

# Domestic Restrictions on the Opening of Retail Stores

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## Abstract

This study has explored a number of problems arising from distribution restrictions and the ways to improve efficiency. As matters stand, since the cooperation between larger stores and local retailers is limited due to the nature of the market, the current situations call for bottom-up restrictions such as the active promotion of smaller merchants and traditional marketplaces, the enhancement of the competitiveness of smaller merchants and manufacturers through the establishment of a customized consulting support program for individual shops, and the continual support for traditional marketplaces with facilities and management modernization.

The government should maintain the optimal balance between the efficiency and effectiveness of the distribution industry through such bottom-up restrictions as shown above, rather than the top-down restrictions primarily relying on the hurdles to the establishment of stores.

The problems raised in this study include: (i) the decline of traditional marketplaces and the alleged over-saturation of stores; (ii) the possible abuse of indiscreet restrictive measures; (iii) the harmful effects of the monopoly or oligopoly by larger distributors; and

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(iv) the lack of systematic programs to promote development.

The ways to improve efficiency are: (i) the establishment of the policies to specialize and nurture traditional marketplaces; (ii) the effort to prevent the injury arising from monopoly; (iii) the two-tire strategies for the coexistence of larger and smaller businesses; and (iv) the administration of joint sales promotion and training.

Keywords : General Store(Discount Store), Small Retailer, Restrictions, Efficiency, Utility

## I. Introduction

### 1. Problems raised

The domestic distribution industry rapidly advanced with the opening of the distribution market in 1996. In particular, the IMF bailout resulting from the financial crisis in 1997 served as a decisive trigger the upheaval in the domestic distribution industry. Up until the mid-90's, the domestic distribution industry had been primarily led by department stores, yet the general stores introduced in 1993 began to mushroom in late 90's, making the competition between the types of business more fierce. Especially, 2000's saw the proliferation of general stores to smaller cities, deepening the resistance by the established local vendors and other smaller retailers.

Such resistance finally started influencing the general tide of mitigating the restrictions on distribution, which had been rising with the steady opening of the distribution market since late 80's. Furthermore, intensifying in certain cities

were the organized resistance to smaller local merchants as well as the invisible restrictions by the local governments. These views are creating the controversy of whether it is best to bar the penetration by larger retailers and protect traditional marketplaces.

Therefore, the primary goals of this study are to analyze the issues of this controversy and explore the effective alternatives.

The restrictions on the distribution industry may be roughly broken down into those on market entrance, those on operation, those on pricing, and other restrictions. In particular, the restrictions pertaining to the opening of stores currently center around the traffic impact assessment and zoning restrictions under the Building Act. Accordingly, it is intended to review such distribution restrictions and find alternatives in the process.

### 2. Scope and limits of the study

This study is intended to take root from the question of whether there are any

means by which larger retailers and smaller retailers may coexist. Accordingly, it is also intended to propose new alternatives through the analysis of the policies governing distribution as well as the data collected from the interviews with large retailers and the smaller retailers running businesses in traditional marketplaces.

That being said, from the standpoint of study methodology, the methods commonly used in marketing or business administration are bound to face limits; therefore the study methods appropriate for distribution economics shall be adopted. In other words, this study will be based on behavioralism a new scientific methodology.

The survey period for this study was five months from July 1, 2005 until Nov. 30, 2005. Certain overseas literature are analyzed and then complemented with domestic literature, the questionnaires given to the management of retailers, and short interviews as well. Through the process, efforts are made to produce data that are more practical and may prove more useful in the field.

However, this study certainly has its own limits. The review and analysis of established references for this study has led to the surprising discovery of the shortage of data, which made it difficult to produce materials of any substantiality. Although the field questionnaires and interviews to address such shortfall, the survey and analysis conducted for a relatively short duration is deemed to call

for continuous research and discussion. Since this field of study is particularly prone to the interested parties swaying the distribution policies in a radical direction, it is deemed to require sustained and intensive studies that accept conflicting points of view at the same time.

## II. Distribution Laws in Place

### 1. Review of the laws regarding the domestic policies on the distribution industry

Distribution at large may include two different notions: commercial distribution and physical distribution. Due to its nature, however, this paper is focused more on commercial distribution, which may be expounded as follows<sup>1)</sup>:

The legal governance over commercial distribution, which is centered on wholesaling and retailing, is closely related to the legal framework for the capitalist economy that has been highly advanced. The legal principles corresponding to the capitalist economic structure are, in principle and by and large, analogously applicable to the legal governance over commercial distribution. The legal governance over commercial distribution places relatively more emphasis on the aspect of transaction than of industry, given the fact that commercial distribution

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1) Summarized from Kim *et al.* (2005).

accompanies the transfer of ownership from the producer to the consumer. The fundamental principles of distribution in the capitalist economy are: (i) that the balance between the free distribution of products and the accompanying competition both maintains the economic community and protects the rights of the parties interacting with the market, and (ii) that the ensuring of the freedom of transaction for the transacting parties or consumers also secures the freedom in the distribution market.

