

# CHAPTER I

## INTRODUCTION

This chapter describes the background of the research, research questions, research objectives, research contributions, and a systematic outline.

### 1.1 Background

Globalization, as defined by the International Monetary Fund (1997), is the rising interdependence of nations globally as a result of the volume and variety of cross-border transactions in goods and services, international capital flows, and the more rapid and extensive diffusion of technology. Technology is a major driver of globalization's evolution. Technological advancements have altered the way business is conducted globally. Many countries have become one global system due to globalization through technology. To begin, they connect the globe through their innumerable functions, enabling to communicate with others and acquire information. Second, they are one of the most manufactured items on a global scale, employing millions of people in hundreds of organizations spread over dozens of nations (The Economist, 2018). As such, the smartphone is a symbol of globalization.

Since then, the smartphone business has continued to expand and thrive, both in terms of market size and model and supplier diversity. By 2020, 46.45 % of the world's population will own a smartphone. Due to the fact that so many individuals own multiple smartphones, the growth of smartphone subscribers is significantly greater. By 2021, smartphone owners will total approximately 6.4

billion and are predicted to continue growing until 2026 (Statista, 2021) (see **Figure 1.1**).

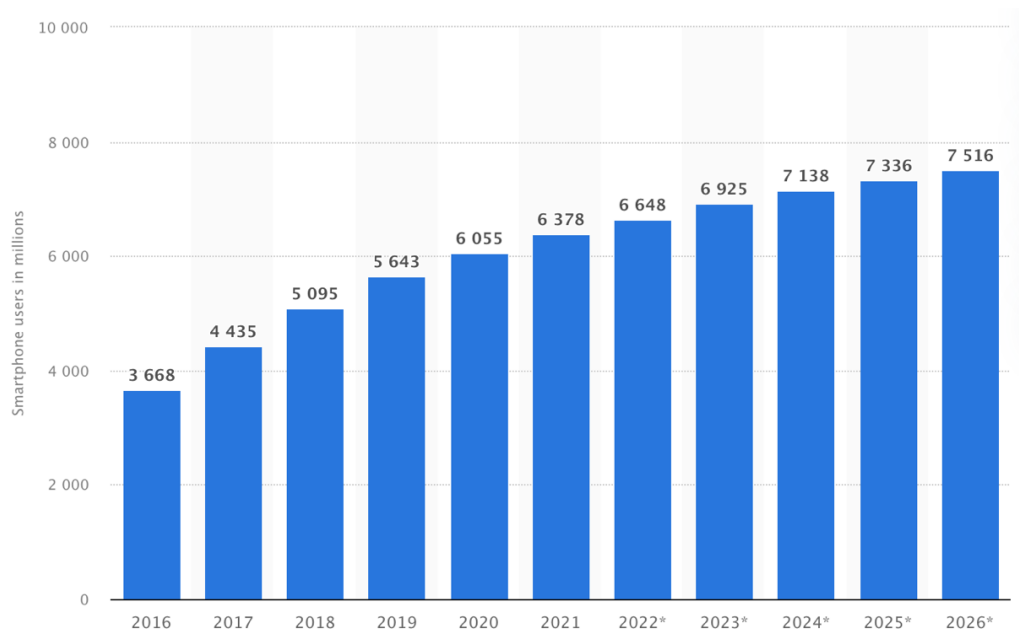


Figure 1.1 Number of Smartphone Users from 2016 to 2021 (in billions)  
Source: Statista, 2021

The development of an increasingly broad and dynamic market for smartphone products has created intense competition in the marketing of smartphone products. The smartphone market is very competitive, with major competitors such as Samsung, Apple, and Huawei controlling 51% of the market. Samsung retained its global leadership position in 2020, with a 20% global market share, while Apple came in second, and Huawei (with Honor) stayed in the big three (Canalys, 2021) (see **Table 1.2**).

