




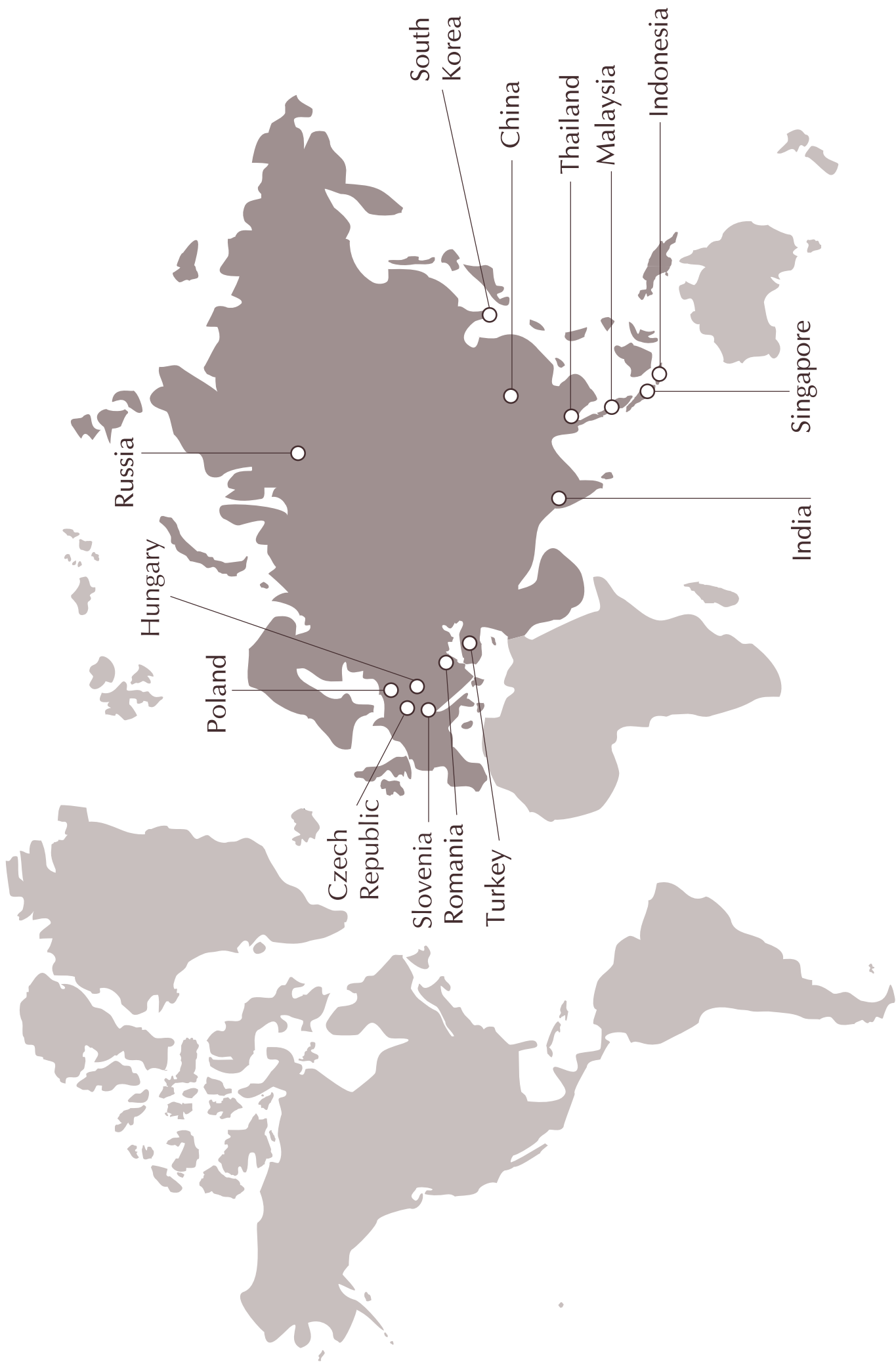
FROM BEIJING TO BUDAPEST: New Retail & Consumer Growth Patterns In Transitional Economies*

Executive Summary 2004/2005

3rd Edition

*connectedthinking

PRICEWATERHOUSECOOPERS 



The following PricewaterhouseCoopers thought leadership study is the 3rd edition of an important regional research project started in 2002. It is also a challenging regional assignment, which has flourished within the framework of “Brand Growth”, one of PricewaterhouseCoopers’ three main Retail & Consumer industry priorities.

