

# The Development of a New Capital City in Indonesia

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## Introduction

In April 2017, the Indonesian president Joko Widodo announced his intention to relocate Indonesia's capital city from Jakarta, which is located in the Java Island, where 60 percent of the Indonesian population live. Two years later, in August 2019, the president announced that the capital city will be relocated to an area in the East Kalimantan Province in the Borneo Island, which is far bigger than Java but sparsely populated. The new capital city is named “Nusantara”, meaning “archipelago” in ancient Indonesian language. Hence, the new capital city is called *Ibu Kota Nusantara* or Nusantara Capital City, and popularly called by its abbreviation, IKN.

The plan to develop IKN as the new capital city of Indonesia has now been cemented in Law No. 3/2022 on The State Capital City, which was passed by the parliament in February 2022. This will make it difficult for any future government to cancel or change the capital city relocation as it will require an amendment of the law, which must be approved by parliament. The new capital city is planned to be inaugurated in August 2024, while the final stages of its development will not be completed at least until 2045. Despite the move of the seat of government, Jakarta would remain as the business and financial center of the country.

## The Reasons for a New Capital City

The main reason for the relocation of the capital city is the unfavorable condition of Jakarta, the current capital city. The inner city of Jakarta is home to about 10 million people, while the Greater Jakarta area, which includes the surrounding districts, has a total population of more than 30 million people. Table 1 shows that Jakarta is the second largest metropolitan area in the world after Tokyo. Jakarta is considered unsustainable to continue its role as the capital city due to the various environmental, social, and economic problems it is facing.

Table 1  
Five largest metropolitan areas in the world

No.	Metropolitan Area	Country	Population (million)
1	Tokyo	Japan	37.3
2	Jakarta	Indonesia	33.4
3	Delhi	India	29.0
4	Seoul	South Korea	25.5
5	Mumbai	India	24.4

Source: Banerjee (2023)

Jakarta has been described as the world's most rapidly sinking city. At the current rate, it is estimated that about one-third of the city could be submerged by 2050. The main cause is uncontrolled ground water extraction. In addition, it has been exacerbated by the rising Java Sea due to climate change. Its air and groundwater are heavily polluted. It floods regularly during the rainy season. Its streets are clogged with traffic congestion (Associated Press, 2023). According to the government's estimate, the annual

economic loss due to traffic congestion in Jakarta is about \$7.04 billion (Da Costa, 2019). These conditions are predicted to become worse in the future due to the expansion of new high-rise buildings and other constructions. The relocation of the capital city will relieve some of the heavy burden on Jakarta.

In addition to addressing environmental concerns, the capital city relocation to East Kalimantan also aims to address the problem of regional inequality between Java and the outer islands. This inequality has been a major source of concern and tension for decades, in particular over an alleged discriminating Java-centric policy in development. Indeed, in the 1950s, Sukarno, Indonesia's first president, already raised the idea of moving the capital city to Central Kalimantan, which is a geographic center of Indonesia, symbolizing a national center (Eliraz, 2020). Hence, the capital city relocation indicates the intention to spread economic development more evenly outside Java (Da Costa, 2019).

### The Location of the New Capital City

As a result of in-depth studies assessing prospective alternative sites, the government has decided that the new capital city will be built in an area in the Penajam Paser Utara and Kutai Kertanegara districts in East Kalimantan province. Kalimantan is the Indonesian portion of the island of Borneo, which is shared with Malaysia and Brunei (Lyons, 2019). Figure 1 shows the locations of both Jakarta and IKN. IKN is located in the east coast of Borneo Island, close to Samarinda, the capital city of East Kalimantan province, and also Balikpapan city.



Source: Adopted from <https://www.guideoftheworld.com/indonesia-map.html>

### The Development Plan of the New Capital City

The total area designated for IKN is 256,142 hectares, which is called the IKN National Strategic Area (*Kawasan Strategis Nasional*, KSN). This total area is divided into the IKN Area, allocated with 56,180 hectares, and the IKN Development Zone, allocated with the remaining 199,962 hectares. Within the IKN Area, 6,596 hectares are designated as the Main Governmental Zone (*Kawasan Inti Pusat Pemerintahan*, KIPP). Table 2 shows the zoning and the facilities to be developed within each zone in IKN. It is expected

that ultimately more than 4.8 million people will work in IKN. As part of the commitment to make IKN a sustainable city, over 75 percent of the Main Governmental Zone is reserved for green areas. Moreover, all IKN energy needs will be supplied by renewable energy sources (Nusantara Capital City, 2021).

Table 2  
The zoning and facilities to be developed in IKN

Zone	Facilities
Main Governmental Zone	Presidential palace
	State institution offices (executive, legislative, judiciary)
	Cultural park
	Botanical garden
IKN Area	Housing for civil servants, military officers, and police officers
	Diplomatic compound
	Education and health facilities
	Universities, science and techno park
	High tech and clean industries
	R&D center
	MICE/convention center
	Sport center, museum
	Shopping mall
	Military base
	Housing for non-civil servants
IKN Development Zone – phase 1	National park
	Orangutan conservation area
	Housing for non-civil servants
IKN Development Zone – phase 2	Metropolitan area
	Development area connected to surrounding provinces

Source: Bappenas (2020)

The plan to establish IKN entails constructing roads, government buildings, housing, and other facilities from scratch. The development of IKN will be divided into several phases. The first phase is 2022-2024, which involves building the main infrastructure components such as the State Palace, the House of Representatives building, government ministry buildings, and housing and basic infrastructure for the city's initial 500,000 residents. The second phase is 2025-2035, which will build innovation and economic centers, complete the transfer of the government center to the IKN, and develop priority economic sectors. The third phase is 2035-2045, which will build the city and nearby cities ecosystem to become the main destination for foreign direct investment in the priority sectors and one of main tourism destinations in South-East Asia (Nusantara Capital City, 2021).

