

CHAPTER I INTRODUCTION

A. Background

Creativity and innovation is an unlimited ability. This has led to the increasing number of young Indonesian industry players to take part in domestic and international markets through their creative products they produce. The basic idea and infinite input of an individual and comprehensive thinking ability will cause a lot of output produced by industry players in Indonesia. Indonesia with huge population around 260 million and with a diverse tribes and cultures is the to create many creative industry players who have various innovations and products with their own identity and uniqueness.

Globalization is something we cannot deny. Now is the era where globalization and connectivity has changed one's way of thinking and change the exchange of information, trade, and consumption of cultural and technological products, and people's views of things from various places in the world. The world becomes a very dynamic and complex place so that creativity and knowledge become very valuable assets in competition and economic development. Creative Economy is a concept that places creativity and knowledge as the main assets in driving the economy. This concept has sparked interest in various countries to conduct studies on the creative Economy and creative industries as one of the components in it and make creative Economy the main model of economic development. (Mahargiono, 2017)

Creative economy is one of the real sectors of the economy that must intensify information and creativity by relying on the idea and knowledge of human resources as the main factor of production. This statement is mentioned by John Howkins in his book *The Creative Economy: How People Make Money from Ideas*. Howkins realized the birth of a new wave of creativity-based economies after seeing in 1997, the United States produced 414 billion dollars worth of Intellectual Property products that made it as the number one export item in the

United States. Thus, United Nations Conference on Trade and Development (UNCTAD) in 2010 defines the Creative Economy as an evolving concept based on creative assets potentially generating economic growth and development.

Economics and politics are two different concentrations of science. However, economic and political collaboration within a country is very close. In this era of globalization, there are limitations that might find these two science studies. Many international phenomena can only be explained by the international political economy theory. In the world of international relations, this makes the reach of international relations knowledge wider and gives rise to new actors in the international world. One of the topics that can be explained by the theory of international political economy is international trade. International trade can be carried out by several international actors - both government and non-government institutions with agreed terms and agreements to increase GDP such as exports and imports of goods and services.

Table 1. 1 GDP Ranks

Rank	Country	GDP (PPP)
1	Indonesia	3,492,208
2	Thailand	1,310,573
3	Malaysia	1,002,062
4	Philippines	955,219
5	Vietnam	705,774
6	Singapore	554,855
7	Myanmar	359,374
8	Cambodia	70,242
9	Laos	53,752
10	Brunei	34,637

Source: (IMF, 2016)

Indonesia GDP ranked as the highest GDP among ASEAN countries followed by Thailand and Malaysia. Indonesia can reach 3,5 millions dollar of GDP (PPP) compared to Thailand which only 1,3 millions dollar. Economic growth of Indonesia

normally can increase about 7 % in every year. The compositions as the largest GDP contributor are: Agriculture, Industry (Manufactory) and Service.

Creative Industry becomes significant component of Industry. Agriculture is more dominant than the other sectors, but nowadays industry sector is more advanced and is forecast to continue to increase. Creative industry is also one of the components of the industry itself. Creative economy began to show its fangs and this industry is very influential in the economic development and trade of Indonesia. Creative economy focuses on the economic dynamics of the creative industry sector. This proves that Indonesia is not only focused on the raw material / primary material sector. Actors in the creative industry are SMEs. Indonesia's SME is considered to have a very important role in international trade. Although SMEs in small city are not well informed and as advanced as SME in big cities, the fact is that both SMEs in small and big cities absorb 50% - 97% of the workforce and an average GDP of 46.5% in each ASEAN member country. Many things should be prepared by Indonesian SMEs to be ready to compete with foreign commodities, such as mental readiness to compete, product quality enhancement and understanding of trade in order to compete healthily.

Creative economy helps to create jobs and promote exports, cultural diversity, and thus contribute to economic growth. This allows the integration of culture, creativity and economy indeed combined with technology, intellectual property, and tourism goals to produce a creative economy. The market structure is diverse and can be in the form of artistic individuals, small-scale business, and even large multinational companies or cooperation. Creative business experienced a growth rate of 8.7 percent between 2000 and 2005. In 2005, goods and services contributed 3.4 percent in the world with gross revenues of \$ 424.4 billion. In 2003, the industry employed 5.6 million people in European Union countries. (Essays, 2013)

The economy in Asia was initially dominated by consumer goods and imports from China and India, it is hoped that the collaboration of ASEAN countries can be optimal and dominate

the ASEAN market. In the end of 2015, ASEAN had officially implemented the ASEAN Economic Community (AEC) in the Southeast Asia region. As the final objective of MEA is economic integration that embodies ASEAN Vision 2020 in 3 Pillars.