Objectives

The study seeks to provide a broad picture of the economic, social and cultural background to fourteen different countries from the Asia and Central & Eastern European regions, as well as highlighting the challenges and opportunities for retail and consumer goods companies wishing to - or already investing there.

Scope

The study covers a market of nearly half of the world’s population, living in the economies with the highest growth potential, from Beijing to Budapest:

In Asia:
China, India, Indonesia, Korea (South), Malaysia, Singapore and Thailand

In Central & Eastern Europe:
Czech Republic, Hungary, Poland, Romania, Russia, Slovenia and Turkey

Take aways

The expected take aways of the study are to:

- provide a multi-cultural approach, outlining the specificities of each country in both regions;
- provide information and insights on the demographic, economic and industry trends in each country;
- identify investment opportunities, as well as key consumer targets and winning retail formats in both regions;
- share prospective insights on the retail & consumer sector evolution in both regions.

Methodology

The retail & consumer sector as analysed in the study comprises the following information:

- distribution activities (wholesalers, distributors, retailers);
- suppliers of consumer packaged goods (CPG);
- multinational, regional and local players from both activities;
- food and non-food, ie:
 - for retailers: convenience stores, department stores, supermarkets, hypermarkets,

supercentres, specialty retailers (apparel, Do It Yourself, drugs, electricals, homegoods, etc), and on-line retailers;

- for CPG companies: food, beverage, tobacco, consumer products, household and personal products and luxury goods.

Several abbreviations have been used throughout the report, which are listed in the appendices (page **191**).

The survey was conducted in the fourteen selected countries between April and July 2004, using a generic template. The template was structured around three main investigation topics:

1. Economic overview and regulatory environment;
2. Demographics and consumer behavior;
3. Retail & consumer goods sector: performance, challenges, opportunities and emerging trends

The output consists of a series of country reports / case studies which make up a great part of the study. These reports are structured according to the original template. They aim at providing a relatively objective picture of the retail & consumer structure and market potential in each country, from a local perspective, while ensuring consistency of information from one country to another.

Sources

The survey was completed by PricewaterhouseCoopers local offices in each of the fourteen countries. Complementary research was made using international financial or economic institutions (World Bank, OECD, IMF), national statistical offices as well as economic and industry intelligence services (Economist Intelligence Unit, the World Bank Group). Note that slight discordance in figures may be observed sometimes between the country reports and the executive summary. This is due to the use of different sources. An exhaustive list of all sources used is available in the appendices (page **192-194**).

Currencies

Within the country reports, key figures and sales turnover have been provided in local currencies, together with an indicative conversion rate in USD and Euro as at June 30, 2004. A conversion table for all fourteen countries is available in the appendices (page **192**).

The executive summary and the updated 14 country reports are available on the PricewaterhouseCoopers Global Retail & Consumer website: www.pwc.com/growth.

Executive Summary



Executive Summary

FROM BEIJING TO BUDAPEST: NEW RETAIL AND CONSUMER GROWTH PATTERNS IN TRANSITIONAL ECONOMIES

INTRODUCTION

Transitional economies across the globe show varying degrees of challenge and opportunity for the retail and consumer investor. The perspectives in these highly differentiated markets swing from saturation in some markets, to high growth potential or niche opportunities in others, or to caution elsewhere.

In light of an increasingly interdependent world economy, however, the advantages of developing a policy for global spread in the retail and consumer sector, far outweigh the disadvantages in the long term.

The growth opportunities in Asia, Central and Eastern Europe (CEE) and Russia have been merged into one study because a modern retail and consumer sector is a “given” in all three regions, whatever the differing stages of development in individual countries. Although the modernization of the retail and consumer sector in the countries covered by the report is for the most part driven by multinationals, all areas are seeing the emergence of regional players. As the retail and consumer offerings in the major cities becomes saturated, these companies can seize the opportunities offered in smaller urban centers.

An essential ingredient of a modern retail and consumer sector is the efficiency of its supply chain, and all three regions covered by the study are deploying considerable efforts to build a modern infrastructure to improve the logistics process and match the rapid development of larger stores.

