

**The Expansion of China's MNC into Indonesia:
A Case Study of Xiaomi Investment in Indonesia**

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ABSTRACT

The Chinese state is well known for its strong economic development. China is among the countries that developing rapidly in the economic field. Now China is strong enough to compete with large countries in the world of economy. One of China's strategies to strengthen their economy is by they expand their market, one of it is by relying on China-owned big business for opening an investment branch of their company in other countries, especially Indonesia. Indonesia is one of the destination countries that China is very interested in as a place to expand the companies they own. China as one of the world's economic giants, see Indonesia as a suitable place to invest. One of China's company that takes a big step to open a large business in Indonesia is Xiaomi. A private electronics company from China were founded in 2010 and now is the third largest smartphone distributor in the world. In 2017 through Foreign Direct Investment and Multinational Corporations, China began to open and develop Xiaomi in Indonesian market place. This research uses descriptive analysis method with secondary data collected from book, journal, website and other credible resources. In conclusion, the researcher will provide information on the development of China's expansion in Indonesia market place.

Keywords: Multinational Corporations, Foreign Direct Investment, China, Indonesia, Xiaomi Company.

Background

In this modern era, society already familiar with the foreign brands entering into their country. There are so many overseas products entering their territory and now even have become part of their daily life and use it every day, all of that can happen through Foreign Direct Investment. According to the International Monetary Fund (IMF) and The Organisation for Economic Co-operation and Development (OECD), the meaning of direct investment is to make decisions by an entity from an economy (direct investor) within a company that is a source in another economy or a direct investment company (Duce, 2003). One of the strategies of foreign investors to invest in other countries is through Foreign Direct Investment, where the home countries open their companies to the countries they interest. There are a lot of good impacts of FDI. One of them is to get profits as big as possible. Also, there is a strategic element that is implemented. Likewise with the aim of diplomacy to approach a country so that the relationship between the home country and host country is established.

Multinational Corporation also uses Foreign Direct Investment strategy to invest in other countries. According to Franklin Root, Multinational Corporations are the parent companies involved in overseas production through their affiliates located in several countries. They have a goal to control their related policies to host countries directly. Not to speak of, the implement strategies business in production, marketing, finance and staffing that goes beyond national boundaries (Root, 1990).

There are many developed countries are spreading their wings and opening their companies to developing countries. Indeed, MNC is a tool that can boost the economy of a country, especially for the home country. One of them is China. After changing their economic policies in the 1990s during the reform period, China turned into a stable country.

Not only invite foreign companies to come to their country, but China also began to be active in foreign trade. Until now China has become a country that has an excellent economic strategy even now China is a country that is able to compete with a superpower state, the United States. They have giant companies that have spread throughout the world. One of them, according to Forbes (Rapoza, 2018), stated that China has tech companies namely HNA technology, which is now getting bigger. Asian Alibaba Powerhouse e-commerce founded by billionaire Jack Ma, now a giant company that has spread throughout the world. Likewise, the biggest car company in 2018, China occupied the eight biggest companies beating the United States and Japan, which only had three companies, based on the Forbes Global 2000 List (Touryalai, 2018).

As a country with a robust economic reputation, China also has a large company that they have, and they open around the world. One of the countries that have now occupied by China is Indonesia. Currently, Indonesia is a country that accommodates the massive investment in China. A representative from the Chinese Embassy for Indonesia, Wang Liping, explained that Indonesia is one of the countries that have the convenience of doing good business. Therefore, China also makes Indonesia as a destination for investment. "Regulation in Indonesia is quite good, the government is starting to provide facilities such as tax holidays, it is a revolutionary policy to encourage investment in Indonesia," Wang said at the Capital Investment Coordinating Board Office, Jakarta, April 4, 2018 (Laucereno, 2018). In this case, China's approach to Indonesia in addition to business issues, they also see Indonesia as a good investment partner so that China's economic diplomacy is implemented in Indonesia. Therefore, there will be a good relationship not only in the present but also in the future between the two countries.

Indonesia also advanced in its economic field. MNC indirectly affects both home and host country. Not only China is profitable by opening a company in Indonesia. Because of

MNC, Indonesia gets revenue for the country. Indonesia also needs support from foreign company with job vacancy that can help boost the country income. Based on Capital Investment Coordinating Board of Indonesia data, China ranked 7th out of the top 10 countries investing in Indonesia for the 2012-2017 period, with a total of 5,365 projects with an investment of US dollar 7.8 billion (Laucereno, 2018).

