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Dales, Alexandra ORCID logoORCID:
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Variegated National Retail Markets

Variegated National Retail Markets: Negotiating Transformation Through Regulation In Malaysia And Thailand

Alexandra Dales

York Business School, York St John University
Lord Mayors Walk, York, YO31 7EX, United Kingdom
E-mail: a.dales@yorks.ac.uk

Neil M. Coe

Department of Geography, National University of Singapore
1 Arts Link, Kent Ridge, 117570, Singapore
E-mail: geonmc@nus.edu.sg

Martin Hess

School of Environment, Education and Development, University of Manchester
Oxford Road, Manchester, M13 9PL, United Kingdom
E-mail: martin.hess@manchester.ac.uk

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Abstract

The last two decades have seen a major wave of retail globalization that has driven the transformation of retail markets in the emerging economies of Southeast Asia and beyond. This article provides a systematic analysis of the divergent pathways of retail market transformation in Malaysia and Thailand through exploring the interface of foreign retailers' strategies of market development and regulatory efforts by the state. Drawing on the variegated capitalism approach and relational economic geography perspectives, the article develops a dynamic analytical framework for investigating and contrasting contestation and negotiation in the process of market transformation. Based on extensive fieldwork and comprehensive secondary data analysis carried out in Malaysia and Thailand, it demonstrates the different trajectories of the Malaysian and Thai retail markets since the turn of the millennium, and explains the political-economic context, and state-regulatory and retail firm strategies that interactively shape market change. While Malaysia has seen substantial levels of state intervention to protect domestic interests and create a two-tier retail system, the Thai retail market transformation has been based on less rigid, but more geographically varied state regulation and foreign retail firm strategies. Thus, this article sheds new light on the host economy impacts of retail globalization in the context of local and national contestation and regulation. It concludes with a summary of the findings and reflections on the value of the analytical frame developed here for research on comparative capitalism beyond the retail sector.

Transnational retail investment in Malaysia and Thailand during the 1990s and early 2000s ignited a period of intense change and modernization across their domestic retail systems. Both economies received a higher proportion of retail foreign direct investment (FDI) compared to elsewhere in Southeast Asia, with six and eleven food and general merchandise retail transnational corporations (TNCs) entering Malaysia and Thailand respectively. These TNCs initiated significant host market impacts as they extended the geographical scope of their sourcing and store network operations and used economies of scale to take advantage of rising incomes and emergent consumer societies (Coe and Bok 2014). Retail provision was modernized – initially in the capital cities Kuala Lumpur and Bangkok, and subsequently countrywide – as new practices and organizational innovations were introduced, including new store formats, procurement systems, customer service practices and product quality assurance standards. By utilizing lower capital costs and advanced distribution and logistics systems, retail TNCs achieved rapid growth and generated high returns from these markets (Wrigley 2000). Indeed Malaysia and Thailand were among a wider group of rapidly growing economies across Asia Pacific, Eastern Europe, South America and South Africa that attracted substantial investment from rapidly expanding retail TNCs. Since 2000 retail markets in Southeast Asia have grown rapidly and evolved into dynamic, lucrative and yet intensely competitive arenas for global retail capital.

This article charts the transformation of two distinct national retail markets. It reflects on the role of the state and the institutional and political-economic conditions within each economy in mediating the nature and direction of market transformations caused by the arrival of global retail capital. In particular, we examine the renegotiation of market based rules and regulatory frameworks that has occurred in each market since the early 2000s. Assessing and contrasting the regulatory realignments of Malaysia's and Thailand's national retail markets provides an informative analytical lens through which market transformations can be

theorized. We conceptualize national retail markets as dynamic, path dependent and contested multi-actor systems that are continually negotiated and reproduced by the interaction of market actors and the political-economic institutions (e.g., government departments, political leadership, regulatory authorities, business associations, trade groups) that guide and regulate economic action. We posit that national retail markets, such as those of Malaysia and Thailand, represent distinct *sectoral* modes of variegated capitalism that are simultaneously traversed and altered by globalized networks and reproduced by the political, economic and institutional contexts in which these networks are embedded. This conceptualization connects our study to ongoing debates within heterodox political-economic literatures concerned with national varieties of capitalism (see Hall and Soskice 2001; Witt and Redding 2014), and research that seeks to explicate multi-scalar processes of variegation within contemporary capitalism. We draw on the variegated capitalism perspective initiated by Peck and Theodore (2007) in order to theorize variability between and within national retail markets and develop an explanation for the transformation and reproduction of these market systems. Further, by emphasizing the roles of economic agents in producing distinct national retail markets, we align our approach with institutional theories (Knox-Hayes 2010; Jordhus-Lier, Coe, and Braten 2015) devised to uncover the processes of interaction between economic agents and regulatory structures in producing variegated market systems. Consequently, we seek to develop a nuanced account of market-making and processes of transformation at a sectoral scale.

Empirical evidence for this article is drawn from a three-year research project and based on a mixture of primary and secondary sources. During 2012 and 2013 fifty-eight in-depth semi-structured interviews were undertaken. In Malaysia and Thailand, participants represented transnational retailers (5, and 11 interviews respectively), international branded retail firms (3, 3), domestic retail firms (2, 3), shopping mall owner-operators (4, 2), retail trade and business

associations (3, 5), government institutions (0, 3), and respondents with expertise in the legal system (3, 1) and retail market (5, 5) of each country. In Malaysia, interviews with government policy representatives were repeatedly requested, but declined. However, several participants working for transnational retailers were former civil servants and were able to comment on government policy. The interviewees had detailed knowledge and understanding of retail operations, consumers and supplier systems and substantiated our analysis of each market. The primary data were supplemented by extensive sets of secondary data, which combined longitudinal and statistical information gathered from industry databases, company documents, the business press, and site visits in Malaysia and Thailand.

The remainder of the article is organized as follows. First, we position our analysis within a growing current of economic-geographical research concerned with processes of variegated capitalism, and situate the relevance of assessing national retail market transitions within this stream of research. Here we justify our focus on regulatory change as an analytical focal point. The section closes with an explanation of the conceptual framework devised to illustrate the phases and causal processes driving national retail market transformation following retail TNC investment. Second, we profile the market conditions in Malaysia and Thailand prior to significant retail TNC entry, in order to highlight the institutional configurations that underpinned post 2000 national retail market reregulation and transformation. Third, we discuss how the disruptive effects of retail TNC hypermarket expansion and the implementation of a sector specific regulatory framework transformed Malaysia's national retail market, followed by an assessment of Thailand's national retail market and the changes it went through. Key market transitions are unpacked, along with specific events and processes leading to regulatory intervention by the Thai government. Lastly, we conclude by reflecting on the reasons for variegation between the two national

retail markets and consider the implications of this study for future research on retail and beyond.

