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## **Retail Policy Dilemma and The Existence of Modern Retail in Indonesia and Malaysia**

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### **Abstract**

This research originated from the phenomenon of the rapid development of the modern retail industry, which can be found in big cities in Southeast Asian countries such as Indonesia and Malaysia. This phenomenon also coincides with the increasing level of public welfare and education, especially in urban areas. This phenomenon has resulted in an increasing number of modern retail stores which have a direct impact on the existence of traditional retail owned by the local community. The response then came from both the government and the retail industry itself. The government seems to be trying to make the development of the modern retail industry with its large capital power grow into a new force that threatens traditional retail, although, in the end, the traditional retail store owners themselves have to think of strategies to be able to continue to compete. The aim of this research is to compare the Indonesian and Malaysian government policies in retail industry regulation. The results of this study are that both countries issued mutually beneficial policies given the modern presence needed for labor needs, while the existence of traditional retailers must be maintained as one of the pillars of the country's economy in the informal sector. Policies for monitoring operating hours, building area, zoning, and guaranteeing labor absorption for modern retailers issued by the two countries with the aim of protecting the existence of traditional retailers that cannot compete directly in the capital.

**Keywords:** *Indonesia, Malaysia, Modern Retail, Traditional Retail, Regulation*

### **Abstrak**

Penelitian ini berawal dari fenomena pesatnya perkembangan industri ritel modern yang keberadaannya bisa ditemui di kota-kota besar di negara Asia Tenggara seperti di Indonesia dan Malaysia, fenomena ini juga terjadi bersamaan dengan semakin tingginya tingkat kesejahteraan dan pendidikan masyarakat terutama di perkotaan. Fenomena tersebut mengakibatkan semakin bertambahnya jumlah toko ritel modern yang berdampak langsung pada eksistensi ritel tradisional milik masyarakat setempat. Respon-pun kemudian muncul baik dari pemerintah maupun dari industri ritel sendiri. Pemerintah terlihat berupaya agar perkembangan industri ritel modern dengan kekuatan modalnya yang besar tumbuh menjadi kekuatan baru yang mengancam ritel tradisional, meskipun pada akhirnya pemilik toko ritel

tradisional sendiri yang harus memikirkan strategi untuk dapat terus bersaing. Tujuan dari penelitian ini adalah untuk membandingkan kebijakan pemerintah Indonesia dan Malaysia dalam regulasi industri ritel. Hasil dari penelitian ini adalah kedua negara sama-sama mengeluarkan kebijakan yang saling menguntungkan mengingat kehadiran ritel modern dibutuhkan untuk kepentingan penyerapan tenaga kerja, sementara eksistensi ritel tradisional harus tetap dijaga sebagai salah satu penopang perekonomian negara di sector informal. Kebijakan pembatasan jam operasional, luas bangunan, zonasi, hingga jaminan serapan tenaga kerja bagi ritel modern dikeluarkan oleh kedua negara dengan tujuan melindungi eksistensi ritel tradisional yang tidak mungkin bisa bersaing secara langsung dalam hal kapital. Kata Kunci: Indonesia, Malaysia, Ritel Modern, Ritel Traditional, Regulasi.

## INTRODUCTION

The vast majority of human beings in the world live in cities, and that portion will increase again with time. Therefore, when talking about the phenomenon of the city and its people, it is the phenomenon of human society itself. Because almost all the dynamics of social, cultural, political and religious infrastructure issues as well as the economic infrastructure of mankind are currently centered in cities (Damsar & Indrayani, 2017). These dynamics demand development and change in the region.

This phenomenon occurs in many cities in Southeast Asia such as Indonesia and Malaysia. Consumer spending in Indonesia is said to be almost like the population of developed countries, which was recorded at 61% of Gross National Income in 2010 (Budiman et al., 2013) which is equivalent to the export countries of Malaysia and Thailand. According to Indonesian population data, 53% of Indonesians live in urban areas and it is projected to reach 71% in 2030. With this trend, the development of infrastructure distribution will be geographically fragmented in big cities such as Jakarta and Surabaya. The distribution network of goods will continue to grow as well as the modern retail industry network. In the release of the McKinsey report, Indonesian consumers will prefer to shop for household needs at large malls.

