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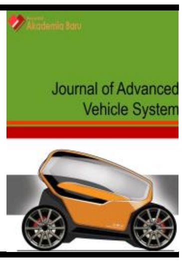

Cause and Effect of the Emerging Chinese Car in the Indonesian Automotive Industry

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ABSTRACT

Japanese cars have been dominating Indonesian automotive industry since 1970s. Several European and American carmakers have challenged them. Furthermore, most recent new contenders such as the Korean and Malaysian with their strong brand including Hyundai, Kia and Proton have also taken part in the rivalry. However, all fail to conquer the automotive market in the biggest south-east Asia's economy. The introduction of Chinese brands i.e. Wuling and Sokon to the Indonesian market in 2017 brought significant change in the competition landscape of Indonesian automotive industry. This article aims to analyse both Wuling and Sokon market performance compared to other Japanese carmakers. Comprehensive discussion regarding the existing dominant Japanese brands were firstly presented. To analyse the positioning of Chinese brands, data was collected from GAIKINDO with retail sales being considered in this study. The wholesales data was not presented as it does not reflect the actual market performance of an automobile brand. This study found that both Wuling and Sokon had significant market performance during their two years existence in Indonesia. In their second year, Wuling made into the top ten car manufacturers with 1.3% market share (9th), while Sokon had 0.1% market share (13th). Profound and deep analysis why both Chinese automobile brands could penetrate successfully into the fierce competition of Indonesian automotive market was given. This could be valuable lessons for non-Japanese brands such as Proton and other brands to enter the Indonesian automotive market successfully. In brief, three factors contribute to the success of Chinese automobile market performance in Indonesia; (1) the new image of “Made in China” initiated by electronic companies such as Huawei and Xiaomi, (2) the change of marketing trend and downfall of traditional dealership and (3) the rise of Indonesian YouTube car reviewer.

Keywords:
Chinese car; Indonesian automotive industry; Japanese cars; market performance; market share

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1. Introduction

For decades, automotive industry has been the backbone of human civilisation. Despite the growing demand for alternative biofuels [1] and advanced combustion such as Homogeneous Charge Compression Ignition (HCCI) engine [2], gasoline and diesel engines remain the primary options for transportation across the globe. One country that has been known for its prominent and largest

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automotive industry is Japan, Since the 1960s, along with China and United States, Japan has been consistently in the top three of the countries with most automobiles production, exceeding Germany. In Asia, Japanese cars dominance is spread across the continent with significant market performance.

In Indonesia, Japanese cars have been dominating the archipelago for almost 40 years. Today, they control over 95% cars in the Indonesian roads, leaving the remaining percentage for other international brands [3]. The European, American and Korean have sent their top automobile brands and models to compete against the Japanese. While some have failed miserably and closed their production plants as what occurred to General Motors in 2015 [4], the rests only taste a dip of Indonesian market. Take Kia and Hyundai for instance, both are global brands with solid reputation. Instead of experiencing a steady growth, their accumulative market plummeted dramatically from 5.12% in 2001 to just 0.21% in 2017 [3].

With all facts provided above, it is clearly seen that Japan has a strong economic dependency on Indonesia. Had Indonesia for one or two occasions been agitated by enormous economic crisis, Japan would have been arguably the first country to be affected from such crisis. In historical point of view, Japan came to Indonesia in 1942 and invaded the country for three years. The major reason of this coming was because the first Indonesian President, Soekarno, wanted to secure the independence from the Dutch by liaising with Japan. Japanese then helped the construction of the infrastructures that were very useful for general public. Moreover, Japanese also taught Indonesian farmer to produce crops, providing helpful and practical rules for them.

Japan as a nation is very crafty in finding the gap of Indonesian market and penetrating upon it intensively. As the most populous Muslim country in the world, Producers from Japan see the opportunity to put their feet in the gap. Ajinomoto, for instance, has been ensuring the “halal” certification for their product since the first time it was introduced to the Indonesian market. They produce a seasoning that are free from pork and its subsidiaries as demanded by majority of Indonesian people. Likewise, TOTO, one of the world's leading suppliers of bathroom products from Japan, understands that Islamic creed explains cleanliness as part of the faith. Therefore, cleaning one’s private part after urinating is an obligation for Muslim. Yet, most urinals available in the market do not facilitate Muslim to perform that duty. This is what TOTO finds the gap by producing Muslim urinal. Knowing the Indonesian market from A to Z has made Japan win against its competitor from Europe and America. Thus, no wonder that Indonesian streets has been dominated by Japanese cars. Toyota, Suzuki, Daihatsu, Nissan, Honda, Mitsubishi, Mazda and many others were even ready to start the Japanisation of Indonesian roads long before the streets themselves were even constructed.