All the big multinational players are present in either Asia, CEE or Russia, or in all three as is the case of Metro. Carrefour is the only retailer which has the widest spread, present in ten of the fourteen countries covered by the study, followed by Tesco and Metro which each have operations in eight of the fourteen. In all, twenty-seven retailers have operations in the fourteen countries covered by the report.

A mix of factors has to be taken into account by the potential investor: the general political, economic and social environment in the targeted country on the one hand; the retail and consumer scene, competition, the degree of foreign penetration and the development stage of local companies on the other.

All these countries have to contend with the impact of ageing populations on their economies.

In general, consumption patterns are changing rapidly in all the transitional economies, which are on different rungs of the ladder of economic development and social progress. What is certain, is that the retail and consumer companies present are contributing to build a new middle class which is the linchpin of future economic success and social progress in these regions.

This year’s study has pinpointed six countries with a “GO” recommendation as far as investment is concerned.

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1. What's new in 2004/2005 for Retail & Consumer companies in Asia, CEE and Russia?

■ EU Enlargement

European Union (EU) entry for the Czech Republic, Hungary, Poland and Slovenia will have a mixed impact on their economies. Compliance with EU legislation in such areas as labor, transport, hygiene, food safety and opening hours will push up costs. But entry will also require higher product quality standards which should contribute to an improved export drive and compensate for the higher costs incurred elsewhere. At the same time, entry should generate a more level playing field

and encourage the development of local small and medium-sized entrepreneurial companies – essential ingredients for social progress and stability. It will be a long, but fruitful journey.

An open regulatory environment has encouraged foreign direct investment in these countries, with the exception of Romania (which is now a candidate member) where foreigners are prohibited from owning land. All the countries covered by the study are continued investment targets for foreign companies in the retail and consumer sector, with the Czech Republic, Hungary and Romania attracting particularly high interest in the consumer electronics sector. Store trading hours are in general extremely liberal throughout the region.

Area

Ranking by country		Area ('000 sq km)
1	Russia	17,075
2	China	9,597
3	India	3,287
4	Indonesia	1,919
5	Turkey	775
6	Thailand	513
7	Malaysia	330
8	Poland	313
9	Romania	238
10	South Korea	99
11	Hungary	93
12	Czech Republic	79
13	Slovenia	20
14	Singapore	0.6
Sub-total (14 countries)		34,338.6
US		9,600
EU (25 countries)		3,930
World		133,700

Source: World Development Indicator Database, April 2004, <http://www.worldbank.org/data>

Population

Ranking by country		Population (million)
1	China	1,299
2	India	1,065
3	Indonesia	212
4	Russia	144
5	Turkey	70
6	Thailand	62
7	South Korea	48
8	Poland	39
9	Malaysia	24
10	Romania	22
11	Czech Republic	10
12	Hungary	10
13	Singapore	4
14	Slovenia	2
Sub-total (14 countries)		3,010
US		288
EU (25 countries)		456.4*
World		6,200

Source: The Worldbank Group 2004, <http://www.worldbank.org/data>, *Eurostat

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Certain countries, such as the Czech Republic, Poland and Slovenia, which are strategically placed sharing borders with several countries - and Romania because of its low labour costs - can play a pivotal role as logistic hubs and a vastly improved east-west supply chain.

The food sector in general should benefit new entrants such as Poland and Romania with increased revenues due to convergence with the Common Agricultural Policy (CAP) and the elimination of previous trade barriers. Food exports meeting the required EU quality criteria should explode. Having seen the highly positive impact that Spain has derived from its membership of the EU, these transitional economies have everything to gain if they play the game according to the rules. It is a historical opportunity.

■ *Strength and adaptability of Asian economies*

The Asian economies are still enjoying strong GDP and sector growth in spite of the negative impact of SARS (Severe Acute Respiratory Syndrome), the Avian influenza and the global economic downturn. The region's capacity to recover quickly from a recession has already been demonstrated in 1998 during the Asian Financial Crisis.

The reports on India and Thailand mention the impact of oil prices on their economies. The Thai economy has also been adversely affected by Avian influenza. India's economy is benefiting from its highly successful IT service sector, as a primary location for outsourcing from western companies seeking to reduce costs.