Meanwhile in Malaysia, consumer behavior continues to change in line with the increasing level of welfare and community education. With the proliferation of modern international retail in Malaysia since the 1990s and the development of global mass media playing a big role in shaping the consumer-buying behavior of Malaysians. Malaysia's population is becoming increasingly westernized and cosmopolitan. Malaysian residents' expenditure on household needs such as food products and other individual goods ranks third in Asia Pacific countries. According to AC Nielsen, the development of a foreign modern retail presence in Malaysia has changed the lives of urban people to buy goods in modern retailers such as Hypermart, Tesco or supermarkets. Middle and upper class people tend to shop at such places, followed by traditional retail markets.

Retail stores are a very popular industrial sector and have dominated the lives of Indonesians for a long time. In Indonesia's economic development, the retail industry (retail) is a very strategic industry, even Aprindo (the Indonesian Retail Entrepreneurs Association) stated that the retail sector is the second largest employment sector in Indonesia, with the ability to absorb 17.5 million people below agricultural sector which reaches 40.5 million people (Susilowati, Kartika Dewi Sri et al., 2016).

Retail industry categorized into two, namely traditional retail and modern retail.

Traditional retail is a store that sells daily necessities by retail and is managed by individuals, not corporations. In some retail areas this is called a grocery store. Because they are managed by individuals, traditional retailers do not have great management in goods management, sales and promotion. In terms of physical appearance, traditional retail is generally located in one building with the residence of the retail owner, is guarded by the owner and there is no price tag on each item sold. Meanwhile, modern retail is a store that sells household goods and daily necessities with modern facilities, starting from placing merchandise on display shelves complete with price tags, spacious shop buildings, and air conditioning (AC), to cash registers and Electronic Data Capture (EDC) tools for non-cash payments, shop buildings that are separated from homes and guarded by employees.

The existence of modern retail is increasing over time along with the increasing population, along with this situation, the existence of traditional retail is getting marginalized. This is exacerbated by people who tend to prefer to buy daily necessities at modern retailers such as Indomaret, Alfamart and the like than in traditional retailers. One of the reasons is the store atmosphere (Hidayat, Taufik et al., 2018). It must be admitted, in terms of shop facilities and atmosphere, traditional retail is far behind when compared to modern retail. Meanwhile, for prospective buyers, the shop's atmosphere is actually an important consideration apart from the price and location of the shop.

Meanwhile, in the realm of government policy, the existence of the modern retail industry is an important concern coupled with the threat to traditional retail. In Malaysia, for example, modern retail licensing arrangements are regulated by the Ministry of Domestic Trade and Consumer Affairs. Unlike traditional retail, modern retail especially foreigners are subject to several special regulations, this is to secure the existence of traditional retailers. These regulations, for example, regulate share ownership, permits for establishment in certain areas, and the size of retail stores that may be built. Meanwhile in Indonesia, this regulation is also enforced by the government through the Ministry of Trade.

Lack of public interest in purchasing at traditional retail stores must be overcome and anticipated by traditional retailers so that their businesses can survive, because many traditional retailers depend on their income. Because it is the only household income, traditional retail store players must make efforts and strategies to keep their retail stores running. So, it is important in this study to find out what kind of response is done by traditional retailers so that their businesses can survive in the midst of the increasing number of modern retailers. In addition, this study also seeks to see the position of the local government in terms of issuing regulations related to the existence of modern retail. So in this study the question to be answered is How do Indonesia and Malaysia policies compare in terms of retail industry regulation?

The results of this research are also expected to be used as a reference and consideration for policy makers in order to maintain the existence of traditional retail stores in the midst of the rise of modern retail. The results of this study can also be applied to all traditional retail business actors if there is a strategy that is considered effective and efficient in attracting public interest to buy daily necessities at traditional retail stores.

## **RESEARCH METHOD**

This study will use a qualitative approach with descriptive methods to describe in detail the strategies adopted by the two countries in relation to the development of the retail industry in their respective countries. By using policy literature instruments from both countries, a

detailed description and description of the efforts and policies undertaken by the two countries regarding the retail industry can be described easily.

