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THE CONTEST FOR MARKET IN JAVA DURING THE 1990s CRISIS

PEREBUTAN PASAR DI JAWA PADA MASA KRISIS 1990-AN

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Abstract

Java has long been a contested lucrative market among the foreign goods producers. The 1990s crisis saw an expansion of Chinese products into the market of Java. This article discusses the contest for market of Java between Chinese and Japanese related business. Historical method is employed here in collecting relevant source materials, handling critically the data and in synthesizing the result. This article draws largely upon newspaper reports and oral history interviews as its main sources, supported by other relevant secondary materials. The goals of the article are to investigate how the Chinese goods penetrated the market, to examine strategies employed to penetrate the market, and to elaborate how the Japanese-related business respond to the Chinese business threat. It is argued that the 1990s crisis has paved the way for the China-made product to expand in the Indonesia's market of Java. The desire of the consumers in Java for cheap price product was a major factor. The penetration was supported by combined marketing strategies. The fast expanding China's import trade raised serious concerns among the Japanese business interests. Efforts were made to accept the challenges and to secure their earlier dominant market position.

Key words:

Market, crisis, related business

A. Introduction

Java has been the most important market of Indonesia. This fact has something to do with its population size. Java was and remains the most densely populated part of Indonesia. It constitutes only 7 percent of the country's land surface, but the largest part of the population of Indonesia lived in the island. In 1990 about 60 percent of the population of Indonesia lived in Java (Van der Eng, 1996:279). At the eve of the 2015 ASEAN Free Trade Era, more than half of the Indonesian population remains in Java. Even though the proportion tends to decline from time to time, but in absolute term the population of Java continues to increase. In 1990 the population of Java was 108 millions and by 2010 it grew to 137 million (*Kompas*, 5 March 2014). The growing population size is also identical with the increasingly large market of Java.

With its large market size, Java has long been a contested lucrative market among the foreign goods producers. During the colonial era various goods from Europe and Asia entered the market of Java and competed for gaining their own market shares in the island. There were three main groups sharing the market. The first group consisted of large trading houses. Most of them were Dutch-owned companies. The headquarters were located in the Netherlands, other European countries, and the United States of America. In Java they were represented by branch offices, found mostly in Jakarta, Semarang, and Surabaya (Liem, 1995:6-7). The second group consisting of mostly the Chinese and partly the Arabs embraced intermediate trade. Only in certain areas especially capital cities, there were a few European intermediate traders serving mostly European customers. Finally, the third group handled retail trade in which both Indonesians and the Chinese also got involved (Division of Commerce, 1930:303).

A great number of studies have tried to establish explanations to the predominant role of the Chinese in trade, including among others by Cator (1936) and Robison (1986). Major explanations include colonial restrictions, political backings and privileges, high working spirits, efficient business organization, and broad business and capital networks. One important aspect of the Chinese business operation which has long been highlighted in various studies was their competition with Indonesian business players. The competition between the Chinese and Javanese businessmen has been regarded as the major cause leading to the establishment of the Islamic Trade

Association (*Sarekat Dagang Islam, SDI*) in Surakarta, which later in 1912 became Indonesia's first mass-based nationalist movement organization, Sarekat Islam (Larson, 1990:53-57, Onghokham, 2008:6,22). Several studies have uncovered the contest for market of Java especially during the 1930s crisis (Liem, 1995; Nawiyanto, 2009).

The late 1990s crisis saw an interesting development of the contest for market in Java. China's import trade experienced a remarkable expansion, threatening the dominance of the Japanese industrial products, and raising deep concerns among the Japanese business interests in Indonesia (Kompas, 6 April 2002). A great body of contemporary newspaper reports reveals that the Indonesian market was inundated by a large variety of import goods from China especially since the late 1990s crisis. But there are no scholarly works that discuss and look at the issue. In order to fill the existing lacunae, this article discusses the contest for market of Java between Chinese and Japanese related business. Historical method is employed here in collecting relevant source materials, handling critically the data and in synthesizing the result. This article draws largely upon newspaper reports and oral history interviews as its main sources, supported by other relevant secondary materials. The major issues to be dealt with here are: How did the Chinese goods penetrate the market of Java during the late 1990s crisis? What strategies did they employ? and How did the Japanese-related business respond to the Chinese business threat?

B. China-Made Goods Floods

The 1990s crisis brought a remarkable change in Javanese market. Many people were forced to cut down their expenditure by shifting to cheap products. As one consumer put it, "in time of hardship like nowadays, it is irrelevant to talk about brand. The most important thing is that the goods can still be used and don't cause moneyless pocket". (*Republika,* 22 March 2003). The preference to lower priced products provided the opportunity for producers of cheap goods to expand their market, including China. Following the crisis, cheap products from China - especially machinery and electronics - flooded the Javanese market. China also became the major source of import goods such as garments, foods, and toys. In 2003 China was the Indonesia's second largest supplier of non-oil imports after Japan (Sahdan, 2004). By 2006 China has taken over the position of Japan as the largest supplier of the Indonesian imports

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(*Suara Merdeka*, 4 November 2006). In the first semester of 2007 with a value of US$ 3.6 billions, China's share in the Indonesian imports grew to 15 percent. This figure was significantly higher than that of Japan whose share amounted to US$ 2.9 billions or 12 percent of total imports (Dalam Lilitan, 2008).

