

CHAPTER I

INTRODUCTION

A. 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, Indonesia Jadi Sasaran Investasi China, 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, Indonesia Jadi Sasaran Investasi China, 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. Canalys 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 Canalys Estimate.

Table 1.1 Indonesia smartphone market – Top 5 vendors. (Source: (Yusuf, 2018))

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 live smart	780,000	520,000	-34.0%	5.6%

Source: Canlys 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.

B. Research Question

Strategies have been carried out by Xiaomi to expand its business in Indonesia, and how it has strengthened China's Investment?

C. 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.

D. 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.

E. 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.

F. The Scope Research

Limitation of research is needed so that the researcher does not get off track from the big title that has been determined in the formulation of the problem. That way, scientific work will not drag on and find its main essence. This aims to simplify the research process and have more concern for Xiaomi enhances their companies in Indonesia, and its domestic economic conditions also become a focus to find the causes that exist outside the corporation.

G. Organization of Writing

In this research, the writer limits the outline of the thesis as described as follows:

Chapter I. An Introduction, examines about the reason for title selection, the background of the problem, research question, theoretical framework,

hypothesis, the methodology of research, the scope of research and the organization of writing.

Chapter II. This chapter will discuss the development of Chinese investment in Indonesia and the reason they invest. Now as there is a close relationship between China and Indonesia, it can be said that China has trusted Indonesia as its place of investment. Can be seen by the development and the magnitude of Chinese companies that enter Indonesia from year to year.

Chapter III. This chapter will discuss the rise of Xiaomi in the Indonesian market. Xiaomi as a form of MNC from China has now proliferated in Indonesia. Even though Xiaomi was known as the latest smartphone production, but now they became the second largest smartphone vendor in Indonesia.

Chapter IV. Impact of expansion, domination of China and Indonesia. China expanded its dominance as a superpower in the economy. Indonesia is accepting Chinese investment as one of the largest investment foreign countries.

Chapter V. In this chapter contains conclusions related to the chapter that has been described previously.