

THE BUSINESS ECOSYSTEM IN INDONESIA: THE POTENTIAL FOR THE CREATIVE ECONOMY

**Conference on Understanding Indonesia:
Revealing the Mysteries of Asia's Inscrutable Giant,
Harvard Kennedy School, November 21, 2015**

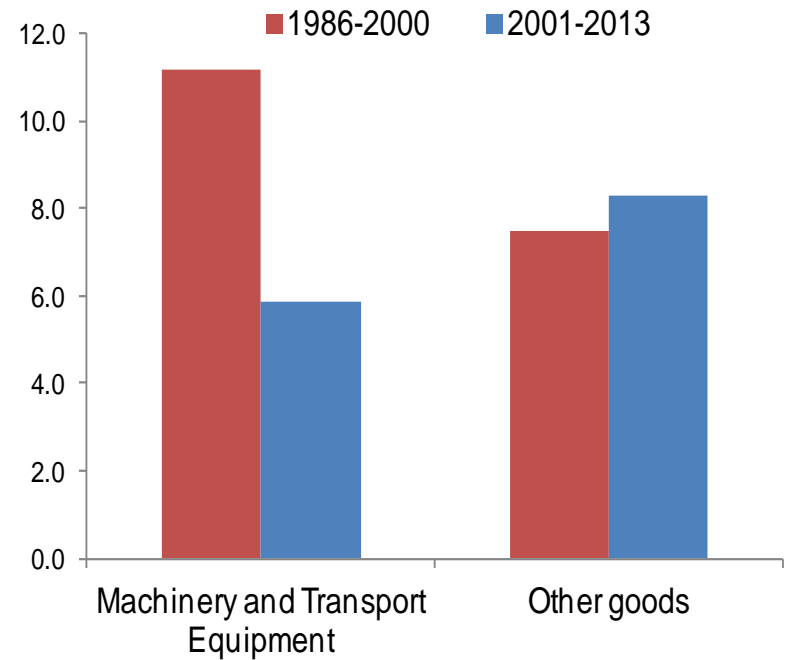
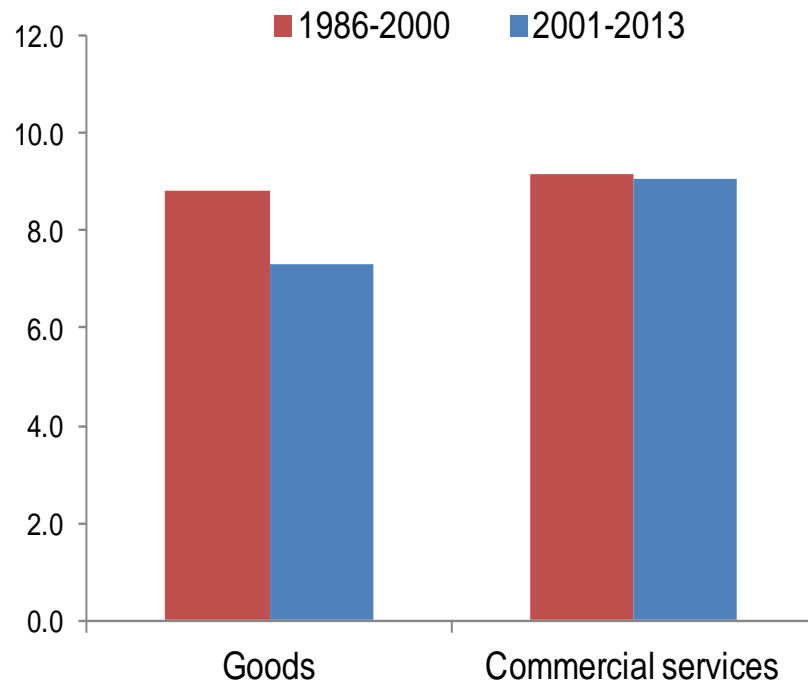
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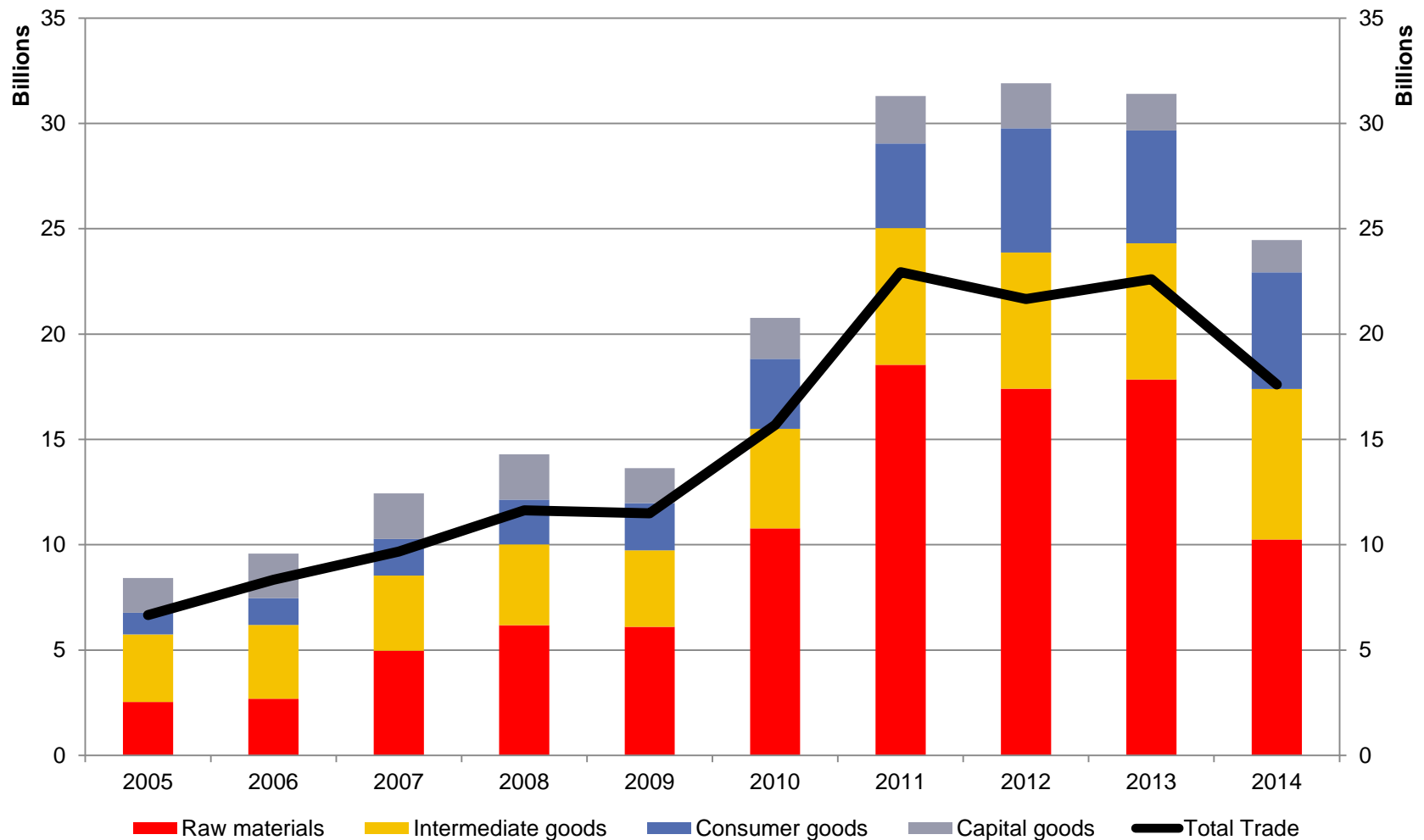
I. The CONTEXT: the need for diversification and new sources of growth, productivity and innovation

