



INDONESIA'S
NEW CAPITAL CITY AND ITS
IMPACT ON THE REAL ESTATE
INDUSTRY IN GREATER JAKARTA

CHANDRA RAMBEY, DR CARMELO FERLITO & ALFI SYHARIN ARIO WASKITO

“

**Cities have the
capability of providing
something for
everybody, only
because and only
when, they are created
by everybody**

CHANDRA RAMBEY

CEO Provalindo Nusa, Jakarta.

Deputy Head of Research and Foreign Relations REI DKI Jakarta, Indonesia

DR CARMELO FERLITO

Research Advisor at Provalindo Nusa, Jakarta, Indonesia.

Senior Fellow at the Institute for Democracy and Economic Affairs (IDEAS) and
Director of the Center for Market Education (CME) in Kuala Lumpur, Malaysia

ALFI SYHARIN ARIO WASKITO

Junior Researcher at the Center for Economics and Development Studies,
Padjadjaran University (CEDS UNPAD) in Bandung, Indonesia

Table of CONTENTS

EXECUTIVE SUMMARY.....	4
1. INTRODUCTION	6
2. "A CITY CANNOT BE A WORK OF ART"	8
3. THE PROBLEM WITH CENTRAL PLANNING	9
4. JAKARTA VS THE NEW CAPITAL	12
5. NEW CAPITAL CITY PROJECT ACROSS THE WORLD: AN INSIGHT.....	17
6. REPERCUSSIONS ON THE PROPERTY MARKET.....	20
6.1 GENERAL OVERVIEW.....	20
6.2 REPERCUSSIONS IN JAKARTA.....	22
6.3 REPERCUSSIONS IN THE NEW CAPITAL CITY.....	24
6.4 CONCLUDING THOUGHTS	27
7. POLICY SUGGESTIONS (HINTS).....	28
7.1 TRAFFIC CONGESTION.....	28
7.2 POLLUTION.....	29
7.3 SPATIAL DEVELOPMENT.....	30
8. CONCLUSIONS.....	31
REFERENCES.....	32

EXECUTIVE SUMMARY

Indonesia's president, Joko Widodo (Jokowi) announced the plan to move the national capital city from Jakarta, on the island of Java, to the province of East Kalimantan, in Borneo. The plan is a very ambitious project, which, in our view, poses more threats and challenges than giving opportunities to the country.

In this paper, we argue that the difficulties implied in moving the Indonesian capital city from Jakarta to a city that needs to be built from scratch are not simply of a technical nature; they are ontological. While many urban planners would like to design cities as if they could be works of art, with a top-down process, without the guidance provided by market prices and the recognition of the complex network of evolutionary human relationships

constituting a city, costly utopias rather than beautiful dreams would emerge.

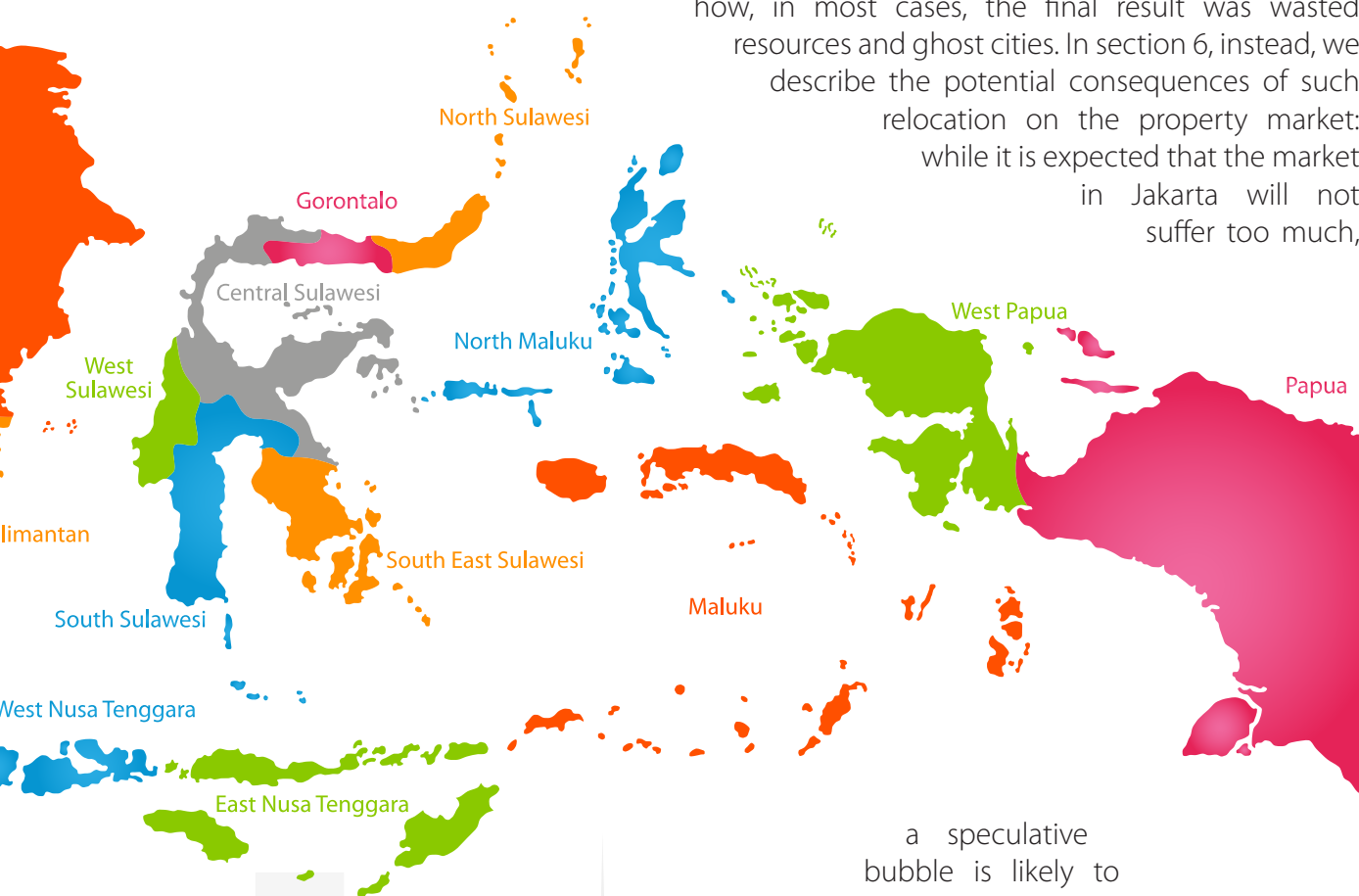
In the first two sections, we explain why a city cannot be approached as a big architectural problem, arguing that cities and territories are complex networks of relationships, in which the human factor plays the decisive role. We have argued that a city is not only a spontaneous order, as described above; it is also an emerging adaptive system, in which the decisive role is played by a network of human interactions.

