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**Investigation of Taiwanese enterprises foreign investment to
Indonesia:
A SWOT Analysis**

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Abstract

After the 1998 Asian financial crisis, Indonesia has risen to become one of Asia economic power due to the abundance of natural and human resources. However, the growth of Taiwan's investment to Indonesia has not been proportionate to the phenomenon and availability of Indonesian resources. Several studies have presented the problems with Indonesian investment environment. Yet, not much has also considered the economic and political factors underlying in the investing country (Taiwan in this case) as a thorough comparison of the internal and external factors of investment. In this particular study, I first describe and explore the history of Taiwan investment in South East Asia, followed by the application of the SWOT analysis on relevant materials such as interviews and academic papers. It is found that the external factors outside the Taiwanese enterprises as one of the main stakeholders of the investment is the biggest obstacle for the capital flow to Indonesia.

Keywords: Taiwan, foreign investment, Indonesia, SWOT analysis

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1. Introduction

In the last decade, the South East Asian region has been a popular target of Foreign Direct Investment for countries and corporations from around the world. The rise of the middle class, vast amount of labor forces, and the abundance of natural resources, all contributed to shaping an appealing atmosphere for foreign investors, especially for the developed countries in North East Asia region, whose geographical proximity and cultural relations with the ASEAN countries make the options of cooperation a no-brainer. One of the most notable bilateral relations is the cooperation between Taiwan and Indonesia.

As a country with the largest population in the South East Asian region, foreign investors sees Indonesia as the land of new potentials and where the future belongs. The massive availability of cheap labor, emerging working class, and steadily growing economy has been praised by McKinsey and The Economist as the key for future developments and regarded Indonesia to be the next Asian superpower. In the case of Taiwan, the technology and industrial knowledge owned by Taiwan contributed by the result of the 1970's "Taiwan miracle" are also considered complementary with Indonesia's availability of resources.

However, the record of Taiwanese investment flow to Indonesia from the early 1990's, the period where Taiwan industries started to move their labor-based industries to South East Asia, showed otherwise. Based on the statistics released by Taiwan Ministry of Economic Affairs, one can clearly see that the investment growth of Taiwanese enterprises in Indonesia is not parallel to the hype of Indonesia's potentials that we see in the past decade.



Source: Taiwan Ministry of Economic Affairs Statistics

The background of this study is to explore and analyze any economic, political, or social factors that influence the eagerness and hesitations of Taiwanese investors to invest in the vast archipelago of Indonesia. The research paper will start by revisiting the history of Taiwanese outward investment, especially highlighting the period when Taiwan moved from labor-based industry to capital-based industry, and the start of Taiwanese “Go South Policy” encouraged by the government to reduce dependency to Mainland China, which was the largest investment destination at that time.

The factors will be then interpreted and discussed from the data collected through the used methodology. The factors will then be classified in the SWOT analysis structure to create a descriptive model to comprehend the nature of the investment and giving deeper insights to the problems lie within the topic.

The descriptive model is intended to be a guideline of investment strategy planning for Taiwanese enterprises looking to expand their investment to Indonesia, and for the Indonesian government to reevaluate their foreign investment policy loopholes and the national investment environment in order to support Indonesia’s economic growth.

In the process of the study, there are certain limitations and restraints due to the limited capacity of the researcher as an undergraduate student. The researcher is unable to find an interview subject from a high hierarchical position both in enterprises or government offices to seek higher precision and validity of the interview.

2. Literature Review

In this section, I will present the literature review in two parts. The first part will be about the historical timeline on the history of Taiwan's outward investment, including government policies and investment destinations, especially in the Southeast Asia Region. The second part of the literature review is to review my choice of SWOT Analysis method in analyzing and evaluating Indonesia as a destination for Taiwan's investment.

