

**The Strategy of China's Economic Diplomacy towards ASEAN  
Case Study: "The Foreign Direct Investment of SAIC General Motor  
Wuling(SGMW) in Indonesia" 2015 – 2018**

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**Abstract**

*The aim of this research is to explain the economic diplomacy of China in ASEAN through the investment of SAIC General Motor Wuling in Indonesia (SGMW). Furthermore, it will explain the strategy of Wuling as the Multi National Cooperation (MNC) and Foreign Direct Investment (FDI) in the automotive industry to increase its existence and to competing others automotive industry in the Indonesian market place. Moreover, SGMW is the one of Chinese investment in the automotive industry that focused on Low Multi Purpose Vehicle (LMPV). However, like others Chinese product, Wuling provides cheap product that targeting middle economic level of the society. As a result, the investment will provide about 3000 job fields for Indonesian people and transferring technology that very beneficial for Indonesian, because of SGMW build the factory of Wuling in Cikarang Indonesia. Furthermore, the writer will use the concept of MNCs to explain the decision of SGMW to invest in Indonesia. This research used the qualitative method through literature and document studies.*

*Keywords: Economic Diplomacy, Multi National Cooperation (MNC), Foreign Direct Investment (FDI), SGMW, National Interest*

## Introduction

Today, China becomes one of the biggest producer and exporter in the world. Regarding this phenomenon, many scholars believe that the leaders of China have good confidence and power to encourage China to have sizeable economic power in the regional and global level. Moreover, it influenced by the commercial diplomacy of this state to dominates the international market. However, concerning the concept of national interest, the economy is one of the prominent elements to conduct international relations. Furthermore, as the impact of industrial revolution, China tends to rebuild its country to become dominant in the economic term.

Specifically, in Indonesia, the majority of electronic and fashion product comes from China, and it becomes something usual for China and Indonesia. Moreover, the existence of One Belt One Road Project is the essential reasons for conducting bilateral economic relations between both countries. In the other side, the government of China also creates a policy to limit the investment itself, for example in the Property, Hotel, Film, Entertainment, and Sport. However, the purpose of this policy is to make the Chinese Entrepreneur focus on the One Belt and One Road project.<sup>1</sup>

Furthermore, regarding the survey of advertising agency Y&R and Wharton School from the University of California, five states become the best state to conduct foreign investment such as Singapore, Malaysia, Poland, Indonesia, and Philippine.<sup>2</sup> Moreover, there are three indicators of the survey, such as natural resources, market efficiency, and strategic asset.<sup>3</sup>

Focusing on the ASEAN states such as Singapore, Malaysia, Indonesia, and Philippine. Those of state become the favorite place of Multi-National corporations to enlarge its market and conducting foreign investment. Moreover, the foreign investment of China in ASEAN states reached US\$ 71,55 milliard in 2016 or 5,3% from the total

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<sup>1</sup> Id.beritasatu.com, "tiongkok tetapkan aturan investasi keluar negeri," accessed from <http://id.beritasatu.com/home/tiongkok-tetapkan-aturan-investasi-ke-luar-negeri/164225>, retrieved on 16 October 2018, 16.43

<sup>2</sup> m.liputan6.com, "5 negara terbaik untuk investasi, RI nomor berapa?", accessed from <https://www.google.co.id/amp/s/m.liputan6.com/3237502/5-negara-terbaik-untuk-investasi-ri-nomor-berapa>, retrieved on 23 November 2018 19.42

<sup>3</sup> Ibid

investment of China in Asian states reached US\$ 909,44 milliard.<sup>4</sup> Specifically Indonesia, compared with those three Southeast Asian states, Indonesia selected as the state to receive the foreign direct investment of SGMW.

The amount of SGMW investment in Indonesia is about USD 397,4 Million.<sup>5</sup> Moreover, it included the development of Wuling Motors factory in “Greenland International Industrial Center (GIIC)”, Central Cikarang, Bekasi, West Java, and the size of this factory is about 60 hectare, and claimed can produce 120.000 units per year for ASEAN market<sup>6</sup>. Then, it completed by the development of Wuling dealers in all of Indonesia regions, and other facilities that support the marketing strategy of Wuling Motors in Indonesia.<sup>7</sup>

Besides that, Wuling motors in Indonesia also make a corporation with 15 international component supplier and 20 local component suppliers to make the production of Wuling Car easier and faster. The factory of Wuling motors also using Global Manufacturing System (GMS) technology and became the international standard of car manufacture in around the world.<sup>8</sup>

In addition, the investment of SGMW created an industrial chain from bottom to top, and it becomes good news for the Indonesian automotive industry. Moreover, this automotive industry claimed can gives job fields for 3000 Indonesian people.<sup>9</sup> In the other side, this industry also can trigger automotive component suppliers from tier 1, tier 2, and tier 3.<sup>10</sup>

