

## Analysis of Indonesia's Attractiveness as an Offshoring Destination Compared to China, India, and ASEAN Countries

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### Abstract

The research study addressed the problem of Indonesia's potential economic growth and the country's attractiveness as an offshoring destination. As a developing country and the fourth most populous country in the world, the future of Indonesia's economy is bright. However, Indonesia is still not as famous as India nor China as an offshoring destination. First, the researcher wanted to understand the situation of Indonesia's economy and what can be improved to be an attractive offshoring destination. Then, this research was using A.T. Kearney location criteria index and Farrell framework that were adopted in previous studies about the topic. The data gathered from secondary and primary sources were analyzed with the content analysis method. Result shows that Indonesia needs to ensure attractiveness and an increase in wage demand needs to be supported with the increase in the availability of more educated and government's effort in accelerating the infrastructure development, although corruption, unstable politics, and diminishing purchasing power still produce doubts to do business in Indonesia.

**Keywords:** Indonesia; Offshoring; Developing countries; Outsourcing; Unemployment rate; India; China; ASEAN.



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### 1. Introduction

The success of business depends on various attributes, and some are visible to the customers like product's quality and the service. However, the ones that make the difference are the structures under which a company organized (Bacea and Borza, 2015). Organizing a company involves managing categories of resources in the organization. Economists recognized three distinct types of resources that people utilize that are natural resources, human resources, and capital resources (Economic Sources, n.d). Bowen (2009), explained that careful management of resources leads to the path of project success. However, mismanagement of resources can lead to company's project failure, over time, budget overages, and other unwanted events. To avoid this mismanagement of resources, a company's manager must understand the best methods to manage them, and one of the best methods is using outside resources strategically.

A notable global trend in manufacturing strategies during the last 30 years was a move from vertically integrated manufacturing to outsourcing because of its strategic benefits (Leavy as cited in Wang *et al.* (2017), Outsourcing is the contract with independent suppliers of services or products (Ellram, Tate, & Billington as cited in Wang *et al.* (2017), as a way of achieving the desired supply or as a way of cutting costs (Ross, 2006, cited in Wang *et al.* (2017), When each side of the contract restructures its production, both sides can achieve net benefits (Wang *et al.*, 2017). For example, China has many low-cost and low-skilled workers while Australia has technologies and capital, therefore, if Australian companies outsource their labor's intensive products and services to China, both sides can have the benefit (Rexha and Miyamoto, 2006). Companies in developed countries such as the United States and the United Kingdom are popular as countries that outsource to developing countries like India, China, Philippines, Malaysia, and Indonesia. According to Stewart (2014), large companies such as Apple, Nike, Cisco Systems, Wal-Mart, and IBM are the companies that do most offshore outsourcing with India and China as primary destinations due to the low costs which enable these companies to earn higher profits. In 2013, 14 million workers employed by United States overseas affiliates (Scott, 2015). Job outsourcing helps U.S. companies to be more competitive in the global market by keeping labor costs low by recruiting in emerging markets with lower living standards (Amadeo, 2018).

According to Kearney (2017), India offers a depth and breadth of English-speaking skilled labor that cannot be matched by the other low-cost countries. A research article posted at Willis Towers Watson (2016), found that annual base salaries in India are the lowest in the Asia Pacific (APAC) region and substantially lower than its main competitor, China, by approximately 64%. So, this matter supports India's reputation as the most cost-competitive labor market country. Being known as a cost-attractive country with excellent labor skills enables India to emerge as the fifth most attractive market for investments. The FDI in India surged 17 % to over \$25 billion during the first half of 2017 Economic Times (2018). Aside from the FDI increase in the country, there are also several other benefits for a country by being economically attractive in global industry. As companies from developed countries send their jobs to reduce cost and increase profit, the countries they outsource to receive more works, generating opportunities, and reduce the unemployment rate. While employer saves money, the receiver earns more (Andrina,

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2016). According to Li (2014), offshore outsourcing destination countries would receive several benefits, such as consolidation of country economic growth, welfare level improvement, optimization of industrial structure, and increasing the number of country's employment rate. According to Li (2014), the potential service outsourcing in the United States would provide up to 14 million jobs to offshoring destination countries. Data from Indian software and service industry association showed that the boost of service in offshore outsourcing raises the quantity of employment in the service industry to 1.3 million in the annual 2005-2006 from 280 thousand in the annual 1999-2000. These jobs include electronic communication, energy resources, construction, facility management, transportation, food service, and other jobs.