Theorizing the transformation and regulation of national retail markets

To date, much economic-geographic research into the expansion of global retail capital has tracked the evolving complexity and deepening variegation between retail systems intersected by global retail capital. This body of literature has progressed from an initial mapping of the research agenda into retail globalization (Coe 2004), and conceptualization of the retail TNC (Wrigley, Coe, and Currah 2005), towards deeper investigation into the dynamic and often contested outcomes of retail TNC involvement in emerging and rapidly industrializing economies (Coe and Wrigley 2018). The host country market penetration of retail TNCs was initially thought to lead to the diffusion of westernized supermarkets across developing economies and the uniform modernization of traditional systems (see Reardon, Henson, and Berdegúe 2007). However, subsequent research challenged the notion of unchecked supermarket expansion (Humphrey 2007; Endo 2013). Research from across the social sciences revealed a spectrum of reciprocal impacts between retail TNCs and host markets including supply network restructuring, changes to global and regional sourcing systems, competitive impacts on domestic and traditional retailers, regulatory changes, and sociocultural impacts on consumption (see Coe and Wrigley 2009 for an overview). Thus, the processes shaping national retail markets and retail globalization were shown to be diverse and differentially impacted by retail TNCs and the institutional arrangements of nation states, but also intensely contested and continually evolving.

Analyzing the evolution of national retail markets, however, necessitates a more dynamic conceptualization of institutional change within national economies than is usually seen within research concerned with variation between national economic systems. Hall and

Soskice's (2001) influential Varieties of Capitalism framework, differentiating between liberal and coordinated market economies, initiated a period of extensive multidisciplinary research into the national institutional configurations that enable and shape firm organization and behavior. However, this binary categorization adheres to a rather static interpretation of economic organization in which processes of change occur through moments of disequilibrium primarily derived from exogenous influences (Walter and Zhang 2012). This has limited the framework's ability to accommodate processes of change occurring both at subnational scales and at the sectoral level. However, the varieties of capitalism (voc) literature has expanded significantly over the past decade-and-a-half, and structuralist interpretations of firm-institution behavior have given way to research more sensitive to processes of change and disequilibrium within national economic systems. Moreover, business system analysis of East and Southeast Asian economies has led to analytical diversification away from frameworks derived from European and North American settings to assessments of the applicability of extant varieties of capitalism frameworks in this regional context (Witt and Redding 2014). Institutional structures across East and Southeast Asia have been shown to diverge considerably from the prototypes advanced by Hall and Soskice (2001), as the institutional dimensions associated with those systems are not necessarily present in Southeast Asia. Emergent typologies of East and Southeast Asian national economic systems (Walter and Zhang 2012; Zhang and Whitley 2013; Witt and Redding 2014) have significantly enhanced our understanding of the unevenly developed institutional landscapes within the region, and the varying impact of political contexts and economic processes through which institutional change can occur. Yet, this kind of business system analysis has continued the methodological prioritization of the national scale ('methodological nationalism'), which ultimately restricts an effective assessment of the

internal complexities of East and Southeast Asian economic systems (Peck and Theodore 2007).

Our research therefore builds on a branch of economic-geographic research initiated by Peck and Theodore (2007) who have sought to integrate relational perspectives into the analysis of variegation between diverse economic systems. The Variegated Capitalism approach encompasses a complex set of economic processes (e.g., multi-scalar, interdependent network formation, economic change and transformation, and regulatory disjuncture) that coalesce to produce particular modes of capitalism. These processes are understood to be multi-scalar and contingent on the institutional and political-economic circumstances in which they operate. Analytically, the approach emphasizes theorization across scales and eschews the presumption of institutional convergence and binary categorizations of national capitalist types, and the privileging of one (national) scale of analysis found in the voc literature (Zhang and Peck 2016). Peck and Theodore (2007) consider capitalist systems as undergoing endemic restructuring and periods of disequilibrium, as multiple interdependencies and connections operate between economic processes within distinct locales and across scales. Agents, in turn, are viewed as embedded within constitutive interfirm and extrafirm networks and wider institutional settings, while analysis proceeds through the interpretation of concrete events, which are used to identify and explain the uneven (variegated) development of contemporary capitalism.

We engage in the ongoing conversation over the spatial differentiation of contemporary capitalism by utilising the Variegated Capitalism approach in our analysis of national retail market transformation. Thus far, scholars implementing this perspective have increased knowledge about distinct modes of economic behavior and addressed some of the methodological and conceptual limitations of voc analyses, such as the aforementioned

methodological nationalism. For example, variegated capitalism has been employed to unpack the financial geographies of the firm (Dixon 2010), to investigate variegation within the global temporary staffing industry (Coe, Johns and Ward 2011; Jordhus-Lier, Coe, and Braten 2015), to elaborate China's relationship with the global economic system (Lim 2010, 2013; Peck and Zhang 2013), to identify regional modes of Chinese capitalism (Mulvad 2015; Zhang and Peck 2016), and to chart the evolution of variegated neoliberalism (Brenner, Peck, and Theodore 2010). Consequently, Peck and Zhang assert that Variegated Capitalism has emerged as "an ongoing attempt to codify and sharpen extant methodological practices" (2013, 359) in economic geography and beyond.

Through our study we extend the Variegated Capitalism approach in two important ways. First, through our analysis of retail system transformation we draw attention to variegation between *sectoral* modes of capitalism and the patterns and trajectories of market evolution therein. Second, whilst Peck and Theodore (2007) generally afford relatively weak analytical status to agents, we bring agents to the forefront of our analysis. This recognises the active role that both firm and non-firm actors take in negotiating sectoral regulation and the realignment of institutional conditions within national retail markets. Together, these priorities unite our research with another important and growing economic-geographic field of research, which conceptualizes markets as the outcome of the dynamic interaction between the structures and agents involved in economic activity (Knox-Hayes 2010; Jordhus-Lier, Coe, and Braten 2015). In line with these analyses, the research presented here recognizes the pivotal relationships between firms and regulatory structures in producing distinct markets in which processes of market operation and evolution continually intersect. National and extra-national actors interact to produce relationships that are formed in a path dependent manner. These interactions between state institutions, market actors and sectoral regulations are spatially and temporally contingent. Thus, the renegotiation of market rules and the longer

term consequences of regulatory realignment within host economies following retail TNC entry – a relatively under researched feature of Southeast Asian retail systems – becomes a central element in the reproduction of variegated national retail markets.

