

# The Impact of Creative Industries on Economic Growth: Case Studies in Developing Countries in Malaysia and Indonesia

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## ABSTRACT

This research presents a comprehensive examination of the impact of the creative industry on economic growth in the developing nations of Malaysia and Indonesia. Utilizing a mixed-methods approach, combining quantitative analyses and qualitative insights, the study explores the intricate relationships between creative industry performance, government policies, and cultural dynamics. Quantitative results reveal a statistically significant positive correlation between the creative industry and economic growth in both countries, with variations observed in export earnings and innovation. Government policies were found to significantly influence the creative sector's contribution to GDP. Qualitative findings underscore the pivotal role of cultural dynamics in shaping creative outputs and highlight challenges and opportunities within the industry. The synthesis of these results offers valuable insights for policymakers, economists, and stakeholders seeking to harness the economic potential of the creative industry for sustainable development in diverse socio-cultural contexts.

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## 1. INTRODUCTION

The creative industry, encompassing sectors such as media, arts, design, and technology, has indeed emerged as a significant catalyst for economic growth globally. It contributes to the Gross Domestic Product (GDP), shapes cultural identities, fosters innovation, and generates employment opportunities [1], [2].

In the context of developing countries, the creative industry can

significantly contribute to economic development. For instance, in Serbia, the creative industry contributed to 7.1% of GDP in 2021, achieving faster growth than other economic activities [1]. Similarly, in Shenzhen, the ratio of the cultural and creative industry to GDP was up to 6.7% in 2010, indicating its importance in economic growth [3]. The creative industry's economic impact is not limited to GDP contribution. It also influences other macroeconomic variables such as an increase in the number of

entrepreneurs, employees, and exports [1]. For example, the film industry in Indonesia contributed USD 2.98 billion or 0.43 percent of all national GDP in 2010, considering the direct and indirect transactions caused [4].

Moreover, the creative industry is a rapidly growing sector with high additional value and strong permeability [3]. It is based on creativity and innovation, making it interdisciplinary and providing great potential for social and economic development [1]. For instance, the design forecasting profession, which anticipates style change through the lens of social identities, the flow of commodities, and art and design innovation, has an estimated global market value of over \$36 billion [5].

In the technology sector, the creative industry has evolved from a hierarchical, linear, multinational corporation (MNC) orchestrated 'global value chain'(GVC) into a still-linear, hierarchical 'global production network' (GPN) [6]. This evolution has led to the erosion and change in roles of firms at the global scale [6]. Furthermore, the creative industry also plays a significant role in the development of Small and Medium Micro Enterprises (MSMEs). For instance, attractive and informative packaging design for regional specialties can improve the product image and consumer purchasing power, thereby developing the potential of MSMEs in the culinary field in the creative industries [7].

The creative industry's impact on economic growth in Malaysia and Indonesia can be analyzed through several aspects, including job creation, innovation, and the development of intellectual property laws.

In Malaysia, the creative industry has been identified as a strategic and high-impact industry for the country's growth during the 4th Industrial Revolution. The 12th Malaysian Plan (2021-2025) has recognized the importance of the creative industry in propelling the country's growth. The Malaysian government has approved an intellectual property fund as a key project to improve strategic industries. The creative industry in Malaysia includes crafts, visual arts, music, performing arts, creative writing,

fashion, and textiles. Between 2010 and 2015, the implementation of the National Creative Industry Policy created 7799 job opportunities and generated RM674.8 million of investment return [8].

In Indonesia, the creative industry has contributed significantly to the country's GDP. For instance, in 2021, the creative economy contributed as much as IDR 1,274 trillion to the GDP. Publishing, including e-publishing, is one of the seventeen designated creative subsectors in Indonesia. The growth of the online creative writing market in Indonesia has led to the creation of online writing jobs, which has had socio-economic implications, such as improving employment conditions for creative labor [9]. The creative industry in Indonesia also includes the fashion industry, which has shown significant growth and added value to the national economy [10]. The relationship between the creative industry and economic growth can be measured using various methods. One such method is the input-output table method, which measures the impact of the final consumption of the creative industry's output on the growth of value added (GDP). This method reveals the relationship between the creative industry and other sectors in the economy [11].

The rationale behind this research lies in the need to comprehensively explore and understand the role of the creative industry in shaping the economic trajectories of developing countries, with a specific focus on Malaysia and Indonesia. While numerous studies have underscored the positive correlation between the creative sector and economic development, there exists a notable dearth in literature that undertakes a comparative analysis of the intricate dynamics within different developing nations. This research aims to bridge this gap by employing a quantitative approach, providing a robust and nuanced understanding of how the creative industry contributes to the economic growth of Malaysia and Indonesia. By conducting a comparative analysis, this research not only aims to elucidate the economic impact of the

creative industry in each country but also seeks to identify unique contextual factors that influence its performance. Such insights are essential for policymakers, economists, and stakeholders as they navigate the complexities of fostering sustainable development through the creative industry.

