

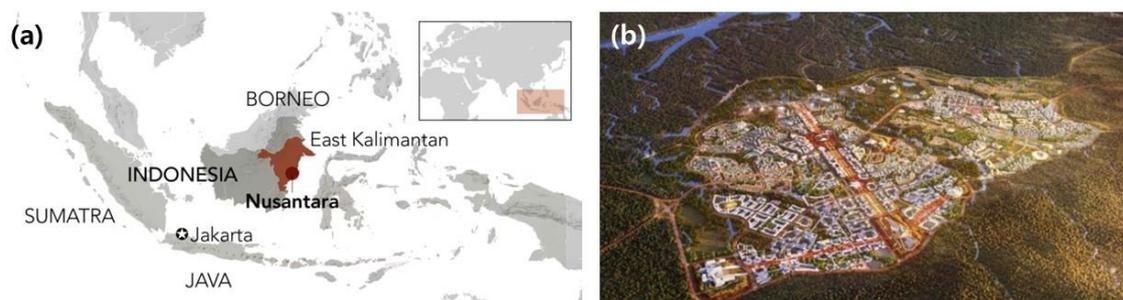
# Strategic Opportunities: Korea's Participation in Indonesia's Capital Relocation Project

Muhammad Hilmy Alfaruqi, PhD

The Indonesian Researcher Association in South Korea (APIK)

## Introduction

The Indonesia capital relocation project is an ambitious initiative aimed at moving the country's capital from Jakarta to a new site on the island of Borneo. The decision to relocate the capital is driven by several factors, including the overpopulation and overdevelopment of Jakarta, which faces serious issues such as traffic congestion, environmental degradation, and sinking land.<sup>1</sup> The new capital is envisioned as a sustainable and modern city, designed to alleviate the burden on Jakarta and spur economic development in other regions of Indonesia. Jakarta grapples with social issues such as pollution, traffic congestion, floods, and poverty.<sup>2</sup>



**Figure 1.** (a) Map of Indonesia's new capital<sup>3</sup> and (b) aerial rendering view of the government center area in Indonesia's new capital.<sup>4</sup>

Various factors and considerations have sparked discussions on relocating the capital from Jakarta to a new location.<sup>5</sup> This discourse even dates back to 1957 when President Soekarno proposed moving the capital to Palangka Raya, designating it as the capital of Central Kalimantan. On August 26, 2019, during a DPR plenary session, the President declared the relocation of the new capital to Penajam Paser Utara Regency and Kutai Kartanegara Regency, East Kalimantan Province (Figure 1). The policy of relocating the national capital (IKN) has been officially established as one of the strategic national priority projects (Ministry of National Development Planning/Bappenas, 2020). Furthermore, the pertinent legislation is the Law of the Republic of Indonesia Number 3 of 2022 concerning the National Capital.<sup>6</sup>

The IKN relocation project aims to accelerate the reduction of disparities and promote economic growth in regions outside Java, particularly in the Eastern Indonesia Region. The government believes that the IKN relocation will bring various economic benefits, including an increase in the national GDP, development equity, job opportunities, poverty reduction, and overall welfare. However, the challenges associated with capital relocation are multifaceted. Infrastructure development, urban planning, environmental sustainability, and housing supply are critical aspects that demand careful consideration. The scale and complexity of these challenges require substantial financial investment and expertise to ensure the successful establishment of the new capital. Foreign investments, especially from South Korea, are pivotal in providing the necessary resources, technology, and collaborative efforts to overcome these challenges effectively.

This article explores the strategic opportunities for Korea's involvement in Indonesia's ambitious capital relocation project. As Indonesia endeavors to shift its capital from Jakarta to East Kalimantan by 2045, the article delves into the potential collaboration areas for Korean companies. It examines the economic, technological, and infrastructural aspects of this participation, shedding light on how Korea's expertise can contribute to the success of this transformative project. The article aims to provide insights into the mutual benefits of this collaboration and the broader implications for both nations.

### **Current Foreign Investment and Keen Interest in Indonesia's New Capital**

Indonesia's drive to attract foreign investment for the development of the Nusantara National Capital is gaining momentum, with the Indonesian government actively engaging in efforts to showcase the project's potential on the global stage.<sup>7</sup> The Nusantara Capital Authority (NCA) has adopted a proactive approach, reaching out to various countries to present the investment potential of the Nusantara project,<sup>8</sup> for example, its participation in the Saudi-Indonesian Roundtable Meeting in Riyadh, Saudi Arabia. Notably, Indonesian Ambassador to India and Bhutan brought a delegation of Indian investors to explore investment opportunities in the Nusantara. The diverse backgrounds of these investors, spanning health, infrastructure, ports, and mineral resources, underscore the broad appeal of the Nusantara project. Furthermore, the NCA has engaged in fruitful discussions with Greece, hosting a delegation that included the Greece Ambassador in Jakarta, Stella Bezirtzoglou, and prominent Greek

businessmen.