In Thailand, land ownership is restricted and zoning laws make the development of hypermarkets difficult, but in spite of this, retail expansion is dominated by foreign companies. Indonesia and Malaysia are two other countries in which foreign retailers are making increasingly strong inroads. For example out of the top six retailers in Malaysia are foreign: three North Asian (AEON / Jaya Jusco, Dairy Farm / Giant and Seven-Eleven) and three European (Carrefour, Makro and Tesco).

Local retailers are extremely dynamic in South Korea and Singapore, creating tough competition in these countries for foreign operations.

As far as hypermarkets are concerned, this format has been especially successful in Indonesia (Alfa Retail Indo, Carrefour, Makro) and Malaysia (Carrefour, Dairy Farm, Makro and Tesco). At the same time, the traditionally successful Asian department store is reinventing itself in order to compete with new large surface stores such as the hypermarket, for example in Singapore and South Korea where the department stores are ranked in the top 10 retailers.

China continues to enjoy an extremely robust GDP growth rate (+9.1%¹ in 2003) in spite of the SARS outbreak. The government intends to create 9 million new jobs to lower unemployment rates and focus on stimulating domestic consumption to drive sustainable growth.

Foreign groups are using the acquisition or partnership path for entry into China, such as Tesco with the Ting Hsin International Group or Anheuser Busch with the Harbin Brewery. Speciality stores, devoted to product categories such as DIY, household appliances, telephony or cosmetics are seen as being important poles for future retail development in China.

There are huge income, lifestyle and consumption disparities between urban and rural populations in Thailand, India and China. The latter two are still very much rural economies with a majority of people still living in the country. Unemployment and poverty are key challenges.

¹ National Bureau of Statistics of China

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The presence of multinational food retailers in transitional economies

	China (Mainland)	Czech Republic	Hungary	India	Indonesia	
AEON (Japan)	X					
AHOLD (The Netherlands)		X				
AUCHAN (France)	X		X			
AVA (Germany)						
CARREFOUR (France)	X	X			X	
CASINO (France)						
Dairy Farm International (Hong Kong)	X			X	X	
DELHAIZE Group (Belgium)		X			X	
FAMILY MART (Japan)						
FIBA (Turkey)						
GLOBUS (Germany)		X				
INTERMARCHE (France)						
ITO YOKADO (Japan)	X					
JERONIMO MARTINS (Portugal)						
KOC GROUP (Turkey)						
LECLERC (France)						
LIDL & SCHWARZ (Germany)		X	X			
LOUIS DELHAIZE (France)			X			
MAKRO (The Netherlands)	X				X	
METRO (Germany)	X	X	X	X		
REWE (Germany)		X	X			
SEVEN - ELEVEN (Japan)	X					
SHINSEGAE (South Korea)	X					
SPAR (The Netherlands)		X	X			
TENGELMANN (Germany)	X	X	X			
TESCO (UK)	X	X	X			
WAL-MART (USA)	X					

Source: PwC Country reports, Observatoire Vigie

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Korea (South)	Malaysia	Poland	Romania	Russia	Singapore	Slovenia	Thailand	Turkey
	X						X	
		X						
		X		X				
				X				
X	X	X	X		X		X	X
		X					X	
	X				X			
			X				X	
X							X	
			X					X
		X	X					
		X						
				X				X
		X				X		
		X						
	X						X	
		X	X	X				X
		X	X					
X	X				X		X	X
X								
				X		X		
		X		X				
X	X	X					X	X
X								

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■ Increased competition and consolidation

- Emergence of regional players
- Towards a more efficient supply chain

In CEE countries, consolidation in the retail and consumer sector is, in general, on the increase, thereby creating regional players who are able to generate the necessary economies of scale to succeed in what is an increasingly competitive market.

The same trend is apparent in China, where the retail and consumer goods market is developing at an extremely fast pace – and is also highly competitive. Local champions such as Haier, Konka and Galanz in home appliances, and Shanghai Bailian Group in retailing, are trying to stave off competition from foreign competitors through consolidation.

In all the Asian countries covered by the report (with the exception of Singapore – already a sophisticated economy), efforts are being made to improve the highly inadequate infrastructure and to organise professional supply and logistic chains which are essential to a more widespread development of modern business.