Japanese firms cultivated the virgin of Indonesian soil whilst no other countries had not yet seen the massive opportunities of the country. When European countries, India, and America started to realize how big the market that Indonesia possess were, they were a bit too late. The playing ground has been set up. Today, Japanese influence in Indonesia is almost impossible to be neglected. Their footprints are scattered everywhere, flowing into the Indonesian bloods and veins.

Meanwhile, China is the biggest car producer in the world [5]. It is not surprisingly that many world car manufacturers are competing to sell their vehicle units in China. However, in 2018, for the first time in 20 years, new car sales in China showed a graph of a decline of 2.8% [6]. In 2017, 28.88 million cars were sold in China compared to only 28.08 million in 2018. To further nurture its automotive industry, Chinese car producers need to expand globally. Indonesia is one of the most important market for Chinese automobile carmakers considering its massive 264 million of population.

Although the first wave of Chinese exports in 2005 was a disaster, their comeback now is different. They are more prepared and mature in terms of technical ability and financial back up. According to an Initial Quality Study by JD Power, the quality gap between Chinese and other international brands is becoming narrow. In 2017, the quality gap was only 13 PP100 (problems per 100 cars). This was a massive improvement considering back in 2005, the number of problems was as high as 380, way above the international brands which stood at 193 [7]. Despite its recent improvement, it is difficult to measure Chinese car market performance in Indonesia. Therefore, this study aims to analyse the effect of two Chinese carmakers arrival, Wuling and Sokon, in the Indonesian automotive industry.

2. Review of Literature

Despite the prevalence of Japanese cars in Indonesian roads today, the first car arrived in the country was German's Benz Viktoria produced by Benz motor company. The car was owned by Pakubuwono X who was then the tenth ruler of Surakarta [8]. Interestingly, it was only eight years after the first modern car, the internal combustion engine, was invented and produced in Germany. Indonesia and Europe had established trade relationship due to the colonialisation. In fact, majority of cars in Indonesia were originally from Europe, with Morris and Austin being the most popular car in the 1950s among Indonesians.

The production of Indonesian home-grown car started in 1964 [9]. It began by importing car in semi-knocked-down (SKD) bases and assembling its parts and components. However, the Indonesian government imposed a new car production policy in 1969 by introducing a Completely-Knocked-Downed (CKD) regulation to limit Completely-Built-Up (CBU) vehicles. In 1976, Indonesia encouraged car producers to use local components on their unit productions [10].

Today, Indonesian consumers are known to be loyal to Japanese automobile brands. The import of Japanese cars began in 1959 only for the Mitsubishi truck [11]. However, in less than two decades, the Japanese started to dominate the Indonesian automotive industry. Despite the Malari event in which a Toyota dealership was burned as an objection against Japanese trading practice in 1974 [12], the sales of Japanese cars rose significantly after that. By 1980, the Japanese controlled over 88% of the automotive market in Indonesia. Since then, their share is becoming stronger and this can be seen from their dominance over 95% of car sales in Indonesia.

Today, the Indonesian automotive market is still immune from non-Japanese cars. However, the 2017 saw a bold manoeuvre by a Chinese automobile giant, Wuling. With its US$700 million investment and strong commitment to build a factory in Cikarang, West Java [13], its arrival in Indonesia could be just the beginning of new era; the age of Chinese car invasion in Indonesia. Since the proposal of 21st Maritime Silk Road (MSR) by Chinese President Xi Jinping, delivered in a speech to the Indonesian Legislature in October 2013 [14], Indonesia has become the golden spot for many Chinese investors, including one of the biggest China's car-makers – SGMW.

SGMW is a joint venture between SAIC Motors, Liuzhou Wuling and General Motors (SAIC-Wuling-GM). It has been considered as the most successful Chinese automotive corporation in the last ten years due to its massive expansion of three production centres in the country. In 2015, 3.73 million of GM cars were sold in China, making it the largest GM market in the world, and the Wuling contributed 2.02 million of that number [15]. Wuling is clearly positioned by GM as its emerging brand. However, both Chinese automotive company and GM have tried previously to enter the Indonesian market. They were not successful, and GM had to desert Indonesia in 2015, axing 500 jobs [16]. Today, both are coming together alongside with SAIC under one joint venture company called SGMW.

