CHAPTER I

INTRODUCTION

This chapter discusses the background, problem statement, research questions, research objectives, the significance of the study, and the outline of the study for each chapter.
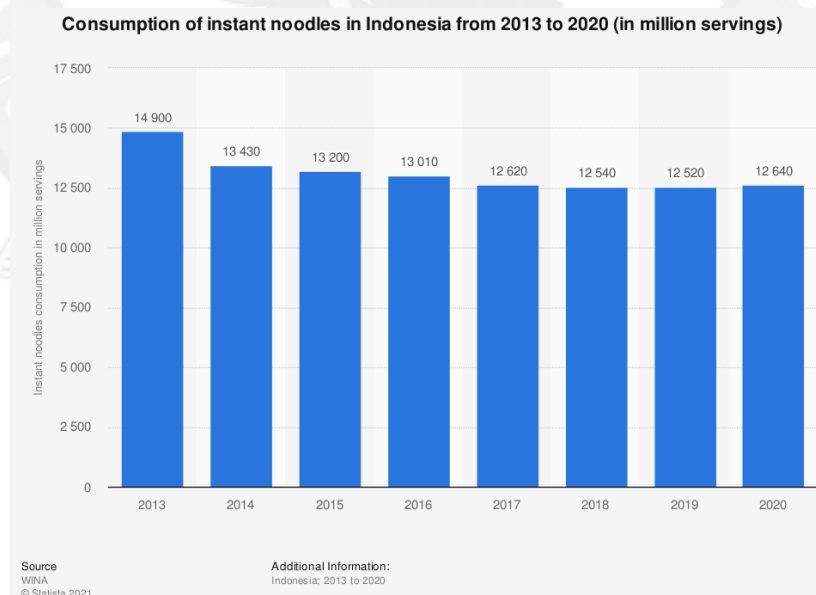
1.1 Background

The first instant noodles in South Korea was developed by the founder of Samyang Food Company, Jung Yun Jeon, in 1963 which he introduced the technique of processing instant noodle from Japan to South Korea. Although the main purpose of instant noodles is to alleviate poverty, instant noodles have quickly become one of the favorite dishes of Koreans. In 2017, South Korea had the highest per capita consumption with 73.4 million servings, compared with 53.5 million servings in Vietnam and 51.1 million servings in Nepal. This shows how instant noodles have become an important part of Korean culture, humankind, and their daily life. As food have unique and powerful abilities that can influence personal culture on a small scale, and even the world on a larger scale. Although some people do not know the impact of food on society, food and culture are inseparable. As South Korea has more interactions internationally, the Korean noodle market has also grown internationally. As instant noodles have started to roll out of Korean and Asian groceries, the noodle manufacturers exported their products to the big local players in other countries. Currently, as the culture for Korean food has become more mainstream, more people started to consume Korean instant noodles as they

are interested in the low price, convenience, and taste of the Korean instant noodle. This means that the demand for Korean Instant noodles in the market around the world is getting more promising now and in the future.

South Korea is one of Indonesia's most important trading partners. They began to establish diplomatic relations in September 1973, and the relations and cooperation between the two sides have continued to improve bilaterally, regionally, and multilaterally. To increase the volume of trade between the two countries, Indonesia's Minister of Trade and South Korea's Minister of Trade, Industry, and Energy officially signed the 2020 Indonesia-Korea Comprehensive Economic Partnership Agreement (IKCEPA). The agreement is an important milestone in the bilateral economic relationship between the two countries, as South Korea is interested in making Indonesia a new manufacturing base for ASEAN, since Indonesia is seen as a strategic trading partner and in line with South Korea's policy to focus on Southeast Asia. IKCEPA covers the trade of goods, including factors such as tariff reduction and exemption, regulations on the origin of goods, customs procedures, trade facilitation, and legal remedies. In addition, it also includes service trade, investment, economic cooperation, and institutional agreements. In terms of trade in goods, South Korea will cut tariffs by up to 95.54%, while Indonesia will cut tariffs by 92.06%. Through this agreement, Indonesia will also grant tariff preferences to 0.96% of the tariff items worth 2,546.9 million U.S. dollars, that is, 2.96% of Indonesia's total imports from South Korea, in order to promote South Korean investment in Indonesia. In terms of import value, South Korea will exempt 97.3% of imported products from Indonesia, while Indonesia

