Malaysia been changing particularly with WTO, and why?

Significance of Distributive Trades in Malaysia's Services sector

Distributive trades comprising wholesale, retail and catering services, together constitute the largest sub-sector within the services sector as well as the largest single group of economic activities within the Malaysian economy. The services sector contributes to 57 percent of Malaysia's GDP in 2002, if construction is excluded. The sector has been the largest contributor to economic growth with 5.3 percent expansion in 2002 and an expected growth of 5.9 percent for 2003 (Malaysia 2003). Distributive trades have been the undisputed leading sub-sector contributing to 15.2 percent of GDP in 1999 after dipping from its peak, of 15.7 percent of GDP in 1998. Distributive trade services have been dominant in the Malaysian economy since the time statistics were first compiled in the 1960s (Sieh 1974). With the liberalization of the economy particularly since the early nineties, the sub-sector grew at an annual rate of 10.6 percent between 1990 and 1999, from 11 percent to 15.2 percent of GDP, providing employment for 1.2 million to 1.3 million persons in 1990 and 1999 respectively, i.e. about 16.2 percent of Malaysia's labour force (Bank Negara Malaysia Annual Report, various years)

The 1993 Survey of Wholesale and Retail Trades and Catering by the Department of Statistics reported that 258,238 establishments were involved in the sub-sector. They comprised 60 percent retailers, 31 percent caterers and 9 percent wholesalers. In terms of total sales volume, wholesalers accounted for 58 percent of the transaction value, outperforming retailers' 38 percent and caterers' 4 percent (Malaysia 1996a). There has been a **rise in specialty household durable stores** that distribute appliances, entertainment equipment, computers and other durables, from 19 percent of all retail stores in 1968 to 41 percent in 1995. But **food and fast consumables outlets dropped** from 78 percent in 1968 to 29 percent in 1995 (Sieh 1974, 2000b). The next survey report expected in 2004 is likely to reaffirm the trend.

In 1995, "traditional" outlets such as general vendors or provision stores, wet market, medical halls and the like accounted for about fifty percent of all retail establishments but transacted only 17.5 percent of the sales. This compares with "modern" outlets such as pharmacies, supermarkets, mini markets, departmental stores and convenience stores which represented 2.2 percent of the establishments but handled 9.9 percent of all retail sales volume. The newer types of retail outlets tend to draw business away from the traditional retailers because they emphasize psychographics, value and lifestyle, and in so doing attract clientele from among the younger and more urbanised consumers (Malaysia 1996b).

Prior to the globalizing impact of WTO, distributive trade was very much confined to Malaysians. Even as recent as in 1990, various Malaysia ethnic groups and government agencies owned 99 percent of the retail establishments. Foreign ownership was minimal accounting for about 1 percent i.e. only 980 of the retail stores (Malaysia 1996). By 1995, foreign ownership tripled to 2,335 stores or about 2 percent of total retail establishments (Table 1) The trend has given rise to concerns among local retailers who have been lobbying the government to prevent a mass influx of foreign investors in this sub-sector. Economic Planning Unit data shows that foreign owned retail establishments have been gathering momentum to become a force that cannot be easily dismissed. Their retail floor space represented only 1.59 percent of the total in 1995, but their contribution to total sales was 2.46 percent, thus their relatively high productivity (Table 1).

Table 1 Total Monthly Sales and Total Floor Space, 1995

Ownership	No. of Establish-ments	%	Total Floor Space('000 sq. ft.)	%	Total Monthly Sales(RM '000)	%	average sales per square foot
Bumiputera	42,832	36.44	22,791	23.52	665,097	21.61	29.18
Chinese	63,355	53.90	66,006	68.11	2,105,089	68.41	31.89
Indians	5,600	4.76	4,524	4.67	104,303	3.39	23.06
Other indigenous	2,546	2.17	656	0.68	17,494	0.57	26.67
Other Malaysians	877	0.75	1,391	1.44	109,644	3.56	78.82
Foreigners	2,335	1.99	1,536	1.59	75,659	2.46	49.26
	117,545	100.00	96,904	100.00	3,077,286	100.00	31.76

(Source: Distributive Trade Study, EPU, 1996)

Evolution of Retailing before 1990s

Malaysia's distributive services have surely come a long way if we recall the structural changes in retailing before the 1990s. In an early study, I concluded that the evolution of retail establishments in Malaysia before the 1980s did not support McNair's "Wheel of Retailing" hypothesis because new methods of retailing in Malaysia did not make inroads through low-price-minimal-services strategies (Sieh 1979). The theory of retail life cycle by Davidson, Bates and Bass (1976) probably explained the structural change in Malaysian retailing better (Sieh 2000b).