We prioritize the analysis of regulation for two reasons. First, we seek to explore the implications of reregulation for the structure and longer term trajectory of modern grocery retailing in the national retail markets of emerging economies. Second, we strive to better understand the impact of regulatory configurations and the political-institutional landscapes of distinct national economic systems on the behavior of retail TNCs and sectoral retail systems more broadly. Analytically, we examine host economy retail systems over the longer term, in order to uncover the multiple causal drivers that combine to produce dynamic and highly variegated markets. Assessing and contrasting the regulatory realignment of national retail markets creates a conduit through which many other areas of retail system transformation can be identified and interpreted, such as the expansion and diversification of modern grocery retail stores. As retail TNCs expand their operations in host markets, they immediately become involved with regulatory frameworks associated with national property markets and planning systems, and extrafirm network interactions are necessarily developed with city planners, property developers and financial investors (Tacconelli and Wrigley 2009). The process of site acquisition and the sheer visibility of retail TNC operations cause these firms to become subject to intense scrutiny by regulatory authorities. Thus, the ongoing nurturing of opportunities for capital accumulation, whether through store networks and/or the development of local sourcing systems, means retail TNCs are particularly exposed to regulatory intervention by national governments and the market wide implications of rule changes. Negotiations over the implementation of sectoral regulations are therefore conceptualized as the culmination of processes of market contestation and disjuncture between economic agents. These negotiations reflect the different interests of market actors,

but also the wider institutional and political-economic conditions in which they are devised. Regulatory negotiations create specific passage points of interaction through which the realignment of market rules can occur, and firms use these interactions as an opportunity to influence change or reform of laws. Consequently, regulatory frameworks – such as those introduced within Malaysia’s and Thailand’s respective national retail markets in the early 2000s – are both politically and professionally mediated and constructed by a wide range of competing authorities and socioeconomic agents.

Beyond Mutebi’s (2007; see also Wrigley and Lowe 2010) useful classification of regulatory constraints on retail TNCs in Indonesia, Malaysia and Thailand, recent research into the regulatory responses of national governments has tended to be subsumed within broader assessments of national retail markets affected by transnational retail (e.g., Fels 2010; Coe and Bok 2014; Shannon 2009, 2014; Endo 2013). The introduction of sector specific rules by Southeast Asian governments in the early-to-mid 2000s created new regulatory barriers in countries that had previously been relatively open to global retail capital (Wrigley and Lowe 2010). This shift in public policy, from liberalization towards processes of reregulation or ‘regulatory tightening’ (Nguyen, Wood, and Wrigley 2013) was attributed to intense debates within host economy societies over the negative impacts these firms were having on domestic retail structures, and the “desirability of multinational driven retail change, large-format retail development, and/or market dominance by retail TNCs” (Coe and Wrigley 2007, 362). Newly devised regulatory frameworks tended to prioritize the protection of domestic trade by constraining foreign retail investment (for instance via competition rules, advance impact assessments, land-use zoning, building and outlet size codes), and frequently determined the type of market activity retail TNCs could engage in.

In short, the arrival of global retail capital into Southeast Asian economies set in motion a process of market transformation. Retail TNCs investing in territorial embeddedness disrupted established patterns of market operation and behavior, in turn causing a realignment of market institutions. New market rules were needed to reflect the altered conditions of national retail markets, particularly where incumbent market actors perceived their stability and profitability to be undermined (Senn 2011). Indigenous modern retailers and traditional traders responded to TNC initiated market changes by seeking the support of national governments, who were expected to arbitrate and resolve market actor disagreements arising from the competitive impacts of global retail capital. Market actors, or networks of collaboratively or competitively engaged firms, consequently sought to construct new regulations – formal guidelines and laws devised by governments – to reshape the structure and stability of the market. Based on this conceptualization, Figure 1 presents an analytical tool devised to illustrate host economy national retail market transformation following the arrival of global retail capital.

*** Insert Figure 1 here ***

In Figure 1, the spiral signifies the ongoing evolutionary trajectory of economic action and regulatory response whereby no single phase in a national retail market's development is returned to, as each phase informs the next. The seven *phases* located along the spiral describe generic patterns of market transformation following the entry of retail TNCs. Looking more closely at the events and processes indicated in Figure 1, phase one indicates the status of national retail markets before significant retail TNC investment initiated market change. Phases two to five focus on the consequences and host economy impacts of retail TNC entry and describe, respectively: the initial entry and expansion of retail TNCs; domestic market actor resistance to retail TNC market changes; the introduction of sector

specific regulations; and the outcome of these new regulations for market actors. Phase six indicates ongoing market changes after the immediate impacts of regulatory tightening have been experienced, while phase seven highlights the continuing role of national governments in retail systems through policy based initiatives and state level economic planning, wherein sectoral regulations are revised or updated.

The three different phases highlighted in Figure 1 encapsulate the varying processes that combine to drive national retail market transformation. Phases of *market transformation (MT)* conceptualise periods of intense change and accelerated market transformation associated with the arrival of transnational retailers and the subsequent reregulation of market processes by national governments. This category is important for profiling how national retail markets are impacted by global retail capital and their subsequent evolution since the late 1990s. It facilitates identifying areas of commonality and difference between national retail markets, particularly in terms of how domestic market actors and transnational firms shape the development of modern retailing, and the extent to which processes of retail globalisation affect a country's retail systems over time. Phases of *actor contestation (AC)* delineate transitional phases in which market actors take action to express their strategic interests, firstly during the formulation of new sectoral regulations and secondly during the implementation of these rules. The interactions of agents and social institutions during the implementation of sectoral regulations are viewed as potential sources of intended and unintended market transitions. Lastly, phases of *government intervention (GI)* represent periods in which political-economic, sociocultural and institutional arrangements within nation states influence and mediate sectoral level economic activity. By exploring the processes through which regulations are formulated it is possible to examine how political and bureaucratic decision makers, and the different institutions that implement regulations, impact upon market actor behavior and the retail system as a whole. Table 1 details how

these transitional processes occurred in distinct and different ways in Malaysia and Thailand. Each case will be discussed in more detail in subsequent sections of this article.