Section 3 explains how the nature of the information necessary for a successful plan makes it impossible for the government to design with positive results. The beauty of a city consists in being a spontaneous and organic order rather than efficient machine.



Section 4 illustrates the most common arguments used in favour of the relocation: pollution, traffic and imbalanced spatial development. However, we argue, while there are cheaper solutions to solve the first two problems (explained in section 7), the third one cannot be resolved with the implant of civil servants into a new urban reality; rather, it requires the creation of an incentive mechanism able to free entrepreneurial forces. Moreover, the case in favour of big cities is also presented, explaining how size plays an important role in maintaining two key elements for the life of a city: a vibrant labour market and the reduction of transaction costs. The relocation of the capital city, by separating the political dimension of Jakarta from its economic and cultural centres, will increase transaction costs and negatively impact the city's productivity.

Section 5 presents some examples of other countries which relocated their capital cities, demonstrating how, in most cases, the final result was wasted resources and ghost cities. In section 6, instead, we describe the potential consequences of such relocation on the property market: while it is expected that the market in Jakarta will not suffer too much,



a speculative bubble is likely to happen in Kalimantan, which periods of skyrocketing prices and then a depression which will leave abandon assets and another political ghost city.

Section 8 concludes.

1. INTRODUCTION

Indonesia's president, Joko Widodo (Jokowi) has announced a plan to move the national capital from Jakarta, on the island of Java, to the province of East Kalimantan, in Borneo. He added that, after three years of studies, the decision is that the new capital will be built in part of North Penajam Paser regency and part of Kutai Kartanegara regency in East Kalimantan. More specifically, the 180,000 hectare site for the proposed capital is sandwiched between Samarinda and Balikpapan (to the north and south respectively) in East Kalimantan (Taylor, 2019, p. 3).

FIGURE 1: THE NEW INDONESIAN CAPITAL CITY LOCATION.



It seems that President Widodo intends to bring to completion a plan that has been suggested by various Indonesian presidents over decades. Widodo's ambitious plan aims to begin construction in 2020. However, even to the most positive among the observers, the presidential ambitions look very optimistic, as the plan is to move the government's administrative functions from Jakarta to a yet-to-be-built city in Kalimantan (the Indonesian portion of the Borneo island), more than 1,000 km away.



The project is expected to cost IDR 466 trillion (USD 32.7 billion), of which the state would fund 19%, with the rest from public-private partnerships and private investment¹.

The price estimation includes new government offices and homes for about 1.5 million civil servants (Lyons, 2019).

Even a lower estimation by the Minister of Public Works and Public Housing (PUPR) – IDR 200-300 trillion – is still a high value, equal to 13-14% of the total government spending of the 2018 budget (Mubaroq and Solikin, 2019, p. 2).

Source:
Wikipedia, 2020

Jokowi expects to start moving government servants into the new capital around 2020, and the city should be built on a 40,000-hectare plot of land. The Indonesian

¹ As it will be shown below, the Myanmar experience shows that the involvement of private funds may not be as easy as expected.

President hopes to both relieve the island of Java from its current burdens and to launch Kalimantan onto a new development trajectory (Lyons, 2019).

So far, the project has encountered both support and criticism. In the present paper we will make the reader familiar with the most urgent critical aspects which make us sceptical in regards to the relocation, with particular reference to the potential consequences on the property market both in Jakarta and in the newly-designed capital.

However, the starting point here will be even more radical. The difficulties implied in moving the Indonesian capital city from Jakarta to a city that needs to be built from scratch, in fact, are not simply of a technical nature; they are ontological. As pointed out by Bertaud (2018, p. 4), many urban planners would like to design cities as if they could be works of art, with a top-down process². However, without the guidance provided by market prices and the recognition of the complex network of evolutionary human relationships constituting a city, costly utopias rather than beautiful dreams would emerge. In fact, “a city cannot be a work of art”³.



The project is expected to cost 466 trillion rupiah (\$32.7bn), of which the state would fund 19%, with the rest from public-private partnerships and private investment

2 Bear in mind that even the very definition of urban design is still controversial (Cozzolino et al., 2020).

3 The expression is borrowed from Jacobs (1961) and Ikeda (2017).

2. “A CITY CANNOT BE A WORK OF ART”

Following the teaching of Jane Jacobs (1961), Ikeda (2017, p. 79) clearly explains why a city cannot be a work of art. In fact, while artists – and, similarly, architects – project their vision on selected raw materials with a typical top-down process, Jacobs (1961, p. 372) argues that a city cannot be approached just like a big architectural problem; to follow such an approach would lead to the mistake of attempting to substitute art for life.

In fact, as argued in Ferlito (2020, p. 15), a city — or a territory in general — should be looked at not simply like a set of bricks or physical resources which can be used to produce “a work of art”; rather, cities and territories are complex networks of relationships, in which the human factor plays the decisive role (see Moroni and Cozzolino, 2019). An emphasis on the “hard” side of the matter is typically static and fails to appreciate the dynamic processes of change which become evident, instead, if we move our gaze toward the relationships between humans and the surrounding environment and the interpersonal networks which characterise different territorial frameworks.

A focus on networks and relationships allows us to see how urban and extra-urban territories are more likely the result of bottom-up processes of evolution and change over time. From this perspective, cultural factors are more important than bricks. Recognising such complexity is the prerequisite to realising that a centrally planned top-down approach is unable to embrace that complexity. Following Hayek (1967, pp. 96-105), Ikeda (2018b) recognizes how cities emerge as unplanned orders, or spontaneous orders, intended as *a stable set of relations among individuals that is sufficiently coherent to enable them to form and carry out plans with a reasonable expectation of success and that emerges unintentionally from those individual plans*, or the result of human action but not of human design (Ikeda, 2017, p. 83).

Such a shift in perspective is a way to privilege the spontaneous and evolutionary aspect of territories, which are, indeed, network communities before being collections of buildings. Ikeda (2017, p. 79) warned that treating a city with an engineering, artistic or architectural perspective could bring to the death of the city itself. Successful cities are the ones that respond to people’s preferences and not to top-down ideas and visions (Gordon and Cox, 2014, p. 159).

There is a tradeoff between the scale of design and the degree of spontaneity, complexity, and intricacy in the resulting social order that the design allows (Ikeda, 2017, p. 79). This does not mean that a city is not a beauty or an order; quite the contrary. The beauty of a city precisely consists in the coordination spontaneously emerging from such a complexity: a great number of factors, many of them linked with human actions, emerge as interrelated into an organic whole (Jacobs, 1961, p. 432; Ikeda, 2018, p. 80).