Indonesia, among the developing countries, is also considered as a financially attractive country for outsourcing due to low living standard like many other countries in ASEAN region. However, that requires major attention is the considerable difference in "people skills and availability." China and India get remarkably higher score with 2.69 and 2.63 over Indonesia with 1.53 in the A.T. Kearney 2017 report. Employees' availability is not a concern for Indonesia considering the rate of unemployment in the country. However, the concern lies on the Indonesian low labor skills, and according to Indonesian Central Bureau of Statistics (2017), Indonesia shows scarce number of labor with higher education and require improvement in other aspects of skills. From 2010-2015 in Indonesia, the number of workers with tertiary education has increased by more than 1 million annually and those with a senior secondary education by more than 2 million annually. Moreover, the quality of tertiary education is relatively low, and the learning achievement of most students is inadequate (Allen, 2016). The education system is not providing enough graduates in some sectors, and in other sectors, those who are graduating does not have the right skills (Allen, 2016). Moreover, many individuals with post-secondary qualifications work in low-skill occupations. It is suggesting that despite their degrees, they lack the right skills (Allen, 2016). Indonesian Central Bureau of Statistics (2015) cited in Allen (2016), estimates that 51.5% of workers in Indonesia are underqualified while only 40.0% are well matched, and the rest of the 8.5% are over-qualified for their occupation. High levels of under-qualification and lower levels of over-qualification point towards an issue of skill shortages, which is an important issue as high levels of skill and the qualification mismatch are associated with lower levels of labor productivity (Allen, 2016). Also, with the rapid development of technology, automation now threatens hundreds and thousands of low-skilled and repetitive jobs (Sethi and Gott, 2017). It is possibly causing massive unemployment which becomes a major concern for Indonesia in this modern era. Although Sethi and Gott (2017), argues that people pay more attention to jobs destruction by automation and often overlook jobs created by it, the created jobs from automation are mostly high-skill jobs which Indonesian employees are troubled with because of the lack of skill.

Although Indonesia has a higher score than India in the business environment, the two countries are scored rather low compared to the other three attractive offshoring destination countries, with Malaysia given the highest score of 1.72 among the five. Indonesia as an offshoring destination is, in fact, considered excellent, given the country is ranked 4th in Kearney (2017) index. However, it is important for the country to maintain its attractiveness to boost the rapid growth of Indonesia's massive potential in economy. One of the reasons why Indonesia is attractive for foreign companies is the abundance of natural resources, for more than two decades, most of Indonesia's natural resources have been exploited (Saputra and Nuraeni, 2016). Despite the low industry potential because of language barriers, low industry experiences a difficult business environment (Sethi and Gott, 2017). As the 4th most populous country in the world, many believe the potential of the country's economic growth is just as massive as the number of population. This is proven by the signs of industry growth, including in the June 2017 announcement that Korean electronics conglomerate, Samsung, signed a five-year \$130 million BPO contract with Indonesian Aditya (Sethi and Gott, 2017). After collecting more information about how other countries in Asia such as India and Malaysia benefited by their attractiveness in global market and by combining the global service index of Kearney (2017) and Farrel (2006), framework which was adopted by Alkali *et al.* (2016) and Omoju (2017), this research aims to analyze the attractiveness of Indonesia in terms of financial attractiveness, labor skills, and business environment compared to China, India, and several countries in ASEAN. The number of research papers on the internet regarding Indonesia as an offshoring destination is still difficult to find, and this research will ease the process of finding information about Indonesia.