*** Insert Table 1 here ***

Whilst each phase is presented in Figure 1 and Table 1 as separate, in reality such market configurations and transformations are much more complex and messy in nature. As an analytical tool, Figure 1 is not intended to belie the highly relational and mutually constitutive nature of market systems. Correspondingly, and as Table 1 indicates, not all Southeast Asian national retail markets (or other markets for that matter) will undergo the same transitional phases, at the same time or in the same order. The conceptual framework presented here provides a way to disentangle the complex events that can occur in retail systems intersected by global retail capital and inform the identification of sources of variegation. The intention is to advance a more nuanced and sensitive interpretation of market making and processes of transformation at a sectoral scale. The next section charts retail system transformation in Malaysia and Thailand and highlights the particular contextual factors underpinning the development of each national retail market prior to significant retail TNC market entry.

Profiling Malaysia's and Thailand's national retail markets - 1970s to 2000s

Prior to the arrival of transnational firms (Figure 1, phase 1), modern retailing had emerged in Malaysia and Thailand in and around the capital cities Kuala Lumpur and Bangkok in the 1970s and early 1980s. At this time both markets received regional foreign investment from Japanese department store retailers (Othman 1987). However, the majority of food and general merchandise retail was supplied by traditional retail structures (e.g., wholesale emporiums, independent outlets, fresh/wet markets). Differences between the two markets arose as a result of the way in which domestic firms developed modern retailing. In Malaysia,

shopping mall operators played a pivotal role in providing organized retail space for modern domestic retail businesses (Sieh Lee 2013). In Thailand, it was local retailers and department store operators, most notably Central Retail, Robinson and the Mall Group, that advanced the sector along with CP ALL through its operation of 7-Eleven convenience stores from 1989. By the time transnational retail firms invested significantly in the two markets during the late 1990s and early 2000s, domestic shopping mall based retailing and department stores were relatively well established in urban areas and domestic versions of modern grocery retail channels had opened. As Table 2 details, between 2000 and 2010 Malaysia's retail market doubled in size, whilst in Thailand it grew threefold. However, this growth does not represent a uniform modernisation of retailing by retail TNCs (Reardon, Henson, and Berdegué 2007). Instead, a 'mosaic' structure of established and new forms of grocery retail provision emerged in each market, and particularly in Thailand (Endo 2013). In both sectors, domestic wholesalers and traditional retail adapted their operations in response to transnational retailer activities, and continued to provide a significant share of food and general merchandise retail provision, particularly in rural and peripheral areas. This mosaic structure of retailing is thus clearly reflective of pre-existing, but shifting patterns of socio-economic and class differentiation within the two countries.

*** Insert Table 2 here ***

The degree of state involvement in Malaysia's and Thailand's national retail markets was relatively limited prior to the arrival of transnational retail firms, although a number of government initiatives designed to support distributive processes had been introduced. For example, under the Seventh Malaysia Plan (1996-2000) (Malaysia 1996) measures were introduced to support specific areas of the retail industry including: the direct selling industry, farmers' markets, and store-based technological systems (Malaysia 2001). Similarly,

throughout the 1980s and 1990s the Thai government introduced a series of initiatives designed to improve domestic food production and increase linkages between local producers and modern grocery retail chains (Srimanee and Routray 2012). When compared to other national industries, retail sectors in both countries were neglected in favor of industries deemed to support rapid industrialization and export-orientated growth including technology and manufacturing industries (Baker and Pongpaichit 2009; Jomo and Hui 2010). The dominance of traditional retail structures and plethora of independent small traders may well have contributed to low levels of state-business linkages and operational collaboration within each national retail market.

Variation between Malaysia's and Thailand's respective retail sectors during the 1990s in part reflected each country's national economic system and richly contrasting institutional and political-economic history. A key distinction was the nature and intensity of state led economic planning. In contrast to Malaysia, long term economic planning in Thailand had been less extensive and was frequently disrupted by periods of political instability (Baker and Pongpaichit 2009). The degree of protection afforded to domestic business interests by each national government was another source of institutional variance. During the 1997-8 Asian Financial Crisis (AFC) the Malaysian government eschewed exposing its economy (and the ethnic Malay Bumiputera business community in particular) to international competition (Jomo and Hui 2010). In contrast, Thailand's adoption of International Monetary Fund austerity measures intensified the impact of the economic crisis for domestic businesses and increased integration into the global economy. These policy actions at the national scale had implications for the subsequent reregulation of each national retail market. Notwithstanding the diverse experiences of political (in)stability and partial democracy in Malaysia and Thailand, in both contexts decision making power remained largely centralized in the hands of the executive bureaucracy. Dominant political economic coalitions have also significantly

shaped the trajectory of development in both nation states. In Malaysia the leading United Malay National Organisation (UMNO) party and Barisan National government have overseen the introduction of national planning since the early 1970s, whereas in Thailand power has periodically shifted between or been shared by the bureaucracy, military, elected politicians and business oligarchs. As we shall demonstrate, these national level political and institutional configurations have played an important part in shaping the development of Malaysia's and Thailand's respective national retail markets.

Malaysia's national retail market: state-led transformation?

In 1995 the Malaysian government, through the Ministry of Domestic Trade Co-operatives and Consumerism (MDTCC), established the Distributive Trade Committee to administer oversight of the market entry of retail FDI. European (Carrefour, Makro, Royal Ahold) and East Asian (AEON, Dairy Farm International) transnational retailers primarily entered prior to the 1997-8 AFC, with the exception of Tesco, which entered Malaysia in 2001. In the first half of the 2000s, modern retail outlets rapidly increased in number and a phase of accelerated market transformation began, a process captured by phase 2 of Figure 1. In 2000 there were twenty-two foreign and six domestically owned hypermarkets; by 2005 this had risen to sixty-eight and thirteen respectively (Malaysia 2006). Transnational retailers operating hypermarkets exposed Malaysian consumers to westernized retail culture through new forms of marketing, operational practices and sourcing strategies. These hypermarkets capitalized on a growing consumer preference for "convenience, comfort and product variety offered by these largely one-stop-shop establishments" (Malaysia 2006, 210). The distinct brand identities TNCs introduced created new experiences for consumers, such as exclusive product ranges, high levels of customer service and a consistent consumer experience across

stores. Loyalty card schemes were introduced along with food quality certification and product standards linked to supply chain transparency.

