

CHAPTER I

INTRODUCTION

This thesis will describe how Alibaba Group's efforts as a Multinational Company seek to reduce economic disparities in rural China through the "Rural Taobao" Program. The writer will focus on discussing how multinational companies like Alibaba Group focus on the problem of rural economic disparities and discuss the efforts made by these companies through the "Rural Taobao" program.

A. Background

The development of science and technology increasingly encourages renewal efforts in the utilization of technological results. Technology has a great influence on globalization. Globalization creates new challenges and problems that must be answered, solved in an effort to take advantage of globalization for the benefit of life. The discourse of globalization as a process is marked by the rapid development of science and technology so that it is able to fundamentally change the world. The process of globalization was initially marked by advances in information and communication technology (Musa, 2015) . From the progress of this sector it then affects other sectors in life, such as politics, economy, social, culture and others.

From the explanation of globalization above, one of the sectors most affected by globalization is the economic sector. In the economic sector, the development of internet technology is used by business people to carry out their business activities. With the internet, business people no

longer have difficulty obtaining any information to support their business activities. However, there is still a tendency for various types of information to be obtained, so information must be filtered to obtain accurate and relevant information.

The internet's role in business has evolved from that of an electronic information exchange tool to that of a tool for business strategy applications like marketing, sales, and customer service. Internet marketing tends to cross barriers, national boundaries, and without any set rules. Meanwhile, in traditional marketing, goods move in large groups through seaports, using containers, distributors, guarantee institutions, importers, and banking institutions. Internet marketing is more involved than traditional marketing. Internet marketing is the same as direct marketing in that consumers deal directly with the seller, even if the seller is located abroad (Irmawati, 2011).

Electronic commerce (E-Commerce) refers to the use of the internet for business transaction activities. E-commerce can take place between businesses and consumers, and it includes the use of the Internet and the World Wide Web to sell products and services to consumers. Business transactions have become increasingly important, as evidenced by the growing number of entrepreneurs who use e-commerce in their businesses (Mahkota, 2014) . In the business world, an e-commerce website is already a requirement for a business that has advanced today for business development because of the numerous benefits that e-commerce has. Among them are consumers who do not need to come directly to the store to select the items they want to purchase and businesses that can conduct transaction activities 24 hours a day, seven days a week. Second, from a financial standpoint, consumers can save money and entrepreneurs can save money on promotional costs if the store is located a long distance away. Travel costs are replaced by lower shipping costs, allowing entrepreneurs to market their businesses to a larger audience. With the current

state of the business world, e-commerce has become a necessity in order to increase and win business competition and product sales. Buying, selling, and marketing activities become more efficient when using e-commerce, which demonstrates ease of transactions, lowers costs, and speeds up the transaction process. Data transfer quality should also be higher than with a manual process because there is no re-entry, which allows for human error (Maulana, 2015).

According to Naughton (2015) unlike many other strategic sectors dominated by state owned enterprises, such as telecommunications, petroleum, electricity, and finance, the Internet sector in China is largely occupied by private Internet enterprises, despite their close relationship with the government. Private Internet businesses in China have grown rapidly in recent decades, with the emergence of a few Internet behemoths with near-monopolistic market positions, such as Baidu in online search engine services, Tencent in social media, and Alibaba in e-commerce (Li, 2017) . Throughout the past few years, there has been a steady progression in rural China's internet infrastructures. In December 2020, the internet penetration rate in rural areas in the country increased to 55.9 percent, yet, remains lower than the national level. The internet coverage in urban regions reached 76.5 percent (Thomala, 2021).

With advanced technology like this, the role of E-commerce, especially in China, is very large. China is the world's fastest-growing and largest e-commerce market, with around 632 million internet users. China's e-commerce sales are estimated to account for 3.2 percent of the country's GDP, compared to 2.7 percent in the United States. Even with a small presence in China, Australian businesses can take advantage of this to reach a potentially large number of Chinese customers. However, Chinese government regulations change on a regular basis, with the possibility of future restrictions in this area. In 2015, China's online shoppers are expected to number 350 million, with e-commerce sales expected to reach \$840 billion

by 2020. China's National Bureau of Statistics estimates that sales increased by 50% from 2013 to over half a trillion Australian dollars in 2014. These trends are aided by the increasing use of mobile phones for online shopping. With 520 million Chinese mobile phone internet users, online sales via mobile phones in China increased from 1.5 percent in 2011 to 8% in 2013 (Asialink Business,2020).

