

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will describe the theoretical background of this research. Author will elaborate the explanation about creative economy and economic performance. Afterwards, this chapter will explain about the previous study, research hypothesis, and conceptual framework of this research.

#### **2.2 Theoretical Background**

##### **2.2.1 The Concept of Creative Economy**

There are several terms used to describe creative economy, which includes “creative economy”, “creative industry”, and “creative and cultural industries”.

Creative economy is the combination of two interrelated words; economy and creativity. So the main focus on creative economy is the creativity itself (Ghufron & Rahmatullah, 2019). Creativity is a creation made by human being to create or develop something in the form of a product or service (Suryana, 2013). In this sense, creativity is a process or ability that comes from purity of thinking and the ability to enrich an idea. Those who have creativity, skill, and talent, have potential to create wealth and job through the development, production, or exploitation of intellectual property (Newbigini, 2020). The concept is that the system intensifies

information and creativity by relying on the ideas and the knowledge stock of human resource as the main production factor in their economic activities (Septina, 2020)

According to John Howkins, the first individual who ever used the term Creative Economy, explains that creative economy is an economic activity that makes ideas from the essence of creativity itself. Howkins also mentioned that people who have creative ideas are much stronger compared to those working with machine (Howkins, 2001). Driven by creativity, this sector centers on products and services that embody creative content, technologies, cultural values, and market objectives. These rely on ideas, knowledge, skills, and traditional livelihoods (Septina, 2020).

Creative economy, according to the statement of Indonesian Ministry of Trade (Kemendag), is an industry whose utilization comes from the creativity and talent of each individual, in order to create creations and innovation. This business sector concerns the fields of art, knowledge, and technology, in which creativity from human resources are the primary domain of the business (UNCTAD, 2015b). Main objective of creative economy in Indonesia is to create job opportunity and prosper the citizen (Suryana, 2013).

Creative economy is an important asset in the national economy that needs to be taken into account, studied, and developed in order to advance Indonesian economy. Indonesia government plays role to develop this sector. In 2014, under the govern of President Susilo Bambang Yudhoyono,