But, if a city is not a work of art, and the “optimal” level of central planning is a lot lower than most of us think (Ikeda, 2017, p. 81), then what is a city?

3. THE PROBLEM WITH CENTRAL PLANNING

The city is not only a spontaneous order, as described above; it is also an emerging adaptive system (Ikeda, 2017, p. 83), in which the decisive role is played by a network of human interactions. In this scenario, substituting the genius of the planner for the collective genius of ordinary people diminishes the intricacy, complexity, and yes the deep beauty of the resulting social order, and generates negative unintended consequences (Ikeda, 2017, p. 81; Ikeda, 2018c).

A city is therefore the adaptive result of a territory to human behaviour, and not the opposite, like many urban planners would desire (Ikeda, 2018a). Cities should not be considered simple plannable objects but as self-organizing and complex ones in which spontaneous actions and the emergent evolution of socio-spatial configurations play a crucial role (Cuzzolino, 2018, p. 14). We support, thus, a genetic-causal explanation of the birth of cities (Ikeda, 2018f, pp. 26-27).

If a city is an emergent and evolutionary system, its main features not only keep evolving but are also ontologically unpredictable: a city is in a constant state of becoming [and] arises from unforeseen interactions rather than being determined by an a priori intention (Porqueddu, 2018, p. 32). This is all the more true when we insert the passage of time as a necessary dimension of city evolution (Ikeda, 2018d); the passage of time is, in fact, an open-ended generator of novelty. Only when people can freely discover such novelty and reciprocally adapt to it can an order emerge.

Again, this does not mean that a city cannot be beautiful, but the beauty we are referring to in the case of cities is not of an aesthetic nature; rather, it consists of the order emerging by independent individual actions, like if they were driven by the famous invisible hand (Smith, 1776, p. 421). Beauty is the order itself. This can be observed in big cities, like Jakarta, where it is clear that the most beautiful areas, the one most likely to be the result of central planning, are not where most of the world's city people live and work. In fact, most cities (even the great capitals) are populated by spontaneous fill-in, much of which cannot be easily linked to any grand plan or vision (Peter Gordon quoted in Andersson, 2014, p. 19).

This does not mean that planning is not part of a city development, quite the contrary. As argued by Ikeda (2004, p. 261), the issue is not "planning versus no planning," but rather "who should do the planning" [...] local knowledge that is relevant to the success of a community is contextual, at least partly inarticulable, and thus difficult if not impossible to transmit effectively to central authorities. [...] whether society makes the best use of that knowledge will depend on the extent to which public choosers are willing to rely on nongovernmental mediating organizations and emergent social institutions. Planning does not necessarily mean government planning (Block, 2014, p. 93); planning in the sense of rational calculation is necessary (Block, 2014, p. 95). But who plans for who?

The conflict between central planning and decentralized planning does not affect only the creation and development of cities, but the whole economic system (Block, 2014, p. 93). By nature, government is operating outside the market and

therefore will never be able to acquire the knowledge necessary to implement a sound entrepreneurial plan, based on actual market needs (knowledge problem: Hayek, 1937, 1945), and will never be able to judge whether its plans were profitable, as the prices linked with government housing projects are not coming from the market but they would just be arbitrary political figures (calculation problem: Mises, 1920).

Following Hayek, we must, in fact, distinguish two types of knowledge, which we call technical knowledge and entrepreneurial knowledge; the first type is the knowledge about how to do things, while the second type regards when and where to do what. While a central planner (whether the government, an agency or a team of experts does not make any difference) can eventually possess the technical knowledge, it can never acquire the second type of knowledge. It is therefore easy to understand how the problem does not consist in the government being able to build a city, which is merely a technical issue that is possible to overcome with technical development; the real issue is the possibility for the government to be able to deliver something that can actually be absorbed by the demand, whose features are going to change dynamically over time. The information relevant for entrepreneurial decisions is, by nature, dispersed in individual minds, inarticulated, tacit, ever-changing and often non-directly transmissible; it dynamically arises through inter- individual interaction in



The conflict between central planning and decentralized planning does not affect only the creation and development of cities, but the whole economic system

the market and over time; a central planner would never be able to possess it and, even if the planner were able to capture it for an instant, it would already have evolved with the genuine novelty created by the mere passage of time. Entrepreneurs too cannot have perfect access to such information, but, playing within the market, they are better exposed to the transmission mechanism which involves that information. Such a mechanism happens with the mediation of prices, which are indeed the objective synthesis of billions of dispersed subjective evaluations; without the dynamic market process, prices could not emerge and could not exercise their function of transmitting the relevant entrepreneurial information. Again, government action, happening outside the market, would also not have access to real prices, and therefore would lack the necessary instruments to evaluate the economic sustainability of its plans (see Ikeda, 2004 and Ferlito, 2019).

Therefore, cities are one of the orders created by the market process thanks to the information transmission mechanism constituted by prices (Bertaud, 2018, p. 1). In order for a city to develop organically, then, the presence of a system of decentralized decisions is of primary importance. A city can handle endless waves of complex, ongoing problems if the rules that govern interaction, and the spaces within which people interact, allow many minds to discover those problems and to work on them over time. Increasing the scale of design/construction cuts ever more deeply into the

living flesh of a city. The challenge for the designer/builder of public space then is to enable, rather than replace, the spontaneous, low- level planning of ordinary people, and to preserve – largely by keeping away from – the “action spaces” where informal contact and networking, trial-and-error, diversity, and discovery usually happens. Too often, scaling up progressively drains the life and intelligence from of a city (Ikeda, 2017, pp. 81-82).

Many urban planners – on behalf of politicians – aim to modify that order through design (Bertaud, 2018, p. 1). For the reasons just described such an attempt is destined to fail. The evolution (or involution?) of economics has given false illusions.

For a little while in the middle of this century [20th] it seemed that the wild, intractable, dismal science of economics had yielded up something we all want: instructions for getting or keeping prosperity. Economists and the rulers they advise had thought up so many ideas for ridding national and international economies of chanciness and disaster, and the ideas had such an air of rationality, predictability and informed statistical analysis, that governments took to supposing they need only muster up commitment, expertise and money to make economic life do their bidding.

In theory everything was so logical. In reality so little worked out the way it was supposed to.

Now we live in a distraught time of failed development schemes (Jacobs, 1984, pp. 3-5).

4. JAKARTA VS THE NEW CAPITAL

Following the reasoning we have developed so far, it is not difficult to understand why we are sceptical about the whole project of moving the Indonesian capital to a remote area on the Borneo island. But let us pause for a moment and consider the common arguments in favour of such a change.

