

CHAPTER IV

IMPACT OF EXPANSION, DOMINATION OF CHINA IN INDONESIA

A. Introduction

The rapid development of Xiaomi products in the Indonesian market has a significant influence on the position of China as a country that is actively investing in Indonesia. Xiaomi has an active role in increasing Chinese investment in the electronics sector which had never been done before, to strengthen China's dominance in Indonesia.

This chapter will discuss the impact of China's expansion and dominance in Indonesia. This chapter will be divided into three sub-chapters. The first sub-chapters is discussing how the role of Xiaomi in increasing China's investment profile in Indonesia. The second sub-chapters is to explain the impact expansion of China in Indonesia through Xiaomi. Afterward, the discussion of this chapter will be summarized in the last-sub which is conclusions.

B. The role of Xiaomi in increasing China's investment profile

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.

Investment owned by China has been widespread in Indonesia; the number of companies from China has been explained inside a seminar that was held in Jakarta on

November 27, 2018. The seminar was held to commemorate the five-year Indonesia-China Comprehensive Strategic Partnership (EmbassyUpdates, 2018). One topic that surfaced was the number of companies from the Chinese in Indonesia. The chairman of the Chinese Chamber of Commerce in Indonesia (CCCI), Gong Bencai, said that as many as 1,000 Chinese companies operate in the country. Of the 1,000, Gong said about 17 percent were engaged in construction, 15 percent in the mining sector and 13 percent in the electricity sector. "Indonesia is one of the main destinations for Chinese companies to invest," Gong explained in the seminar (Firmansyah, 2018). However, Gong's predecessor, Liu Haosheng, said that the number of Chinese companies in Indonesia reached 2,000 companies. That was said by Haosheng when speaking at a forum in Hong Kong, China (Romann, 2014).

The number of companies was confirmed by the Indonesian Investment Coordinating Board (BKPM). The Indonesian Investment Coordinating Board reported investment realization in 2010-2014 for the category of projects from China reaching 1,375 projects, while the remaining 701 projects came from Hong Kong (BKPM, 2015). Therefore in total China have 2,076 companies. The number of projects and investments owned by China is increasing every year. BKPM reported investment realization for the Chinese project category in 2018 reached 6,138 projects, while from Hong Kong there were 3,417 projects (BKPM-RI, 2018). It can be concluded that the project is owned in 2018 from China and Hong Kong will penetrate 13,500 projects. The details are 8,500 projects from China, while the remaining 5,000 projects. More than 80% of all projects are completed during the Indonesia-China Strategic Partnership (EmbassyUpdates, 2018).

Gong claims that the existence of Chinese companies in the country has benefited Indonesia. The

company has succeeded in creating jobs for many Indonesians. He also claimed the existence of Chinese companies in Indonesia created technology transfer and expertise for the Indonesian people, providing added value and enriching cultural treasures. Maritime Affairs Coordinating Minister (Menko) Luhut Binsar Pandjaitan called on Chinese investors to continue to increase their investment in Indonesia. He explained that the current investment in Indonesia is quite profitable and easy. Indonesia is improving in the ranking of ease of doing business, also managed to maintain high and stable economic growth (Antara, 2018). Besides, the Ministry of Industry is strengthening the structure of the domestic electronics industry. This effort, besides being believed to be able to encourage national economic growth, also expected to be able to spur the competitiveness of the national manufacturing sector so that it can become part of the supply chain in the global market. "The electronics industry is one of the priority sectors to develop so that it can be more competitive in the domestic and international arena," said Director General of Metal, Machine, Transportation and Electronic Industry (KEMENPERIN, 2018).

The Ministry of Industry noted the investment in the electronics industry reached IDR 8.34 trillion in 2017 (TimCNN, 2018), consisting of foreign investment (PMA) of IDR 7.65 trillion and domestic investment (PMDN) of around IDR 690 billion. Last year's investment achievement, increased compared to 2016 which was recorded up to IDR 5.97 trillion and in 2015 at IDR 3.51 trillion (TimCNN, 2018). With the rise of electronics industry investors entering Indonesia, continued Harjanto, the population of this sector has grown which is projected to reach 67 business units in 2017, up from 57 in the previous year. The Ministry of Industry targets, this year can be more than 72 business units. "Meanwhile, the total employment in the electronics industry in 2017 was 202

thousand people, up compared to 2016 which reached 185 thousand people and in 2015 around 164 thousand people," he explained (KEMENPERIN-RI, 2018).

Foreign countries especially China are interested in developing investment in the electronics sector. Head of the Investment Coordinating Board (BKPM) Franky Sibarani identified interest in some companies in Qingdao, China, in the four main investment sectors in Indonesia (Sihombing, 2016). In the last recorded data, there were companies in the fields of smelters, 'electronic appliances,' infrastructure and the beverage industry. For the "electronic appliances" sector and the beverage industry which are classified as labor intensive and consumer goods, according to Franky, there are also many companies that express their interest in investing their capital in Indonesia.

