

CHAPTER 1

INTRODUCTION

1.1 Research Background

The phenomenon of globalization has an impact on the whole world. It can be defined as a process of international integration which is normally caused by the exchange of the world's perspectives, thoughts, products, and other cultural aspects (Griffin & Putsay, 2015 p.9). It has a major impact, especially on international business, where it manages to ease the local businesses in competing on a global scale. However, it also has both positive and negative impacts on international trade. With it, the world is considered to be "connected as a whole" - where all places can be reached and everyone is free to do his or her business anytime and anywhere. By understanding its impact; every country tries to maximize the positive impact and minimize the negative impact, on economic development to occur in the country, especially in developing countries (Hermala, 2019). Today, globalization has made consumers got many options for products and services which are originating from overseas. However, consumers frequently experience internal conflicts when making purchases of domestic or foreign products (de Nisco et al., 2016), where all of the options can trigger a feeling of being 'impressed' and 'disappointed' (which are directed to some of the options) due to their perceptions of the products' increasing quality and value of the products and new competitors that have entered into the market (Tseng et al., 2018).

Globalization certainly also has an impact on Indonesia, where it brings larger chances to open markets. Moreover, it also plays an important role in Indonesia's economy. During globalization, cooperation between countries is also necessary since establishing it can facilitate access to cooperation, such as in the economic field. It has brought Indonesian products to be sold abroad via exports. During globalization; cooperation between countries is also necessary since establishing it can facilitate access to cooperation, such as in the economic field. Cooperation is important due to the challenges faced by each country, such as limited natural resources. Indonesia itself often cooperates with other countries, one of which is China. The relations between these two countries have grown closer in recent years. China is the country with the highest import value (non-oil and gas products) compared to other countries. Indonesian consumers are certainly familiar with the, "made in China" label. According to the Badan Pusat Statistik (BPS), the highest number of non-oil and gas imported products come from China. Their value of imports (in August 2022) amounted to USD 633.9 Million - or around Rp 9.44 trillion (Al, 2022). As stated in tempo.co, the import data shows that China is the country that imports the most to Indonesia in December 2021. China also takes control of the market share of non-oil and gas imports in Indonesia. Badan Pusat Statistik (BPS) shows that the value of non-oil and gas products in Indonesia by December 2021 reached US\$ 6.23 billion. Compared to the total value of Indonesia's non-oil and gas imports in that month, the value is equivalent to 34,68%. In the previous month, Chinese products also dominated Indonesia's non-oil and

gas imports. It reached US\$ 5.28 billion or 35,44% of the total non-oil and gas imports value in November 2021.



Figure 1.1 Indonesia Imports Partner
Source: Badan Pusat Statistik (2021)

Electronic devices made in China are very popular in Indonesia. Many famous phone brands from China are sold in Indonesia. Based on a report from the International Data Corporation (IDC), the best-selling Phone sales in Indonesia in the second quarter of 2022 is Oppo, which manages to reach 2 million units. Its market share in Indonesia has increased, namely from 19.1% (second quarter -2021) to 20.6% (second quarter-2022). Furthermore, Samsung also manages to sell 1.9 million units in the second quarter of 2022; followed by Vivo, with sales of 1.7 million units; and finally, Xiaomi and Realme, with sales of 1.5 million units and 1.3 million units in the second quarter of 2022. The number of phone shipments in Indonesia has reached 9.5 million units (Mutia, 2022). It is apparent that 4 of 5 phone brands are from China. The top 5 best-selling smartphones in Indonesia in the second quarter of 2022:

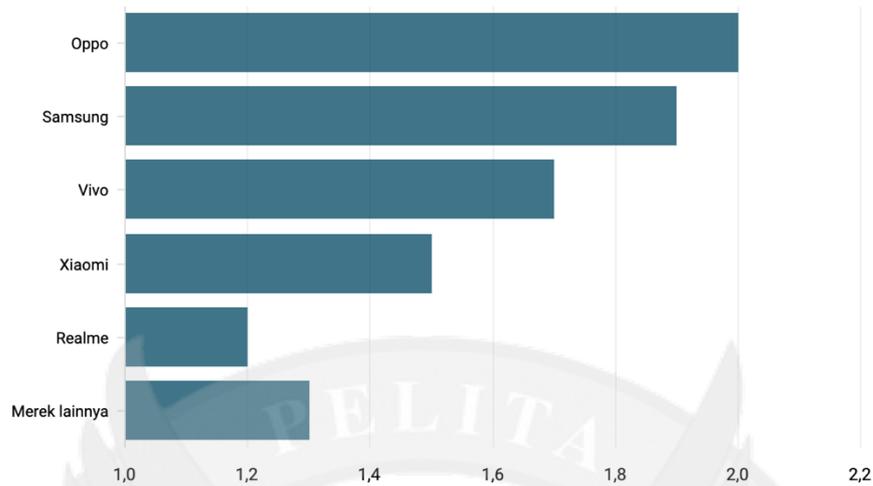


Figure 1.2 Top 5 best-selling smartphones in Indonesia Q2-2022
Source: International Data Corporation (2022)



Figure 1.3 Indonesia's Top 5 Smartphone Companies
Source: International Data Corporation (2021)

However, sales of smartphones declined to 7.5 million units in the first quarter of 2020. This number is the lowest record in the last two years. According to IDC's analysis, the Indonesian smartphone market experienced a sharp decline of minus 18% in the first half of 2020 compared to 2019. The decline was due to

the Covid-19 pandemic which began to have an effect in the last few weeks of the quarter.

Knowledge of consumers' Willingness to Buy is also important in determining their buying interest in a product or to predict their future behavior (Harly & Octavia, 2014). Ethnocentrism and Animosity play an important role in this 'Willingness to Buy. In another research, it is found that both of them can harm the 'Willingness to Buy' computer products made in Taiwan (Souiden et al., 2018). Other researches also show the negative impact of Animosity on the 'Willingness to Buy' hybrid products (namely products which are involving affiliates from two or more countries; e.g. Japanese brands but are made in China (Cheah et al., 2016). According to Tjiptono (2005), one of the variables which influence the 'Willingness to Buy' for local brands is Ethnocentrism. Consumers can feel ethnocentrism; namely, an attitude that gives them some kind of a negative assumption in buying imported goods, which in turn makes them prouder to buy local products. Their ethnocentrism will affect the 'Willingness to Buy' foreign products (Guo & Zhou, 2017; Quang et al., 2017). Another factor that also affects it is Animosity, which it can be caused by several things; such as negative politics, history, and economics (Klein et al., 1998). Research by Feng and Yu (2016) has revealed that consumers can judge the quality of the product (whether it is good or bad). However, they will still not be interested in buying the product because of the hatred that they have for the country. Another research from Souiden et al., (2018) shows that animosity has a negative impact on Willingness to Buy. Furthermore, research from Quang et al., (2017) similarly states that Animosity has a significant negative impact on

Willingness to Buy. Therefore, this research is conducted to find out more about Consumers' Ethnocentrism and Animosity towards the 'Willingness to Buy' Chinese branded phones in Indonesia.

1.2 Research Problem

Chinese ethnic in Indonesia are often regarded as outsiders in Indonesia. According to Daniel Chirot, there are two types of nationalism, namely: ethnic nationalism and civic nationalism. Ethnic nationalism is formed based on one ethnicity or blood ties of one group. On the other hand, civic nationalism is formed based on shared values across ethnic and social groups. This national identity identifies who can be called a citizen. According to Chirot, Indonesia falls into the second category. Identification of citizens is done by determining whether the person is an ethnic native or not. Unfortunately, the Chinese people are not included in this (Basuki Irawan, 2020).