The ASEAN Economic Community was initiated from the 1997 Summit Conference held in Kuala Lumpur, Malaysia and the 2003 Summit (ASEAN Concord II) held in Bali with the same results, namely the importance of integrating 3 community pillars namely ASEAN Cultural Social Community, ASEAN Security Community and ASEAN Economic Community. Adjusting the economy in the ASEAN region itself forms the ASEAN Economic Community. Before the establishment of ASEAN Economic Community, ASEAN had embodied inter-regional trade through AFTA since 1993 until finally the ASEAN Economic Community was formed as a way to succeed the ASEAN 2020 vision. The ASEAN Economic Community was agreed as the decision of ASEAN members to form an integrated area with a single system market and reduce socio-economic disparity problems. As a single market, AEC has the benefit of enabling a country to sell and trade commodities and services easily with another ASEAN country without taking into account the limitations and obstacles that can be experienced. ASEAN Economic Community emphasizes on a single market that opens according to ASEAN Economic Community blueprint that contains four benchmarks of ASEAN Economic Community. The four principles are: AEC as a production base and implementing single market, AEC as region with high economic competition, AEC as equitable economic development, AEC as a region that fully integrated into the global economy.

AEC will be a single single-based market where there is free flow of goods, services, investment, and skilled labor, and freer capital flows among ASEAN countries. With the establishment of a single free market it will open the opportunity for Indonesia to increase its market share in the ASEAN region. The free market can certainly be a positive thing for us if we are able to compete.

Indonesia is the third largest country contributing the creative economy to gross domestic product (GDP) in the world. With a total contribution of 7% to GDP, Indonesia's position only lost to the United States (US) (11%) and South Korea (9%). (Simorangkir, 2018) Based on history, the presence of the industrial revolution in the UK industry, creative industry in the United Kingdom and the United States are growing. This also happens in South Korea, but these two countries do not have a single agency that deals with the country's creative economy.

Creative economy and creative industries have different ideas. Although creative economy is very closely related to creative industries, creative economy has a wider scope than Creative Industry. Creative economy is not only related to the creation of economic added value, but also the creation of social, cultural and environmental added value. Creative economy is an overall economy that is universal or can be said to be a macro economy, while the creative industry is more specific and more detailed about the industry and the development of innovation and creation carried out by both individuals and groups incorporated in a business entity (small medium enterprise)

The creative economy nowadays is different from the conventional creative economy, which has not been applied by many countries, this happens because of a shift in human needs. This can be seen from the shift in human lifestyles, especially millennial and the global dependence on information technology and daily activities that lead to financial growth in the creative industry. Millennials are those who understand the digital world. Millennials are also very much in control of the digital market. This digital era changes the character and behavior of consumers. Millennials are very consumptive and have consumption behavior that is different from the previous generation. The level of public consumption is increasing along with increasingly sophisticated technology that will increase the potential of actors who play a role in the creative economy.

President Joko Widodo has a background as a businessman and creative worker in the craft sector. He has a high understanding and interest in creative economy. Moreover, the creative economic sector is considered to have great potential

for the Indonesian economy. Moreover, there is an assumption that this sector will become an economic power in the future. President Jokowi's seriousness in maximizing and exposing Indonesia's creative economy can be seen in the results and differences from the previous year. Creative economy in past ten years under Susilo Bambang Yudhoyono's regime remain good but don't get huge attention from government, hence, President Joko Widodo created the Creative Economy Agency (BEKRAF) under the Presidential regulation No. 6 of 2015. After the establishment of BEKRAF, Jokowi began making programs and designing activities to support actors working in the creative industry such as bilateral partnership with ASEAN countries and increasing tax incentives.

After the creative economy plans and made by President Jokowi, the four economic sub-sectors experienced rapid growth, such as film with 10.28% growth, 7.26% in music, 6.62% in art and 6.68% growth of game and software applications. BEKRAF also noted that in 2015 Indonesia's gross domestic product (GDP) reached Rp. 852.56 Trillion. The number increased 8.6% from the previous year's position of IDR 784.84. in 2017, the contribution of the creative economy increased to Rp. 990 trillion and in 2018 it reached Rp1,000 trillion. this increase continues until now, the government is optimistic that the next 5 years Indonesia will dominate the creative economy in Southeast Asia.