The ambition is clear, Chinese car makers want to expand internationally. They are like the Japanese in the 1970s or Korean in the 1980s. Top big Chinese carmakers are now on the move to export their cars to all over the world. 2018 will be the first year of their massive wave penetration.

Geely Automobile will start of selling its Lynk & CO brand in Europe in 2019 and in the United States in 2020 [17]. The Lynk and CO is co-owned by the owner of Volvo, Zhejiang Geely Holding Group, as well as by Volvo and Geely Auto. Meanwhile, its biggest rival and the China's largest SUV and pick-up firms, Great Wall have already started selling a diesel pick-up truck in Italy. Great Wall's full assembly plant is now being built in Russia & scheduled to open in 2019 [18]. Chinese Hondas have also been sold in Europe. Another automaker, rated as the highest Chinese brand for quality, GAC Trumpchi is planning to enter the US market. While Buicks and Volvos have already been produced in China and exported to the US market, Ford will also move its global production of the Focus to China in 2019 [19].

Therefore, the arrival of Wuling in Indonesia is not a coincidence, it's part of Chinese global ambition. Wuling penetrated the Indonesian market by firstly introducing Confero, an MPV aimed to compete directly with Toyota Avanza and Daihatsu Xenia. Seven-seater MPVs with high ground clearance have been the most preferable four-wheeler vehicles in Indonesia where families are large, and roads are prone to floods and holes. However, breaking into the Indonesian automotive industry is a challenging mission, but the Chinese carmakers have developed promisingly in the last decade. Many Chinese companies have joint ventures with global corporations such as Wuling and GM or Geely and Volvo. This collaboration has benefitted the Chinese to the access of technology. GM has failed before in Indonesia. Closing factory plants after 69 years of operation was a nightmare they do not want to experience again.

3. Methodology

Data on car sales was obtained from GAIKINDO, an association of motorized vehicles in Indonesia. It is a non-profit organization established in 1969 to improve the development of the Indonesian automotive industry. In 2019, there are 20 sole agents, 9 distributors, and 11 manufacturers listed as its members. GAIKINDO provides two types of sales data from each producer registered as its member; wholesale and retail. The wholesales data represents the number of cars distributed to the dealers by brand holder agents. Retail data, on the other hand, represents how many cars are sold and shipped from the dealers to the consumers. Therefore, the retail sales reflect better actual market performance and is used in this study to analyse the positioning of Chinese car manufacturers.

4. Results and Discussion

Wuling and SOKON (DFSK) entered the Indonesian automotive market in mid-2017. To provide an overview of the market share before the arrival of these Chinese brands, car sales data from 2016 is presented as shown in Table 1. It can be seen that the top ten in the list are all Japanese company. The total market share of these 10 Japanese brands reached 97.7% of the entire Indonesian automotive market in 2016. This percentage does not differ greatly from the figures in previous years, indicating a strong dominance of the Japanese automakers in Indonesian automotive market. There are several factors that make these Japanese companies so dominant. Fundamentally, they are able to conquer Indonesia for three reasons; investment in car-component manufacturing facilities, willingness to adapt to new regulation and the establishment of countless dealerships throughout the country.

First is investment in car-component facilities. An average car has to have around 30,000 parts before you call it a car. The Japanese have invested generous amount of money to set up car-component production plants in Indonesia. When Toyota and Honda came to build a factory, all of his subsidiaries from Japan also came along, supplying nut, bolt, etc. Even Japanese construction companies such as Shimizu and Obayashi are also present to set up Japanese car factories. As a result, it is relatively easier and cheaper to get their spare parts. So, lesson number one; the Japanese control the upstream-downstream of Indonesian automotive industry by developing a strong automotive supply chain.

