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A Synergy Model of Strengthening and Developing Creative Industries in Indonesian Cities

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***Abstract*—This study aims to determine the dominant factors that influence the development of creative industries in Indonesia. In addition, this study also aims to see how much influence fiscal decentralization has in accelerating the development of the creative industry. Through these two objectives, this study will eventually provide cluster maps and synergy models for the development of creative economic potential in Indonesia. The data used is from 94 regencies / cities in Indonesia in 2016. The methodology used is OLS log-linear estimation model. The results of this study found that the development of the creative industry is still concentrated on the Java island. In addition, this study also found that the factor of fiscal decentralization also has a positive influence on the development of the creative industry. While other variables used in this study also show different results. The factor of local power has a positive influence followed by capital aspects at the local government level. While the factor of the existence of internet facilities does not give the same effect on all existing sectors. Meanwhile, the location aspect between Java and outside Java also has no influence on the creative industry in Indonesia.**

Keywords—creative industry; decentralization; synergy-policy

I. INTRODUCTION

One of the main challenges faced by the national industry today is the low competitiveness of industry in the international market. According to the IMD Competitiveness Report in 2018, Indonesia's competitiveness ranking is at 43th of 63 countries. This rating has decreased compared to the previous year where Indonesia was at 42th.

The problem of low competitiveness encourages the government to be more serious in developing creative industries. The term creative industries are considered to be more linked with the debate on the commodification of culture or local wisdom [1]. Creative industries are developed from the cultural sector, which is based on art activity, local culture and local economic welfare, social values, etc. Cultural industries mainly converged into creative industries, and in this case well-being indicators, such as happiness index become important factors [2]. Creative sectors tend to rely less on sophisticated infrastructure or capital investment. Potential is particularly abundant in Africa, where musical creativity is rich, diverse, well-loved, and constantly evolving while drawing on strong traditions [3].

At the time of the financial crisis in 2007, the creative industry in Indonesia contributed to Gross Domestic Product (GDP) roughly Rp104.638 trillion above the average contribution of the transportation and communication sector, buildings and electricity, gas, and clean water. Workforce that can be absorbed is 5.4 million workers and labor productivity reaches 19.5 million per worker per year.

Each region does not have uniformity in regional programs and policies, including creative industry policies in the regions. Thus, the preparation of potential cluster maps and the development of creative industries in the area becomes urgent to be provided. Despite policy strategies to support this aim are still debatable, it is important to nurture innovative strategies and to create preferable conditions that supports the creation of mechanisms [4]. The availability of regulatory cluster maps and creative industry policies at the city level makes it enable to formulate models of stakeholder synergy in the development of creative industries through practical experiences that have been carried out and implemented by certain local governments.

The need of this issue is because the demographic, social and economic stagnation or decline of many of rural localities requires recognition of the innovative dynamics that might exist and the extent to which they can contribute to confronting and resolving this structural crisis [5].

The policies of creative activities are not only supposed to focus on single towns, but instead, on functional areas made up of small municipalities which cooperate, share their resources, and generate a broad space for economic agents, and which show the typical phenomena of clusters– commuting, spillovers, and synergies [6].

II. METHOD

Marinaityte and Kregzdaire found that there are three levels of variables that influence the development of creative industries in the majority of developed countries. The variable with the highest level in influencing the development of the creative economy is private spending on culture and creative index, both of which have a positive relationship to the development of creative economy. Meanwhile, the variable that influences the middle level towards the development of creative industries is the government's budget allocation to

culture, the number of patents, the level of labor (the number of workers) in R & D and the level of tolerance [7]. From the perspective of economic growth, in the period 1999 - 2006, the creative industry grew faster than aggregate growth economy in several countries such as US, Britain and EU [8].

Meanwhile Fahmi et al. conducted a study on how creative economic discourse can be interpreted and implemented in developing countries with case studies in Indonesia. This study found that each region has a different way in interpreting the development of creative industries. In addition, this study also found that Bandung is the best example in the development of creative industries in developing countries. The development of creative industries in Bandung provides an illustration that developing countries like Indonesia have many possibilities to do [9]. This can be done by reshaping local institutions to encourage the development of creative industries. In Addition, Cultural involvement and spending are affected by age structure of the population [10].

This research develops a degree of decentralization approach as an indicator of regional ability in determining the regulations and policies needed by the region itself. The amount of data used is equal to 94 coming from 94 cities. This study uses cross-section data in 2016 using the OLS log-linear estimation model.

