

CHAPTER I

INTRODUCTION

1.1. Background

Creative economy is a promising new economy. It is expected to be the leading economic sector in the 21st century. This industry embraces the creative mind of the people where ideas can be translated into product or service that have economic value. This sector will hopefully bring new job opportunities for people that are interested to work in this creative sector, and in the long-term will boost the economy of a country.

On Dec 21st, 2011, through the president regulation number 92/2011, the Ministry of Tourism and Creative Economy was officially established¹. It happened with the consideration of the global strategic environment to have national policy dealing with tourism and creative economy and the government regulation number 50/2011 about the main plan of development of national tourism 2010-2015, and also president instruction number 6 about the development of creative economy. The first work that needs to be done was to formulate a strategic plan for the development of tourism and creative economy in 2012-2014 that was going to be the main reference for all working unites inside the minister. The establishment of

¹ "KEMENPAR", *Kemenpar.Go.Id*, last modified 2017, accessed April 23, 2017, <http://www.kemenpar.go.id/asp/detil.asp?c=14&id=1710>.

this ministry was to increase the quality of life of Indonesian people, to bring welfare among the society through tourism and creative economy.

The chosen minister to run the Ministry of Tourism and Creative Economy, Prof. Dr. Mari Elka Pangestu, stated in her doctoral speech at the Faculty of Economy and Business Universitas Indonesia, that creative economy will evolve and it is important for the future of Indonesia's economy. She mentioned that creative Economy is the new economic power of Indonesia to answer the challenges of globalization and this sector is important for the development of Indonesia. In addition to that, in order to face the changes in the global economy, Indonesia needs to find new economic power so that Indonesia can have a sustainable development and boost its economy.

According to her, the development of technology and also competition are also another thing that need to be considered. Indonesia needs to seek for new opportunities for its economy to be developed. Therefore, the production process needs to see the importance of development, design, the process itself, security, testing process, marketing that need to be included in the global value chain (GVC). The new approach of development needs to include creativity and innovation with the combination of technology and knowledge so that creative economy of Indonesia flourished. The government also needs to take its role by implementing the policy regarding intellectual rights to protect the work of each of the creative industry stakeholder so the contribution of creative people will increase.

During the presidency of Susilo Bambang Yudhoyono and also Prof. Dr. Mari Elka Pangestu as the Minister of Tourism and Creative Economy, this industry

was one of the sector that contributed towards the national economy of Indonesia. Bureau Statistics and Badan Ekonomi Kreatif (Bekraf) released a data in 2016 that covered macro creative economy data, which include the GDP, human resources, export, and a survey that specified only on the creative economy. From the year of 2010-2015, creative economy contributed up to 10,14% a year which equals to Rp 852,24 trillion towards Indonesia's Gross Domestic Product (GDP).² Even though it was considered as low compared to other sectors like agriculture, industry, and restaurant but it was higher than mining and also financial sector.

Creative economy has the potential to be part of Indonesia's soft diplomacy power. Film, fashion, architecture, design, culinary and arts are the industry that can bring added-value to Indonesia's economy. In 2011, creative economy has emerged through the development of tourism in Indonesia and as the result this industry is success to absorb six percent of workers. Social and political reformation has helped the economy of Indonesia to recover and has bring Indonesia to be a democratic state that is beneficial of foreign investment.