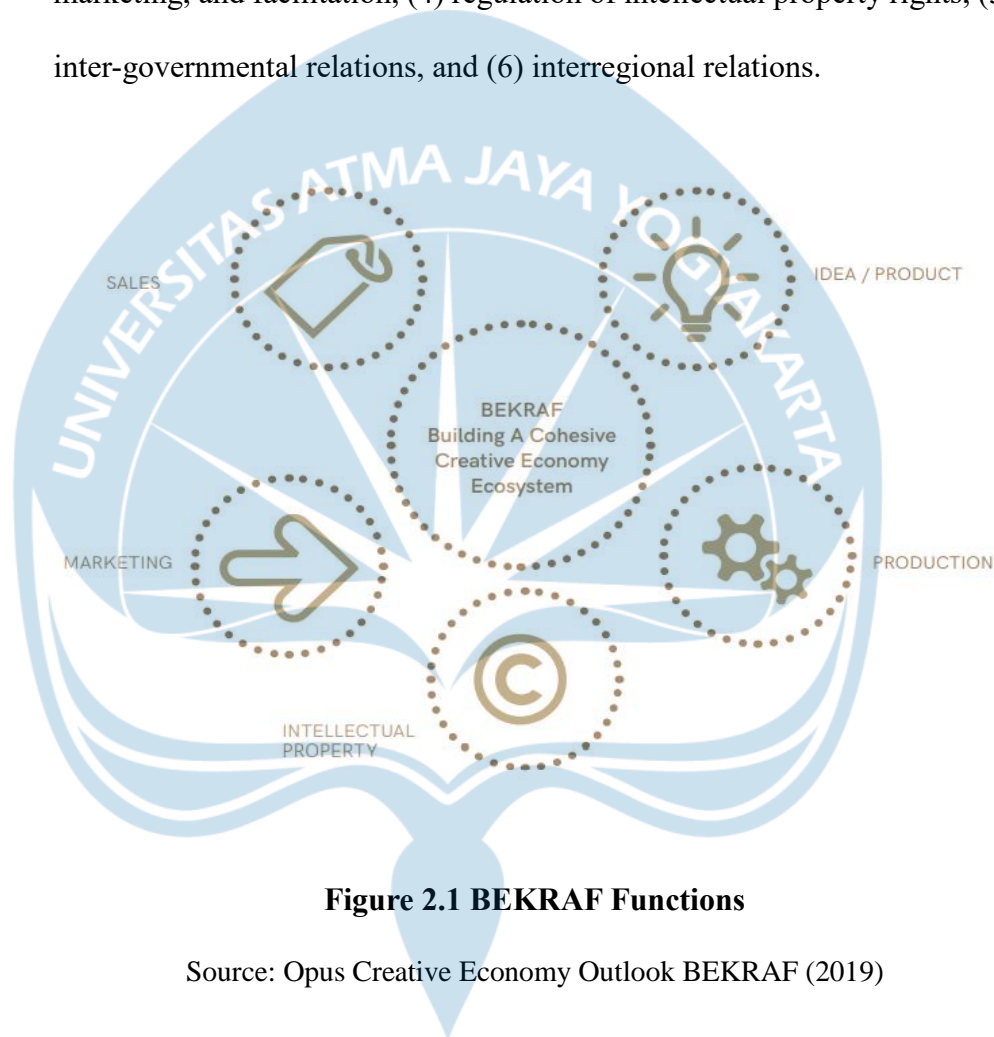
creative economy was bestowed an independent ministry, namely the Ministry of Tourism and Creative Economy (Suminar Ayu et al., 2020). In the next period, President Joko Widodo's act to support creative economy is by the formation of a new organization called Creative Economy Agency (BEKRAF) through Presidential Decree No. 6 of 2015 (Burhanudin et al., 2020). The striking difference between Ministry of Tourism and Creative Economy in 2011-2014 and BEKRAF in 2015 - present lies in the sub-sectoral division within it.

**Table 2.1**  
**Differences of Creative Economy Sub-sector**

<b>2014</b>	<b>2016</b>
Architecture	Architecture
Design	Interior Design
	Visual Communication Design
	Product Design
Film, Video, Photography	Film, Animation, and Video
	Photography
Craft	Handicraft
Mode	Fashion
Music	Music
Publishing	Publishing
Interactive Game	Application and Game Developer
Technology and Information	
Advertising	Advertising
Research and Development	
Fine Arts	Fine Arts
Performing Arts	Performing Arts
TV and Radio	TV and Radio

Source: Lestariningsih et al. (2019)

BEKRAF's task is to nurture the growth of the creative sector, while slowly weaning off the reliance on commodities (Hasnan, Getting Creative in Indonesia, 2019). 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.



**Figure 2.1 BEKRAF Functions**

Source: Opus Creative Economy Outlook BEKRAF (2019)

According to Ministry of Tourism and Creative Economy (Kemenparekraf, 2020), BEKRAF develops the diversity of creative economy into 16 different sub-sectors, namely:

## **(1) Architecture**

The role of architecture in Indonesia is very important. The diversity of local and regional architecture shows the character of the Indonesia. This subsector also plays a role in designing the building of a city for aesthetical purpose. Because its enormous potential, BEKRAF included architecture as one of the subsectors that deserves to be managed more seriously.

Architecture is an important part of the development of national industry which shifted from raw-based economy to a knowledge-based economy. Architects are currently starting to bring up innovative architectural designs that imply cultural character and Indonesia local identity.

## **(2) Interior Design**

The use of interior designer services for aesthetical purpose of residence, hotel, and office is increasing as people began to better appreciate the aesthetics of a room. It's clear that the economic potential of this subsector is very promising. This could be a positive momentum for the practitioners of this subsector.

The emergence of various schools, consultants, companies, and interior design associations shows the development potential of this subsector to compete in national and global market. In addition,

interior design with authentic Indonesian characters, of course, can be developed to build the identity of Indonesia.