The bulk of the popular discussion is centred on Jakarta being an overcrowded and polluted sinking megacity. With 10 million residents (30 million including the suburbs)⁴, Jakarta is certainly an overcrowded city; at the same time, astonishing economic development is stressing the city in terms of pollution. However, is the proposed solution (moving the capital city) the right one? We argue that moving the capital city would be a solution that is both expensive and ineffective. In numerous articles and books such as *The Skeptical Environmentalist* (Lomborg, 1998) and *Cool It* (Lomborg, 2007), Bjørn Lomborg, president of the Copenhagen Consensus Center, has stressed how environmental issues should be addressed in an economically sustainable way. Now, with a population of bureaucrats estimated to be made of around 150,000 people, which kind of relief will Jakarta enjoy by moving even all of them (and their families) outside of the city? The costs, not only the monetary ones, appear to be disproportionate when compared with the real benefits.



However, is the proposed solution (moving the capital city) the right one? We argue that moving the capital city would be a solution that is at the same time expensive and ineffective

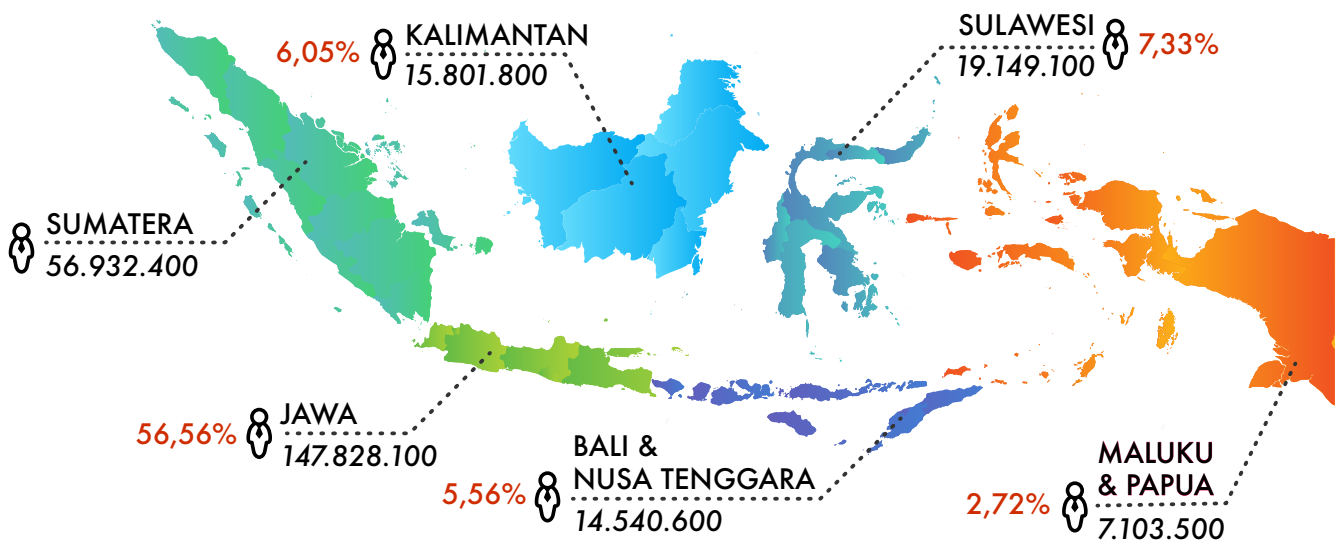
This is not the place to discuss solutions for traffic congestion and pollution, but some hints here will be useful for stimulating the discussion; some hints will be presented in paragraph 7.

Let us now turn to the other argument supported by politicians and planners in favour of moving the capital city: while Jakarta grew into a huge metropolis with its contradictions but also with many opportunities, the region identified to host the new capital city is still underdeveloped⁵. In fact, we can say that Indonesian development revolves around its capital. These are the different percentages of GDP sectors contributed by the Jakarta area: trade 20%, finance 45%, service 68%, government 49% education 27%, and manufacturing 10% (Ganie, 2020, p. 12).

⁴ More precisely, Jakarta population is estimated in 10,227,628 people, while its metropolitan area, called Jabodetabekpunjur (an acronym of Jakarta–Bogor–Depok–Tangerang–Bekasi–Puncak–Cianjur), reaches 32,775,966 people (Ganie, 2020, p. 9)

⁵ The GDP growth of the area was 2.5% in 2019, against 5.1% as an average in Indonesia. The unemployment rate was 6.26% in 2019 (5.2% in Indonesia).

