

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the Study

The steel industry's demand in the world keeps increasing more from year to year. ASEAN (Association of Southeast Asian Nations) is the world's major steel import market, the consumption per year in 2020 reached 650 million tonnes, reflecting a big market availability in ASEAN and the Indonesian steel market. Market globalization and competition create a huge change (Ristovska & Ristovska, 2014). The right strategies to achieve success are through exploiting the opportunities that exist in a fast-moving and increasingly competitive business environment (Companys & McMullen, 2007).

Many companies in the world have implemented these actions and chosen the right corporate strategy and got successful. This condition requires a company to develop its strategy so that it can survive, compete and continue to grow during an intense business competition, therefore the company needs to develop an appropriate strategy so that the company can maintain its existence and can improve company performance (Gluck et al., 2008). However, Indonesia's per capita steel consumption is the lowest in ASEAN and has great growth potential (Figure 1.1). The Indonesian steel end-user sectors concentrate on construction, automobile, and oil & gas industries which are forecasted to enjoy booming growth in the short to medium term (Figure 1.2).

The crude steel consumption of Indonesia is estimated to increase at a CAGR of 7.4% (base case) from 19 million tons in 2021 to 27 million tons in 2026. Currently, Dexin has a production capacity of 4 million tons, and it is the largest steel producer in Indonesia. After the operation of Phase 1 Expansion with a 2 million tons capacity, Dexin will further increase its market share and voice in the Indonesian market and will also have a profound

impact on the ASEAN market. The consumption increased from 64 million tons in 2011 to 91 million tons in 2021 and production increased from 21 million tons to 50 million tons. And, as reflected in Figure 1.3, the self-sufficiency rate also increased from 37% to 55% based on the new capacity resulting from the expansion over the past 5 years, reflecting a big market availability in the ASEAN steel market (Hatch, 2020).

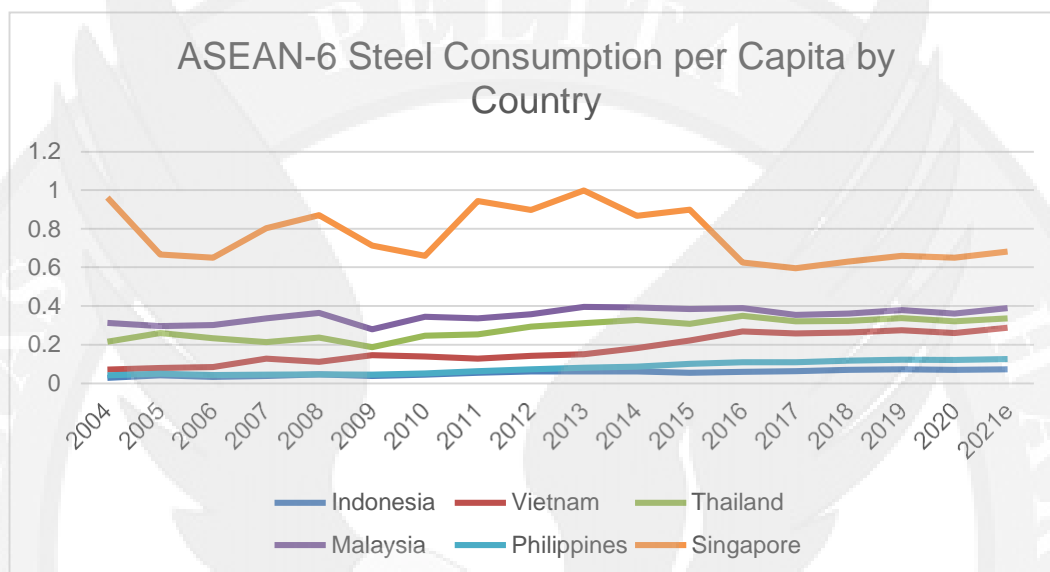


Figure 1.1. ASEAN-6 Steel Consumption per Capita by Country, Historical by Hatch, (tonnes per capita)  
Source: WSA, Hatch (2022)

Table 1.1. The most active end user markets are construction & infrastructure, heavy industry and energy sectors

| End Market                    | Indonesian Market Outlook   | Application   |
|-------------------------------|---|---|
| Construction & Infrastructure | Continued steady increase<br>New Capital  | Bridges, Ports, Subways, Offices, Plants, Buildings etc.                      |
| Heavy Industry                | Expects strong underlying demand to continue into 2026 due to mining and construction investment    | Ship, Cranes, Material handling equipment, Truck, Engineering Machinery, etc. |
| Energy                        | Expect continued demand improvement into 2026 for traditional energy<br>Rapid growth for renewables | Offshore platforms, Power Plants, Transmission lines, Renewables, etc.        |

Source: Hatch (2022)