Back in July (Q2 of 2021), Xiaomi overtook Apple to become the second-largest smartphone manufacturer globally for the first time. The company was able to gain a 17% share in the smartphone shipments, while Samsung is still in the

number one continues to dominate the market with a 19% share (CNBC, 2021). It did not stop there; after surpassing Apple in Q2, Xiaomi overtook Samsung, hit with production disruptions in Vietnam, to reach the world's top position in June. Thus, Xiaomi becomes the #1 smartphone brand globally for the first time. It is all thanks to the increase sales of Redmi 9, Redmi Note 9, and the Redmi K40 series model, so that the company can acquire a market share of 17.1%. While Samsung's supply constraints took the company to the second spot with a market share of 15.7% and Apple remained in the third position with a market share of 14.3% (Counterpoint Research, 2021) (see Figure 1.2).

Table 1.2. Worldwide Smartphone Shipments and Growth (2020)

Vendor	2020 shipments (million)	2020 Market share	2019 shipments (million)	2019 Market share	Annual growth
<b>Samsung</b>	255.6	20%	298.0	22%	-14%
<b>Apple</b>	207.1	16%	198.1	14%	+5%
Huawei (incl. Honor)	188.5	15%	240.6	18%	-22%
<b>Xiaomi</b>	149.6	12%	125.5	9%	+19%
<b>Oppo</b>	115.1	9%	120.2	9%	-4%
<b>Others</b>	348.9	28%	384.3	28%	-9%
<b>Total</b>	<b>1,264.7</b>	<b>100.0%</b>	<b>1,366.7</b>	<b>100.0%</b>	<b>-7%</b>

Note: percentages may not add up to 100% due to rounding

Source: Canalis estimates (sell-in shipments), Smartphone Analysis, January 2021

Source: Canalis, 2021

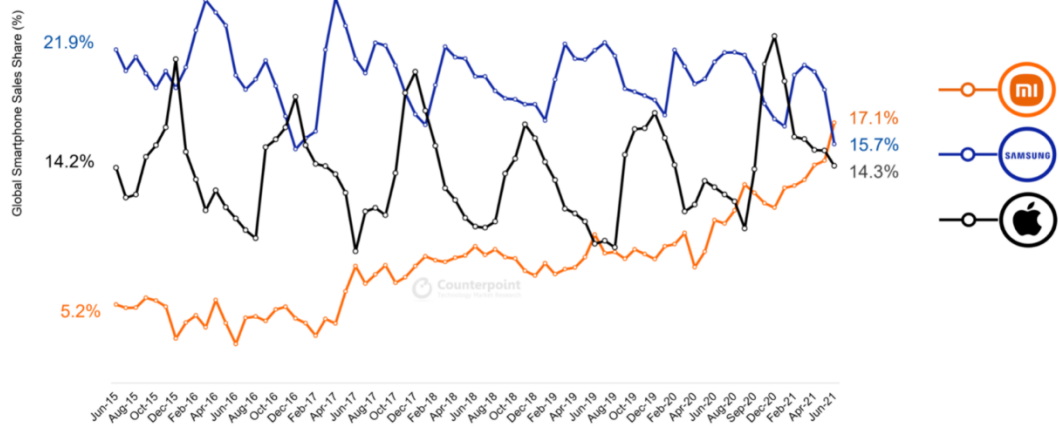


Figure 1.2. Global Monthly Smartphone Sales Share Trends (%)  
Source: Counter Point Research, 2021