2.1 Taiwanese Outward Investment History

For decades, Taiwan has been known as one of the most economically stable countries in East Asia. The well-developed economy could be attributed to the era of rapid industrialization that happened in the period of 1960-1980 known as the Taiwan Miracle. In the beginning, Taiwan started off as a labor-intensive economy country which mainly focused on agriculture and cheap manufacturing. However, in the end of 1980s, foreign investors deemed Taiwan to be a more and more unsuitable destination for a labor-intensive sector investment mainly due to the value increase of New Taiwan Dollars and spiking rise of the labor wage. With the capital and technology know-how collected from inward investments from the subsequent decades, Taiwanese firms started to move to the direction of capital intensive economy by moving labor-intensive sectors abroad through outward

investment (Chiang & Gerbier, 2010). In other words, Taiwan has moved from the “invested” to “investor” status. Since Taiwan changed its role as a capital-intensive country, the contribution of outward investment towards Taiwan GDP has increased gradually from less than 1% in the late 1980s, to more than 40% on 2007.

Without any doubt, the country regarded as the most complementary destination for the Taiwanese firm investment flows is Mainland China. Since Deng Xiaoping announced the Open Door Policy in 1978 as a mean to heighten the economic growth of China through internationalization, China has been an attractive destination for foreign investors. Nevertheless, it was not until 1985 that Taiwan was allowed to invest in the Mainland, after they reached a consensus on some pre-requisites such as Taiwan’s non-interference policy to China and permission of indirect export sending. In return, China also incentivized Taiwanese enterprises by establishing two investment zones in Fujian Province, where Chinese government would also give some tax privileges. All of the economic measures above are also supported by the lack of language barrier, sharing the same cultural heritage, and the convenience of geographical proximity (Burdekin & Whited, 2009).

Later in the 1990s, the increasing dependence of Taiwanese enterprises to Mainland China was deemed more and more risky due to the unstable nature and potentially hostile political relations between Taiwan and the Mainland (Burdekin & Whited, 2009; Chen, 1996; Chiang & Gerbier, 2010). The unstable political situation of the Cross-Strait relations had shade fears to Taiwanese investors investing to the Mainland. The risk of political turmoil between Taiwan and China was very obvious.

2.2 Lee-Teng Hui's stance and economic transition

In January 1988, following the death of the former President, Chiang Ching-Kuo, the throne of Taiwanese Presidency was succeeded by the then Vice-President, Lee-Teng Hui. In the presidential era of Lee-Teng Hui, Taiwan had taken a bolder stance toward the Cross-Strait relation. The high tense of The Cross-Strait relations peaked when Lee made an “unofficial visit” to his alma mater, Cornell University. This moves was seen by the People’s Republic of China government as a radical move from Lee in order to promote a *de jure* independence of Taiwan. As a response, in the end of July 1995, The PRC government conducted a missile test located less than 70 kilometers from Pengjia, an islet located in the Northern Part of Taiwan. The potential of war seemed imminent until the arrival of international interference from the United States mitigated the crisis. This incident is also known as the Third Taiwan Strait Crisis. The anxiety of Taiwanese enterprises was vividly pictured in the drop of Taiwanese outward investments to China by about 25% in the following year of 1996.

In spite of Lee’s provocative political stance, Lee was the first president to be aware of the risk of economic overdependence to China. Wang in Asian American Review argues that in his presidency term, although receiving heavy scrutiny from Beijing, Lee successfully managed to form diplomatic relationship with other countries through “informal visits” (since PRC has imposed its isolation policy on Taiwanese government’s status), and intense focus on economic incentive and aids to third world or less economically capable countries such as Ukraine, Costa Rica, Philippines, and Indonesia (2002). With this policy, Taiwan has also established its visibility as an economically strong country by the fact that it is able to financially aid developing countries. The other gain from the diplomacy is that Taiwan is finally able to further diversify its economic investments, reducing the fear of

economic overdependence to the Mainland, thus avoiding China to have a leverage in the cross-strait relation (Wang, 2002).