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<sup>4</sup> Kontan.co.id, "Maybank Kim Eng: Investasi China penentu ekonomi ASEAN," accessed from <https://nasional.kontan.co.id/news/maybank-kim-eng-investasi-china-penentu-ekonomi-asean>, retrieved on 26 November 2018 09.06

<sup>5</sup> Siaran Pers Badan Koordinasi Penanaman Modal, BKPM Kawal Investasi Otomotif RRT, 7 January 2017

<sup>6</sup> m.liputan6.com, "deretan mobil china yang pernah menginvasi Indonesia", accessed from <https://www.liputan6.com/otomotif/read/3282852/deretan-mobil-cina-yang-pernah-menginvasi-indonesia>, retrieved 26 September 2018, 09.03

<sup>7</sup> Otomotif.Net, “ini alasan mengapa Wuling pede bangun pabrik mungkin rekeh?”, accessed from <https://otomotifnet.gridoto.com/read/02192038/ini-10-alasan-mengapa-wuling-pede-bangun-pabrik-mungkin-rekeh?page=all>, retrieved 5 April 2018, 15.00

<sup>8</sup> Ibid

<sup>9</sup> CNN Indonesia, "Fakta Menarik Mobil China Wuling Confero Di Indonesia," accessed from <https://www.cnnindonesia.com/teknologi/20170524135028-384-216985/fakta-menarik-mobil-china-wuling-confero-di-indonesia>, retrieved 24 September 2018, 07.24

<sup>10</sup> ibid

In the marketing strategy, SGWM also provides more than 50 dealers and guarantee the availability of its car components.<sup>11</sup> Besides that, SGMW was also preparing the financial aid to the Wuling consumer if they want to buy this car. Moreover, SGMW also created the Indonesia-China automotive education and training center in Karawang, and this is the cooperation between SGWM and SMK (*Sekolah Menengah Kejuruan*) in Karawang. The purpose is to prepare the students to be ready as the worker in the SGMW automotive industry.<sup>12</sup>

### **Methods of Research**

In the process of this research, The Writer used the qualitative technique to analyze the data. The purpose to used qualitative technique is to understanding and interpreting the phenomenon that happens in the research. In the level of analysis, The Writer used the level of the state. Moreover, to support the data of this research, the writer uses secondary resource for example like news, article, and another thesis.

### **Theoretical Framework**

To examine more the reasons for SGMW to conduct investment in Indonesia, The Writer will use the concept of Multi-National Corporations (MNCs). Regarding the definition of W.F Schoell (1993), Multi-National Corporations is the company that has a Major company in the home country and also has other company in other countries (host country).

In the simple meaning, MNCs is the company that has some branches in other countries. However, MNCs showed the power of capital, technology, and management of MNCs in overseas. According to the history of MNCs, this concept also has close relations with foreign direct investment on trading and market investment.<sup>13</sup> Moreover, foreign direct investment can seek the development of MNCs, if the foreign direct investment has an excellent capability to control the market, and then it will support the environment of MNCs itself.

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<sup>11</sup> Ibid

<sup>12</sup> Ibid

<sup>13</sup> Tolentino Paz Estrella, *Multinational Corporations "Emergence and Evolution,"* Routledge, 2000, Page 3

Furthermore, liberalism approach shows that human as a social creature need to make cooperation to survive in the politic, economy, and security. Therefore, the interactions within the people will affect the value of their cooperation. Specifically, regarding to the perspective of liberalism explain the form of international economic system like MNCs has a cooperation with the government of a state to fulfill its economic interest. Therefore, the relations between MNCs as the non-state actor and government as the state actor will have mutual benefit.

Moreover, according to the perspective of John Locke, freedom as a basic principle of liberalism explains the external intervention is not exist in the individual activity and property is the right of each individual. Then, the government of state has limit power to control its people. Furthermore, it will create a rule and law to protect the right of each individual.

Moreover there is a correlation between liberalism and MNCs. Regarding the previous explanations; liberalism shows that the power of capitalism became the important reasons of a state to conducting international relations. Therefore, MNCs exist as the result of free trade that shows the power of capital and technology. From the perspective of international business, there is a correlation of MNCs to power and politics. However, it created a fundamental question of what for MNCs works, for whom MNCs works, and who will get more benefit in MNCs. In the other side, the existence of MNCs may have a more significant role than a state in the international world. In the practice of MNCs, it also influences the policy of a state.

Moreover, there are four principles of MNCs to conduct FDI such as strategic-asset seeking, resource seeking, market seeking, and efficiency seeking. Moreover, the purposes of those principles are to maximize the benefit and minimize the cost production.

First is the principle of strategic-asset seeking, it means MNCs and FDI tends to put its investment to the state in the long-term period, and then it will use the local natural and human resources to increase the number selling and decrease the number of

competitors. Moreover, the purpose is to against the competitor, enlarge the market for its product, and enrich its technological power.<sup>14</sup> Therefore, to maintain the strategic-asset, MNCs needs support from the host government in the foreign investment.