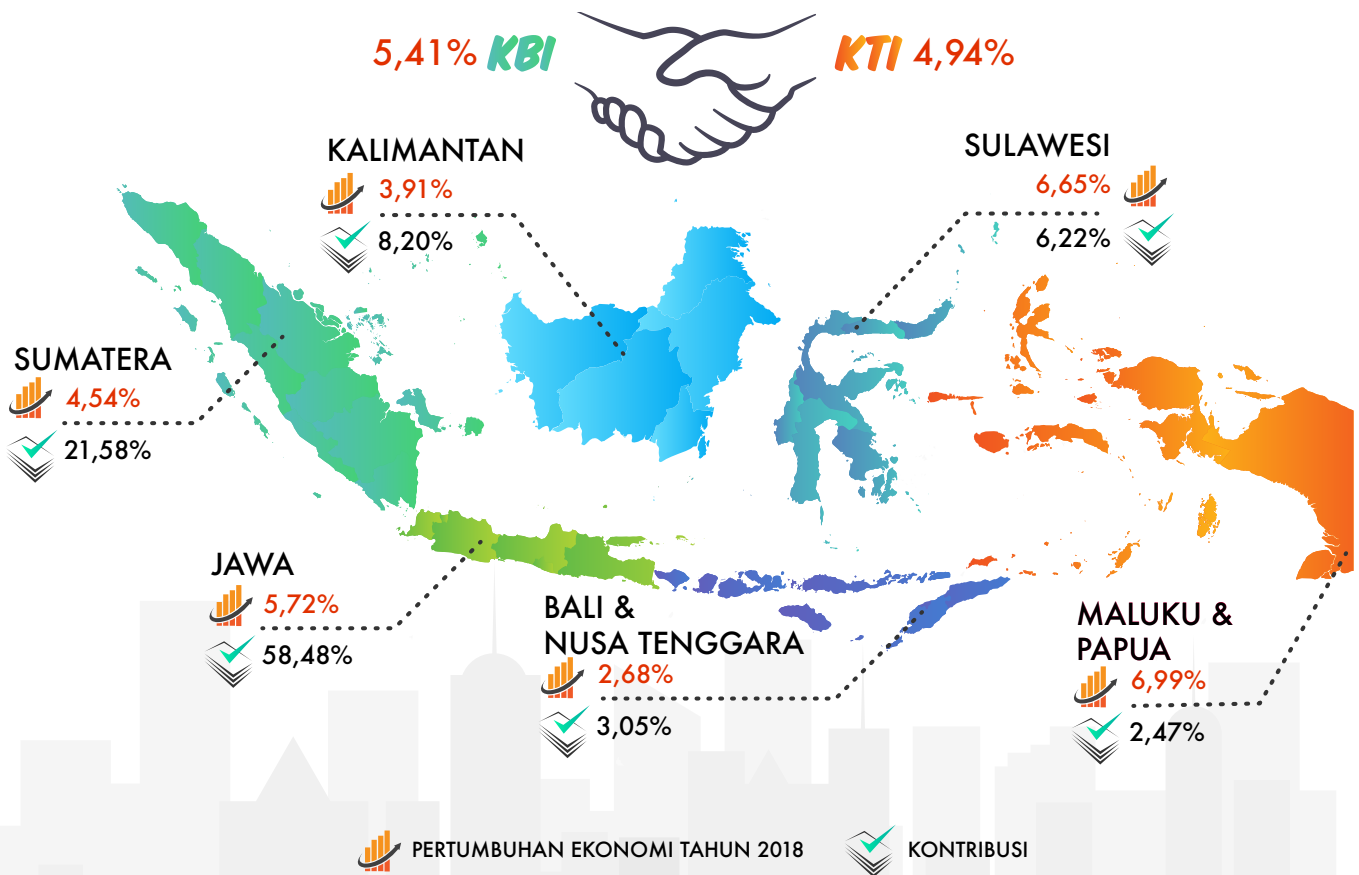
FIGURE 2: REGIONAL DISTRIBUTION OF THE INDONESIAN POPULATION



Source: Ganie (2020, p. 14)

At the same time, 56.56% of the population lives in Java (6.05% in Kalimantan) and the main island contributes to 58.4% of the GDP (20.85% comes from the Jabodetabekpunjur area), while the contribution from Kalimantan is 8.2% (Ganie, 2020, p. 14).

FIGURE 3: REGIONAL CONTRIBUTION TO THE INDONESIA GDP



Source: Ganie (2020, p. 14)

Thus, planners claim, we need a more balanced development among the different regions of Indonesia. Under this perspective, Jokowi's position is not different from the one of many urban planners who have traditionally been concerned about the unplanned growth of large cities because of the complexity involved in managing them, the difficulty integrating poor migrants from rural areas into city life, and an instinctive aversion to anything that seems "undersigned". [...] The aversion to unplanned or to asymmetrical spatial patterns is quite apparent in most urban planners' approach. Some planners look at a country's map and observe that some regions contain many cities while others have only a few. They incorrectly conclude that this "imbalance" represents an inequity due to parasitic urban activities or to other market failures (Bertaud, 2018, p. 24). For these planners, it is a government's task to reduce such inequities and to "plan" a more homogeneous spatial development. However, for the same reasons explained in paragraph 3, such attempts are destined to fail. Bertaud (2018, pp. 24-25) explains that cities grow because of their competitive advantages and the urban growth rate will not follow a predictable path. The influence that planners can have on urban growth is very limited, and all the attempts that have been done in order to block the growth of big cities in favour of smaller ones have conducted to decreased cities' productivity (Bertaud, 2018, pp. 25-26).

The idea of building a new capital in Kalimantan, thus, falls into the category of visionary city planning, an approach that presumes substantial knowledge and wisdom at the top, ignoring the reality of widely dispersed knowledge and which is championed by city planners and policy makers, who support "contained" cities and higher densities (and associated lifestyles) and suggest that top-down planners know the locations where compact development ought to be encouraged – via regulatory means or direct subsidies (Cox and Gordon, 2017, p. 61).

On the contrary, as we have seen, a city arises as the spontaneous order generated by human interactions. For this very same reason, another point emerges as a critic toward the project: by relocating the political centre of the country, policy makers ignore that politics, culture and economy are three different elements of a unitary entity, the city, which emerged precisely as the combination of these three aspects. The city itself would not exist without one of the three components, which influence each other. To move the political centre from Jakarta would be an amputation for the city. Rather than an amputation, would it not be better to think about an extension? Think about what happened with Putrajaya and Kuala Lumpur in Malaysia: although Putrajaya is everything but a vibrant city, its proximity to the old capital did not harm the economic and cultural life of it.

What would happen with an amputation? The cultural and economic life would be deprived of an important thriving centre. What may appear as a theoretical consideration is instead full of practical implications. The economy, in example, needs the politics; and this is all the more true in a bureaucratic country like Indonesia, which is ranked 73 among 190 economies in the Ease of Doing business Index, according to the latest World Bank annual ratings⁶; similarly, it is ranked 65 among 131 countries in the International Property Right Index 2019 elaborated by the Property Right Alliance⁷. What will happen, then, to all the paperwork which is required for starting a business

⁶ Source: <https://tradingeconomics.com/indonesia/ease-of-doing-business/>. The Ease of doing business index ranks countries against each other based on how the regulatory environment is conducive to business operation stronger protections of property rights. See also <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2019>.

⁷ Source: <https://internationalpropertyrightsindex.org/>.

and keep it operational? It is not yet clear if the government is going to keep branches in Jakarta to support firms or if a journey to Kalimantan would be necessary each time a paper or a permit is required. In both cases the final result would be an increase in government running costs and in private business costs, at the expenses of taxpayers and consumers. Most likely, Indonesia would face a downgrade in the above-mentioned indexes.

As explained in Cox and Gordon (2017), in fact, spontaneously emerging cities, being the adaptive answer to human behaviour, provide reductions in the transaction costs naturally implied in doing business. As such, Jakarta's large size is likely to be a positive element rather than an obstacle: size becomes a facilitator in providing opportunities to join the different supply chains (Cox and Gordon, 2017, p. 61). Institutions that reduce transaction costs are key in the success of an urban space (Gordon and Cox, 2014, p. 156); the top-down building of a new city in Kalimantan seems to go in the opposite direction.

Indeed, the – spontaneous and evolutionary – emergence of a big city is precisely the proof that decentralized and spontaneous choices of large number of individuals reveal that each recognizes their interests in co-locating. [...] These are not simply “unplanned” cities. The plans of large numbers of individuals are seemingly coordinated – with benign results (Cox and Gordon, 2017, pp. 64-65). At the same time, the emergence of big urban agglomerates demonstrates how bottom-up forces can overwhelm top-down plans (Cox and Gordon, 2017, p. 65).



Jakarta amputation of its political sphere may result in a worsening of the supply chain networks now featured in the capital city as an entity comprising politics, culture and economy; at the same time, it will increase transaction costs for firms

Thus, Jakarta's amputation of its political sphere may result in a worsening of the supply chain networks now featured in the capital city as an entity comprising politics, culture and economy; at the same time, it will increase transaction costs for firms.

