

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

Economic orientation has undergone various shifts, starting with the agricultural economy era, continued by the industrialization era, and now moving on to the information economy era, followed by numerous new discoveries in the field of information communication technology and economic globalization. The occurrence of this economic shifts human civilization into a new era, namely the era of creative economy.

Recovered from Asian crises in the late 1990s, Indonesia economy has now been restructured. Indonesia is the largest economy household in South East Asia and the world's seventh by purchasing power parity (Index Mundi, 2020). In terms of GDP, Indonesia is placed in the 15<sup>th</sup> largest economy in the world in 2016 (JOM, 2020). There are several factors considered as Indonesia economic drivers; FDI (foreign direct investment), infrastructure investment, tourism, industrial sector, etc. One of the emerging economic driver is creative economy industry.

Economy in the world is now changing due to the rapid technological development. This implies to the outpacing of wealth creation through human knowledge and creativity. Creative economy, according to United Nations Institute for Training and Research (UNITAR), is the most dynamic sector of the global economy with strong transformative force for socio-economic development (Hasnan, Getting creative in Indonesia, 2019). The sector focuses on product and services, that are driven by creativity, with the embody of creative content, cultural

values, technologies, and market goals. On this sense, creative economy's processes mostly rely on ideas, knowledge, and skills.

Creative economy leverages creativity, technology, culture, and innovation in fostering inclusive and sustained economic development. Also, creative economy is an important part of global trade. Especially right now, with advancement of technology especially the digital revolution, education and innovation, creative industries have emerged (UNCTAD, 2015a)

Creative economy is one of the fields that play an essential role in contributing Indonesia's economic performance (Burhanudin et al., 2020). Creative economy has become the new source of economic growth in Indonesia as it shows a strong growth started from 2010 until this very time. According to Patrick Cooke, Regional Editor for Asia at the Oxford Business Group, he sees that Indonesia has the advantage of a large, consumption-driven internal market to support the growth of creative economy sector.

Creative economy's growth is in line with the rapid growth of Indonesia's e-commerce industry. Other factors contributing the growth is the alteration of lifestyle, especially among millennial generations as they show preferences for leisure over goods (Global Business Guide Indonesia, 2018). Social media also plays role in this changing lifestyle related trend.

Indonesia is rich – in terms of its biodiversity and cultural diversity, hence Indonesia's creative economy is very diverse. It covers 16 different sub-sector; (1) architecture, (2) interior design, (3) visual communication design, (4) product design, (5) film, animation, and video, (6) photography, (7) crafts, (8) culinary, (9)

music, (10) fashion, (11) application and game developers, (12) publishing, (13) advertising, (14) television and radio, (15) performing arts, and (16) fine arts.

Unlimited human resource, especially individuals who are creative (have ideas, talents, and creativity), are the great potential of creative economy. Realizing the enormous potential, Indonesia governments continuously support the development of human resource of creative economy industry. To build competence and exploit this potential, of course, requires appropriate and comprehensive policies. It is believed that the collaboration between various actors that play roles in creative economy industry are important; namely scholars, business practitioners, and government (the triple helix).

Creative economy in Indonesia is controlled by Creative Economy Agency (BEKRAF) under Ministry of Tourism and Creative Economy. BEKRAF was established by President Joko Widodo on 2015, with mandate to develop and coordinate policies to harness the huge potential of Indonesia's creative economy. The agency covers six functions; (1) research, development, and education, (2) access to capital, (3) infrastructure, marketing, and facilitation, (4) regulation of intellectual property rights, (5) inter-governmental relations, and (6) interregional relations.

Most of creative industry players are small and medium-sized enterprises and still market their products / services locally. The core strength of Indonesia creative industry is the cultural diversity, as the demographic is a bonus. It's predicted that by 2030, Indonesia will have 180 million people ready to join the workforce (Jewell, 2019). It's possible due to the rising of startups that develop

great creative contents and events. Indonesia also has many talented individuals; singers, performers, artists, even social media figures. Indonesia can take advantage of creative economy prospects in the future. The increase of workforce, number of business, wages, and level of education will be taken into account in the developing creative economy industry (Lestariningsih et al., 2019).

In globalization and free trade era like this present time, creative economy creates sustainable economic growth based on innovation and creativity. Creative economy sector has potential to generate jobs and income while promoting social inclusion, cultural diversity, and human development because the concept relies on ideas or creativity of human resources, which is a major factor in economic activities.

The main asset of creative economy is its human resource, human experience, human intellectual, and human creativity. It has a broad qualification of workforce. Covering 16 subsectors, each subsectors has a different type of work, thus providing its own uniqueness for the workforce in each subsectors. Creative economy industry has big potential to generate jobs due to its core strength; manpower.