- slow growth of world trade and seeming delinking of world trade and growth (structural not cyclical): goods trade growth half previously and services more resilient
- Permanent weakening of commodity prices and demand
- Slowdown in China more than predicted, and future of structural reforms, leaving labor intensive production as China moves to services and innovation
- Changing nature of GVCs and role of China as hub: greater fragmentation of GVCs

1990s growth driven by goods (manufacturing, machinery and transport), changing to services and commodities



From 2013 to 2014, Indonesia's total exports to China contracted 22.1% yoy. The decrease mostly in Raw Materials (decreases 42.5% yoy). Others do not change significantly.



Diversification and structural transformation: think fashion not garment

The more capabilities a country has, the more diversified the country is



Products that need more capabilities will be made by fewer countries, and products will be more ubiquitous



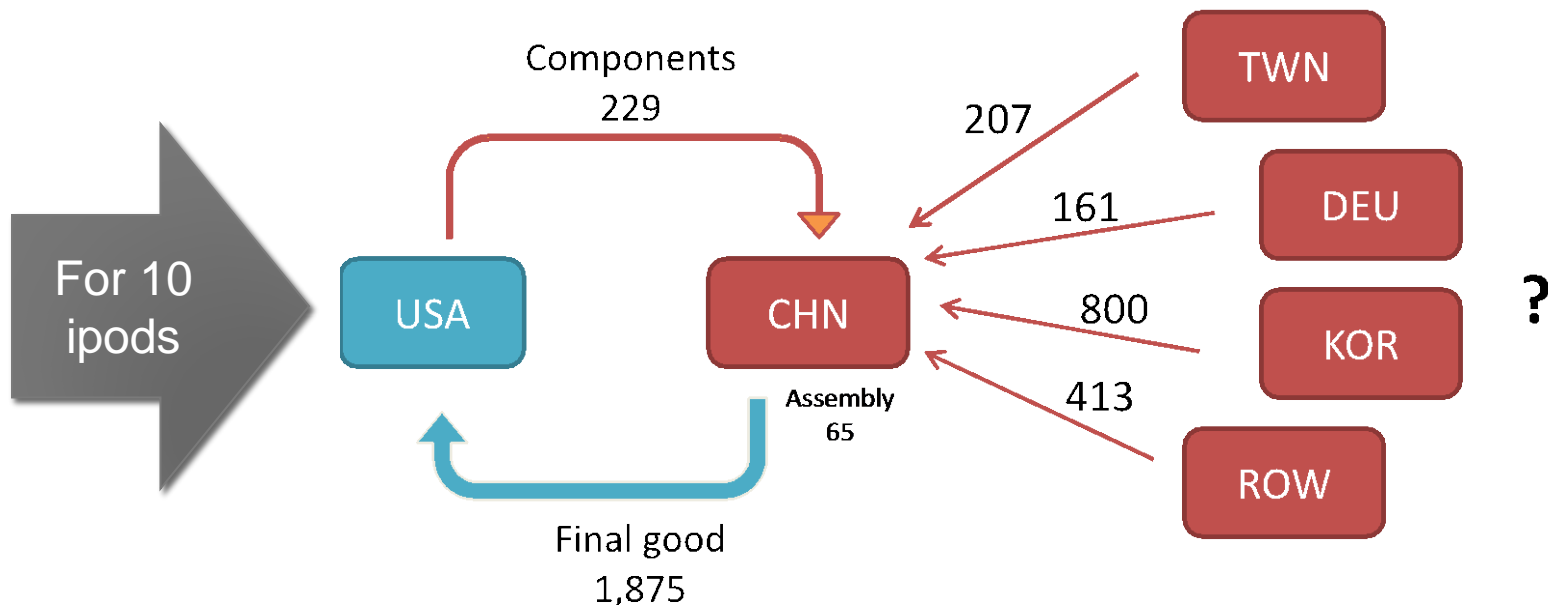
Countries with richer set of capabilities will be more diversified, and able to produce more ubiquitous products.