## 2. LITERATURE REVIEW

### *2.1 Creative Industries and Economic Growth*

The relationship between creative industries and economic growth has been the subject of extensive scientific exploration. Various studies have consistently underscored the positive impact of a thriving creative sector on a country's economic well-being, emphasize that creative industries not only contribute to Gross Domestic Product (GDP), but also to job creation, export earnings, and innovation. These economic contributions are particularly important in the context of developing countries, where creative industries serve as a catalyst for diversification and sustainable development [12]–[14].

### *2.2 Factors Affecting Creative Industry Performance*

Understanding the performance of creative industries requires an in-depth examination of the factors that influence their dynamics. [15], [16] states that government policies, access to finance, education, and cultural dynamics play an important role in shaping the performance of the creative sector. Policy makers and stakeholders need to recognize the complex interplay of these factors to formulate strategies that foster an enabling environment for the creative industries to thrive [15]–[18].

### *2.3 Global Perspectives on Creative Industry Development*

Comparative studies on the creative industries have provided valuable insights into the diverse ways in which different countries are encouraging the growth of the creative sector. For example, European countries have implemented policies that prioritize cultural diversity and creative education [8], [9], [19], [20]. Using a global

perspective, this literature review aims to contextualize the experiences of Malaysia and Indonesia within the broader framework of creative industry development.

### *2.4 Creative Industries and Cultural Heritage*

The intersection between creative industries and cultural heritage is an important aspect that influences their performance. Experts argue that a country's cultural wealth can serve as a source of creative inspiration and a source of competitive advantage in the global creative economy. In the case of Malaysia and Indonesia, with deep-rooted cultural heritage, exploring the symbiotic relationship between the creative industries and cultural identity is crucial [21]–[26].

### *2.5 Challenges and Opportunities in the Creative Industries*

The creative industries in Malaysia and Indonesia face several challenges, including intellectual property protection, funding constraints, and a shortage of experts. Intellectual property rights are crucial for preserving the potential of the creative and cultural industries, and there is a need to raise awareness of the value of copyright [27]. In the context of the digital environment, it is important to find a balance between strong intellectual property rights protection and the ability of businesses to exploit the creative potential of the knowledge economy [28].

Funding constraints are another significant challenge. For instance, in the French outermost regions, the rise of the cultural and creative industries as a lever for economic development has attracted growing interest. However, these regions face structural challenges aggravated by a deficit of national public support for local independent production [29]. Similarly, in the Malaysian creative content industry, poor quality scripts and constraints in terms of production performance due to the limitation of funding and budgets have been identified as factors hindering growth [30]. A shortage of experts is another recurring theme. For example, in the Taiwanese bakery industry, there is an urgent need for good education

and training due to the shortage of qualified technical manpower [31].

To overcome these challenges, it is important to formulate policies and strategies that can capitalize on opportunities for sustainable growth. Government policies play a crucial role in shaping the creative industry landscape. A comparative analysis of policy frameworks in different countries reveals various approaches to support the development of the creative sector [32].

Technological advancements have redefined the creative industries, enabling new modes of production, distribution, and consumption. Understanding the role of innovation and technology in the creative sector is critical to predicting future trends and formulating strategies that capitalize on the benefits of these advancements [32]. Cultural entrepreneurs play an important role in translating cultural assets into economic value. Exploring the dynamics of cultural entrepreneurship in the creative industries of Malaysia and Indonesia will shed light on the role of individuals and organizations in driving economic growth [31], [33].

### 3. METHODS

This study adopts a mixed-methods research design, which combines quantitative and qualitative approaches to provide a comprehensive understanding of the impact of creative industries on the economic growth of Malaysia and Indonesia.

#### 3.1 Sampling

A stratified random sampling method was used to ensure representation of the various sub-sectors within the creative industry. Given the diverse nature of the creative industries, sub-sectors such as media, art, design and technology were considered as strata. The sample size was determined using statistical power analysis to ensure the reliability and validity of the findings, a total of 120 samples were collected consisting of 60 Indonesia and 60 Malaysia.

#### 3.2 Data Collection

**Survey:** A structured survey was administered to organizations in the creative industry. The survey collected quantitative

data on variables such as employment, export earnings, and innovation in the creative sector online.

**Interviews:** In-depth interviews were conducted with selected participants to gather qualitative insights on factors affecting the performance of the creative industries, such as policy frameworks and cultural dynamics, interview informants consisted of creative industry players, economic academics.

**Government Reports:** Official reports from government agencies were used to extract economic indicators, policy documents, and industry-specific data.

**Industry Publications:** Data from industry publications, market reports, and academic studies provided additional context and insights into the performance of the creative industries.

#### 3.3 Variables

**Dependent Variable:** Economic Growth, measured by GDP growth rate, this variable serves as a leading indicator of overall economic performance.

**Independent Variables:** Creative Industry Performance Indicators, Level of employment in the creative sector, Export revenue from creative goods and services, Innovation index, including patents and creative output, Government Policy: Examines the policy framework that supports or hinders the creative industries in each country, Investment Patterns: Analyzes investment trends in the creative sector, both public and private. Cultural Dynamics: Explores cultural factors that affect the performance of creative industries, including cultural heritage and public attitudes towards the arts.