Second is the principle of resource-seeking, regarding the history, this term has been existing since the 19 century among the company players, especially for those who depend on natural resources. In the era of World War II, the existence of resource-seeking became the important thing to support the global economic and war. However, there are two principles of resource-seeking such as the strategic position of natural resources and the supporting infrastructures to distribute the natural resources itself. However, the benefit of resource-seeking depends on the values of money in the exports activity.<sup>15</sup>

The third is the principle of the market-seeking, one of the purposes of MNCs is to enlarge the market for its product. In the home country, MNCs has a minimal market, especially if the population is not big enough. Therefore, to maximize the benefit, MNCs will try to open a new branch in another country that has a significant amount of population. In other meaning, the significant population will determine the big market for MNCs.<sup>16</sup> Moreover, the point of market seeking is to defense and proactive the product of MNCs in overseas.

Fourth is the principle of efficiency-seeking, it is relating to the minimum wage of labor in the developing country. However, this principle is pointed on the production process that is mostly using the human skill in every step of production. In this case, MNCs will take labor that has excellent capability to work in the long duration, not labor with high education. Therefore, it can decrease the payment for the labor but still keeps the production running. However, the impact is to decrease the production cost per unit. In the development of MNCs and FDI, the principle of efficiency-seeking has got serious attention in the market system, because it is very close with the term of the free market. Therefore, it created a debate between the efficiency to use a global

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<sup>14</sup> Ibid

<sup>15</sup> Cohen D. Stephen, *Multinational Corporations and Foreign Direct Investment*, Oxford University Press, 2007, page 66

<sup>16</sup> Ibid

resource and the dependency between MNCs and host country, especially developing states.<sup>17</sup>

## **Result and Analysis**

Focusing the relation between Multi-National Corporations and the government of host state has a complex benefit and distribution. In the side of Multi-National Corporations, it needs the freedom to access the resources and moving freely, and the purpose is to decrease the cost of production and increase the quality.<sup>18</sup> Moreover, the Multi-National Corporations provide one option not to invest in the host government cannot accept its needs.<sup>19</sup> Besides that, Foreign Direct Investment flows can represent the existence of intellectual property and resource cooperation.<sup>20</sup>

In the side of host government state, SGMW is very important to provide a larger job field for its people and to increase the economic growth.<sup>21</sup> Besides that, SGMW also needs access to get natural resources and local skill to support its production.<sup>22</sup>

Specifically, the purpose of SGMW in China to conduct foreign direct investment and created the other branch of SGMW in Indonesia is to get the highest profit regarding the efficiency of production cost. Moreover, according there are four reasons for SGMW to choose Indonesia to conduct foreign direct investment such as resource seeking, market seeking, efficiency seeking, and strategic asset seeking.

### *Resource Seeking*

In the principle of commercial business, one of the crucial things is how to get the highest benefit with the lowest cost of production. On the other hand, Indonesia is one of the states that have a lot of natural resources, primarily to provide energy to run the industry, especially electricity energy. Focusing on the electricity, Indonesia included in a state that has the lowest price of electric energy in the South East Asian

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<sup>17</sup> Ibid

<sup>18</sup> Ibid, page 22

<sup>19</sup> Ibid

<sup>20</sup> Cohen D. Stephen, *Multinational Corporations and Foreign Direct Investment*, Oxford University Press, 2007, page 120

<sup>21</sup> Ibid

<sup>22</sup> Ibid

Region. It caused by Indonesia has a lot of hydroelectric power plant, air power plant, and coal power plant. Therefore, it can decrease the price of electricity itself.

Table.1 The tariff of electricity for big industry in the ASEAN state (August 2017)<sup>23</sup>

State	Price
Indonesia	US\$ 8,38 cent per kWh
Malaysia	US\$ 8,41 cent per kWh
Thailand	US\$ 8,81 cent per kWh
Singapore	US\$ 11,11 cent per kWh
Philippine	US\$ 9,05 cent per kWh
Vietnam	US\$10,95 cent per kWh

Regarding the above table, the price of electricity for a big industry is US\$ 8,38 cent per kWh. Therefore, compared with Malaysia, Thailand, Singapore, Philippine, and Vietnam the tariff that offers by the Indonesian government to support the industrial process is more efficient and competitive. Moreover, the availability of electrical power in Indonesia is stable and increasing from time to time.