The statutes concerning commercial distribution are, primarily, the Distribution Industry Development Act (“DIDA”), which directly governs the distribution industry, and the Act on Distribution and Price Stabilization of Agricultural and Fishery Products (“ADPSAFP”), which may be summarized as follows: First, since the laws promoting fair competition facilitates production and consumption, demand and supply, and the formation of equilibrium prices, it is required to create the conditions under which fair competition may be maintained and businesses actively and freely act in the market. To this end, we have the Antitrust and Fair Trade Act (“AFTA”), the Price Stabilization Act (“PSA”), the Trademark Act, and the Unfair Competition Prevention Act (“UCPA”).

The second group is consumer protection laws, which include the Consumer Protection Act (“CPA”), fostering the selection of the adequate products by, and

the safety and organization of consumers, who are certainly on the weaker end of the transaction, as well as the Regulation of Standardized Contracts Act (“RSCA”), the Installment Transactions Act (“ITA”), and the Door to Door Sales Act (“DDSA”).

The third group is the laws considering the particularity of certain product groups, which currently include the Food Sanitation Act (“FSA”), the Pharmaceutical Affairs Act (“PAA”), the Grain Management Act (“GMA”), the ADPSAFP, the Korea Agro-Fisheries Trade Corporation Act (“KAFTCA”), the Tobacco Business Act (“TBA”), the Ginseng Industry Act (“GIA”), the Korea Tobacco and Ginseng Corporation Act (“KTGCA”), the Safety Control and Business Regulation of Liquefied Petroleum Gas Act (“SCBRLPGA”), and other statutes regulating different commodities and pricing.

The fourth group comprises the statutes regarding the protection of smaller retailers and the balanced growth of the distribution industry, which revolves around the restrictions on larger retailers as well as the modernization of and cooperation among smaller ones. The current statutes regarding the furtherance and adjustment of wholesaling and retailing include the DIDA, the ADPSAFP and other laws regarding small and medium businesses. In a bid to cope with the rapid changes in the distribution environment and induce sustained development of the distribution industry, the DIDA was legislated ultimately

to enhance the competitiveness of the distribution industry and the survivability of smaller retail businesses by combining and complementing the former Wholesale and Retail Promotion Act (“WRPA”) and the Distribution Industry Rationalization Act (“DIRA”) so that the support for the distribution industry be on a par with that for the manufacturing industry. The ADPSAFP was legislated to promote the interest of the producer and the consumer by facilitate the distribution of agricultural and fishery products and maintaining the proper price levels. It has particular significance in that it provides the legal basis for the establishment and operation of agricultural and fishery product wholesale markets and other joint wholesale markets. Furthermore, the statutes supporting smaller businesses, which encompasses smaller retailers, are: the Framework Act on Small and Medium Enterprises (“FASME”), the Support for Small and Medium Enterprise Establishment Act (“SMEEA”), the Special Act on the Nurturing of Traditional Markets (“SANTM”)<sup>2)</sup>, the Promotion of Small and

Medium Enterprises and Encouragement of Purchase of Their Products Act (“PSMEEPTPA”), the Act on the Protection of the Business Sphere of Small and Medium Enterprises and Promotion of their Cooperation, and the Small and Medium Enterprise Cooperative Act.

On a separate note, although the laws regarding physical distribution plays an important role of mediating the interests between physical distributors or the physical distributor and the user, yet in view of the nature of physical distribution as defined as a range of activities in the process of delivering the product to the consumer, the aspect of facilitating the seamless flow of commodities, rather than that of the mediation of economic interests, has more significance. With respect to

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Medium Enterprises and Vitalization of Traditional Markets enacted upon the abrogation of the above statute in 2002, defines the traditional market (hereinafter referred to as the “market”) as the collection of a plurality of shops installed within a certain area in a building or an underground passage where wholesalers, retailers and/or service providers meet on a continual or periodical basis to trade goods or provide services, which requires management modernization and computerization due to the deficiency of modern distribution functionality or remodeling, repairs, redevelopment or reconstruction due to its superannuated facilities. The Special Act on the Nurturing of Traditional Markets enacted upon the abrogation of the above Act in 2004 defines traditional market as the marketplace falling under any of the following items and that requires remodeling, repairs, redevelopment or reconstruction due to its superannuated facilities or management improvement and the modernization of commerce due to the deficiency of modern distribution functionality. The Special Act on the Nurturing of Traditional Markets as amended in Apr. 2006 also incorporates the support for near-residential arcades.