Braude and Menashe concluded that one of the key factors for the Four Asian Tigers (Korea, Singapore, Hong Kong, and Taiwan) is “the importance of capital embodied technological change” (2010). In the 1990s, Taiwanese government enforced policies in order to affirm Taiwan’s status as a technologically advanced capital intensive country aiming to invest abroad. One of the most important government policies in order to sustain the capital intensive status in the beginning of the 1990s was the Six-Year National Development Plan. In his book “The Unknown Taiwan”, Marc J Cohen pointed out that the main goal of the policy implementation:

“calls for a number of major public construction and transportation projects, the establishment of self-contained communities and industrial and educational facilities, the strengthening of environmental protection and increased spending in research and development.” (2002)

In short, the policy mainly focused on smoothing Taiwan’s transition to capital intensive economy by structuring a decent infrastructure and facility for Taiwanese enterprises in order to focus more on R&D and high-tech investment, contrasting to agricultural focused industry in the previous decades.

2.3 Go South Policy

The established diplomatic relationship was one of the most vital step to complement Taiwan’s capital intensive economic policy and also the link for its further technological growth. One of the most important diplomatic relations established in Lee’s presidency is the economic relation between Taiwan and the ASEAN countries. In the early 1990s, Lee launched a “Go South” (南向政策

nanxiangzhengce) campaign to build alliances with ASEAN countries in order to decrease the reliance on China while in the same time regaining the labor cost advantage by moving the labor intensive industry abroad. Southeast Asia was the most ideal place for such an investment flow due to cheap labor and vast amount of land, creating an economic complementarity between both Taiwan and Southeast Asian region.

The signing of AFTA (ASEAN Free Trade Area) agreement as a measure by ASEAN countries to liberalize the intra-regional market in 1992 was followed by a rush of investment flows of foreign investors around the globe, which was precisely the predicted outcome of the agreement itself (Verico, 2012) .

The background of the Go South Policy could be traced back in of the 1980s when the inexpensive land and labor of Southeast Asia attracted Taiwanese investors. With this policy, Taiwanese government is basically supporting the investment trend by strengthening the bilateral relationship and agreements with ASEAN countries and encourages bigger investment flow from Taiwanese small and medium enterprises. Chen (1996) holds that although cultural and language similarities play a major role in the market of Mainland China, the financial environment distransparency, the complication when it comes to resolving law disputes and numerous cases of bad debt in China banking industry served as a deterrent for foreign investors to invest in China.

However, in an article published in March 2013, Taiwan Think Tank believed that the Go South Policy was a failure, considering that the policy has failed to deteriorate the massive capital flow to Mainland China since the policy launched until the early 2000's. Nevertheless, they also hold that between 2010 and 2012, there were a significant rise of investment amount to Southeast Asia from \$401 million dollars in 2009, to the staggering amount of \$5.5 billion. The article surprisingly failed to

attribute nor mention the rise of the amount to the rise of Indonesia which steadily moving up in terms of economic growth and attractiveness to foreign investors. In this research, I would like to point out the factors deterring Indonesia as a focal point of the Go South Policy and obstacles preventing the potential for Taiwan enterprises overseas investment.

2.4 SWOT Analysis Method

SWOT analysis is one of the most renowned evaluation method in analyzing internal or external factors related to a project regardless to its content (Helms & Nixon, 2010). The usage of SWOT has been widely acknowledged as a tool that might be used in any decision-making situation, especially in business, marketing, or investment- related areas.

There are various sources with different opinions on the origin of SWOT analysis. The invention of SWOT analysis method is usually credited to Stanford University's Albert Humphrey, who was appointed to lead a research project based upon the United States' Fortune 500 in the 1960s. However, if we are to look for a certain original publication on the invention of SWOT analysis, one will find out that there are no existing definitive papers on the method itself. Haberberg (2000) stated that the SWOT analysis method was used by Harvard scholars in the 1960s, while Turner (2002) and Koch (2000) credited SWOT analysis to other scholars. Regardless of the origin of the method, SWOT analysis has been proven as a prolific research tool for planning and evaluating.