B. Research Question

Based on the background of the problems that has been written above, the author draws a question *“What are the strategy of Joko Widodo’s administration to develop creative economy sector in facing ASEAN Economic Community (AEC) 2015-2018?”*

C. Theoretical Framework

1. Regional Integration Theory

Regional Integration is process by which two or more than one state/nation-state agrees to cooperate and work

closely together in order to achieve their goals which is peaceful, stable and wealthy between member states. Usually, integration involves one or more written arguments that describe the area of cooperation in detail, as well as some coordinating bodies representing the countries involved. This co operation usually begins with economic integration and as its continues to political integration (Carleton University Center for European Studies (CES), 2018)

Based on John McCormick. *The European Union: Politics and Policies*. Westview Press: Boulder Colorado, 1999. There are three key terms of Regional Integration such as economic integration, the single market, and political integration.

Economic integration is the process by which different countries agree to remove trade barriers between them. Trade barriers can be tariffs (taxes imposed on imports to a country), quotas (a limit to the amount of a product that can be imported) and border restrictions. In terms of tariffs, ASEAN apply Common Effective Preferential Tariff (CEPT). The CEPT scheme includes manufacturing and semi-manufacturing products, including capital goods and agricultural product processes. Product exports and imports that meet 40% of ASEAN content requirements, will be reduced to 0-5% in 2002/2003 but in some country will be applied after 2006 such as Myanmar, Laos and Cambodia in 2010. The liberalization process is carried out at different speeds according to the product group: differentiated based on the "fast track" and "normal track" schemes.

The **single market** is the midpoint of the integration scale between political and economic integration. It is the point at which the economies of the co-operating states become so integrated that all barriers to the movements of labor, goods and capital are removed. At this stage the integrating states set a common external tariff on goods from other countries—this is called a customs union. For instance, Free flow of goods can be achieved through virtual elimination of Intra-ASEAN tariffs, pursuant to

commitments made in AFTA and the ASEAN Trade in Goods Agreement (ATIGA); harmonization of standards in the priority sector through the ASEAN Harmonised Cosmetic Regulatory Regime, the ASEAN Harmonised Electrical & Electronic Equipment Regulatory Regime; and the ASEAN Medical Device Directive, plus concrete initiative in the area of trade facilitation (ASEAN, A Journey Towards Regional Economic Integration : 1967 - 2017, 2017). Open regionalism is an effort to resolve trade problems that will lead to an increase in investment and single market (ASEAN Common Market) that can be achieved by regional trade and the accelerating the flow of goods, labor, and services related to trade and the service sector widely.

Political integration as the economies of the co-operating countries become completely integrated into a single market, there appears a need for common policies in social policy (education, health care, unemployment benefits and pensions) and common political institutions. This is political integration and its culmination occurs when the co-operating countries are so integrated that they share the same foreign policies and merge their armies. Consequently, they form a new country. ASEAN Economic Community, which is one of pillars of ASEAN, is one of the products of political integration that is designed and assigned by ASEAN countries.

2. **Creative Economy**

In the book *The Creative Economy: How People Make Money* published in 2001, John Howkins first introduced creative economic theory. Howkins realized the birth of a new wave of creativity-based economy. According to Howkins Creative Economy is "the creation of value as a result of idea". He interpreted the input and output of the Creative Economy as an idea.

Howkins explained the creative economy as "economic activity in the community who spends most of his time to generate ideas, not only do things that are routine and repetitive. Due to these communities, generate ideas is

something that must be done to progress." (Howkins, 2004) this sentence has meaning that creative economic activities carried out by a community such as the film community, creative house production, fashion designers are not only reps with the same results, but there must be new ideas and works that are always evolving in order to survive in the creative industry. One relevant example is the product / output of creative industry players in Indonesia that is different from what is sold by the agricultural commodity which sells the same thing every day, creative ideas is really needed by all creative industry players because creativity is the key for the industry players to always create new ideas so they can compete with the creative industries in other countries.

Through the free and single market of ASEAN Economic Community, creative industries has a great potential to increase GDP in each country especially with the regulation that makes it easy for every creative industry to send their products to other countries, especially ASEAN countries. Some creative industries are profitable and can bring many benefits, such as the Art sector. To promote their product people can open a gallery, and sell paintings by auction. Art items that can be marketed are paintings, crafts, music, and film. Besides that it can also be through the culinary sector, this is also one way of diplomacy that can be done by every country because the culinary sector has a broad market and buyer segment.

