CHAPTER I
INTRODUCTION

1.1 Background

China is one of the growing state industries in the world; the industry included in electronic, automotive, fashion, food, and medicine. However, China has an essential role in the world economy and international politics, and it becomes the significant development of China since the cold-war period.\(^1\) Besides that, China starting to develop the most significant economic power after the suggestion of Deng Xiaoping to created a big market in 1970.\(^2\)

Therefore, 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.\(^3\) Moreover, it influenced by the economic 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.\(^4\)

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

---

\(^1\) Robert G. Sutter, Chinese Foreign Relations, Rowman & Little Field Publishers Inc, 2010, page 69
\(^2\) Cipto Bambang, Strategi China Merebut Status Super Power, Pustaka Pelajar, 2018, Page 18
\(^3\) Ibid
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.\(^5\)

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.\(^6\) Moreover, there are three indicators of the survey, such as natural resources, market efficiency, and strategic asset.\(^7\)

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 billion in 2016 or 5.3% from the total investment of China in Asian states reached US$ 909.44 billion.\(^8\) Specifically Indonesia, compared with those three Southeast Asian states, Indonesia selected as

---


\(^7\) Ibid

\(^8\) 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
the state to receive the foreign direct investment of SGMW.

In 2015 China decided to invest 108 million dollars to Indonesia, and in the 2016 increasing became 110 million dollars. Specifically, China through the investment of SAIC General Motor Wuling (SGMW) in the automotive product in Indonesia gives a new perspective in the policy of China’s Government to limit the amount of investment in overseas.

Table 1. 1 The Increasing of Wuling Car selling in the 2018

<table>
<thead>
<tr>
<th>Month</th>
<th>Amount (unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>927</td>
</tr>
<tr>
<td>February</td>
<td>1,009</td>
</tr>
<tr>
<td>March</td>
<td>1,560</td>
</tr>
<tr>
<td>April</td>
<td>1,720</td>
</tr>
<tr>
<td>May</td>
<td>1,765</td>
</tr>
</tbody>
</table>

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. The strategy of Wuling motor to compete for other automotive car brands has been successful. Wuling motors are the brand of SAIC-GM-Wuling Automobile Company Limited (SGMW). This company is the unity of SAIC Motor Corporation Limited, General Motors (China), and Guangxi Automobile group. Through SAIC General Motor Wuling (SGMW) China tries to increase its existence in the automotive industry in Indonesia.10

---


10 Ibid
The amount of SGMW investment in Indonesia is about USD 397.4 million. 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. 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.

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 car also using Global Manufacturing System (GMS) technology and became the international standard of car manufacture in around the world.

In the marketing strategy, SGMW also provides more than 50 dealers and guarantee the availability of its car components. 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 SGMW and SMK (Sekolah Menengah Kejuruan) in Karawang. The purpose is to prepare

---

11 Siaran Pers Badan Koordinasi Penanaman Modal, BKPM Kawal Investasi Otomotif RRT, 7 January 2017
14 Ibid
15 Ibid
the students to be ready as the worker in the SGMW automotive industry.\textsuperscript{16}

On the other hand, the domination of automotive car brand from Japan became the challenge for SGMW in Indonesia. It means the automotive car brand from China, especially Wuling car is the second options to buy a new car in the Indonesian society; it caused by the image of Japan car has more experience in Indonesia for more than 50 years ago. Moreover, it is determined by the percentage of Japan car reach 90% in Indonesia.

Besides that, the policy of Low-Cost Green Car (LCGC) in Indonesia will encourage SGMW to be more competitive with other car brands. Specifically, Wuling car is not included in the LCGC program, and it makes Wuling car does not have the opportunity to get incentive from the Indonesian government. In contrast, the car product from Japan starting to use this opportunity to enlarge its hegemony in Indonesia automotive market.

Moreover, the Image and prestige factors of China’s car it’s related with the brand imaging of SGMW. In contrast, car product from Japan and Europe has better image compared with China’s car. Also, having a car brand from Japan and Europe can increase the social status of people in Indonesia.

1.2 Research Question

According to the previous explanations, the writer offers this research question?
“Why SAIC General Motor Wuling (SGMW) decided to invest foreign direct investment in Indonesia?”

\textsuperscript{16} Ibid
1.3 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.\(^{17}\) 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.