Hence, the diversification that matters is at the level of capabilities

Understanding Global Value Chains

- The case of iPod (Linden et al, 2009), iPhone (Xing and Detert, 2010), iPad (Linden et al, 2011) show that most components are imported from outside China. The value added made in China through the assembly process only contribute small part of the final value of the products.



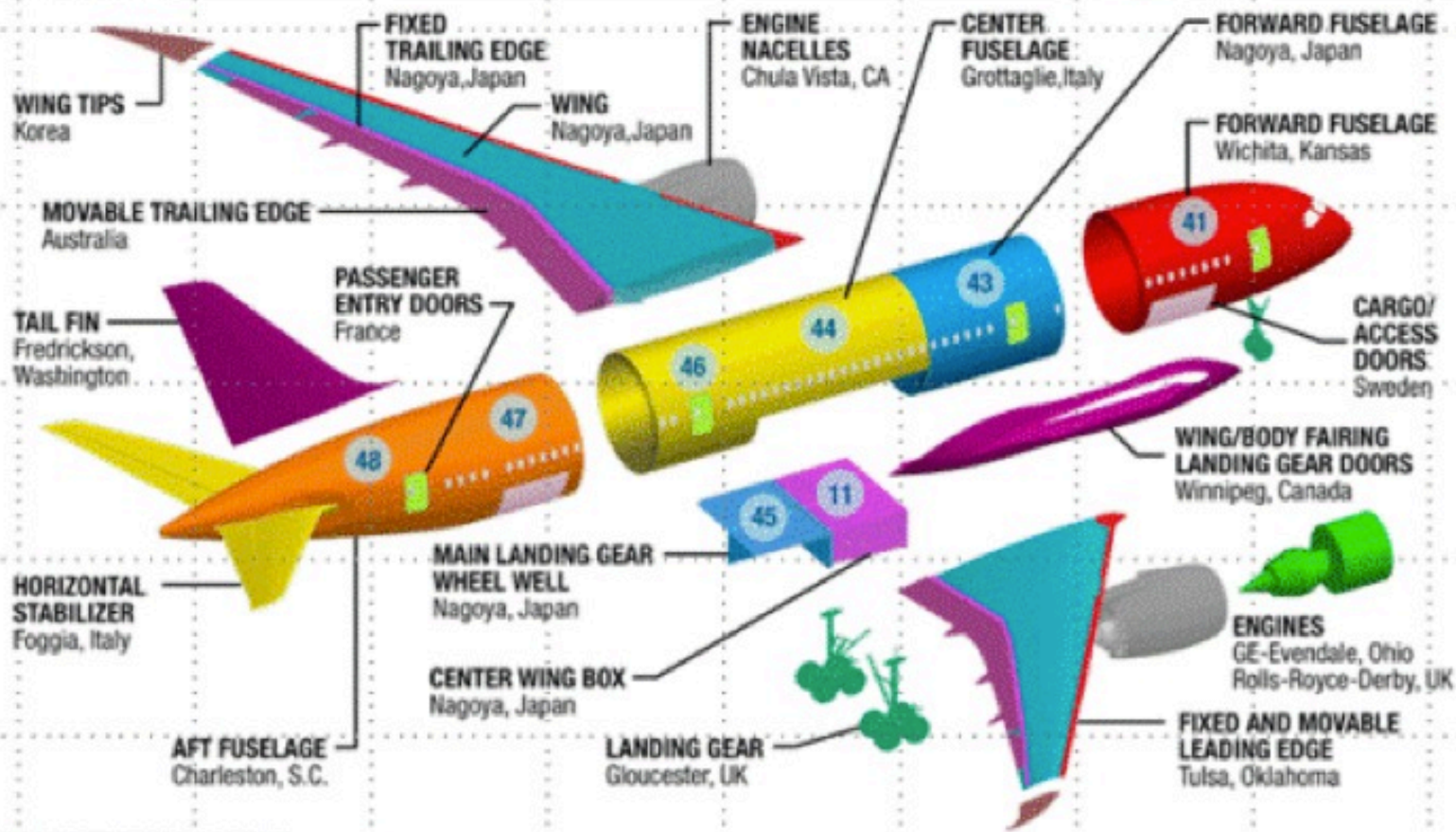
Source: OECD and WTO

APPLE SUPPLY CHAIN (content and design?)