### **(3) Visual Communication Design**

VCD has a very important role in supporting the business growth of private entrepreneurs, brand owners, even government programs. The potential of VCD in domestic market is very promising, especially with the increase of designers.

Government will participate in building this subsector to be superior and able to compete in both domestic and international market. Some programs are to be done include promoting and publishing the designers' works, creating regulations that prioritize the local designer to work in domestic company, and so on.

### **(4) Product Design**

Product design is the process of creating a product that combines elements of function and aesthetic as added value. The trend in this subsector is very positive. With Indonesia population dominated by productive age, the potential interaction between market and business practitioners is enormous, especially when the market has appreciation for quality products.

Product design subsector rely the most on their craftsmen. Product designers are able to explore and raise local culture in their

works. The governments will manage this subsector and assist the artisans in developing their business.

#### **(5) Film and Animation**

Indonesian film industry is currently experiencing positive growth. Production houses compete to work on quality movies in terms of storyline, visual cinematography, as well as being commercially profitable. This is inseparable from the huge potential of Indonesian audiences who appreciate local films production positively.

This subsector still faces numerous obstacles namely lack of experts that limits the filmmaking, uneven distribution of cinema, piracy that violates the IRP, etc. Government will continue to support the development of this subsector by providing a proper facilitation to strengthen the film industry, issuing regulations to protect intellectual work rights, opening access to investment and capital, and opening wider access to viewers.

#### **(6) Photography**

The development of this subsector is supported by the raising interest of photography within young people, along with the development of social media and more accessible equipment.

The government carries out program to support this subsector; providing certification of photographers, facilitate IPR

protection of photographic works, and increase the exposure of local photographers to the international scene.

#### **(7) Crafts**

Craft sub-sector includes the process of creation, manufacture, and distribution of the craft products. This sub-sector makes use of natural resources (leather, rattan, wood, bamboo, etc.) and artificial (glass, metal, ceramics, and textiles) to produce works / arts of high selling power.

The availability of abundant raw materials and the creativity of industry players are the main asset for the advancement on this sub-sector. Indonesia has many artisans who are creative and skilled in doing this business. Many of them has marketed their product in global market. Indonesian craft products are well known for the well hand-made concept, which adds value to market the product at a higher price.

Kemenparekraf has the responsibility to manage this sub-sector by providing various relevant facilities. Ministry has provided facilitation for a collaboration between designers, SMEs, and manufacturers so they can work in synergy. Main program from Kemenparekraf for this sub-sector is to promote the craft products locally and globally, as well as opening access to capital.



## **(8) Culinary**

This sub sector includes production or manufacture of local specialties and marketing of local specialties food product. Culinary has a great potential because it has broad market and is able to compete with the modern retail market. Government has given guidance for culinary entrepreneurs and business practitioners, starting from business training, licensing information, to legal assistance in the process of starting a business.

Ministry of Tourism and Creative Economy (Kemenparekraf), as the representative of Indonesia government, participates in assisting this culinary sub-sector by providing facilitation such as business training, access to capital, and business establishment assistance. They will continue to support Indonesia's very diverse culinary delights in the domestic and foreign markets.

## **(9) Music**

Music is a promising industry in the world of showbiz. The great interest and enthusiasm of young musicians to enter this field shows that Indonesia music has the potential to become a bigger industry.

One of the biggest obstacles in this industry is piracy, which is still very rampant, causing the development of the subsector to be hampered. Piracy certainly causes a decrease in the quality and

quantity of production, a decrease in appreciation of music, and a decrease in investment on this field.

Government provides facilitation for music industry players. Some of the facilities that are provided include protection of IPR to reduce piracy, initiating the formation of music incubators, opening access to capital, developing a ‘healthy’ ecosystem, and so on.

#### **(10) Fashion**

This sub-sector revolves around the production of clothing, clothing accessories, style consulting, and the distribution of apparel products. Fashion trends itself has a constant change. In a matter of months, there will always be new fashion trend. This can't be separated from the innovation of local fashion designer in designing new clothes, and the emergence of a creative young generation who are enthusiastic on fashion industry.