## 2. Literature Review

Outsourcing was formally identified as a business strategy in 1989. Before 1989, companies did not use outsourcing as a business practice like today. Outsourcing is the contract with independent suppliers for services or products (Ellram, Tate, & Billington cited in Wang *et al.* (2017), to get the desired supply or to cut costs (Ross cited in Wang *et al.* (2017), and it has become a necessary part of manufacturing strategies (Chen *et al.*, 2004). Offshore service outsourcing is beneficial because it uses the abundant and cheap labor resource in developing countries, and at the same time, it offers a lot of employment opportunities. Recent studies show that the potential service outsourcing in America will provide at most 14 million jobs to the countries with undertaking services (Li, 2014). The evolution of outsourcing has led to a wide variety of outsourcing services where there are many different types outsourcing services such as IT outsourcing (ITO), business process outsourcing (BPO), knowledge process outsourcing (KPO), etc. (nearshoretchnology.com). According to Alkali *et al.* (2016), business process outsourcing (BPO) is currently the fastest growing area of outsourcing services and surpassing the growth of information technology outsourcing (ITO). The ITO market is currently larger and more mature than the BPO market, but BPO is growing at a faster rate. This condition increases in BPO growth rate of 10% compared to BPO growing at 25% per year (Feeny *et al.* in Alkali *et al.* (2016). The majority of ITO and BPO work is mostly carried out in offshore and

according to [Omoju \(2017\)](#), the rate of offshoring of services, amplified by the eradication of market borders through globalization, is increasing.

Offshore outsourcing is the outsourcing of services to a third-party vendor in another country ([Carmel and Agarwal, 2002](#)). The primary reason for the increase in offshore outsourcing is the globalization of work which has created opportunities for organizations to move sector service jobs from developed nations to cheaper offshore locations. According to [Doh et al. \(2009\)](#), a business process can be categorized by their interactivity, repetition, and innovativeness. Business process such as call centers involves a lot of interactivity. Therefore, offshored to countries with high levels of ICT (Information and Communication Technology) infrastructure and high use of the home country's language, while others such as payroll processing that is quite repetitive, are offshored to countries with low wage and relatively stable environment, and research and development (R&D) which requires innovative capabilities is offshored to country with a highly educated workforce ([Alkali et al., 2016](#)). The primary leading destination for BPO services are the BRICS (Brazil, Russia, India, China, and South Africa) and there are also several emerging locations that are competing as offshoring destination such as Egypt, Singapore, Philippines, Chile, Uruguay, Hungary, and Poland. These countries become attractive for offshoring IT-enabled services due to wide skill base and low costs. However, organizations are also infrastructure, cultural differences, and language ability.

A.T. Kearney's Global Services Location Index ranks countries based on their attractiveness for offshoring of services across three dimensions: information technology, BPO, and voice-based work ([Kearney, 2011](#)) The Kearney study found that the top three nations, India, Indonesia, and Estonia, have remained in this order since 2003 based on the index. Therefore, those three countries remain as the most preferred outsourcing destinations ([Javalgi et al., 2013](#)). However, in the 2017 index, Indonesia placed 4th as the preferred offshoring destination ([Sethi and Gott, 2017](#)).

Outsourcing is promoted as one of the most powerful trend ([Bacea and Borza, 2015](#)). It is more than a cost saving exercise, but it is also a strategic move that enables managers to limit the firm's functions for which they are responsible and focus on the core competencies of the company. [Kremic et al. \(2006\)](#), believed that organizations might expect to achieve many different benefits through successful outsourcing. Although there are risks that may be realized if outsourcing is not successful. According to the survey conducted by [Deloitte \(2016\)](#), the market of outsourced services will likely continue its rapid adaption to meet the demands of customer. The survey also found that more than one-third (35 percent) of survey respondents stated that they already measure the value of innovation in their outsourcing relationships. The respondents predicted that outsourcing trends toward rapid change and disruption in the outsourcing market will likely to continue well beyond 2018 and will become more common. A similar survey conducted in 2004 by Outsourcing World Summit, a trade show, found that almost 49% of companies stated that cost reduction is the primary benefit of outsourcing ([Corbett, 2004](#)). Regarding work efficiency, when a particular type of work is outsourced, a company or organization does not require hiring skilled people for it, and no arrangement for training will be needed. The work will be handed over to people who are already experts in that trade ([Educba, 2017](#)). With the main intention of reducing costs while looking for opportunities to expand the business and maintain business quality, companies decide to use outside resources to perform some activities managed initially by internal staff and resources. However, this intention cannot always be done within a country. Due to this reason, companies are also looking for opportunities to gain more profit overseas through processes like offshoring and offshore outsourcing ([Bacea and Borza, 2015](#)).