Table 2. The Capacity of electricity in Indonesia (2012-2017)<sup>24</sup>

Year	Electricity Capacity
2012	45,3 thousand Megawatt
2013	50,9 thousand Megawatt
2014	53,1 thousand Megawatt
2015	55,5 thousand Megawatt
2016	59,6 thousand Megawatt
2017	64,1 thousand Megawatt

<sup>23</sup> www.liputan6.com, "Ini Perbandingan Tarif Listrik RI dengan Negara di Asia Tenggara," accessed from <https://www.liputan6.com/bisnis/read/3160560/ini-perbandingan-tarif-listrik-ri-dengan-negara-di-asia-tenggara>, retrieved on 30 November 2018 13.30

<sup>24</sup> databoks.katadata.co.id, "berapa kapasitas pembangkit listrik nasional?", accessed from <https://databoks.katadata.co.id/datapublish/2017/09/28/berapa-kapasitas-pembangkit-listrik-nasional>, retrieved on 13 November 2018 11.02

Regarding the table above, the capacity of electricity in Indonesia is increasing. Moreover, it can encourage the productivity of industry in Indonesia. Besides that, Indonesia included in a state that has the lowest price of electric energy in the South East Asian Region.<sup>25</sup> According to The Head of Communication Bureau, Public Information Service and Ministry of Cooperation Ministry of ESDM, from 190 states in the world, Indonesia in the top ten of state that has the lowest price of electricity, and this data from World Bank in the point of the convenience of investment.<sup>26</sup> It caused by Indonesia has 5,765 of the power plant that consists of hydroelectric power plant, air power plant, and coal power plant, etc.<sup>27</sup> Therefore, it can decrease the price of electricity itself. Also, to support the existence of industry in Indonesia, the government of Indonesia gives a cheaper cost to start the business from 19,4% to 10,9%, the cost to get electricity decreasing from 357% to 276%.<sup>28</sup>

Moreover, regarding the concept of MNCs, the decision of SGMW to invest and enlarge its market Indonesia has two factors, first is the condition of geology and weather, and second is the location of natural resources included infrastructure, transportation, accessibility, and the policy of the government. Therefore, Indonesia included in the state that has stable condition regarding the geology and weather aspects, because Indonesia has vast land to build industry infrastructure for SGMW. On the other hand, Indonesia only has two weather such as dry and rainy season, and it makes the industry has more time to produce the car. In contrast, the unstable condition of weather can be the barrier of the production process and decrease the profit of the company. On the other hand, the government of Indonesia also provides good infrastructure and policy to attract and support the existence of MNCs in this country, for examples the development power plant to guarantee the availability of electrical energy.

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<sup>25</sup> www.liputan6.com, “RI Masuk 10 Negara dengan Tarif Listrik Termurah di Dunia”, accessed from <https://www.liputan6.com/bisnis/read/3626862/ri-masuk-10-negara-dengan-tarif-listrik-termurah-di-dunia>, retrieved on 13 November 2018 11.10

<sup>26</sup> Ibid

<sup>27</sup> finance.detik.com, “RI Punya 5.700 Pembangkit Listrik, 25% Kapasitas Dimiliki Swasta”, accessed from <https://finance.detik.com/energi/d-2680433/ri-punya-5700-pembangkit-listrik-25-kapasitas-dimiliki-swasta>, retrieved on 13 November 2018 11.22

<sup>28</sup> finance.detik.com, “Peringkat Kemudahan Investasi RI Naik ke Posisi 72” accessed from <https://finance.detik.com/berita-ekonomi-bisnis/d-3708633/peringkat-kemudahan-investasi-ri-naik-ke-posisi-72>, retrieved on 14 November 2018 13.52

Furthermore, the relation between the home country and MNCs in the resource-seeking is fundamental to maintain the productivity itself. Besides that, the role of local suppliers can create a new standard and new demand for quality.<sup>29</sup> On the other hand, the involvement of local suppliers can increase the national income of the home country.<sup>30</sup>

### *Market Seeking*

However, the primary purpose of SGMW to conduct Foreign Direct Investment in Indonesia is to protect and enlarge the domination of the car product on the international level. Additionally, this is the strategy of SGMW in China to decrease the dependency on car export.

Besides that, the factors of defensive and proactive are becoming an essential thing of SGMW to expand the Indonesian automotive market. First, Defensive means, SGWM will increase the good image of the brand by producing a car with good quality but has a low price for Indonesian people, and then it can compete other car brands like Honda, Toyota, Suzuki, and Daihatsu from Japan. Additionally, SGWM prevents the policy of car import that becoming a problem in the future, and also creating good relation in the national economic contribution, especially in the currency aspects. Second, proactive means, SGMW tends to be closer with the consumer as the market. Besides that, the host state becoming the potential place to support the production of the car, and minimize the cost of transportation and tax export.

Furthermore, the existence of SGMW in Indonesia through Foreign Direct Investment becoming an excellent opportunity to observe the interest of Indonesian people in its car product. Therefore, SGWM can decide a clear strategy to anticipate the changing needs of Indonesian people to the car in the future.