In the study of foreign investment, SWOT analysis has also been used by some scholars as a systematic way to structure up their arguments. In 2003, Dapice used SWOT to analyze the success of Vietnam in attracting and managing their inward foreign investment. Babu (2012) also exercised the SWOT method in analyzing

foreign investment impact in Indian retail enterprises.

The SWOT matrix is used to analyze the aspects in SWOT analysis. These aspects are then put in a 2 X 2 matrix, each grid representing each item of SWOT (Strength, Weakness, Opportunity, and Threat). The Strength and Weakness grids represent the “Internal factors” of the project, while the “External factors” are represented in the Opportunity and Threat grids.

In my research, the internal factors would be the strength and weakness possessed by Taiwanese enterprises regarding investment to Indonesia, and the external factors would be the opportunity and threat lingering in Indonesia as an investment destination.

3. Methodology

For this research paper, qualitative research methods will be utilized due to the nature of the research itself and also in order to assure the precision of facts and data that currently exist in the status quo. The first method would be the collection of official statistics, the second would be documents collection, and the third would be interviews. The collected data will be then analyzed and classified as one of the elements in SWOT analysis method (Strength, Weakness, Opportunity, and Threat, hereafter will be mentioned as SWOT elements).

For the first method, quantitative data will be collected from official government websites of both Taiwan and Indonesia, and also several highly renowned NGOs due to the degree of data trustworthiness. The figures will then be utilized and interpreted to support the hypothesis under any of the SWOT elements.

The data for the second method would be any textual data relevant to the research such as articles, publications, transcripts from past interviews etc. The justification for this method is that in the recent years, the amount of written text on

the topic of investment to Indonesia has been flourishing, yet there has not been any English publication which implements the SWOT analysis approach in assessing the investment flow from Taiwan enterprises to Indonesia in the recent years.

The third method for interviewing would involve at least two interview subjects representing two different stakeholders relevant to this study. The first will be from Taiwan Economic and Trading Offices in Indonesia in order to have a detailed look into the on-field situation of Taiwanese enterprises investment flow to Indonesia, such as the role of overseas Chinese businessman, political factors, complementarity, etc.. The second would be an interviewee from a Taiwanese enterprise in with considerable amount of investment in Indonesia, giving a deeper insights into Taiwanese investment methods and problems encountered during the investment process.

The interview questions would be as follows:

1. How is the characteristics of Taiwanese industry complementary with Indonesian resources?
2. What role do politics (both national and international) play in terms of affecting the investment flow from Taiwan to Indonesia?
3. What are the obstacles that makes Taiwanese small and medium enterprises hesitate to invest in Indonesia? Or even preventing them to invest?
4. Do cultural and religious factors also deemed as vital for the investment strategy planning and consideration?
5. In your opinion, what is the future of Taiwanese investment in Indonesia? What are the challenges and potentials foreseeable in the near future?

The interview data was collected through online calls. The first interviewee is a high-ranked staff currently holding the position as one of the interpreter and secretary

to former Taiwan Economic and Trading Office ambassador to Indonesia Mr. Andrew Hsia (夏立言). The second interviewee is an international sales representative of a Taiwanese renowned poultry equipment company specializing in South and Southeast Asian market including Indonesia. In the data analysis part, all the information and data collected will be directly classified to fit the SWOT analysis model.

4. SWOT Analysis Classifications and Discussions.

4.1 Strength

4.1.1 Advantage in knowledge and technology.

Both interviewees agreed that, Taiwan's major advantage in the Go South investment policy is the availability of high technology and knowledge in the majority of Taiwan enterprise as a result of an intense encouragement and capital allocation by the government, allowing enterprises to focus on technological and systematic R&D. The result has made Taiwan stands high in its position as a possessor of sophisticated industrial technology in North East Asia, competing with Japan and South Korea. Taiwan's technological advantage is deemed as perfect match to South East Asian's low-cost labor and market potential (Huang and Ju, 2012). Other than that, Taiwan's experience in the international market and a strong emphasize in strict quality control.