On the other hand, this sub-sector has to face many challenges. Local fashion is still the ‘step-child’, as the market still prioritizes to shop imported products. Another challenge is the synergy of the upstream to downstream industries, starting from textile / garment factories, fashion designers, to market affairs.

With optimism that fashion industry can compete in ASEAN Economic Community (AEC), Kemenparekraf will provide assistance through facilitation that is able to encourage this sub-

sector grow bigger. Ministry will issue policies to encourage the use of domestic fashion works, accelerate the availability of raw materials, to promote domestic fashion products in domestic and global markets.

#### **(11) Application and Game**

The ecosystem of local game industry has great potential to contribute to the creative economy. In 2017, contribution of games to Indonesia's creative economy was 1.93% of GDP, with 44,733 workers in this subsector (BEKRAF, 2019). This subsector continues to grow each year.

BEKRAF encourages local game developers to create work, because Indonesia is one of the countries which game market share tends to increase continuously. There are many opportunities that yet to be explored, both as creator and professional player. Given Indonesia's demographics, there are more and more productive segments.

The government will manage the game development subsector more seriously through several programs; initiating the emergence of more game developer incubators, incorporating game elements into the world of education, protecting the intellectual property of local developers, and assisting them in promoting their works.

## **(12) Publishing**

The publishing subsector is not as big as other subsectors, but this sector has no less strong potential. Many large and small publications are still emerging to enliven this sector. Plus, the development of technology that allows book to be published in digital form. Publishing plays an active role in building Indonesia's intellectual strength.

Kemenparekraf will also consider this subsector as one of the leading subsectors. The role of government is to provide various facilities; opening access to the domestic and global market, facilitating tax policies that can ease the practitioners, etc.

## **(13) Advertising**

Advertising has a great potential because it's still the most efficient medium to promote products or services. The growth of national advertising spending can reach 5-7% each year. In addition, advertising has power in shaping customers' consumption patterns, thinking patterns, and life patterns.

Government will also provide facilitation to strengthen local human resource, regulate policies to limit foreign investment in the Indonesian advertising industry, strengthen the authority of Indonesian advertising board, and limit the serving of adaptation ads globally.

#### **(14) Television and Radio**

This sector is associated with the production and broadcasting of television and radio shows / programs. Although it's not as modern as cellphone and other devices, television and radio still have a very large role in disseminating information. Currently, the ownership of television and radio is evenly distributed. Every level of society can access this technology. The number of television and radio stations continue to grow each year.

As government's representative, Kemenparekraf will provide various facilities needed by the television and radio subsector. The facilitation will cover many things, starting from quality programs, supporting the formation of quality human resources, and so on.

#### **(15) Performing Arts**

Indonesia has a wealth and diversity of performing arts and traditions, such as *wayang*, theater, dance, etc. that have been recognized and received international appreciation. The role of government in this subsector is indeed necessary, especially in determining comprehensive regulations to encourage the performing arts subsector to develop more.

BEKRAF will support the development of this subsector by providing regulatory facilitation, building more venues to perform,

facilitating the establishment of performing art boards / councils to map platforms and maintain standards of performing arts, promoting performing arts festivals, etc.

#### **(16) Fine Arts.**

Indonesia has the greatest fine art potential in Southeast Asia, in terms of quality, quantity, creative artists, productivity, and market potential. Indonesian fine arts also have a strong network in both domestic and foreign market. Various art festivals are held regularly, even with internationally recognized reputation. Up until now, more than 160 Indonesian artisans have been involved in international forums and events.

### **2.2.2 The Concept of Creative Economy Development**

The development of creative economy sector is one of the most important drive for country's economy. Developing creative economy is considered to respond to the challenges of economic problems such as low economic growth, unemployment poverty, and lack of industrial competitiveness (Boediprasetya et al., 2012).