To measure policy regulation on the development of creative industries using regression as follows:

$$\text{Log BUS\_INC}i = \beta0 + \beta1\ \text{SCH}i + \beta2\ \text{NBUS}i + + \beta3\text{COM}i + \beta4\ (\lambda\ \text{DFD}i + \gamma\ \text{DFI}i + \delta\text{DGCE}i + \eta\text{FCI}i) + \beta5\ \text{ST\_LIV}i + \beta6\ \text{DUMM} + ei \quad (1)$$

III. Results and Discussion

This study analyzes the contribution of the driving factors (triggers) the development of creative economy in the region at macro level. In principle, the trigger factor for the development of creative economy is not easily determined, because each city or region has different characteristics and the development of the creative economy relates to the city or region itself. In this study, the development of the creative economy of the city / region is shown by the business

By using a log-linear model, the contribution of driving factors (triggers) of creative economic development in the area can be analyzed.

A. Creative Economy Business Scale

The creative economy business scale (ekraf) bases the division of the number of workers. The ekraf business scale is divided into micro-sized, mall-sized, medium-sized and large-sized industry

Log-linear model used is:

$$\text{Log BUS\_INC}i = \beta0 + \beta1\ \text{SCH}i + \beta2\ \text{ST\_LIV}i + \beta3\ \text{NBUS}i + \beta4\text{COM}i + \beta5(\lambda\ \text{DFD}i + \gamma\ \text{DFI}i + \delta\text{DGCE}i + \eta\text{FCI}i) + \beta6\ \text{DUMM} + ei \quad (2)$$

The result shows that the increase in the ratio of PAD realization to regional revenues contributes positively to the development of the economy in 94 cities in Indonesia. Increasing the ratio of the degree of fiscal decentralization will increase Rp18.01 billion in total of creative economic industry revenue. In the aspect of government capital expenditure, there is a negative influence. Based on the estimation of log-linear regression, the reduction in external business revenue reaches Rp4.28 billion.

Likewise, the ratio of fiscal independence degrees contributes negatively to external development. Increasing the ratio of PAD realization to the realization of balancing funds reduces the role of local governments in developing the economy in the regions. This finding supports Fahmi's finding that shows that the implementation of the creative economy's not well targeted because the central and local governments apply top-down through creative city pilot projects, which do not trigger creative communities to interact among stakeholders. The FCI parameter, which shows fiscal capacity, which is associated with the number of poor people, has a negative impact in supporting the development of external businesses in the region [9].

The role of local power, which is indicated from the education index, contributes to the development of the creative industry, especially the micro-scale industry. This shows that formal education has not provided sufficient supplies to develop a higher-scale economy. Formal education is only able to provide provisions to establish a micro-scale industrial economy. Therefore, education needs to improve the teaching curriculum to provide sufficient supplies for the development of a larger scale economy.

The role of using internet media and e-commerce still has a negative impact on the development of the economy in the region. This finding does not support efforts to increase the use of internet media and e-commerce in the development of the creative economy industry. This needs to be interpreted that not all creative businesses require increased use of internet media and e-commerce.

The factor of creative entrepreneurs, which is approached by the number of creative businesses, shows that the micro-scale business contributes more than the small-scale and medium-scale businesses and also the medium and large-scale economies. This can be explained because the creative industry is dominated by micro-scale which is 1-4 workers. The number of creative micro industries reaches 2,057,888 companies or 93.0% of the total number of creative industries in 94 cities in Indonesia.

The location factor, which distinguishes Java and outside Java, does not significantly support the development of the creative economy. However, the location factor, which is distinguished by the standard of living, shows a positive contribution to the development of the economy. The smaller the scale of the external business, the greater the influence of the standard of living. This indicates that the micro-scale e-product market is the domestic market, so that the creative business income is influenced by the purchasing power of the people in the city. Micro-scale economic locations will

approach crowded markets or canters that have high purchasing power and living standards.

B. Creative Economy Subsector

In the creative economy, the dominant subsector is culinary, fashion, and craft. The culinary economy business unit is 67%, while the fashion economy business unit is 15% and the craft is 14.56%. The log-linear model used is:

$$\text{Log BUS\_INC}i = \beta 0 + \beta 1\ \text{SCH}i + \beta 2\ \text{ST\_LIV}i + \beta 3\ \text{NBUS}i + \beta 4\text{COM}i + \beta 5(\lambda\ \text{DFD}i + \gamma\ \text{DFI}i + \delta\text{DGCE}i + \eta\text{FCI}i) + \beta 6\ \text{DUMM} + ei \quad (3)$$

Where:
N_BUS (number of creative industry) = CRAFT + CULINARY + FASHION

The role of the government, which is proxied by the degree of decentralization, has been a driving force for the economic development of the food, craft and fashion subsector. Increasing the ratio of PAD realization to regional revenues contributes positively to the economic development of the culinary, craft and fashion subsector. Increasing the ratio of the degree of fiscal decentralization will increase Rp16.81 billion in income from the craft industry, Rp19.68 billion in income from the food industry, and Rp. 22.12 billion in income from the fashion industry.

