Indonesia's Movie Industry: Impediments to Growth

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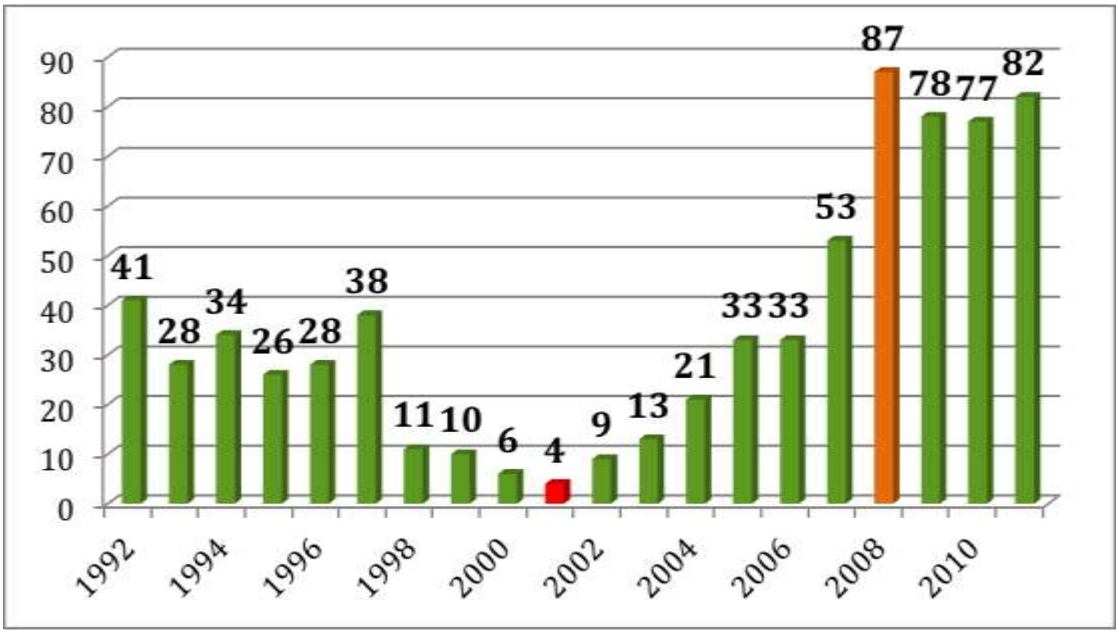
Industry in Reborn

The Indonesian film industry is an industry in reborn. It was barely non-existence in the early 2000 as there were only 4 movies produced at that time (Figure 2). The past ten years shows a gradual increase in movie production. However, the growth remains suboptimal. As a way of comparison, in 2011, while local movies were only 82 titles, the total number of imported movies was about 168 titles.

Figure 1. Movies Production in Indonesia



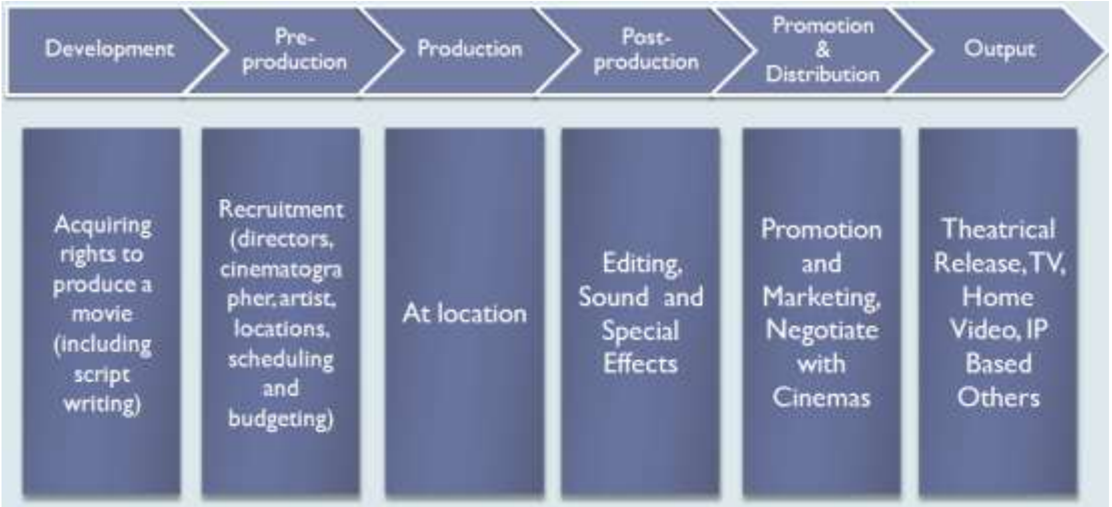
Source. Ministry of Tourism and Creative Economy (2012)