In the early 2000s the integrated wholesale and retail functions of TNC owned hypermarkets had started to disrupt existing market conditions (Malaysia 2001). Although changes were localised in densely populated areas in Kuala Lumpur and neighboring Selangor and Johor (Hassan et al., 2013), the competitive impacts of retail TNC activities initiated a period of disequilibrium and contestation within the market (Figure 1, phase 3). In these areas grocery shops and minimarts reported falling sales, fewer customer visits, store closures and lower net profits during the first half of the 2000s (Kaliappan et al. 2008). Whilst not all grocery retailers were affected in the same way or at the same time, large formats had begun to change the purchasing preferences of consumers. Resistance amongst affected traditional retailers gradually increased as the pressures from transnational outlets spread (Mohd Roslin and Melewar 2008). Independent shops unhappy with the arrival of hypermarkets lobbied their local political representatives, with some appealing directly to the then Prime Minister Mahathir Mohamad (1981-2003) to complain about the effects of retail TNC operations. Retail TNC procurement methods also challenged domestic manufacturers to adapt to the expectations and techniques used by international firms.

In 2001, a mismatch between foreign buyers and a number of Malaysian suppliers had an immediate effect on transnational retailer operations. Coinciding with concern over the impact of hypermarkets on traditional traders, Prime Minister Mahathir was alerted to complaints from suppliers of unprocessed goods over perceived unfair buying tactics by retail TNC representatives. In response to these complaints, Mahathir placed an immediate ban on all new hypermarket store openings by both foreign and domestic operators. By this time Tesco had built its head office, employed 150 staff and purchased land for a further eleven

hypermarkets; similarly, Carrefour was about to open its eighth store. The Malaysian government's response was quick, assertive and indicative of a newfound willingness to intervene in the retail market. Although the restriction was lifted a few months later, this initial regulatory action alerted transnational firms to the efficacy of domestic actors in representing their strategic interests to the political leadership, and – importantly – the national government's sensitivity towards, and interest in, the local retail trade.

This moment of market disjuncture preceded a period of substantial regulatory realignment within Malaysia's national retail market in 2002 and again in 2004 (Figure 1, phase 4). The 'Guidelines on Foreign Participation in Wholesale and Retail Trades' (hereafter MDTCC guidelines; Malaysia 2010b) set out the government's intentions for the national retail market and focused on competition and the promotion of domestic interests. In 2002 the MDTCC introduced tighter controls in the application process for new outlets; foreign owned hypermarkets could not operate within 3.5 kilometres of a residential area or town centre, had to be freestanding, and not an anchor tenant to shopping malls. Advanced socioeconomic studies were introduced to assess the potential competitive and environmental impact stores could have on local communities (Mutebi 2007). In 2004 the MDTCC guidelines were expanded to cover a spectrum of market activities including population catchment area requirements, hours of operation, store size, and franchise arrangement rules. Critically, transnational retailers were excluded from opening stores with a sales floor area of less than three thousand square meters (the size of a supermarket), convenience stores or fuel station forecourt outlets. This rule had a significant impact on the strategic choices available to foreign firms and, as a consequence, the future trajectory of grocery retailing in Malaysia. Retail TNCs could not develop diverse store profiles to the same degree as in their home markets and elsewhere, or tap into consumer habits attached to convenience shopping. AEON, Carrefour, Dairy Farm International and Tesco had yet to open smaller formats; now this was

no longer an option except through franchising, a mode of expansion that was considered less attractive to these firms.

The new regulatory framework was indicative of the political-institutional context of Malaysia's national economic system at the time. On the one hand, Prime Minister Mahathir's perception of foreign retail and its potentially negative impacts on local retail and distributive traders colored the discourse surrounding the process of rule making. On the other hand, the MDTCC guidelines were assembled within a political-economic and institutional setting that periodically devised substantive economic programs and industrial initiatives through a nationwide institutional infrastructure geared towards top-down, centralized policy implementation. The ruling UMNO party's political sensitivity towards the concerns of the domestic distributive retail industry, and ethnic Malaya Bumiputera businesses in particular, reinforced existing government preferences towards supporting local firms and market protection against the competitive impacts of foreign enterprises.

In terms of how Malaysia's national retail market evolved following regulatory realignment, phases of accelerated market transformation during the 2000s and 2010s (Figure 1, phases 5 and 6) were not as intense as they might have been had transnational retailers been able to diversify across all grocery retail channels. Despite retail TNCs holding significant market share in the grocery segment due to the rapid expansion of hypermarket outlets and the growing presence of international specialist retailers, the 2004 MDTCC guidelines created an ownership structure that ensured the continued predominance of domestic retail. Limiting foreign retail firms to formats of three thousand square meters or above affected AEON, Carrefour, Dairy Farm International and Tesco in particular. It substantially changed the grocery segment of the national retail market by altering the strategic choices available to these retailers. It also lessened the intensity of competition between convenience retailers,

and increased competition between larger grocery outlets. The upshot was to create a two-tier retail system in which significant modern retail provision grew alongside a large traditional retail base. Rates of modernization therefore were uneven between hypermarket provision and small store grocery retailing.

Post 2004, negotiations between government regulators and transnational retailers concentrated on the licensing and approval of new large format stores. As one respondent explained, “The major sticking points are that they are not getting all the licenses that they would want to have” (senior manager for European business association, Malaysia). Transnational retailer executives worked directly with MDTCC officials to secure new store approvals. This involved “a lot of intelligence work, personal interaction and relationships become very important” (government representative of transnational retailer, Malaysia). Of the large format retailers present, some were more successful than others at lobbying regulatory decision makers and securing hypermarket approvals, and personal connections with government representatives became a powerful tool for success in the market.