will exempt 94% of imported products from South Korea. IKCEPA has opened opportunities in the partnership between the two countries by increasing cooperation in goods and services trade, investment, and capacity building. So that both can benefit from the global economy and face the recovery phase in 2021. The close relationship and cooperation between the two countries benefit from the complementarity of resources and interests of both sides, as well as the excellent economic and political progress of the two countries, which has opened up opportunities for cooperation in various fields, especially the food industry in this context is instant noodles.

Indonesia was first introduced to instant noodles by PT Lima Satu Sankyu. This company is now known as PT. Supermi Indonesia. Since then, instant noodles swarm the Indonesian market and they have become an alternative food for Indonesians.

Consumption of instant noodles in Indonesia from 2013 to 2020 (in million servings)

Year	Consumption (million servings)
2013	14 900
2014	13 430
2015	13 200
2016	13 010
2017	12 620
2018	12 540
2019	12 520
2020	12 640

Source
WINA
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Additional Information:
Indonesia; 2013 to 2020

Figure 1.1 Consumption of Instant Noodles in Indonesia from 2013 to 2020 (in million servings)

Source: Statiska.com (2021)

Based on Figure 1.1, there is a decrease in Indonesia's instant noodles demand from 2013 until 2019 from 14,900 million servings to 12,520 million servings. But in 2020, there is an increase of 80 million servings on the instant noodles demand that reached 12,640 million servings. If the entire population of Indonesians considered eating instant noodles, in that year, the average consumption of Indonesian instant noodles was 61 packs per person per year or around 4.87 kilograms.
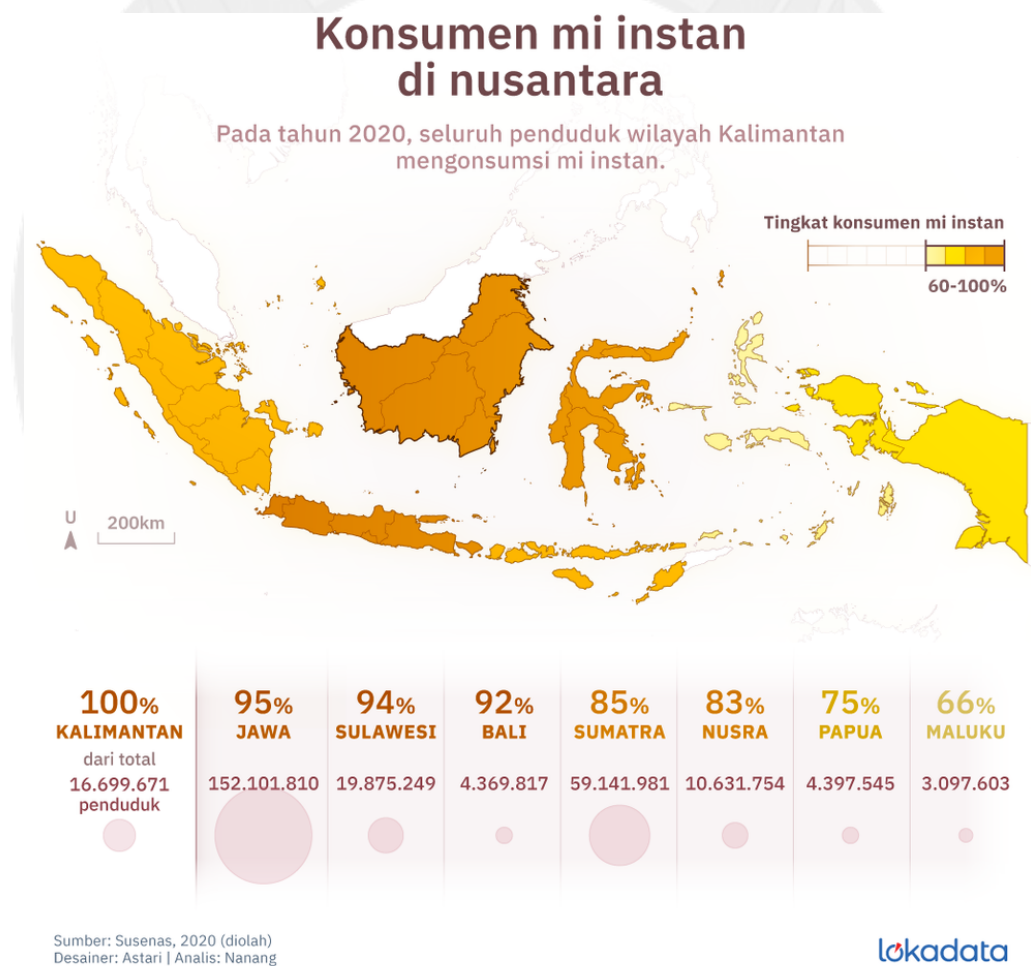
Figure 1.2 Instant Noodles Consumers in The Archipelago