Despite the rapid development of internet and e-commerce in China, economic inequality between rural and urban areas, on the other hand is unavoidable. Although the number has decreased, there are still several other problems that cause economic inequality to occur. A significant difference in the developmental relationship between urban and rural areas is needed because in 2016 there were 43.22% of China's total rural population, indicating that there are still large rural populations (Trading Economics, 2016) . Problems in rural areas involve neglect of land, disadvantaged communities, food security, as well as economic differences. education, and the natural environment of the highly variable flow of rural to urban migration. According to some experts, the income gap in China is the largest gap in the world. While China's income is growing, the population living in rural areas is still lagging behind with a lack of job opportunities, products and services, which are mostly dominated by city dwellers.

Many experts measure rural-urban economic inequality through the measurement of income ratios, but there are still some problems with rural economic inequality in China that need to be addressed. The historical legacy of socialist institutions influences the income inequality between urban and rural areas. Begin by The Chinese Communist Party (CCP) leaders established very clear boundaries between urban and rural residents in the 1950s, using a system of residence permits known as "Hokou" that was strictly enforced. "Hokou" concentrated industry in urban areas, leaving rural people with no choice but to farm. Due to the lack of access and promotion to the village, traditional home crafts produced by village residents are less desirable. As a result, the product is little known and difficult to find in the local market. As a result, it

has little impact on rural economic development and encourages young people in the village to seek employment and better living conditions in the city. This has resulted in massive urbanization, with fewer and fewer young Chinese people willing to live in villages and become farmers (Latifadina, 2010).

Apart from contributing to overall economic inequality, rural–urban disparities in China encourage rural–urban migration and temporary urbanization. This manifests as symptoms of China's economy being hampered by population mobility. One of the most important phenomena in the development process is rural-urban migration. Low demand for goods and rural manufacturing services has historically been a factor in low rural incomes, contributing to the rural sector's weakness. In China, the majority of villagers work as farmers, while the government maintains a monopoly on agricultural products and discriminates against them. Interventions in agricultural product distribution can take many forms, ranging from price fixing to commodity inputs. Only the urban industrial sector benefited from fiscal and credit policies. This issue amplifies the discriminatory impact on rural areas, resulting in sluggish agricultural and overall economic growth.

The above issues also often create new issues for people who want to be entrepreneurs in the village due to several core problems that focus on consumption, production, and sales. In terms of consumption, for example, there is the problem of high prices which do not allow consumers to be able to compare prices. The choice of goods is fewer compared to that in big cities. In addition, the long distance makes consumers unable to get the goods they want because the location of the seller's cannot be reached. The second is the problem of production. The high cost of production makes the seller unable to produce a large number of goods and the categories are also few. The lack of information in producing goods means the sellers have limitations to do production. The third is the problem of sales. It is a problem that is quite complex to give effect to the existence of e-commerce as there

are a lack of channels to make sales. The next problem is promotion that is difficult to do. There is also the problem of slow transportation which will hamper sales, and the last problem, which is experienced by many villagers, concerns the lack of talent that makes the villagers ignorant of where to sell their products.

Alibaba sees problems in the Rural as a big problem for China's economic growth. Alibaba experienced a 123% increase in international sales to \$165 million in 2016. Alibaba continues to grow to date to be one of the top ten world ranking companies in terms of market. Through Alibaba's Taobao Villages platform, which is carried out from the strategic project "Rural Taobao" Alibaba wants to turn problems that exist in the rural area into opportunities for rural residents to develop and overcome poverty. Over the last 10 years, Alibaba succeeded in creating over 1000 Taobao Villages in which residents could sell different products at one of Taobao's largest retail outlets. E-commerce helps rural residents to follow the digital economy and to participate in e-commerce itself (BBC, 2016). This platform is used to online business to create an ecosystem for rural e-commerce that promotes demand on the market.

In this case, the Alibaba group's desire to help solve the problem of economic inequality in rural China is also driven by Chinese government's ambition to make China as a world's leading economic power. Non-state actor like Alibaba group is pointed to meet China's obstacle in accomplishing its ambition. In order to develop in the current international economic model, which tend to be neoliberal-capitalist, China need to design new approach.

However, this is a unique phenomenon where in a country that is strongly dominated by the government like China, it still needs other non-state actors who do not have the authority to solve social problems such as Alibaba Group to solve the economic inequality in rural China. To find out what strategies Alibaba Group uses to address economic inequality in rural China, further research is needed for a deeper understanding.

vacuum and isolated, power is always present in the context of human relations. Power is created in social relations. Therefore power and power relations can change. With such an understanding of power, empowerment as a process of change has a meaningful concept. In other words, the possibility of an empowerment process occurring very much depends on two things: (1) that power can change. If power is immutable, empowerment is not possible in any way; and (2) that power can be expanded. This concept emphasizes the notion of power which is not static, but dynamic (Suharto, 2005).