Transnational retailers also modernized the sector by targeting in-store consumer spending. Mall space surrounding hypermarket outlets was diversified and expanded, new financial services were introduced, and shop-in-shops such as pharmacies and bakeries were opened. Tesco launched its online food and grocery retail business in 2013 and began delivering to homes in the Klang Valley (Tesco Malaysia 2018). Leading indigenous retailers Mydin and EconSave captured market share throughout the 2000s and 2010s by developing distinct brand identities and their own versions of hypermarket stores, plus in-store services that mirrored the advances introduced by foreign firms (Euromonitor International Database 2017). Mydin has been particularly successful in building its store portfolio and is the only retailer present in all grocery format channels, except forecourts (Howa Mohd 2012).

Competition amongst convenience retailers has been less intense than in Thailand as fewer convenience retail chains are present. In 2016 domestic firm 7-Eleven Malaysia Sendirian Berhad was the leading convenience operator followed by KK Supermart, 99 Speedmart and The Store Corp (Euromonitor International Database 2017). However, most convenience outlets continue to be operated by independent traders in Malaysia.

By 2010 retailing was contributing significantly to the Malaysian economy, with approximately half a million people employed in the sector (Malaysia 2010a). In 2011 a new phase of government regulation and political mediation of the market began (Figure 1, phase 7). Under the 2011 Economic Transformation Programme (ETP) the wholesale and retail trade was announced as one of twelve New Key Economic Areas (NKEA) expected to drive Malaysia's economy towards developed country status (Malaysia 2010a). A raft of measures was introduced to address the limited productivity of traditional independent retailers and the domestic distributive trade, including new MDTCC guidelines that stipulated that all foreign retailers source 30 percent of their stock keeping units from Bumiputera businesses (Malaysia 2010b). ETP initiatives included the Transformasi Kedai Runcit, or Small Retailer Transformation Program (locally known as TUKAR). This project was specifically designed to increase independent retailer competitiveness and prevent the closure of traditional outlets. Through TUKAR, traditional retailers were helped by modern transnational and indigenous retail firms to upgrade their operations. This ranged from total store renovation to introducing new technologies and changing the arrangement of product displays. The earlier 2008 Koperasi Jaringan Sepadu Malaysia Berhad (translated as Co-operative Integrated Network, hereafter KOJARIS) was used to coordinate the distribution of Malaysian small and medium enterprise products to TUKAR and non-TUKAR traditional retail outlets (Malaysia 2013). A number of low budget convenience retail formats – 'Kedai Rakyat 1Malaysia' – were also developed to sell three thousand local products in smaller and more flexible quantities at bulk

buy prices to small traders (The Star Online February 24, 2014). Through these outlets, which are operated by Mydin and small traders, the government could control prices to support low-income consumers and reduce the impact of international competitors on domestic suppliers. Thus, through the wholesale and retail NKEA the Malaysian government had created a small-scale state organized supply system, a range of national 'own brand' products, and domestic retail outlets across the sector. Ultimately, these measures were an outcome of the uneven pace of modernization between large format and small-scale grocery provision within the national retail market.

By way of summary, increased levels of state intervention in Malaysia's national retail market during the 2010s are indicative of the degree of market transformation that has taken place in the retail system since the entry of retail TNCs in the 1990s. Through the ETP and Wholesale and Retail NKEA the Malaysian state has attached greater significance to growth and productivity in the retail sector for the national economy. However, phases of accelerated market transformation during the 2000s and 2010s were not as intense as they might have been had transnational retailers been able to diversify across all grocery retail channels. The 2004 MDTCC guidelines had created a two-tier retail system and an ownership structure that ensured the continued predominance of domestic retail and more gradual rate of market change in grocery retailing. As retail TNCs changed the conditions of the national retail market in the early 2000s, traditional and modern domestic market actors alike were able to ensure their strategic interests were recognised and considered by government decision makers in a political and institutional setting sensitive to the needs and interests of domestic business. Thus, phases of market actor contestation, adaptation and strategic action were crucial in creating the conditions for regulatory realignment as the initial impacts of retail TNCs were experienced in the market. In Malaysia, domestic market actors are as important as retail TNCs in producing and shaping the landscape of the national retail market. As a

sectoral economic system, Malaysia's retail system contains demonstrable path dependent characteristics that embody the wider institutional environment and political economic context, the strategic interests of a variety of market actors, and the impact of processes of retail globalization through the strategic adaptations of transnational retailers.

Thailand's national retail market: competition and diversification

Transnational and domestic retailers have played an equally important, albeit differing, role in the transformation of Thailand's national retail market. As in Malaysia, an initial phase of accelerated market transformation (Figure 1, phase 2) began in Thailand during the 1990s. Transnational retailers entered Thailand both prior to and after the 1997-8 AFC and hailed from Belgium (Delhaize), France (Auchan, Carrefour, Casino), the Netherlands (Makro, Royal Ahold), Hong Kong (Dairy Farm International), Japan (AEON, Family Mart, Isetan) and the UK (Tesco). During the financial upheaval of the AFC, leading domestic firms Central Retail and CP ALL sought to protect their core business operations by entering into joint ventures with TNC entrants (Central Retail with Carrefour, Casino, Family Mart and Royal Ahold; CP ALL with Delhaize, Makro and Tesco). Divesting their supermarket networks (that were relatively small parts of their wider business portfolio) to joint venture partners reduced their exposure to debt and enabled transnational firms to secure an affordable foothold in the market. Rather than resisting the entry of transnational firms, Central Retail and CP ALL sought to gain advantage from their investment, whilst the new market entrants could benefit from their expertise and knowledge of the Thai market.

In an environment sensitive to the strengthening role of foreign capital after the AFC, a period of market disjuncture and contestation arose in Thailand in the late 1990s and early 2000s. Domestic resistance to transnational retail (Figure 1, phase 3) primarily originated from traditional retail and distributive operators and occurred at a time when the social

impact of the economic crisis was deepening, and discontent over the influence of foreign capital surfaced as widespread popular protest (Baker and Pongpaichit 2009). The Foreign Business Act introduced in 1999 was felt to have exacerbated existing domestic actors' exposure to transnational retailers by increasing their access to the market. As retail TNCs introduced new commercial fees and merchandise requirements, built commercial relationships with manufacturers and consolidated sourcing and procurement systems, domestic suppliers began to complain of unfair pricing practices and higher charging arrangements. Traditional retailers and distributive businesses expressed their discontent by forming new business alliances, organizing petitions and protest events, and using provincial and national chambers of commerce to raise their concerns with local and national government (Endo 2013). As in Malaysia, traditional domestic market actors sought to change existing institutional and regulatory conditions in the market by drawing on business relationships and their knowledge of the political environment to assert their strategic interests. By 2002 more than thirty complaints relating to the retail and wholesale trades had been lodged with Thailand's Competition Commission (formed under the Competition Act 1999) (Williams 2004). Claims of unfair trade practices by foreign retail firms led to the creation of the Examining Subcommittee for Unfair Trade Practices. After a seven-month investigation the committee concluded that four foreign retailers – Big C, Carrefour, Makro, and Tesco Lotus – and domestic firm Central Retail had breached the Competition Act 1999, and recommended legal action against the offending retailers (Williams 2004).