This does not mean that a big city is efficient (Ikeda, 2017, p. 85). This is normal because of the complexity implied in a multi-relation system where the relevant knowledge is dispersed into millions of individual minds (Ikeda, 2018e). However, the strength of a city like Jakarta lies precisely in its inefficiency, as demonstrated by Jacobs (1969, chapter 3). Efficient cities, in fact, are often specialized; such specialization limits the possibility for discoveries and, thus, development. The inefficiencies of big cities are precisely what makes them dynamic creators of development occasions; development happens when efforts are multiplied (inefficiency) and occasions for new works are created (importance of size). These factors cannot be present in a highly specialized and efficient city. Therefore, there is a trade-off between efficiency and development occasions (Jacobs, 1969, chapter 3).

In the same direction moves the consideration that cities are labour markets and the expansion of job markets makes everything else possible. A well-functioning labor market brings together people with varied but complimentary knowledge and skills – the preconditions for innovation. A well-functioning labor market makes possible every other urban attraction – symphonic orchestra, museums, art galleries, public libraries, well- designed public spaces, and great restaurants, among many others. In turn, even more diverse population, which becomes the source of future innovations and a more interesting urban life (Bertaud, 2018, p. 20). From this perspective, the importance of size has been demonstrated by economists, who showed how larger cities are more productive over smaller ones, because large cities generate economies of scale that allow enterprises to reduce their costs by increasing output, thereby reducing costs per unit. Economies of scale are only possible in cities with a large labor market (Bertaud, 2018, p. 20). Bertaud’s argument is similar to the one adopted by Jane Jacobs (1969), where he explains how such large labour markets help in generating “knowledge spillovers” and therefore developments.

5. NEW CAPITAL CITY PROJECT ACROSS THE WORLD: AN INSIGHT

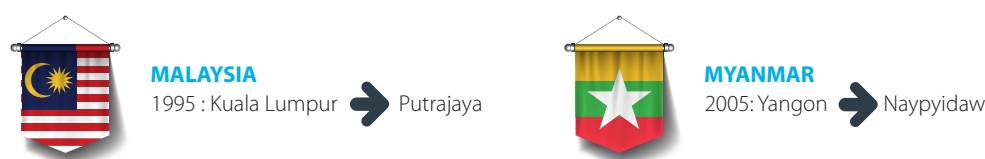
While Jokowi's project to change capital city attracts considerable attention across Indonesia, around the world there are already numerous examples of countries that have chosen to move their administrative centre into a new area. According to Potter (2017, p. 1), nearly 30% of countries have their capital located outside of their largest city, while 11 countries have shifted their capitals since 1960 (eight of these to smaller cities) (Potter, 2017, p. 3). Different reasons played a role in such decisions. While in the case of Canberra, Australia, the reason was to preserve a political symbol for the nation, in other cases governments tried to create a balance of power at the light of a divided population, like when the United States established Washington city; in the case of Naypydaw in Myanmar, instead, the decision was forced by the threat of civil unrest (Campante et al., 2013). But all these projects produced mixed results.

It is worth devoting a few lines here to the Malaysian case due to its proximity and cultural affinity with Indonesia. In mid 1980s, the Malaysian Government, under Prime Minister Mahathir bin Mohammad, planned to move the capital to a new city, called Putrajaya. The master plan divided the city into two main areas, the core and the periphery. The core was intended as, and today is, the administrative and symbolic centre for the city and for the country and is meant to showcase Putrajaya's identity through grand civic buildings. The core also contains hotels, shopping malls, commercial offices, exhibition and convention centres, private colleges, a private hospital, and various touristic facilities. The periphery is designed to hold fourteen residential neighbourhoods with 67,000 units of housing; within each neighbourhood, there is a variety of housing for a range of incomes, including detached homes, row houses, shop-houses, and high-rise apartments. There are numerous commercial clusters in neighbourhoods throughout the city where residents can walk to buy groceries in a wet market, supermarket or corner shops and a mosque.

The new city was proposed to be located between Kuala Lumpur and the new Kuala Lumpur International Airport (KLIA). Two areas were proposed: Prang Besar of Selangor and Janda Baik of Pahang. The Federal government negotiated with the state of Selangor on the prospect of another Federal Territory. In the mid-1990s the Federal government paid a substantial amount of money to Selangor for approximately 11,320 acres (45.8 km²) of land in Prang Besar, Selangor. The government envisioned the city to become a garden city and intelligent city, with 38% of the area reserved for green spaces in which the natural landscape is enhanced. The plan incorporated a network of open spaces and wide boulevards.

Constructions began in August 1995, and it was Malaysia's biggest project and one of Southeast Asia's largest, with an estimated final cost of USD 8.1 billion. The Asian financial crisis of 1997/1998 somehow slowed down the development of Putrajaya. 300 members of the Prime Minister's office staff moved there in 1999, and the remaining government servants moved in 2005. With great design freedom, an expansive budget and an explicit goal of creating a 'garden city', Putrajaya was unable to attract people other than civil servants or tourists that come and visit it, because the city does not

provide an accessibility for people to commute around it (Moser, 2010). But the issue is deeper than connectivity: the development of Putrajaya is a clear example of central planning as described in the paragraphs above and we have learned that a city is rather a spontaneous order arising from human interaction; it is not a surprise that it was unable to become a vibrant urban context; even international diplomacy refused to move there. Indeed, a city is made up of cultural, political and economic aspects and these three elements cannot be separated. To encourage people to move to Putrajaya, the Malaysian government enacted various incentives and subsidies on housing, notably by building thousands of affordable homes and supporting the city with mass transportation projects to attract workers from Kuala Lumpur to live in Putrajaya and to commute to work from there to Kuala Lumpur. So far, however, the expected results



are yet to be shown.

The Myanmar government, instead, established Naypyidaw as their new political centre in 2005. Built from scratch in the middle of rice paddies and sugar-cane fields, the city is rumoured to have costed up to USD 4 billion to construct. The Myanmar government pitched the move to Naypyidaw as akin to building a Canberra or Brasilia, an administrative capital away from the traffic jam and the overpopulation of Yangon, their old capital. The city itself was divided into several zones specifically designed according to their use. Carefully organized residential areas and apartments are allotted according to rank and marital status, and the city currently has 1,200 four-story apartment blocks. The roofs of apartment buildings are color-coded by the jobs of their residents; for example, Ministry of Health employees live in buildings with blue roofs, and Ministry of Agriculture employees live in those with green roofs. High-ranking government officials live in mansions, and there are 50 of them. The city's Ministry zone contains the headquarters of Myanmar's government ministries. All the ministry buildings are identical in appearance, and a parliamentary complex consisting of 31 buildings and a 100-room presidential palace are also located there. The zone also contains the city hall building, which has many characteristics of Stalinist architecture but with a Burmese-style roof. High-ranking military officers and other key officials live 11 km (6.8 mi) away from regular government employees in a complex said to consist of tunnels and bunkers; this area is restricted to the public.

