

CHAPTER I

A. Background

Multinational Corporation (MNC) is a tool that can boost a country's economy, especially for its home country. One of them is China. After changing their economic policies in the 1990s during the reform period, China turned into a stable government. Besides inviting foreign companies to come to their country, China has also begun to be active in foreign trade. China has become a country that has a perfect economic strategy; even now, China is a country that can compete with a superpower, namely the United States. They have giant companies spread all over the world (Sanjaya Lall, 2004).

As a country with a solid economic reputation, China also has a large company, 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 conveniently doing good business. Therefore, China also makes Indonesia 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).

One of the fastest-growing Chinese companies in Indonesia is BBK Electronics (广东步步高电子工业有限公司, Guǎngdōng bùbùgāo diànzǐ gōngyè yǒuxiàn gōngsī). BBK Electronics is an electronics company from China that operated in the 1990s. Duan Yongping, a Chinese billionaire, founded the company. BBK was

founded in 1995 with the initial name Bubugao. The company stands on an area of 10 hectares with more than 17,000 employees. Initially, BBK produced various CDs, MP3s, and DVD players. BBK is also a global maker of household appliances belonging to other brands. In 2004 the founder of BBK made a breakthrough and marked the company's entry into the smartphone business by establishing Oppo and then appointing Tony Chen as CEO of the company. In 2009 Vivo was born with CEO Shen Wei. Oppo then has a subsidiary, OnePlus, which was founded in 2013 and 2018 Oppo to prepare Realme (Sutrisno, 2019). BBK Electronics is almost the world's largest smartphone manufacturer, accounting for more than 20% of the global smartphone market and its three brands are in the top 10 rankings (Franedya, 2019).

In the dynamics of smartphone competition in Indonesia, the government plays a role in policies that affect a smartphone product's

success to survive in the Indonesian market. Since 2015, the Domestic Component Level regulations for a smartphone sold in Indonesia have been hotly discussed. Various proposed schemes have appeared in turn. This rule has made several cellphone vendors refrain from releasing new cellphones, and some have even left the Indonesian market. Apple, which released the iPhone 6S and 6S plus in 2015, has yet to market its products in Indonesia officially. The Chinese cellphone vendor, OnePlus, also canceled releasing its flagship phones, OnePlus 2 and OnePlus 3, because of the same rules, which finally decided to leave the Indonesian market. Some other cellphone vendors are playing tricks by turning off the 4G network function in their products marketed in Indonesia, going customers with 3G capabilities, as was done by Xiaomi with the Redmi Note 3. Domestic Component Level is the value or percentage of production components made in Indonesia used in a product based on the

4G LTE network. This component is a matter of hardware and takes into account the software to the local workforce. This regulation aims to reduce the trade deficit due to the large number of imported goods entering Indonesia. The reason is, during the 3G era, cellphones were free to import in without any filters. However, the number of imports of mobile phones was large and increased the deficit in trade transaction value. Total imports of mobile phones in 2012 reached 70 million units, while in 2014 it was around 54 million units.

Domestic Component Level Regulations for 4G cellphones are implemented in stages by the Indonesian government. In 2016, cellphone vendors were only required to meet 20 percent local content or assemble them in Indonesia by partnering with local companies. Some of the significant cellphone vendors that have complied with this rule are Samsung and Oppo, which invested in assembling 4G cellphones in Indonesia. Samsung is adding a new assembly line,

while Oppo is partnering with a local assembly plant. These rules are part of a push under President Joko Widodo to transform Indonesia from an economy that consumes products to become a producer of products, boosting economic growth and eliminating the country's trade deficit. All cellphones in Indonesia have a Domestic Content Level of 30 percent as stated in the Regulation of the Minister of Industry Number 29 of 2017 concerning Provisions and Procedures for Calculating Domestic Component Level Value for Cellular Phones, Handheld Computers, and Tablet Computers. Ali Soebroto, Chairman of the Indonesian Telematics Equipment Industry Association, said that currently, Indonesia has been able to produce mobile phones. According to him, this policy plays a role so that the majority of cellphones circulating throughout Indonesia are made domestically.