One of the fastest growing Chinese companies in Indonesia is the mobile phone company, Xiaomi. They were founded in 2010 and now is the third largest smartphone distributor in the world. Although they entered Indonesia recently in early 2017, they have dared to open a large branch in Indonesia. Therefore their development is very fast compared to other brands. Chinese technology vendors, Xiaomi, now ranks second in the ranks of major smartphone vendors in Indonesia. Canalsys smartphone shipping estimation report data which is updated monthly, Xiaomi's market share in Indonesia in the first quarter was 18.3 percent. This figure rose 145.5 percent compared to the first quarter of 2017. Afterward, since the last quarter of 2017 until the first quarter of 2018, Xiaomi's market share increased by 105.8 percent (Wardani, 2018). The following is data stored for the number of smartphone markets in Indonesia, sourced from Canalsys Estimate.

Table 1.1 Indonesia smartphone market – Top 5 vendors. (Source: *Invalid source*)

Indonesia smartphone market – Top 5 vendors					
Rank	Vendor	Q1 2017	Q1 2018	Growth	Share
#1	SAMSUNG	2.0 million	2.3 million	17.2%	25.5%
#2	Xiaomi	107,000	1.7 million	1455%	18.3%
#3	OPPO	1.5 million	1.5 million	5.2%	16.8%
#4	VIVO	510,000	600,000	16.7%	6.5%
#5	smartfren	780,000	520,000	-34.0%	5.6%

Source: Canalsys estimates, Smartphone Analysis, May 2018



This thesis examines that after the reforms in 1990 China was like getting out and getting up from where they are and now spreading their wings around the world through FDI and MNC, Indonesia is now will remain as one of China's priority of investment. With a short time, China with its brand of mobile phone "Xiaomi" has now proliferated in Indonesia, and their company is excellent and trusted here. Hence, this thesis explains how Chinese investment in Indonesia can develop from year to year and explain the strategy that China has in developing one of their MNCs in Indonesia, Xiaomi's mobile smartphone.

Theoretical Framework

1. Theory Internationalization of Business

Internationalization of business is a theory that explains business expansion that can spread throughout the world with a focus on getting maximum profit. Globalization as a form of the process of international integration that occurs because of the exchange of world views, products, thoughts, and other aspects. Starting there, the ideas began to make a trade out. The process of globalization influences and is influenced by business and work procedures, economics, socio-cultural resources. With globalization, theories in international business have also developed. The previous international business theory which is a classical theory is an absolute and comparative advantage which then undergoes internationalization, afterward develops into a theory and discusses how companies play a role in the business of a country which is then called modern theory.

According to John Fayerweather, Multinational Firms after the tremendous post-war expansion become one of the leading institutions for raising the economy even in the field of international business. Multinational corporation according to John has two basics roles. First is the transmission of resources; especially from its technological and managerial skills. Second Multinational Firms as an organization of

unified multi-nations economics activities. Especially when it gets a significant profit from the global integration of research and development (Fayerweather, 1972).

This theory is suitable to be used in this thesis because it deals with international business, which is expanding the business outside the country. As one example of this is Xiaomi, a smartphone from China that has now expanded widely in the world, especially Indonesia. All of that can happen because of the Internationalization process in their business and assist by Foreign Direct Investment and Multinational Corporations.

2. The Concept of Multinational Corporations (MNC)

According to Stephen D. Cohen, Multinational Corporations (MNC) is a business entity that has fulfilled specific legal requirements and has approval documents by national government officials and authorities local government in the country where the new company was founded. MNC cannot be separated from other interrelated concepts, namely Foreign Direct Investment (FDI) or called Foreign Direct Investment in Indonesian. FDI is the main point of the process for a company to be multinational. Considering the many variables related to various types of multinational (Cohen, 2007)

MNC operates in several industrial sectors, follows different business strategies, and invests in different host countries. It is naive to expect a reason to provide a meaningful and comprehensive answer to the question of why FDI occurs. Four reasons can answer this question, namely obtaining natural resources, protecting or expanding sales in a lucrative market, seeking low-cost production for export platforms, or obtaining strategic assets. FDI is treated as an undifferentiated international capital flow, which is generally the same as other cross-border money movements. MNC is seen as another variant of capital arbitration. There is an

assumption that a company moves funds from one country to another for the same reason as a bank or individual investor that is to obtain a higher rate of return than can be obtained in the country of origin (Cohen, 2007). MNC can spread its wings in more than one country, of course after reaching an agreement between the MNC and the central and local governments in the destination country legally to cooperate.