Retail and consumer companies are investing heavily in their supply chains and Carrefour and Wal-Mart are also using China as a major sourcing hub for both their local and global markets.

Cost control and investment in logistics and a more efficient supply chain are also high on the retail and consumer sector's agenda in CEE and Russia.

2. Priority investments for retail and consumer multinationals

Global retail & consumer barometer

Territory	Organized retail sector situation	Regulatory constraints	Risk
CHINA (MAINLAND)	Growing	Changing	Some
CZECH REPUBLIC	Saturated	Non- significant	None
HUNGARY	Maturing	Non- significant	None
INDIA	Emerging	Still strong	Some
INDONESIA	Growing	Some	Some
KOREA (SOUTH)	Maturing	Non- significant	None
MALAYSIA	Growing	Some	Low
POLAND	Saturated	Some	None
ROMANIA	Growing	Some	None
RUSSIA	Growing	Changing	Some
SINGAPORE	Saturated	Non- significant	None
SLOVENIA	Growing	Some	None
THAILAND	Growing	Still strong	None
TURKEY	Growing	Changing	Low

Source: PwC Country reports, Observatoire Vigie

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Retail & Consumer challenges / opportunities	Winning formats	Retail & Consumer emerging trends	Overall recommendation
Increased competition, supply chain effectiveness / liberalization, diversity of the market, staff and management training	Specialty stores, supermarkets/hypermarkets and convenience stores	Increase in consumer spending, market consolidation, modernization & diversification of retailing	GO
Price pressure, trade unions / brand differentiation, regionalisation	Supermarkets, discount stores and specialty stores	Non-food retailing, e-commerce, price sensitivity, potential for private labels	Niche opportunities
Continuing concentration / increased purchasing power, logistical hub	Hypermarkets, convenience stores and specialty stores	EU compliance, investment in middle-size companies, changing supplier-retailer relationship	GO
Fragmented market, channel conflicts due to disintermediation, limits to property rights / opportunities in mergers and acquisitions, investment in the Agri-food business, third party manufacturing	Discount formats, cash & carry and specialty stores	Huge opportunities for FMCG companies, caution for foreign retail investment, growth of organized retailing, global sourcing, channel integration	GO
Changing political and regulatory environment / growing middle class	Hypermarkets, supermarkets and department stores	Domestic retailers repositioning, increasing market share for foreign retailers	Caution
Intense competition / supply chain and category management improvement	Discount stores, department stores and e-commerce	Rising consumer power, enhanced brand value, e-business and e-commerce, shopping malls	Niche opportunities
Price competition / increasing consumer demand (domestic and tourism)	Hypermarkets and specialty stores	Consolidation, development of shopping malls	GO
Low working costs, large and diversified market, logistical hub, low price and private labels	Discount stores, convenience stores, home improvement retailers and shopping malls	Consolidation, increasing purchasing power, development of e-commerce	Niche opportunities
Staff and management training, price competition, mergers and acquisitions, some limits to property rights	Supermarkets, discount stores and shopping/recreational centers	Foreign retailing development, expansion in regional cities	Niche opportunities
Struggle for space in Moscow, price sensitivity, supply chain effectiveness / staff and management training, expansion in regional cities	Discount stores, specialty stores and hypermarkets	Private labels, development of shopping malls, customer loyalty programs	Caution
Intense competition, service quality, demanding consumer / brand marketing	Department stores, supermarkets and specialty stores	Changing geographical shopping patterns, service excellence	Niche opportunities
Regional headquarters, high managerial and technical skills, logistic hub	Shopping malls and supermarkets	Privatization, increasing income level, development of larger retail formats	Niche opportunities
Intense competition, regulatory constraints	Hypermarkets and convenience stores	Development of department stores, health concerns, customer relationship management	GO
Operational effectiveness, increase in consumer spending, modernization of retailing	Discount stores and supermarkets	Private labels, development of foreign food retailing	GO

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■ High risk versus high reward: China and India

HIGH RISKS		
	CHINA	INDIA
Geographical characteristics	23 provinces 5 autonomous provinces 4 municipalities	28 states 7 union territories
Economic disparity	Huge disparity between coastal cities and countryside = GDP per capita varies between Rmb8,075 (USD977) in Chongqing and Rmb46,718 (USD5,651) in Shanghai	Also huge disparity in India = More than 50% of Indian households live with less than USD82 per month (or USD7 per day) and 30% of Indian households live with USD1 and less per day
Investment limits	Not significant	Limits to foreign investment
Financial risks	Risk of economic overheating	Not significant
Political instability	Administrative problems between the Government & the provinces Unpredictable policy	No single party has majority seats in the Parliament to form government. With a coalition government, regional parties exercise influence on policies which at times tend to meet regional rather than national priorities.