The government's policy to increase investment in the smartphone industry, especially

smartphones have been welcomed by entrepreneurs. The increase in market demand in Indonesia has made them dare to invest in this industry in Indonesia. Director of the Electronics and Telematics Industry of the Ministry of Industry, Ignatius Warsito, said that the government's commitment and policies to increase investment and develop the country's cellular telephone industry received a positive response from smartphone manufacturers. There are various types of mobile phone brands in the Indonesian market that is foreign investment. These mobile phones are MNCs originating from other developed countries taking part in the competition for Indonesia's mobile market. The following are some of the competing MNCs of BBK Electronics, namely, Samsung Electronics, a South Korean MNC, and Xiaomi, a Chinese MNC, and Apple Inc MNC from California. One of them has occupied the best-selling smartphone in the Indonesian market for the last four years, it is Samsung

Electronics, but now it is no longer the ruler of the Indonesian mobile market. This position has now shifted to the hands of Oppo and Vivo. Based on data from the International Data Corporation (IDC) in the third quarter of 2019, Vivo controlled 22.8% of Indonesia's mobile market share. Vivo 22.8% and Samsung 19.4%. Realme, the newcomer, holds 12.6%. In the third quarter of 2019, there were 8.8 million shipments of smartphones to Indonesia (IDC, 2020).

BBK Electronics does carry a different concept. If other smartphone vendors only focus on one brand, BBK Electronics has hit the market with two different brands. BBK has two well-known mobile brands. Namely, Oppo and Vivo. Realme and OnePlus are affiliated with Oppo. Based on this description, this research will focus on discussing what BBK Electronics take strategies in the competition for smartphone sales in the Indonesian market.

B. Research Question

Based on the background above, the following research questions were formulated: What are the political strategy that BBK applies to compete in Indonesian market?

C. Theoretical Framework

In order to answer the research question and analyze the case study of this research, thus the writer will use three concepts of Foreign Direct Investment described by Stephen D. Cohen, namely a) Market-Seeking, b). Resource -Seeking, and c). Efficiency-Seeking and OLI Paradigm, the theory developed by professor Dunning is a mix of three different theories of Foreign Direct Investments Ownership advantages, Location, Internalisation (O-L-I).

1. Foreign Direct Investment

According to Stephen D. Cohen, Multinational Corporations (MNC) is a business entity that has met certain legal requirements and

has documents of approval by national government officials and local government authorities in the country where the new company is founded. MNC cannot be separated from other interrelated concepts, namely Foreign Direct Investment (FDI) (Cohen, 2007). Foreign Direct Investment is foreign investment that involves the establishment of new businesses and transfer of capital to cover investment. More specifically, FDI means a certain amount of long-term investment in a company in another country (Adiastuti, 2011). MNCs operate in several industrial sectors, follow different business strategies, and invest in different host countries. There are three reasons why FDI can emerge in a country, there are obtaining natural resources, protecting or expanding sales in a profitable market, seeking low-cost production for an export platform, or acquiring strategic assets.

FDI is treated as an undifferentiated international flow of capital, which is generally the same as other cross-border movements of money.

MNC is seen as another variant of capital arbitrage. There is an assumption that companies move funds from one country to another for the same reasons as banks or individual investors, namely to obtain a higher rate of return than can be obtained in their home country. (Cohen, 2007). MNC can spread its wings in more than one country, of course, after an agreement is reached between the MNC and the central and regional governments in the destination country legally to cooperate.

Market-Seeking

This concept explains that multinational companies seek markets for expansion opportunities through various reasons such as expanding marketing relationships to domestic buyers in the host country, either preceding or avoiding being tricked by competitors into a particular host country, lowering transportation costs, producing products close to local markets, as well as to benefit from investment incentives

(Cohen, 2007).

This concept is in line with the discussion of the author's scientific work that foreign investment by BBK Electronics is based on the principle of market search. The search for markets in Indonesia is carried out by looking at the economic conditions of the country. Indonesia as one of the largest importing countries of Chinese goods, from data from the Central Bureau of Statistics, China's exports to Indonesia in March 2020 increased by US \$ 1 billion compared to February 2020. In February imports from China were recorded at US \$ 1.98 billion and increased in March to US \$ 2.98 billion. With the total import value in March, there was a 50.43% increase in imports compared to the previous month. The increase in imports is because China has started to recover from the spread of Covid-19 compared to last February (Julita, 2020). China also has a free trade agreement called the Asean Economic Community (AEC) since 2015, the ASEAN

Economic Community with the Asia region, which is one of the reasons why the development of a subsidiary of BBK Electronics in Indonesia is carried out. This is one of the entry points for BBK Electronics to dominate the smartphone sales market in Indonesia. Another thing that is in line with this concept is that the existence of incentives for every investor in Indonesia makes Indonesia a country that supports the investment that will be carried out by BBK Electronics.

