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## **Indonesia's New Capital: Can Jokowi Find the Money?**

*By Richard Borsuk*

### **SYNOPSIS**

*President Joko Widodo has pushed ahead to launch his most ambitious project – building a new capital from scratch in remote Kalimantan, Borneo. Can Indonesia find the estimated US\$32.5 billion needed for building a smart and green city in the jungle?*

### **COMMENTARY**

THE BATTLE against COVID-19 in 2020 and 2021 firmly kept the brakes on Indonesian President Joko Widodo's ambitious plan to build a new city in a remote jungle in Kalimantan to replace sinking, polluted Jakarta as the capital. Now, he is stepping on the gas to get his dream project going. Indeed, he has just officially launched it.

After the government unveiled "Nusantara" (archipelago) as the capital's name, Parliament quickly enacted a law giving it a legal basis, and then the project head, who has ministerial status, was named and installed. Jokowi, as the president is known, on 14 March 2022 slept in a tent on the site of the future seat of government about 1,250 kilometres northeast of Jakarta and took part in the symbolic ritual of using soil and water brought from all of Indonesia's provinces.

### **Forcing the Pace**

Jokowi, who has made improving infrastructure a top priority, sees construction of Nusantara as his crowning legacy and a boost to Eastern Indonesia, traditionally a poor cousin to Java – where most of the population, money and political power has been concentrated.

There is no question about Jokowi's strategy as he enters the second half of his

second and final term: he wants to get enough of the new capital built so he can give his last National Day address there in August 2024, and so that his successor needs to keep constructing Nusantara rather than halt the project. Construction, planned in five phases, is supposed to be completed by 2045, Indonesia's 100th birthday.

Of many lingering questions about the massive project, one of the biggest is about funding: How is Indonesia going to pay the 466 trillion rupiah (about US\$32.5 billion) estimated cost? A side-question now is whether Russia's war on Ukraine, if prolonged or expanded, could have a negative impact on Nusantara.

Indonesia, which is still trying to recover from COVID-19, is a net importer of oil, and if global prices stay high, this could dent the state budget, make inflation spike, jacking up the cost of building what Indonesia says will be a "World City for All". A wider, longer war could slash demand and growth around the world, which could cause economies to fall back into recessions like in 2020.

Since he first proposed the project in 2019, the cost undoubtedly has increased. The president on 15 March reiterated a previous statement that the state budget would provide 19-20% of the cost, and the rest would come from public-private partnerships and private investors. Planning Minister Suharso Monoarfa said in January the government will avoid long-term debts and use financing models that "will not distress the state budget".

### **Private Investor Capital**

Hopes for involvement of private investors took a hit this month when Softbank of Japan confirmed it would not be investing. The government had hoped that Softbank CEO and Chairman Masayoshi Son, who met with Jokowi about the capital city project before COVID-19 hit the world, would put in billions and be on an international steering committee. During that January 2020 Indonesia visit, Son said he was interested to support "a new smart city" with lots of new technology.

Fortunately for Jokowi, another person tapped for the steering committee – Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed Al Nahyan – seems secure as a funder. United Arab Emirates has pledged big investment for Indonesia, whose officials have said \$10 billion will be earmarked for the new capital. The crown prince is very close with Jokowi; he renamed a street in Abu Dhabi for the Indonesian president.

Even if hefty funds come from Abu Dhabi, it will take a lot more for the whole project, even if there are no cost overruns like those experienced for the uncompleted Jakarta-Bandung rapid train – which is now costing nearly \$8 billion, compared with the \$5.5 billion initial price tag.

(The state as to put in money to get it finished, unlike the original plan.) The government probably could raise significant money for Nusantara by selling Jakarta ministry buildings to property developers, but that would be a long-term undertaking.

The government is in a better position financially than a year ago, when the economy had not started to recover from COVID-19, and the fiscal deficit was significantly widened by social safety-net spending.

## Suit to Stop the Project

In late 2021, global coal prices shot up, and Indonesia – the world’s biggest exporter of thermal coal – could cash in. The situation was similar with palm oil, another pivotal export. Tax revenue last year was 20% higher than forecast, and the fiscal deficit ended up being only 4.65% of GDP, rather than the initially forecast 5.7%.

But high commodity prices are not uniformly good for Indonesia. Surging oil prices hurt, because unlike in the Suharto era – when Jakarta was an OPEC member – Indonesia is now a net importer, and is hurt even more since the Ukraine war. Domestic oil production is less than 40% of the 1995 peak level of 1.62 million barrels.

Although the government can say it is not directly subsidising any fuel prices now, it is going to need to help state oil company Pertamina, which has kept low-grade fuel prices unchanged even though the world oil price is nearly double the 2022 state budget’s assumption of \$63 a barrel.

Economists question if the budget can handle supporting domestic energy prices to keep inflation down at the same time there would be substantial expenditures on the new capital.

Money isn’t the only challenge to developing Nusantara. Opponents of the planned move have filed a suit at the Constitutional Court, saying there were flaws in how Parliament passed the law creating Nusantara. This sounds a bit like what happened with Jokowi’s signature Omnibus Law to attract investment and create jobs. The court surprisingly declared the legislation “conditionally unconstitutional”.

Jokowi, backed by eight of nine parties in Parliament, is going to keep pushing Nusantara. In a clear sign he will not listen to calls by some to postpone the project, he said moving the capital “should not become a polemic anymore”.

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