Table 1
2016 Top Ten Car Manufacturers in the Indonesian Automotive Industry

Rank	Brand	Jan-Dec		+/-	%	Market Share (%)	
		2016	2015			2015	2016
1	Toyota	388,204	325,939	62,265	19.1	31.6	36.1
2	Daihatsu	192,410	166,567	25,843	15.5	16.1	17.9
3	Honda	190,229	166,258	23,971	14.4	16.1	17.7
4	Suzuki	97,872	122,348	-24,476	-20	11.9	9.1
5	Mitsubishi Motors	67,177	77,394	-10,217	-13.2	7.5	6.3
6	Mitsubishi FUSO	33,061	38,586	-5,525	-14.3	3.7	3.1
7	Datsun	25,875	29,651	-3,776	-12.7	2.9	2.4
8	Hino	22,332	22,014	318	1.4	2.1	2.1
9	Isuzu	16,315	19,881	-3,566	-17.9	1.9	1.5
10	Nissan	16,085	26,779	-10,694	-39.9	2.6	1.5

Their next successful strategy is the ability to adapt to new regulations imposed unpredictably in Indonesia. In 1970, the Indonesian government forced foreign car companies to cooperate with national agent if they were willing to sell and distribute their cars on the Indonesian market. The Japanese did not wait too long to respond accordingly. Back then, Toyota and Daihatsu appointed Astra International. More recently, in 2010, when the government offered tax incentives to cars produced using at least 80% of local component, the Japanese was once again reacted boldly by introducing low-cost green car (LCGC) to the Indonesian market.

Lastly, since a car is a moving product, an outlet should be available across the country. Selling cars in Indonesia means that producers have to open a dealer and authorized service network from Sabang to Merauke, a distance comparable to London-Mecca. You would not know where your cars are heading to. These cars might be shipped to the middle of Sumatera islands in the west or may end up in the city centre of Makassar in the east. Countless dealers are compulsory unless you want to exit earlier as what happened to the previous non-Japanese carmakers in Indonesia.

After Wuling and Sokon (DFSK) entered Indonesia officially in the middle of 2017, the landscape of the automotive industry changed slightly. This can be seen in Table 2. Despite being its only first year, Wuling pushed into the 13th position, while Sokon (DFSK) was in the 27th. Their position might have been better if they started early in the year since both brands began selling cars in the middle of the fiscal year. Therefore, their full market performance can only be seen in the following year. In 2018, as can be seen in Table 3, Wuling was successfully breaking the dominance of Japanese companies in the top ten by occupying the 9th position. Sokon also performed significant improvement, increasing from 27th to 19th in just one year.

Table 2
2017 Top Ten Car Manufacturers in the Indonesian Automotive Industry

Rank	Brand	Jan-Dec		+/-	%	Market Share (%)	
		2017	2016			2016	2017
1	Toyota	370,015	388,204	-18,189	-4.7	36.3	34.7
2	Daihatsu	185,240	192,410	-7,170	-3.7	18	17.4
3	Honda	180,971	190,229	-9,258	-4.9	17.8	17
4	Suzuki	107,185	97,872	9,313	9.5	9.2	10
5	Mitsubishi Motors	79,669	67,177	12,492	18.6	6.3	7.5
6	Mitsubishi FUSO	42,319	33,061	9,258	28	3.1	4
7	Hino	30,007	22,332	7,675	34.4	2.1	2.8
8	Isuzu	20,502	16,315	4,187	25.7	1.5	1.9
9	Nissan	15,613	16,085	-472	-2.9	1.5	1.5
10	Datsun	12,539	25,875	-13,346	-51.6	2.4	1.2
13	**Wuling**	**3,268**	**-**	**3,268**	**0**	**0**	**0.3**
27	**SOKON / DFSK**	**51**	**-**	**51**	**0**	**0**	**0**

Table 3
2018 Top Ten Car Manufacturers in the Indonesian Automotive Industry

Rank	Brand	Jan-Dec		+/-	%	Market Share (%)	
		2018	2017			2017	2018
1	Toyota	356,063	370,015	-13,952	-3.8	34.7	30.9
2	Daihatsu	200,178	185,240	14,398	8.1	17.4	17.4
3	Honda	162,956	180,971	-18,015	-10	17	14.1
4	Mitsubishi Motors	146,805	79,669	67,136	84.3	7.5	12.7
5	Suzuki	116,688	107,185	9,503	8.9	10	10.1
6	Mitsubishi FUSO	51,132	42,319	8,813	20.8	4	4.4
7	Hino	40,072	30,007	10,065	33.5	2.8	3.5
8	Isuzu	25,286	20,502	4,784	23.3	1.9	2.2
9	**Wuling**	**15,162**	**3,268**	**11,894**	**364**	**0.3**	**1.3**
10	Datsun	9,823	12,529	-2,706	-21.6	1.2	0.9
19	**SOKON / DFSK**	**839**	**51**	**788**	**1,545.10**	**0**	**0.1**

Both Wuling and Sokon have shown substantial sales growth during their second year in the Indonesian automotive market. However, Wuling shows greater market performance as can be seen from Figure 1 and 2. Wuling made it into the top ten manufacturers in the Indonesian automotive industry in 2018. Wuling sold 3,268 cars in 2017, but the number skyrocketed to 15,162 cars in just one year. As a result, its market share increased significantly, with merely 0.30% (13th) in 2017 to 1.3% (9th) in 2018.