Economic development of Indonesia and the creative economy are closely related to stretching of creative activity. Creative economy is believed to contribute to the nation's economy significantly. Indonesia has seriously paid attention to this sector, especially since Joko Widodo became

president and established the Creative Economy Agency (Husin et al., 2021).

To measure creative economy, there are several information to be collected; gross value added, number of businesses, exports, and total creative employments. Daubaraitė and Startienė (2015), in “Creative industries impact on national economy in regard to sub-sector”, analyzed and grouped the indicators that impact creative economy development from 47 different publications. Thorough analysis suggests that the most important areas of national economy under the influence of creative economy can be explained by these indicators: (1) fighting unemployment. (2) part in GDP, value added. (3) foreign trade / export. (4) social inclusion. (5) social and cultural development. (6) increasing quality of life. (7) fighting youth unemployment. (Daubaraitė & Startienė, 2015). This draws to an assumption that indicators used in this research can be grouped into:

- (1) Contribution to GDP
- (2) Contribution to employment workforce
- (3) Contribution to foreign trade / export

In order to measure creative economy using those indicators, government has to collect an official statistic. Many countries have collected data on creative economy through survey and data extractions. In Indonesia, creative economy is officially measured by *Badan Pusat Statistik* (BPS) with a purposive survey and economic census (Lestariningsih et al., 2019).

The statistics are publicly available on the website of Indonesia Creative Economy Board.

### **2.2.3 The Concept of Creative Economy GDP**

Gross Domestic Product (GDP) is the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production (Dyanan & Sheiner, 2019). GDP is the standard measure of the value of final goods and services produced by a country during a period of time. According to OECD, GDP is a core indicator of economic performance and commonly used as a broad measure of average living standards or economic well-being (OECD, 2017).

The development of economic growth in Indonesia began to include activities originating from creativity, skills, and individual talents through cultural arts and intellectual property rights which are often referred to as the creative economy (Burhanudin et al., 2020). Creative economy plays a role in creating a new sector in the industry in Indonesia and producing creative economy GDP. The source of GDP comes from the role of human factors through their talents and innovations.

### **2.2.4 The Concept of Creative Economy Workforce**

According to Labor Act No. 13 of 2003, workforce is all matters related to labor at the time before, during, and after the work period. Labor



itself is one who is able to perform work, produce goods and / or services, to fulfill their needs.

Workforce is the people who is employed / owned a job and the unemployed who is looking for a job. To be considered as part of workforce, one must be available and willing to work (Bureau of Labor Statistics, 2020). Working age of a workforce ranges from 15 to 64 years old (Ghufron & Rahmatullah, 2019).

Another macroeconomic variables that plays important role in country's economic performance is its workforce (Soylu et al., 2018). Workforce represents the level of employment that arises from the economic structure of a country.

In this study, number of workforce in creative economy will be used as workforce variable. Since 2010, the number of creative economy workers tend to increase, with the average growth rate of 4.69 percent per year. Creative economy absorbed percentage of total workforce available in Indonesia (Badan Pusat Statistik, 2017).

Age-wise, on average, 19.02% of creative economy workforce is 15-24 years old; 32.35% aged 41-59 years old; and 6.59% aged 60 years and over. Meanwhile, according to the level of education, the proportion is as follow; 59.09% workers with low education (SMP and below); 6.79% workers with high education (Diploma and above). However, percentage of highly educated creative economy workers increased since 2011 (Badan Pusat Statistik, 2017).

### 2.2.5 The Concept of Creative Economy Export

Exports are movable goods produced within the boundaries of one country and traded with another country. The amount of exports generates foreign currency earnings for the producer country and then boosts its economic growth (Bakari & Mabrouki, 2017).