In the 1950s, traditional stores were often crammed with limited product lines and poorly displayed goods, offering limited facilities, and focused mainly on the transaction function. There were some small consumer co-operatives. In the 1960s, retail outlets were larger and more efficiently managed in the urban areas. Foreign and local owned emporiums (a hybrid of conventional departmental and variety stores), supermarkets and mini markets that were more spacious, cleaner, air-conditioned with well displayed merchandise flourished. Convenience stores and fast-food restaurant chains emerged, as self-service became a hallmark of new retail formats. They succeeded not on lower price but on a new way of shopping and eating out. Transactional services began to be supported by facilitative services along with changing lifestyle and preferences.

In the 1970s, the major phenomenon was concentrated retailing. The development of shopping centres and complexes in most urban areas where multiple retail outlets were concentrated "under-one roof" operated on economies of scale through sharing the same building, car-parks, maintenance, security services, customer information counters, washroom, etc and by participating in joint announcements and advertisements. The growth of non-food retailers started to match food retailers as income levels rose.

The 1980s saw new modes of foreign entry and the rise of large scale local retailers. They included more sophisticated retail formats when local as well as foreign-owned specialty chain stores sprouted e.g. Somerset Bay, East India, Bossini, Giordano, including several 24-hours convenient stores like 7-Eleven and mini markets at petrol kiosks. Foreign-named stores in food, personal care, apparel, shoes, pharmacies, optical, photo processing and jeweler chain stores were established, usually in strategic locations in shopping complexes and residential estates. Often large scale retail chains presented themselves as small-sized outlets that adopted skimming pricing strategies with definite customer orientation for facilities, layout and services.

Structural Changes in Retail Distribution since the 1990s

New Price and Volume Based Retailers

The most important development on Malaysia's distribution scene was the entry of hypermarkets and large scale cash-and carry stores such as Makro, a Dutch-Malaysian (PKNS) joint venture in 1993 within the Klang Valley conurbation. Their initial objective was to serve independent small and medium sized retailers in the distribution channel value chain. Following, the French hypermarket Carrefour made its debut. A large Malaysian store, Giant, soon followed with an equally large hypermarket, in the fast growing Subang Jaya Township. Sourcing directly from manufacturers and in large volume had benefited their businesses where lower costs were passed down as lower consumer prices. Similar discounters also emerged among non-food distributors as "export shops" and "reject shops" in large towns. The "wheel of retailing" hypothesis seemed to apply since the 1990s in the sense that new retail formats were able to turn the wheel through lower cost and price though with enhanced customer facilities. Malaysian shoppers have been found to shop in up-market department stores under certain circumstances and in low-price hypermarkets under different circumstances (Wong 1993).

New Non-Store and Electronic Retailers

Direct selling or "non-store" retailing started in the 1980s flourished and gained wide consumer acceptance. By 1995, Malaysia has 809 direct sales firms engaged in multi-level marketing, vending machines, telemarketing, direct response to media advertisement or mailing catalogue and TV home shopping. The laws enacted to regulate direct selling and franchising helped to ensure credibility of the businesses while protecting consumers. On-line shopping started recently is in its infancy. Direct transaction and delivery are expected to reduce retailing cost and enable consumers to purchase goods at lower prices. But the future development of e-tailing in Malaysia lies in the country's ability to create a large pool of knowledge-based retailers and consumers.

