

# Chapter **1**

## Introduction

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# Chapter 1

## Introduction

Digital economy is changing the social environment and economic activities in Indonesia (ERIA, 2023), Southeast Asia's largest economy and one of the world's most biodiverse and culturally diverse countries. Whilst digital technologies drive innovation and fuel job opportunities and economic growth, they are also shaking up established economic models and ways of thinking about the economy (ERIA, 2023), particularly in the creative sectors. 'The creative economy can be a pillar to boost inclusive economic growth for all', remarked President Joko Widodo (Jokowi) at the 3rd World Creative Economy Conference, Nusa Dua, Bali, 6 October 2022. It was a side event of Indonesia's 2022 Group of Twenty (G20) Presidency, where he had stated that Indonesia had taken a leading role in building an inclusive creative economy ecosystem.

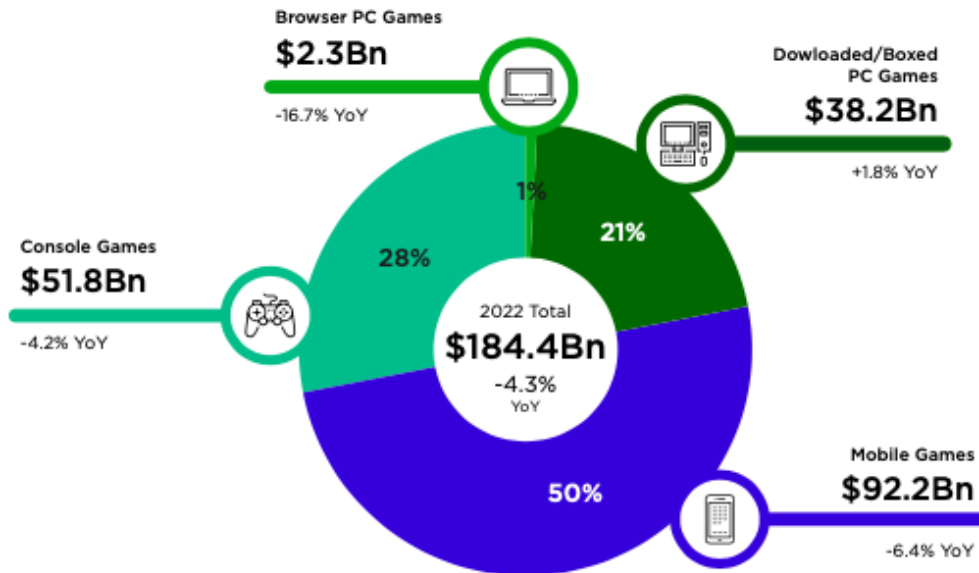
Indonesia's creative economy's growth in 2021 contributed 4.50% to the country's GDP (Kemlu, 2022). According to Tourism and Creative Economy Minister Sandiaga Uno, the creative industry sector employed 23.98 million people in 2022, a huge increase over 16.4 million people in 2017. In November 2022, the creative industry's export value reached US\$24.8 billion (Antara News, 2023) compared with US\$19.83 billion in 2017 (Kemlu, 2023). The creative industry's growth is in line with the rapid growth of e-commerce and the wide use of mobile technology. Other factors contributing to the growth of the creative economy are changes in lifestyles, especially amongst millennials.

The creative economy has 17 sub-sectors: architecture; interior design; visual communication; product design; film, animation, and video; photography; game; crafts; culinary arts; music; fashion; application; publishing; advertising; television and radio; performing arts; and fine arts. According to Indonesia's Directorate General of Multilateral Cooperation, the culinary arts, fashion, and crafts are the three largest subsectors in terms of numbers of workers. The culinary arts employ about 10.67 million workers, whilst fashion and crafts employ 3.84 million and 3.7 million, respectively. The sub-sectors that heavily use digital technology grew the fastest. The number of workers at application and gaming developers increased significantly from 46,990 in 2019 to 129,404 in 2020 (by more than 174%). The number of workers in the film, video, and animation subsectors rose significant by 58% to 66,466 in 2020 (Kemlu, 2022). Music and video games are gaining attention due to recent their growth and the growing market. The present study will, therefore, focus on them.