Offshoring and offshore outsourcing may have the similar benefits for companies which seek better resource availability from another country. However, the two strategies differ in definitions and procedures. While offshoring involves relocating or setting up businesses in other countries, offshore outsourcing does not ([Bacea and Borza, 2015](#)), and this condition makes the process of offshoring requires more consideration from foreign companies and entrepreneurs. Cultural difference between members of project team related to the offshoring activity might cause miscommunication and misinterpretation that can overshadow the advantages of the offshore location ([Kotlarsky and Oshri, 2008](#)). Outsourcing as a business practice utilized by companies to minimize costs or improve efficiency by shifting tasks, operations, jobs or processes to an external contracted third party for a significant time ([Bucki, 2018](#)). The result of outsourcing is the reduction of employees in outsourcing company (vendor) and the increase of employees in the outsourcee company (user) (World Trade Organization as cited in ([Kavčič, 2014](#))). Outsourcing is a model of company control. Increasingly, companies are aware of the issues caused by nonstrategic outsourcing activities, as this deters the company from their main activities ([Kavčič, 2014](#)).

### 3. Methodology

The data gathered and used for this research is qualitative as case studies and the design usually yield data which is predominantly qualitative. Bromley as cited by [Zucker \(2007\)](#), defined a case study as a "systematic inquiry into an even or a set of related events which aims to describe and explain the phenomenon of interest." Case studies allow the exploration and understanding of complex issues ([Zainal, 2007](#)). It became more prominent when issues regarding community-based problems (Johnson as cited in [Zainal \(2007\)](#), such as poverty or unemployment, were raised ([Zainal, 2007](#)). Data collection is a very important stage in research. There are different methods used to gather data, either primary or secondary data. Secondary data can be collected from sources like government publications, internal records of organizations, reports, books, journal articles, website, and newspapers. In the result of a study conducted by [Tanacković et al. \(2014\)](#), 37.7% of the respondents agreed that newspapers have a high level of importance as information sources, confirming the study's premise that newspapers are perceived as a useful information source in scientific work. Then, for the primary data, the information is collected through interview and focus group discussion.

The analysis method used in this research is content analysis method. The most compatible data for content analysis are texts to which meaning are conventionally attributed: verbal discourse, written documents, and visual representations. Content analysis of qualitative data or qualitative content analysis is one of the numerous research methods used to analyze text data (Hsieh and Shannon, 2005). There are eight fundamental steps in qualitative content analysis start from deciding on research questions, selecting material (from the data gathered), building a coding frame, dividing the material into units of coding, trying out coding frame, evaluating and modifying coding frame, principal analysis, interpreting and presenting findings

## 4. Results and Discussion

Three main factors (Financial Attractiveness, Labor Skills, and Business Environment) set as the research questions. Then, the indicators in the research framework are the preset categories, and during the coding process, emergent categories are found and used to complete the research analysis. After the categories are organized, the researcher analyzes the found patterns and connections among the categories and coded findings to be analyzed and interpreted.

### 4.1. Financial Attractiveness

Table-1. Categories of Financial Attractiveness

Preset Categories	Emergent Categories
Labor cost	Comparison
Infrastructure cost	Challenge
Corporate tax	Effort

Source: Researcher's coding process (2018)