Reflecting the priority sectors, IKN will develop six economic clusters: clean technology industry, integrated pharmaceutical industry, sustainable agriculture industry, ecotourism and health tourism industry, chemical products and byproducts industry, and low carbon energy industry. These industries will be supported by two supporting clusters: an education cluster and a smart city and industry 4.0 center (Nusantara Capital City, 2021).

The new capital aims to present favorable conditions: a smart, modern, green forest-like city and a melting pot of future technological innovations. Mobility within IKN is targeted to be 80 percent

supported by public transport, cycling, or walking. The huge forests in the planned new capital's region will be protected. Furthermore, pollution will be minimized by using renewable energy and clean energy sources (Eliraz, 2020). According to Law No. 3/2022, IKN is granted a provincial status and governed by an agency called IKN Authority, *Otorita IKN*, whose head is appointed by and responsible to the President.

### **The Challenges in Developing the New Capital City**

Environmentalists warn that IKN will cause massive deforestation, threaten the habitat of endangered species such as orangutans, and imperil the homes of indigenous communities which dependent on the dwindling forests. Furthermore, it will increase pollution that is already on the rise in the area due to coal mining, palm oil industries, and extensive forest fires. It also has the potential to escalate conflicts in the region between indigenous communities and flocking migrants, as well as increasing land grabs (Eliraz, 2020).

The increased number of people living on the island due to IKN could have serious environmental impacts, including for the rainforest habitat (Lyons, 2019). Costley and Forster (2021) predict that the region will experience more days of extreme heat in the future. Forest Watch Indonesia (2022) warns that most of the forested areas in the new capital are “production forests”, meaning permits could be granted for forestry and extractive activities that would lead to further deforestation. Hence, the protection status of the remaining natural forests in the new capital city area needs to be ensured.

During the initial phase of the construction, five villages with more than 100 indigenous Balik people have been relocated. More villages will be relocated as the construction expands. The government has provided compensation to the evicted people. However, the indigenous people did not know how the compensation was calculated and if it was fair (Associated Press, 2023).

Funding is another challenge in the development of IKN. The government estimates moving the capital city would cost \$30-40 billion. The government will fund around 19 percent of the cost and the rest will be funded through public-private partnerships and private investments (Lyons, 2019). To attract private investments in IKN, the government has issued a government regulation (PP No. 12/2023) which provides incentives for investors in IKN. These incentives include: free corporate income tax for 10 years, free value added tax for imported goods, free luxury goods sales tax, free import duties, and free land and building tax for 10 years. In addition, the government regulation also offers land leasehold for 95 years.

### **The Progress So Far**

The construction of IKN began in July 2022, starting with land clearing and the construction of access roads. During 2023, several construction groundbreakings of both public and private sector buildings have been carried out. The public institutions that have started their building constructions in IKN include Bank Indonesia (the central bank), the Ministry of Transportation, Manpower Social Security Agency (BPJS Ketenagakerjaan), the State Electricity Company (PLN), the police, and the military (Otorita Ibu Kota Nusantara, 2023).

Meanwhile, until the end of 2023, the private sector investment commitments have reached Rp 41.1 trillion (\$2.8 billion). Furthermore, the number of Letter of Intent (LOI) for investments in IKN has reached 330 LOIs, with 55 percent of them coming from domestic investors. Meanwhile, the prospective

foreign investors mostly come from Singapore, Japan, China, and Malaysia (Otorita Ibu Kota Nusantara, 2023).

### **Concluding Remarks**

Considering that Indonesia does not have an experience in building a mid-size city from scratch, the decision to relocate the capital city from Jakarta to IKN is a bold move by the Indonesian government. Consequently, the development of IKN requires a comprehensive and careful planning. Furthermore, the government needs to take into account views from various stakeholders to minimize the risk of failure and optimize the process of IKN development.

The capital city relocation symbolizes a change in Indonesia's development paradigm from a Java-centric to a more regional-balanced development. The location of IKN in the center of Indonesia conveys this symbol. However, considering that Jakarta will remain as the business and financial center, the relocation of the capital city to IKN most likely will only make a little impact in regional inequality. It is unlikely that much of economic activities in Jakarta will follow the shift to the outer regions. Hence, beyond the symbolic move, complementary policies to develop the outer regions faster are needed if Indonesia is serious about reducing regional inequality.

Furthermore, the relocation of capital city from Jakarta should not mean that the efforts to address Jakarta's daunting problems become a lower priority now. The large number of population and the remaining role of Jakarta as the business and financial center means that Jakarta is still crucial in determining the economic performance of the country. Hence, effectively addressing the threats to Jakarta from man-made and natural disasters as well as climate change remains important, with or without capital city relocation.

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