

# The Rise of Supermarkets in the Asia-Pacific Region

Implications for Trade and  
Development

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# 1. The Rise of Supermarkets in the Asia-Pacific Region – in Global Context

# The Shared Tradition

Traditional Retail Systems → around the world:

... "Wetmarkets" (*waru, nongmaoshichang, ferias*)

... small "mom & pop" shops

→ SHARED traditional retailing culture among:

... Asia, Latin America, Europe, U.S., Canada

# Traditional: Butter stalls on a street filled with “Mom and Pop” shops



25. South Water Street Market. (BC-201)

# Traditional: U.S. Wetmarket



96. Maxwell Street Market area (Jefferson Street). (BC-155)



# Traditional European Wetmarket



# Traditional Mexican Wet-market





# Traditional Mexican “Mom & Pop” Shop



# The Shared “Supermarket Revolution”

- The rise of “supermarkets” displacing traditional retail  
→ throughout the Pacific Rim

... I use “supermarkets” = various modern retail (hypermarkets, discount, supermarkets, etc.)

# Supermarkets in Korea



# Supermarkets in Mexico





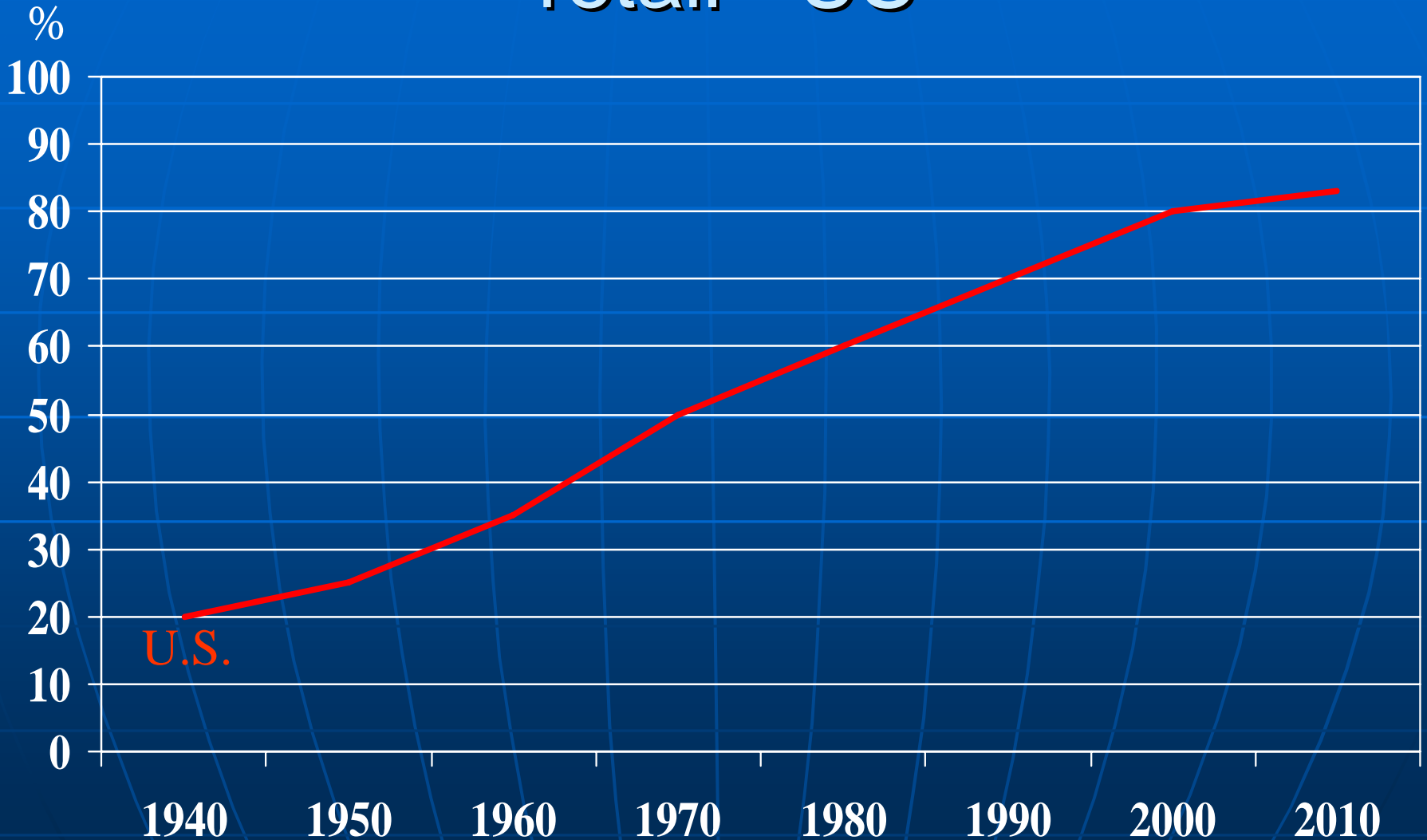
# Supermarkets in Chile



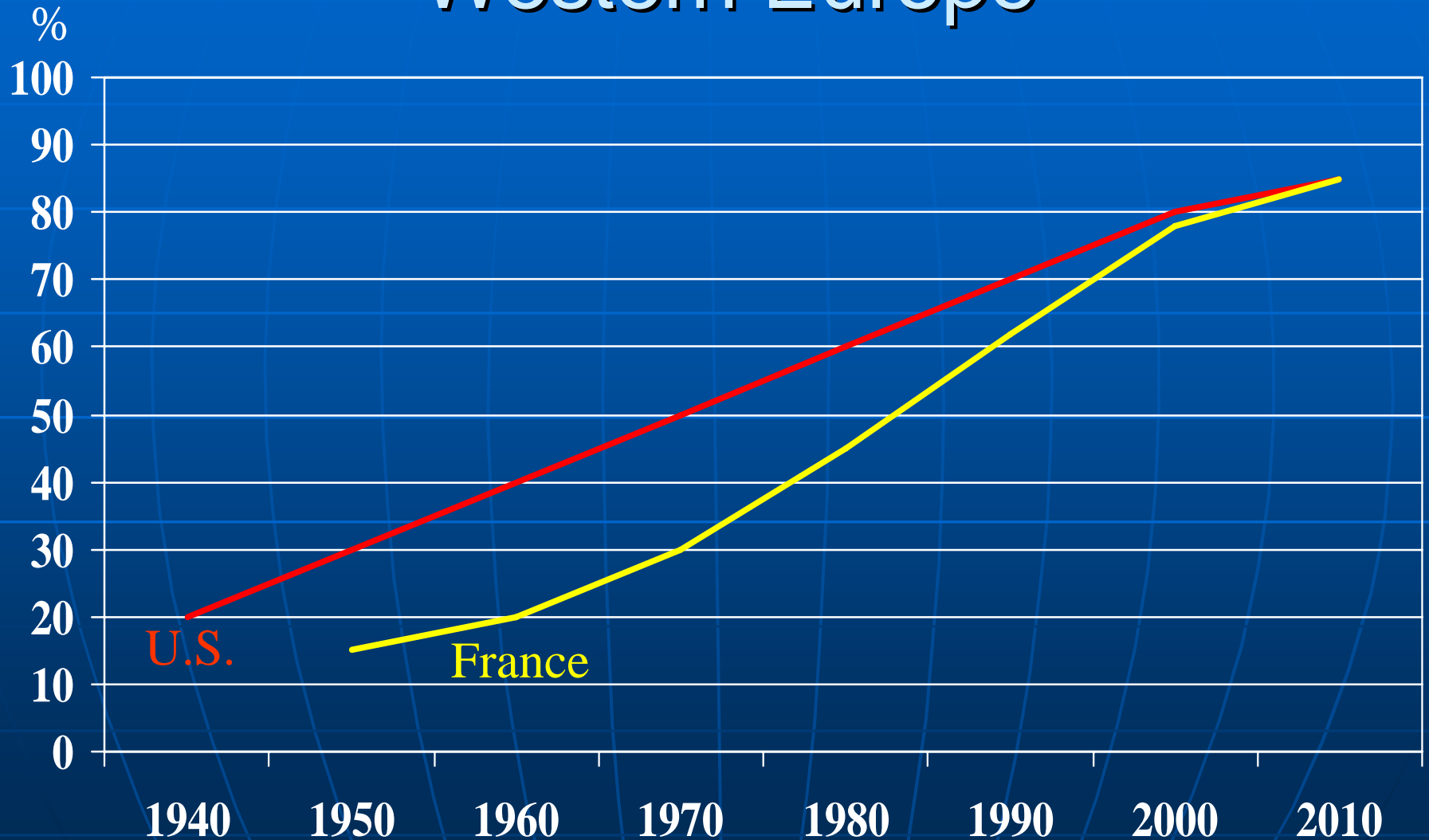
# Supermarkets in China



# Share of Supermarkets in food retail - US

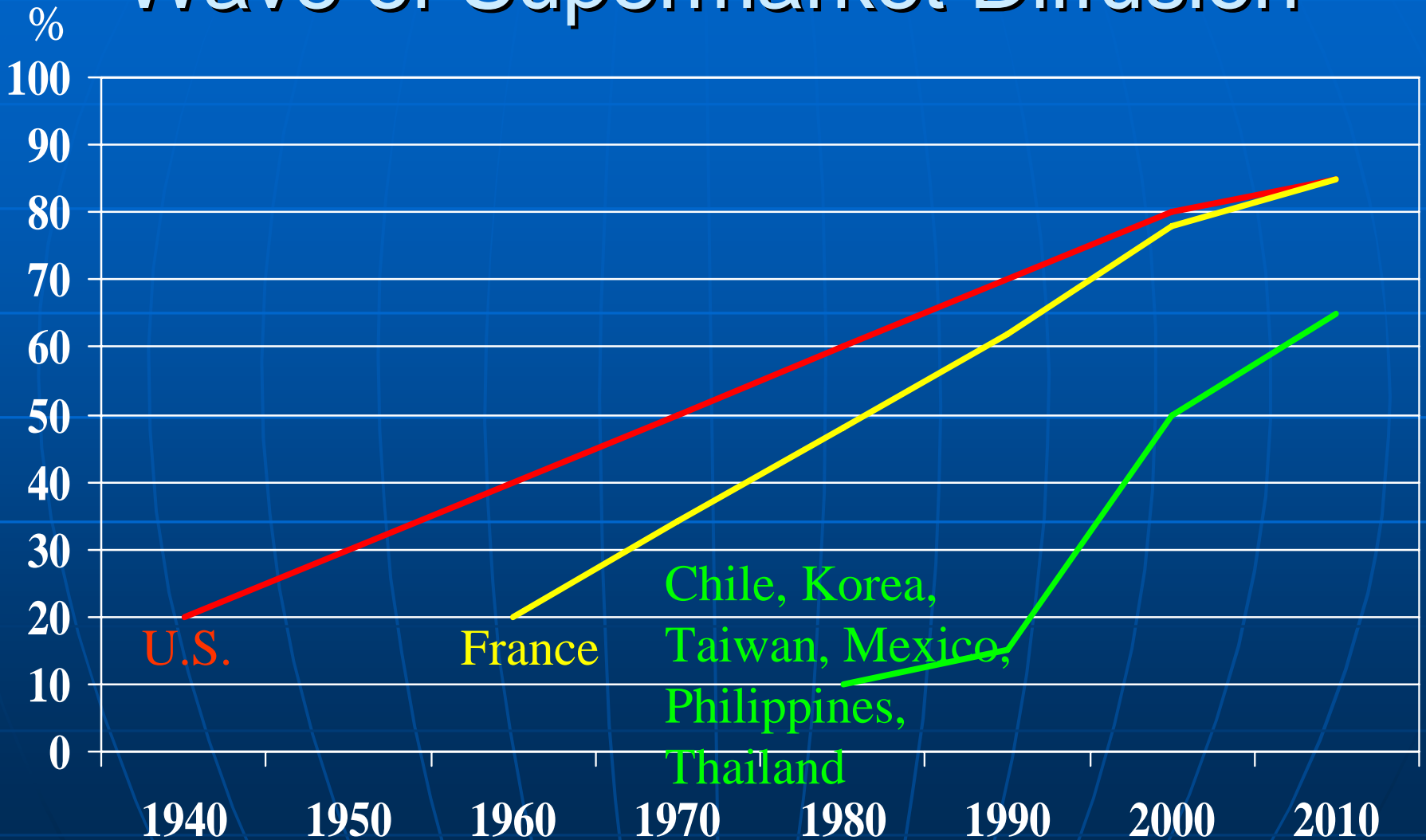


# Share of Supermarkets – Western Europe

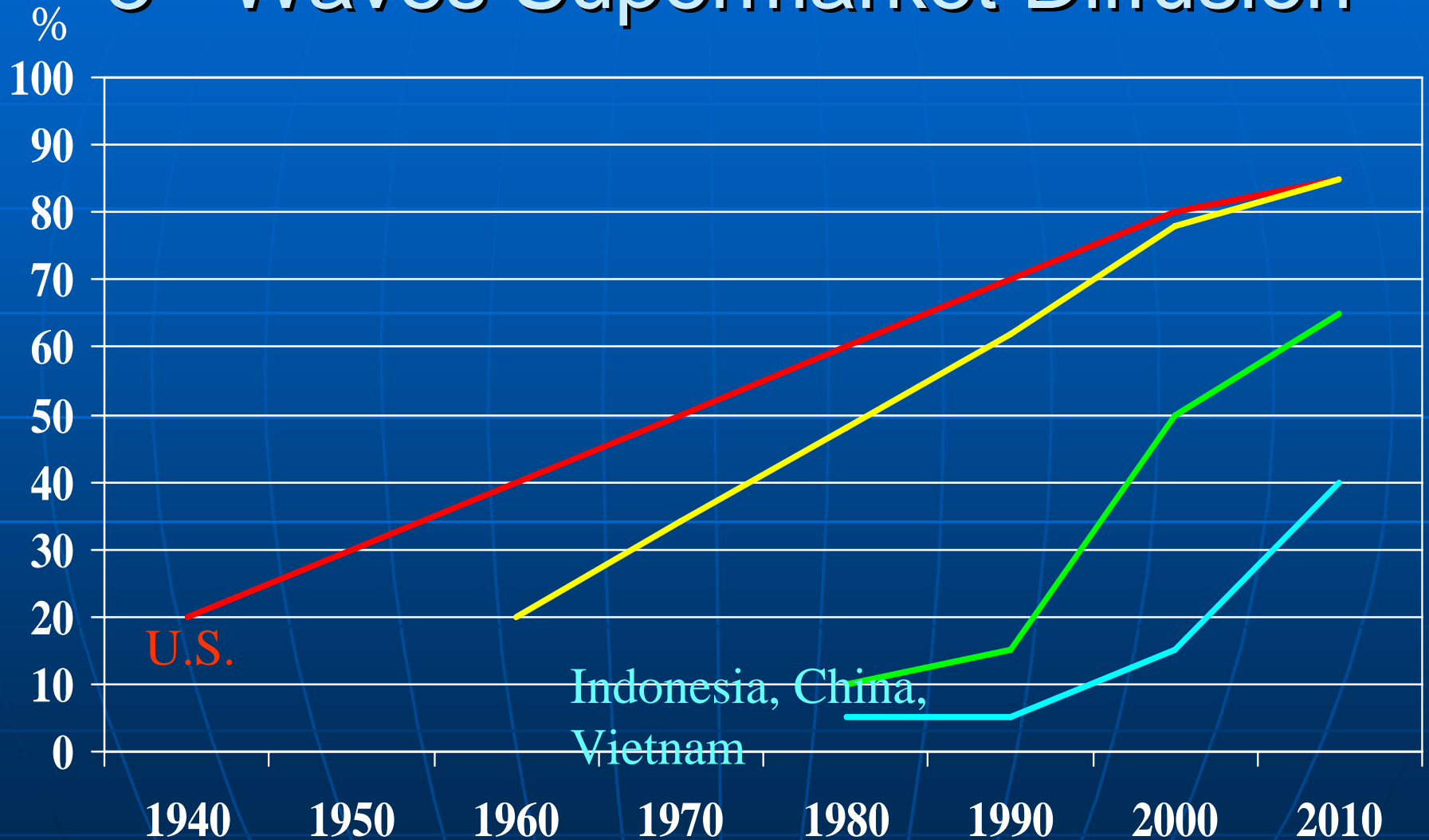




# Share of Supermarkets – “First Wave of Supermarket Diffusion”



# Share of Supermarkets – 2<sup>nd</sup> & 3<sup>rd</sup> Waves Supermarket Diffusion



- “First Wave countries” (examples: Chile, Korea, Philippines, Taiwan)  
... 10% in 1990, 50-60% in 2003  
... growth rate 5% annually now

- “Second Wave countries” (examples: Mexico, Thailand, Indonesia)
  - ... 5% in 1990, 30-50% in 2003
  - ... growth rate 20% annually now



- “Third Wave countries” (examples: China, Vietnam, Peru)
  - ... 0-1% in 1990, 10-20% in 2003
  - ... growth rate 30-40% annually now

... Pattern of CONVERGENCE over  
countries in retailing systems...