## 1. Overview of the Gaming Sector

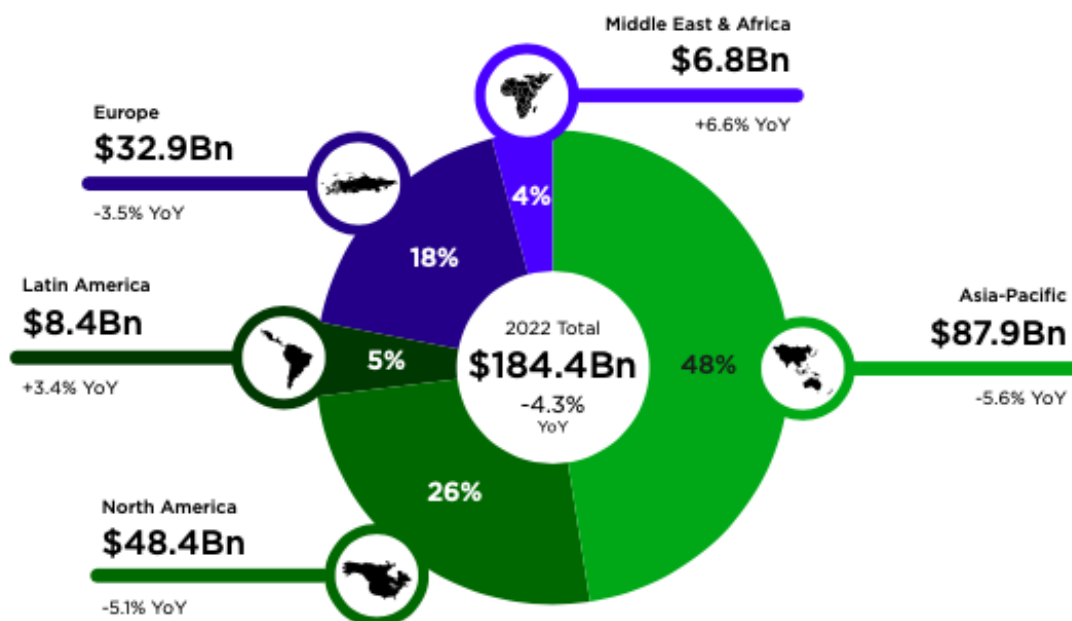
According to Newzoo (2022), the global gaming market in 2022 was worth US\$184.4 billion, with mobile games accounting for half of it (Figure 1.1), and with Asia and the Pacific representing 48%, almost half of the world's market share (Figure 1.2).

Figure 1.1. Global Game Market per Segment, 2022



Bn = billion, PC = personal computer, YoY = year on year.  
Source: Global Games Market Report Newzoo (2022).

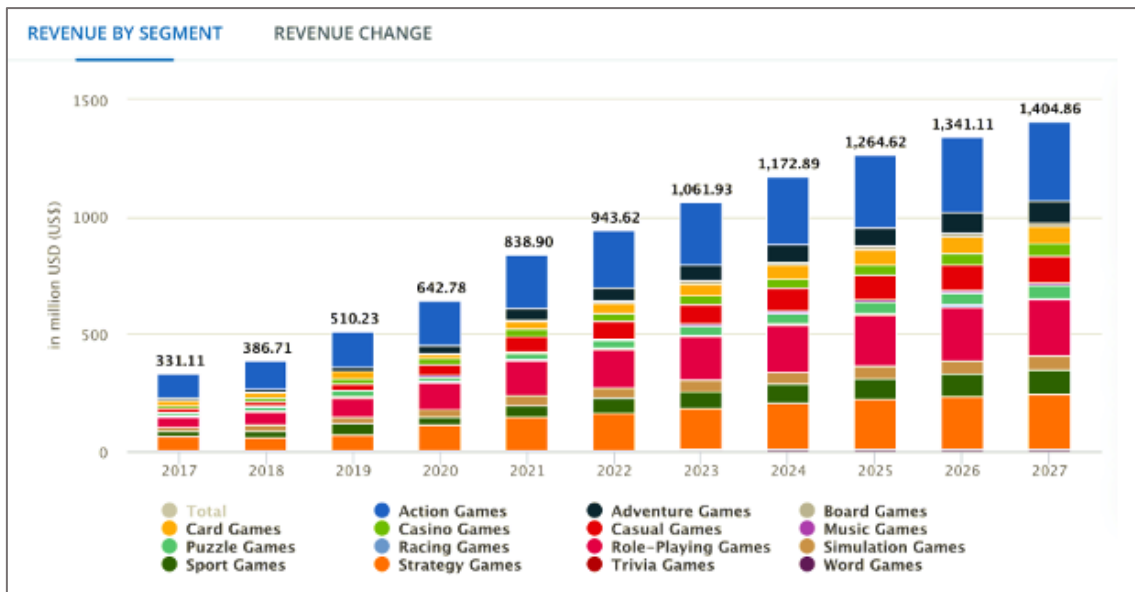
Figure 1.2. Global Gaming Market per Region, 2022



Bn = billion, PC = personal computer, YoY = year on year.  
Source: Global Games Market Report Newzoo (2022).