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2) The Act on Special Measures for Supporting the Structural Improvement and Managerial Stabilization of Small and Medium Enterprises as enacted in 1995 defines the market as the collection of a plurality of shops that are permitted to be individually sold and are installed within a certain area in a building or an underground passage where wholesalers, retailers and/or service providers trade goods or provide services, or a place within a certain area where a plurality of consumers and suppliers meet on a periodical or seasonal basis to trade goods or provide services.  
The Act on Special Measures for the Structural Improvement of Small and

physical distribution, the effortless linking between each pair of vertical steps is the key point of the rationalization or efficiency of physical distribution. Hence, the applicable laws are focused on the creation of the conditions under which the flow of commodities may be uninterrupted, which may be further expounded as follows:

Firstly, there are the laws concerning the creation of the uninterrupted flow of physical goods, those concerning the physical distribution at large, those regarding logistics bases, and those governing specific types or parts of distribution such as transportation, stevedoring, logistics, and information.

Secondly, the current statutes regarding

physical distribution at large include: the DIDA, the Goods Distribution Promotion Act (“GDPA”) and the ADPSAFP.

Thirdly, regarding, distribution complexes, combined logistics facilities and other logistics bases, the DIDA, the GDPA, the ADPSAFP, the Promotion of Distribution Complex Development Act (“PDCDA”), and the Promotion of Private Capital into Social Overhead Capital Investment Act (“PPCSOCIA”) have applicable provisions. Fourth, the current statutes concerning individual modes or steps of distribution include those regarding transportation, storage, packaging, steel-working, and logistics information.

Table 1. Overview of the Statues Concerning Distribution

Applicability	Statues
Common	The DIDA, the ADPSAFP, etc.
Commercial distribution	The Trademark Act, the AFTA, the CPA, the RSCA, the ITA, the DDSA, the FSA, the PAA, the GMA, the KAFTCA, the TBA, the GIA, the KTGCA, the SCBRLPGA, the statutes regulating different commodities and pricing, the FASME, the SMEEA, the SANTM, the PSMEEPTPA etc.
Physical distribution	The GDPA, the PDCDA, the PPCSOCIA, etc.

## 2. Historical development of domestic distribution laws

The Korean distribution laws may be historically broken down into those existing (i) prior to the modernization spanning over the Chosun Dynasty Era and the Japanese Colonial Era, (ii) those during the era of modernization, and lastly (iii) those

after the opening of the distribution market, which may be detailed as follows<sup>3)</sup>:

### 1) Pre modernization era

(1) Prior to the legislation of distribution laws(Chosun Dynasty ~ 1950)

During the Chosun Dynasty Era,

3) Summarized from Kim *et al.* (2005).

commission merchants took full charge of the wholesaling of all goods, and the Japanese Colonial Era saw the emergence of large grain merchants engaged in the brokerage of rice, which later were controlled under the food control policies of the Japanese colonial regime. The wholesale transactions for other agricultural, fishery and livestock products were separately controlled as the functions of the No. 3 Market<sup>4)</sup> under the Market Rules. In particular, the distribution channels for the daily necessities of life for the Japanese and those for the Koreans were discriminatively segregated.

The Japanese occupation of Korea led to the vanishment of the Six Marketplaces in Jongro area, where government supplies were procured and the household necessities for aristocrats supplied. The larger portion of the shopkeepers in this area degraded to commission merchants acting as middlemen in the household goods market for Koreans, and continued to serve as the go-betweens until the late Colonial period. In this period, commercial transactions were still relying on the conventions observed by Chosun-era commission merchants and being performed

through brokers (Kim et al., 2005).

Table 2. Changes in the Statues Concerning Distribution

Period	Years	Details
Pre modernization (Phase 1)	Prior to 1961	The Central Wholesale Market Act
Modernization (Phase 2)	1961 - 1997	The Market Act, the Distribution Industry Modernization Act, and the Wholesale and Retail Industry Promotion Act
After the opening of the distribution market (Phase 3)	After 1997	The DIDA

#### (2) Central Wholesale Market Act (1951 ~ 1961)

The enactment and promulgation of the Central Wholesale Market Act ("CWMA"), Act No. 207 on June 22, 1951 was the first legislation as a systematic mechanism governing the marketplace since the 1945 Liberation. The CWMA was not applicable to household goods markets for consumers, but focused on the wholesale markets dedicated to the wholesale trading of all agricultural, fishery and livestock products with the exception of staple grains. Grain crops such as rice and barely, the most important products among agricultural, fishery and livestock commodities, were excluded from the scope of this statute, since the grave undersupply of food back in those days compelled the government to