Indonesia, as the fourth most populous country in the world, possess the missing piece of the puzzle to match Taiwanese modern technology. Indonesia's abundance of human and natural resources, vast amount of land, and low-labor wage makes it an ideal destination for Taiwanese company to move their production chain to Indonesia, and also makes Indonesia as the platform to grasp the South East Asia market.

4.2 Weakness

4.2.1 Over dependency to Mainland China market & Cross Strait

political relation.

Since the Go South Policy has been initiated the early 1990's, the policy itself didn't fully succeeded in decreasing the dependency of Taiwan economy to the Cross-Strait Investment relation. Most of the failure could be attributed to the 1998 Asian financial crisis, where most South East Asian countries, including Indonesia, suffered the biggest wave of financial depression of the decade. Today, Mainland China is still the main destination for Taiwan's investment. Up to 2013, about 70% of Taiwan's outward investment capital flows to Mainland China.

The biggest factors of the Cross Strait dependence is the relative easiness for Taiwanese enterprises to enter the Mainland Market. The powerful ethnic and cultural links between Taiwan and China added by the non-existence of language barriers has paved a smooth way for the flow of Taiwanese investment capital (Brown, Hempson-Jones, Pennisi, 2010). Both interviewees believed that language barrier is one of the biggest obstacle in Indonesia, and in retrospect to China, with the non-existence cultural and language barriers, plus Special Economic Zones provided by China's major provinces, a direct investment to China seems like a no-brainer. At the same time, it created a certain "comfort zone" for Taiwanese enterprises to invest in. Rather than exploring the foreign and risky Indonesian market, companies takes safer steps to invest in the Mainland and reap the benefits provided by the Chinese government and provincial policies paving easiness for Taiwan enterprises. Furthermore, the increasing rate of cooperation between Taiwan and China in the recent years through Economic Cooperation Framework Agreement (ECFA) and the upcoming controversial Cross-Strait Service Trade Agreement (CSSTA) has created a

broader opportunity in various market for enterprises.

The complicated nature of the Cross-Strait politics has also played part in the lack of Investment flow to Indonesia. The interviewee from Taiwan Economic Trading Office (TETO) stated one of the stumbling block in Taiwan-Indonesia relation is Indonesia's over conservative interpretation on the "One China Policy". Indonesian government sees closing ties with Taiwan is equivalent to distance them from Beijing, which makes the government hesitates to strike a larger scale bilateral deal, such as Free Trade Area (FTA). According to a joint study by think tanks from Taiwan and Indonesia, the expected rise in trading shall the FTA agreement happens would be around US\$ 334 million.

I categorize both the over dependence and Taiwanese political disadvantage as "Weakness" due to the internality of the elements, and how these factors could be leveraged by Taiwan government and enterprises alike to reduce the shortcomings and support Taiwan southward investment to Indonesia, diversifying their investment "baskets" other than Mainland China.