Also, in 2017 to the number of Indonesian people that included in the middle class reached 52 million the population and contributes 43% of household

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<sup>29</sup> Stopford John, *Journal, Multinational Corporations*, *Journal of Foreign Policy*, No. 113, 1998-1999, Page 17-18

<sup>30</sup> Ibid

consumption.<sup>31</sup> On the other hand, the population of Indonesia that base on the economic level is 45% will be middle class and 35% still in the low class.<sup>32</sup>

Additionally, in the ASEAN region, Indonesia in the second most prominent position as the car manufactures industry and Thailand in the first most prominent position. Moreover, Thailand expands 50% of car manufacture industry in the ASEAN region.<sup>33</sup> In 2017, the total of car production reached 2,2 billion units per year, but this number predicted will decrease up to 55% caused by the unbalance between the amount of production and the amount of market demand in domestic and foreign level.<sup>34</sup>

Table 3. The amount of car selling in ASEAN countries<sup>35</sup>

<b>Negara</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Thailand	881,832	799,632	768,788
Indonesia	1,208,019	1,013,291	1,061,735
Malaysia	666,465	666,674	580,124
Philippines	234,747	288,609	359,572
Vietnam	133,588	209,267	270,820
Singapore	47,443	78,609	110,455
Brunei	18,114	14,406	13,248
<b>ASEAN</b>	<b>3,190,208</b>	<b>3,070,488</b>	<b>3,164,742</b>

<sup>31</sup> [www.worldbank.org](http://www.worldbank.org), "Kelas Menengah Indonesia Penting bagi Masa Depan Negara," accessed from <http://www.worldbank.org/in/news/press-release/2017/12/04/indonesia-middle-class-vital-for-the-country-future>, retrieved on 13 November 2018 11.37

<sup>32</sup> Ibid

<sup>33</sup> [www.indonesia-investment.com](http://www.indonesia-investment.com), "industri manufaktur otomotif Indonesia," accessed from <https://www.indonesia-investments.com/id/bisnis/industri-sektor/otomotif/item6047?>, retrieved on 4 November 2018, 07.30

<sup>34</sup> Ibid

<sup>35</sup> Ibid

According to the table above, as the prominent market for the automotive product, Indonesia has an essential role in the development of the automotive industry in ASEAN. Indonesia in the first position of the biggest market in for Japan, Europe, and China car in the South East Asian region, and followed by Thailand in the second position.

Table 4. The amount of car selling in Indonesia in 2014-2017<sup>3637</sup>

Year	Amount of Car Selling
2014	1.208.019 units
2015	1.013.291 units
2016	1.073.547 units
2017	1.069.674 units

Regarding the data above, the needs of the car as transportation still take an essential role in the Indonesian market, and the amount of car selling in 2014 until 2017 still above one million units. Therefore, it determines the stability of the car industry to produce and provide a car. Moreover, the high of the number of car needs also is the impact of the increase of national economic welfare in Indonesian society, because of the car is not a luxury thing anymore, but today becomes a primary need of the society.

Table 5. the rank of car selling in January-April 2018<sup>38</sup>

Rank	Brand	Amount
1	Toyota	113.854
2	Mitsubishi	73.179
3	Daihatsu	70.479
4	Honda	53.274

<sup>36</sup> www.otomotifmagz.com, “gaikindo: meskijeblok, penjualanmobil 2015 lewati one juta unit”, accessed from <https://www.otomotifmagz.com/gaikindo-meski-jeblok-penjualan-mobil-2015-lewati-1-juta-unit/>, retrieved on 13 November 2018 18.20

<sup>37</sup> otomotif.kompas.com, “Penjualan Mobil Indonesia 2017 Jalan di Tempat”, accessed from <https://otomotif.kompas.com/read/2018/01/16/203500015/penjualan-mobil-indonesia-2017-jalan-di-tempat->, retrieved on 13 November 2018 18.23

<sup>38</sup> otomotif.antaranews.com, “Daftar merek mobil terlaris January-April 2018, Toyota teratas”, accessed from <https://otomotif.antaranews.com/berita/710367/daftar-merek-mobil-terlaris-januari-april-2018-toyota-teratas>, retrieved on 13 November 2018 18.34

5	Suzuki	40.860
6	Hino	11.822
7	Isuzu	7.971
8	Datsun	6.099
9	Wuling	5.216
10	Nissan	4.359

According to the table above, Wuling car in the nine positions of car selling in January-April 2018 and can compete others car brand in Indonesia. However, it determines the positive response of Indonesian people to Wuling car and reconstructs a new perspective of China's car product. Moreover, the strategy of SGWM to provide a car with good quality but has low prices successful in the Indonesian market. Also, to maintain the trust of the market, SGMW also provides dealers in all of Indonesia regions to support the marketing strategy, make cooperation with the local automotive supplier and created job field to the Indonesian people to increase the national income and also gives the transfer of technology of the automotive industry.