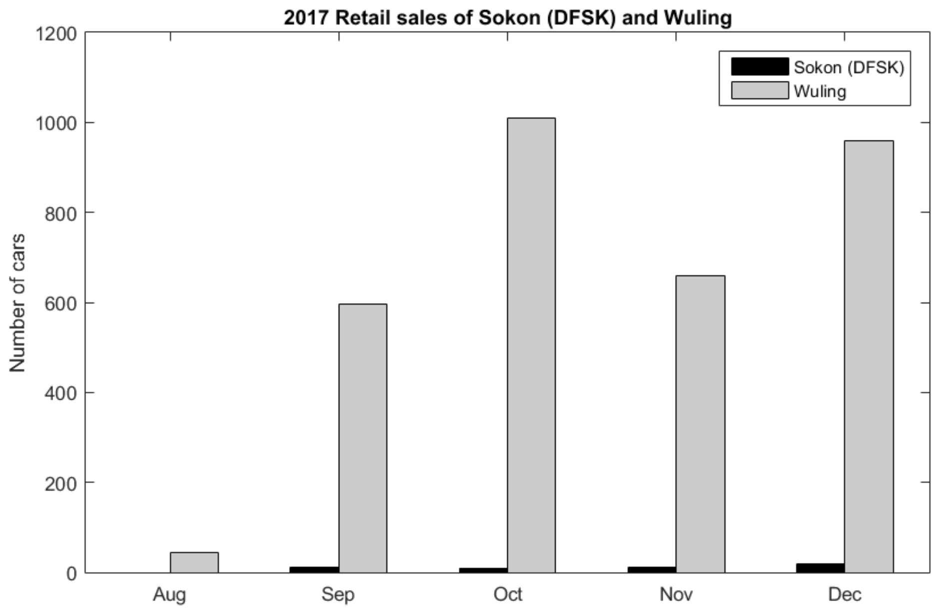

Fig. 1. Market Performance of Sokon (DFSK) and Wuling on Their First Year

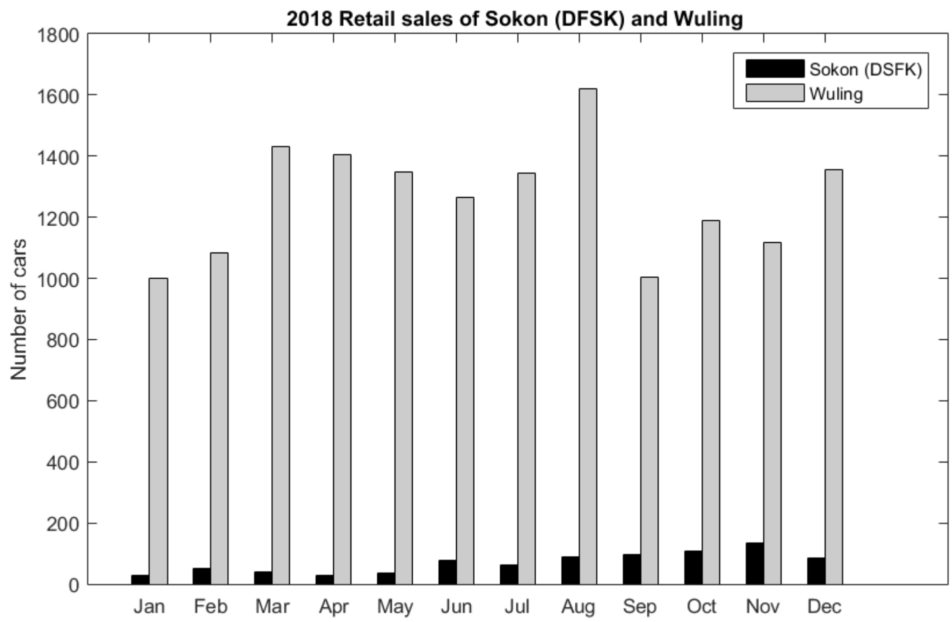

Fig. 2. Market Performance of Sokon (DFSK) and Wuling on Their Second Year

There are three main reasons for the successful of Chinese car sales in Indonesia. The first reason is the new image of “Made in China” products. The stereotypes of Chinese products have long been perceived as inexpensive and unreliable [20]. However, such label has started to change recently. Numerous Chinese companies such as Huawei and Xiaomi have challenged big players in the industry by producing top-end products. Although some literature studies show that country of origin plays a vital role in the perception of prospective customers to buy a product [21-23], the sales of some Chinese products have surpassed their western competitors [24].