Indonesia is the 17th-largest market for games and still one of the fastest-growing markets in the world, reaching over US\$1,000 million revenue at the beginning of 2023 and, following steady growth (Figure 3) (Statista, 2023), is one of the biggest game markets in Southeast Asia. Indonesians play a wide diversity of games, with more than twice as many people playing mobile games (121.7 million) than people playing personal computer (PC) games (53.4 million) in 2021 (KomInfo, 2021).

**Figure 1.3. Evolution of Gaming Market in Indonesia per Type of Game, 2017–2027**



Note: Data reflect market impact of the Russian invasion of Ukraine.

Source: Statista, most recent update February 2023.

Indonesia’s gaming industry is composed of business-to-business (B2B) services, outsourced services for foreign game companies, and video games played on mobile phones and PCs made by Indonesian game developers, who own the intellectual rights. No accurate data on the importance of each sub-sector are available. Considering the number of studios that mentioned receiving part of their revenue from B2B and outsourced services and the core business of Agate—the largest gaming company in Indonesia—we can conclude that B2B and outsourced services are important in the industry, providing revenue and employment as well as continuous exposure to game trends.

The number of game studios has been growing since 1999, from 1 to 75 in 2021. Much of the revenue is from exports as many local game developers tackle PCs and/or consoles first instead of entering the extremely competitive local mobile-centric market.

Companies are steadily growing into higher size brackets (AGI, 2021):

- Micro: < IDR300 million or about US\$20,000 yearly revenue
- Small: < IDR2.5 billion or about US\$165,000 yearly revenue
- Medium: < IDR50 billion or about US\$3,350,000 yearly revenue

- According to AGI, growth is driven by local initiatives to incubate amateur and/or individual developers into game development companies and/or businesses. Most games (50.77%) developed are small, with budgets of under IDR50 million (US\$3,500). Games of that scale are typically of amateur quality (student projects, etc.) and do not generate meaningful income.

Of games produced, 15% have budgets of IDR50 million–IDR200 million (US\$3,500–US\$14,000) and are typically either small prototypes by professional teams or budding developers who do not spend on labour.

Most games produced by professional teams and companies have budgets of IDR500 million–IDR2 billion (US\$35,000–US\$140,000) (AGI, 2021).

Most of the growth is driven by the success of PC game products in the international market, with almost triple the revenue from domestic sales. The gaming industry’s biggest challenge, however, is its low domestic market share, less than 2%, whilst its global market share is 0.4% (KomInfo, 2020).

## **2. Overview of the Music Sector**

The music sector’s situation is the opposite of the gaming sector’s. The music market represents 80% of the domestic market.<sup>1</sup> The popularity of Indonesian music in Indonesia is reflected in Believe’s analysis (Believe, 2023).<sup>2</sup> According to Dahlia Wijaya, Indonesia Country Director of Believe, the digital music market consumption shifted from 70% international and 30% local in 2018 to 60% international and 40% local in 2023. The market has become much more local and people listen to a lot of Indonesian and Javanese songs.

Indonesia’s population is roughly equivalent to that of France, Germany, Spain, and the United Kingdom combined, but its music industry revenue is smaller than that of New Zealand, according to Musically (2021). However, it has plenty of potential. Firstly, the country is well served for streaming, with most online music listening taking place on YouTube, Joox, Spotify, Apple Music, and Resso, the music streaming service created in 2020 by TikTok owner ByteDance. Most of the digital service providers offer freemium and premium plans. Believe, a digital aggregator distributing music to streaming platforms, estimates that less than 1% of the entire population pays for premium plans. In comparison, Thailand has about 3% paid subscribers, China about 9%, and the United States more than 35% (Believe, 2023). Luminata noted that 74% of Indonesian music listeners engage with music that originates from outside their home country (Musically, 2023). But local music is highly popular in Indonesia as reflected in the fact that many of the top Spotify playlists are local. In some Asian markets, the big global playlists tend to dominate, but not in Indonesia (Musically, 2021).

Multiple music genres span the archipelago, from regional folk pop music reflecting the diversity of Indonesian culture and ethnicity, such as Pop Sunda, Pop Batak, Pop Melayu, Pop Ambon, and

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<sup>1</sup> PT. Musica Studio. No recent data have been found besides Believe Indonesia’s analysis.