New Value-Based Retailers

The trend of operating food retail stores and supermarkets that sell only "halal" products has been quite clear. Malaysia is fast becoming a world-recognised centre for the processing of "halal" foods products for the international market for multi-nationals such as Nestle. There are retailers trying other value-linked business concepts especially targeted at younger shoppers e.g. environment protection and a caring society theme.

New Entertainment Based Retailers

Retail strategies built around the concept of "shoppertainment" emerged as shopping complexes and malls in and around Kuala Lumpur and later in other cities. For example, Midvalley Megamall, KLCC Suria, Sunway Pyramid, Times Square are equipped with leisure and amusement facilities such as theme parks, ice-skating rinks, bowling alleys, cinemas, computer game arcades, food courts, restaurants and hotels modeling after successful strategies elsewhere such as the West Edmonton Mall and the Mall of America.

Is WTO-GATS responsible for entry of foreign and large scale foreign distributors?

The answer is partly positive and partly negative because foreigners in distributive trades in Malaysia are not new. Their pre-independence role in the economy is well documented (Sieh 1992, Tay and Sieh 2000). Secondly, I have already alluded to the fact that Malaysia has not committed or offered market access to trade in distributive services and the country is therefore not bound to the specific obligation of GATS for the sub-sector. Recall the **British** in wholesale and retail distribution during the early independence years where supermarkets served primarily their army camps and expatriate residents. The **Singapore** joint venture investment in Emporium Holdings pioneered one-stop departmental shop and larger scale, multi-product retailing in better displayed and conducive buildings. There were also **Japanese** retailers with major improvements in store layout, product display, freezing and packaging techniques in supermarkets such as Kimisawa, Chushinya and Yaohan – all three of which have since closed.

Globalization of Malaysia's Retail Trade with WTO

On the other hand, it is valid to stress that the latest wave of foreign entry in the past decade was partly due to the globalization effects of WTO because foreign distributors are getting involved and operating in ways that are completely different from before. Since the mid-1990s the general obligations of WTO and of GATS have provided an environment that is amenable for goods and services to be traded in ways that are easier than ever because more tariffs and non-tariff barriers have been significantly reduced. Services trade has succeeded through new found modes of being produced, performed and delivered, supported by technological and managerial innovations. The liberalization of merchandise goods trade and of services trade have reinforced each other in driving domestic oriented businesses, such as distribution services, into huge global enterprises. In spite of the "unscheduled" Malaysian distributive services market in GATS terms, Malaysia experienced a rapid entry and penetration of global wholesale and retail corporations.

The latest wave of foreign investors who started to arrive in the early 1990s effectively ushered in the globalization of Malaysia's distributive trade. Their retail formats were relatively new partly based on innovative communication methods and voluminous business transactions. These multinationals made an impact on the country's retail trade that was never witnessed before. Their concepts of mega stores, discount retailing through hypermarkets, large scale cash-and-carry outlets, and modern specialty chain stores are executed in three main ways, namely, investment as joint venture partners with either government related agencies or Malaysian public listed companies; through mergers and acquisitions; or through franchising especially in food, drinks, apparel, personal care products, computer supply, photo processing and convenience stores. Franchising is regarded as a less risky mode of entry because most retail outlets of the chains are owned by the franchisees.

The advancement of foreign distributive businesses is partly due to improvements in personal incomes and urbanising lifestyles, and to the globalization trends or multinational wholesale and retail corporations. Liberalization through WTO has provided opportunities because large firms extended their business vision and started to plan with a global horizon. New technological capabilities for managing cross country resources, assets and systems as well as lowering of administrative barriers post WTO have permitted greater access to resource and product markets. Malaysia has become one of the target sites for foreign investors because of pull factors i.e. attractiveness of Malaysia's distributive and retail trade, and push factors i.e. conditions in their home countries such as market saturation and limited expansion opportunities that have driven retailers towards global strategies.

The Push and Pull Factors with WTO

Briefly, some of Malaysia's **pull factors** for distributive trade include high economic growth, political stability, rapid population growth, improved living standards, higher per capita income, continuous infrastructure developments and ongoing urbanization as shoppers become more mobile with new lifestyles. The concept of "destination retailing" based on drawing shoppers to the store will gain popularity especially for higher value non-grocery transactions, compared with the conventional "proximity retailing" that emphasizes locating close to where consumers live or work which is more important for fast consumer goods.