Source: Lokadata.id (2020)

Survei Sosial Ekonomi Nasional (SUSENAS) reflected this high consumption of instant noodles in 2020. Based on the results of Lokadata survey data conducted in March 2020 above (Figure 1.2), 92 percent or around 248.7 million Indonesians have ever consumed instant noodles (one pack is about 80 grams). 100 percent of the population in Kalimantan have consumed instant noodles while only 66 percent of the population in Maluku consumes instant noodles making it the lowest level of consumption of instant noodles. Java is placed as the second-highest on the level of consumption of instant noodles by 95 percent (152 million) of the population. Followed by Sulawesi at 94 percent then Bali at 92 percent.
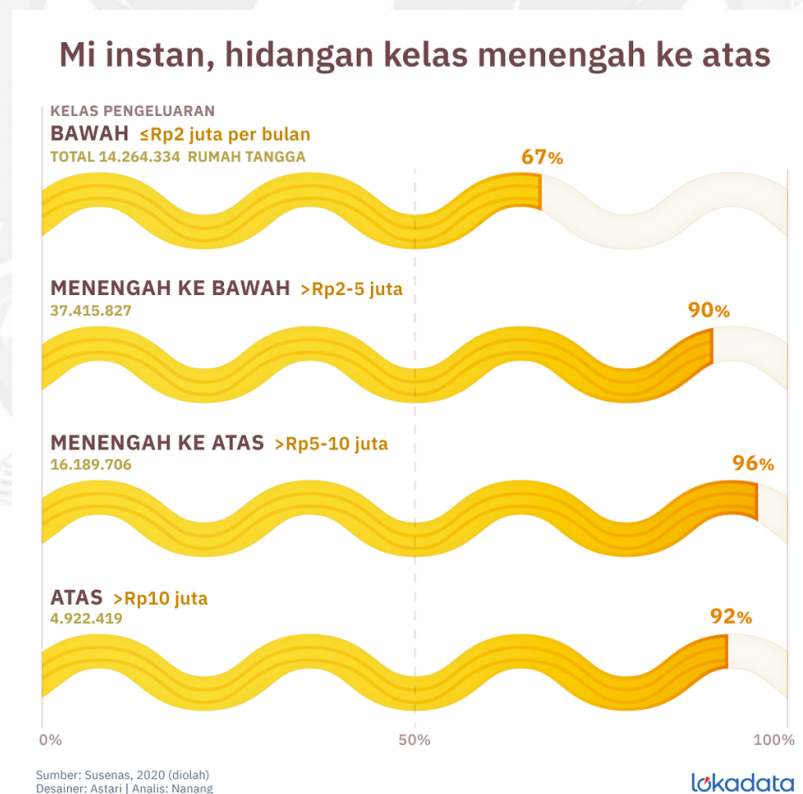
Figure 1.3 Percentage of Monthly Spending of Each Social Class that Consume Instant Noodles