With this type of literature study research, this study conducted a literature review on retail in the two countries, namely Indonesia and Malaysia, especially in the city of Penang and Malang. By reviewing the literature, the direction of regulation and the position of the respective governments of the two countries will be seen in relation to the retail industry.

Literature review as described by Creswell has several objectives, namely to inform readers of the results of other studies that are closely related to the research conducted at that time, to link research with existing literature, and to fill gaps in previous studies (Creswell, 2010). Literature review contains reviews, summaries, and writers' thoughts on several sources of literature (articles, books, slides, information from the internet, data images and graphics, etc.) on the topics discussed. This literature study aims to determine and compare the policies of the Indonesian and Malaysian governments in terms of retail industry regulation and how the strategies of traditional and modern retail stores in the development of the industry.

Methods of data analysis in this study will use a comparative study method. Comparative Study is done by comparing two or more objects. Lijphart argues that comparative studies should focus on systematic variables that are characterized by macro characteristics or are more general than other variables. Lijphart added that comparative studies should emphasize social observations that are not limited to a particular territory (Lijphart, 1975).

Muliawan describes the characteristics of the Comparative Method, namely having two or more different and independent objects, these objects must also have the same pattern, the comparisons must be clear and specific and use different comparison standards and measures of the same object (Muliawan, Jasa Ungguh, 2014). In this study, the objects being compared are about retail store strategy and local government policies.

## **RESULT AND DISCUSSION**

### **The Development of Retail Industry**

Retail business is an activity related to the sale of goods and services in small quantities to consumers for personal consumption and not for business use (Zainal Abidin Mohd. Said, 1989). This activity may consist of various kinds of goods and services and usually consists of household items and daily necessities. The retail business goods can be categorized into three groups: first, convenience goods or daily necessities; second, comparison of goods or goods that are relatively more expensive and the intervals of use are not routine and third, specialty goods are more unique and more attractive to high-income consumers. The distinction or differentiation of types of retail businesses is generally divided into small-scale retailers and large-scale retailers (Ahmad, Azhar et al., 2008). The category of retail business distinguishes in big cities in Malaysia and Southeast Asia in general to four categories (Lim, Yoke Mui et al., 2003), namely:

1. Informal sector; types of small traders commonly found in traditional markets
2. Small scale; The types of shops that are located on the main street of the city are usually in the form of two to three-storey shop houses such as a clothes shop, pharmacy or coffee shop
3. Large-scale department stores and supermarkets; more modern buildings
4. regional shopping centers; consists of many shops in one building, usually in addition

to shopping there are also other social activities (leisure).

The retail business categorization above is very common in the Southeast Asia region. The presence of modern retail, department store franchises or convenience stores such as 7-Eleven is growing in countries such as Malaysia and Thailand. However, traditional markets (wet markets) are still the choice for people in Southeast Asia to shop for their daily needs. In Indonesia and Thailand, for example, the existence of traditional markets is still often found in sub-urban or rural areas where there is not much exposure to non-traditional food products. In Indonesia, almost 80% of fresh food products are still traded in traditional markets. Despite the proliferation of modern retailers, most consumers in Indonesia still choose to shop at traditional markets for various reasons, namely, low prices completeness of goods, close access from home, quality and good relations between sellers and buyers; but there are also some things that are not liked in traditional markets, namely the matter of cleanliness and minimal security (pickpockets).

### **Retail Industry in Malaysia**

The development of the retail industry in Southeast Asian countries is very dynamic and can differ depending on how the environment changes. In Malaysia itself, there have been significant changes starting from the early 1990s when foreign modern retailers entered Malaysia for the first time and brought changes to the consumption patterns of the Malaysian people. The trade promotion strategy and prices offered by modern retailers have become a new charm for Malaysian consumers, this cannot be found in the nearest retail business, namely how to trade promotion strategies and affordable prices. In the history of the development of the retail industry in Malaysia, it began in 1963, namely the construction of a Weld Supermarket in Kuala Lumpur which attracted the attention of expatriates. After that the people of Malaysia are getting used to the emergence of new supermarkets which show the new lifestyle of the urban population. Until the 1980s, the competition for foreign modern retailers was getting higher with a lot of investment coming in (Zainal Abidin Mohd. Said, 1989). This dynamic resulted in competitive pressures that ended with the closure of a number of small retailers.