4) The Market Rules were legislated and promulgated in 1914, and later amended in 1920, 1930, and 1931. Markets were classified into Type 1 (traditional markets), Type 2 (municipal markets), and Type 3 (fish and vegetable markets and central wholesale markets), to which Type 4 was added in 1920. It was amended again in 1930 to improve the operation of Type 4 markets, (grains, securities and spot exchanges) and yet again in 1931 to delete the provisions regarding Type 4 markets.

place the staple foodstuffs under special supervision. This Act was amended on Dec. 16, 1952 to bar any markets or wholesaling from similar operation (MOCIE et al., 2005).

## 2) Era of Modernization

### (1) Market Act(1961 ~ 1986)

On purpose to guide the adequate operation of marketplaces and thereby urge the desirable development of commerce as well as the sound advancement of the state economy, the Market Act was enacted on Aug. 31, 1961, permitting only those corporations as deemed conducive to public interest to open marketplaces under the license granted by the municipality; authorizing the relevant authorities to order the change of the location, alteration of layout or facilities, or modification of the provisions for the marketplace affairs, or otherwise take measures as deemed necessary for supervisory purposes; and requiring the revocation of the license, the suspension of or restrictions on its operation in the event of any violation of orders or terms of license. The revision of the Market Act in 1981 was intended to ensure the efficient growth of marketplaces and sound commercial activities and thereby contribute to the balanced development of the state economy and the enhancement of the standard of living.

### (2) Distribution Industry Modernization Act (1980 ~ 1995)

The Distribution Industry Modernization Act ("DIMA"), Act No. 3244, was enacted and promulgated on Jan. 4, 1980 to improve the distribution structure by promoting the sound development of the distribution industry, and contribute to price stabilization and the balanced development of the state economy by protecting consumers and producers. Although at the time of the enactment of the DIMA, there had already been ten plus statutes concerning distribution, yet the Act was enacted to integrate and coordinate these laws and encourage the improvement of the distribution structure and the modernization of the distribution industry.

On Dec. 29, 1995, the government services involving the DIMA were transferred from the Ministry of Finance and Economy ("MOFE") to the Ministry of Trade, Industry and Energy ("MOTIE"), and the Act was renamed to the DIRA, where those provisions regarding distribution complexes were separately legislated into the PDCDA.

### (3) Wholesale and Retail Promotion Act (1986 ~ 1997)

On Dec. 31, 1986, the WRPA was enacted to abrogate the Market Act as well as to protect consumers and contribute to the balanced development of the state economy by encouraging the efficient development of wholesale and retail business and establish sound disciplines in commerce. The Act was intended to



require any person wishing to open a market place of certain scale, a department store, or any other large retail or wholesale establishment to meet certain standards and obtain the license from the municipality, as well as to provide the legal basis for the assistance rendered to the marketplace management, model wholesale centers, designated franchisors, arcade associations, and any other similar organizations in loan and tax accommodation.

Through two amendments in 1991 and another in 1995, the scope of the Act was extended to incorporate the eradication of undocumented transactions, securing of and assistance to concentration and distribution facilities, and computerization of distribution services, for the furtherance of which, it allowed the authority to recommend or order the codification of common goods and adoption of POS systems – the preconditions to computerization – by manufacturers and vendors, and to offer aids with locations and funds to those vendors and manufacturers building concentration and distribution complexes. It also encouraged certain lots within the support areas of industry complexes to be utilized for the creation of concentration and distribution complexes. As the DIDA was enacted on Apr. 10, 1997, the WRPA and the DIRA were abrogated.

### 3) After the opening of the distribution market

To reorganize the government and

optimize both its functions and formation, the Ministry of Commerce and Industry was transformed into the Ministry of Commerce, Industry and Energy, then into the Ministry of Trade, Industry and Energy, and again into the Ministry of Commerce, Industry and Energy. Also on Apr. 19, 1997, the government enacted and promulgated the DIDA, Act No. 5327.

First, as the domestic distribution market was fully opened starting from Jan. 1996, it came to attention that the competitiveness and survivability of smaller retailers were at stake due to their lack of funds and expertise, the resultant and inevitable backward management techniques, and the insufficient distribution information and logistics infrastructure, being in desperate need of policy support.

Secondly, the steady buildup of the Korean economy, the boost of both production and consumption, the diversification of consumer desires, and the rapid changes in the life pattern of the people, are all calling for the infrastructure upon which large-scale stores having economy of scale may grow as well as the modernization of distribution facilities meeting the buying pattern of the consumers pursuing pleasant and convenient settings.