Source: Lokadata.id (2020)

Figure 1.3, its shown that instant noodles are not only consumed by the lower class. SUSENAS noted that the upper-middle class with spending >Rp5-10 million per month are the largest instant noodle consumers with a percentage of 95.79 percent. Followed by the upper class with 92 percent, middle-lower class with 90 percent, and lastly lower class with 67 percent.

Unit: Million Servings

Updated on May 11, 2021

	Country/Region	2016	2017	2018	2019	2020
1	China/Hong Kong	38,520	38,960	40,250	41,450	46,350
2	Indonesia	13,010	12,620	12,540	12,520	12,640
3	Viet Nam	4,920	5,060	5,200	5,430	7,030
4	India	4,270	5,420	6,060	6,730	6,730
5	Japan	5,660	5,660	5,780	5,630	5,970
6	USA	4,120	4,130	4,520	4,630	5,050
7	Philippines	3,400	3,750	3,980	3,850	4,470
8	Republic of Korea	3,830	3,740	3,820	3,900	4,130
9	Thailand	3,360	3,390	3,460	3,570	3,710
10	Brazil	2,370	2,250	2,390	2,450	2,720
11	Nigeria	1,650	1,730	1,820	1,920	2,460
12	Russia	1,570	1,780	1,850	1,910	2,000
13	Malaysia	1,390	1,310	1,370	1,450	1,570
14	Nepal	1,340	1,480	1,570	1,640	1,540
15	Mexico	890	960	1,120	1,170	1,160

Figure 1.4 Global Demand for Instant Noodles

Source: Instantnoodles.org (2021)

Based on Figure 1.4, World Instant Noodles Association (WINA) stated that Indonesia ranked as the second-largest demand for instant noodles since 2016 after China or Hongkong making the top 15 of the global demand of instant noodles with

12,640 million servings in 2020. Meanwhile, Korea is ranked as the eighth largest demand for instant noodles with 4,130 million servings in 2020.

Based on Almas (2021), South Korean instant noodle exports hit an all-time high in the first half of 2020. The export is worth 319.68 million US dollars, in the period from January to June 2020. This achievement also occurred in the midst of the ongoing COVID19 pandemic. This number increased to 5.8 percent from the same period in 2020. It was a record which in the previous year was 302.08 million US dollars. The solid gain in the first half was attributed to the global popularity of Korean instant noodles as an emergency food after the COVID19 outbreak forced people to stay at home (Pulse, 2020). In addition, another factor is Chapaguri, a noodle dish, which was featured in the film Parasite which won several Oscar categories. A mix of Chapaghetti, instant black bean noodles, and Neoguri, spicy noodles like Korean udon also add to its popularity (Yonhab, 2021).

The cultural similarity between South Korea and Indonesia is also one of the perspectives that made Indonesian accept Korean products. As Indonesian loves sweet, salty, and spicy foods, Korean instant noodles provide a large sum of brands or product that has the ingredient to Indonesian liking as it is commonly popular with red hot chili-based soup alongside chicken, beef, and seafood-based soup (WINA, 2021). Based on Ma et al. (2012), Watson and Wright (2000), cultural similarity attenuates the effects of consumer ethnocentrism on foreign products. The impact of consumer ethnocentrism and consumer attitude toward foreign products may be conditioned by the lack of availability of domestic alternatives (Shimp et al., 1995). Product necessity or the perception of demand will alleviate

consumers' ethnocentric tendency when evaluating foreign products (Sharma, 1995). Based on Watson and Wright (2000) stated that for ethnocentric consumers when they evaluate foreign products, cultural similarity's role is important.