In a research journal by Freedman, stated that Soeharto forced the Chinese community to assimilate while labeling them as non-natives. There are a few ethnic Chinese people in Indonesia during the Soeharto era who benefited from different investment opportunities and became extremely wealthy as a result. The collapse of Suharto in 1998 made this differentiation more complicated. Riots that emerged in various cities in Indonesia targeted the Chinese people as the target of hatred (Tirto Arman, 2016).

It has been more than two decades since the 1998 riots occurred, but discrimination and hatred against the ethnic Chinese community still exists today.

The recent Covid-19 pandemic has evoked animosity against Chinese ethnic in Indonesia (Hidayat Wahyu, 2021). Smartphones made in China dominate the sales market in Indonesia. Due to the strong anti-Chinese mentality that has been embedded in Indonesia from generation to generation and the recent Covid-19 pandemic, commonly known as the “Chinese Virus”, Indonesian have a high level of Ethnocentrism and Animosity toward China. This encourages the researcher to examine and analyze the connection between Indonesians Ethnocentrism and Animosity on Willingness to Buy Chinese Smartphones with the mediating variable of Product Judgment.

1.3 Research Questions

The question that the researcher wishes to answer is as follows:

1. Does Indonesian Consumer Ethnocentrism have a negative effect on the Willingness to Buy Chinese Smartphones?
2. Does Indonesian Consumer Animosity have a negative effect on the Willingness to Buy Chinese Smartphones?
3. Does Consumer Ethnocentrism positively influence Consumer Animosity?
4. Do Foreign Product Judgements mediate the relationship between Indonesian Consumer Ethnocentrism and Willingness to Buy Chinese Smartphones?
5. Do foreign Product Judgments mediate the relationship between Indonesian Consumer Animosity and Willingness to Buy Chinese Smartphones?

1.4 Research Objectives

Given the Research Question above, the objective of this research is as follows:

1. Indonesian Consumer Ethnocentrism has a negative effect on Willingness to Buy Chinese Smartphones
2. Indonesian Consumer Animosity has a negative effect on Willingness to Buy Chinese Smartphones
3. Indonesian Consumer Ethnocentrism positively influences Consumer Animosity
4. Product Judgements mediate the relationship between Indonesian Consumer Ethnocentrism and Willingness to Buy Chinese Smartphones
5. Product Judgements mediate the relationship between Indonesian Consumer Animosity and Willingness to buy Chinese Smartphones

1.5 Significance of The Study

This research hopefully can provide knowledge and contribution for readers for both theoretical and practical benefits as follows:

1. Theoretical Contribution

It is anticipated that this study would advance the theories of Indonesian Consumer Ethnocentrism, Consumer Animosity, Product Judgment, and Willingness to Buy Chinese Smartphones. By reading this study, it is intended the reader would be able to learn more and come up with

acceptable explanations and also provide references and insights for further studies.

2. Practical Contribution

It is anticipated that this study will be useful to readers in gaining new insights, developing ideas, and assessing their Willingness to Buy Chinese Smartphones. It is expected that this research will provide a valuable resource for both individuals and companies to use in their practices or operations.

1.6 Organization of The Study

This research will be divided into 5 chapters to make it more understandable.

The contents of each chapter are as below:

- **Chapter I: Introduction**

This first chapter introduces the topic covered in the thesis which introduces the research background and research problem. This research also presents the research question, research objectives, research contribution, and research outline.

- **Chapter II: Literature Review**

The second chapter described the theories and variables used as a foundation, the relationship between each variable, the research model, and provide the research hypothesis that was developed from previous studies, books, and journals.

- **Chapter III: Research Methodology**

The third chapter portrays the research paradigm and the types of research used. This chapter also presents the object of the research, sample design and size, and data collection method.

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

The fourth chapter discusses the research's outcomes and offers an explanation of how the outcomes were obtained.

- **Chapter V: Conclusions and Recommendations**

The last chapter provides a description of the research's conclusion, contribution, and suggestions for further and future studies.