HIGH REWARD		
	CHINA	INDIA
Demographic	Huge and diversified consumer market = The world's largest population with 1.3 billion inhabitants	Increasing population = Population of over 1 billion which will exceed China population in the coming decades
Economic	WTO accession Still high growth potential	High growth potential in long term
Resources/skills	Learn fast / Technical and managerial training	Availability of skilled managerial / technical manpower at reasonable cost. Large pool of English speaking people.

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*Immediate opportunities in China: **GO***

China is the biggest consumer market in the world and membership of the WTO (World Trade Organisation) will improve business conditions for companies investing there. National and regional brands are still extremely strong, and multinationals have to be aware of the extent to which they need to adapt their products and marketing to the Chinese consumer. One avenue that is being adopted is that of the setting up of alliances with local companies in order to assimilate their market know-how.

The Chinese government's efforts to curb economic overheating, review the banking sector and redistribute the country's new riches by investing in health, education and infrastructure will be essential components of long-term and sound economic development.

*India as an emerging economy with opportunities for the longer-term: **GO***

The Indian sub-continent, the other potential mass market of the world, has yet to resolve its infrastructure and business regulations in order to fire off a true wave of general economic development – other than its already highly successful IT services sector.

This being said, consumer goods companies have already established themselves with success in India; and there is obviously a huge potential for future development as the country modernizes.

For the time being, foreign retail and wholesale investment is restricted to cash & carry outlets and, to a lesser extent, e-commerce. It still remains to be seen if the new government will be promoting modern commerce through a more liberal approach to foreign investment from companies in the retail and consumer sector - and also to changing the current limits on property rights.

But when modern retailing does take off – and it will – the country's outstanding capabilities in IT will ensure an extremely rapid and dynamic development with, for example, an immediate assimilation of such technological applications as RFID (Radio Frequency Identification).

On the macro economic front, the new government appears to be adopting the same goals for economic

and fiscal reform pursued by its predecessors and at the same time it is designing policies to help 300 million of its people, which are among the poorest on the planet. These are encouraging signals for future economic growth and wider prosperity. Partnerships between foreign retail and consumer goods companies with local firms will undoubtedly contribute to the improvement of lifestyles and higher levels of employment and consumption, when this becomes possible in the future.

■ *Investment havens:*

*Turkey, Thailand, Malaysia, Hungary²: **GO***

The study pinpoints Turkey, Thailand, Malaysia and Hungary as being safe investment destinations which represent general opportunities for development in the short or longer term.

Turkey, with its young and growing population, is an obvious target for companies in the retail and consumer sector. A huge effort is being made to modernize the Turkish economy and accession to the EU would make a significant impact on the country's economic development. Retail and consumer companies can find local partners with whom they can launch their investment programmes for the long-term. But investors should be aware of the current regulatory constraints in the retail sector and bear in mind the unstable political climate in the region.

Although regulatory restraints are still an impediment in Thailand, there is plenty of potential for development in this country, which has a population equivalent to that of France.

Increasing consumer demand and the existence of a burgeoning middle-class make Malaysia an extremely interesting destination for investment. In addition, a young population, low unemployment and a growing modern retail sector all contribute to this country's extremely attractive investment climate.

Hungary is in the first group of countries to have acceded to the EU and Budapest, its capital, has a tradition of being a financial and managerial hub in the region. Although it has a fast maturing retail and consumer market, there are still opportunities left for investment there for hypermarkets, convenience stores and specialised outlets especially outside the capital.

² We enumerate the countries by size of population (from bigger to smaller)

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South Korea, Poland, Romania, Czech Republic, Singapore and Slovenia: ***Niche opportunities***

South Korea, Poland, Romania, Czech Republic, Singapore and Slovenia are already saturated as far as the size of the market is concerned. Although a certain number of general retail development opportunities in these countries still exist, retail and consumer companies would be better advised to focus on niche investments. Singapore and Slovenia's prosperous populations make them targets for niche opportunities. Romania, with its current limitations on property and land acquisitions and the limited availability of skilled staff and management, also make it a better destination for smaller, targeted retail opportunities.