Thirdly, the snowballing of logistics costs and resulting from the insufficiency of logistics infrastructure and the deterioration of logistics efficiency, is diminishing the competitiveness in the international market and requiring increased efficiency through

the expansion of joint concentration and distribution complexes as well as the standardization, automation and communalization of logistics.

Fourthly, with respect to international cooperation or the entrance to overseas markets, the Korean distribution industry is still struggling, and the present day requires the advancement and internalization of the Korean distribution industry more than ever. Due to the above four reasons, this Act was established to actively cope with the changes in the both domestic and international sphere of distribution.

Accordingly, it was primarily intended to incorporate the DIRA and the WRPA as well as to make up for the imperfections of the two laws. The primary courses of action targeted by the DIDA are as follows:

(1) to establish and implement the distribution industry development plans capable of presenting the long-term prospect, vision and development strategies for the distribution industry,

(2) to organize and encourage the collaboration among smaller distributors, which comprise the majority of the Korean distribution industry,

(3) to establish a low-cost structure for the distribution industry and take deregulation measures that may be conducive to price stabilization,

(4) to promote the computerization of distribution, which may allow proactive response to the development of IT and

other unseen changes in the distribution environment,

(5) to render more practical assistance so that the distribution industry may transform into a promising and growing industry and thereby be a major participant in economic development, and

(6) to pursue the efficient expansion of distribution and logistics facilities as well as more efficient distribution.

On a side note, the first amendment in 1999 largely incorporated the abolition of the restrictions on the ratio of directly managed shops, the sale of shops, and obligatory facilities, which were placing excessive burden on the owner of department stores and other larger stores.

The DIDA was amended once more in 2003 as follows:

(1) to introduce the definition of non-store retailing as a new form of operation, establish and implement the measures with a view to enhancing the competitiveness thereof, and introduce a logistics facility certification program.

(2) to promote the use and proliferation of certified facilities by supporting research and development, and investment projects regarding such facilities carried out by distributors, manufacturers and logistics operators,

(3) to designate joint concentration and distribution center development areas, and offer loan accommodation for concentration and distribution centers established in or relocated to such areas, and

(4) to mediate the disputes between large stores and neighboring wholesalers or retailers or residents by establishing distribution dispute mediation committees in each municipality, which would receive the filing for mediation by parties and present its findings to each party, which would constitute an agreement if accepted by both parties.

Through the partial revision on fifteen occasions and full revision on one since its initial enactment, the DIDA has incorporated, *inter alia*, the provisions for the establishment and operation of the Distribution Industry Development Committee (Article 7-2), the support for the joint wholesale and logistics centers for smaller distributors (Article 17-2), the designation of and the revocation thereof for distribution facility performance inspection agencies and distribution facility certification agencies (Articles 27 (5) and 27-2), and the sale of government-owned property to large stores by no-bid contract (Article 43-2). With respect to the above, the Act has also been subject to the continual demand for amendment to the extent that certain provisions been receiving the criticism that they do not reflect reality and that certain academics and front-line personnel have been pointing out problems.

### III. Problems of the Restrictions on

#### Distribution and Proposals to Improve Efficiency

The full opening of the distribution market in 1996 was a major turning point for the discussion on the domestic restrictions on distribution. Furthermore, the restrictions on domestic distributors have largely been lifted, even though certain ones such as those on construction within natural forest zones, those on drug stores, indirect restrictions by local governments, and the burden of various quasi-taxes remain. In other words, the conditions for the free establishment of stores have conceivably been prepared to a certain extent. Such changes also triggered, in a sense, the decline of and resistance by smaller local distributors. Particularly, the weakening of traditional marketplaces are deepening and accelerating, which has been exposing a wide range of problems as well. Nonetheless, especially in the macroeconomic point of view, it is undeniable that the emergence of large distributors have made significant contribution to the modernization and improved efficiency of distribution as well as the consumers' interests.

As matters stand, this Chapter is intended to derive the way to improve efficiency against each problem.

Table 3. Problems and Ways to Improve Efficiency

Problems	Ways to improve efficiency
<ul style="list-style-type: none"> <li>·Decline of traditional marketplaces and alleged over-saturation of stores</li> <li>·Possibility of indiscreet and excessive restrictions</li> <li>·Injurious monopoly of large distributors</li> <li>·Insufficiency of systematic policies promoting development</li> </ul>	<ul style="list-style-type: none"> <li>·Devising of policies to specialize traditional marketplaces</li> <li>·Efforts to minimize the injury caused by monopoly</li> <li>·Strategies for a two-tier system allowing for the coexistence of larger and smaller distributors</li> <li>·Implementation of joint sales promotion and training</li> </ul>

## 1. Discussion on the problems of the restrictions on distribution

### 1) Decline of traditional marketplaces and alleged over-saturation of stores

The opening of the distribution market intensified the competition among distributors. The decline of traditional marketplaces practically started at this point. Being less competitive, smaller distributors are bound to be shoved around by general stores and other larger and more competitive distributors.