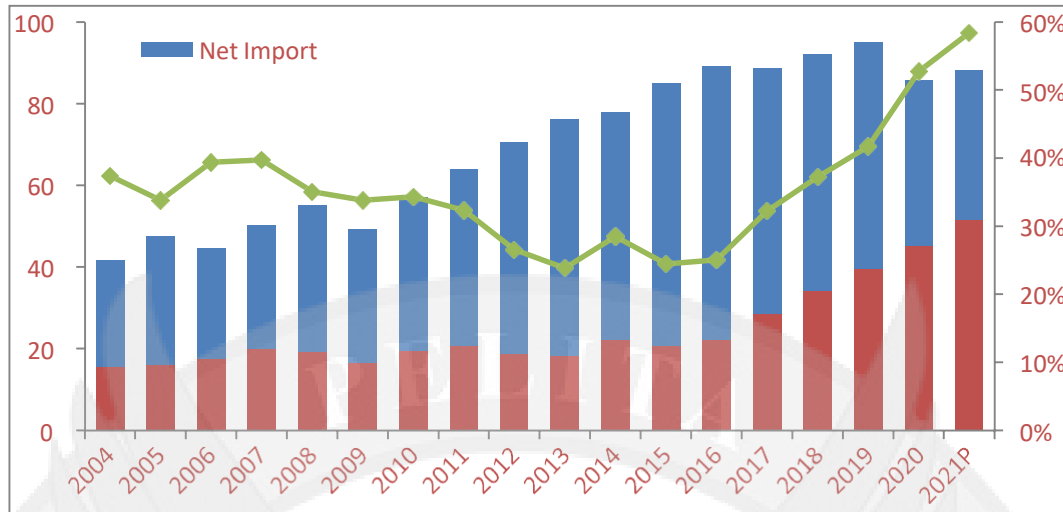


Figure 1.2 ASEAN-6 Crude Steel Production, Trade & Self-sufficiency Rate, Mt  
 Source: SEAISI Statistical Yearbook, Hatch (2022)

In economics, a market is defined as a coordinating mechanism that uses prices to convey information among economic entities (such as firms, households and individuals) to regulate production and distribution. It can be said that a market is a process by which the prices of goods and services are established. Markets facilitate trade and enable the distribution and allocation of resources in a society. Indonesia, as one of the world's largest developing countries, maintained rapid economic growth over the past decade. As we can see in Figure 1.3, Indonesia's Gross Domestic Product is increasing constantly from year to year, and reached its highest position in 2021. Benefitting from its excellent population structure, low labor costs and large consumer market, in the next decade, Indonesia's economy is expected to maintain a rapid growth rate.



Figure 1.3 Indonesia GDP Per Capita Growth.

Source: datacommons.org (2022)

Meanwhile, steel is an alloy made up of iron with typically a few tenths of a percent of carbon to improve its strength and fracture resistance compared to other forms of iron (Tuttle, 2018). Many other elements may be present or added. Carbon steel is composed of iron and 0.12 - 2.00 percent carbon. Because of its high strength and low cost, steel is used in buildings, infrastructure, tools, ships, trains, cars, machines, electrical appliances, weapons, etc.

Market steel in Indonesia plays an important role in the development of the manufacturing industry in Indonesia. The low per capita steel consumption in Indonesia indicates a big room for improvement in regional steel consumption. Besides, the Indonesian government also plans to increase the development of the country's roads, airports and power plants since they are overburdened already with existing activities. And one of the policies is by toning down the restrictions on opening new businesses from foreign investments and increase the tax incentives for the foreign investment (BKPM, 2021)

This study is about DSI a China-Indonesia joint venture steel company that is owned by multinational enterprises as its parent, and how they thrive in the steel market. A multinational enterprise is a company that has business operations in at least one country other than its home country. They are an organization that owns and controls the production of goods or services in at least one country other than its home country (Phillip,1990). As mentioned by Daems (2012) about subsidiary, DSI is a subsidiary that is controlled by a parent company in China. DSI is a joint venture company between Delong Group, Tsingshan Group, and Hanwha Japan and is located at Indonesia Morowali Industrial Park, Central Sulawesi. In 2018, DSI commenced its Phase-1 project to construct a factory with a capacity of 4 million tonnes of steel. After 2 years of construction, DSI commenced single-line production and started to generate profit during the year. And then, in 2021, DSI starts the construction of the Phase 1 Expansion Project. This construction is expected to boost its production capacity to 6 million tonnes per year. Currently, DSI has a production capacity of 4 million tonnes, and it is the largest steel producer in Indonesia. After the operation of Phase 1 Expansion with a 2 million tonnes capacity, DSI will further increase its market share and voice in the Indonesian market and will also have a profound impact on the ASEAN market.

## **1.2 Research Problems**

DSI is facing fierce competition in the steel market in Indonesia, with many factors from the external environment that might bring challenges to DSI. In view of the big growth potential in steel consumption, there are quite a several large integrated steel mills planned in Vietnam, Indonesia and the Philippines. Many of these new projects are invested by Chinese companies. Competition from other foreign steel companies forced steel companies in Indonesia to divert their market abroad rather than the domestic market. Moreover, the recent outbreak of the Covid-19 virus put the world into a pandemic state. The virus brings an impact not only on the steel market, but also on every sector of the

world's economy. The steel market in the ASEAN also collapsed due to the pandemic, and DSI is massively affected with a drop in net profits by 68.4% between 2021 year and 2022 year. This is mainly due to the global economic downturn that caused lower market demand and increased restrictions on logistics. In addition, there was an increase in the prices of raw materials such as iron ore and cokes.

DSI also faced several problems internally like a high volume of inventory in the warehouse due to lower demand and higher cost of production. In addition, the company also incurred higher expenditures for maintaining Chinese workforce as DSI needs their expertise. During the global economic downturn, it is very crucial for DSI to focus on the strategic factors that may contribute to its competitive advantage. Thus, DSI must have a clear understanding of its strategies to overcome the fierce competition both in domestic and foreign markets and actively explore the factors that can maintain and even gain its competitive advantage.

### **1.3 Research Questions**

This single case study focuses on the following research questions:

What strategic factors allow DSI to have a competitive advantage over their competitors?

How does DSI implement these strategic factors to have a competitive advantage over their competitors?

### **1.4 Research Purposes**

The purpose of this research is to investigate the competitive advantage of PT Dexin Steel Indonesia in how to compete with domestic and foreign steel companies, especially during the COVID-19 pandemic. The data collections are from three different perspectives which are the management, vendors, and customers. The aim is to illuminate the knowledge

and understanding of what and how certain strategies are effective and ineffective for competitive advantage. This research will eventually construct a mini-model theory that depicts the strategies required to sustain and develop DSI in the fierce steel market.