Another ability that Indonesia has in order to enhance its creative economy are demography, cultures (heritage), and also its people. Indonesia is considered as archipelago state which consists of many islands from Sabang to Merauke and each of the area has its own local heritage that is still used as part of daily routines. Through the richness of its local culture, each of the culture in Indonesia has its own traditional arts including painting, handicraft, and clothing, arms, beliefs,

² Rachman, Fadhly Fauzi. "Bekraf dan BPS Luncurkan Data Statistik Ekonomi Kreatif 2016." <https://finance.detik.com/berita-ekonomi-bisnis/3366011/bekraf-dan-bps-luncurkan-data-statistik-ekonomi-kreatif-2016>. Accessed on June 4, 2017.

practices as the product of the local cultures. In terms of population, Indonesia is the third largest country which consists of 250 million people and 50% of the population are categorized in the productive age which are under 30 years. The government of Indonesia needs to create another new job opportunities so that 50 percent of the population can have jobs and be productive.³

Even though 50 percent of the population are considered productive, many of them outside cannot get a job because of many reasons. This is due to some factors like, low payment, persistent vulnerable employment, limited capacities of labor inspection. The slower pace of jobs creation is making the employment growth slower than the population growth. These problems have become part of Indonesia from the very beginning.

Another challenge that the government Indonesia face is that local people tend to imprison themselves and stay where they are staying because they feel comfortable. Many of the indigenous people do not accept changes and avoiding them. The enhancement of creative economy does need change, uncertainty and also challenges. If the people of Indonesia cannot adapt to this change, then many of Indonesian people will not be creative, stagnant, and the impact of that is the creative economy of Indonesia will not flourish.

To tackle these issues, the government of Indonesia tries their best to enhance the creative economy of Indonesia so that this industry can help Indonesia

³ Baden Coordinating Peranakan Modal. "Indonesia, UK To Boost Cooperation in Creative Economy. Accessed June 4, 2017. " <http://www.bkpm.go.id/en/publication-investment/detail/investment-news/indonesia-uk-to-boost-cooperation-in-creative-economy>.

to face economic and social issues. The government of Indonesia under the Ministry of Tourism and Creative Economy in 2012, the government of Indonesia has signed a Memorandum of Understanding (MoU) regarding creative economy with the Government of the United Kingdom. These two countries have agreed upon the cooperation in order to boost their creative economy and also their national economy.

Indonesia and the United Kingdom realized that the role of creative industries is important in the economic development and it is an instrument to improve the life standard of all people in both countries. In order to do this, the government of the UK and the Republic of Indonesia agreed to signed the MoU in London on November 2012. As written in the MoU, there are three objectives that they try to achieve, to promote cooperation between the peoples of the two countries in the fields of creative economy, to promote and improve human resources development for creative industries, to facilitate mutual understanding and support between the peoples of the two countries in the fields of creative industries.

The creative economy of Indonesia has experienced some development. This industry has able to open new job vacancies to young people in Indonesia and many of them has become the creative entrepreneur of creative industry in Indonesia. Take a look in the example of film industry in Indonesia, the amount of Indonesia's cinema is increasing year by year. According to MD Entertainment⁴, the house of production in Indonesia, the amount of Indonesia's cinema which

⁴ "Industry Film Indonesia, Potenza Bernarda Yang Siring Erbakan", *KOMPASIANA*, last modified 2017, accessed April 24, 2017, http://www.kompasiana.com/natashya3016/industri-film-indonesia-potensi-berharga-yang-sering-terabaikan_58863eb1369773311055009a.

provide 1.117 screens are not able to keep up with the increasing number of local film produced and also the total population of Indonesia itself. Another obstacle is that the number of cinemas in Indonesia are not spread equally to all the are in Indonesia. The majority of the cinema is located in big city, thus, films in Indonesia can only be enjoyed by all Indonesian people.

In contrast with that, there are lots of UK films that are listed in the worldwide box office. UK's films released at the worldwide box office in 2015 and earned of one quarter of total global receipts. *Star Wars: The Force Awakens* earns \$1.9 billion and *Paddington* was the highest grossing independent UK title with the total earning of \$112 million. From this fact, we can see that the film industry of The United Kingdom is more successful compare to Indonesia's.⁵

The British creative industry has evolved and become the economic power of the United Kingdom. The government of the United Kingdom has work their best to provide 30Mbit/s of internet to all of its citizens. Currently, there are 73% of households in the UK has access to this internet speed. The government of the UK has a vision that in 20 years' time, government, the citizens and all people in the UK has access to 5G mobile technologies, not just consumer coverage. Almost all the subsector of the creative economy experienced a significant growth in the United Kingdom and through that the unemployment rate of the UK is low.