1. Labor Cost
  - a. Low base salaries, significant increase, even back in 2013
  - b. Fast minimum wages growth
  - c. Significant average minimum wage growth since 2001
  - d. In 2017, workers in IT, compliance, and digital marketing got salary rises
  - e. Different areas have different average wage
  - f. Average increase of 8.81 percent every year since 2016
  - g. Huge difference in minimum labor wage between 2018 and 2016
  - h. The wage increase in Indonesia is ranked 4th among the top 20 countries
  - i. One of the lowest minimum salaries, but increasing quickly
2. Infrastructure Cost
  - a. High industrial land price in 2014 and it still posed concern in 2017
  - b. Electricity tariffs are made more affordable
  - c. Lower logistic cost in 2017 than previous years
  - d. Cost of moving goods in the country is reduced with the help of AEC
  - e. Relatively high terminal handling charges at the port
  - f. Increase in freeway tariff due to the government's need to fund the country's infrastructure development
3. Corporate Tax
  - a. Stable tax rate of 25% since 2010
  - b. Lower number of tax rate is given to companies with lower income
4. Comparison
  - a. Acceptable labor wage but not as attractive as Vietnam or Myanmar
  - b. Vietnam has lower minimum wage than Indonesia
  - c. Myanmar has lower minimum wage than every province in Indonesia
  - d. Higher transportation cost than Singapore and Malaysia
  - e. Cost of infrastructure can compete with most countries in ASEAN region
  - f. Logistic cost ratio still higher than in Malaysia by 9 percent
  - g. Corporate tax is third highest in Asia along with China and Myanmar, lower than India and Philippines.
5. Challenge
  - a. Lack of adequate skills among workers and complicated labor laws
  - b. Still attractive wages, but workers have low productivity
6. Effect
  - a. Increasing minimum wage affected demand for low skill workers
  - b. Significant wage increase can cause work termination
  - c. The drastic increase of minimum wage affected companies to relocate factories to other countries
  - d. Rapid wage increase can cause investment within the country to be diverted to other countries
  - e. High infrastructure cost will affect the pricing of companies' end products

Analysis and Interpretation:

1. Labor Cost: Indonesia has the lowest minimum salaries among developing countries. However, it has been increasing at fast rate. The rate of increase is different depending on the area and job sector, and IT is one of the job sectors that received a notable rise in its average salary
2. Infrastructure Cost: Industrial land price in the country is still considered high, cost of logistic and power supply has been lowered since the previous years that as a result of government's effort and help from AEC. Possible increase in infrastructure cost in the future to balance government's spending on the development.
3. Corporate Tax: Stable corporate tax of 25% since 2010, and discounts given to companies with lower income.
4. Comparison: Two countries in ASEAN, Myanmar and Vietnam, have lower labor cost than Indonesia, the country has higher transportation rate than Singapore and Malaysia especially with 9 percent higher logistic ratio than Malaysia but can still compete with most countries in ASEAN. Indonesia's corporate is higher than most countries in ASEAN, but can compete with China and Myanmar, and considerably more attractive tax rate than India and Philippines
5. Challenge: Indonesia's financial attractiveness is challenged by the complex labor laws and lack of skilled workers with low productivity which is not proportional to the increasing wage in Indonesia.
6. Effect: Unattractive financial outlook of Indonesia might affect the country's economy in several ways. High labor cost influence companies to recruit only low skilled labor with low salary demand and companies are forced to terminate several workers. Also, companies will consider moving their business to more cost-attractive countries. The high-cost problem that burden companies will eventually be burdened to society.

## 4.2. Labor Skills

Table-2. Categories of Labor Skills

Preset Categories	Emergent Categories
Education level	Technology
English proficiency	Comparison
Technical skill	Challenge
	Effect
	Effort

Source: Researcher's coding process (2018)

1. Education Level
  - a. Majority of labors are primary school graduates
  - b. The low number of graduates is a concern
  - c. Positive trends of educated labor between 1996 – 2016
  - d. Negative trends of educated labor between 2016 - 2017
  - e. Majority of labors are primary and middle school graduates
2. English Proficiency
  - a. English ability makes workers more attractive
  - b. Unlike India, there is no English-speaking country in the history of colonialism in Indonesia
  - c. Overall low proficiency in English
  - d. Not seen as a necessity since the national language is spoken by everyone
  - e. Society is spoiled with subtitles in daily life
3. Technical Skill
  - a. Importance of technical skill in modern world
  - b. Work opportunities created by technology-based knowledge
  - c. Knowledge in technology offers opportunity
  - d. A more open world would increase the people's technical skills
  - e. ICT in 2015 was the most preferred job sector among university students
  - f. Low number of polytechnic students in 2016
  - g. Adapting to technology is important
4. Technology
  - a. Technology is essential for industries growth
  - b. Technology leads to job losses
  - c. Technological advancement gives people choices
5. Comparison
  - a. Fewer university graduates than Malaysia
  - b. Lower talent growth rank than India
  - c. STEM field is taken by 35% postgraduates in India
  - d. Overall labor quality not as good as China
  - e. Indonesia has more universities than China
  - f. Most workers in India and Philippines are fluent in English
  - g. Singapore, Malaysia, and Philippines have high English proficiency
  - h. India has medium English proficiency

