

Moving questions for Indonesia before relocating its capital

Jakarta is indeed overcrowded and sinking. But several important issues need to be addressed, including funding

Johan Sulaeman

For *The Straits Times*

Home to more than 10 million people, Jakarta is one of the most congested cities in the world. It is also rapidly sinking – the result of unregulated extraction of groundwater and the weight of rapid urbanisation.

With some areas sinking by as much as 25cm a year, coupled with rising sea levels, experts believe up to a third of the city could be swamped by the Java Sea within 30 years.

With this in mind, Indonesia's President Joko Widodo was speaking literally, as well as figuratively, when he said in a televised speech on Monday: "The burden Jakarta is holding right now is too heavy as the centre of governance, business, finance, trade and services."

In the address, Mr Joko announced a US\$33 billion (S\$45.8 billion) project to move the Indonesian government to a new, as yet unnamed, capital to be built on the east coast of Kalimantan in Indonesian Borneo. According to reports, the move is expected to take around a decade to complete, with the first branches of government set to begin relocating in 2024.

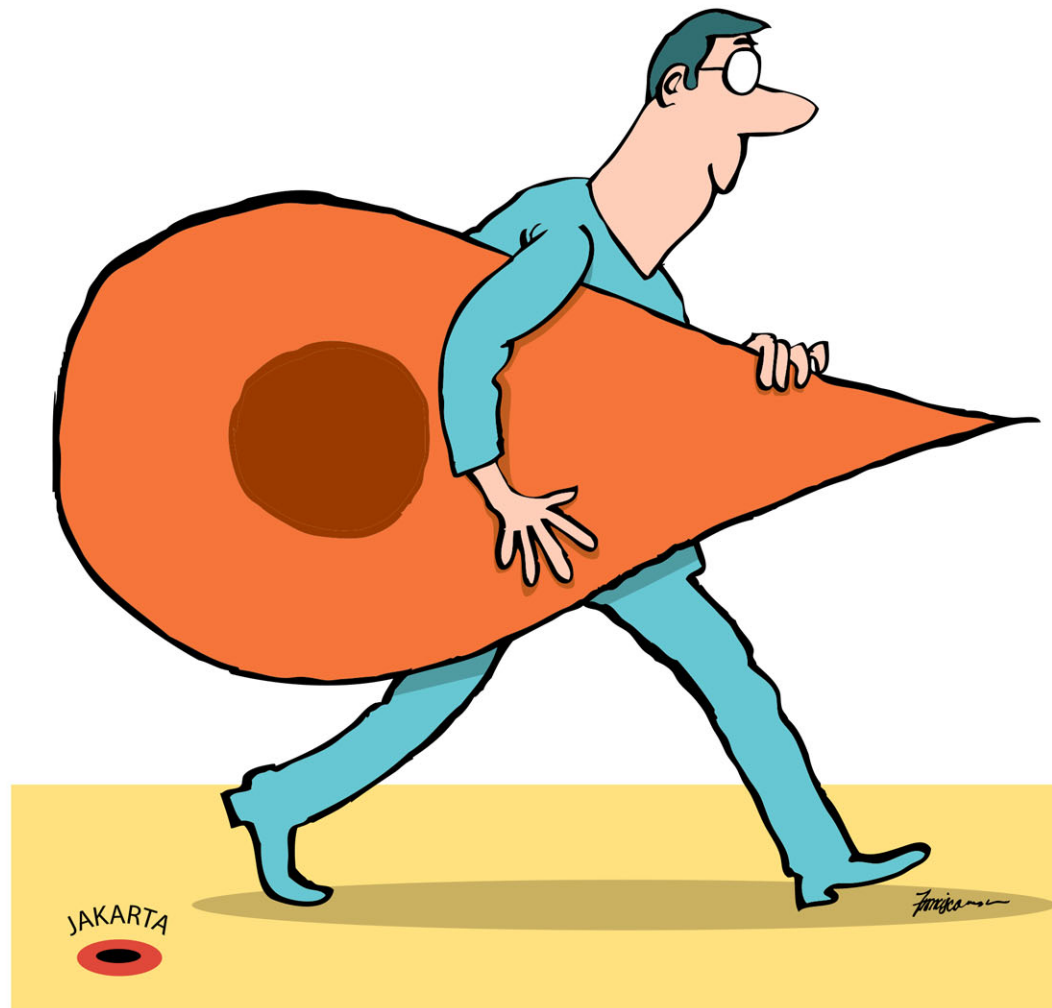
It is certainly a massive undertaking, but many questions remain unanswered, among them the impact on the Indonesian economy and how the project will be financed.