Currently, the Malaysian retail industry is entering a new phase in which retail businesses are competing to attract the changing interests of consumers (Hassan et al., 2013). Hypermarkets and other large supermarkets are currently perceived as a threat to traditional retailers. With this pressure, the Malaysian government began to reform the system and enforce special policies with the growing growth of modern retail businesses, which are dominated by multinational corporate brands. A number of policies were issued by the Ministry of Domestic Trade and Consumer Affairs (MDTCA) for hypermarket stores that wish to open stores / branches in an area in Malaysia. Various other policies have also been enforced by the Malaysian government, such as market share ownership for foreign retailers. The implication of this government approach is that it shows the dominance of small retailers, but the existence and potential for expansion of modern retail is still a concern of small / traditional retail owners. Although a number of indications show that the main threat from small retailers is the establishment of modern retailers near them. Furthermore another phenomenon shows the movement of population to urban or urban areas that causes the closure of small retailers due to a significant number of small retail stores closing and most of them are in rural areas (Mohd Roslin & Melewar, 2008). This is still a debate because until now the public opinion still blames the existence of modern retail as a threat to traditional retail.

Holst also shows that the existence of supermarkets has a negative effect on small retailers compared to hypermarkets in Malaysia (Holst, H.P, 2011). The liberalization of the retail industry is also shown to have an effect on the existence of local retail, such as in the Klang Valley, an urban area in Kuala Lumpur (Kaliappan, Shivee et al., 2008). However, it is different in the Penang area where these two retailers can coexist because of different target consumers, as a tourism city, tourists prefer small retail shops while local people choose to shop at supermarkets / hypermarkets (Lim, Yoke Mui et al., 2003).

With many tendencies of consumers to choose a place to shop for their daily needs, it is necessary to pay attention to how consumers actually behave in Malaysia, both when choosing to shop at traditional retailers and modern retailers. Bojei conducted an empirical study of the relationship between consumer retention in shopping at retail stores with service, loyalty, brand, personalization and customization (Bojei et al., 2013). The results of research on 450 loyal customers in three retail stores in Malaysia show that there is a positive and significant relationship between four out of five measuring instruments and customer retention. This study helps reference the management of customer loyalty programs in retail stores in developing countries. Then Abu and Roslin found that there are several determining aspects for consumers, namely service to consumers, personal interaction, location, and special aspects, namely halal-based food as one of the preferences (Abu, Nor Khalidah & Roslin, Rosmimah Mohd, 2008).

### **Retail Industry in Indonesia**

The retail industry in Indonesia is currently growing with the increasing number of construction of new outlets in various places. The enthusiasm of retail entrepreneurs in competing to invest in the construction of new outlets is not difficult to understand. With an average economic growth of more than 3% since 2000 and the inflation rate being controlled, it could be their reason that the Indonesian economy could strengthen again in the future. The liveliness of the Indonesian retail industry was marked by the opening of new outlets by foreign retailers such as Makro (the Netherlands), Carrefour (France), and Giant (Malaysia, which were later also partnered with PT Hero Supermarket Tbk), which are spread in big cities like Jakarta, Makassar, Semarang, Bandung, Yogyakarta, and so on.

The development of the retail industry in Indonesia was spearheaded by the government with the establishment of Sarinah as the first modern shopping center in Jakarta. In a short period of time, new retailers emerged and at its peak in 1997 the government through the Minister of Finance Decree number 455 / KMK / 01 of 1997 granted entry permits for foreign retailers such as Carrefour and Continent. A survey conducted by PT Nielsen Indonesia in 2006 showed that the growth of modern markets in Indonesia was 14.3% and modern shops were 23.8%, much faster than the growth of traditional markets which was only 9.6% (Mawardi, 2011).