1.2 Problem Statement

Although Korean instant noodles increased in exports, they still can't compete with top local instant noodle players like Indomie which owns most of the market share in Indonesia (Kulsum, 2017). From the studies conducted by the previous researchers, it can be concluded that acceptance of foreign products can be due to cultural similarities. But it is discovered that the negative effects of consumer ethnocentrism on consumer purchase intention toward foreign products did not lessen with cultural similarity (Balabanis et al., 2001; Balabanis & Siamagka, 2017). Another study conducted by Ramadania et al. (2015) also displayed the negative effects of consumer ethnocentrism on consumer attitudes toward purchasing foreign products (from Malaysia), and cultural similarity did not reduce the negative effects.

Therefore, the researcher wants to examine whether the phenomenon also occurs for Korean products, specifically for Korean instant noodles in Indonesia; In this case, the researchers use Indonesian from the age of 18-24 as the respondent for this research. By using variables such as consumer ethnocentrism, lack of availability of domestic product, and product necessity to see and describe the relationship to attitude towards foreign products with cultural similarity as the moderating variable.

1.3 Research Questions

Given the background and purpose of this research, arise some question such as the following:

1. Is there a negative effect of consumer ethnocentrism on the attitude of foreign products in Indonesia?

2. Is there a positive effect of the lack of availability of domestic products on the attitude of foreign products in Indonesia?

3. Is there a positive effect of product necessity on the attitude of foreign products in Indonesia?

4. Is there a moderating effect of cultural similarity on the evaluation of foreign products in Indonesia?

1.4 Research Objectives

The purpose of this research based on the background that has been presented previously are as follows:

1. Knowing whether consumer ethnocentrism negatively influences the attitude of foreign products in Indonesia.

2. Knowing whether the lack of availability of domestic products positively influences the attitude of foreign products in Indonesia.

3. Knowing whether product necessity positively influences the attitude of foreign products in Indonesia.

4. Knowing whether cultural similarity moderate's country of origin with the home country consumer in evaluating foreign product.

1.5 Significance of the Study

The researcher hopes that the results from this study may provide an understanding of the influence between cultural similarity, consumer ethnocentrism, lack of availability of domestic product, and product necessity in the evaluation of Korean products from an Indonesian consumer perspective which benefits:

a. The Researcher

The result of the study will provide a better understanding for the researcher about Indonesians consumer perspective towards Korean instant noodles and give the experience to improve the writing of the future research.

b. Korean Instant Noodle Company

The application of the study is a considerable approach for the company that runs in the industry, but it has not been studied to a greater extent comprehensively. From this research, the company will have a better understanding of the attitudes of Indonesian consumers towards foreign products, in this context are Korean instant noodle products. Thus, this research will be beneficial for companies to understand the response of Indonesian consumers so they can reach their target audience and better market their products in Indonesia.

c. Next Researcher

The research can contribute to the next researcher who wants to learn and develop more about the theory.

d. Students and Universitas Pelita Harapan

The research could be used as a reference for further research or as reference material for economics students at Universitas Pelita Harapan.

1.6 Organization of the Study

There will be five chapters in this study. Here is the outline for the content of each chapter:

- Chapter 1 Introduction

  This chapter discusses the general idea of the background, problem statement, research questions, research objectives, and the significance of the study.

- Chapter 2 Literature Review

  This chapter explains the variables theoretically based on the sources such as books and journals that were previously published, showing the relationship between the variables and the research model.

- Chapter 3 Research Methodology

  This chapter elaborates the research paradigm, type of research, scale measurement, unit analysis, sample design, number of samples, data collection method, questionnaire development, and data analysis.

- Chapter 4 Results of Discussions

  This chapter elaborates on the data result collected during the research period.

- Chapter 5 Conclusions and Recommendations

  This chapter discusses the conclusions of the conducted research and gives recommendations to the related company and for the next researcher.