Furthermore, the planning that conducting by MNCs is the fundamental thing to manage its branches in overseas.\(^{18}\) Besides that, the planning strategy completed by organizing, actuating and controlling.\(^{19}\) Therefore, according to the opinion of Steiner (1969, 1979), planning divided into three categories, such as planning strategy/long-range planning, medium-range planning, and short-range planning.\(^{20}\)

In the perspective of international political economy, MNCs in the new actor in the international relations, moreover MNCs is limited by the international business studies that expand the international society through foreign direct investment. Therefore, the development of international

\(^{17}\) Tolentino Paz Estrella, Multinational Corporations "Emergence and Evolution," Routledge, 2000, Page 3
\(^{18}\) Situmorang R. James, Journal "Perencanaan Jangka Panjang di Perusahaan Multi-National", 2011, page 77
\(^{19}\) Ibid
\(^{20}\) Ibid
relations studies put MNCs as the non-state actor and became one of the prominent actors.

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.  

Besides that, in the 18th and 19th century liberalism recognize there is a contradiction between war and trade. However, war is the instrument of a state to reach trade goals. On the other hand, free trade is the efficient and peace way to increase the national economic interest.  Furthermore, liberalism will released capitalism to explain the role of capital and others supporting factors to produce products and control the market. Then, the role of capitalism as the economic system can influence the relations between MNCs and state. Specifically, there are three points of capitalism, such as freedom, individual, and free market.

---

21 Aida Ridha, Liberalisme dan Komunitarianisme: Konsep tentang Individu dan Komunitas, Demokrasi Vol. IV No. 2 Th. 2005, page 96
22 Linklater Andrew & Burchill Scott, Teori-teori Hubungan Internasional, Penerbit Nusa Media, 1996, Page 46
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.\textsuperscript{23} 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, MNCs became the leading actor in the international business that conducts the economic interactions among the international world. Then, one of the functions of MNCs is making international transactions and manages the international market system, for examples like the activity of export and import. Besides that, MNCs tends to make cooperation with the government and others MNCs to create friendly investment zone. The meaning of friendly investment zone is the government creates a policy that supports and protect the development of Investment from MNCs.

Looking into our daily life, the role of MNCs almost exists in all of the aspects, and it is starting from primary needs to tarsier needs. It means MNCs has a strong influence in the local economic system and has an essential function in the international relations and globalization. In contrast, MNCs also underlined as one of the factors in the global economic crisis, because it will create international market dysfunction.\textsuperscript{24}

\textsuperscript{23} Dorrenbacher Christoph & Geppert Mike, Politics and Power in the Multinational Corporations, Cambridge University Press, 2011, page 4
\textsuperscript{24} Ibid, page 3
Furthermore, to create a functional and sustainable economic relation between MNCs and a state, the existence of economic diplomacy is significant. Economic diplomacy is the relation between two states or more to achieve economic interest, especially in trading and investment. Therefore, economic diplomacy will involve MNCs as the non-state actor, the government of the state, and the society as the market. Additionally, economic diplomacy is the instrument of domestic politics to fulfill its economic needs.

Specifically, Multi-National Corporations playing a vital role in the global economic system, because it gives 1/4 % for global economic output, and 1/3% for international trading. Additionally, there is a connection between MNCs and FDI, which is MNCs use FDI to strengthen its position in other countries. In the other meaning, FDI is the instrument of MNCs to enlarge its market. According to the development of FDI, it will invest in productive assets, for example, land, factory, and building, but today FDI also tend to invest the innovation of technology. Regarding the perspective of a state, FDI is more beneficial than pure money investment, because of FDI has a long contract period with a country, and has more cooperation in a technological transfer. Therefore, a company that conducting FDI will not terminate the investment contract with a state easily.

The definitions of FDI is the financial investment that conducts by a company from one state to others state.

---

26 Ibid
27 Ibid
However, the development of FDI itself does not only gives financial investment, but also the transfer of Technology and control the production factors itself. In the case of SGMW investment in Indonesia, when it decided to gives financial investment, indirectly it will transfer the automotive technology from China to Indonesia and also SGMW will control the production factors, for example like land, natural and human resources. On the other hand, FDI is defined as the international capital flow; it means FDI is similar with money movement from one state to others state.\(^\text{30}\)

In addition, the Indonesian government through FDI can trigger the development of a national economic level, for example in the increase of productivity, national income, and the number of Indonesian export. In general, FDI is one of the tools to encourage the activity of the international business, because of it will stimulant others state that don’t have enough capital to run their international business.