Resource-Seeking

The concept of Resource-Seeking is one of the general motivations for multinational companies which was also initiated by Stephen D. Cohen. This concept has two factors. The first factor is that several companies are looking for natural resources that focus on extracting minerals and metals, such as oil, gold, and copper, or harvested tropical commodities, such as bananas and rubber. The second factor is how the country sees the existence of multinational companies in its

country, such as how political officials accommodate foreign companies by providing good governance, favorable tax and regulatory policies, and the rule of law. (Cohen, 2007).

This concept is in line with the discussion of the author's scientific paper that foreign investment by BBK Electronics is based on the principle of resources. In order to facilitate access to an export of goods and production time, BBK Electronics has formed a subsidiary in Indonesia, namely Oppo & Vivo. By employing local people, this Chinese company can reduce high labor costs (Hikam, 2020).

Efficiency-Seeking

The Efficiency-Seeking concept explains that the general motivation for firms is to reduce production costs. This general motivation produces distinctive patterns of behavior and economic effects. The first of the two main reasons for this type of FDI involves the formation of subsidiaries in low-wage countries. In Cohen's

opinion, relatively low-wage workers tend to be low-skilled workers as well but, if they have a good work ethic, the multinational can benefit cost-effectiveness by producing low-tech goods (clothing and footwear, for example) or assembling items that simply assemble i.e. standard, unchanging technology (analogue radio and television, for example) (Cohen, 2007). The second main reason is to suppress goods that have high capital in their early development. Usually this system of capital emphasis is attached to high-tech multinational companies. The tangible benefits of efficiency-seeking FDI for host countries emerge later, when foreign firms bring in capital, employ local staff, share technology and knowledge, and create spillovers that move countries up the value chain.

In this case BBK Electronics as China's MNC has great potential in expanding its companies in countries that have collaborated for a long time. As has been done by BBK Electronics

to Indonesia, namely conducting Foreign Direct Investment. One of the strategies used by BBK Electronics in the Indonesian smartphone market is to open subsidiaries, namely Oppo and Vivo, even not only in Indonesia, there are more than 40 companies spread throughout the world. (Oppo Indonesia, 2020), in other words, BBK Elektronik expand in the Indonesian market.

2. OLI Paradigm

The eclectic theory developed by professor Dunning is a mix of three different theories of direct foreign investments (O-L-I):

“O” from Ownership advantages:

This refers to intangible assets, which are at least for a while exclusive possesses of the company and maybe transferred within transnational companies at low costs, leading either to higher incomes or reduced costs. But MNC's operations performed in different countries face some additional costs. Thereby to successfully enter a foreign market, a company

must have certain characteristics that would triumph over operating costs on a foreign market. These advantages are the property competencies or the specific benefits of the company. The firm has a monopoly over its own specific advantages and using them abroad leads to higher marginal profitability or lower marginal cost than other competitors (Dunning, 1988). There are three types of specific advantage:

- a) Monopoly advantages in the form of privileged access to markets through ownership of natural limited resources, patents, and trademarks.
- b) Technology, knowledge broadly defined so as to contain all forms of innovation activities.
- c) Economies of large size such as economies of learning, economies of scale and scope, greater access to financial capital.

“L” from Location

When the first condition is fulfilled, it must be more advantageous for the company that owns them to use them itself rather than sell them

or rent them to foreign firms. Location advantages of different countries are the key factors to determining who will become host countries for the activities of the transnational corporations. The specific advantages of each country can be divided into three categories:

- a) The economic benefits consist of quantitative and qualitative factors of production, costs of transport, telecommunications, market size.
- b) Political advantages: common and specific government policies that affect FDI flows.
- c) Social advantages: includes distance between the home and host countries, cultural diversity, an attitude towards strangers.

“I” from Internalization

Supposing the first two conditions are met, it must be profitable for the company the use of these advantages, in collaboration with at least some factors outside the country of origin (Dunning, 1988). This third characteristic of the eclectic paradigm OLI offers a framework for

assessing different ways in which the company will exploit its powers from the sale of goods and services to various agreements that might be signed between the companies. As cross-border market Internalisation benefits are higher the more the firm will want to engage in foreign production rather than offering this right under license, franchise. Eclectic paradigm OLI shows that OLI parameters are different from company to company and depend on context and reflect the economic, political, social characteristics of the host country. Therefore the objectives and strategies of the firms, the magnitude, and the pattern of production will depend on the challenges and opportunities offered by different types of countries.

Based on the explanation above, it will be studied further about what strategies are carried out by BBK Electronics in competing in the smartphone market in Asia, especially Indonesia, which in the Indonesian market BBK Electronics

can win in competing with the other smartphone brands.