The global outreach extends to France, where the NCA Team attended the Business Forum Indonesia-France 2023 in Paris. Additionally, collaborations with international institutions like the United Nations and the Tony Blair Institute demonstrate the NCA's commitment to sustainable development and global partnerships. These initiatives cover various aspects, including education, health, investment potential, and city development, showcasing the comprehensive approach taken to attract global interest and support for the Nusantara project.

Daewoo Engineering & Construction (E&C) has taken a significant step in its commitment to Indonesia's new capital development by signing a Memorandum of Understanding with Hutama Karya, Indonesia's largest state-owned infrastructure holding company.<sup>9</sup> This MoU marks a strategic partnership for cooperation in crucial infrastructure projects linked to the capital relocation. The agreement underscores Daewoo E&C's dedication to contributing its expertise in construction, including immersed tunnels and LNG plant sectors. KT Corp., South Korea's leading mobile carrier, has inked a significant initial agreement with Telkom Indonesia, the state-owned telecommunications network, aimed at collaborative efforts in the development of a smart city project within Indonesia's new capital, Nusantara.<sup>10</sup> The government estimates Nusantara's population to reach 60,000 by 2024, with foreign investment crucial for its development. While some concrete foreign pledges are pending, 300 letters of intent, including some from China, South Korea, Singapore, and Japan, have been received.<sup>3</sup>

### **Planned Infrastructure Projects in the New Capital**

The relocation of Indonesia's capital represents an ambitious venture encompassing a multifaceted approach to infrastructure development.<sup>11</sup> At the core of this undertaking is the establishment of a comprehensive transportation network. Well-planned roads and highways aim to ensure seamless connectivity, while the integration of efficient public transportation systems, including buses or rail networks, seeks to mitigate traffic congestion and enhance accessibility. The new capital also prioritizes robust utility and service infrastructures. This includes reliable water supply and sanitation systems. Moreover, a resilient electricity infrastructure is envisioned to meet the energy needs of diverse zones, comprising residential, commercial, and industrial sectors.

The vision for the new capital extends into the realm of smart city solutions, incorporating

cutting-edge technologies.<sup>12</sup> Digital infrastructure, facilitating efficient governance and public services, is set to be a hallmark. Telecommunication networks with high-speed internet capabilities are integral components of this technological integration. To accommodate the city's growing populace, residential and commercial zones are strategically planned. Emphasizing sustainability, green spaces and environmental considerations are woven into the fabric of the new capital's development. The new capital's design also encompasses social infrastructure, addressing community needs through services like community centers and religious institutions. As Indonesia embarks on this monumental project, collaboration with international partners and a commitment to sustainable practices underscore the nation's dedication to creating a modern, resilient, and forward-looking capital city.

### **Importance of Strategic Opportunities for Korea's Involvement**

Indonesia's new capital, Nusantara, is poised to become a global economic superhub with its innovative approach, presenting a unique investment landscape for foreign investors. The city envisions six dynamic economic clusters, including the Clean Technology Industry Cluster, Integrated Pharmaceutical Industry Cluster, Sustainable Agriculture Industry, Ecotourism and Health Tourism Cluster, Chemical Products and Byproducts Cluster, and the Low Carbon Energy Cluster. These clusters offer a diverse range of investment opportunities, aligning with global trends in sustainability and cutting-edge technologies.

In addition to these economic powerhouses, Nusantara emphasizes two supporting clusters that are crucial for its holistic development. The 21st-Century Education Cluster signifies a commitment to nurturing talent and fostering innovation, providing an ideal environment for educational institutions and research-driven companies. Simultaneously, the Smart City and Industry 4.0 Centre showcase the city's dedication to embracing the future of technology and urban development. This forward-thinking approach positions Nusantara as a beacon for modernization, attracting foreign investors seeking to be part of a thriving, innovative, and sustainable economic ecosystem. As South Korea continues to lead in technological advancements, Nusantara's clusters align perfectly with the nation's strengths, making it an attractive destination for Korean investors keen on pioneering advancements in various industries. The potential cooperation between both nations is summarized in Table 1, which outlines the involvement of Korean companies and their contribution sectors in Indonesia's new

capital relocation project.

**Table 1.** Korean companies and potential contribution sectors for Indonesia's new capital relocation project. (자료: 저자 정리)

<b>Contribution Sectors</b>	<b>Potential Korean Companies</b>
Infrastructure Development	Hyundai Engineering & Construction, Samsung C&T, POSCO E&C
Urban Planning and Design	GS Engineering & Construction, Daewoo E&C, Lotte E&C
Renewable Energy Integration	Hanwha Energy, POSCO Energy, KEPCO
Smart City Solutions	SK Telecom, LG CNS, KT Corporation
Transportation and Connectivity	Hyundai Railroad Technology Systems, KORAIL
Environmental Sustainability	LG Chem, Samsung SDI, Doosan Heavy Industries & Construction
Information Technology Integration	Samsung Electronics, LG Electronics, SK Hynix
Housing and Real Estate Development	Lotte E&C, Daelim Industrial, Hyundai Development Company
Financial and Banking Infrastructure	KB Financial Group, Shinhan Financial Group, Hana Financial Group
Healthcare and Medical Facilities	Samsung Biologics, Celltrion, Hyundai Pharm