# SHARED Socioeconomic and Product patterns

- Start with big cities → then small cities, then towns
- Start with richer consumer niche → then middle, then poor
- Start with processed and bulk staples → then fresh/perishable foods

# SHARED Supermarket Sector trends

- Rapid consolidation
- Rapid multi-nationalization
- ... global multinationals (Carrefour, Wal-mart, Tesco, Metro, others)
- ... regional multinationals (Dairy Farm, E-Mart, others)



# PARTIALLY Shared Determinants of supermarket diffusion

- US and Europe, like Asia and LAC:  
“Necessary but NOT sufficient  
socioeconomic drivers  
= “demand side”  
→ rising incomes  
→ urbanization

# First “supply side” driver of supermarket diffusion

- Asia and Latin America, additional factors

... “supply side”

→ huge influx of FDI (foreign direct investment) following retail FDI liberalization

# Despite the policy debate focusing on trade policy...

Hypothesis = FDI liberalization → at least as much effect on food systems as is trade liberalization!

- Supermarkets IN Latin America buy TWICE as much fruits and vegetables as are EXPORTED from Latin America to rest of world
- Same situation in China...

# The second supply-side driver of supermarket diffusion

- Big changes in supermarket chains' "procurement systems"
- ... that drive down costs (thus allowing them to move from rich to poor consumer markets...)
- ... raise quality and diversity of products (growing the market)

## **2. Modernizing Supermarket Procurement Systems in Asia-Pacific Region**

**... changing the face of local markets and  
trade...**



# Inside the Head of a Supermarket Procurement Officer

- **Under INTENSE competition!**
- **Need to increase market share (VOLUME)**
- **Reduce COST (of product and transaction)**
- **Increase QUALITY and SAFETY**
- **Increase CONSISTENCY**
- **Differentiate Products**

- 4 PILLARS of PROCUREMENT  
SYSTEM CHANGE

# Pillar 1: Centralization and Regionalization

- (1) Shift from store-by-store procurement and use of wholesale markets

... to – centralized - Distribution Centers

→ Reduce costs 30-40% !

# Traditional Wholesale market in Central America



# Distribution Center in China





- Extend beyond national sourcing to regional (and global) sourcing

... HEB Grocers between US and Mexico

... Tesco between Thailand and China

## Pillar 2. Traditional Wholesale → “Specialized/Dedicated Wholesalers”

- Traditional wholesale markets in Mexico with rise of supermarkets
  - 25% in 2 years in Mexico City
  - 30% in Monterrey!
  - 50% in Guadalajara!

# Shifting to Specialized Wholesalers: Bimandiri in Indonesia



# Pillar 3: Shift from Spot Market to Implicit Contracts (Preferred Suppliers)

- Buy in bigger volumes, from big area, from bigger (or small but organized) suppliers

# Pillar 4: the Rise of PRIVATE Standards of quality and safety



# Hortifruti demanding standards for Lemons in Central America



# Testing for food safety in supermarket chain in Thailand



### 3. Emerging Trade Effects of the spread of supermarkets

- Supermarket procurement practices “de-fragment” food systems  
→ Powerful motors of market integration

- Big opportunities for local suppliers to enter national and regional markets
- ... Reduced transaction costs of access urban and export markets

... Example:

Chinese vegetable suppliers selling to  
Thai, Japanese, and Korean  
supermarkets via procurement  
systems



- Two-way street: brings competition “into your backyard” while helping you export

# Chilean, Californian, and Thai fruit in a supermarket in China



# With meat from Australia, US..





# And dairy products from Australia and Mongolia



# 4. Development Challenges

... big challenges especially for  
small farmers

- New procurement systems bring competition... Right into your backyard!

... The Global – and Regional - become  
Local



- Big challenges: Small producers have big problems adapting to requirements of supermarkets

... And increasingly – to those of resale of retail and wholesalers competing with supermarket chains on quality and cost...

➔ Implications for Development Programs and Policies