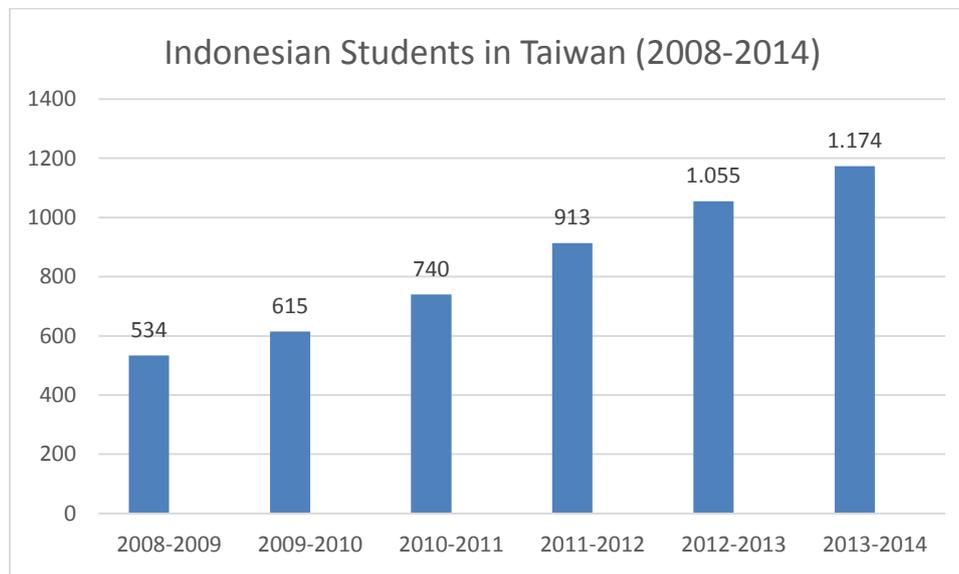
4.3 Opportunity

4.3.1 Indonesian Students studying in Taiwan.

Over the years, the most notable cooperation between Taiwan and Indonesia, is the export of Indonesian foreign labors to Taiwan. Foreign workers has been one of the most important sources of foreign income for Indonesia, and the hiring of foreign labors has been a regular practice both for Taiwanese households and factory. The rise of demand could be related to Taiwan rapid economic growth in the late 1980's and factors connected to it such as industrial structure transformation, the rise of per capita income, significant growth of service industries, higher education levels, and also a transition of job values. All of the factors mentioned above contributed to the lack of

manpower are the main consideration for Taiwan to open the job market for migrant workers (Hong, 2005). In 2012, there were a total of 773, 872 Indonesian labors in Taiwan, which was 5.72% of total migrant labors sent abroad from Indonesia to other countries, making Taiwan the third largest recipient of labors after Saudi Arabia and Malaysia.

However, TETO interviewee believed that Taiwanese government and enterprises is lacking of creativity in terms of methods of creating a more efficient way to reach the Indonesian market. She believed that, other than attracting more basic skilled labor from Indonesia, Taiwanese government and enterprises should implement some policies in recruiting skilled Indonesian students in Taiwan universities in order to create opportunities to tread deeper in Indonesian investment market. In the decade, there has been a rapid increase in the number of Indonesian students pursuing their degree from 2008-2014 in Taiwan universities.



Source: Taiwan Ministry of Education

She referred to a PhD study of Rangga Aditya Elias, former chairman of PPI (Persatuan Pelajar Indonesia) di Taiwan (Indonesian Students Association in Taiwan) pursuing his PhD degree in Chinese Culture University, about how Indonesian students could be an “invisible agent” in Taiwanese investment.

Elias argued that, Taiwanese government and enterprises lacks the follow up initiative to use and invest in the students after the finished their academic degree. I also agree and would argue that the investment on hiring Indonesian students could be a “2 in 1” solution for reaching the Indonesian market, which are: a.) Professional skills and b.) Language ability.

Furthermore in 2014, according to Taiwan Ministry of Education, from the 1174 students studying in Taiwan, more than 60% of them are currently pursuing their degree in Business & Administration or Engineering, two of the most compatible and relevant studies in Taiwanese investment in Indonesia.

4.3.2 The development of Morotai Special Economic Zone

The most recent significant deal by Taiwanese government to increase the cooperation rate between Taiwan and Indonesia is the signing of Memorandum of Understanding (MoU) on the establishment of Morotai Island special economic zone (SEZ) in in the northern part of Indonesia. By taking advantage of its geographic location, former Taiwan ambassador for Indonesia Mr. Andrew Hsia (夏立言) believed that Morotai Island will contribute to regional economic integration, as both sides has already discussed the possibility of signing a bilateral investment agreement to advance trade relations. Morotai Island SEZ will be the second SEZ provided by Indonesia to other countries after Batam SEZ established for Singapore.