Multinational Corporation has become an essential role for China as one of the actors to dominate the Indonesian marketplace. Xiaomi is one of the MNC smartphones owned by China and has now proliferated in Indonesia and the world.

Hypothesis

From the research entitled "**The Expansion of China's MNC into Indonesia. With Study Case Xiaomi Investment in Indonesia**" the author tries to draw the hypothesis as follows:

1. China views Indonesia as a significant market that encourages corporate investment and dominates the Indonesian market. The development of Chinese investment in Indonesia can be seen increasing every year. There are the trust and commitment within China and Indonesia. Therefore there is a functional interaction exists in carrying out bilateral relations between countries. One of the examples is shown by the development of Xiaomi's company that was already spreading around Indonesia just with a short time.
2. MNC's Xiaomi investment in Indonesia strengthens the dominance of Chinese investment in Indonesia, which has been carried out in general, namely in the Southeast Asia region and specifically in Indonesia. There is a strategy implemented by Xiaomi in expanding their company in

Indonesia, one of the strategies this Chinese cellphone company had is they bravely expanding their wings in the Indonesian market. Eventually, now Xiaomi ranked second in the largest mobile phone vendor in Indonesia.

Research Methodology

This research is an exploratory study with literature. A descriptive exploratory method is research that describes a real phenomenon. Therefore, research that describes qualitative methods by collecting secondary data through literature studies. In presenting the data, the author uses literature studies in data collection from various sources such as books, research reports, newspapers, internet sites, and various other related media to support the research.

This study uses unit analysis at the group level, which the author tries to explain the facts of intergroup behavior from a phenomenon under study. The focus of the analysis in this study is MNC China which now exists in Indonesia and the impact that has been given to Indonesia. Whereas in the explanation unit, the author tries to find out how China develops and dominates its economy through one of China's MNCs in Indonesia, namely Xiaomi.

Result and Discussion

China knows that Southeast Asia or known as ASEAN is one of the strategic regions to expand their markets. China has an interest and ambition to expand their business and market there especially in Indonesia, as a country that has the largest market in Southeast Asia.

A. The Development of Chinese Investment in Indonesia

ASEAN is required to accelerate integration in order to become a new economic power. Nevertheless, ASEAN still cannot extricate from China which grew as one of the most significant economic power in the world. China is aggressive in seeking international partners, and ASEAN was chosen because in addition to having a large captive market which

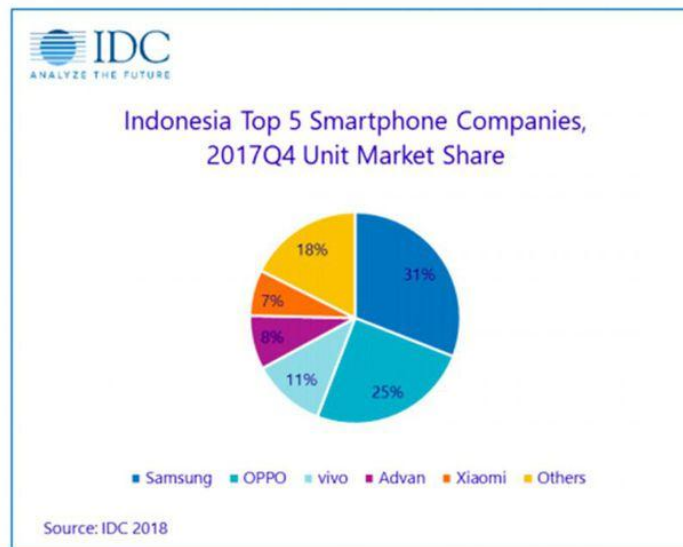
is around 630 million of the world's population resides in ASEAN, also countries in this region do not spawn particular political policies that weaken China's ambitions. It can be said that there are a mutualism and dependency relationship between the two, where ASEAN needs China to boost its economic progress. Likewise for China, ASEAN as a supporter of China's economy and politics. China's trade volume to ASEAN, according to Jiang Qin (Shekhawat, 2017), reached US \$552 billion in 2016, a 56-fold increase from the first cooperation in 1991. The number made China-ASEAN trade relations the third largest in the world. "Even so, with the total direct investment of Chinese companies to ASEAN whose value during January-June 2017 reached the US \$ 696.2 billion," he explained. Indonesia as the largest country in Southeast Asia has enough economic power to make China interested in investing in it. Moreover, with good relations between the two, make the bonds stronger. Relations between Indonesia and the People's Republic of China have passed the ups and downs in terms of social and political dynamics that have occurred in both countries. Southeast Asia has become the primary target for Chinese investors. Among the countries in Southeast Asia, Indonesia has become a special attraction for China to invest and open their companies in Indonesia.