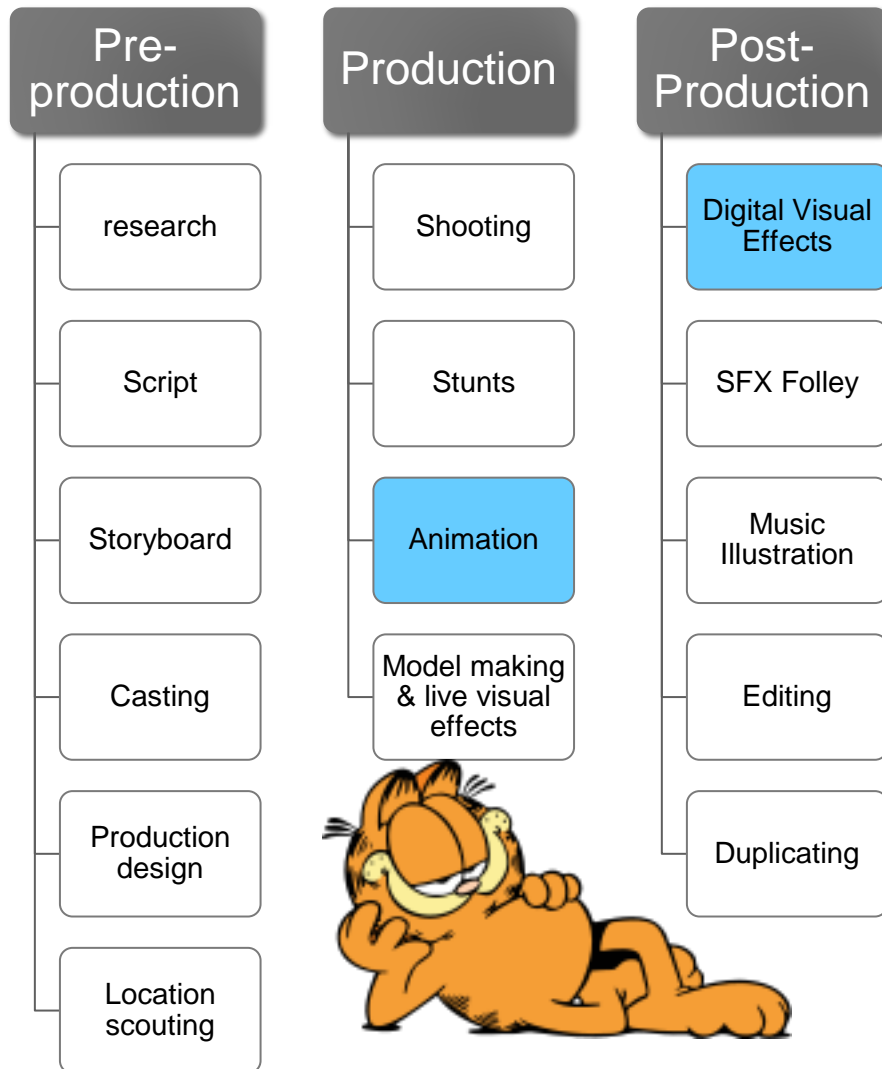


THE COMPANIES

U.S.	CANADA	AUSTRALIA	JAPAN	KOREA	EUROPE
Boeing	Boeing	Boeing	Kawasaki	KAL-ASD	Messier-Dowty
Spirit	Messier-Dowty		Mitsubishi		Rolls-Royce
Vought			Fuji		Latecoere
GE					Alenia
Goodrich					Saab



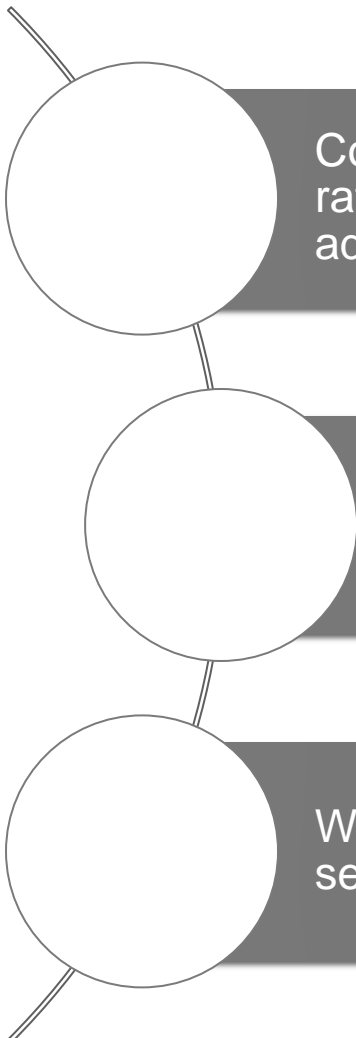
Case Indonesia: Animation



- The chart shows the production chain of Hollywood movie. The boxes with blue color show where Indonesian animation and visual effects houses take part.
- Some examples of movies in which Indonesian animation houses join the production chains:



In the context of the Global Value chains (GVC):



Countries should no longer specialize in specific goods end to end, rather should specialize in task in which they have comparative advantage, and build cluster around that “task” e.g. design, R&D

Parts of our exports are our imports: openness is important

What matters in a country’s competitiveness is efficient competitive services sector. Openness to trade, investment and people/talent

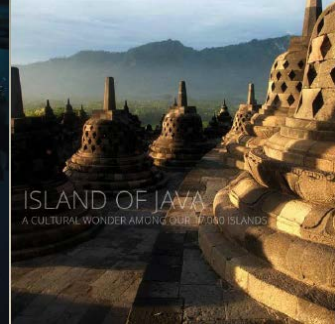
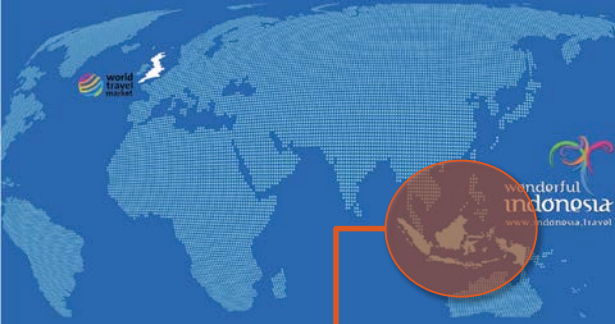
GVCs: inclusiveness and development (G20 agenda, OECD/WB study)

- GVCs have **advantage for SMEs and leap frogging**
- G20 agenda: **SMEs part of export value chain (backward linkages)**
 - lesser developed countries serve in agriculture, labor intensive and lower value added manufacturing and services (lower entry cost, less intensive in tangible capital).
 - Middle and higher income countries can operate in lower VA and higher skilled and specialized niche activities.
- **IMPLICATIONS: Importance and opportunities in knowledge based capital producing services/tasks and within production processes in value chain --- many of which are in the creative industry space**

II. For Indonesia is the answer the “New Economy” – the creative economy?

The traditional view of structural transformation:





INDONESIA AT A GLANCE

the **largest archipelago**

More than **17,100** islands

250 million people, largest muslim population, 4th largest and 3rd largest democracy

More than **300** distinct native ethnicities

Extending **5,120 km** from east to west and **1,760 km** from north to south, with **total land area 1.9 million km²** and **7.9 million km²** (including sea)

742 different languages and dialects

Megabiodiversity (flora and fauna)



What is Creative Economy?

- Fourth wave – after agrarian based economy, industrialization and IT based economy



Creative Economy is the new economy based on ideas and creativity which is based on creative human resources and *stock of knowledge (including cultural heritage)* as the main input

Creative industries is defined as industries which result from the utilization of creativity, skill and talent of individuals to create high economic value added and employment

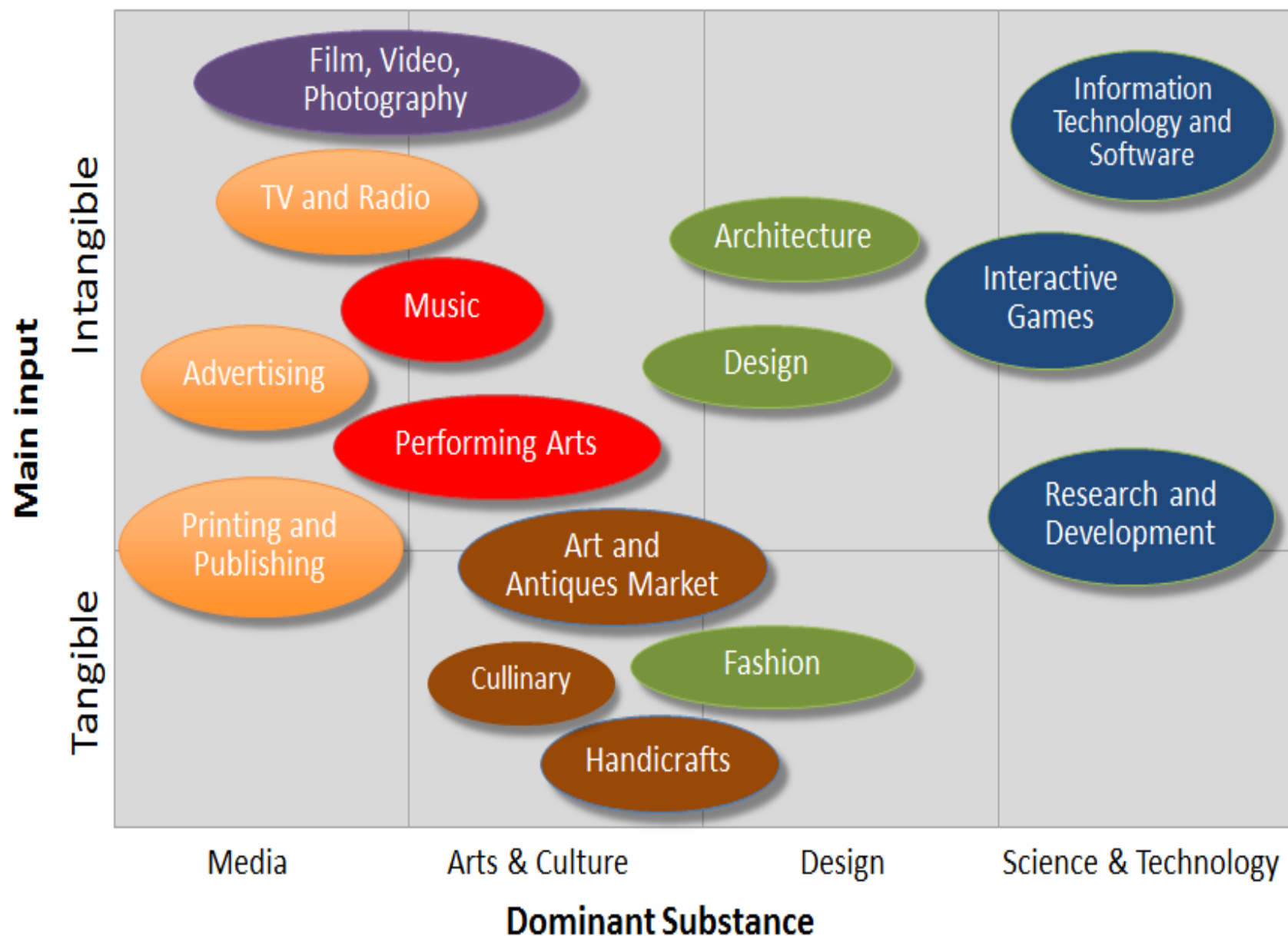
Creativity is not just artistic based but also based on science, engineering, innovation and IT base