In the future, as long as Taiwanese enterprises are able to invest into Morotai economic zone by constructing the infrastructure of the island to fulfill the requirements needed as a regional trans-shipment hub for South East Asian region, I would argue that it would be a huge advantage for Taiwanese enterprises to take the upper hand in annexing the South East Asian market.

I classified this as “Opportunity” since the availability of talent in Taiwan is

staggering, and it all comes back to Taiwanese enterprises and Taiwan government to explore the possibilities in further growth and investment opportunities by employing Indonesian students studying in Taiwan.

4.4 Threat

4.4.1 Labor inefficiency

From the interviewee response, it can be assured that another large threat, if not the biggest, for Taiwan enterprises, to invest in Indonesia is the low productivity rate of Indonesian labor. A study on factors causing time and cost overruns on projects sponsored by University of Atma Jaya in Indonesia revealed that poor labor productivity is one of the strongest variables causing delays and overruns in projects in terms of importance, frequency, and severity (Kaming, Olomolaiye, Holt, and Harris, 1996).

With the industrial characteristics of Taiwanese enterprises and the advantage of technology owned, an efficient application of production machine by labors is vital to ensure quality and prevent cost and time overruns. The inefficiency for one could be attributed to the low education rate among Indonesian people. Kaming et.al. (1996) stated that the majority of the labors are farmers living in the rural areas near the project, often without any background or understanding on industrial construction. The main cause could be addressed This argument is supported by a more recent study by South East Asian Monitor in 2006, stating “Although labor costs in terms of wages are low, poor education rates and health levels undoubtedly lower the productivity of these workers.”

When discussing about labor inefficiency, one of the interviewee simply put “laziness” as the main factor that triggers the whole inefficiency. It is arguable that the opinion on the working attitude is also related to the low education levels, affecting

the attitude, discipline, and judgment of the labors. In 2012, Intergraph Corporation, one of the global leading engineering companies, released a white paper titled “Factors Affecting Construction Labor Productivity”. In the paper, Morale and Attitude is identified as one of the factors that influence productivity. I would argue that factors of “Morale and Attitude” such as discipline, willingness, and cheerfulness, are the result of a lack of awareness caused by the low education level.

The implication of low productivity besides drastic reduction in production efficiency, is also the extra cost of training and education for the labor, both in capital and time cost.

4.4.2 Corruption and Bureaucracy

When asked about the cost of corruption, the reactions of both interviewees showed that corruption has been accepted as a normal norm in doing business in Indonesia. The TETO interviewee only responded by saying corruption exists, but the severity of it could be determined by Indonesia’s political situation. For instance, in election years, government officials tend to play by the book. The other interviewee stated that corruption is normal, and can be found in any countries. From here, we can clearly see how the Taiwanese enterprises should already be familiar with the notion of corruption in Indonesia.

According to World Bank statistics and analysis as quoted by South East Asian monitor, Indonesia only scores 26.3 for “rule of law”, which ranks the effectiveness of judiciary, compared with an ASEAN average of 50.9. Indonesia also ranks 114 among 177 countries in Corruption Perceptions Index, an indicator of the perceived level of public sector corruption. The high corruption rate is also followed by the inefficient bureaucracy of Indonesian government. The interviewee stated that although the cost of bribery and corruption is considered as a normal cost, it is the unpredicted results

of the cost and time delays that sharply raise the transaction cost of investing.

The detrimental effect of corruption and inefficient bureaucracy in Indonesia are also supported in a study by Meon and Sekkat in 2003, believing that inefficient bureaucracy and weak rule of law could tend to make negative impact to investment. Although there are also theories stating that corruption make “the wheels” or the system keep going, in the long term, it could deter and serve as an important disadvantage for Taiwanese firms.