The expansion of transnational retailers had created a regulatory gap in Thailand's national retail market and the issue of fair competition needed to be resolved. However, in contrast to Malaysia, specific incidents of conflict did not produce instant regulatory intervention by the Thai government. Instead, government mediation of domestic actor concerns and eventual reregulation of market (Figure 1, phase 4) was a more protracted process. Prior to 2002,

Prime Minister Chuan Leepai (1997-2001) had proposed a ‘Retail or Wholesale Business Operations Law’ (hereafter the Retail Trade Act; Thailand 2007), under which all new outlets would be monitored by a national Committee on Retail or Wholesale Business Operators (Endo 2013). Chaired by the Minister of Commerce, the committee would prescribe measures for new store application and approval procedures, retail outlets (according to format type and size), impact study requirements, and penalties for non-compliance. In response to the Retail Trade Act, transnational and modern indigenous retailers including Central Retail and CP ALL lobbied against new restrictive legislation, both individually and collectively through the Thai Retailers Association and foreign chambers of commerce. Ultimately, political upheaval would alter the direction of regulatory negotiations within the market and halt the implementation of the Retail Trade Act.

In November 2002, the new administration under Prime Minister Thaksin (2001-2006) announced it would neither introduce the planned Committee on Retail or Wholesale Business Operators under the Retail Trade Act, nor punish the retailers identified by the Competition Commission. Instead, existing town planning laws – namely the Urban Planning Act 1975 and Building Control Act 1979 – were to be amended to limit the spread of hypermarket outlets. While Prime Minister Thaksin and his Thai Rak Thai party came to power on the basis of a populist manifesto, it also prioritized economic recovery through private enterprise and the promotion of a powerful and growing business elite in Thailand (Baker and Pongpaichit 2009). Consequently, the reluctance of the administration to undermine continued foreign investment into Thailand produced a political compromise over regulatory realignment in the national retail market. By adjusting existing town planning and building code legislation, the government could utilize existing regulatory structures to curtail the immediate effect of hypermarket outlets on local traders and address the concerns of the distributive trade.

The Public Works Notices 2003 (PWN) and Interior Ministry Ordinance 2004 (IMO) (Endo 2013) regulated all store types – be they domestic or foreign owned – with a floor space above three hundred square meters (the size of a convenience outlet). In addition to introducing new requirements for retail outlet construction, the legislative measures stipulated that outlets above the size of one thousand square meters had to be located 15 kilometres away from a city or town centre. In effect, the closer to city centers retailers sought to locate large stores, the tighter regulations became on store location, size, construction and renovation. Compared to the MDTCC guidelines in Malaysia, the 2003-4 town planning regulations were not as prohibitive to transnational firms. Retail TNCs could operate stores in all grocery retail channels and only the locations of hypermarkets were constrained. The opportunity to access different consumer types and demographic groups through strategic diversification and localization of store networks remained open to retail TNCs. Crucially, domestic retailers were also affected by the town planning and building code rules, which created common concerns amongst both Thai and foreign retailers. These combined factors underpinned the subsequent evolution of the sector and are an important source of variegation between Malaysia's and Thailand's national retail markets. Significantly, the PWN and IMO rules were not implemented by a centralized national authority, but were executed by local and municipal authorities across Thailand's seventy-six provinces. This resulted in a patchwork of regulatory execution in Thailand and variegation in the way in which the rules were applied.

The new regulations required retail TNC managers to establish domestic extrafirm networks within provincial areas. As one participant explained, "If you want to get something done it's important to talk to policy makers, to the decision maker who can give it a go or make a decision on it" (government representative for transnational retailer, Thailand). Depending on the severity of the issue, CEO's and COOs, along with government liaison officers, would

also meet key ministers to lobby, provide reassurance or demonstrate the positive intent behind the retail firm's actions within the market. Successful lobbying therefore involved "not just being polite anymore, it was about understanding, getting engaged, maybe being a part of the change in the landscape" (government representative for transnational retailer, Thailand). Thus, the PWN and IMO guidelines initiated a further phase of accelerated market transformation during the latter half of the 2000s (Figure 1, phase 5). Urban planning constraints on the location of hypermarkets reinforced strategic format diversification amongst transnational retailers. Small supermarket and convenience outlets were opened (particularly in Bangkok) in order to access a larger and more varied consumer base. Geographic variability in the regulatory management of the PWN and IMO rules led transnational firms to adapt hypermarket formats to local regulatory and market conditions. For example, in the Mueang Khon Kaen District in northeastern Thailand, Tesco created an atypical hypermarket concept called the Tesco Lotus Department Store, which had a food sales area of just one thousand square meters. Tesco Lotus Department Stores can now be found in second and third tier towns throughout Thailand (Tesco Lotus 2018). In other provinces transnational and domestic retailers chose to circumvent restrictions by splitting their operations into two buildings, with food and non-food products sold in separate outlets on the same site.

The continued expansion of the market and intense competition between transnational and domestic retailers, particularly in the convenience channel, has characterized Thailand's national retail market in the 2010s (Figure 1, phase 6). Despite the significant role of retail TNCs, they operate alongside a strongly competitive and sizeable group of domestic convenience retailers (e.g., Fresh Mart, Jiffy, PTT and 108 Shop). In 2009, CP ALL became the leading grocery market retailer due to its extensive network of 7-Eleven convenience stores, approximately half of which are located in Bangkok (Planet Retail 2015). Further

expansion can be expected as firms seek to capture market share in Thailand's northeastern provinces where half the country's consumer market remains relatively underserved by modern retail. Thai wholesalers have also responded to the changed market conditions. Provincial wholesalers, for example Supercheap at Phuket and Tang Ngee Soon in Udon Thani, have expanded or converted existing warehouses into large supermarkets/cash-and-carry outlets to cater to urban and rural consumers, or developed their own convenience store chains – often previously traditional retail outlets – supplied by their existing distribution systems.