The construction of numerous one-stop shopping centres have attracted several giant retail players especially the departmental stores, supermarkets, convenience stores and specialty stores from the United Kingdom, Japan, Hong Kong, the United States of America and Europe. A new cohort of foreign investors such as Jusco and Carrefour have joined large corporate-backed Malaysian retailers like Parkson, Metrojaya, The Store, Ocean, and Looking Good began as anchor tenants of these large shopping complexes. Foreign distributors that brought a variety of convenience, specialty and department stores include 7-Eleven, Mothercare, Toys "R" Us, IKEA and Watsons

The Malaysian government has been promoting the country as a shopper's paradise as part of its tourism strategy. Relatively open foreign investment policies have been implemented to encourage technology transfer in retailing. In response to the new distribution formats, the **Franchising Financing Scheme** and **Small Entrepreneur Financing Fund** were established to assist local entrepreneurs especially the Bumiputeras. (Malaysia 1999).

Among the **push factors** for international expansion by foreign retailers is the saturation of markets in their home economies that are often dominated by a few powerful giants. The exodus of foreign mega stores began from the late eighties and early nineties in order to survive and to grow (Blumberg 1994). Regulatory constraints in home markets like prohibition of mega stores in designated areas plus the legal framework of WTO also encouraged their move. Other firms followed their suppliers or customers abroad to benefit from backward or forward linkages e.g. Unilever, Cadbury, IBM, P&G and Nestle.

Part Three: <u>In what ways have shoppers and retailers been affected? How has Malaysia been responding to the tide of global changes? And what should Malaysia do for our future interests?</u>

The Impact of Global Trends on Malaysian Consumers

The lower costs of goods and services derivable from tariff reductions and easier market access have enabled the lowering of final retail prices. Shoppers of consumer goods are benefiting from a wider variety of products, more options, pleasant and comfortable shopping environment and greater convenience with many stores in different locations. Among older final consumers, the result of globalised retailing is less formidable than the earlier versions of foreign linked stores. The latest genre of foreign retailers brings a wider range of goods and services at reasonable prices, and not higher prices as before. Consumers also gain from higher productivity and quality consistency of these global retailers who invest extensively into new management technologies to attain efficiencies for competitiveness. It is interesting that their appeal to the mass consumer market has not deterred the emergence of highly specialized outlets, such as for specialty coffee, fast food chains, casual footwear and clothing that cater to the higher value segments particularly among the below 40 age groups, the better educated and among professionals. Malaysia is not unaffected by the international convergence of shoppers' preferences in those markets.

On the other hand, shoppers in Malaysia are being exposed to risks through global distribution services. The less disciplined may be unnecessarily dragged into "conspicuous consumption". The competitive strategies of new retailers may jeopardize the uninformed and less experienced, especially among those with less access to information. Consumers may even be threatened by modes of easier payment and consumer credit if their shopping behaviour is entrapped by hedonistic trends, especially among youths who are gullible and easily distracted by undesirable shopping habits.

Would our consumers' interest be safeguarded by keeping out the global multinational distributors? I do not think so. The exclusion of the new format services will elevate the cost of final consumption, which in turn would raise the cost of doing business in Malaysia hence the negative economic implications of being uncompetitive. I believe that the problems of shoppers' risks are rooted in ethics, values and indiscipline rather than in retail formats and distribution system.

The Impact of Global Trends on Malaysian Retailers

Compared to local retailers, foreign retailers generally have better management, stronger financial positions and marketing systems. As consumers become more discerning, local retailers are fearful of the new retail developments. It is almost impossible for them to match the services delivered by foreign hypermarkets based on scale economies that bring prices down through volume and on scope economies based on being multi-functional, multi-tasked, multi-skilled and multi-sited operations. Price wars have resulted among local retailers to the point of squeezing out the inefficient and the small. The aggressive advertising and promotional activities of the foreign distributors have been successful in diverting regular customers of the local shops to their mega stores or hypermarkets. The main concerns of the local retailers are loss in market share, price wars, reduced margins, unhealthy rivalry and closure of inefficient and smaller retailers. Indeed local retailers have been forced to either shape up or to exit from the retail business (De Cruz 1995)