Creativity is the idea that leads to productivity increases





Classification of Creative Industries



WHY CREATIVE ECONOMY ?

ECONOMIC CONTRIBUTION

GDP/ JOB CREATION/
EXPORTS/ENTREPRENEURSHIP/EFFECT
ON OTHER SECTORS

CREATION OF VALUE ADDED

BASED ON IDEAS AND
CREATIVITY/INNOVATION/COLLABORATION

BRANDING AND NATIONAL

PROMOTING & DEVELOPMENT OF CULTURAL
HERITAGE AND LOCAL WISDOM, NATIONAL
IDENTITY

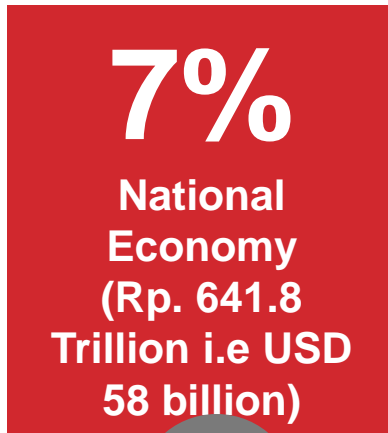
PRESERVING NATURAL RESOURCES AND CULTURAL

RENEWABLE RESOURCES/ GREEN
COMMUNITY/PRESERVATION, PROTECTION,
DEVELOPMENT AND SUSTAINABLE USE

SOCIAL IMPACT

INCREASING SOCIAL
TOLERANCE/PRIDE AND LOVE OF THE
NATION

Economic Contribution In Indonesia 2013



“Growth in developing country exports was stronger still, averaging 12.1 per cent annually for the period. Such exports of creative goods and services reached US\$ 227 billion in 2011, or 50 per cent of the global total.”

Creative Economy Report 2013, UNESCO and UNDP (Nov, 2013)

Creative goods: Exports, by economic group, 2002 and 2011 (in millions of US\$)

	World		Developing		Developed		Transition	
	2002	2011	2002	2011	2002	2011	2002	2011
All Creative Goods	198'240	454'019	73'890	227'867	123'169	222'597	1'181	3'555
Art Crafts	17'503	34'209	9'201	23'383	8'256	10'653	45	172
Audio Visuals	455	492	35	90	417	400	3	2
Design	114'694	301'262	53'362	172'223	60'970	127'239	362	1'800
New Media	17'506	43'744	4'412	14'607	13'071	28'918	23	219
Performing Arts	2'754	-	250	-	2'478	-	26	-
Publishing	29'908	43'077	3'157	8'106	26'061	33'650	690	1'321
Visual Arts	15'421	31'127	3'474	9'456	11'916	21'631	31	40

Creative industries used by many countries not only for export, but also as soft power and nation branding – spillover to trade, tourism and investment