This can be concluded that China has invested heavily in Indonesia. 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

With the arrival of Xiaomi as a well-known Chinese smartphone product, Indonesians increasingly trust China

with the technological goods they offer. Some time ago Chinese brands were still sticky with poor labels and quickly get broken. However, the presence of OPPO, Xiaomi, Huawei and other brands in the Indonesian market in recent years has changed it. A moment later, the best-selling Chinese smartphone was reviewed and bought, especially the middle-class type products. With the existence of Xiaomi products, China is again gaining its reputation as a country that produces affordable quality goods that are a plus for Chinese products.

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).

For Indonesia, in the second quarter of 2018, the Chinese mobile brand managed to steal market share by 25% of the total shipments in the quarter to 9.4 million units (Ingelido, 2018) This number increased dramatically, wherein the same period of the previous year Xiaomi's market share was only 3%. According to IDC data, in the third quarter of the year 2018 Xiaomi's sales volume reached 34.3 million units, growth compared to the same period last year of 28.3 million units (IDC, IDC Indonesia: 2Q18 Smartphone Shipments Post New Record High with Xiaomi Disrupting the Market into a New Phase, 2018). From the acquisition of market share, it has also grown to 9.7 million units, of which in the third quarter of 2017 Xiaomi's market share was only 7.5% globally.

Chinese smartphones especially Xiaomi have increased the Indonesian market itself, an electronic device retail and distribution business in Indonesia namely PT ERAA. Sales of smartphone products that target the middle to lower segments support the performance of PT Erajaya Swasembada Tbk (ERAA) in the first quarter of 2018. Analysts estimate that until the end of this year, the revenue of local issuers will still be based on the sales of these cellphones. The ERAA financial report in the first quarter of 2018 shows that the company's revenue rose 60 percent compared to the same period the previous year to Rp 8.28 trillion (RHB, 2018). Meanwhile, the current year's profit rose 211% year on year, to Rp 216 billion. Cellphone and tablet sales accounted for 83% of ERAA's total sales. Sales of smartphone products that target the middle to lower segments support the performance of PT Erajaya Swasembada Tbk (ERAA) in the first quarter of 2018. Analysts estimate that until the end of this year, the revenue of local issuers will still be based on the sales of these cellphones.

Michael Setjoadi, an analyst at Bahana Sekuritas, said that Xiaomi's sales supported ERAA's performance which soared in the first quarter of 2018. Because, at the end of the fourth quarter of 2017, the company opened an official shop to sell Xiaomi products. Until the first quarter of 2018 sales of Xiaomi cellphones were recorded to continue to increase.

MNC Analyst Research Victoria Venny said in research on May 8, 2018, currently, there is a tendency for middle to lower income groups to buy smartphones that are relatively affordable (IDN, 2018). Victoria also quoted International Data Corporation (IDC) research, which stated that the number of smartphone consumers with the middle to lower price segment contributed 71 percent of total smartphone sales in Indonesia since the second quarter of 2017. The rise in sales of smartphones in Indonesia was driven by vendors from China with brands

such as Oppo, Vivo, and Xiaomi. With ERAA which is now a partner of Xiaomi and has a domestic content level certificate (TKDN) for three types of Xiaomi mobile phones, Victoria considers that brings a potential for ERAA to increase sales. In order to boost sales in the product segment, in 2018 ERAA held a 290,000,000 private placement to increase working capital. Michael assessed that working capital funding from a private placement requires a higher cost than borrowing funds from the bank. However, the ERAA continued to conduct a private placement because it worked with Xiaomi. "ERAA chose this method because there is a partner strategy, in this case, Xiaomi which is an investor," Michael said on Monday (5/14).

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.

C. Strengthen China's reputation and bring a good relationship between China and Indonesia.

The expansion of China 's MNC into Indonesia can undoubtedly be seen clearly from the many multinational corporations owned by China in Indonesia. Coupled with the increase in investment of large Chinese companies from year to year in 2018 in accordance with BPKM data, China has occupied the third largest country position for channeling foreign direct investment in Indonesia, meaning that China has gone through a process of increasing as many as seven ratings in compared to 2012. The consistency of China's trade increase in Indonesia also looks good when compared to countries that are now under China. Even though in 2018 there were obstacles such as delays for various projects due to the trade war between China and America, but that still did not destabilize China as the third largest country to invest in Indonesia.

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).

D. Conclusion

In this chapter has explained that China's multinational corporation, Xiaomi, has given a significant impact on the profile of China in the world, especially Indonesia. Many Chinese ownership investments nest in Indonesia, of the many sectors that are now highlighted, namely from the electronic sector. If previously China was famous for their low-quality electronic products and only replicas from the originals, now the arrival of Xiaomi as one of the most sophisticated smartphones owned by China can even rival Apple's products, has boosted China's reputation as a "plagiarism" country. Now with Xiaomi as a source of electronics and smartphones owned by China, most Indonesians tend to prefer Xiaomi products due to the high quality of smartphones but at affordable prices so that Indonesians trust Xiaomi's electronic products more. China sees this golden opportunity to further encourage investment and their trade, especially in the electronics sector so that it will grow and expand in the Indonesian market, where Indonesia is one of the largest markets in the Southeast Asian region. Thanks to the success of its multinational corporations namely Xiaomi, China encouraged its expansion to become more widespread. Therefore, MNC's Xiaomi investment in Indonesia strengthens the dominance of Chinese investment.