

Game On: Indonesia's New Regulation Targets Greater Slice of Gaming Industry Profits

From the days of traditional board and card games to the multitude of video game options available today, the gaming industry has become a massive revenue generator. In Indonesia, the lion's share of gaming revenue ends up abroad. The government is now introducing regulatory initiatives to change this situation.

Presidential Regulation No. 19 of 2024 on the Acceleration of the Development of the National Gaming Industry (“**PR 19/2024**”) was signed into effect by President Joko Widodo on 12 February 2024. Its elucidation explains that gaming revenues in Indonesia reached US\$1.74 billion in 2020, but local game developers accounted for only a tiny portion of the total market share. To address this gap and raise the country's position in the global gaming arena, Indonesia issued this new presidential regulation aimed at boosting the share of local developers.

The regulation reflects the government's recognition of the gaming sector's strategic importance in contributing to the nation's economy, culture, and society. It seeks to foster collaboration among stakeholders, address industry challenges, increase the market share of domestic game developers, reduce reliance on foreign revenue sources, and promote growth and innovation within the national games industry.

This advisory outlines the key points of the newly issued PR 19/2024.

A. Current State and Regulatory Landscape of the Gaming Industry

Emerging as a powerhouse in Indonesia's creative economy, as provided under PR 19/2024, the domestic gaming market is projected to reach USD2.5 billion (IDR36 trillion) by 2025. Despite this promising trajectory, the local gaming industry's growth is being hampered by the following obstacles, outlined in the Attachment to PR 19/2024:

- a. Inadequate matching of human resources with industry needs.
- b. Lack of experience among domestic developers in global-scale production management and business development.
- c. Curriculum mismatch in vocational education with gaming industry requirements.
- d. Insufficient scholarship schemes for talented individuals in gaming development.

Focusing on the gaming industry appears to be a priority for the Indonesian government this year. Minister of Communications and Informatics ("**MOCI**") Regulation No. 2 of 2024 on the Classification of Games ("**MOCI Regulation 2/2024**") was issued in January, revoking MOCI Regulation No. 11 of 2016 on the Classification of Interactive Electronic Games, which was deemed no longer relevant to societal needs. However, apart from MOCI Regulation 2/2024, no further regulations had been introduced for the gaming industry in Indonesia. Recognizing the potential of Indonesia's gaming industry, PR 19/2024 appears to signal the beginning of more comprehensive and extensive gaming regulations in the country.

B. National Games Industry Development Acceleration Program: New Team, Many Players

PR 19/2024 introduces a National Games Industry Development Acceleration Program designed to address key objectives, such as creating a globally competitive national game development sector. It will also aim to protect the creative output and intellectual property of Indonesian game developers, designers, and publishers. To achieve these goals, a National Games Industry Development Acceleration Team will be formed, consisting of representatives from various ministries or institutions and led by the Coordinating Minister for Maritime and Investment Affairs. This team will be responsible for coordinating policies, overcoming obstacles, and monitoring progress within the gaming industry. For example, the Ministry of Education, Culture, Research and Technology will oversee training and development programs for game developers, while the Ministry of Finance will be tasked with formulating policies to offer tax incentives for game developers and publishers. Funding for the National Games Industry Development Acceleration Team may be sourced from the state budget, regional budgets, and other legitimate and non-binding sources.

The main initiatives in the National Games Industry Development Acceleration Program expected to affect regulations for Indonesia's gaming industry include:

1. Requirement for Game Publishers to Have a Legal Presence in Indonesia

In tandem with PR 19/2024, based on some news, the Ministry of Communication and Informatics (“**MOCI**”) plans to introduce its own gaming regulation, ensuring compliance with local laws and regulations. Game publishers operating in Indonesia will need to either establish legal entities or collaborate with an Indonesian entity. Legal publishers can then accommodate games created by national developers, while those without legal entity status may face blocking measures by MOCI. In accordance with this requirement, a new Indonesian Standard Business Field Classification (*Klasifikasi Baku Lapangan Usaha Indonesia – KBLI*) tailored for game publishers will also be released. This forthcoming MOCI regulation is expected to be issued in 2024.

2. Simplified Licensing for Highly Skilled Foreign Game Developers to Work in Indonesia

The attachment to PR 19/2024 outlines the government's commitment to simplifying the employment process for highly skilled foreign individuals engaged in game development within Indonesia. This initiative is slated for issuance in 2024, with the Minister of Manpower responsible for its implementation.

3. Increasing Access to Financing and Capital for the National Gaming Industry

Recognizing the challenge of accessing financing and capital in Indonesia's gaming industry, the Ministry of Finance is assigned to implement a policy aimed at providing tax incentives to game developers and publishers. This involves the gaming industry being included in Special Economic Zones and revising existing laws on corporate income tax facilities.

PR 19/2024 also emphasizes the importance of drafting regulations to inclusively open payment systems on game distribution platforms such as Apple Store, Google Play Store, and Steam. The aim is to facilitate access to third-party payments by mandating these platforms to provide access to local electronic payment systems as alternative digital payment channels.

Furthermore, the improvement of financing schemes through intellectual property-based financing is highlighted as another initiative in PR 19/2024. This aligns with Government Regulation No. 24 of 2022 on the Implementing Regulation of Law No. 24 of 2019 on the Creative Economy.

4. Inclusion of Software (Games) in Local Hardware Component Calculations

To promote the growth of the hardware industry for national games, the Minister of Industry is expected to draft legislation incorporating software aspects (games) into the calculation of local hardware components. This measure could see national games preloaded onto hardware as a means of expanding their market.

C. Implications for Developers, Foreign Gaming Companies, and Publishers

The issuance of PR 19/2024 confirms the government's commitment to supporting the national game industry. National game developers can expect substantial government backing through the following government initiatives:

- a. Human resource development for the game industry;
- b. Opening access to financing and capital for the national game industry;
- c. Increasing promotion and opening market access for the national game industry;
- d. Providing adequate and competitive technological infrastructure to support the development of the national game industry;
- e. Drafting laws and regulations to strengthen the national game industry ecosystem;
- f. Developing the hardware industry for national games; and
- g. Promoting national games in regional and global markets.

D. Conclusion: Press Start for a New Game

PR 19/2024 and the forthcoming regulation by the MOCI are significant milestones in Indonesia's efforts to advance its national games industry. By fostering collaboration, addressing challenges, and providing a clear regulatory framework, the government aims to stimulate industry growth and innovation, positioning Indonesia as a key player in the global gaming market.

While these intentions are commendable, it remains to be seen whether the new regulatory regime will lead to bureaucratic hurdles that inadvertently hinder the domestic industry's progress. Challenges also persist, including funding constraints, piracy issues, and the need to meet international standards.

One thing is certain: In line with PR 19/2024, with over 174 million Indonesians actively engaging in gaming activities, the country's gaming industry is already profitable and has tremendous potential for further growth. Now, as the government adjusts the rules to ensure that local developers receive a greater share of the revenue, industry players will be hoping this does not involve tougher levels of bureaucratic play.

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