- i. The more significant proportion of university students in business, finance, and ICT than other ASEAN countries
- 6. Challenge
  - a. Lack of improvement in health and basic education
  - b. The tertiary education system needs to be better established in the country
  - c. Efforts on improving labor quality are faced with challenges, including poverty and social gap
  - d. Technology affects several jobs
- 7. Effect
  - a. Individual skill is necessary for getting a job
  - b. Difficulties for labor in a competition
  - c. Technical skills and cognitive skills are needed to support economic development
- 8. Effort
  - a. Complete government attention on HR quality improvement
  - b. Implementation of internship training for primary and secondary school graduates

**Analysis and Interpretation**

1. Education Level: Indonesia’s trend of educated labor was positive between 1996-2016 with the increasing number of university graduates. However, in 2017, the number of university graduates in the country starts to decrease and the other way around for the number of primary school graduates.
2. English Proficiency: Ability to communicate in the most spoken language in the world is, overall, still lacking in Indonesia. Mainly because of the limited use of English in daily life since everyone in the country has only Indonesian as the official language, and the country also has no history with the English-speaking country during the colonial period.
3. Technical Skill: Even though not many people showed interest in polytechnic in 2016, ICT has been the most preferred job sector for many Indonesia university students in 2015. It indicates that the opportunities created by technology-based companies have a strong background. In a modern world where adapting with technology is important, Indonesia is showing progress.
4. Technology: The advancement of technology proves to be good and bad at the same time. Industries growth is assisted by technology and people are given abundant choices. However, if humans cannot progress along with the advancement technology, ‘skilled’ technology may eventually replace ‘skilled’ humans as the more attractive option.
5. Comparison: When compared to Malaysia regarding university graduates, Indonesia has fewer graduates with 22 percent against 9 percent. However, based on the number of higher education institutions, Indonesia has more universities than China, yet the overall quality of labor in China is still considered better than Indonesia. It indicates that the definition of skilled labor is more than just labor with a degree. Overall, the English proficiency in Indonesia is inferior compared to Singapore, Malaysia, Philippines, and India. In 2015, Indonesia had the most significant number of ICT students than other ASEAN countries, but India shows promising in the technical field with 35 percent of post-graduate students in STEM field, and the talent growth is better than Indonesia.
6. Challenge: The development of skilled labor in Indonesia is challenged by the lack of improvement in basic education and tertiary education, widespread poverty, and social inequality. The advancement of technology also gives some threats to workers.
7. Effect: Attractive labor skills are necessary for the country because the skills of every individual are needed to get a job. These skills include both technical and cognitive skills, and especially since the competition in labor market is getting fiercer.
8. Effort: Government has been giving complete attention on HR quality improvement to increase Indonesia’s labor skills. One of the efforts is by giving internship training to primary and secondary school graduates.

**4.3. Business Environment**

**Table-3.** Categories of Business Environment

<b>Preset Categories</b>	<b>Emergent Categories</b>
Political economic environment	Forecast
Infrastructure quality	Comparison
Cultural environment	Challenge

Source: Researcher’s coding process (2018)

1. Political economic environment
  - a. Global and political environment affects Indonesia’s market greatly
  - b. Unstable politic in Indonesia affected reinvestment decision.
  - c. The stability of politics is at risk
  - d. The rise of political instability since 2015
  - e. Positive outlook of Indonesia’s political environment in 2014
  - f. The election of the President in 2014 positively affect the foreign businesses
  - g. Influenced by some conservative groups
  - h. Positive economic outlook, supportive global, strong domestic