The economic contribution of the industry is small, about Rp.27trillion (US$2.98bn) to GDP, absorbed 491,800 of employments and contributed about Rp.2.8trillion (US$310m) to the government's tax revenue. Although its economic contribution is small, the movie industry has potential to grow. The demand for movies, including local movies increased as income increase. Indonesia, with its growing middle class is a potential movie market. However, the sector has not grown to its potential. Ministry of Tourism and Creative Economy (2012) shows that in the past 10 years, the sector exhibited a 2.5 percent annual growth, below average growth of the creative industries. What are any impediments to growth of this industry?

Impediments to Growth

We analyze the impediments to growth of this sector based on its value chain (Figure 2). A movie production basically begins from a development stage, where a producer acquires rights to produce a movie before it is in the actual production process. In pre-production stage, the activities involve recruitments such as director, cinematographer and artist, finding locations and finalizing the scenario. Next stage is production (film shooting), which includes property management, make-up and hairdressing, lighting management and the film shooting itself. After production is finished, the film will enter the post-production stage, which involves editing, including sound and special effects editing. Finally, unlike film industry in other countries, movie producers in Indonesia are also responsible for their movie distribution and promotion. This is due to the non-existence of film distributor in Indonesia.

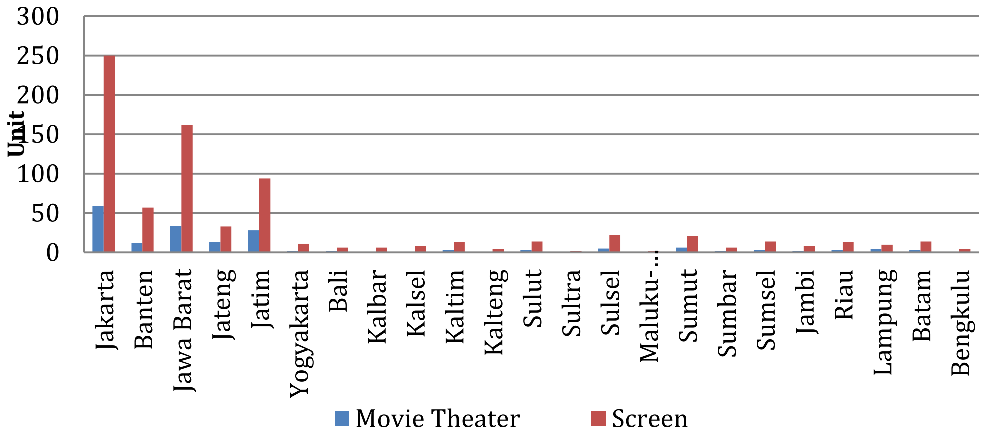
Figure 2.Value Chain of A Movie Industry



Based on literature survey and field survey, we found that the impediments to growth of the industry are found in a few difference stages of production of a movie: development stage, production stage, post-production stage as well as at the distribution and exhibition stages. On the development stage, we found that the impediment is the human capital, i.e. a shortage of scriptwriters. The shortage is due to the competition with TV industry while the supply of such talents is limited. In the production stage, the impediment is non-standardized specific skills, like directors. Once again, the growing demand for such talents is not supported by its supply. In the post-production stage, Indonesia has inadequate supporting industry for producing high quality movie, such as post-production laboratory. Local movie producers often have to perform the post-production process, coloring and sound effect mixing in particular in Hongkong, Thailand and other countries.