The classification of retail businesses in Indonesia can be categorized based on their nature, namely retail that are traditional or conventional and those that are modern. Traditional retail is a number of small and simple retailers or retailers, for example grocery stores, roadside retailers or retailers, retailers in traditional markets, and so on. This retail business group has little capital with simple facilities. Modern retail is a number of large retailers or retailers, for example with a large number of outlets and have very complete and modern shop facilities. The survey results according to AC Nielsen, the five largest retailers included in the modern retail category in Indonesia based on sales value are Matahari, Ramayana, Makro, Carrefour, and Hero. The concepts offered by modern retailers are various, such as supermarkets (self-service), hypermarkets, minimarkets, department stores, and so on (Solihah, 2008).

If you use an economic capital approach, of course modern retail is far ahead of traditional retail. And it seems unlikely that traditional retailers use an economic approach to fight and balance the competition with modern retail. So that researchers will explore the strategies used by using social capital theory. By using social capital concepts and theories, it will be explored what are the potentials developed by traditional retail business owners in facing competition with modern retailers.

### **Malaysia Regulations in Retail Industry Policy**

Malaysia divides retail business into several definitions depending on the size and area of the building. Based on the MDTCA definition, a hypermarket is described as a retail business with a building size of 60,000 - 100,000 ft<sup>2</sup> (5,000-9000 m<sup>2</sup>), then a supermarket with an area of 8,000-50,000 ft<sup>2</sup>, (750-4700 m<sup>2</sup>) and finally a small retail business measuring 1,000-2,000 ft<sup>2</sup> (92 - 185 m<sup>2</sup>). The difference between supermarkets and hypermarkets is not too different in business strategy, but usually what is different is the merchandise. The striking difference with small retail is the marketing strategy and merchandise. Small retailers tend to sell goods that have a fast turnover of trade and are needed in daily activities. This has implications for the strategies of each retailer and how they invite consumers and who their target consumers are.

The threat from the existence of foreign modern retail to traditional retail is very real. Competitors who have considerable strength in terms of business strategy will displace those who cannot survive. However, if we look at the types of merchandise from modern retailers that are usually purchased in large sizes (bulk buying with large volumes) compared to small retail stores around our neighborhood that meet their daily needs without having to go far to large stores, the target consumers the two are actually very different.

The existence of modern retail also actually adds convenience and opens up alternative sales of goods and services for consumers, for sellers to reach a wider market and increase sales (Lim, Yoke Mui et al., 2003). But on the other hand, there are also those who argue that small retailers have not been able to compete with big rivals such as modern retail (Ahmad, Azhar et al., 2008). The Malaysian government seems to be in a dilemma on how to meet the needs of economic development through foreign investment, but it must also protect healthy competition for the sustainability of traditional retail.

In 1996, the Ministry of Domestic Trade and Consumers Affairs (MDTCA) introduced a number of policies known as 'Foreign participation in wholesale and retail trade guidelines'. This policy was then refined in April 2002 because it was deemed not very effective in suppressing hypermarket expansion. One of these policies is to increase the minimum capital investment from MYR 10 million to MYR 50 million and the minimum area size to 8000 ft<sup>2</sup> (about 750 m<sup>2</sup>). In addition, foreign hypermarkets are also prohibited from building new branches in local authority areas (LAAs) with a population of less than 250,000 people or 3.5 km from the city center or residential areas. Of the 51 LAAs located in Malaysia, foreign hypermarkets can only be established in 25 regions. In addition, they must also report the socio-economic impact study report in the proposed area.

In 2004, based on MDTCA report, the Malaysian government added a number of policies by pressing foreign hypermarkets to meet the minimum requirement of 30% of goods sold as local products. However, with the protection imposed by the government, protests and criticisms from small retailers have not subsided. The Federation of Sundry Goods Merchants Association states that the number of memberships in its associations has continued to decline from year to year from 50,000 to 20,000 for five years. Research from Sharifah Mariam proves that in general there is a positive relationship between hypermarkets and small retailers, for example location, socio-economic and social political factors influence consumer behavior and entrepreneurs (Mariam, Sharifah, 2014). Malaysia's mixed economic system combines

capitalism and socialism demonstrates the important role of FDI or foreign investors in the government's development plans. For this reason, the government is trying to continue to meet these needs, meanwhile, the government has also initiated modern retail to support the sustainability of small retailers through the TUKAR or Kedai Rakyat 1 Malaysia policy.