However, to have skill, innovation, and creativity is hard because it requires lots of relevant educational process, such as secondary and tertiary as well

⁵ BFI Film Forever, "UK FILMS AT THE WORLDWIDE BOX OFFICE", last modified 2017, accessed April 24, 2017, <http://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/bfi-uk-films-world-at-the-world-office-2016-06-30.pdf>.

as vocational training specially for households, both in rural and urban area. In fact, many people in Indonesia lives under poverty line which means many of them cannot afford formal or even vocational education. According to World Bank, the poverty rate of Indonesia has declined for about 1% every year from 2007 to 2012 and in 2013 the percentage has declined for about 0.3 percent points per year. On average, there are more than 40 percent of the total population of Indonesia still live under poverty.⁶

There should be some programs that support to the work of the Memorandum of Understanding between the government of Indonesia and the Government of the United Kingdom. The government of Indonesia as well as all the stakeholders of creative industry in Indonesia have to work together to create a sufficient environment for people who work in this industry and help this economy sector to develop. With the evolvement of Indonesia's creative economy, this sector can create new job opportunities for Indonesian people as well as foreigners because this sector can create jobs for low-middle skilled labors and eventually will increase the life standard of many people. The people of Indonesia need to open their mind and heart to support the work of Indonesian government to achieve the goals.

Even though changes are hard to be implemented in certain parts, the development of creative industry in Indonesia will contribute to answer the economic challenge in today's world.

⁶ "Indonesia Overview", *Worldbank.Org*, last modified 2017, accessed April 24, 2017, <http://www.worldbank.org/en/country/indonesia/overview>.

1.2. Problems

There are several problems that hinder the development of creative industries in Indonesia. Indonesia's creative industry is still considered as part of economy but not industry. Meaning that, creative industries is consider as a one part of economy even though it is consist of many different subsectors. So, even though they are a lot of subsectors it is consider as one sector of economy.

According to Indonesia, there are 15 subsectors that are consider as creative industries. Architecture, art, craft, design, fashion, video, film and photography, interactive games, music, performing arts, publishing and printing, computer services and software, TV and radio, Research and Development, and culinary are the creative industries in Indonesia. The difference between Indonesia and the United Kingdom is that each of the subsector of creative industries in the UK is independent, has already emerge, and each of the subsector contributes to UK's national economy. Meanwhile in Indonesia, each of the subsector is not independent and it is still part as creative economy as a whole.

As for now, Indonesia still consider creative industries as economy, thus, each of the subsector cannot grow into each of its potential. There is no law that is dedicated to each of the subsector of creative industries in Indonesia. Therefore, it hinders creative economy of Indonesia to grow.

In the case of Indonesia, creative sector does produce outputs that have economic value and can bring profit. But, the production itself is very small in quantity. It takes a long time to produce the product. The production is not a mass

production type. The reason behind it is probably the permit, the property rights and all the other stuff that are hinder the mass production of this sector.

This type of product need permit and also protection so that it cannot be imitated. In fact, the process of getting the permit in Indonesia takes a long time. Another problem is that the standard Indonesian product is sometime do not match with the international standard because of the way it produced, the ingredients that it used, and many other things.

It is in fact slows the development of creative industry in Indonesia. Even though creative sector has experienced a significant development but then it is hard for them to grow due to several sectors mentioned above. We can take an example from the film industry, many of Indonesia's films are not as good as the one produced by Hollywood or Bollywood. The movie production in Indonesia is not as much as the on in Hollywood and that is why the number of Indonesian films in the market is not as much the others. The quality of the stories, editing, creativity and any other factors are not in line with the international one.