D. Hypothesis

Based on the theoretical framework above, BBK Electronics' strategy in the smartphone market competition in Indonesia can be explained as four strategies, there are economic and political, regulations and policies, technological, and social. The Indonesian smartphone market is considered capable of providing great opportunities, both for the benefit of the company and for its prospects for future development.

1. Economic and political strategy

BBK Electronics as China's MNC has free trade agreements with various countries in the Asia region, especially in Indonesia to become an entry point for easy market access.

2. Regulations and policies strategy

BBK Electronics makes good use of

regulations and policies made by the Indonesian government in influencing the flow of foreign direct investment.

3. Technology strategy

BBK Electronics has made innovations with designs and technologies that continue to develop as well as smartphone prices that are quite competitive in the Indonesian market.

4. Social strategy

BBK Electronics use the consumptive culture of the Indonesian people towards foreign goods that are widely sold in Indonesia.

E. Scope of research

Research limitations are needed so that researchers do not go off track from the big titles that have been determined in the problem formulation. That way, scientific work will not drag on and find its main essence. It aims to simplify the research process and pay more attention to BBK Electronics to advance its

company in Indonesia market.

This study will limit the analysis to 4-strategies. Namely, economic strategy, political strategy, technological strategy, and social strategy owned by Indonesia are the strategy of BBK Electronics in competing in the smartphone market in Indonesia. Since the topic of this study is relatively new, a clear timeline is required. Therefore, the authors limit the timeframe from 2013-2020, when BBK Electronics decided to enter Indonesia's smartphone market.

F. Research Methodology

Tyrus Hill Way in his book Introduction to Research which defines that research is a method of study that is in-depth and careful of all forms of reliable facts on a particular problem in order to make a solution to the problem. (way, 1956). Research methodology is the steps used in conducting a study and conducting a critical analysis of the research method (Sandu Siyoto,

2015). Creswell defines the research methodology into three, namely Qualitative, Quantitative, and Mixed Methods (Creswell, 2009). The qualitative method is to analyze the data through sentences while the quantitative method uses numerical canalization. In the book "Qualitative Research Design" by Maxwell, he defines five objectives in qualitative research, namely: 1) to understand between actors and research situations or events, 2) to understand the influence between context and actors of action, 3) to identify unexpected phenomena and their effects, 4) to understand the process of events or actions, 5) to develop a general description (Maxwell, 1941).

A study that meets empirical-systematic standards as expressed by Ruane in his book entitled Basic research methods (M, 2013), includes four basic objectives, namely: exploration, description, explanation, and evaluation. Exploration is research that is conducted to find out or increase understanding.

Meanwhile, the description provides a detailed description or report on the phenomenon. If research is focused on causal analysis (cause and effect), the research leads to an explanation. If research is conducted to assess the merits of a phenomenon, evaluation research occurs. According to Nazir in his research method, the descriptive method is a method in examining the status of human groups, a subject, a set of conditions, a system of thought, or a class of events in the present. (Nazir, 2009).

Referring to the explanation above, in this study the writer decided to use descriptive qualitative research to examine the strategies used by China's MNC, in this case, BBK Electronics in competing in the Indonesian market. Qualitative descriptive research is a research method that utilizes qualitative data and describes a descriptive history. This type of qualitative descriptive research is often used to analyze social events, phenomena, or circumstances. This type of

qualitative descriptive research is a combination of descriptive and qualitative research. This type of qualitative descriptive research displays the results of the data as they are without any manipulation or other treatment processes. For those of you who are looking for a research method, this type of qualitative descriptive research can be considered. Qualitative descriptive research is intended to describe and describe existing phenomena, both natural and human engineering, which pay more attention to the characteristics, quality, linkages between activities (Sukmadinata, 2010).

There are two types of data in this study, namely primary and secondary (ACAPS, 2012). Primary data is a collection of data collected from original sources that have never been studied before which is usually collected directly through interviews in the field. Meanwhile, Secondary Data is the accumulation of data generated by previous researchers and can be found within the reach of publications, media reports, and the

internet. In this study, the authors will use secondary data related to the strategies used by BBK Electronics in competing and winning the competition in the Indonesian market, with the word writing technique used in this research through literature study, by collecting, studying, and analyzing data or material used in this research. Obtained from books, scientific papers, journals, magazines, newspapers, and the internet as well as other material in accordance with the topic under study.

G. Writing System

The writing system of this research consists of the framework of the clear outline from four chapters, the following are the description of the outline.

CHAPTER I: Describes the background, research question relevant to the background, theoretical framework, research scope, research methodology, and writing system.

CHAPTER II: Explains what is BBK Electronics and BBK's strategies to compete in Asia, especially the smartphone market in Indonesia.

CHAPTER III: The Conclusion.