B. The Rise of Chinese Investment in Indonesia

One of China's strategies in dominating the Indonesian market is through expanding its big companies and Multinational Cooperations. There was a lot of Chinese businesspeople who open their companies in the Indonesian market, one of the big Multinational corporations owned by China is the Xiaomi smartphone brand. Xiaomi is one of the popular smartphones owned by China which is under the auspices of their technology company, Mi. Mi companies are quite successful companies because the company has proliferated in a relatively short period in Indonesia. The success of the Mi Company is proven not only within Indonesia but has spread widely throughout the world. on August 27, 2014, Xiaomi officially announced its

launch in Indonesia. The launch event was held at the club Moovina and was immediately attended by two Xiaomi officials, Co-Founder of Lin Bin and Vice President of Xiaomi Global, Hugo Barra at Plaza Indonesia on 27 August 2014 (Galih, 2014). Redmi 1s is the first smartphone product from Xiaomi, Xiaomi sold 5,000 pieces for this first smartphone sold first on Lazada's online website on August 27, 2014, at 6 pm. Xiaomi's entry into the Indonesian market also achieved great success, the competitive market which was initially only controlled by Samsung, Asus, Apple, Advan, Polytron, Vivo, and Oppo also finally arrived guests from China, namely Xiaomi. Although initially doubted by the Indonesian people, slowly but surely Xiaomi managed to attract the hearts of the Indonesian people. Xiaomi's success can be seen from their achievements in winning the Top 5 smartphone companies in Indonesia. Report from Markey Analyst Associate IDC Indonesia said that Xiaomi was included as the Top 5 smartphone company in Indonesia in the fourth quarter of 2017 (IDC, IDC Indonesia: 4Q17 Smartphone Shipments Fall 9% Year Over Year and Closes the Year Flat, 2018).

Figure 3.1 Indonesia Top 5 Smartphone Companies. (Source: (IDC, IDC Indonesia: 4Q17 Smartphone Shipments Fall 9% Year Over Year and Closes the Year Flat, 2018))



From the pie chart above, it can be seen clearly that Xiaomi ranked fifth in the fourth quarter of 2017 following other well-known smartphones that already existed in Indonesia. In 2018 Xiaomi was ranked second as the Top 5 smartphone companies, up three ranks in just one year. "Unlike Oppo and Vivo whose strategy is to boost marketing campaigns, Xiaomi precisely focuses on providing competitive smartphones in terms of specifications and prices, so that people can set aside more money", as IDC analyst Risky Febrian said (IDC, Shipments Post New Record High with Xiaomi Disrupting the Market into a New Phase, 2018).

Figure 1.2 Indonesia Top 5 Smartphone Companies by Year over Year (YoY). (Source: (IDC, *IDC Indonesia: 2Q18 Smartphone Shipments Post New Record High with Xiaomi Disrupting the Market into a New Phase, 2018*))



In smartphone sales, Xiaomi uses a unique strategy that is not like market trends. Xiaomi Inc. has set the price of their cellphones almost the same as the cost of making the cellphone itself, without sacrificing quality and performance. One of their strategies to strengthen their markets in Indonesia according to the interview with Lei Jun with *The Harbinger* (Harbinger, 2018), there are:

1. Smart in determining prices

Xiaomi products always have a much lower price than their competitors. However, Xiaomi always offers the best hardware quality and premium software support. Xiaomi has a sales strategy where its products target the middle class. The middle class is the most potential because the number of middle-class people is enormous.