- i. Less optimism from CEOs entering 2018
- j. Increase in government spending
- k. Lower purchase intention from the society creating a negative trend on business expansion and domestic economy
2. Infrastructure quality
  - a. Positive spending on infrastructure development
  - b. Infrastructure quality is prioritized by the government
  - c. Poor port performance in Indonesia
  - d. Inefficient port operation
  - e. Insufficient sea and land transportation
  - f. Problematic road congestion in large cities, but steadily improving
  - g. Low availability and reliability of railway systems
  - h. Easier access to electricity
  - i. Power supply opportunity is vast and prosperous
  - j. Visible effort for improvement of airports access, mainly by supportive freeways
3. Cultural environment
  - a. Cultural differences are important when considering outsourcing
  - b. Indonesia has diverse ethnic groups, and the country is principled by the unity in diversity.
  - c. Business relationships in Indonesia take longer time to develop.
  - d. Indonesians tend to approach matters slowly
  - e. Indonesians tend to prioritize pleasing business partners from other countries
  - f. a country's natural culture cannot be changed and needs to be understood
  - g. High power distance in workplace
  - h. Collectivist society, tend to consider the ideals of society and in-groups.
  - i. Low masculine society, prestige or outward appearance is considered necessary by some people but rarely regarded the main importance
  - j. Prefers handling uncertainty than to express negative emotions in to protect relationships
  - k. Pragmatic society with a willingness to adept in changes to achieve desirable results
  - l. Tend to abide by social norm, restraining one's desire to indulge themselves
4. Forecast
  - a. Predicted to have highly productive capacity
  - b. Predicted to be the world 6th largest economy
  - c. Predicted to have stable GDP growth
5. Comparison
  - a. Growing FDI, average GDP share
  - b. Highest GDP in ASEAN but ranked 5th in GDP per capita
  - c. Singapore, Malaysia, Thailand have well-qualified logistics infrastructure
  - d. Lower infrastructure quality than China and Malaysia, but higher than India according to WEF
  - e. Malaysia and South Africa have a similar culture to the UK due to colonialism, and this eases their business dealings
6. Challenge
  - a. The problematic widespread corruption
  - b. Most problematic factor for doing business
  - c. Being open to foreign business made difficult by conservative groups
  - d. Pressure placed on foreign businesspeople
  - e. Trade war and monetary tightening on currency
  - f. Upcoming elections pose uncertainty
  - g. Four main challenges in infrastructure development. The regional disparity, lack of connectivity, high urbanization rate, ineffective resource utilization

### Analysis and Interpretation

1. Political economic environment: The reinvestment decision in Indonesia in 2017 because of the unstable and risky political environment in the country. In 2014, the political environment of Indonesia showed a positive outlook due to the election of President Joko Widodo which positively affect foreign businesses. The rise of political instability in the country has been rising since 2015, and the environment of political economy in Indonesia has lately been influenced by several conservative groups who oppose foreign businesspeople. Entering 2018, CEOs have shown less optimism regarding Indonesia's economy even though the World Bank predicted strong domestic and supportive global on Indonesia's economic outlook. The primary reason for this lack of optimism is the decreasing purchase intention from the society. However, the increase in government spending on infrastructure has been keeping slight optimism from CEOs.
2. Infrastructure quality: The positive spending on infrastructure development and how the government prioritizes improving the country's infrastructure explain a lot about the infrastructure quality now. Poor port performance and its inefficient operation, lack of sea and land transport causing high demand for air transports, the low availability and reliability of railway systems, and the steadily developing yet still

problematic road congestion. The power supply in Indonesia has been improving with government's effort to ease the access to electricity and opportunity in power supply investment is prosperous for business and economy. Airports access in the country have also been improved with increasing supportive freeways.