In music industry, singers in Indonesia are afraid to produce songs because there are so many illegal markets in Indonesia that copied the work of the singers. There are only several Indonesia's singers that go international and not all of their songs are known internationally. The fact that it is actually happened to Indonesia is sad because it hinders the creative people to produce something that can actually bring benefit to Indonesia.

1.3 Research Questions

The signing of the MoU between the Government of the Republic of Indonesia and the Government of United Kingdom of Great Britain and Northern Island is another way to enhance the creative economy of both countries. Indonesia can also gain some benefits through this cooperation by having trainings, etc. to support the work of creative economy in Indonesia. The signing of the MoU will also strengthen the relationship that both countries has built since long time ago.

In conducting this research, there are several questions that need to be answered;

1. Why did the UK and Indonesia sign an MoU on economic creative cooperation?
2. What is the advantaged position of Indonesia's creative economy that can contribute to the MoU signed by Indonesia and the UK?
3. What are the advantages that Indonesia will gain from the signing of the MoU?

1.4. Research Purposes

The purpose of this research is to analyze the process of signing of the Memorandum of Understanding by both Indonesia and the United Kingdom back in 2012. Both of the countries agreed to work together to solve economic problems, through cooperation, by having training, and also the exchange of knowledge about creative industry. Through this MoU, both countries will hopefully enhance their bilateral relations in economic sector especially on creative economy.

Aside from that, the author will also try to explain the advantaged position that Indonesia in its relation with the UK and also through the signing of the MoU. The United Kingdom is the one that has the superiority of creative economy because many of the creative industries have experienced a significant growth and have contribute a big percentage of UK's GDP as a whole. The creative industry of the United Kingdom has open a new job opportunities and many of their creative entrepreneurs have gone worldwide.

Indonesia is still on the process of developing its creative industries. Through the signing of MoU, the author would like to see the advantaged position of Indonesia in terms of what Indonesia has and how this cooperation will bring benefits for Indonesia. Both of the countries will surely experience different outcomes after the signing of the MoU.

This writing can also be used for academic purposes in the field of creative economy. It can be used as a reference for the study of bilateral relations between the United Kingdom and also the Republic of Indonesia in the scope of creative industries. The contribution of this paper towards the academic world will hopefully provide a new insight into the bilateral relation between the two countries and the creative industry of Indonesia and the United Kingdom.

In general, this writing will hopefully make the readers understand the work of the MoU for both countries. The paper hopefully gives enough information to the readers on the benefits of having a bilateral relation in the field of creative industries.

1.5. Structure of Writing

This thesis consists of five chapters. The first chapter will be explaining about the background or introduction about the topic, as well as the problems that exist in this particular topic. This chapter will also mention the focus of the writing that is mentioned through research questions. At the end of the chapter, the author will be explaining as to why this research is important to be conducted and the structure of writing of this research paper.

The second chapter will be discussing more about the literature review that are used as the references of this research paper. The writer will try to elaborate several readings that is going to be used to explain the topic best. The discussion will also include experts' opinions, government publications, and also some international organization data. On this chapter, author will also elaborate the theory and concepts that are going to be used to support the writing.

The third chapter is about the methods of writing in conducting the thesis. The writer will explain the method and the reason as to why this method is the best way to complete the research. There will also be an explanation on how the writer gather all the data. At the end of the chapter, there will be an explanation on how the data is analyzed to support the topic of this thesis.

The fourth chapter of the writing will be the discussion of the topic. Fourth chapter is divided into 3 subchapters which represents the analysis about the topic. All collected data will also be discussed to support the argument and to add information into each of the subchapter. Chapter four is the main part of the thesis

because it contains all the analysis, information to answer the research question mentioned in chapter one.

The last chapter of the paper which is chapter five will be the conclusion of all the analysis that is written in chapter four. The author will also try to give some suggestion that will hopefully be useful as a reference on the topic of creative industries and for further research.