In January 2020, the Malaysian government revised its Guidelines on Foreign Participation in the Distributive Trade Services 2020 policy. This policy tends to provide flexibility for foreign modern retailers to enter the Malaysian market. Previously, only hypermarkets with 30% bumiputera ownership were allowed to open superstores. Under the new rules, foreign investors are allowed to open such shops. The 200,000 population requirement has also been removed, and operators do not need to have a local partner for a superstore. They can open 1,000 square meters of shops in urban areas, which are under the local jurisdiction of either city council (council / majlisairport) or city council. However, for new suburban and rural shops that are included in district councils (regional majlis), the existing rules of 3,000 to 4,999 square meters still apply. These rules are relaxed to ensure orderly and fair industrial development and to promote modernization and grow the economy (Ganesan, Vasantha, 2020). The revision was made after considering the waning popularity of hypermarkets not only in Malaysia but also in neighboring countries. Over the last few years, hypermarket operators such as Tesco and Giant have changed their stores and layouts. Tesco has reorganized its stores and shrunk retail space at least 21 stores, while Giant is in the process of refreshing and reviving its retail space to better fit current consumer trends.

### **Indonesia Regulations in Retail Industry Policy**

Meanwhile in Indonesia, the development of the retail industry was spearheaded by the government with the establishment of Sarinah as the first modern shopping center in Jakarta. Within a short period of time, new retailers emerged and its peak in 1997, the government through the Minister of Finance Decree number 455 / KMK / 01 of 1997 granted entry permits for foreign retailers.

According to the Indonesian Retail Entrepreneurs Association (APRINDO), the retail business or retail business in Indonesia began to develop in the 1980s as the Indonesian economy began to develop. This arises as a result of the growth that occurs in the middle class, which causes a growing demand for supermarkets and department stores (convenience stores) in urban areas. This trend is then expected to continue in the future. Another thing that has driven the development of the retail business in Indonesia is the changing lifestyle of the upper middle class, especially in urban areas that tend to prefer shopping at modern shopping centers. Changes in shopping patterns that occur in urban communities are not only for fulfilling shopping needs but also for traveling and looking for entertainment. The development of businesses in the retail industry has also been accompanied by increasingly fierce competition between a number of retailers, both local and foreign, which have sprung up in Indonesia (Soliha, Euis, 2008).

Still referring to Soliha's research, the retail business can also be divided into three groups of retail trading, namely:

- 1) Wholesaler (wholesaler) or hypermarket. These groups generally only exist in big cities and are small in number. In Indonesia, included in this group are:
  - a. PT Alfa Retailindo under the name Alfa outlets.
  - b. PT Makro Indonesia under the name Makro outlet.
  - c. PT Carrefour Indonesia under the name Carrefour outlets.
  - d. PT Goro Batara Sakti under the name Goro outlet.
  - e. PT Hero Supermarket with the name Giant outlet.
  - f. PT Matahari Putra Prima under the name Matahari outlets.
- 2) Large or medium retailers with around 500 outlets.



- 3) Modern mini-market. There are not many actors in this group but have experienced rapid development.

Historically the retail industry in Indonesia can be divided into five stages of evolution. These stages are:

1. Era before 1960s: Era of development of traditional retail which consists of independent traders.
2. 1960s: The era of the introduction of modern retail with the departmentstore format. This was marked by the opening of the first modern retail outlet, namely Sarinah on Jl. MH. Thamrin, Jakarta.
3. 1970-1980s: The era of modern retail development with the format ofsupermarkets and department stores, marked by the presence of modern retailers such as Matahari, Hero and Ramayana.
4. 1990s: The era of convenience-store development, marked by the proliferation of mini-markets such as Indomaret. The growth of high class department stores was marked by the entry of Sogo, Metro, and others. The growth of cash and carry formats with the establishment of Makro, Goro, and Alfa.
5. 2000-2010: The era of hypermarket development and the introduction of internet-based e-retailing systems in Indonesia. This concept is still unfamiliar and difficult for most Indonesians to accept, especially those who are still used to trading directly.