Export, according to the Republic of Indonesia's Law No. 17 of 2006, is the practice of withdrawing goods from customs areas. An action can be classified as export if the buyer is from outside the country and the seller is from inside the country. The price of free on board (FOB) can be used to judge the export of goods; The value of goods (according to notification of export of goods or PEB) is multiplied by the exchange rate to calculate the export of goods (Kartikasari, 2017)

One of the industry that contribute in export is creative economy. In this case, creative economy generates income through trade (exports) and intellectual property rights (UNCTAD, 2015b). Export is critical to a country's economic growth, as explained in Hecksher-theory Ohlin's in Pridayanti, 2014, which states that a country will export goods with lower production costs and plentiful raw materials. This will favor the exporting country by increasing national income and stimulating economic growth.

Export can promote economic performance growth and vice versa (Lee & Huang, 2002). According to Kaminski et al. (1996), promoting exports by dynamic adjustments through macroeconomic stabilization and price liberalization policies complements economic growth (Belkania, 2020).

In the fourth industrial era, or so-called creative economy era, Indonesia has greater export opportunities. Large population of Indonesia inhabitants is an asset that can be used for a more sustainable source of export (Badan Pusat Statistik, 2019).

### **2.2.6 The Concept of Economic Performance**

It is important for a country to monitor and assess performance. The performance of an economy is usually assessed in terms of the achievement of economic objectives. These objectives can be long term, such as sustainable growth and development, or short term such as the stabilization of the economy response to sudden and unpredictable events, called economic shocks (Stiglitz & Sen, 2009).

Economic performance is everything about economy — its growth, rate of price changes, unemployment, performance of current account, asset prices, etc. According to Pettinger, the key measures of economic performance is its economic growth. It has become rather common to rank the performance of countries by assessing their levels of development in terms of GDP (Cracolici et al., 2010)

In most macroeconomic books, economic growth is defined as the increase in the amount of goods and services produced in a country during specific period of time (Soylu et al., 2018). Economic growth, as an indicator of welfare, is measured by its GDP. The most accurate measurement of growth is real GDP.

To know how well an economy is performing, or to judge whether economic performance has improved or deteriorated, The Economy Performance Index (EPI) is used. EPI is a powerful macro indicator to measure the performance of the economy's three primary segments; households, firms, and government. According to EPI (Khramov & Lee, 2013) real GDP is a measure of the aggregate performance of the entire economy.

Amount of annual GDP will be used to measure economic performance in this study because the level of GDP can be viewed as Indonesia's ability to provide its inhabitants with proper opportunities to enjoy good economic, social, and environmental conditions of life. A better living standards of a population is considered as the result of GDP. Inhabitants can have better health services, more secure living, more entertaining leisure time, healthy and sustainable environment, greater access to education, etc. Good living standards, in return, can also enhance productivity, hence more GDP output (Cracolici et al., 2010).

### 2.3 Previous Studies

**Table 2.2**

**Previous Study**

<b>No.</b>	<b>Title</b>	<b>Variable</b>	<b>Method</b>	<b>Findings</b>
1	Creative Industries Impact on National Economy in regards to Subsector	Unemployment, GDP, Foreign Trade.	Systematic, logical, and comparative analysis of scientific literature, analysis of empirical data.	CI impact on national economy might be measured by its role in fighting unemployment, contributing to

	(Daubaraitė & Startienė, 2015)			GDP and foreign trade amongst other indicators.
2	Analysis of Creative Industries Development in Indonesia (Burhanudin et al., 2020)	GDP Creative Industry, Labor, Wage, Patent, Education, FDI, Policy	The data used is secondary data from the results of BEKRAF – BPS collaboration. Klassen’s typology technique is used to identify patterns of growth on creative economy sector.	Determinants of GDP shows that the number of workers, wages, and patents can increase the growth of GDP in creative industry.
3	Creative Industry in Supporting Economic Growth in Indonesia: Perspective of Regional Innovation System (Hidayat & Asmara, 2017)	Local resources and potential, Supporting local policies, Supporting national policies, Creative industries, Economy growth	This research uses two methods namely direct observation in field and literature review.	Creative industry is likely affected by activity within each sector.
4	Peran Ekonomi Kreatif Sebagai Solusi Mengatasi Pengangguran (Ghufron & Rahmatullah, 2019)	Economic development, Creative Economy, Unemployment	This study is a library research which collected secondary data.	Creative economy positively influences the job creation, export earning, technology development, and improving intellectual property.
5	The Impacts Analysis of Creative-Products Export on the Economy (Sukma et al., 2018).	Creative economy import, Creative economy export	This study applies Input-Output (I-O) model; that is a general equilibrium model that able to describe the output distribution of a(n) sector/industry to the whole economy	The export increase of creative products from both the fashion and craft sectors potentially drive the Indonesian economy through the increase of value-added,