In the promotion and distribution stage, the problem is the missing provider in this stage. There is no distributor of local movies exist. Consequently, producers have to engage in promotion and distribute their movies by themselves. In the exhibition stage in particular, the problem is the availability of movie theaters. In 2011, there were only 207 cinemas with total 774 screens. Majority of the movie theater, about 80 percent are located in Jawa island (Figure 3). Dominant player exists in the move theater business. Seventy two percent of total cinema screens in Indonesia belong to one movie theater chain.

Figure 3. Movie Theaters Distribution



Source. Ministry of Tourism and Creative Economy (2012)

The relatively shortage of movie theater in Indonesia is evidence. Table 1 show that Indonesia has 3 screens per 1 million populations, much lower compared to the United States or Australia, which have about 144 screens and 101 screens per 1 million populations respectively.

Table 1. Screen per capita (per 100000 inhabitants)

Country	2009
United States of America	14.46767
Australia	10.11783
Republic of Korea	4.59334
Singapore	3.79834
Japan	2.99259
Malaysia	1.94452
Brazil	1.21181
India	0.93936
China	0.38232
Indonesia	0.3394
Lao People's Democratic Republic	0.11129
Cambodia	0.06437

Source: UNESCO

Investment in the cinema screens is relatively capital intensive. As a way of illustration, an investment of one screening room in a movie theater is about US$2 bn. Besides, particularly for Indonesia, the investment in the movie theater is also high risk due to the limited supply of local film local investors while the distribution rights of Hollywood movie in particular is under the hand of one business entity which has affiliation with the major cinema chain.

Meanwhile, big foreign investors is restricted by Indonesia's negative list of investment (*Daftar Negative Investasi*) limiting the entry of foreign investment. Table 2 shows that film studio, film processing laboratory, film dub facilities, film printing and/or duplication, film-editing facility, film subtitling facilities are open for foreign direct investment. Meanwhile filmmaking, film distribution and viewing (movie theater) are closed for foreign investments.