Through the 2007 Presidential Regulation and the Regulation of the Minister of Trade number 70 / M-DAG / PER / 12/2013 concerning Guidelines for Structuring and Fostering Traditional Markets, Shopping Centers and Modern Stores which contains rules for the number, zoning and operating hours of modern stores must be synergized and not turn off traditional retail stores. In addition, the establishment of a modern retailstore must be able to absorb labor, provide social and public facilities and fulfillcorporate social responsibility which is directed at assisting the management of traditional markets. The existence of modern retail is indeed threatening traditional retail, but their existence is needed for employment.

In the same year, regulations regarding investment or investment were also regulated in a law, namely Law Number 25 of 2007 concerning Investment (UU PM), which was passed on April 26, 2007. The birth of Law Number 25 2007 concerning Investment which makes it easy for foreign parties to invest also cannot be separated from Indonesia's membership in the Wold Trade Organization (WTO), where Indonesia has ratified the agreement on the establishment of the WTO through Law Number 7 of 1994 which obliges Indonesia to harmonize laws and regulations in the investment sector with the existing agreements in the WTO. The existence of this Presidential Decree invites foreign retailers to open their businesses in Indonesia. With these regulations, the modern retail industry in Indonesia is growing rapidly (Siallagan, Asrina, 2016). This cannot be separated from the large number of foreign investors who are interested in investing in industries in Indonesia, one of which is modern retail by taking into account the provisions that have been established in Indonesia in relation to modern retail.

- 4) To anticipate the massive expansion of modern retail which could have a huge impact on traditional retail, the government issued Regulation of the Minister of Tradeof the Republic of Indonesia number 70 of 2013 concerning guidelines for structuring and fostering traditional markets, shopping centers and modern stores. As stated in Chapter II Permenperindag 2013, the establishment or construction of Traditional markets, Shopping Centers and Modern Stores must be guided by regional spatial planning and detailed provincial/regency/municipal spatial planning, including zoning regulations stipulated by the regional head by considering balance between the number of traditional markets with shopping centers and modern shops.

The number of modern shops in an area is also assigned and regulated by the local

government. This means that the central government does not have full authority in regulating the number of modern shops in an area and it is entirely up to the local government. However, the local government in making policies is still required to take into account the following matters:

1. The level of density and population growth in each region is according to the census data of the Central Statistics Agency (BPS) last year
2. Local economic potential
3. Area accessibility (traffic flow)
4. Security support and infrastructure availability
5. New settlement developments
6. The pattern of local community life, and
7. Modern shop working hours that are synergistic and do not kill the traditional retail shops in the vicinity

The Ministerial Regulation also regulates the percentage of supply of merchandise between domestic production which must be 80% of the total traded goods, but shops are still allowed to be less than the minimum percentage provided that they have a recommendation from the Communication Forum for Structuring and Fostering Traditional Markets, Shopping Centers. and Modern Stores.

In 2019 the Ministry of Trade then issued a regulation that regulates qualifications, attitudes and career paths in modern retail again through the Regulation of the Minister of Trade of the Republic of Indonesia number 55 of 2019. In this Ministerial Regulation, it can be said that the government is trying to ensure that workers or employees in modern retail have the right and appropriate obligations and have an appropriate and transparent career path.

The conditions described above indicate that the two countries-with their powers- have made various efforts to maintain the existence of traditional retail in the midst of the rapid development of modern retail (structures), but over time and the implementation of these rules/regulations, discourse prohibition to revise the regulations. predetermined (structural duality).

The two countries have the authority to regulate in various sectors, including in this case is to regulate modern retail and in this case the state uses rational legal authority in the existence of modern retail stores so that their existence does not really affect the retail sector that has been there before (retail traditional). In accordance with what Weber said, the Rational Legal Authority is indeed the most appropriate request to be implemented in a country. This is because these authorities have clear, measurable indicators that are agreed upon by all parties.