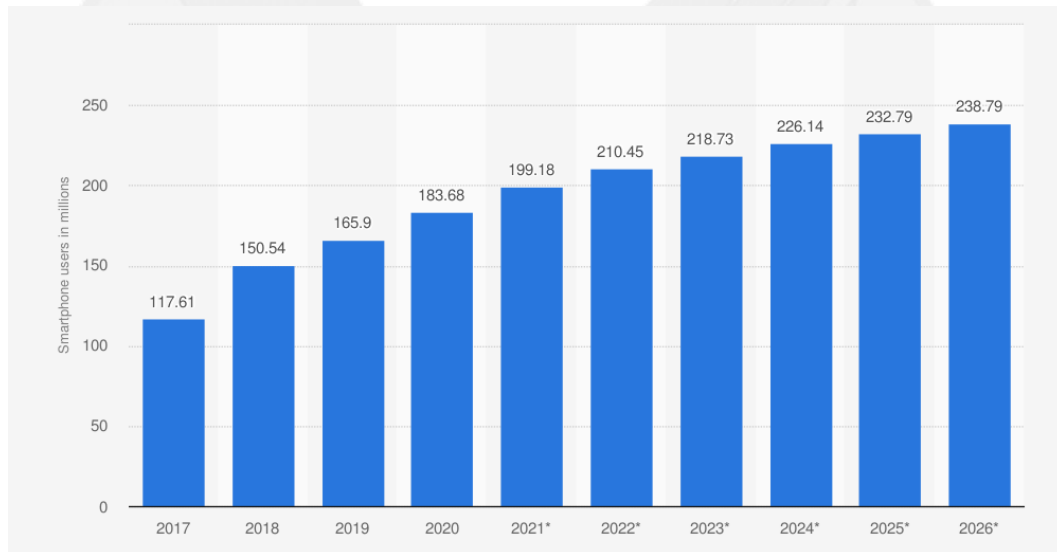


Figure 1.3. Number of Smartphones Users in Indonesia from 2017 to 2020 with Forecasts until 2026 (in millions)  
Source: Statista, 2021

Indonesia is fourth in the world's mobile market, behind China, India, and the United States. According to the technology market analyst firm Canalis, the number of smartphone users in Indonesia is estimated to reach around 199 million users in the end of 2021. By 2026, the number of smartphones users are expected to increase by more than threefold compared to 2017 (see **Figure 1.3**). There are currently five smartphone brands that dominate the market in Indonesia.



Figure 1.4. Indonesia Five Top Smartphone Vendors Q2-2021  
Source: Selular.ID, 2021

According to a report by research firm Canalys on Selular.ID, there are five major Indonesian smartphone vendors in the April-June 2021 period in a row, namely Xiaomi (28%), Oppo (20%), Samsung (18%), Realme (12%) and Vivo (12%) (see Figure 1.4). Still, in the Canals report, Xiaomi recorded a jump from fourth quarters ago to the top position, and now has a market share of 28%, up to 112% compared to the same quarter last year. The smartphone is also supported because the need for smartphones is soaring, whether used for working-from-home, home-based learning, streaming, or communicating virtually (Risky Febrian, KompasTekno 2021). However, as of the third quarter, Samsung has reclaimed the lead, with a market share of roughly 22%, trailed by Oppo (21%), and Xiaomi (19%) (see Figure 1.5). Moreover, according to Counterpoint, the global smartphone market grew 6% quarter on quarter to reach 342 million units in third quarter 2021. However, the market declined 6% YoY due to the slow recovery caused by Covid-19 pandemic that triggers anti-Chinese sentiments in Indonesia and elsewhere in the region. (See Figure 1.6)