Over the years, the number of workforce in creative economy has increased. It surely has impact for national growth, especially in its economic performance; the increase of level of national income, higher labor productivity, utilizing the existing resources and potential, and of course the decrease of poverty rate (Ghufron & Rahmatullah, 2019). In this sense, creative economy encourages the creation of welfare and reduce unemployment. This means that creative economy becomes a

new vessel in the world of economy, especially for those who have a creative spirit, innovation, and always want to reform in the modern era.

The growth of creative economy has led to a larger export potential. Large population can be utilized to gain large value of export because commodity prices are decreasing while populations are growing strongly. Indonesia is rich in natural resource with high export value. However, natural resources can't be exploited forever because they will run out. Therefore, Indonesia government maximizes the export of creative economy because it's more sustainable and unlimited. Value of export in creative economy has contributed in the growth of Indonesia economic performance.

In conclusion, creative economy has a positive contribution to the economy, because it creates a positive business climate, strengthen the country's image and identity, support the utilization of renewable resources, and have a positive social impact. From the depiction as well as this explanation, researcher has an interest in researching about **“The development of Indonesia creative economy and its relation with economic performance in the period of 2010 – 2019.”**

## **1.2 Scope and Limitation of the Study**

A boundary is needed on this study. This research itself limits the problems as follow:

- a. The development of creative economy is measured with three variables;
  - 1) GDP of creative economy sector.
  - 2) Number of creative economy workforce.

- 3) Value of creative economy export.
- b. Economic performance is scoped with economic growth. Annual real GDP is used to be the measurement.

### 1.3 Research Limitation

The author would like to avoid the things that are not suitable for the research by limiting purpose that will only matter on this research:

- a. This study uses a time period from 2010 to 2019 due to limited data availability from BEKRAF. Annual data is used.
- b. Data of Gross Domestic Product (GDP) in creative economy sector is taken from “Opus Creative Economy Outlook”, official book published by BEKRAF. Annual data is used.
- c. Workforce is measured by the number of workforce in creative economy industry in each year. Data is taken from “*Tenaga Kerja Ekonomi Kreatif 2010-2016*”, “Opus Creative Economy Outlook”, and “*Data Statistik dan Hasil Survei Ekonomi Kreatif*”. These books were published by BEKRAF in collaboration with *Badan Pusat Statistik* (BPS).
- d. Value of export is measured with the export utilized from creative economy industry in each year. Data is taken from “*Ekspor Ekonomi Kreatif 2010-2016*”, “Opus Creative Economy Outlook”, and “*Data Statistik dan Hasil Survei Ekonomi Kreatif*”. These books were published by BEKRAF in collaboration
- e. Economic performance is measured with annual real GDP. Data is taken from Trading Economic’s website, [www.tradingeconomics.com](http://www.tradingeconomics.com).

#### **1.4 Research Problem**

This research will examine the relation of creative economy industry with Indonesia economic performance. Therefore, the problem identifications are:

- a. Does GDP of creative economy have positive relationship with Indonesia economic performance?
- b. Does number of workforce in creative economy have positive relationship with Indonesia economic performance?
- c. Does value of creative economy export have positive relationship with Indonesia economic performance?

#### **1.5 Research Objective**

Purposes of this research are:

- a. To analyze whether GDP of creative economy positively relates with Indonesia economic performance.
- b. To analyze whether number of creative economy workforce positively relates with Indonesia economic performance.
- c. To analyze whether value of creative economy export positively relates with Indonesia economic performance.

#### **1.6 Research Benefit**

The results of this study are expected to provide benefits. The benefits of this study can be described as follows:

a. For Investor

The results of this study are expected to be a useful information as consideration and reference to invest in Indonesia creative economy industry.

b. To Author

This research is expected to make a better knowledge and understanding about the association between creative economy industry and Indonesia economic performance.

c. The Readers

This research can help readers to acknowledge the association between creative economy industry and Indonesia economic performance, as well as how to support the industry.

d. For Researcher

The results of this study are expected to provide insight and reference for next researchers who are interested to conduct studies in the same field.

e. For Indonesia government

The results of this study are expected to provide insight on how creative economy really impacts economic performance, and how the government can support the industry to be better.

## 1.7 Writing Structure

This research is divided into 5 chapters, which are:

### **Chapter I: Introduction**

This chapter provides the research background, problem statement, scope of the study, research objective, benefits of the research, and writing structure.



## **Chapter II: Theoretical Background**

This chapter consists of concept and theory that is relevant with the problem statement of this research. This chapter will be divided into three part, the first one is about the literature review, the second one is about the previous study done by other researcher or other related study with the topic that became a reference in this research, and lastly is about the hypothesis development that will represent the findings of the research of the study in detail.

## **Chapter III: Research Methodology**

This chapter contains the data collection method, research variables, and data analysis method.

## **Chapter IV: Data Analysis**

This chapter contains the analysis of the collected data and the interpretation of the result of the data analysis.

## **Chapter V: Conclusion**

This chapter contains the conclusion, managerial implication, limitation of the research, and the suggestion for future research.