The second reason why Chinese car sales can perform well in their first two years is the change of marketing trend and downfall of traditional dealership. The automotive industry has gone through a very dynamic transformation in recent years [25]. At the same time, the marketing world is always changing following the latest technological trends [26]. In the automotive industry, the concept of the traditional dealership has begun to be abandoned. The old ways in which consumers come to a dealer to buy a unit of a vehicle they desire are no longer relevant. Sales representatives serving at the dealership to help prospectus customers may have played a vital role in locking up a car sales deal in the past, but this trend has been slowly changing. Now, with the popularity of media such as YouTube and coupled with social media sharing features, consumers are becoming increasingly well-informed. Car review channel on YouTube has now become an important reference for potential buyers. Unlike the print media, video content such as YouTube are better to describe the features offered by car manufacturers. The car itself is a movable object and would be better presented in video information than in a static form such as a newspaper or magazine.

The third reason of the successful Chinese cars is the rise of Indonesian YouTube car reviewers [27]. The car is a rich-visual product that can only be fully understood by seeing it directly. A sophisticated sound system or luxurious leather seats offered by a manufacturer will not be felt only through two-dimension media such as newspapers or brochures. Ideally, prospective customers come to try it directly or attend a car show event. But this opportunity is very rare and not everyone has the opportunity to do the test-driving. This is why the car review channel on YouTube plays a significant role in helping customers to evaluate their chosen brands or models. With the proliferation of car review YouTube channels, Indonesians become more knowledgeable to distinguish which vehicles are overpriced and which are value for money. Although the existence, tabloids and magazines are considered sufficient to educate a prospective buyer about the details of their dream vehicle, the print media does not provide enough clarity on the actual features displayed.

5. Conclusions

With such enormous Japanese influence, Indonesia as a nation have been benefitting greatly from the presence of Japanese cars in the country including the transfer of technology and job opportunities that are created. Japanese won the evolutionary combat of Indonesian automotive industry through years of dedication and persistence.

Despite the success of Japanese cars for decades, the arrival of Chinese automakers in Indonesia has changed the competition landscape. Sales report from their two years appearance in Indonesia has shown great promise. However, note that automotive industry is a gigantic business, very labour and capital intensive. It is true that the traffic conditions in Indonesia are terrible, but this does not stop growing number of middle-class Indonesians to buy their first car. Even with poor infrastructure, the automotive industry is predicted to grow rapidly in the following years. If Wuling and Sokon can bring the entire supply chain, develop the market, set up a network of service centre throughout Indonesia, they could be the next 'Japanese cars' in the country.

Three reasons have been identified to the success of Wuling and Sokon in their first two years of operation in Indonesia. First is the better perception of Chinese products towards Indonesian customers. One important factor of the market performance of Wuling car sales in Indonesia is the improved image of Chinese products such as Huawei and Xiaomi. With the development of marketing trend and the decline of conventional dealership strategy along with the growing of YouTube vehicle review channels, Indonesian people are now increasingly well-informed in choosing their dream car. In addition, with the presence of social media and its sharing features that can spread a content massively, a new automotive brand can break the hegemony of old player domination thanks to the intense promotion on social media.

All the three factors mentioned above change the landscape of the Indonesian automotive industry. Japanese automobile producers are now no longer easily launch new models with minimal features. With a relatively lower price, Chinese cars also offer many features that are often not provided by Japanese manufacturers. This is certainly changing the landscape of competition and inevitably, Japanese manufacturers are finally forced to add features without raising prices to be able to continue to compete with its competitors from their Chinese counterparts. One thing that Chinese cars do not have at the moment is the power of their brands. Western and Japanese brands have been on the market for a while thus accumulating of global experience and recognition. Chinese automakers need to consolidate and establish mutual collaboration to penetrate large market such as Indonesia. In this way, their penetration into emerging nations would be able to compete with existing dominant players.

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