For example in Indonesia, where there are a lot of middle-class consumers, most of them are tempted to have the latest iPhone or Samsung Galaxy, but most of the Indonesian people cannot afford it. Then Xiaomi presents a cheap smartphone

with quality that is no less tempting with the iPhone and Galaxy. Therefore many Indonesians who are interested in buying Xiaomi because of the affordable price for them and the performance of the smartphone are not inferior to other smartphones such as Samsung with Apple.

2. Xiaomi Does not Take Advantages Too Big

Xiaomi products are usually on the market for a longer time than Apple and Samsung products. The average smartphone manufacturer launches the latest version of the previous smartphone after one year. However, Xiaomi just released a new smartphone until two years later after the smartphone was previously released. The strategy is, the price of smartphone electronic components will decrease in price in 2 years. This cycle always happens, and the price decrease reaches 90%. This makes Xiaomi able to produce new smartphones with improved specifications but still has a price that is not much different from the previous smartphone.

3. Xiaomi Known Through Mouth To Mouth

Word of mouth promotion is the most effective and potential promotional media ever. Xiaomi has yet to advertise like other smartphone manufacturers. Xiaomi directly sells quality products at low prices; thus buyers will feel disbelief, and it turns out that buyers are satisfied and review them to their friends and family (Harbinger, 2018).

4. Recruiting the Right People

Xiaomi was initially only known in China, recruited Hugo Barra as Vice President. Hugo Barra himself was initially a VP of product management and product spokesperson for Android products from Google. Other people might think Xiaomi is

too grandiose by recruiting Hugo Barra, but even though Xiaomi is still based in China, the company is worth \$ 10,000,000,000 and has an extraordinary ambition, which is selling 20 million smartphone units per year. From here we can see, Xiaomi wants to continue to expand and increase its existence internationally, by recruiting Hugo Barra who is experienced in marketing Android smartphone products from Google, hopes that Xiaomi may be more easily achieved.

In 2014 Xiaomi also recruited Manu Jain to become the general manager and head of operations in India. You know that India is a country that is densely populated and its people will like Xiaomi products, India is also famous for online media that exists throughout the world.

5. Flash sale and Crowdfunding

Xiaomi relies on Flash Sale to promote their smartphone. For example, is what happened in India. Xiaomi once flashed Hongmi products in India with only a price of Rp. 200 silver only, this flash sale only lasts 90 seconds, so many Indian citizens are competing to buy this smartphone. It also happened in Indonesia, Xiaomi held frequent flash sales; one example is the 2018 National Flash Shopping Day conducted at Indonesia's online store. In order to enliven the National Shopping Day 2018 on November 11, 2018, Xiaomi provides attractive offers for its users, namely a discount for its users (Rakasiwi, 2018).

6. Xiaomi Does Not Have Customers, Xiaomi Has Fans

Google may have a client, Microsoft has customers while Xiaomi has Fans. Xiaomi has a forum in China that contains 30 million members with 400 thousand new posts every day.

The many interests of Indonesians with Xiaomi smartphones are because they are sophisticated but are very easy to get because they have very affordable prices. The strategy possessed by Xiaomi companies in expanding their market in Indonesia is also quite brave because they open many branches throughout Indonesia so that it is easily accessible to residents. The success of Chinese foreign companies in the Indonesian market allows them to dominate the country's economy.

C. Impact of Expansion, Domination of China in Indonesia

The rapid growth of Xiaomi sales in Indonesia has a significant influence on the existence of Chinese investment in Indonesia. By looking at Xiaomi products that having a high quality and affordable prices, Indonesians tend to prefer products owned by Xiaomi which means products that are owned by China. Before specifically expanding its investment in the electronics sector, China had previously invested in Indonesia in other sectors. Starting from mining, transportation, construction and real estate, plantations, to power plants. As for investment in the electronics sector, China is increasing because they gained trust by Indonesians about the products they have. This can be seen by the continued increase and success of China's product electronics, not only smartphones but also other products such as televisions, air conditioners, and others. When compared to American-made, Indonesian citizens prefer to use products produced by China. Also quoted in the Kumparan.id many reasons make many Indonesians choose authentic Chinese products (Kumparan, 2018) one of it is because China has regained their reputation as a country that produces excellent goods and the prices offered are affordable. Therefore, most buyers are from middle to lower residents. Furthermore, the strategy possessed by China is very clever because they have chosen to sell goods that can be bought by almost all Indonesians because more Indonesian citizens are of middle to lower economic status. The development of Xiaomi's investment in Indonesia is increasing. Xiaomi smartphones state that the Indonesian market is an essential

market for the company. So the company is also trying to maintain its market share in Indonesia. Xiaomi Chew Shouzi's Chief Financial Officer (CFO) stated that with a large population, Indonesia is a potential market to be worked on in the future. Xiaomi sees Indonesia as a market that has the potential to grow. The concept and strategy at affordable prices seem to be applied again for Xiaomi in the following years. "We want to provide products that are world-class, innovative but still able to reach many people," Chew said (Fida, 2018).