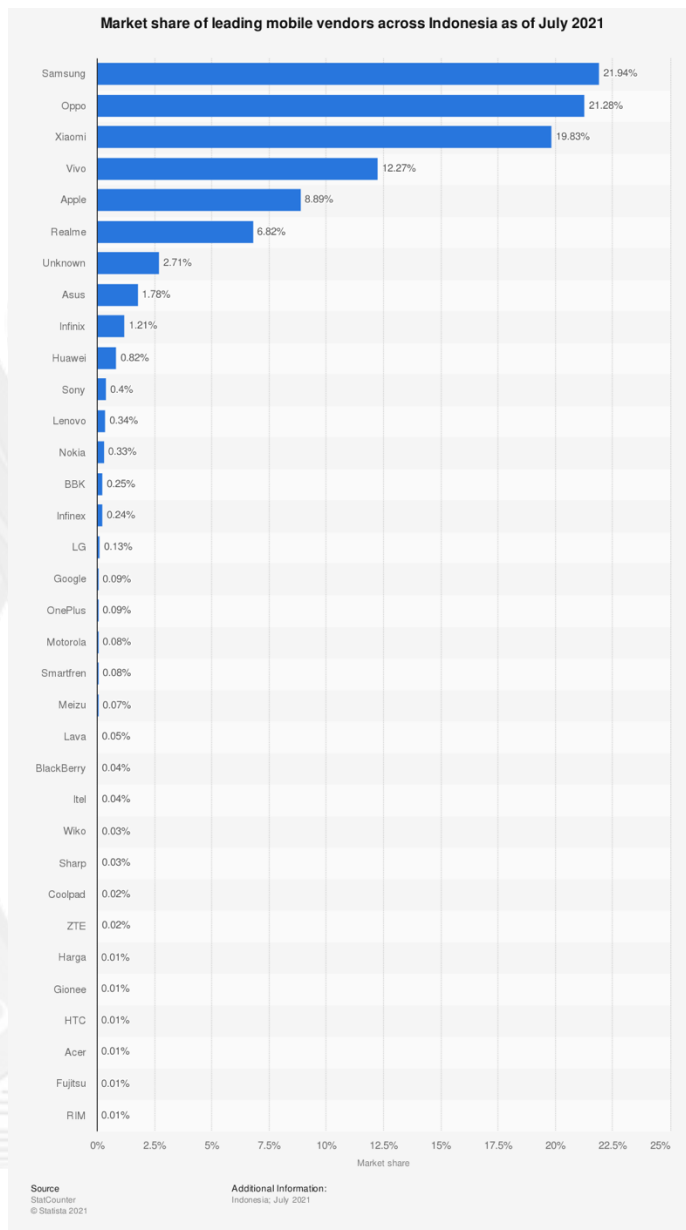


Figure 1.5. Market Share of Leading Mobile Vendors across Indonesia as of July 2021  
Source: Statista, 2021

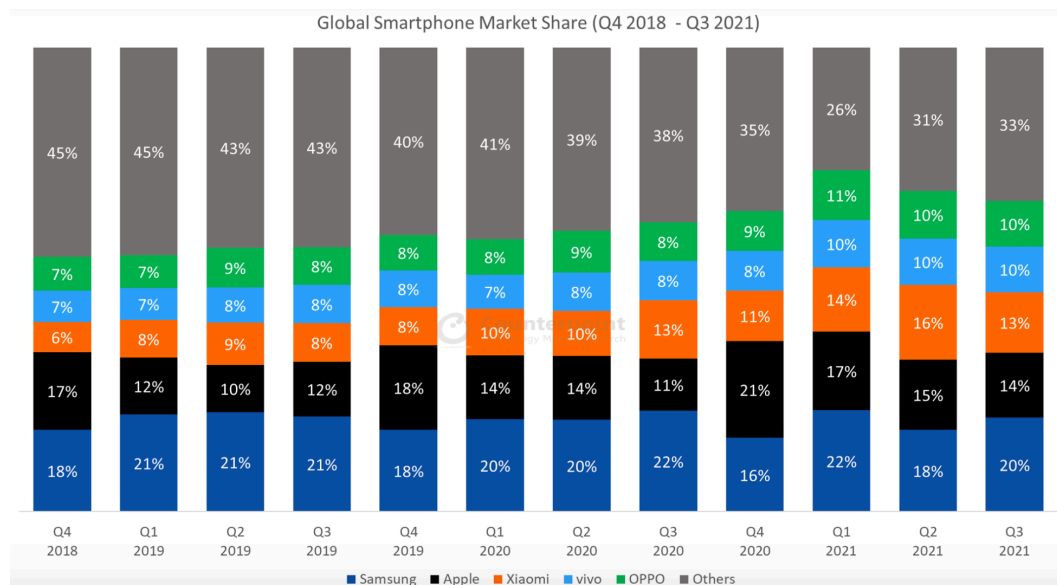


Figure 1.6. Global Smartphone Market Share  
Source: Counter Point Research, 2021