In particular, the rapid proliferation of establishments by larger distributors literally changed the landscape of distribution, and the resultant demand by smaller local distributors for restrictions are intensifying, which, in combination with the alleged over saturation of stores, have been strengthening the position of certain local governments that adhere to their policies imposing restrictions on larger distributors.

Incidentally, the current issue of over-saturation reflect significant differences

existing in points of view. From the standpoint of larger distributors arguing for more competition, over saturation is merely the weeding out of less competitive forms of operation and the survival of the fittest. On the other hand, from the stance of less competitive smaller distributors, over-saturation is the entry by anyone into the market in the state that would otherwise sustain the existing forms of operation, and threatening the survival of the existing players.

In the end, the rationale determining the alleged over-saturation inevitably depends on the nature of the applicable society and its public opinion. To put another way, it is impractical to base the discussion of over-saturation on rational economics.

### 2) Possibility of indiscreet and excessive restrictions

The issue of over-saturation shown in the previous section runs counter to the reformatory lifting of restrictions that has been pursued so far. Particularly, the

controversy has been arising from the strong demand by local governments rather than initiated by the central government. For example, any distributor wishing to open a store is subject to traffic impact assessment, at which point the local government make the deliberation as to what impact the new store would have upon the traffic in the region.

In this process, the level of sternness shown by the deliberator may influence whether the store may be established or the profitability thereof. Furthermore, after passing of the traffic impact assessment, building permit review awaits. In the same manner, the size of the structure, the

location of doors, and a wide array of factors that may influence the operation of the store are subject to review. The establishment of stores are sometimes indirectly restricted in these processes.

A case in point is the traffic impact assessment for company N wishing to open a store in city D, where the building area—size of each floor—was reduced due to the excessive requirement for setbacks in the front and a side, resulting in the company giving up the establishment.

Recently, certain local governments have started to establish ordinances against the opening of large stores. Other municipalities raise superfluous legal problems to force

Table 4. Cases of Local Government Actions Against Large Stores

Type	Case
Urban planning ordinances	·Cheongju (restrictions on the construction of “retail and sales facilities” within the quasi-residential district)
	·Yeosu (restrictions on the construction of “retail and sales facilities” within the quasi-industrial district)
	·Bucheon (the reference size of the “retail and sales facilities” within the class 2 general residential district reduced from 2,000 m <sup>2</sup> to 1,000 m <sup>2</sup> )
	·Yeosu (the restriction on “retail and sales facilities” larger than 3,000 m <sup>2</sup> within the quasi-residential district)
	·Daejeon (the restriction on “retail and sales facilities” larger than 3,000 m <sup>2</sup> within the quasi-residential district)
Heavy traffic levy	·Daegu (indirect restrictions through the increase of heavy traffic levy)
Job guidelines	·Chungbuk (indirect restrictions through the job guidelines given by the provincial governor)
	·Nam-gu, Daegu (indirect restrictions through the Job Guidelines for the Protection of Small Retailers)

the distributor to settle the matter in the court, leading to the opening postponed by a year or two. Other than the above, there are thousands of different ways to impede

the establishment of stores.

– Injurious monopoly of large distributors

The emergence of large distributors and the decline of smaller distributors may, in the end, bring about elimination of everyone but a handful of large distributors, which would be highly likely to result in the harmful effects of monopoly surfacing. Such effects are explained in economics as follows:

The monopoly or oligopoly by a large distributor or distributors enhance their price-setting power. In particular, the different states of competition among different regions are likely to result in price discrimination strategies, through which large distributors will seek to maximize their profits.