Italia: italian cuisine, fashion



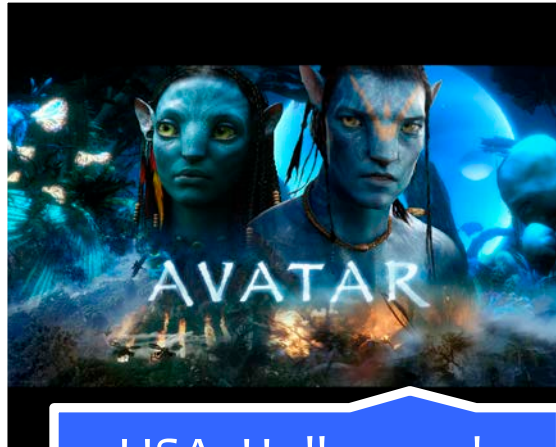
Korea: K-Pop



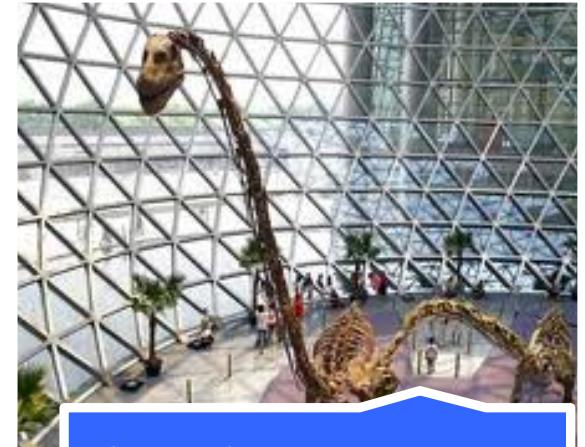
Thailand: thai cuisine



Japan: manga, J-pop, culinary



USA: Hollywood, musik



China: chinese restaurant, museums & exhibitions

Creative Economy increases nation branding and identity



Batik and wovem cloth used in contemporary way (foto shows design of Cotton Ink, Indonesia Fashion Forward)



Eko Nugroho Indonesia's contemporary artist designs for Louis Vuitton



Airport in Blimbingsari Banyuwangi designed from traditional Osing design

Digital Technology has powerful impact: how to manage and gain

Every technology disruption brings changes in all aspects of life:

- New business models
- New approach of political campaigns
- New methods of social support targeting
- Etc.

Indonesian Elections: power of social media



Indonesian elections



Jakarta Governor – egovernment and meetings on YouTube



NEW ECONOMY: Destructive Technology: source of growth

- Destructive technologies – the application of mobile internet, big data, internet of things, automation, cloud, etc. – could modernize sectors across the economy and drive major productivity improvements
- McKinsey: This destructive technologies could produce up to US\$ 625 billion in annual economic value for Southeast Asia by 2030 (but the region need to prioritize building out backbone infrastructure to capture this opportunity)



Mobile Internet



Big data



Internet of Things



Automation of
knowledge work



Cloud

Destructive Technology: source of growth (example)

- **The mobile Internet:** It can pave the way for productivity gains and more efficient delivery of vital services. It is a particularly useful vehicle for overcoming Southeast Asia's geographical barriers and widening access to information, products, and services for rural populations.
 - Mobile banking and mobile payments, for example, are expanding financial inclusion.
 - Telemedicine can deliver health care to remote areas, and digital learning tools can improve the quality of education and teacher training across the region.



Case Indonesia: Games and Apps



picmix

Picmix is a photo-editing and photo-sharing apps made by Indonesian apps producer.

In its launching, picmix's growth was higher than instagram's growth when it was launched.

Picmix has been downloaded for more than 23 million times.



Infinite Sky was one of the top 10 most downloaded iphone games. Infinite Sky is made by TouchTen, an Indonesian game developer.

One of the character in the game is named after Javanese' folklore hero: Gatotkaca

Case Indonesia: Games and Apps



DreadOut

DreadOut is an Indonesian horror video game made by Digital Happiness, a game developer based in Bandung, Indonesia.

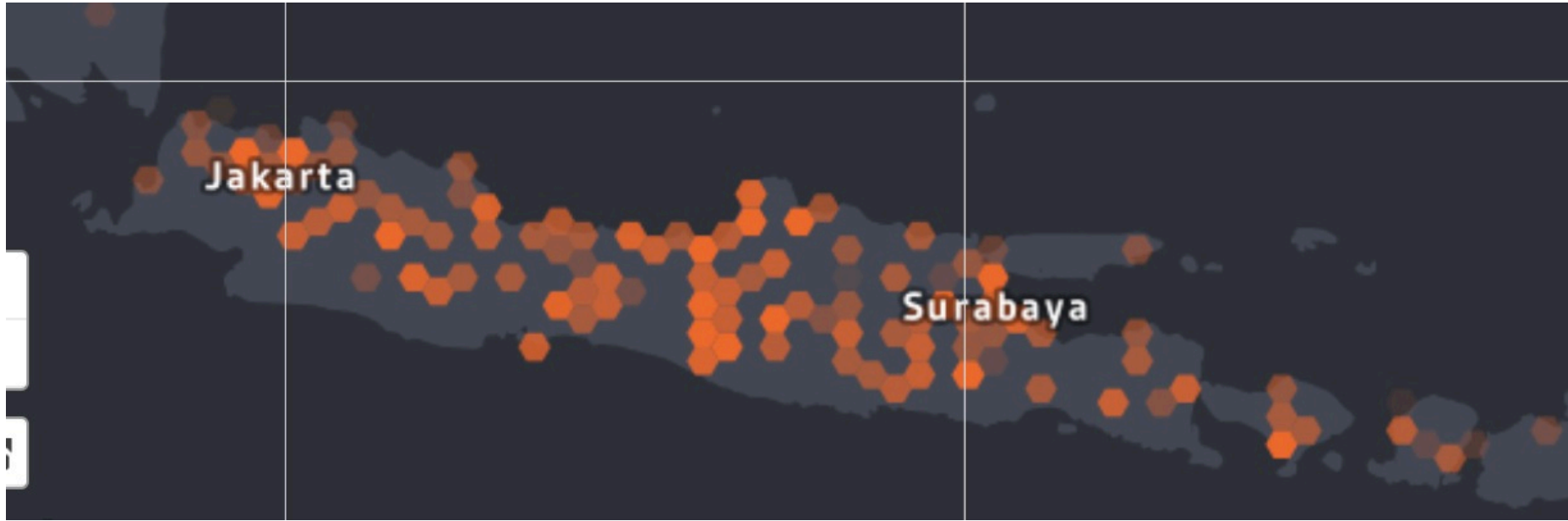
The game is about some highschool students who got lost and have to survive various Indonesian local ghosts.