Xiaomi is a Chinese multinational electronics business that specializes in smartphones and revolutionary technology that is connected via an IoT platform. Lei Jun, the founder, launched Xiaomi Corporation in April 2010. Xiaomi's well-known emblem, "MI," stands for "Mobile Internet." The Xiaomi logo also has a second meaning, namely "Mission Impossible," as Xiaomi overcame numerous obstacles that seemed overwhelming in their early years (Xiaomi Global Site, 2021). The company's vision is to develop relationships with customers and become the most extraordinary company in their eyes. True to its vision, the company works tirelessly to develop distinctive goods at reasonable rates so that all users can use and benefit from breakthrough technology. The company is committed to innovation, a superior user experience, and operational efficiencies. Xiaomi has grown to become one of the world's leading smartphone firms due to the company's persistence in developing and giving the finest products and services.

Since the company has continued to show its development in penetrating the international smartphone market, including Indonesia, Xiaomi was picked as the object of research. In addition, looking at the current trend where Xiaomi has lost its position as the leading market share of smartphone vendors has challenged the researcher to study the phenomenon where the shifting smartphone preferences happen in Indonesia.

International business activities are becoming a central part of the global economy, and it is recognized that there is a greater necessity to measure consumers' behavior toward foreign products. Therefore, people in business should learn more about consumers' behavior toward foreign products. One of the frequent research concepts is the willingness to buy. To find out consumers' perceptions and willingness to buy in buying a product, it is necessary for companies involved in international business to realize that ethnocentrism plays an essential role in the global market. Ethnocentrism is defined as a psychological concept that refers to how consumers make purchasing decisions based on the country of origin of the goods. It relates to a country's consumers' ethnocentric attitude toward items from other countries (Shimp & Sharma, 1987). In addition, ethnocentric customers view foreign product purchases as wrong and unpatriotic since they undermine the national economy, ultimately in job losses.

Research conducted by Hamlin and Elliot (2006) shows that Indonesia is one of the countries with a higher level of ethnocentrism than other countries. The studies of Saffu et al. (2010) demonstrated that individuals with a higher level of ethnocentrism have a negative attitude toward imported goods. Moreover,



ethnocentric customers express a significant affinity for local items, exaggerate their features, and strongly bias purchasing goods from their country of origin (Wang and Chen, 2004). At the same time, they make unfavourable judgments about imported goods and demonstrate a hesitation to purchase them (Zafar et al., 2013). Additionally, they harbour prejudices and hostility against foreign countries and undervalue the virtues of imported goods (Wang et al., 2013).

Leong et al. (2008) conducted a study on the effect of animosity (both stable and situational) in the consumer decision-making process demonstrating that animosity plays a role in the consumer decision-making process. Animosity is a strong disdain for an ethnic group or country due to past or current political, economic, or military acts. Consumers' animosity against a particular country frequently has a detrimental effect on both the cognitive and emotive aspects of a product out of that country. (Leong et al., 2008; Klein, 2002). Therefore, hate or animosity against a nation can affect how its products and brands are evaluated (Klein, 2002; Klein et al., 1998; Leong et al., 2008). As a result of the animosity, the Indonesia-China relationship is laden with challenges and mistrust, prompting Indonesia's choice to terminate diplomatic relations with Beijing due to Beijing's excessive interference. Although conditions have improved since 1998, it is also unfair to declare that the ethnic Chinese factor in Indonesia-China ties has ceased to exist. However, as a result of the recent Covid-19 outbreak, anti-Chinese sentiment has grown anew, despite China's efforts to assist Indonesia in dealing with the outbreak by providing vaccines, test kits, N95 masks, safety gear, and portable ventilators (The Jakarta Post, 2020). Many Indonesians refer to Covid-19

as a "Chinese virus" (The Diplomat, 2020), resulting in significant prejudice against the Chinese diaspora and Chinese employees in the country. This friction caused animosity and perception between the two countries.

Thus, this research examines the relationship between Indonesians' ethnocentrism, their animosity against China, and their perception of the quality and willingness to purchase Chinese brands. To further narrow the scope of this study, the researcher will focus on the technology industry, namely smartphones.