The Malaysian government directly has full authority to regulate how the establishment of modern stores, in this case modern retail, in every region of the country. The guidelines set by MDTCA are created to ensure monopoly does not occur. Meanwhile, the Government of Indonesia is assisted by the Business Competition Supervisory Commission (KPPU) in fostering retail growth so as not to "shift" and kill traditional retail. The regulations made by both countries are both made to prevent monopolistic practices or unfair competition among business actors and ensure that they have the same business rights so that consumers also have unlimited product choices.

The regulations made by the government should be able to create a safe line to influence and also control the behavior of large modern retailers through regulations that have been made by the local government. However, in reality there are not a few cases that show these modern business actors violating these rules. The non-compliance shown by modern retail usually arises because of ambiguity in rules, conflict of interest, and failure in political communication. This can be seen at least in the difference in rules between the two business actors. Modern retail is large and complicated by a set of rules by the government

while traditional or local retail can do whatever it wants. The weak mandate of regulatory agencies as law enforcement agencies is also a problem. In Malaysia, for example, MDTCA acknowledges having difficulties in determining the size of and its location in an area. Apart from locator foreign ownership of hypermarket, this business actor has a potential position for the country's economic development.

The threat that is felt by modern retail due to the emergence of modern retail is naturally felt when there are competitors who suddenly enter and they are unable to overcome it. If you look at consumer preferences, shifting consumer choice to shop to modern retail stores is a fairly reasonable action. The modern retail strategy is indeed directed at large purchases and also for consumers who may be looking for other leisure in their shopping activities. Meanwhile, for daily needs to buy goods that are fast-moving consumer goods, traditional retail is more considered to fulfill these needs. In certain circumstances, we agree that the number of modern retail in a certain area will have an impact on unfair competition. There must be a policy that can reconcile this problem that comes from the central and local governments.

Apart from the conflict between modern retail and traditional retail, in fact both have the potential to have a positive relationship with one another, supported also by a conducive and safe atmosphere that emerges from the right regulation of policies. Efforts can be made to map and strengthen distribution channels in order to establish better cooperation and coordination between suppliers and distributors. The supplychain must be strengthened with measures that are formulated so that large retailers can assist and educate suppliers about product quality. Traditional retailers are considered the closest to the customer so that they can also be used for producers to increase product offerings.

So far, traditional retail has become a non-formal sector that has supported the economy of the Indonesian people quite a lot. As is well known, not all public income comes from the formal sector. When the formal sector is unable to accommodate existing human resources, the informal sector becomes the savior valve for the economy of society and the state. Meanwhile, the characteristics of the retail industry in Malaysia are adjusted to the political and socio-economic system. The existing demands do not dampen local and foreign investment to invest in the retail business. In fact, the growth of the hypermarket continues to be an important contributor and is the largest contributor to the country's national income.

## **CONCLUSION**

Modernization and urbanization have changed the pattern of the retail industry from previously small and local to a more modern industry plus the rate of globalization which opens access for foreign business actors to invest their capital. Modern retailers, many of which are owned by foreigners, offer more complete and varied shopping facilities. Along with changes in the behavior of modern and urban people in shopping, the existence of modern and traditional retail has become a scourge for the government to regulate and minimize conflicts of interest for both.

The existence and rapid development of modern retail in both countries is inevitable and threatens traditional retail, but on the other hand, the role of modern retail is important for the country's economy. With the aim of increasing economic development and employment, the governments of both countries issued regulations to regulate the existence of modern retail.

The two countries responded to the rapid development of modern retail that raised concerns about the existence of traditional retailers by issuing related regulations. The regulations issued regulate the area of buildings, the number of modern retailers, the distance of the buildings, the percentage of local traded goods, operating hours, to modern retail

management, all of which aim to maintain economic, political and social stability without sacrificing either party.

Although on the one hand traditional retailers are still disadvantaged due to their inability to compete in terms of capital, modern retailers are given many limitations and are required to be able to provide job guarantees that traditional retailers cannot afford.

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