The city also hosts a military base, which is inaccessible to citizens or other personnel without written permission. The government has set aside 2 hectares (4.9 acres) of land each for foreign embassies and headquarters of United Nations missions. The Chinese embassy has formally opened its interim liaison office in 2017, which is the first foreign office to be permitted to open in Naypyidaw. But still many of the foreign embassies are not eager to move to this new city, like in the case of Putrajaya in Malaysia. In February 2018, State Counsellor Daw Aung San Suu Kyi chaired a meeting at the Ministry of Foreign Affairs in Naypyidaw where she urged foreign governments to move their embassies to the capital. For the Commercial area, the city was divided into three zones, Hotel Zone, Shopping Zone, Recreation Zone.

As one could easily expect, these cities are notoriously empty, with no organic real estate development – only government sanctioned projects (South China Morning Post, 2015). In fact, in 2019 several reports on Myanmar pointed out that many government-owned buildings and houses are facing a state of decay because of neglect and no officials are living and working in those buildings (Nanda and Mo, 2019). Private enterprises are reluctant to move to the new capital due to various factors. First of all, the remoteness of the location is a disincentive for people to conduct a business there: the 320 km distance from the previous capital (Yangon) makes it costly to conduct any endeavour - business or otherwise. As we mentioned above, the project of a new capital city increased transaction costs, while efficient cities should reduce them – a lesson Indonesia should learn well. With all these historical cases, the Indonesian government should consider that its project may very well become just another “Babylon tower”, a ghost city and a source of inefficiencies.

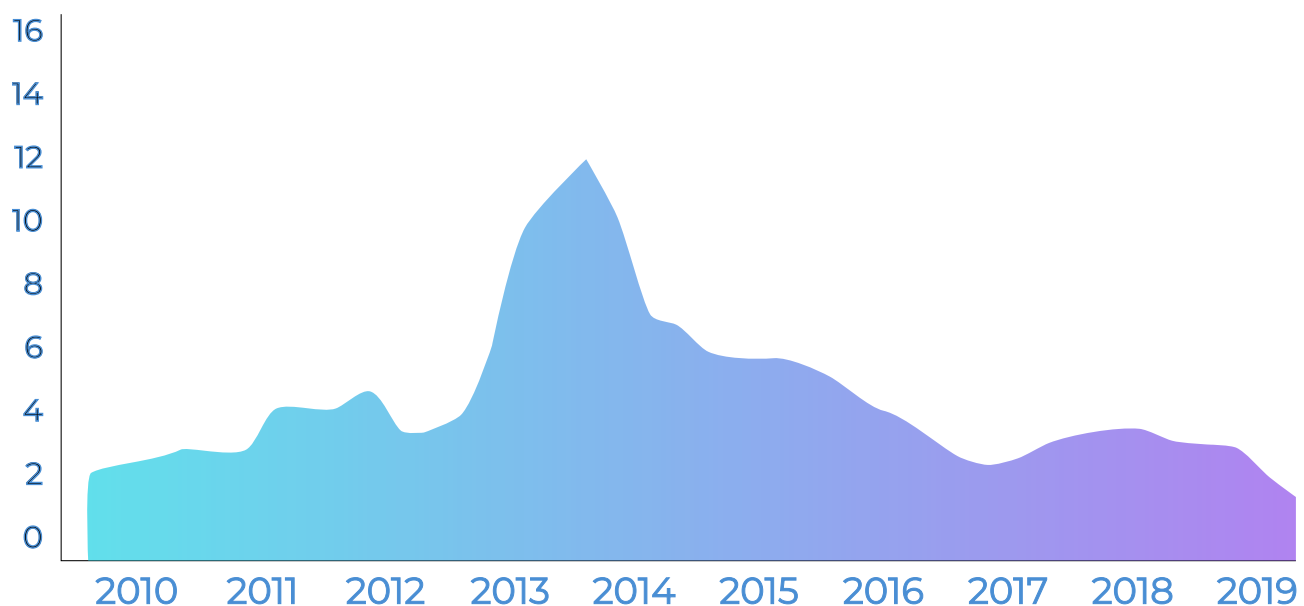
6. REPERCUSSIONS ON THE PROPERTY MARKET

6.1 GENERAL OVERVIEW

It is now time to turn our attention to what we expect to be the potential effects of the new capital project on the property market in Jakarta and in the Samarinda/Balikpapan area. In fact, the project is taking place in a moment in which the Indonesian property market is remaining sluggish despite government and central bank incentives were implemented (Asia News Report, 2020). The new tax relaxation has yet to stimulate sales, while the new policies need time to prove their effectiveness (Gobi, 2019, pp. 2-3).

As demonstrated by the price dynamics, the Indonesian property market has now reached a certain maturity. The average price increase has decreased from 14% in 2013 to around 3% in 2017 and 2018; in the second quarter of 2019 the average price increase was even lower, around 2.5% (Sohlberg, 2019). The Indonesian housing market has slowed down since 2014 and will continue to be in a recovery mode in 2020 (Sohlberg, 2019).