4.4.3 Infrastructural Obstacles

As a result of the bureaucratic inefficiency and corruption in the Indonesian government, the poor developmental infrastructure in Indonesia is also one of the biggest detrimental factors in deterring foreign direct investment. According to the 2012-2013 Global Competitiveness Report released by World Economic Forum, Indonesia ranked quite low in the field of infrastructure, ranking 78 among 119 countries. The lack of institutional competence of both local and central government has constrained the infrastructural development that might attract foreign investors.

The failure to develop supportive infrastructure added by bureaucracy complexities resulted in foreign investors deemed an investment to Indonesia will be tremendously high in cost and risk compared to the benefits and potential. Infrastructures in rural areas where companies prefer to invest in due to the low land price are usually in a really bad condition, slowing down the whole production process from shipping and purchasing materials. Enterprises have to invest more on the building of roads, bridges, electricity line and so on in order to keep the production going.

While one can argue foreign investors should initiate capital flows in order for Indonesian government to be able to allocate the funds for further infrastructural

investment, I would argue that the inefficiency of bureaucracy and corruption would result in further delays. Infrastructural stability will be a strong guarantee to secure foreign investors trust. Policies in drawing capitals by investing heavily in infrastructure and fundamental industrial facilities had been demonstrated to be successful in North East Asian countries such as South Korea, Taiwan itself, and currently in China.

5. Conclusion

Based on the findings in the interviews and further research on other academic study, we could set a model of the SWOT analysis as below:

INTERNAL	<u>STRENGTH</u>	<u>WEAKNESS</u>
	<ul style="list-style-type: none"> ● Advantage in knowledge and technology 	<ul style="list-style-type: none"> ● Over dependency to Mainland China market & Cross Strait political relation.
EXTERNAL	<u>OPPORTUNITY</u>	<u>THREAT</u>
	<ul style="list-style-type: none"> ● Indonesian Students studying in Taiwan. ● The Development of Morotai Special Economic Zone. 	<ul style="list-style-type: none"> ● Labor inefficiency ● Corruption and Bureaucracy ● Infrastructural Obstacles

From the analysis of the SWOT diagram and the interviews findings, we could argue that the most important factor influencing the difficulties of investing in

Indonesia lies within the factors barely could be influenced by Taiwanese companies, such as politics and government policies.

While companies possess an advantage in capital, knowledge, and technology (Strength), the factors underlying in Indonesian culture, politics, and society, are the biggest stumbling block for Taiwan investment flow.

In the internal matrix, I would argue the complication lies within the Weakness factor has overcome the Strength companies possessed. The advantages private sectors possessed would be null if the political relation is unstable. The factors in the Strength matrix would be ineffective without a proper government policies and stable political climate.

In the external matrix, I would argue the influence of the factors in the Opportunity column is difficult to measure and still is highly hypothetical. Even that the existence of Indonesian Students studying in Taiwan possessed potentials for better relations and growth, better diplomatic ties is not guaranteed because the influence of factors in the Weakness column. The cost benefit analysis of recruiting Indonesian PhD graduates is also yet to be done.

In my analysis, I would conclude that the biggest factor determining the investment flow to Indonesia is the factors in the Threat column. Simply put, the situation of Indonesian internal government and politics clearly determines the attractiveness of Indonesia as an investment destination. All of the factors in the Threat column are directly related to the competence and trustworthiness of Indonesian government and also correlated with each other.

Without any internal improvement from Indonesian government in terms of education rate, efficiency, and cleaner bureaucracy, Taiwanese investors would be most likely to hinder their investment capital and technology to flow to Indonesia, since the cost of time and capital could outweigh the benefit of investing there.

To conclude, up to now there are no signs of increasing cooperation in the context of investment between Taiwan and Indonesia. While the two countries are both highly compatible in economic and industrial capacity, the restrictions built by political climate and government policy has prevented further growth of investment flow.

In the future, since Indonesia is currently on the verge of being one of the world's economic powerhouse, one would expect a better development in Indonesia's internal governmental policy, infrastructure, bureaucracy and culture. Only after that Indonesia would be able to sustain a better environment for foreign investors.

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