In the context of the strategic partnerships between Korean companies and contribution sectors for Indonesia's new capital relocation project, it is essential to emphasize that participation is not exclusive to large corporations. While major companies certainly play a crucial role, there is substantial potential for small and medium enterprises (SMEs) to contribute significantly to the project's success. SMEs, often equipped with agility and innovation, can bring specialized expertise and advanced technologies to support various facets of the capital relocation initiative. These companies may offer tailored solutions, foster local

collaboration, and contribute to the overall development of key sectors. Recognizing the diverse capabilities of both large corporations and SMEs not only ensures a comprehensive and inclusive approach to the project but also taps into a rich reservoir of innovation that can drive sustainable growth and prosperity for both Korea and Indonesia.

In addition to corporate contributions, the collaboration between Korea and Indonesia for the new capital relocation project extends to the education sector, offering the potential for establishing Korean universities as branch campuses in Indonesia. This initiative presents a unique opportunity for knowledge exchange, academic collaboration, and cultural integration. Notable institutions such as KAIST (Korea Advanced Institute of Science and Technology) or KIST (Korea Institute of Science and Technology) could consider establishing their branches, fostering academic excellence and research advancements in Indonesia. This not only enhances the educational landscape but also attracts international students, facilitating cultural understanding and building a foundation for long-term cooperation. Examples of successful university branch campuses in other regions, such as Inha University in Tashkent, Uzbekistan, demonstrate the feasibility and positive impact of such collaborations.<sup>13</sup>

## **Remarks**

The strategic opportunities for Korea's involvement in Indonesia's capital relocation project not only span diverse sectors but also offer avenues for specialized focus. In the financial sector, the recognition of Indonesia's predominantly Islamic population emphasizes the significance of incorporating Islamic finance products. Korean companies venturing into financial services are encouraged to expand their offerings in line with Islamic principles, showcasing a nuanced understanding of the local market. To enhance credibility and compliance, the recruitment of Islamic finance scholars becomes pivotal, ensuring the alignment of financial products with the values of the majority. Similarly, in sectors such as food, beverages, and pharmaceuticals, prioritizing halal certification emerges as a crucial strategy. This not only addresses the cultural and religious preferences of the Indonesian population but also positions Korean companies as conscientious contributors to the local market. As Korea and Indonesia forge ahead in this transformative project, the integration of these considerations underscores a commitment to cultural sensitivity and responsible business practices, reinforcing the foundation for a lasting and mutually beneficial partnership.

## References

1. Nugroho, H., 2020. Pemindahan ibu kota baru negara kesatuan Republik Indonesia ke Kalimantan Timur: strategi pemenuhan kebutuhan dan konsumsi energi. *Bappenas Working Papers*, 3(1), pp.33-41.
2. Amir, S., Ufaira, R., Ramadhan, D.M. and Nastiti, A., 2022. *City Profile: Jakarta*.
3. NIKKEI ASIA, <https://asia.nikkei.com/Economy/Indonesia-s-new-capital-aims-to-be-economic-growth-center>.
4. Documentation of Ministry of Public Works and Public Housing of Republic of Indonesia, as published in Kompas, <https://money.kompas.com/read/2022/10/04/164000126/kementerian-pupr-ungkap-investor-asing-minat-bangun-perumahan-di-ikn-nusantara>.
5. Saraswati, M.K. and Adi, E.A.W., 2022. Pemindahan ibu kota negara ke Provinsi Kalimantan Timur berdasarkan analisis SWOT. *JISIP (Jurnal Ilmu Sosial dan Pendidikan)*, 6(2).
6. Nicholas, F., 2023. Synchronization of the Transfer of the Indonesian State Capital According to Law Number 3 of 2022 Concerning the State Capital with the 1945 Constitution and Applicable Positive Laws. *Asian Journal of Social and Humanities*, 1(07), pp.296-301.
7. Fachrurazi, A.R., 2023. Legal Protection for Foreign Investors in Investing Capital in the National Capital City. *Andalas Law Journal*, 8(2), pp.51-66.
8. Conveying Investment Potential, Nusantara Authority Gets Positive Spotlight in Saudi Arabia, <https://www.ikn.go.id/en/article-and-news>.
9. Daewoo E&C to Participate in Construction of Indonesia's New Capital, <https://www.businesskorea.co.kr/news/articleView.html?idxno=207181>.
10. KT signs MOU for smart city project in Indonesia's new capital, <https://en.yna.co.kr/view/AEN20231101003100320?section=news>.
11. New Capital Nusantara Has 140 Infrastructure Projects: Gov't, <https://jakartaglobe.id/business/new-capital-nusantara-has-140-infrastructure-projects-govt>.
12. Rifaid, R., Abdurrahman, A., Baharuddin, T. and Kusuma, B.M.A., 2023. Smart city development in the new Capital City: Indonesian government plans. *Journal of Contemporary Governance and Public Policy*, 4(2), pp.115-130.
13. Introduction to Inha University in Tashkent (IUT), <https://inha.uz/about/introduction/>.