The entry of large foreign competitors had forced local retailers to become more innovative to remain competitive. Some smaller retailers formed "purchasing alliances" to negotiate collectively with manufacturers and suppliers for better terms and conditions. Several local supermarkets and department stores began upgrading their physical facilities, revamping their choice of product lines, offering competitive prices and adopting modern inventory and delivery methods. Larger local retailers with stronger financial positions started their own mega stores and hypermarkets in the 1990s though with varying degree of success e.g. Extra Hypermarket by the Parkson Group, Giant Hypermarket by Giant TMC, Cosmart Hypermarket by the Metrojaya Group and Fajar Hyper by the Fajar Group. Some attempted to cooperate among themselves such as sharing customer databases and joint promotions, whilst others tried to consolidate their positions through mergers and acquisitions. For example, Giant decided to involve foreign operators in a big way.

My current study through personal interviews with nearly 200 local retailers finds that, after several years, they are beginning to acknowledge that the foreign mega distributors do benefit them. They recognize that their presence do bring certain positive effects for the development of Malaysia's distributive services, especially when the parties learn to co-exist and cooperate. Through in-depth discussions with key players and knowledgeable individuals in the sub-sector, it is learnt that the more prepared and serious local entrepreneurs in wholesale and retail are continuing to look for opportunities to operate in market segments not fully met by large mega stores in terms of location, opening times, ancillary services, personal knowledge and familiarity with shoppers' preferences especially for frequent "top-up" shopping in-between less frequent visits to the large hypermarkets. Also, local retailers now realize that the foreign operators provide them additional supply options particularly as a source of new products that can in turn improve satisfaction of their own patrons. Methods of retailing and distribution previously unknown or uncommon are being adopted. Malaysian retailers also look for business development opportunities in the vicinity of large foreign distributors because stores like hypermarkets generate much sought after store traffic for the small shops. Economic prosperity of the areas near large foreign retail operators such as new housing estates and commercial developments also tend to bring up the value of real estate including the business premises of the small retailers.

The Impact of Global Trends on Malaysian Regulators

How is the Government of Malaysia responding to the tide of global changes? Despite strong shopper support, there are other issues such as physical congestions in developed areas, food security if heavily dependent on foreign firms for distributing essentials, the uncompetitive position of local enterprises, the pressure to accede to requests of market access and the binding of WTO-GATS specific obligations for distributive services by major trading partners, the possible erosion of government power through WTO pressure arising from new GATS issues if accepted for negotiations after the Cancun Ministerial Meeting and so on.

In the mid-1990s, domestic retailers had appealed to the government to regulate the entry of foreign retail investors as mini market operators and owners of smaller grocery stalls were worried of the government's lenient attitude towards the entry of mega stores. In response, new guidelines on foreign ownership of wholesale and retail companies were announced. The Ministry of Domestic Trade and Consumer Affairs published a directive that from November 1995, approval of all new investments with foreign participation and the expansion or relocation of existing stores must be obtained from the Committee on Wholesale and Retail Trade in addition to clearance from the Foreign Investment Committee already in force (Malaysia 1996d). The real issue is one of size, that is large distribution formats versus small, which is a difficulty encountered even in advanced economies. In Malaysia, the issue is complicated by the foreign local divide.

In practice, the Government has been pragmatic and flexible in implementing the new guidelines. But small inefficient distributors and retailers attempted to invoke political influence which resulted in the issuance of additional guidelines for foreign hypermarkets by the Government's cabinet committee in April 2002. The most significant of the new rules that encompasses ten aspects, is the need for business impact studies for each and every retail application where trading floor area exceeds 8,000 square meters. The growing complexity of the regulations with various cut off sizes used in practice adds to the need for investors to fulfill other local authority developmental conditions. Although exceptions have been granted and grace periods are not uncommon (e.g. Makro and Carrefour had 60:40 and 70:30 equity ratios respectively in favour of the foreign investors, and 90 percent equity acquisition by DFI Hong Kong of the homegrown Giant TMC chain during the height of the Asian crisis on condition that local equity ownership be progressively increased), the overall picture as an investment host destination, at this moment, is confusing and disruptive for investors and regulators alike. The Government has commissioned detail studies and changes are expected in 2004.