<sup>2</sup> <https://www.believe.com/blog/5-things-know-about-indonesias-music-market>

others, to Dangdut, Qasidah modern, Kroncong, Langgam Jawa, pop, rock, jazz fusion, and indie, to name just a few.

Videos account for about 50% of streaming revenue (Believe, 2023). The case of Dangdut, regional music generally sung in Javanese and mainly based around dancing, is fascinating. Dangdut fans love watching the video for the choreography as much as for the songs, which is why YouTube is their preferred platform and why it is contributing so much to regional music. In January 2023, Indonesia ranked third in the world for YouTube users and second for TikTok users (Datareportal, 2023).

Based on the 2017 Bekraf-BPS Creative Economy Survey, the contribution of music to creative economy GDP was still less than 1% until 2016. However, the music industry grew by 7.26% in 2017 and by 7.59% in 2018 (UNCTAD, 2019), making it one of the fastest-growing sub-sectors in those years. In 2021, during the coronavirus disease (COVID-19) pandemic, the music sub-sector grew by 3.94%. It has a value of US\$440 million and employs 70,755 people (Kemlu, 2022).

The secret behind the home-based market growth is the combination of innovative business models to survive or to take advantage of the changes brought about by the internet and its increasing use. The total number of internet users in Indonesia went from 133 million in 2018 to 210 million in 2022.<sup>3</sup>

Contributing to the industry's growth is the expansion of CD distribution channels through food outlets, retail supermarkets, bookstores, and cafés. They compensate for the declining number of record stores brought about by the internet's ascension, sale of mobile phone ringtones, and sale of synchronisation licenses for the use of music. Marketing channels have diversified as web platforms multiply. At the heart of record labels' strategy is repackaging music as part of a multimedia entertainment business that thrives not only on the music itself but also on strong visual elements, where media and social media play a central role. Besides being recording companies and selling music, they organise events and manage artists. Revenue is earned from a percentage share of the management deal with the artist (Dellyana and Simatupang, 2014).

'Multi-platform channels act as an aid to promotion, helping the industry grow and creating employment. Music is no longer a single product that can only be enjoyed by listening to it or going to a live concert. It is beyond lyrics and music, becoming a total entertainment commodity that binds together music, showmanship, design, public relations, and marketing. Music shows dominate TV programmes', explains journalist Albert W. Nonto (Jakarta Globe, 2017). He continues: '*Indonesia Idol, Rising Stars, The Voice Indonesia* are franchised, whilst a home-grown programme such as *Indosiar's Kontes Dangdut Indonesia* consistently ranks at the top of the TV ratings. The quality of music may no longer be a dominant factor to measure success. The management of image is just as important, such as the clothes a performer wears in daily life. Every moment is showtime. Music fans are as important as ever, presenting niche markets for performers and determining their status in the ranks of the mass market. A host of reality shows for aspiring musicians present a launch-pad for new talent and nurture images and appeal, and with them the sales of albums or songs over the internet'.

