

CHAPTER I

INTRODUCTION

1.1 Background of Problem

Indonesia and China boast a multifarious relationship, blended with historical threads, cultural exchanges and flourishing economic partnership. However, this relationship is greatly affected by political factors. According to (Ji Siqu, 2022) China has been deepening its ties with Indonesia and has become a major trading partner and a major foreign investor. Meanwhile China relies on Indonesia's large and various consumer markets. Chinese goods have become popular among Indonesian consumers, with extensive imports including textile products, electronic goods as well as other products (Global Times, 2024). Despite the thriving economic ties, there has been some mistrust in Indonesia about the quality of Chinese goods as well as the dominance of Chinese goods which poses a threat to Indonesian goods. As China's GDP ranks top 2 in the world in 2023 according to Statistics Times, it is not a question that Chinese products bring an unmatched opportunity compared to other countries to the Indonesian market (Yu et al., 2022). Generation Z born between 1997-2012 is shaping Indonesia's market. According to (J. Han et al., 2024) Generation Z has become marketer's main target customer group as Generation Z is characterised by strong purchasing power as well as strong market influence. Generation Z has engaged in technology from an early age making them exposed to wealth of information and innovation (Kahawandala et al., 2020). This shapes their knowledge into finding innovative,

trendy and useful products to fulfil their needs which makes Chinese products the answer to their needs.

Chinese products have been at the forefront of innovation and are leading the industry with cutting-edge products, yet affordable prices as Chinese manufacturers would offer very competitive prices. China's large-scale manufacturing capabilities allows them to produce at lower labour costs which results in significantly lower prices than other countries but still with good quality which results with growing preferences of Chinese goods (Obeng, 2022). This price advantage is an aid to developing nations like Indonesia, Chinese products have opened the door to Indonesians in having a taste of the latest trends with affordable prices. Generation Z's purchases can be categorised as fashion, home appliances, electronics and cosmetics. Influenced by social media lavish lifestyles, Generation Z always aspires to have the latest items and gadgets, these combined with the variety of Chinese goods sold in Indonesia contributes to consumptive behaviour.

Indonesia, a developing nation which has a significant amount of population is a major buyer of Chinese products. Particularly the home appliances sector in Indonesia which is dominated by Chinese products. This home appliances sector is categorized by electrical and mechanical devices used for cleaning and for household functions which falls under the category of HS 84 and 85 including refrigerators, air conditioners, air purifiers and dehumidifiers, clothes washer and dryer, gas stoves. Microwave oven, vacuum cleaner and other miscellaneous items such as hair dryer, gallon pump etc (Abed et al., 2024).

According to (Ahdiat, 2024) , through Badan Pusat Statistik (BPS), in the first semester of 2024, the value of imports from China for non-oil products increased by 8.21% (ctc) to US\$32.45 billion.



Sumber:
Badan Pusat Statistik (BPS)

Informasi Lain:

Figure 1. 1 Nilai Impor Nonmigas Indonesia dari 10 Negara Mitra Dagang Terbesar per Semester 1 (2023-2024).

Source: Badan Pusat Statistik, 2024

This is in accordance with a report from (Putra & Shaidra, 2024) in which the Head of BPS said that products that are widely imported from China are mechanical and electrical equipment and products categorized as HS 84 which includes home appliances.

A survey done by (Katadata.co.id, 2020) also stated that 88.8% of respondents of Indonesian consumers uses more local products compared to imported products in regards of food and beverages, banking, vitamin and

supplements as well as skincare and shoes while 11.2% of those respondents prefer imported product for electronic goods and gadgets.

Indonesia has a slogan that has been used for years now which is 'Cintailah Produk Indonesia' an effort to condemn the growing presence of imported goods in Indonesia particularly, Chinese goods. Indonesian brands have used this slogan and other local pride attributes in their products to attract customers and encourage them to buy products with national pride, which is a concept of consumer ethnocentrism. Indonesian government has also launched initiatives to support local products including P3DN (Peningkatan Penggunaan Produk Dalam Negeri) (Turnip, 2023) which is an initiative to boost the usage of local products. This program includes government support such as tax incentives, research and development (R&D) assistance, international certifications help and subsidies to help Indonesian brands compete in the Indonesian market. Consumer ethnocentrism is an important factor that is useful to understand how perceptions are formed.

Consumer ethnocentrism is a tendency for consumers to have a certain bias towards products produced by their home country over those from other countries (Nguyen et al., 2023). These consumers believe that buying foreign goods damages the domestic economy which results in job losses and can be seen as an unpatriotic act to their nation. Consumer ethnocentrism provides knowledge on how perceptions and attitudes towards products can be influenced by general country image. General country image is a consumer perception toward a particular country (Nguyen et al., 2023). A good and reputable general country image strengthens a product image in a particular market. Product image has a tremendous role in

shaping consumer attitudes, behaviours, and preferences, especially in international markets. Product country image is the generalized stereotypes and perspectives that consumers have about a country that led to their choice to purchase goods from that country (Nguyen et al., 2023). Product country image is an asset that which helps enhance the internationalization strategy that helps expansion and has a huge impact on exports. A reputable product country image is associated with products that increase quality and appeal which ultimately leads to purchase intention.