The impact of the 'Korean wave' in creative industries in South Korea inspired countries in ASEAN especially government and stakeholders to develop creative economic potential in their own countries. Government support for the creative economy in the ASEAN region is urgently needed. Government support varies depending on the policies and economic conditions in the country. Various kinds of government support comprises funding related to capital lending, business development, providing training / workshops, establishing agencies / organizations etc. The Malaysian government established Multimedia Super

Corridor (MSC), which provides funding and content development such as animation and games in Malaysia experienced by Les'Copaque production that is famous for its production called "Upin & Ipin". Thailand established the Thailand Creative Design Center (TCDC) in Bangkok and the Thai government has put in place the development of a creative economy in the 2012-201 national development plan, meanwhile Singapore is optimistic in the development of fine arts due to low import duties compared to Indonesia. The Philippine government through the Department of Trade and Industry (DTI) took care of this issue until the emergence of the ASEAN Creative Cities Forum & 2017 Exhibition and another country will soon be expected to maximize the creative economy in their country.

The role of Indonesia government is needed to support the creative industry in facing the single market of AEC Economic Community (AEC). The government should create sufficient preparation to face AEC so the existence of the AEC not only makes Indonesia as a host country, but also as a home country. Besides preparation, government must take concrete action, such as improving the quality of human resources through education and developing domestic products, such as entertainment, tourism and fashion industry. In addition, the Indonesian Government must take care of SMEs, which play an important role in AEC by providing guidance and empowerment to improving product standards and quality in order to produce highly competitive products. In 2015, the government established Badan Ekonomi Kreatif (BEKRAF) with the aim as an organization that supports Indonesia's creative industry including developing domestic products and empowering SMEs in order to face the ASEAN free market.

D. Hypothesis

Based on the description above and the concept that helps to analyze, the author propose a hypothesis that the strategies of Joko Widodo's administration to develop creative economy sector in facing ASEAN Economic Community (AEC) 2015-2018 are:

1. Forming Creative Economy Agency called Badan Ekonomi Kreatif (BEKRAF) through Presidential Regulation Number 6 Year 2015 juncto Presidential Regulation Number 72 of 2015 concerning the Creative Economy Agency with the function as formulation, stipulation and implementation of policies on both industry and creative economy in Indonesia.
2. Establishing bilateral partnership by Badan Ekonomi Kreatif (BEKRAF) in collaboration with Indonesian Ministry of Foreign Affairs and Government of Singapore through the exhibition of SMEs in 2017 in order to develop creative economy products
3. Reducing the final 0.5% Income Tax in Government Regulation number 23 of 2018 by President Joko Widodo to support SMEs to be able to export goods with large quantities of goods but with low tax.

E. Research Purposes

This research aims to examine the will explain about the efforts and strategy in every sector of BEKRAF Indonesia in order to succeed ASEAN Economic Community. This research only focuses on the efforts and strategy of every sector of BEKRAF Indonesia towards AEC

F. Research Methods

This research will be completed using qualitative by providing a relevant data and/or information respectively. The data and/or information were mostly from books, journal article, articles in periodical, reports, websites, and document from website in order to obtain the update data and information.

G. Research Period

This research will emphasize what are strategies, business ventures and plans by BEKRAF in its participation to succeed AEC through the creative economy sector of Indonesia in order to be competent with other ASEAN countries starting in 2015-2018

H. Writing System

This undergraduate thesis is systematically written based on the rules applied in a scientific writing. It is divided into several chapters with different discussion within its own territory but interrelated. In order to facilitate in interpreting the topic issue, this undergraduate thesis will be divided into five chapters that consist of:

Chapter I: This chapter examines the background of the research, research question that need to be answered, theoretical framework that is used to analyze the research question, hypothesis, purpose of the research, method of the research, and the systematic of writing that is also written in this chapter.

Chapter II: This chapter explains about the condition and development of creative economy in Southeast Asia

Chapter III: this chapter will explain about the ASEAN Economic Community and its benefits.

Chapter IV: this chapter will explain about the efforts and the strategy of Joko Widodo's administration through BEKRAF in facing ASEAN Economic Community

Chapter V: the fifth chapter will consist of the entire conclusion from the previous discussion chapters as closing chapter and conclusion of this thesis research.