CHAPTER 4

RETAIL OUTLETS, DISTRIBUTION NETWORKS, AND MANUFACTURING CENTERS

Overview

In a growing group of countries in Latin America and the Caribbean, P.R.C.-based firms have begun to establish a presence in retail and manufacturing. To date, the growing Chinese presence has been concentrated on countries with large markets, such as Brazil, and those which offer privileged access to large markets through trade agreements or geographic proximity.

This new presence reflects, in part, the global expansion of Chinese companies and brands into international markets, and follows a logic that is not unlike that which drives their non-Chinese counterparts.

Moreover, the timing of the entry by Chinese firms into the retail and manufacturing sectors of Latin America and the Caribbean is similar to that of their P.R.C.-based counterparts in primary product industries and construction. Nonetheless, the character of the activities of Chinese companies in retail and manufacturing, the associated challenges, and the implications for the region, differ in important ways from those of P.R.C.-based firms in other sectors.

During the initial expansion of Chinese commercial presence in Latin America and the Caribbean, very few Chinese consumer or industrial product producers had the reputation, sophistication, or resources to create retail, production and supply networks in the region on their own. By contrast to Japanese and later Korean companies whose exports of manufactured goods were led by their own trading companies (the Keiretsu in the case of Japan, and the Chaebol in the case of Korea), Chinese state owned enterprises and other firms had no such assistance as they sought foreign markets.

R. E. Ellis, *China on the Ground in Latin America*
© R. Evan Ellis 2014
Many of the Chinese products entering Latin America in the 1990s and 2000s were produced in the P.R.C. by Western manufacturers, and then imported into Latin America under the names of those brands. Other Chinese products were brought in by Western traders who would travel to the P.R.C. on "shopping trips," filling containers with goods from Chinese factories close to coastal cities such as Shanghai, Yiwu, and Shenzhen, then import them back into their own countries under their own label, or as generic "Chinese" goods. Thus, although residents of Latin America and the Caribbean increasingly felt the presence of Chinese products, it was only much more recently that the region began to perceive this presence in terms of Chinese brands, retailers and manufacturers.

The dynamics of the establishment of Chinese brands, retail and distribution networks, and associated factories in the region differs by product category. In virtually all cases, however, a key part of that dynamic is collaboration between the Chinese manufacturer and a Latin American partner. While the Chinese brand name may be highly visible in sectors such as motorcycles, electronics, and white goods, in the initial phase of market entry, it is the Latin American partner which typically takes the lead for providing the distribution network and the Chinese partner gains in experience operating in the country, however, and moves from simply providing the product, to collaborating in providing part of the capital for and management of manufacturing facilities in the region, the Chinese partner also begins to take, or at least expect, a greater role in decision making. Many of the challenges for the Chinese in the manufactured and consumer product sectors described in this chapter involve that dynamic relationship between the Chinese and Latin American or Caribbean partners.

As Chinese companies expanded their presence in Latin American consumer goods and other manufactured product sectors, they are commonly driven to consider locating final assembly operations, and in some cases component suppliers, in those countries in which they are expanding sales. As with non-Chinese companies, one of the primary motivations for doing so is to avoid paying taxes on the importation of finished products for retail sale, although managing inventory carrying costs and more responsive customer service are other motives for moving sales, warehousing and final assembly facilities closer to the market being served.

Investing in a factory or other major facility in Latin America and the Caribbean is also commonly a shared decision between both the Chinese and local partners. Indeed, in sectors such as autos, a substantial part of the financing actually comes from the Latin American side.\(^1\)