Despite extensive efforts from the government and increasing awareness among Indonesians to use local products, Chinese home appliances continue to dominate the Indonesian home appliance sector which poses a challenge to local Indonesian brands. This dominance is evidenced by the year-on-year increase of 3.56% in China's household appliances in Indonesia as of July 2024 (Kontan.co.id, 2024) . Meanwhile, Badan Pusat Statistik (BPS), (Kusuma, 2024) reported in 2022 that the sales of locally made home appliances in Indonesia have experienced strong growth, with confidence in future expansion as the recorded surge in growth shows 12.56% in the third quarter of 2022, followed by consecutive increases of 7.63%, 12.78%, 17.32%, and 13.68% in subsequent quarters. While this scenario, creates opportunities for local brands, it also poses significant challenges in competing with Chinese products. Particularly, there is limited research investigating how consumer ethnocentrism as well as general country image and product country image influence purchase intentions, especially in the highly influential Gen Z demographic in Indonesia. This gap provides an opportunity to dive deeper into the factors that drives Gen Z's purchase intention.

In conclusion, the relationship between Indonesian consumer ethnocentrism, general country image of China, product country image of China and purchase intention of Chinese home appliances create a diverse landscape for the Indonesian home appliance market. This research will examine the role of Indonesian consumer ethnocentrism in the purchase intention of Chinese home appliances in Indonesia. This thesis will examine Generation Z in the Greater Jakarta area as this consumer group is more engaged with innovative home appliances and their features.

1.2 Problem Statements

Despite government support and Indonesian consumers' ethnocentrism and support for local brands, Chinese home appliances continue to dominate the Indonesian home appliance market. This study aims to determine whether consumer ethnocentrism, general country image and product country image affect the purchase intention of Chinese home appliances in Indonesian society, despite the support for local products that are expected to compete.

1. Does consumer ethnocentrism of Generation Z in Jabodetabek influence the general country's image of China?
2. Does consumer ethnocentrism of Generation Z in Jabodetabek influence the product country image of China?
3. Does consumer ethnocentrism of Generation Z in Jabodetabek influence their purchase intention of Chinese home appliances?

4. Does general country image of Generation Z in Jabodetabek influence product country image of Chinese home appliances?

5. Does general country image of Generation Z in Jabodetabek influence their purchase intention of Chinese home appliances?

6. Does product country image of Generation Z in Jabodetabek influence their purchase intention of Chinese home appliances?

1.3 Research Objectives

The research objectives of this research are as follows:

1. To examine if consumer ethnocentrism of Generation Z in Jabodetabek has an influence on general country image of China

2. To examine if consumer ethnocentrism of Generation Z in Jabodetabek has an influence on product country image of China

3. To examine if consumer ethnocentrism of Generation Z in Jabodetabek has an influence on purchase intention of Chinese home appliances

4. To examine if general country image of Generation Z in Jabodetabek has an influence on product country image of Chinese home appliances

5. To examine if general country image of Generation Z in Jabodetabek has an influence on purchase intention of Chinese home appliances

6. To examine if product country image of Generation Z in Jabodetabek has an influence on purchase intention of Chinese home appliances

1.4 Benefits of Research

This research offers considerable contributions to academic understanding as well as practical applications. The benefits of this research are as follows:

1. **Theoretical Contributions-** The research expands on grand theories such as the Theory of Planned Behavior (TPB) and consumer ethnocentrism, providing empirical insights into how cultural pride and national identity influence consumer purchase intentions. By applying these theories into emerging market like Indonesia, this research broadens their applicability in international business, helping to explain the dynamics of consumer behaviour and offering more perspectives on the role of ethnocentrism in global product consumption.
2. **Managerial Implications-**The result of this research provides insights for business and marketers in the international markets. Understanding Generation Z attitudes towards Chinese home appliances is important for businesses to implement strategies. Results from this research can help companies to reach Generation Z consumers.
3. **Policy Recommendations-**This research provides insight to government institutions about consumer ethnocentrism in the context of international trade relations.

1.5 Writing Systematics

The writing systematics of thesis proposal is structured as follows:

Chapter 1: Introduction- Provides background of problem, problem statements, research objectives, benefits of research and writing systematics.

Chapter 2: Literature Review-Provides theoretical framework, hypothesis development and research model.

Chapter 3: Research Methodology-Provides research object, researcher intervention level, unit of analysis, time horizon, types of research, variable measurement, conceptual and operational definitions, measurement scale, population and sample, data and data collection methods, data analysis techniques, research instrument testing results and hypothesis testing.

Chapter 4: Data Analysis and Discussion- Provides data analysis and discussion of the research.

Chapter 5: Conclusion and Suggestions-Provides conclusion, theoretical implications, managerial implications as well as limitations and recommendations for future research.