In the aspect of government financing, government capital expenditure negatively affects toward the culinary and craft sub-sectors, while in the fashion subsector, government capital expenditure has no effect. These findings reinforce the assumption that government capital financing has not helped micro-scale external businesses engaged in the culinary subsector and the craft subsector. For the subsector of the craft fashion sector, government capital expenditure has no effect because the scale of the fashion economy is not dominated by micro-scale external businesses.

Increasing the ratio of PAD realization to the realization of balancing funds reduces the role of the regional government in developing the eco-subsector for culinary, craft, and fashion in the region. While the role of local power contributes to the development of the subsector's culinary, craft and fashion economy.

The use of internet media and e-commerce has an impact on the economic development of subsector fashion. Fashion sales are greatly assisted by internet media and e-commerce rather than culinary and craft subsectors.

In the factor of creative entrepreneurs, the creativity of entrepreneurs gives a big contribution to the creative business of the craft, fashion, and culinary sub-sectors. The addition of craft and fashion entrepreneurs will increase the creative businesses income more than the addition of culinary external entrepreneurs. This condition indicates that the development of the culinary economy has not yet continued. Type or kind of food, new, appear, then boom, and disappear.

The location factor, which distinguishes Java and Outside Java, does not significantly support the external development of the craft, fashion and culinary sub-sectors. However, the location factor, which is distinguished by the standard of living, shows a positive contribution to the economic development of the craft and fashion sub-sectors. The influence of location has a major contribution to the development of the craft and fashion sub-sectors. For the culinary sub-sector, the influence of location becomes insignificant because of the many regional specialties that open branches in various cities or other regions.

C. Creative Economy Business after 2014

According to the 2016 economic census, the majority of creative economy businesses/ companies operated in the span of 1990-2014, amounting to 74.81 percent, while businesses/ companies that stood after 2014 were found at 19.79 percent, and creative economic businesses/ companies operating before 1990 it was 5.40 percent.

The log-linear model used is:

$$\text{Log BUS\_INCri} = \beta 0 + \beta 1\ \text{SCH}i + \beta 2\ \text{ST\_LIV}i + \beta 3\ \text{N\_BUS}i + \beta 4\text{COM}i + \beta 5(\lambda\ \text{DFD}i + \gamma\ \text{DFI}i + \delta\text{DGCE}i + \eta\text{FCI}i) + \beta 6\ \text{DUMM} + ei, \quad (4)$$

where:
+N_BUS (number of creative industry) = BEF_2014 (creative industry developed before 2014) + AFT_2014 (creative industry developed after 2014)

Decentralization has been a driving force for economic development starting up before and after 2014. Increasing the ratio of PAD realization to regional revenues contributes positively to the creative business development of start-up before and after 2014. Increasing the ratio of fiscal decentralization will increase Rp18.25 billion in creative industry revenue start-up before 2014, Rp17.34 billion in industrial income of start up business after 2014. In the aspect of government financing, government capital expenditures continue to negatively affect toward creative economy of start-up business before and after 2014. These findings strengthen the allegation that growing policy of the creative economy by up-down and rebranding creative business. At the level of fiscal independence, it still contributes negatively to the development of creative start-up businesses before and after 2014. Increasing the ratio of PAD realization to the realization of balance funds reduces the role of local governments in developing creative start-up businesses before and after 2014 in the regions.

The role of internet media and e-commerce use has a slightly higher negative impact on the development of creative start-up businesses after 2014 compared to the creative start-up businesses before 2014.

In the factor of creative entrepreneurs, entrepreneurs who started up before 2014 became a more dominant trigger factor than entrepreneurs which started up after 2014.

The location or place (Java and Outside Java) became an important factor for the development of the creative business, which started up after 2014, while the creative business, who started up before 2014, preferring cities that have developed or cities that have higher standards of living. In other words, there is a shift in the selection of creative economy locations. In a study conducted by Fuad, locations around which there is good

infrastructure tend to help increase the success of a business [11].

IV. CONCLUSION

This study found that the development of creative economy in 2016 was still centred on the island of Java. The province of Jawa Barat became the main contributor through the percentage of exports followed by Banten, DKI Jakarta, Jawa Tengah and DIY.

The results of this study found that the fiscal decentralization factor also contributed positively to the development of the creative industry. An increase in the ratio of the degree of fiscal decentralization will increase the income of the creative industry both in terms of the year of its establishment, scale and sub-sector. The increase in the ratio of PAD realization to total regional revenues has a positive influence on the development of the creative economy.

Therefore, the regional government must optimize its independence capacity such as through increasing Regional Original Income (PAD). In addition, the regional government must also encourage those variables that contribute significantly in influencing the creative industry positively can be optimally optimized.

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