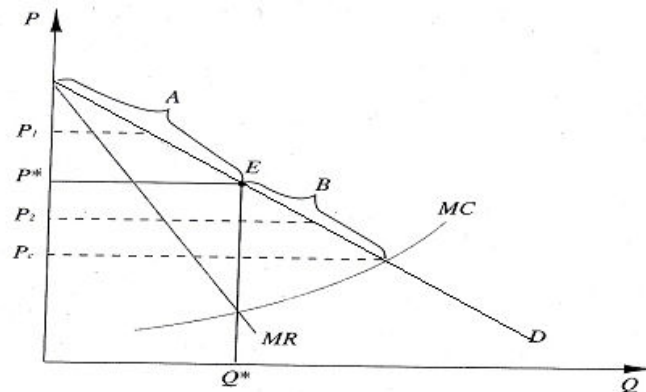
For starters, the price discrimination strategy is the pricing policy engaged by large distributors to convert, in whole or in part, consumer surplus into the profit gained by the monopolizing business. Put another way, Figure 1 shows this demand curve  $D$ , with the price  $P^*$  on the  $y$  axis and the quantity of supply  $Q^*$  on the  $x$ , where the equilibrium  $E$  is formed, and the profit is maximized. That is, the equilibrium  $E$  is where the marginal revenue  $MR$  and the marginal cost  $MC$

meet. This point is where the demand curve  $D$  crosses as well. For reference, the demand curve  $D$  is on par with the average revenue  $AR$ .

The section  $A$  represents the consumer's willingness to buy the product at whatever prices offered should no competitor store exist. Any region with fierce competition would correspond to the section  $B$ . Although large distributors would intend to sell products at a level higher than the marginal revenue, yet highly intensive competition would force the sale to be made at a price level lower than the marginal cost, which means loss. In such case, shutdown of the store would have to be considered.

Hence, large distributors could make it possible to maximize their profit by devising and implementing an arsenal of diverse price discrimination strategies, depending on the profile of competitors in the region. In other words, the large distributor is more likely to gain larger additional profits with less competition than would be with more competition where larger and smaller distributors coexist.

Figure 1. Price Discrimination Strategies by the Monopolizing Distributor



- Insufficiency of systematic policies promoting development

After all, the above factors warrant a number of measures to allow traditional marketplaces to survive. Accordingly, multifaceted efforts are being made to keep smaller distributors in business, such as the enactment of the SANTM. Nevertheless, it should be recognized that these laws tend to find traction in voters' sentiments, regardless of the rationale for competition.

Given that, the government is offering full-scale financial support, relying on a number of alternative proposed by distribution experts. Certain concerns, however, do exist that such support may turn out to be redundant or even excessive, rather than efficient.

In macroeconomic consideration of the domestic distribution industry, suppression on more competitive distributors and support for less competitive ones may lead

to the reformation of distribution structure having setbacks and prove detrimental to the modernization of distribution.

## 2. Measures to improve efficiency

### 1) Devising of policies to specialize traditional market places

It is imperative to have in place the policies to specialize and systematically foster traditional marketplaces. The indiscreet support for a large number of traditional marketplaces or smaller distributors is likely to waste resource. Scrupulous review should be conducted as to whether it is worthwhile to render practical support, only which would enhance competitiveness.

Especially, the selection of beneficiaries must be focused on the types of specialization of which larger distributors are not capable, and the support for those traditional marketplaces that may get the best of the local characteristics. To this end, the selection process itself requires in depth and prudential study and review.

Furthermore, focused support and investment should be made for those distributors unique to the region, e.g. by selecting one traditional marketplace for one region. Measures in such manner alone could nurture the marketplace or arcade into a more competitive, unique, and specialized one that maintains Korean tradition.

## 2) Efforts to minimize the injury caused by monopoly

Given the rationale for competition, monopoly or oligopoly is prone to cause injury if there is no intervention by the government. Due to the nature of the distribution industry dominated by economy of scale, the factors for market failure always exist. This is where the active roles of the government are required.

In particular, the roles of the government must be focused on building of the social frame allowing fair trade. After which, the actual competition is the matter among distributors.

The problem of monopoly and oligopoly could be resolved with the establishment of a framework within which self-governing market mechanism works in a manner allowing the free entry into the market at any time.

## 3) Strategies for a two-tier system allowing for the coexistence of larger and smaller distributors

The infrastructure for the balanced

development of economy could be solidified if larger distributors and smaller ones are to coexist. To such end, the following two tier policies of the government are required.

First, the reformation of the restrictions against larger distributors should continue so that they may stay exposed to competition. Thorough such means, they should be made able to survive by fair competition between themselves.

Second, the gradual steering of the course of action and support for smaller distributors should be maintained so that they could deal with the products or services that will allow the development in a complementary manner, rather than the head-on competition with bigger players. As discussed above, it is required to have in place the measures to foster the growth of modernized marketplaces that carry on the specialized tradition unique to the region at the same time.