■ **Opportunities for the long term**

Indonesia, Russia: ***Caution***

Investment in Indonesia should be subject to caution. Although the retail sector is gradually being liberalized, the changing political and regulatory environment is an impediment to efficient and rapid development for foreign companies.

Retail and consumer expansion into Russia should also be viewed with caution and seen as a long-term investment. Russia is a potentially huge mass consumer markets for the investor and boasts one of the highest current world growth rates. At the same time the country is set for the future within what is essentially an extremely fragile economic, political and social framework.

The decisions made by its government in a number of areas will have a profound influence on the country's development in the long term.

3. Key consumption patterns in transitional economies

GNI per capita (USD)		
1.	Singapore	20,690
2.	Slovenia	10,370
3.	South Korea	9,930
4.	Czech Republic	5,480
5.	Hungary	5,290
6.	Poland	4,570
7.	Malaysia	3,540
8.	Turkey	2,490
9.	Russia	2,130
10.	Thailand	2,000
11.	Romania	1,870
12.	China	960
13.	Indonesia	710
14.	India	470
	US	35,400
	EU (25 countries)	22,088
	World	5,120

Source: World Development Indicator Database, April 2004, <http://www.worldbank.org/data>

Ranking by country	Real GDP growth forecast 2004 (%)
China	8.9
Singapore	8.4
Russia	7.0
India	6.5
Malaysia	6.5
South Korea	6.4
Thailand	6.4
Turkey	5.9
Poland	5.5
Romania	5.0
Indonesia	4.7
Hungary	3.6
Czech Republic	3.5
Slovenia	3.3
US	4.2
EU (25 countries)	1.0
World	4.9

Source: EIU (Economist Intelligent Unit)

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■ *Price versus brand sensitivity*

Foreign companies dominate the retail and consumer sector in most CEE countries and all reports mention the pressure that retailers are putting on their suppliers in order to reduce prices for extremely price sensitive consumers – particularly in Slovenia and Turkey.

At the same time price sensitivity is contributing to a growing appreciation of brands and private label. Although penetration is as yet low, for example 2% in Poland and 4% in the Czech Republic – compared with an average of 22% in western Europe - the market share of private label is increasing very fast and should catch up with Western European levels in the near future.

Asian consumers are still extremely sensitive to local brands, although private label is starting to emerge in both India and Thailand. In India, consumers are still very much attached to their own food culture and multinationals are having to adapt their products significantly to match local tastes.

■ *Entertainment retailing*

In both Asia and CEE, the potential of shopping centers or malls, combining shopping with leisure activities and entertainment, is emerging as an important feature of new retailing patterns.

The mega-malls in Malaysia and the entertainment shopping malls of South Korea, for example, will act as poles for retail development in the future.

In CEE countries and Russia, the future importance of shopping centers is highlighted in the reports from the Czech Republic, Romania and Russia.

■ *The discounters*

Hard and soft discount chains are also expected to play a significant role in the future retail landscape. These formats are already making their presence felt in Hungary, Poland, Romania and Turkey. At the same time Carrefour is expanding its Dia discount format in China.

■ *The move into secondary cities*

As the number of modern retail outlets in the bigger towns saturate, there are significant growth opportunities to be seized in the provinces and smaller cities – some of which are already being taken up by local retailers. This growth can involve very differing retail formats, depending on the specific retail patterns of the country in question.

For example in Poland, as big cities become saturated with the hypermarket, supermarkets are being targeted for the smaller urban centers, whereas in Romania the hypermarket appears to be the favored format for regional cities.

In China, foreign retailers such as Wal-Mart and Carrefour are starting to move out of the prosperous south-eastern coastal areas, which are reaching saturation, into other regions.