## **1.2 Problem Statement**

Xiaomi's position as the leading market shareholder has slid to third, owing to severe competition. According to the phenomenon described in the research background as well as prior studies, Indonesia has a high level of ethnocentrism, and the animosity between Indonesia and China, can influence the Indonesian consumer behaviour. This motivates the researcher to investigate the relationship between Indonesian ethnocentrism, animosity toward China, and perceptions of the quality of Chinese products and willingness to buy.

## **1.3 Research Questions**

Therefore, based on the statement of the problem, the researcher concludes the research questions as follows:

1. Does the ethnocentrism of Indonesian consumers have a positive impact on animosity toward China?

2. Does Indonesian consumers' ethnocentrism have a negative impact on their perceived quality of Chinese brands?
3. Does Indonesian consumers' ethnocentrism have a negative impact on their willingness to buy Chinese brands?
4. Does Indonesian consumers' animosity toward China have a negative impact on their perception of Chinese brands' quality?
5. Does Indonesian consumers' animosity toward China have a negative impact on their willingness to buy Chinese brands?
6. Does Indonesian consumers' perception of Chinese brands' quality have a positive impact on their willingness to buy Chinese brands?

#### **1.4 Research Objectives**

According to the research question above, the objective of this research are listed as follows:

1. To determine whether the ethnocentrism of Indonesian consumers has a positive impact on animosity toward China.
2. To determine whether the ethnocentrism of Indonesian consumers has a negative impact on their perceived quality of Chinese brands.
3. To determine whether the ethnocentrism of Indonesian consumers has a negative impact on their willingness to buy Chinese brands.
4. To determine whether the Indonesian consumers' animosity toward China has a negative impact on their perception of Chinese brands' quality.

5. To determine whether the Indonesian consumers' animosity toward China has a negative impact on their willingness to buy Chinese brands.
6. To determine whether the Indonesian consumers' perception of Chinese brands' quality has a positive impact on their willingness to buy Chinese brands.

### **1.5 Significance of the study**

This research contributes to the following general views and practical implications, as follows:

#### **a. For Researcher**

This research is expected to help researcher understand the role of ethnocentrism and animosity impact on Indonesian perception and willingness to buy Chinese brand. It is also expected to add experience to develop the understanding in the field of International Business.

#### **b. For Business or Corporations**

This research is expected to provide additional information and benefit for the companies specializing in the smartphone industry in order to further understand the role of ethnocentrism and animosity impact on Indonesian perception and willingness to buy Chinese brand: Xiaomi, and to help them in achieving their goals.

#### **c. For the Next Researchers**

This research is intended to make a theoretical contribution that includes the four variables used. This study uses three independent variables: consumer

ethnocentrism, animosity, perceived quality, and the variable willing to buy as the dependent. In addition, it is expected to increase knowledge for the community and can be adopted as a source of information for future studies.

## **1.6 Organization of the study**

This study's systematic overview is comprised of five chapters and is organized as follows:

- **Chapter 1: Introduction**

This chapter describes the background of the research, research questions, research objectives, research contributions, and a systematic outline.

- **Chapter II: Literature Review**

This chapter summarizes a comprehensive evaluation of the study topic's theory and literature, compiled from textbooks, journals, and other sources. Additionally, this chapter covers the research model and hypotheses, which discuss numerous variables associated with the submitted research question.

- **Chapter III: Research Methodology**

This chapter briefly elaborates the methods used to examine and measure the relationship between variables in this research. It includes research object, research paradigm, types of research, data collection strategies, the extent of research interference, study setting, unit of analysis, time horizon, variable measures, data collection ethics and methods, sampling design and size, measurement, and data analysis.

- **Chapter IV: Data Analysis and Discussion**

This chapter discusses the analysis of the results of the relevant research and data analysis, which are obtained by statistical examination to find the correlation of the relationship between variables in this research. The results of the discussion will provide answers to research questions and provide research conclusions.

- **Chapter V: Conclusion and Recommendations**

This chapter will provide conclusions and recommendations that can be applied by the research object that has been studied and can close this research by providing insights, theoretical implications, managerial implications, research limitations, and recommendations for future research.