Through SAIC General Motor Wuling (SGMW) China tries to increase its existence in the automotive industry in Indonesia. Moreover, SGMW released Confero and Confero S as the first product of SGMW and included in Multi-Purpose Vehicle (MPV). Confero series is the duplicate from Hongguang series in China, and also it is the new automotive product in China.<sup>39</sup> In 2015, SGMW recorded can sell its car product up to 2,040 million units, and in 2016 it was increasing become 2,13 million units.<sup>40</sup>

In Indonesia, MPV type is the most priority for the people to by a new car; the reason is that this type provides low prices with a significant capacity to the passenger.<sup>41</sup> Also, Wuling car is the duplicate of Hongguang car in China. In 2016, SGMW recorded

<sup>39</sup> Otomotif.kompas.com, "Wuling mobil paling laris di China, bagaimana di Indonesia?", accessed from [https://otomotif.kompas.com/read/2017/03/072300015/wuling\\_mobil.paling.laris.di.china.bagaimana.di.in.donesia.](https://otomotif.kompas.com/read/2017/03/072300015/wuling_mobil.paling.laris.di.china.bagaimana.di.in.donesia.), retrieved on 04 November 2018 19.53

<sup>40</sup> Ibid

<sup>41</sup> CNN Indonesia, "Fakta Menarik Mobil China Wuling Confero Di Indonesia," accessed from <https://www.cnnindonesia.com/teknologi/20170524135028-384-216985/fakta-menarik-mobil-china-wuling-confero-di-indonesia>, retrieved 5 April, 12.30

can sell Hongguang car up to 24,3 billion units. According to the data from the China Passenger Car Association (CPCA), Hongguang became the top ten favorite car brands in China.<sup>42</sup> Moreover, Hongguang car in MPV class sold out up to 650.018 units in China.<sup>43</sup>

Table 6. The price of Wuling Car in Indonesia<sup>44</sup>

Type	Price
Wuling Confero 1.5	Rp.128.800.000
Wuling Confero S 1.5 C	Rp.150.900.000
Wuling Confero S 1.5 L	Rp.162.900.000

According to the table above, it makes SGMW believe that its product will get a good response towards Indonesian people because it is pointed to the middle class and middle-low class consumer.<sup>45</sup> Then, in August 2017, Wuling Motors planned to launch its product to the automotive market. Furthermore, to compete for the automotive products from Japan and Europe, SGMW gives better specifications with low prices, and the Indonesian people will move to the Wuling motors as the priority to buy a new car.

Table 7. The increasing of Wuling Motor marketing in 2018<sup>46</sup>

Month	Amount (unit)
January	927
February	1.009
March	1.560

<sup>42</sup> Otomotif.kompas.com. op.cit.

<sup>43</sup> Ibid

<sup>44</sup> Oto.detik.com, "koq bisa MPV Wuling harganya murah meriah?" accessed from <https://oto.detik.com/mobil/d-358419/koq-bisa-mpv-wuling-harganya-murah-meriah>, retrieved on 04 November 2018 20.07

<sup>45</sup> Ibid

<sup>46</sup> [www.gridoto.com](http://www.gridoto.com), "China Bangkit Januari Sampai Mei 2018 Penjualan Wuling Terus Meningkatkan ", accessed from <https://www.gridoto.com/read/01251481/china-bangkit-januari-sampai-mei-2018-penjualan-wuling-terus-meningkat#!%2F>, retrieved on 7 October 2018, 17.14

April	1.720
May	1.765

According to the above table, the existence of Wuling motor as the new automotive car brand in the Low Multi-Purpose Vehicle Class (LMPV) has got serious attention from Indonesian society, and the amount to sell its product increasing from time to time.

Regarding the previous explanations, the primary strategy of Wuling motors to expand Indonesia automotive market is creating innovation that adjusted with the trend and the needs of the market, the distribution strategy and the service quality, and also develop the promotion to attract Indonesian people. In the other side, the consumer will consider in two aspects if wants to buy a car, first is the quality, and the second is the price. Therefore, Wuling Motors tends to find a middle position to release a car with good quality and low prices.

In the beginning, the brand of China's car products has a terrible image in Indonesia, because the quality is not as good as Japan and European car. In this case, SGMW tends to reconstruct the perspective of Indonesian people that its product has better quality than Japan and European car. However, the power of a brand image is significant to sell a car product of Wuling Motors, because it will influence the decision of the people to buy a car. According to the concept of cultural diplomacy, brand imaging is the perception that comes from the people about something. In the case of Wuling motors, the producer tends to create brand imaging for the car that has good quality, low risk, and friendly product for Indonesian People.

Regarding the data from "*Gabungan Industri Kendaraan Bermotor Indonesia*" (GAIKINDO) in January-April 2018, the automotive car brand from Japan reached 90% in the Indonesian market. Specifically, Toyota brand reached 113.854 units of total

selling, Mitsubishi 73.179 units, Daihatsu 70.479 units.<sup>47</sup> It means 9 of 10 cars in Indonesia are the product of Japan.