Summary

The provision of distributive services by non-nationals falls within the purview of GATS. It is clear that through WTO-GATS membership, the country's distributive trades constitute an important link to the global economy. The entry of large foreign distributors has benefited shoppers through modern innovations and higher distribution productivity.

Efficiencies have been passed on to consumers as lower prices. In effect, the new modalities have increased shoppers' value while elevating their welfare through service quality improvements, wider product and brand choices, and the generation of new shopping experiences. However, the manner local retailers are affected by the changing distributive scene remains uncertain. Despite their local knowledge advantage, Malaysian retailers are shaken because of their smaller financial capability, weaker technology, less experienced management and possibly shorter investment time horizon. Competing against foreign multinationals has clouded their vision for the future.

Implications for the Future

Being a small trading economy that ranks 16th or 17th among trading nations, what are the options for Malaysia as global competition intensifies and as pressure from trading partners increases during trade negotiations in order that consumer welfare and human development are attainable?

Government Policies for Domestic Distribution

Government policies and strategies are key determinants of the eventual outcomes of the different stakeholders namely, consumers, local and foreign distributors, and the nation. It is most unlikely that the Malaysian Government will exert extreme control over foreign distributors such as by prohibiting their entry because such measures will be against the grain of Malaysia's fundamental economic and political philosophies, contrary to WTO and regional trade obligations, and will deprive consumers of benefits of quality services and small retailers of efficient sources of supply. At the other extreme, if the sub-sector is left with complete freedom, market imperfections may see the distributive trades overly subjected to the economic power of MNCs, which may be against national interest e.g. in times of emergencies when food security is critical. If MNCs were to grow to a position of immense market power even local manufacturers that supply them up the value chain may be excessively squeezed and impacted.

To avoid negative socio-political consequences if left entirely to market forces, it is likely that the Government will limit excessive freedom so that small local retailers who are uncompetitive will not be smothered, especially if the large foreign operators decide to move into smaller retail formats. Some regulatory conditions will be needed to achieve overall balance among stakeholders.

My view is that the Government has to be mindful that excessive or difficult conditions imposed will add to all round costs; and the slim margins of large distributors have to be watched because efficiencies enjoyed by shoppers if eroded will be a burden for consumers and will escalate the cost of doing business in Malaysia. The Government should not confuse the size issue with that of nationality. Rather than dictating too many specifics to the large distributors, the Government should encourage MNCs to be creative in trying new ways of involving the locals, including the Bumiputera entrepreneurs, within some broad principles. Comparative regulatory environments should also be considered in a globally competitive situation.

Strategies for Local Distributors

With regards to local distributors, the Government knows that small retailers who are not able to cope will have to fold up if nothing is done to assist them. But the fear of over dependence is real if overly protected. The Government may have grounds to provide facilitative assistance as long as the small local distributors remain useful by meeting certain needs of consumers. Facilitative measures or incentives may include training, financing and linkage schemes. Mere persuasion to innovate or to seek ties with large distributors will not be effective e.g. statements in the Eighth

Malaysia Plan still remain as intentions. Small local distributors need ways to help them provide value added services e.g. through bar-coding, Efficient Consumer Response system etc. They need mechanisms to get into business networking with one another. They also need visible path ways to enter the circle of the large retailers or even manufacturers, as franchisees or agents or as tiny-scale partners. Fiscal provisions for SMIs should be extended to local entrepreneurs to modernize and to prepare for specific types of business linkages.

Recently, the Federation of Malaysian Manufacturers has developed an electronic system to assist local distributors through information technology. As for Bumiputera businesses, my 1974 suggestion that retail be made a starting point for building a Bumiputera business community still holds. Provision of diverse facilities have long been in place for Bumiputeras but the culture of entrepreneurship, creativity, thrift and stringent cost control needs to be nurtured through hands-on programmes possibly tied to the large foreign retailers. Giant's success with their Bumiputera scheme is worth emulating with some modifications. Further, Malaysia's role as a specialist Islamic food producer and distributor worldwide can be broadened and deepened.