3. Cultural environment: Differences in culture are important to consider when outsourcing, especially in offshore outsourcing. However, a country's culture cannot be changed, and it needs to be understood. Indonesia has diverse ethnic groups, and its unity is the principle of the country. The Indonesians tend to prioritize foreign business partners, and business relationships in the country take longer to develop because people tend to approach matters slowly. The power distance in Indonesian workplaces is high, larger proportion of the society are collectivists, prefers handling uncertainty than to express negative emotions in workplaces, and tend to abide by social norm. The low masculine society considers that outward appearance is important, but not the main interest. Moreover, the pragmatic society of Indonesia is also willing to adept in changes to achieve good results.
4. Forecast: The prediction of Indonesia's economy has been positive with potential high productivity with stable GDP growth and ultimately becomes the world 6<sup>th</sup> largest economy.
5. Comparison: The economy of Indonesia is growing in FDI, stable growth of GDP, highest GDP in ASEAN, but average number of GDP per capita. Overall, the quality of infrastructure in Indonesia is lower than China and Malaysia, but higher than India. According to the World Economic Forum, among ASEAN countries, Singapore, Malaysia, and Thailand are considered to have well-qualified logistics quality. Malaysia and South Africa are examples of countries with a similar culture to the UK, and the two countries are attractive to the UK in the matter of similarities, an advantage Indonesia does not have.
6. Challenge: The most problematic factor in business environment is the widespread corruption in the country and radical acts done by conservative groups are putting pressure on government and businesspeople people. Global trade war and monetary tightening, in general, affect the global business environment including Indonesia's. The upcoming elections also pose uncertainty among entrepreneurs, and the country's infrastructure development is challenged by the lack of connectivity and inefficient resource utilization in dispersed region with high urbanization rate.

As an offshoring destination, the **financial attractiveness** of Indonesia is currently still good and has average labor cost, infrastructure cost, and corporate tax compared to China, India, and ASEAN countries. However, uncertainties in the cost of doing business in Indonesia is growing because of the significant rate of increase in labor wage which is not supported by the quality of labor in the country. The industrial land price in Indonesia is still considered high, aside from that, the government's effort and AEC have been very supportive at keeping the infrastructure cost of the country attractive. From the standpoint of corporate tax, Indonesia is a better offshoring destination than the Philippines and India.

The quality of labor in Indonesia does not support the demand for the wage increase in the country. The overall **labor skills** in Indonesia compared to China, India, and ASEAN countries is still not attractive mainly because most of the available workers are primary school graduates and low English proficiency. The technical skill in Indonesia is looking good since 2015 with many students have been taking ICT as major, and the massive use of technology-based apps and e-commerce in Indonesia have been giving the society better grasp of technical abilities. The government has also been giving improving the quality of labor in Indonesia through internship training to address the challenges posed by poverty and social inequality.

The highlight of the attractiveness of Indonesia's **business environment** compared to China, India, and ASEAN countries is the infrastructure quality. How the government spends so much focus and fortune on its development indicates that the quality of infrastructure is still lacking and still behind countries such as China and Malaysia, but the improvement is showing through more airports access, freeway repairs, and ease of access to power supply. The difficulties in infrastructure development are primarily caused by the lack of connectivity among regions and ineffective resource dispersion. The political economic environment of Indonesia has been unstable since 2015 and due to the uncertainties posed by the upcoming elections, the influence of conservative groups on politics, and the lower purchase intention from the society. However, the main challenge for Indonesia's business environment is the widespread corruption that is still clinging to the country's legal system. Indonesia does not share similar culture to major offshoring countries such as UK or USA, the culture within the country itself is so diverse but principled by unity. Indonesians in business are known to friendly and unwilling to show negative emotions, especially to foreigners. Most like to build relationships slowly. However, the slowness in some cases make people have problem with their punctuality.

## 5. Conclusion

As a developing country in Southeast Asia, aside from having an abundance of natural resources, Indonesia is an attractive offshoring destination because of its average low-cost labor and growing economy with huge population. However, the country needs to be more careful in managing the country's rate of wage increase and infrastructure spending to prevent the possibility of high increase in infrastructure cost in the future. The problem with the increasing wage in Indonesia is the lack of support from skilled labor factor, to ensure attractiveness, an increase in wage demand needs to be supported with the increase in the availability of more educated and government's effort in accelerating the infrastructure development, although corruption, unstable politics, and diminishing purchasing power still produce doubts to do business in Indonesia.



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