State involvement in Thailand's national retail market during the 2010s (Figure 1, phase 7) has not been as significant when compared to Malaysia. Governmental policy has instead focused on managing food production, increasing agricultural exports and improving food quality certification (Thailand 2011, 2015). Collaboration between the state and retail firms has occurred over points of mutual interest, such as in the nurturing of suppliers and producers, product quality and certification, or where retailer support for the government is expedient for a firm wishing to promote their strategic interests. Since the introduction of the 2003-4 town planning regulations, the Thai government has not significantly mediated or directed the development of the national retail market. Despite (or perhaps because of) limited state intervention, particularly in terms of directing firm behavior, the national retail market has developed into a dynamic and highly competitive environment. Transnational and international specialist retailers and domestic firms experience relative freedom within the sector as well as exposure to intense competition. Thailand's national retail market stands in contrast to Malaysia's two-tier retail sector and whilst both retail systems have undergone similar generic phases of transformation as shown in Figure 1, extant institutional and political-economic configurations within each nation state have been an important source of variegation between the two markets.

Conclusion

In this article, we have explored two Southeast Asian retail systems in order to examine the market transformations initiated by transnational retail firms. More specifically, we have sought to further theoretical understanding of, and empirical research on, retail globalization processes and the distinct sectoral modes of capitalism that continually evolve within national economies in dialogue with those processes. Conceptually, we combined insights from the retail globalization literature with the Variegated Capitalism concept to frame our analysis of TNC initiated changes within host economy retail markets, and the complex institutional settings in which they evolve, in a novel way. Our critical analysis of the national retail markets in Malaysia and Thailand has revealed two diverse retail systems, driven by and comprised of an array of market actors and contrasting institutional and political-economic conditions. Central to our approach was the examination of regulatory frameworks devised in response to the disruption brought to national retail markets by processes of retail globalization. Phases of market actor contestation, adaptation and strategic action were examined, demonstrating how periods of market disjuncture and contestation prior to the implementation of regulations were succeeded by ongoing extrafirm network negotiations and market adjustment processes associated with the sectoral rules implemented by national governments. Table 3 summarizes key aspects of these transformations and the differences between the two retail systems, drawing out the impacts of governmental and regulatory mediation of each market.

*** Insert Table 3 here ***

In Malaysia, new regulations were introduced to restrict the development of transnational retail operations and formats of a certain size (large-scale supermarket and hypermarket outlets). As a consequence, a two-tier system emerged in which domestic firms were

prioritized and the MDTCC centrally managed the approval of all new retail TNC hypermarkets. In contrast, existing town planning rules were amended in Thailand in order to control new forms of retailing (both domestic and foreign) and to limit the competitive impacts of large format stores. This caused transnational retailers to pursue convenience retailing and a swifter diversification of their store portfolios, thus increasing store network expansion and competition. The different regulatory realignments of each national retail market resulted from both exogenous processes (the strategies of global retail capital) and endogenous activities (strategic adaptations by both foreign and domestic firms, and the mediation of the market by political and institutional actors), which were interdependent and mutually constitutive of retail system change. Each economy's particular political-economic and institutional configuration significantly shaped the regulatory mechanisms used and the degree to, and manner in which, transnational retailer activity was controlled in each market. Decades of government directed economic planning and state protection of domestic interests led to a more conservative response to the perceived and real impacts of retail TNCs in Malaysia. Political change and closer integration within the global economy created the conditions for a less restrictive regulatory reaction to global retail capital in Thailand.

This article has developed an analytical framework (summarised in Figure 1) sensitive to the contingent processes and highly contested politics and practices of market transformation that produce geographically diverse retail systems. Malaysia's and Thailand's national retail markets represent distinct *sectoral* modes of variegated capitalism that have been simultaneously traversed and altered by globalized networks and reproduced by the political, economic and institutional contexts in which these markets are embedded. Arguably, the transformation and reregulation of Malaysia's and Thailand's retail systems echoes changes experienced in Western Europe in the 1970s to 1990s (Fink, Beak, and Taddeo 1971; Poole, Clarke, and Clarke 2002). However, the two Southeast Asian retail systems are different from

those in Western Europe due to the speed and intensity of market change that occurred during the 2000s and early 2010s following transnational retail investment. Political-economic and institutional conditions within Malaysia and Thailand also diverge considerably from the European context (Witt and Redding 2014). While the patterns of transformation identified in these markets may also occur in other emerging economies altered by global retail capital, it is important to note that emerging markets that experienced waves of retail globalisation from the 1980s to the mid-2000s (in Latin America, Central and Eastern Europe and South Africa) have been transformed at different rates and depths by transnational and domestic retail firms. Similarly, the causal processes leading to market transformation, differentially experienced in Malaysia and Thailand, may also be different (or absent) in other economies exposed to processes of retail globalisation.

Theoretically, this paper contributes to extant debates within economic geography by interrogating the variegated capitalism perspective to deepen analytical engagement with distinct *sectoral modes of capitalism* and to unpack the *internal* complexities of national economic systems. It therefore engages in the ongoing conversation over the spatial differentiation of contemporary capitalism through an analysis of national retail market transformation. As a result, this approach significantly qualifies and broadens the ‘supermarketisation’ thesis (Reardon, Henson, and Berdegué 2007) by emphasizing the diverse contextual factors and sector specific processes that underpin variegation between national retail markets. Moreover, it recognises the active role both firm and non-firm actors play in negotiating sectoral regulation and the realignment of institutional conditions within national retail markets. In this paper, we have therefore addressed salient questions posed by Coe and Wrigley (2009) concerning the role of strategies of resistance by domestic agents, and governmental regulatory responses in host markets. We also responded to their call for research to develop comparative studies and longitudinal analyses to discern patterns of

systematic change over the medium term. Consequently, our contention is that adopting a variegated capitalism perspective should occur along with analytical sensitivity towards the strategic behavior of firms and non-firm agents, and the diverse political-institutional landscapes in which national markets are contested and reproduced. Such an approach is certainly not confined to the study of retail markets, but offers an avenue for future research on market transformation in different sectoral, geographical and political-economic contexts.

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