The Government has little choice but to play a harmonizing, non-interventionist role to forge a state of co-existence. This means that foreign investors will need to be subject to entry and operating conditions, however minimal, to leave room for the small local distributors. Cooperation between the large foreign and small locals will be sought. The question is what space is there for such co-existence particularly from the standpoint of consumer demand and satisfaction? What are the reasons for Malaysians to shop in large supermarkets and hypermarkets, and in the small retail outlets? My study early this year of over 500 consumers shows that shoppers patronize the large and the small for very different reasons and there are strong grounds for pursuing a complementary strategy. Malaysians split their shopping between large and small stores depending on circumstances of need. They complement large baskets from super sized stores with top-up shopping at small local shops.

The Global Context

Malaysian consumers, the targeted beneficiaries of distributive services, are expected to behave as shoppers in the global economy elsewhere. The development of shopping havens in many emerging economies will pose a threat to retailers in Malaysia, especially when tourism encourages consumption abroad. Clearly, retailing services in Malaysia whether performed by MNCs or Malaysians need to face the reality of competition both within the country, in ASEAN, in the wider Asia Pacific region and beyond. In reviewing policies and adjusting strategies with AFTA and WTO, it is unlikely that Malaysia will commit to offer distributive services for market access and national treatment as a specific obligation in the on-going talks. Malaysia has already refused to concede to starting negotiation on the new issues at Cancun, particularly, for trade related investment and competition policy. I believe that developing countries have finally delivered their message that they cannot be elbowed about. They have suffered for a long time and can endure the consequences of Cancun a little longer as the price for asserting their position. The MNCs can more than afford to lose out for a while until they take into cognizance the human development needs of poorer countries. At home, the Malaysian Government has explicitly stated a reduction in its interventionist role in business and that private sector investment and consumption are to drive future economic growth.

Conclusion

Meeting the needs of shoppers and ensuring competitiveness of the Malaysian economy are paramount. For economic growth that results in real human development, it is important that trade in distributive services should result in the empowerment of people through equitable access to jobs and to shopping options, so that sustainable income and consumption can be achieved. Large foreign distributors have brought gains to Malaysian consumers.

For future economic and human development, it is imperative that the country continues with the fundamental socio-economic principles and business philosophies that have been tested and proven successful for the nation. (Sieh 2000a). MNCs investing in distributive services in Malaysia are aware that guidelines are to facilitate small locals rather than restrictive of the large because Malaysia continues to welcome foreign retailers as modernising agents in the sub-sector.

However, local retailers will continue seeking Government assistance for survival. The negative experiences of other countries in curbing entry of MNCs to protect inefficient distributors provide important lessons e.g. Thailand has given up on controls after two years of experimentation. Regulators may create conditions even some mechanisms for interlinking retailers of different formats and sizes for mutual gain, first integrating the small and then complementing with the large outlets through various networks and strategic alliances. Malaysian participation must take the form of direct involvement in operating distribution services e.g. through franchising or other arrangements that can be creatively evolved. Equity ownership without hands-on management control will hamper, instead of nurture Malaysian entrepreneurship in the sub-sector. Thus far, it is indeed positive for the Malaysian economy that most large hypermarkets in the country are about 90 percent stocked with local products although foreign products are also sourced globally. But the distribution of economic power up and down the value chain must be watched.

The Malaysian Government is aware of the importance of having clear, unambiguous policies in a predictable and stable regulatory environment. Consistency of implementation at different levels of Government is as significant as the removal of discrepancies between announced regulations and actual implementation. In prioritising long term benefits, the Government has tried to stimulate domestic demand and retail sales since the Asian crisis, and even in the latest budgetary proposals for 2004. Mindful that ultimate business success drives investments and that WTO commitments must be met, Malaysia will undoubtedly keep its GATS obligations in view. My guess is that a long view is preferred.

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