Furthermore, the policy of the Indonesian government to encourage the production of “Low-Cost Green Car” (LCGC) become good news for new car automotive producer. However, before Wuling decided to expand the Indonesian market, there are only two giant producers in LCGC such as Toyota and Daihatsu, because those brands can sell a car under the price Rp.100 billion.<sup>48</sup>

### *Efficiency Seeking*

Multi-National Corporations and the government of the host state will use the rational decision-making model in economic decision making to get their benefit.<sup>49</sup> Also, the same Multi-National Corporations will have a different effect on a country that has fragmented society and weak economy compared with a country that has a stable government and a balanced economy.<sup>50</sup>

Regarding the trade theory that used by the Heckscher-Ohlin, the model of general equilibrium in the production process explained that labor and capital are cannot mobile freely in the international level. Especially, the existence of internal taxes and tariffs playing a vital role to create decision-making of Multi-National Corporations.<sup>51</sup>

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<sup>47</sup> otomotif.antaranews.com, “Daftar merek mobil terlaris Januari-April 2018, Toyota teratas”, accessed from <https://otomotif.antaranews.com/berita/710367/daftar-merek-mobil-terlaris-januari-april-2018-toyota-teratas>, retrieved on 13 November 2018 18.34

<sup>48</sup> www.merdeka.com, “kisah lobi Jepang di Industri otomotif RI,” accessed from <http://www.merekeda.com/uang/kisah-lobi-jepang-di-industri-otomotif-ri.html>, retrieved on 04 November 2018 22.31

<sup>49</sup> Wilber Charles K, "Economics, Power, and Regulation of Multinational Corporations," Journal of Economic Issues, Vol. 8, No. 2 (Jun. 1974), page 45

<sup>50</sup> S. Nye Jr. Joseph, "Multinational Corporations in World Politics," Journal of Foreign Affairs, Vol. 53, No. 1 (Oct. 1974), Page 155

<sup>51</sup> Beladi Hamid and Frasca Ralph, "Multinational Corporations and Industrial Employment," Journal of Economic Integration, Vol. 16, No. 1 (March 2001), Page 67

Table 8. The Price of Labor in South East Asian Country<sup>52</sup>

Country	Labor price
Thailand	Rp3,90-4,17 million
Malaysia	Rp3,17-3,45 million
Indonesia	Rp1,45-3,91 million
Vietnam	Rp2-2,3 million
Philippine	Rp2,44-3,17 million

Base on the table above, Indonesia included in the country that has the lowest price of labor in Southeast Asia. Besides that, unlike other ASEAN countries that revises the minimum wage of labor in five years, Indonesia has the policy to revise the minimum wage in one year depends on the economic growth and inflation.<sup>53</sup> Therefore, it attracts the investor interested in Indonesia that provides the low price of labor to support the industry. Focusing on Indonesia, the standard of minimum wage extremely different depends on the location of industry. For example, DKI Jakarta becomes the province that has the highest minimum of wage which is reached Rp.3,65 million per month, and Yogyakarta becomes the province that has the lowest minimum of wage which is reached Rp.1,45 per month. On the other hand, the industrial regions like Bekasi and Karawang have a minimum of wage that reaches Rp.3,91 million per year.

Regarding the previous explanations, MNCs tends to minimize the cost of production to reach the maximum benefit. Therefore, SGMW will use a region that has a lot of labor and lowest the minimum of wage for example in Karawang and Bekasi region.

On the other hand, the Foreign Direct Investment of SGMW in Indonesia gives a positive impact on economic development, for example, provides job fields for 3000 Indonesian people. Moreover, the industry to produce Wuling car involved 20 local suppliers, and automotive industry from tier 1, tier 2, tier 3, and it can stimulate the

<sup>52</sup> www.inews.id, "Ini Perbandingan Gaji Buruh di Indonesia dengan Negara-Negara ASEAN," accessed from <https://www.inews.id/finance/read/109029/ini-perbandingan-gaji-buruh-di-indonesia-dengan-negara-negara-asean>, retrieved on 13 November 2018 19.19

<sup>53</sup> Ibid

industrial development in Indonesia. Moreover, partnership and licensing with the local companies is one of the strategies of MNCs and FDI to get more benefit in the foreign markets. Therefore, the effect of these strategies is encouraging the industrial chain that supports the development of MNCs itself.<sup>54</sup>

Furthermore, to provide skilled labor to produce a good quality of the car, SGMW also gives the educational program to the *Sekolah Menengah Kejuruan (SMK)* in Karawang. Therefore, this program can give the transfer of automotive knowledge and technology from China to Indonesia. Also, SGMW is also creating good relations with Indonesian people in the future.