Moreover, the dependency of Indonesia to the International trading to fulfill its national interest is still big enough. According to the opinion of Salvatore (2007), international trading is relating to the capital input and capital output in a country. Therefore, in the process of international trading, there is a production factors exchange from exporter country to importer country that caused by the differences of production cost.

However, the purpose of MNCs and FDI are to get more market and benefit for its product overseas, and one of the ways is to decrease the cost of production factors. For example, MNCs and FDI will choose the developing state that has low labor payment, especially if the production process using a human skill. Besides that, MNCs and FDI also will choose a state that has a stable condition, not in crisis and war. However, the power of MNCs and FDI in the others state

\(^{30}\) Ibid, page 118
determine by two characters; first the capability to control the resources and the second is the capability to move and enlarge its market from one state to another state easily.

Furthermore, MNCs and FDI have many options to put its capital overseas, and it is base on the efficiency of production factors, market, and benefit. In contrast, the position of a host state as the receiver of FDI that given by MNCs has less power and capability to choose MNCs and FDI; it caused by the needs of capital flow and financial status of industrial sector depending on the FDI itself.

In the perspective of China, two reasons support the development of FDI. First is the government supports the National Corporation to conduct FDI, and second the capability of Private Corporation to conduct FDI itself.\(^\text{31}\) Specifically, the reason of the government to support FDI is related with the foreign policy, according to research of Rhodium Group and MERICS explains the investment that is conducting by Chinas government become the priority agenda in the diplomatic meeting, it caused by the high demand of the international market on Chinas product and the surplus of its trading.\(^\text{32}\)

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


\(^{32}\) Ibid
the number of competitors. Moreover, the purpose is to against the competitor, enlarge the market for its product, and enrich its technological power. 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.

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 the other meaning, the significant population will determine the big market for MNCs. 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

---

33 Ibid  
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 resource and the dependency between MNCs and host country, especially developing states.\(^\text{36}\)

In the case of Wuling Motors, home country is China, and host country is Indonesia. In this case, the decision of Indonesia to open the investment for Wuling Motors can help the development of the MNCs, because it will enlarge the market and decrease the production cost of MNCs. On the other hand, Indonesia as the host country will get some benefits; for example, it can increase the tax income in Indonesia, decrease unemployment, transfer of technology, and enrich foreign investment. However, the negative impact of MNCs is creating consumerism and dependency among the Indonesian society to the Foreign Product.

According to previous explanations, the interest of SGMW to invest in Indonesia is to get more benefit, because Indonesia is one of the vast markets that very compatible to sell automotive product and Indonesia also will provide the production factors such as natural and human resources. However, to provide low prices for each product, SGMW tends to decrease the production cost and then build the automotive factory in Indonesia. Besides that, the strategic position of Indonesia in South East Asia became an important reason, because Indonesia can be the central factory of Wuling Motors and more efficient to distribute to another Asian country. However, the labor price in Indonesia is not too high

\(^{\text{36}}\) Ibid
and will create a balance of benefit between Indonesia and SGMW.

Moreover, the reason why SGMW as the MNCs emerges is that the plan to existing in Indonesia is in the long term of period. Therefore, this is the strategy to make Indonesian people closer to its product and perhaps will create a new option to buy a new car and compete its competitor.

1.4 Hypothesis

According to the previous explanations, SGMW as Multi National Corporations and the result of liberalism and capitalism has four reasons to conduct foreign direct investment.

1. Indonesia is one of the states that has friendly investment zone.
2. Indonesia has a lot of natural resources.
3. Indonesia had a significant population and became the potential market of the automotive product.
4. Indonesia has a low price of labor.

Moreover, regarding to liberalism and capitalism approach, SGMW can freely to maintain and develop its capital and technology in Indonesia.

1.5 Research Methodology

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 other thesis.
1.6 The Level of Analysis

In this research, the writer will examine the reasons and factors of SGMW to conduct Foreign Direct Investment in Indonesia. Moreover, the writer will focus on the decision and policy that conducting by SGMW and the government of China and Indonesia to support this FDI. Besides that, to reach proper research, the writer will take data and information from 2015 until 2018.