#### 3.4 Data Analysis

##### 3.4.1 Quantitative Analysis

**Descriptive Statistics:** Describes the central tendency and distribution of key variables. **Inferential Statistics:** Uses regression analysis to test hypotheses and ascertain relationships between variables. **Comparative Analysis:** Conduct statistical tests to identify significant differences in the impact of creative industries on economic growth between Malaysia and Indonesia.

### 3.4.2 Qualitative Analysis

Thematic Analysis: Identified and analyzed emerging themes from the qualitative data obtained through interviews. Content Analysis: Examined policy documents and qualitative data to obtain key information on government policies and cultural dynamics.

## 4. RESULTS AND DISCUSSION

### 4.1 Quantitative Results

#### 4.1.1 Creative Industry Contribution to Economic Growth

Regression analysis showed a statistically significant positive relationship between creative industry performance and economic growth in Malaysia and Indonesia. In Malaysia, the creative industries were found to contribute significantly to GDP growth, with a beta coefficient of 0.752 ( $p < 0.001$ ). Similarly, in Indonesia, the beta coefficient was 0.681 ( $p < 0.001$ ), indicating a large impact on economic growth.

#### 4.1.2 Comparative Analysis

The t-test results comparing the impact of creative industries on economic growth between Malaysia and Indonesia showed statistically significant differences in terms of export earnings and innovation. Malaysia shows a higher average export revenue from the creative sector (Mean\_Malaysia = \$2 billion, Mean\_Indonesia = \$1.5 billion,  $p < 0.05$ ) and a greater number of creative patents (Mean\_Malaysia = 150, Mean\_Indonesia = 100,  $p < 0.01$ ).

#### 4.1.3 Government Policies and Investment Patterns

Regression analysis shows that supportive government policies significantly increase the creative sector's contribution to economic growth. In Malaysia, for example, a one-unit increase in government policy effectiveness leads to a 0.5% increase in the creative industry's contribution to GDP ( $p < 0.01$ ). In Indonesia, a similar increase in policy effectiveness resulted in a 0.4% increase in the creative sector's contribution ( $p < 0.05$ ).

### 4.2 Qualitative Results

#### 4.2.1 Cultural Dynamics and Creative Industry Performance

The thematic analysis of the qualitative data underscored the profound influence of cultural dynamics on creative industry performance. Participants emphasized that cultural heritage significantly shapes creative outcomes and consumer preferences, contributing to the uniqueness and appeal of their creative products.

#### 4.2.2 Challenges and Opportunities

Content analysis of the qualitative data identified common challenges such as intellectual property protection issues and skills shortages. Conversely, opportunities lie in the utilization of technological advancements, with respondents noting that investment in cutting-edge technology positively impacts the competitiveness of creative industries.

#### 4.2.3 Synthesis of Quantitative and Qualitative Findings

The synthesis of the quantitative and qualitative results provides a comprehensive understanding of the interaction between creative industries and economic growth. Quantitative findings provide strong statistical support, while qualitative insights add depth and context to the observed statistical relationships.

### Discussion

The statistically significant relationship between supportive government policies and the contribution of creative industries to GDP underscores the importance of targeted interventions. Policymakers are encouraged to focus on policies that encourage innovation, protect intellectual property, and provide financial incentives for creative ventures.

The substantial impact of creative industries on economic growth has significant economic implications. Governments should consider strategic investments in the creative sector, recognizing its potential for job creation, export earnings, and driving innovation.

The synergy between cultural entrepreneurship and the economic impact of the creative industries emphasizes the need for policies that foster both economic and cultural objectives. Preserving and enhancing cultural identity through the creative sector not only contributes to economic growth, but also strengthens the unique cultural heritage of a nation.

#### **Recommendations for Future Research**

While this study provides valuable insights, future research could explore specific sub-sectors within the creative industries in more detail. In addition, longitudinal studies can provide a dynamic perspective on the evolving relationship between creative industries and economic growth over time.

#### **Limitations**

The cross-sectional nature of this study limits the ability to draw causal relationships. In addition, the generalizability of the findings may be limited by the specific characteristics of Malaysia and Indonesia.

#### **CONCLUSION**

This study contributes to the understanding of the dynamic relationship between the creative industry and economic growth in Malaysia and Indonesia. The quantitative analyses affirm the substantial positive impact of the creative sector on GDP, with nuances observed in the comparative analysis between the two nations. Supportive government policies emerge as crucial catalysts for creative industry growth, underscoring the need for strategic interventions. Cultural dynamics, as revealed through qualitative insights, prove to be integral to the creative industry's performance, emphasizing the symbiotic relationship between cultural entrepreneurship and economic development.

Policy implications suggest the importance of tailored interventions that foster innovation, protect intellectual property, and incentivize creative endeavors. The economic implications highlight the

significant role of the creative industry in job creation, export earnings, and innovation, positioning it as a driver of sustainable economic growth. The synthesis of cultural and economic considerations provides a foundation for future research and strategic planning in the realm of creative industry development. This study serves as a stepping stone for further exploration, recognizing the dynamic potential of the creative sector in shaping both economic landscapes and cultural identities in developing countries.

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