Focusing the transfer of knowledge between MNCs and the Host State becomes the important source and issue in the term of competitive advantage.<sup>55</sup> Therefore the effect of the transfer of knowledge can encourage innovation, and develop new business initiatives.<sup>56</sup>

### *Strategic Asset Seeking*

Specifically, the differences between Foreign Direct Investment conducted by SGMW and others investment is the ability to control and manage the factors production such as natural resource, human resource, and market. Moreover, those factors productions supported by the management system and the policy of the Indonesian government become the strategic asset of SGMW to maintain its existence in the Indonesian automotive market. Moreover, the function of Strategic Asset-Seeking is to swallow the competitors, enlarge its product line, develop its technology to increase the production, and avoid the third company to have the same asset.<sup>57</sup>

Furthermore, regarding the “*Peraturan Presiden Nomor 44 Tahun 2016*” the Foreign Direct Investment of SGMW is included in the full investment. It means all of the risks will be the responsibility of SGWM, because of all of factors production asset

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<sup>54</sup> Cohen D. Stephen, *Multinational Corporations and Foreign Direct Investment*, Oxford University Press, 2007, page 119

<sup>55</sup> Nunes Frederico S, "Transfer of knowledge in Multinational Corporations (MNCs) on International Projects," *Journal of Advanced Management Science* Vol. 2, No. 3, September 2014, Page 228

<sup>56</sup> *Ibid*

<sup>57</sup> Cohen D. Stephen, *Multinational Corporations and Foreign Direct Investment*, Oxford University Press, 2007, page 71

wholly controlled by the company without involved Indonesian government. Also, base on article 18 about Foreign Direct Investment, the government of Indonesia only gives 30 years for SGMW to conduct its Investment in Indonesia, and then SGWM must renew its Investment procedure.

Specifically, in 2017, the rank of Indonesia in ease of doing business (EODB) increasing from 91 to 72. Moreover, regarding the World Bank, there are 7 indicators that make Indonesia in that position such as the simplification to register new business, electricity access, efficiency of business licensing, transparency of credit data, strengthening the minority investor, the fixation of credit access by credit bureau, and the development of electronic license for international trading.<sup>58</sup>

Regarding the previous explanations, Indonesia is included in a country that has friendly investment zone. Additionally, the cooperation between SGMW and the policy of Indonesian government in the foreign investment aspect can be triggering the automotive production itself. Therefore, SGMWs through Foreign Direct Investment will get a strategic asset to expand its market in the long-term period. Moreover, there is an economic and social beneficial effect that create MNCs in the host state.<sup>59</sup> Furthermore, the achievement in financial term of MNCs is the capability to gives what the public needs and wants, for example, provide good quality of goods and services in the competitive prices, release a new product, and minimize the cost production.<sup>60</sup>

## **Conclusion**

In this globalization era, the existence of Multi-National Corporations as the non-state actor has the same level as the states in the world. Moreover, the capability of Multi-National Corporations to influence the policy and the economic growth of the host government becomes an important issue among the scholars. Additionally, regarding Michael E. Porter in his book “Competitive Advantage of Nations (1990)”, assumed that Multi National-Corporations had entered the era of management strategy

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<sup>58</sup> [www.jawapos.com](http://www.jawapos.com), “dalam kemudahan investasi, Word Bank aku in Indonesia banyak berubah”, accessed from <https://www.jawapos.com/ekonomi/01/11/2017/dalam-kemudahan-investasi-world-bank-akui-indonesia-banyak-berubah>, retrieved on 14 November 2018 13.39

<sup>59</sup> Cohen D. Stephen, *Multinational Corporations and Foreign Direct Investment*, Oxford University Press, 2007, page 283

<sup>60</sup> *Ibid*, page 286

and international business.<sup>61</sup> Moreover, the character of MNCs that consist of trading activity, resource extracting, production, and marketing system result in a positive impact for the host state.<sup>62</sup>

Regarding the four principles of Multi-National Corporations to conduct Foreign Direct Investment for example like Strategic Asset Seeking, Resource Seeking, Market Seeking, and Efficiency Seeking.<sup>63</sup> SGMW decided to conduct Foreign Direct Investment in Indonesia because of four reasons. First Indonesia has a lot of natural resources, primarily to provide cheap electrical energy to run the production process. Second, Indonesia has a significant amount of population and determine the potential market for automotive products. Third, Within Southeast Asia, Indonesia included a state that has the lowest minimum wage and can decrease the cost production. Fourth, the government of Indonesia supports the development of Foreign Direct Investment by giving a natural regulation and requirement; however, it can guarantee Multi-National Corporations to control all of productions factors as the strategic asset to get more benefit.

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<sup>61</sup> Rizaldi Ruri, "Ekspansi MNC Starbucks Coffee di Asia (StudiKasus: Cina), Jurnal JOM FISIP Vol.2 No.1, February 2015, Page 4

<sup>62</sup> Ibid

<sup>63</sup> Cohen D. Stephen, *Multinational Corporations and Foreign Direct Investment*, Oxford University Press, 2007, page 66-70

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