				income and labour absorption.
6	Creative Industries in Supporting Indonesia's Economic Growth in Innovation Perspective (Husin et al., 2021)	Distribution of SME, Creative product, Growth of national creative industry	Direct observation through interviews and data collection. Author proposed analytical framework, combined with several concepts.	Creative economy can help to improve the economy in the surrounding environment.
7	The creative industry as a factor in the development of the economy: dissemination of european experience in the countries with economies in transition (Bilan et al., 2019)	Creative industry, Economic model,	A three-stage approach was designed to achieve the objectives of the research. The first stage involves statistical data analysis on the world trends in the development of the CIs and features of these processes in the CTEs. Secondly, is the theoretical approach, contains the systematic, logical and comparative analysis and synthesis of scientific literature on concepts of CIs and their development with special interest to their influence on the economic and non-economic indicators of the development of countries. At the third stage, on the basis of the obtained	Creative industry improved the economic development of a country through value-added growth, new job creation, regional development.

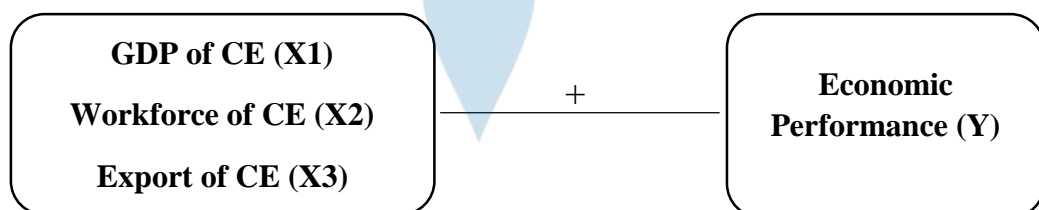
			theoretical results and the results of statistical data analysis.	
8	Economic development and the creative industry: a causality (Marco-Serrano et al., 2014)	Income generation, Employment, Higher education, Urbanisation, Economic development	This research uses a conceptual framework to test the possible causality between income and employment in the creative economy sector	Young people become key factors for the growth of the creative economy and, according to the foreseen circular relationship, the economic growth of the regions.
9	Industry Revolution 4.0: Strengthening The Creative Economy Sectors Through Bekraf Implementation Programs (Harikesa, 2020)	The growth of creative economy, Workforce absorption, Gross export value	Qualitative method by gathering the data from books, international journals, formal website of government institutions that are related to the paper's topics, qualitative methods by analyzing and processing the data by using the qualitative research software such as Mendeley and NVivo, and qualitative expert interviews with representatives of government administrative bodies and especially with the representatives from BEKRAF.	The increasing number of entrepreneurs and SMEs bring impact to the growth of creative economy, workforce absorption, and foreign trade.

## 2.4 Hypothesis Development

From the above literature review, therefore, we see that creative economy gives strong impact to overall economic condition. Creative economy impact on national economy might be measured by its role in fighting unemployment, contributing to GDP, and foreign trade (Daubaraitė & Startienė, 2015). Thus, creative economy development will have positively association with economic performance. The hypotheses are formulated as follow;

- a. H1: GDP creative economy (X1) and economic performance (Y) have positive relationship.
- b. H2: Number of creative workforce (X2) and economic performance (Y) have positive relationship.
- c. H3: Export value of creative economy (X3) and economic performance (Y) have positive relationship.

## 2.5 Theoretical Framework



**Figure 2.2 Conceptual Framework**

Source: Daubaraitė & Startienė (2015)