Table 0.1 Comparison of Mobile Vendor Market Share in Indonesia. (Source: (Statcounter, 2018))

No	Products Name	Country Origin	2018Q1	2018Q2	2018Q3	2019Q1
1	Samsung	South Korea	30,48%	27,31%	26,07%	26,89%
2	Xiaomi	China	15,57%	19,27%	20,12%	21,54%
3	Oppo	China	12,21%	14,29%	15,18%	17,4%
4	Apple	US	3,98%	5,34%	5,24%	5,86%
5	Lenovo	China	3,98%	3,13%	2,74%	2,48%

Here is the data of Mobile Vendor Market Share in Indonesia. This data is summarized from the StatCounter website, Globalstats (Statcounter, 2018). If seen from the data above, smartphones from Korea, namely Samsung, occupy the first position as a vendor with the largest market share in Indonesia. Afterward, in the second position occupied by smartphones from China, Xiaomi, even though it was relatively new to Indonesia, in 2014, but Xiaomi has topped other smartphone products. Not only Xiaomi, other smartphone products from China such as Oppo and Lenovo also dominate the Indonesian market, which is in positions 3 and 5. While Apple is in position 4. From the above data shows not only Xiaomi but also Oppo and

Lenovo as products from China who have succeeded in dominating the Indonesian market. Although not occupying the first position and replacing Samsung, but if the percentage added together, smartphone products from China have dominated the Indonesian market, beating South Korea and the United States. Market share of smartphones from Chinese products, if added together, the total amounts of percentage is reaching to 41.42%, almost double the market share of smartphones originating from Korea, and seven times if compared to products from the United States.

China itself in doing business in Indonesia uses two strategies, namely through investment and direct trading. Whereas if through their multinational corporations namely Xiaomi, China is more likely to invest more, it is because they see the country of Indonesia as a country that has a stable business market and will bring huge profits to Xiaomi and China. Thanks to Xiaomi, Chinese investment in Indonesia has become stronger, especially in the electronics sector also smartphones. Xiaomi does not only rely on direct investment but how its sales can also be absorbed so much in Indonesia because of ASEAN's biggest market is in Indonesia so that Xiaomi strengthened the position of China's export trade which had been strong already.

Expansion carried out by China in Indonesia has a beneficial impact on both countries. Using the Foreign Direct Investment strategy, China as a home country has a large profit through the Xiaomi trade and provides an excellent reputation for the country of China. In addition to the impact of expansion for Indonesia itself as discussed earlier, Indonesia gained knowledge about how to design a technology to provide excellent technology facilities from Xiaomi. Besides, through large companies Xiaomi, China is also helping Indonesia by employing Indonesians.

Figure 4.1: Supplier Investment Summit at Radisson Hotel Batam. Source:

<https://sp.beritasatu.com/ekonomidanbisnis/xiaomi-dan-bp-batam-gelar-supplier-investment-summit/123985>



In 2018 in May, Xiaomi and Batam business entity held a Supplier Investment Summit at Radisson Hotel Batam (HMSEditor, 2018). The event was attended by Lukita Dinarsyah Tuwo from BP Batam, Mochammad Hadiyana (Director of Standardization of Post and Telecommunications Equipment, Ministry of Communication and Information Technology of RI) and Welldian Saragih (Head of Sub Directorate of Creative Telematics and Electronics Industry, Ministry of Industry of Republic of Indonesia). The event aims to Increase Local Manufacturing Areas and encourage foreign investment with a potential investment of \$ 315 million, into the smartphone manufacturing industry in Indonesia while creating 10,000 jobs. Steven Shi, Head of Xiaomi South Pacific Region and Xiaomi Indonesia Country Manager, explained that Xiaomi would continue to collaborate with various layers of government in Indonesia, to create similar activities in order to contribute more (HMSEditor, 2018).

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