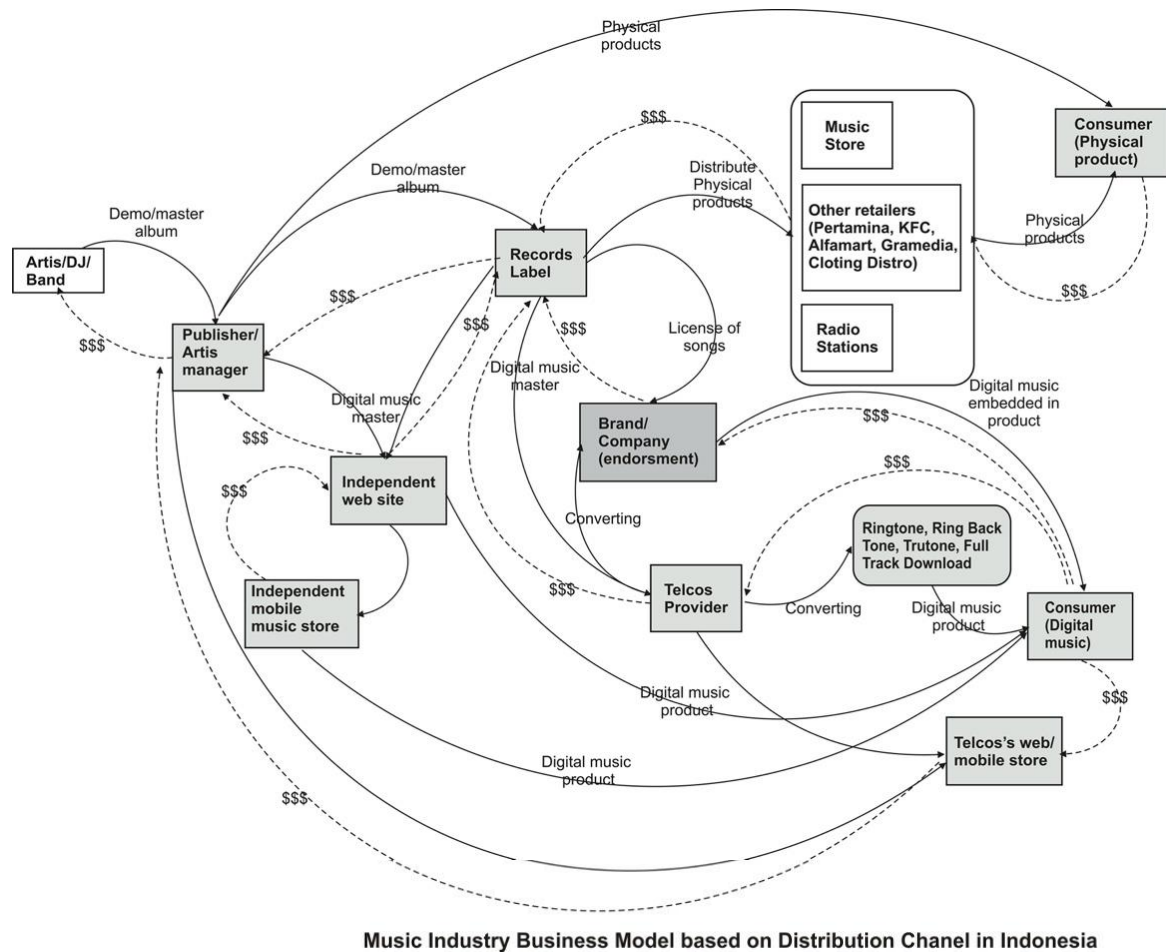
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<sup>3</sup> Katadata and BPS quoted in <https://fulcrum.sg/the-state-of-indonesias-digital-economy-in-2022/>.

Wisnu Surjono of Universal Music Indonesia agrees that musicians' fans remain the most important factor in the market. Millions of fans still consider owning the physical album a matter of pride, binding them emotionally and intimately with the artist (Jakarta Globe, 2017).

The music industry business model is now based on a giant web of actors, who make money through different distribution channels (Figure 1.4).

**Figure 1.4. Map of Indonesian Music Business Model Based on Distribution Channels in Indonesia**



DJ = disc jockey, KFC = Kentucky Fried Chicken.  
 Source: Dellyana and Simatupang (2014).

Datareportal report 2022 (Datareportal, 2022) shows that Indonesian digital music consumption grew by 20.1% from the previous year, as quoted from Statista. The report also found that 56.7% of Indonesians are using the internet to listen to music and spend 1 hour and 40 minutes on average per day on music-streaming platforms. Streaming represented 90.6% of total music revenue in 2022 in Indonesia, accounting for US\$75.4 million, a figure that was up 36.7% from 2021 (IFPI, 2023).

Changes brought about in the music industry by internet disruption and the digital era are benefiting musicians by allowing them to easily market their music and upload video clips. Dahlia Wiyaya, Country Director of Believe, says that an interesting feature of the local music market is the incredible number of new songs, sometimes hundreds released every week. 'Regional labels can even release new videos every day, encouraged by the fact that YouTube algorithm will push the channel and its content to a larger audience if they are active and upload quality content consistently. Moreover, TikTok and Shorts' algorithms can draw attention to a music video and make people watch the full version on YouTube. In the Dangdut music scene, there has also been a trend in the last two or three years to do cover songs. The same song can be recorded by five different artists at the same time and released on five different labels. Dangdut bands and artists are looking for songs that will go viral and reach millions. And surprising as it may be, they often succeed, as each cover of the same song can easily reach millions of viewers', she adds (Believe, 2023).

Musicians' success today is as much a result of talent as it is of business creativity.

In the following chapters, the study questions current growth parameters used for the music and game industries. The main objective of the study is to explore the key role of financial and entrepreneurial inclusion in driving growth in the context of the new digital economy, with a focus on the livelihood of musicians and game developers. Ultimately, the study will engage the reader to rethink the growth of creative economy in Indonesia in light of circular economy.