Third, empowerment extends from the process to the ideal vision. From the process side, society as the subject of taking action or movement collectively develop creative potential, strengthen bargaining position, and achieve sovereignty. In terms of the ideal vision, the process will achieve a condition where the community has the ability and independence to voice, access and control the environment, community, resources and socio-political relations with the state. The process to achieve this ideal vision must grow from below and from within the community itself. However, the problem is, in the unequal structural conditions, society is difficult once builds strength from within and from below, so it requires "intervention" from the outside. The presence of outside parties (government, NGOs, MNCs, religious organizations, universities, and others) to the community is not dictating, tutoring, or determining, but acting as a facilitator (catalyst) that facilitates, mobilizes, organizes, connects, provides space, push, raise and so on. The relationship between the community and external parties is equal, mutual trust, mutual respect, openness, and mutual learning to grow and develop together. The rationale for community empowerment is to advance the ability of rural communities to independently manage their community affairs (Purbantara, 2019).

c. Economic Inequality Concept

According to the BKKBN, economic disparities or inequality in income distribution between high-income groups

and low-income groups as well as poverty or the number of people below the poverty line (poverty line), lack of education levels, the tendency of rising prices in general and continuously and increasing unemployment, which is a factor in the occurrence of poverty. Where these factors influence each other and there is a relationship. The most important goal of development is poverty reduction, which can be achieved through high economic growth and/or with a more equitable distribution of income. So, there is a triangular relationship between economic growth, income inequality and poverty. Relationship between economic growth and income inequality is a two-way relationship. The Indonesian government has made various efforts to improve the welfare of the community, but these efforts have not shown significant results on the number of poor people which continues to increase from year to year (Endrayani, 2016). In China, the problem of income inequality has become a serious problem amid the government's efforts to boost economic growth in the country. The gap in China even exceeds the United States. According to research at the University of Michigan, China's inequality rate doubled between 1980 and 2010. But now it's getting worse. This is in accordance with the belief of most Chinese citizens based on a 2012 survey that the problem of income inequality trumps the problem of corruption and unemployment. The growth of high-income people that is not balanced by the increase in the welfare of the poor poses a risk to social stability (Koran Tempo, 2014).

E. Hypothesis

The strategy carried out by the Alibaba group to reduce economic inequality in rural China through e-commerce with the strategic program "Rural Taobao". This strategic project includes, Alibaba Group cooperates with the Chinese local government to make rural communities into technology literate people. This project helps improve village infrastructure to become an E-commerce village called "Taobao Village".

Alibaba Group supports rural communities to better understand Ecommerce and provides a Taobao Service Centre to help sellers/buyers who have difficulty understanding how E-commerce works. This project also invites young people to return to their villages to start their businesses through E-commerce in the village.

F. Methodology

This study uses a qualitative method to provide an overview of Alibaba Group's Strategy in the Economic Inequality of Rural Communities in China Through E-commerce with Strategic Project "Rural Taobao". The author chose this method because the qualitative method is a method that focuses on in-depth observation. Therefore, the use of qualitative methods in research can produce a more comprehensive study of a phenomenon.

This research will be carried out with a literature study that will collect secondary data as well as primary data from books, journals, and other sources on the internet that discuss topics related to the efforts made by the Alibaba Group, especially those that focus on village development through E-commerce with strategic projects. "Rural Taobao". The method does not use respondents/populations or participants because all the data collected comes from literature studies. From the data collected, this study will discuss how multinational companies such as Alibaba Group pay more attention to the economic gap between urban and rural areas by creating a strategic project "Rural Taobao" to cooperate with the Chinese government in the success of this strategic project. For further discussion, the author will discuss the company profile of Alibaba Group, discussion of the strategic project "Rural Taobao" and how Alibaba Group's strategy is to reduce economic inequality in rural China through E-commerce.

G. Research Area

In writing this undergraduate thesis, the writer limits the discussion of an Alibaba Group's Strategy in Reducing the Economic Inequality of Rural Communities in China Through Ecommerce with Strategic Project "Rural Taobao" 2013-2017 .

H. Organization of Writing

Chapter I : This chapter contains the introduction of the topic. It describe the Background of the issue, Research Question, Theoretical Framework, Hypothesis, Methods of Writing, Research Area, and Organization of Writing.

Chapter II: This chapter discusses the company profile of the Alibaba Group. Discusses the strategic project "Rural Taobao" which create Taobao Village, present examples of village case studies that have been successful with this project and how Alibaba Group can overcome economic inequality in rural China through this strategic project.

Chapter III : This chapter concludes the entire chapter in which the discussions mentioned in the previous chapter are summarized.