DreadOut is also sold on Steam, the biggest games marketplace in the world. DreadOut has successfully raise 25,000 USD through international crowdfunding platform.

Case Indonesia: 99designs



Indonesia has been the main source of designers in a one of the world's major design-task marketplace, 99designs.com. Indonesia was the biggest source of designers in 2013, and was the second in 2014. By February 2015, there are more than 129 thousands registered Indonesian designers in 99designs.com



In Java, the outspread of designers is the most striking. These designers do not only come from urban and educated group but rather mostly come from rural area with no formal training in design.

Some examples:

- In Salaman District, Magelang Regency (1 hour from Yogyakarta), the designers are spread out in 20 villages, with each village has approximately 100-200 designers.
- In Parakan District, Temanggung Regency (Parakan District is suburb of Temanggung, one of main producers of tobacco), there are 60 designers, 4 of whom already platinum designers in 99designs.com

Meet our new source of foreign exchange receipt: **Desainer Kampung**



- Most of them are **self-taught**, humbly refer themselves as “logo crafter” instead of designers
- Most designers have other jobs as farmers, construction workers, even head of sub-village (kepala dusun) with relatively **low-level education**
- **Do not speak English**, use Google Translate to communicate with clients and to pitch in contests
- **Earn 200-2000 USD per month** (while regional minimum wage rate is approximately 100 USD per month).
- Mostly get payments through **shared PayPal account** (difficulty in getting credit card)

IV. Conclusions and Recommendations

- Headwinds are very strong, need to find new sources of growth from productivity, creativity and innovation. The answer is not closing up, but opening up to trade, investment, people, ideas and flow of information.
- **ACCESS** is key: access to hardware, access to software, access to skills, access to financial services, etc.
- Countries should not wait until they have sophisticated infrastructure and high skilled population. The most important thing is provision of **basic infrastructure** for all.
- Countries should not all be innovators –creator of new technology, the key is to be able to **creatively use and utilize available technology**.
- Developing countries can still “catch up” technology frontier & benefit from traditional goods and services integration (productivity, diffusion). Services have become more tradable and need to take opportunity in changing nature of GVCs: **trade in tasks and capabilities. Industrialization policy should not be end to end, local content focus but how to be competitive in the cluster around the “task”**.
- The importance of building **healthy ecosystem** – includes reliable input, competitive talents, access to technology, access to various financing, access to market, healthy industry structure, and conducive business climate.

7 Strategic Issues in Developing Creative Economy (from Numerous FGDs with 15 sectors representing creative industries)

Human Resources and capital

1. Education
2. Creative talent and skills

Creative Resources

1. Natural
2. Cultural

Growing Industry and business

1. Creativepreneurship
2. Growing the business
3. Quality creative products

Financing

1. Financial institutions and sources of funding
2. Appropriate access and competitive cost

Access to markets and networks

1. Penetration of domestic and international markets
2. Diversification including going global

Supporting infrastructure and technology

1. Infrastructure (electricity, telecom/ internet, physical, on line platforms)
2. Technology and R&D to produce creative products

Institutions

1. Conducive business climate
2. Active participation of stakeholders
3. Maintreaming creativity and innovation
4. Active participation in international fora
5. Policies that foster appreciation of creative people, talent, entrepreneurship, and industry (eg. Awards, IPR)
6. Appreciation for local natural and cultural resources

Creating greater reform momentum for global trade integration could help the world avoid the adverse consequences of the global trade slowdown.

1. Political economy considerations, at a disjuncture with reality? Domestic pressures and domestic rhetoric tends to be nationalistic, inward
2. Structural reforms needed: beyond deregulation packages of easy reforms?
 - Avoiding old and new forms of protectionism and distortionary rules
 - Beyond tariffs – services, standards, domestic regulations, infrastructure
 - Other: SOEs, government procurement, IPR, environment, labor

The new industrial policy: focus on inputs and innovation/creativity

- FOCUS on Human Capital this should be the new NATIONAL INTEREST
- Different type of industrial policy focusing not on the sector/or outcome, but on the input side (facilitation and incentives for R&D, creativity and innovation, training etc).
- What type of policies are needed to foster innovation and creativity that will lead to productivity and new sources of growth? Getting the ecosystem right.