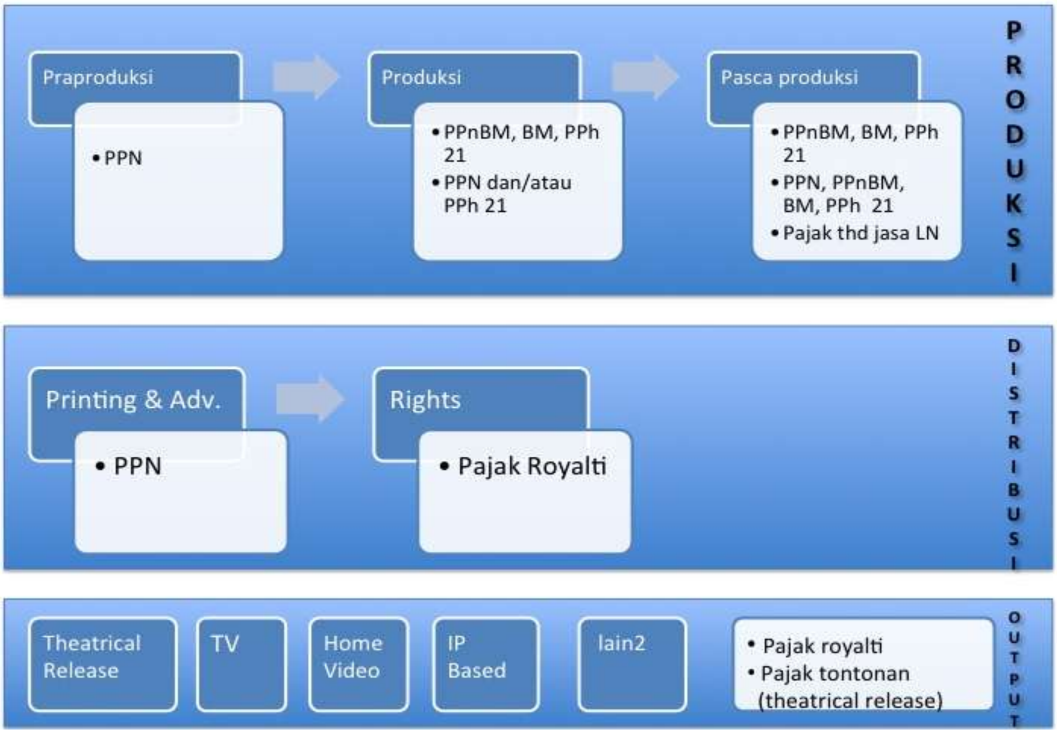
Table 2. Negative List of Investment

No	Business field	Condition
1	Film Technique Service	
	Film Taking Studio	Foreign Capital Ownership maximum 49%
	Film Processing Laboratory	Foreign Capital Ownership maximum 49%
	Fill Dubbing Facility	Foreign Capital Ownership maximum 49%
	Film Printing and/or Duplication	Foreign Capital Ownership maximum 49%
	Film editing facility	Foreign Capital Ownership maximum 49%
	Film subtitling facility	Foreign Capital Ownership maximum 49%
2	Film Making	100% local capital
3	Film Distribution (export, import and distribution)	100% local capital
4	Viewing: movie theatre	100% local capital
5	Film promotional facility (advertisement, poster, stills, photo, slide, negative, banner, pamphlet, giant banner, folder, etc)	100% local capital

Source. Perpres 36/2010

Is tax system an impediment to growth to the industry> CSIS (2012) assessments on the fiscal constraints to the development of the industry shows that taxes applies to every transaction in the value chain, from royalty to income taxes. There was a request from the film industry stakeholder that taxes should be lowered or even eliminated. However, CSIS (2012) shows that taxes on film industry is relatively small compare to other expenses and only has effect approximately 10% of the total cost (Figure 4). Given the complexities of Indonesia's tax system, CSIS (2012) recommends the relevant ministries to develop tax guide for movie producers and tax compliance assistance, particularly the small ones to avoid confusion in complying with the tax regulation.

Figure 4. Taxation in Film Industry



Source: CSIS (2012)

Conclusion and Policy Recommendation

This paper shows the impediments to growth of the movie industries in every stage of the development of a movie. The impediments can be summarized into several factors: lack of human resources, inadequate post-production facilities, restriction on the investment regime and complex tax system. The impediments call for government actions. First, improvement in the education system. It needs to be more responsive to the dynamics of the industry. Shortterm trainings on specific skills will also be beneficial to improve the capacity and skills of local providers. Second, to provide a more transparent and user-friendly custom procedures relevant to movie processing overseas. Given that economic scale of specific postproduction facilities are not there yet, the easiness to do post-production overseas are needed. Third, ease of entry for investment in postproduction, including foreign investment are needed. Fourth, lifting up the restriction on foreign investment in movie theaters will increase the screen per population ratio in Indonesia, which will consequently increase public access to movie screening. Fifth, lifting up the restriction on foreign investment in movie distribution, including export and import will provide room for more players and allow synergies between domestic and international players. Sixth, A more flexible arrangement which allow co-production between local movie makers and foreign movie makers will expose the industry to international best practice which might accelerate the growth of the industry. Last but not least, providing tax guide for movie producers and tax compliance assistance, particularly the small ones to avoid confusion in complying with the tax regulation.

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