## 4) Implementation of joint sales promotion and training

A number of different ways for coexistence could be found, other than those proposed above, such as the following: Some local governments have recently started to place restrictions on the establishment of large department stores or general stores. They have gone so far as to come up with a continual series of restrictive measures, such as those on the business hours of the stores. Furthermore,



the volition of local government leaders and the resistance by the local petty merchants are making it harder and harder to open outlets in smaller cities. These facts certainly suggest a lesson to learn by larger distributors as well. To be sure, economics dictates that free operation be ensured in the free competition market. It is only natural that underperforming businesses are subject to extinction. It is obvious that the survival of outperformers is a factor contributing to the healthier distribution industry and the stronger Korean economy as a whole. As mentioned above, however, the factors of the public sentiment or voters' sentiments, rather than economics, are significant and should be accounted for as well.

Which, therefore, warrants the study on a number of possible projects participated by the local populace, as in the following examples:

The first is to seek to host sales promotion events in partnership with the applicable marketing area or the traditional marketplaces within the region. The second is for larger distributors to administer joint training courses for the petty merchants in traditional marketplaces or arcades so that they could learn the techniques of receiving customers and operating shops. The third is to organize joint tours around the domestic distribution facilities, or joint billet seminars, which may be important for customer relation activities. Further, it may also be worthwhile to conduct joint

training sessions at overseas distribution markets.

## IV. Conclusion

This study has explored a number of problems arising from distribution restrictions and the ways to improve efficiency. However, the continual and mutual efforts alone could allow the review of the issues to produce more tangible results. Yet, having the purpose of seeking profit, a business is inevitably exclusive and selfish.

Since traditional marketplaces and local retailers have the perception that the sluggish economy as well as the proliferation of larger stores have led to the plummeted sales, and the government has determined the policy line to mitigate the restrictions on larger retailers, it is difficult to discuss any radically different approaches.

Although local governments could use the National Territory Planning Act, the raising of heavy traffic levies, and other means to place limited and indirect restrictions within the current legal framework, yet larger distributors have been continuing to open establishments through administrative proceedings.

As matters stand, since the cooperation between larger stores and local retailers is limited due to the nature of the market, the current situations call for bottom-up restrictions such as the active promotion of

smaller merchants and traditional marketplaces, the enhancement of the competitiveness of smaller merchants and manufacturers through the establishment of a customized consulting support program for individual shops, and the continual support for traditional marketplaces with facilities and management modernization.

Therefore, under the current state of exclusivity and selfishness, the government should maintain the optimal balance between the efficiency and effectiveness of the distribution industry through such bottom-up restrictions as shown above, rather than the top-down restrictions primarily relying on the hurdles to the establishment of stores.

The problems raised in this study include: (i) the decline of traditional marketplaces and the alleged over-saturation of stores; (ii) the possible abuse of indiscreet restrictive measures; (iii) the harmful effects of the monopoly or oligopoly by larger distributors; and (iv) the lack of systematic programs to promote development.

The ways to improve efficiency are: (i) the establishment of the policies to specialize and nurture traditional marketplaces; (ii) the effort to prevent the injury arising from monopoly; (iii) the two tire strategies for the coexistence of larger and smaller businesses; and (iv) the administration of joint sales promotion and training.

All in all, since viewpoints and reasoning could greatly vary depending on from

whom any study sources its data, the current state warrants the conversion from small-commerce oriented policies to regional-commerce-oriented ones, focusing on the social effectiveness, rather than the placement of disproportionate emphasis on the economic efficiency. As the variety in and specialization of the forms of operation, the competition among cities in commerce concentration, and the vertical and horizontal solidarity among stores and shops are all required by this transitional period, warm-hearted and cool-headed approaches should be made towards the issue of smaller local retailers.

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## <국문초록>

### 국내 소매점의 규제방안 연구

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재래시장 및 지방소매상인은 매출감소의 원인을 경기부진과 더불어 대형유통점의 확산에 있다고 인식하고 있는 상황과 정부 내에서 대형유통점에 대한 규제완화 방침을 정한 바 있어 이와 다른 규제강화를 논의하기 어려운 상황이다.

따라서 이러한 배타적이고, 이기적인 상황을 정부는 출점 규제를 우선시하는 하향식 규제 보다는 상향식 규제를 통하여 유통산업의 효율성과 유용성의 적절히 조화를 이룰 수 있어야 하며 본 연구의 문제점으로는 첫째, 재래시장 몰락과 점포 과포화 논란 둘째, 무분별한 규제 정책 남발 우려 셋째, 대형유통업체 독과점화 폐해 넷째, 체계적인 발전진흥정책 미흡 등을 들었다.

효율성 제고방안으로는 첫째, 재래시장 전문화 육성정책수립 둘째, 독과점화 폐해규제를 위한 노력 셋째, 대형 및 중소기업체 상생위한 이원화전략 넷째, 공동 판촉 및 교육 등 시행 등을 제시하였다.

주제어 : 대형마트(할인점), 중소유통업자, 규제, 효율성, 유용성

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