Parallel to this development, Chinese goods began to be part of the daily lives of the population of Java. An interesting example of China's import trade penetration in Java is the case of motorcycles. The terms, *mochin*, *mocin*, and *mona* (*motor Cina*) are often used to collectively distinguish them from *mopang* (*motor Jepang*). Initially, there were five major brands of motorcycle. Four of them were made in Japan, with Honda as the market leader, followed by Yamaha, Suzuki, and Kawasaki, besides Piaggio from Italy. For around three decades, Japan motorcycles occupied a dominant market position in Java and elsewhere in Indonesian (*Kompas*, 24 April 2001). Together the share of Japanese motorcycles made up about 90 percent of the market. The largest share of about 50 percent was taken by Honda, which was described "king of kings" (Yamaha vs Honda, 2007:62) But, the automotive deregulation set in place on July 1999 paved the way for business players to import cheap motorcycles from overseas especially China (*Koran Tempo*, 21 May 2002). On July 2001 at least 600 motorcycle export companies from China were reported to have directed their business activities to the Indonesian market (*Sinar Harapan*, 16 July 2001).

As a result, the market share of China motorcycles in Java grew significantly. In 1999 there were only a few Chinese motorcycles, including Jialing and Mahator, sold in the market. The number rose sharply to 9 brands on May 2000 (Motor Impor, 2000:44)). By 2001 there were about 40 brands of Chinese motorcycles in the market (Sepeda Motor, 2008; Merek Motor, 2008). The number of companies and dealers distributing Chinese motorcycles in Java grew rapidly. On February 2003, there were 161 import and assembling companies and 210 motorcycle brands officially registered (*Suara Merdeka*, 26 February 2003). Networks for other Chinese products also expanded across the island. Lee Kung Hyun, Marketing Manager of the Samsung Electronics, recognized that the importers of Chinese products had wide networks and strong political support (Banjir Produk, 2000:32). Outlet shops which channeled Chinese products were said to have mushroomed in many big and small cities (Trik Maut, 2008). On November 2000, the dealers of Beijing

2008). Meanwhile, other Chinese motorcycle producers abandoned the national market and began to focus on local level markets. The sales of Viar and Happy motorcycles, for example, were concentrated on the local market of Semarang, Central Java (*Republika,* 19 February 2008).

It is true that the fast expansion of China motorcycles proved to be only short-lived. But, the Chinese import trade offensive in Java was more broadly based than just motorcycles. In 2000 China goods were reported to have accounted for 63 per cent of child toys market in Indonesia (Ahadi, 2000:20). China-made toys were preferred because of their cheaper prices than those of Japan. Quality was regarded as a second or third reason. Few buyers had expected that child toys would last long, except the expensive ones, and therefore, too much financial sacrifice was practically undesirable (Belitan Naga, 2004) Import goods from China also included televisions, VCD players, mobile phones, air conditioners, light bulbs, refrigerators, and several other products. Besides Japan's popular brands like Sony, Sharp, and Panasonic, Chinese brands appeared in the market too, for examples Khiko, Advante, Vitron, Eltesat, Western, Isahi, Gama and some others (*Suara Merdeka,* 10 January 2004), including Kevin VCD player, which was reported to have inundated the markets of Central Java and Yogyakarta (*Bernas,* 14 August 2000). From 2002 China-made electronics were said to have assumed the market leader position (*Republika,* 22 March 2003). By 2006 China has taken over the position of Japan as the largest supplier of the Indonesian imports (*Suara Merdeka,* 4 November 2006). China continues to threat the position of Japan in the market of Java and elsewhere in other parts of the world.

E. Concluding Remarks

This article has shown that the 1990s crisis has paved the way for the China-made product to expand in the Indonesia's market of Java. Only within a couple of years after the crisis, China already took over the position of Japan as the Indonesia's largest import supplier. The crisis affected radically the market of Java because many people had to alter their spending behavior. Part of the population was no longer able to afford consumption goods that were sold even at normal prices due to the decline in their purchasing power. With this development, there was a growing market for cheap products in Java and elsewhere in Indonesia. As an emerging producer of cheap industrial products searching for overseas markets, China greatly benefited from the new reality of Javanese market which consisted of increasingly large number of customers trying to mitigate their crisis-led hardships by shifting to lower priced goods.

Apart from the cheap price factors, the expansion of China's import trade was supported by a combination of strategies. First, the producers of Chinese goods often imitated the Japanese models that have been very popular in the market. This phenomenon is evident from the case of motorcycle. A number of China-made motorcycles were said to have duplicated Honda and Suzuki models. China products were labeled with brands, which often had resemblances in writing and sound with Japan's popular products. Another important strategy was the use of a variety of advertisements to promote the products. Besides using TV media, the advertising of *mocin* frequently appeared in newspaper pages. An important part of the marketing strategy was by offering discounts, prizes and bonus.

The fast expanding China's import trade raised serious concerns among the Japanese business interests. A variety of responses were made to secure their dominant position from China's threat. Through diplomatic channels Japan demanded from the Indonesian government not to change the prevailing regulations and not to give a special treatment to the Chinese trade. Legal issues concerning patent and property rights were also taken, for example by Honda producer, as a means of curbing China's products threat, apart from launching new series of product sold at a more competitive price. But, more manufacturers of Japan-related products employed a combination of strategies: launching new product models, offering prizes, bonuses, and credit facilities, providing warranty and free service programs. They also actively promoted their products and advantages through electronic and printed media, and often at once, attacked or undermined Chinese products. The responses of the Japanese trade interests gave mixed results. In the trade in motorcycles, they were quite effective in eliminating part of the Chinese competitors or reducing their advance in the Javanese market, although partly also due to the customers' growing dissatisfactions with the low quality of China products and poor after-sale services.

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