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Major cities above 2 million inhabitants

Cities ⁽¹⁾	Number of inhabitants (million)	Country
Seoul	21.9	SOUTH KOREA
Mumbai (Bombay)	19.2	INDIA
Delhi	18.7	INDIA
Jakarta	16.6	INDONESIA
Kolkatta (Calcutta)	4.6	INDIA
Moscow	13.5	RUSSIA
Shanghai	13.2	CHINA
Beijing	10.6	CHINA
Istanbul	10.0	TURKEY
Bangkok	7.7	THAILAND
Chongqing	7.7	CHINA
Chennai (Madras)	7.4	INDIA
Hong Kong	7.2	CHINA
Bangalore	6.8	INDIA
Hyderabad	6.5	INDIA
Tianjin	5.9	CHINA
Ahmedabad	5.4	INDIA
Saint Petersburg	5.2	RUSSIA
Wuhan	4.9	CHINA
Guangzhou	4.9	CHINA
Harbin	4.5	CHINA
Shenyang	4.5	CHINA
Pune	4.3	INDIA
Kuala Lumpur	4.1	MALAYSIA
Ankara	4.0	TURKEY
Chengdu	3.8	CHINA
Busan	3.7	SOUTH KOREA
Surat	3.5	INDIA
Izmir	3.4	TURKEY
Bandung	3.2	INDONESIA
Nanjing	3.2	CHINA
Kanpur	3.1	INDIA
Surabaya	3.1	INDONESIA
Xian	3.0	CHINA
Dalian	3.0	CHINA
Katowice	2.8	POLAND
Qingdao	2.8	CHINA
Daegu	2.8	SOUTH KOREA
Jaipur	2.8	INDIA
Lucknow	2.6	INDIA
Hangzhou	2.5	CHINA
Nagpur	2.4	INDIA

Cities ⁽¹⁾	Number of inhabitants (million)	Country
Zhengzhou	2.4	CHINA
Budapest	2.4	HUNGARY
Changchun	2.4	CHINA
Warsaw	2.4	POLAND
Jinan	2.4	CHINA
Shijiazhuang	2.3	CHINA
Medan	2.2	INDONESIA
Konya	2.2	TURKEY
Taiyuan	2.2	CHINA
Bursa	2.1	TURKEY
Kunming	2.1	CHINA
Changsha	2.1	CHINA

Sources: Th. Brinkhoff : *The Principal Agglomerations of the World, 2004*, (<http://www.citypopulation.de>, 2004-08-17); excepted for Turkish cities: State Institute of Statistics.

(1) Important note: according to the above mentioned source, population figures relate to "core cities". In particular for Chinese cities, these figures may contradict with information from other sources, which may take into account "greater city" populations (eg. "Greater Beijing" amounts 14.6 inhabitants, and Shanghai 17.1, according to the China Statistical Abstract – also refer to sources used in the China country report).

■ Brand reputation and corporate responsibility

The transitional economies in CEE are set for unprecedented growth over the next years. But they will have to learn to comply with stringent EU health, transport and safety regulations in order to succeed. In the first instance, this will add to their cost structures, but compliance will ensure long-term viability and success.

In Asia, compliance with acceptable health and safety norms, as well as decent working conditions for employees, is extremely difficult to monitor. The multinationals operating in these countries, which are very much under the global consumer's eye, need to be entirely transparent as far as corporate responsibility is concerned in order to protect their international brand reputation.

But it will be some time yet before the intricate web of companies that constitute the Asian economy draw up Pan-Asian norms for corporate responsibility as a whole.

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CONCLUSION

To conclude, three major and common trends emerge from the majority of economies covered by the report - in both Asia and CEE.

- Price sensitivity is having a big impact on brand management and the development of private label. Adapting products and marketing to local cultures is an essential ingredient of future success for foreign retail and consumer companies. Price sensitivity will also be contributing to the successful development of hard and soft discount stores.
- As the transitional economies develop, the lives of their populations will open up to discover a whole new range of consumer goods. Shopping centers with their malls, and the creation of adjacent leisure activities will become one of the important poles of future consumption patterns.
- Emerging regional players, as well as the multinationals already present in these countries, will be seizing the significant potential for expansion from the increasingly saturated major cities into smaller, regional urban centers.

As certain retail and consumer investors take their breath after a first phase of investment in these economies – particularly in light of the recent world economic downturn – local players will be capitalizing on their increasing knowledge of modern retailing and their intimate understanding of local cultures to make their presence felt more forcefully. This, together with the consolidation of local and foreign retailers' investments, will toughen the competitive environment considerably in the future.



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