MOVING COSTS

According to the government's plans, a relatively small fraction – about one-fifth – of the total cost of the move will come from Indonesia's state budget. The remainder will be financed through the management of state assets in both Jakarta and the new capital, as well as private investments and public-private partnerships.

However, whether Indonesia can attract these investments and partnerships, without sacrificing too much in terms of government subsidies, grants and tax benefits, is a mystery given the relatively short track record of such investments and partnerships in the country.

It is also unclear what impact the focus of time and resources spent on this project would have on other pressing issues such as climate change, deforestation and the general reduction of poverty and



underdevelopment in other parts of the Indonesian archipelago.

Regions such as Nusa Tenggara, Irian and Sulawesi, for example, lag behind other parts of the country in levels of development and are likely to see few, if any, spin-off benefits from relocating the capital.

Meanwhile, the relocation may also bring its own substantial environmental impacts, such as the clearing of forests in and around the proposed capital and the carbon footprint caused by additional air travel, particularly from Jakarta.

Supporters of the move to Kalimantan say it will help to draw the focus of business activity and wealth away from Java – which accounts for 40 per cent of Indonesia's population and more than half of its gross domestic product – to less developed parts of the country.

LESSON FROM BRASILIA

However, as the new capital is likely to only carry out governmental functions, its likely impact as a centre of economic growth is questionable. Certainly other examples of relocated

capitals do not provide a strong argument.

Take the example of Brazil's purpose-built capital, Brasilia. After the Brazilian government relocated there in 1960, growth in the old capital, Rio de Janeiro, slowed slightly, but Rio continued to grow and today makes up about 10 per cent of Brazil's economy. Sao Paulo, Brazil's other economic centre, grew even faster and now makes up about 33 per cent of the country's economy. In contrast, Brasilia itself accounts for less than 4 per cent.

In Indonesia's case, it is very unlikely that the private sector – except for those that will rely solely on government-related businesses – will follow the government and move from Jakarta. The city will continue to be the dominant market for private capital while Java will remain Indonesia's main market for goods and services. Moving away from Java will simply not make profitable business sense.

Then, there is also the consideration that, irrespective of whether the capital relocation project goes ahead, Jakarta's problems will not be going away.

Studies have found that another effect of lack of media presence, in addition to a sparsity of citizens and businesses around the centre of government, is that government officials can become detached from voters, business leaders and financial markets. This can result in an echo chamber and groupthink effect, leading to suboptimal and potentially harmful decision-making by the government.

Whatever happens, the city's congestion, overdevelopment and rapidly sinking land will all require massive government resources in order to maintain its economic momentum and position as the country's central business hub.

CORRUPTION HAZARDS

At a broader level, another crucial question mark over the project is the potential for it to spawn corruption, particularly as a result of the potentially dominant involvement of private entities during its planning and construction.

Moreover, once the government has relocated, placing the capital so far away from existing metropolitan centres would reduce the number of "eyeballs" scrutinising its performance.

In the United States, a recent Harvard University study found that states whose capital is located further away from the main population centres were likely to have more government corruption. Examples cited by the study's authors include Albany in New York, Tallahassee, Florida and Sacramento in California, among others. The study identified lack of media presence as an important channel for this effect.

In Indonesia's case, placing the capital outside of Java would isolate the central government from newspaper and media coverage as all but one of Indonesia's largest media groups are based in Jakarta.

Studies have found that another effect of lack of media presence, in addition to a sparsity of citizens and businesses around the centre of government, is that government officials can become detached from voters, business leaders and financial markets. This can result in an echo chamber and groupthink effect, leading to suboptimal and potentially harmful decision-making by the government.

The idea of relocating the capital away from Jakarta is not a new one. President Sukarno first proposed it in the early days of independence as a way to shake off the colonial legacy and position the government closer to the geographic centre of the country.

Whether this time the idea will finally become a reality remains to be seen. But there are many questions to be answered before the concrete starts pouring.

stopinion@sph.com.sg

• Johan Sulaeman is an associate professor of finance at the National University of Singapore (NUS) Business School, whose research covers the effects of infrastructure spending and geographic factors on economic outcomes. The views in this article are those of the writer and do not represent the opinion of NUS.