FIGURE 4: INDONESIA'S HOUSE PRICES GROWTH FROM MAR 2003 TO DEC 2019 – QUARTERLY VARIATION, 2009-2019

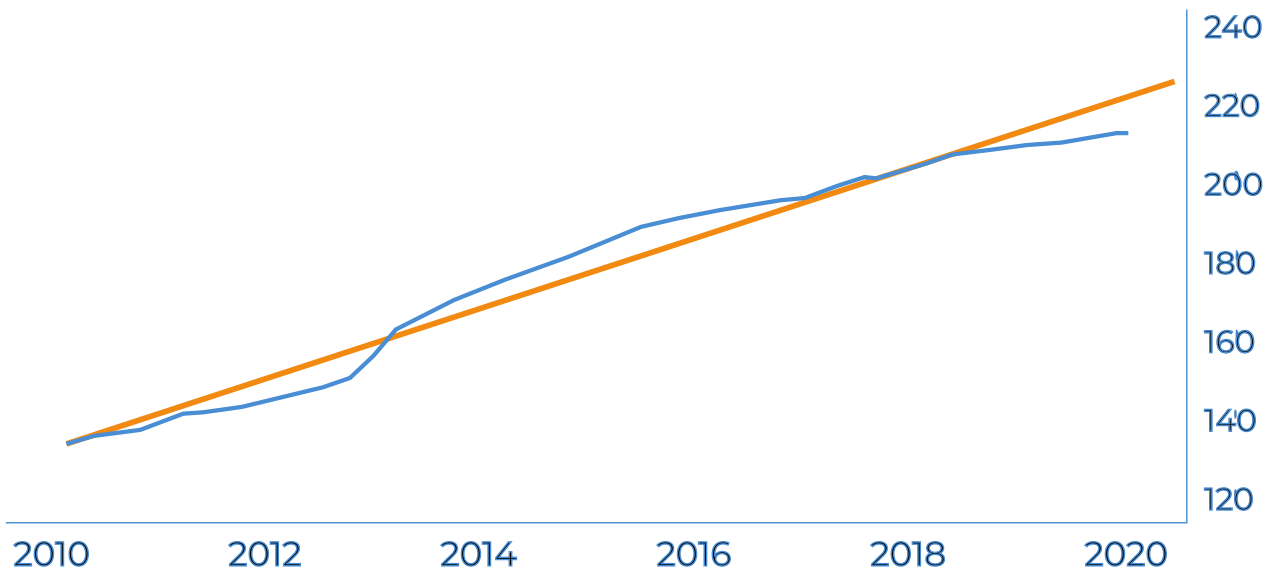


House Prices : YoY Quarterly Indonesia

Source: <https://www.ceicdata.com/en/indicator/indonesia/house-prices-growth>.

While the graph above shows how the quarterly increase of the property prices is experiencing a downward trend, the one here below demonstrates how since 2018 the residential housing prices are indeed below the 10-year trend line..

FIGURE 5: INDONESIA RESIDENTIAL PROPERTY PRICE INDEX, 2009-2019

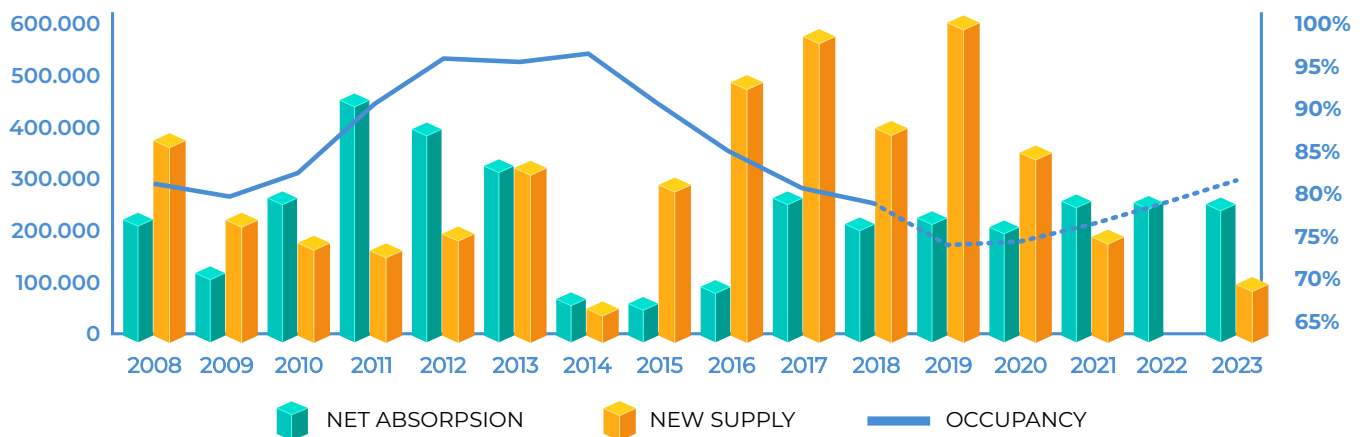


Source: <https://tradingeconomics.com/indonesia/housing-index>

In this scenario, the property market in Jakarta is also suffering, despite an increased interest for developments located nearby the new mass rapid transit (MRT) stations and the planned light rapid transit (LRT) ones. Difficulties involve both offices and residential units.

For offices located in the central business district (CBD), the vacancy rate was just 5.2% at the end of 2014, while it was 34% at the end of Q3-2019 (Taylor, 2019, p. 8 and Cooper and McMillan, 2019, p. 44).

FIGURE 6: SUPPLY, DEMAND AND OCCUPANCY, CBD OFFICES, JAKARTA



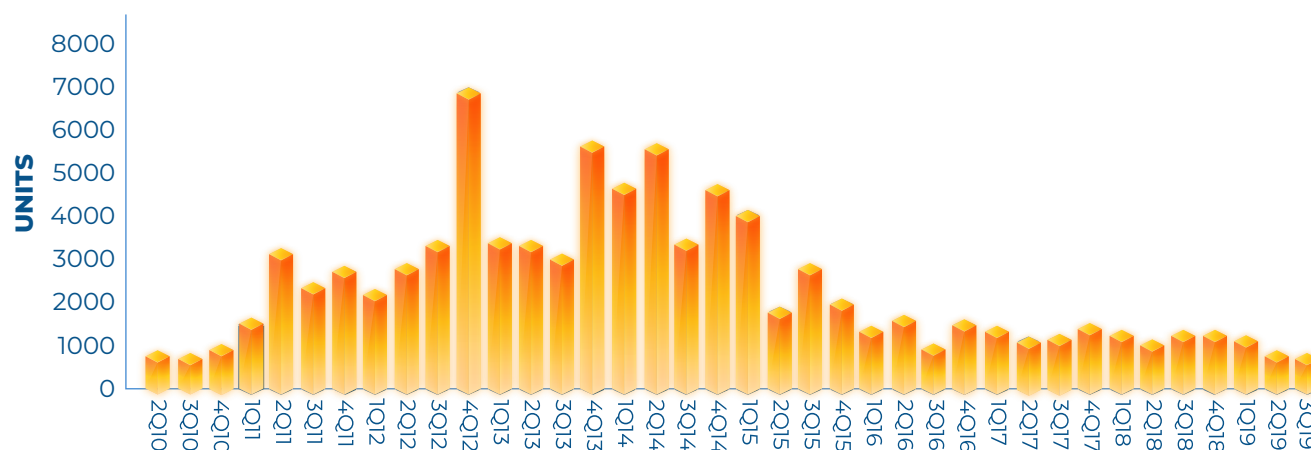
Source: Taylor (2019, p. 5)

Things are going better for offices located outside the CBD, where the occupancy rate is close to 80% (Taylor, 2019, p. 8).

The residential market is suffering too and developers are trying to attract buyers by reducing the size of units rather than by decreasing the price per SQM (Taylor, 2019, p. 11). After the peak of 2013-2014, sales of condominium units remain sluggish: during

Q3-2019 it recorded only an increase of 1.6% y-o-y and 0.3% q-o-q (Gobi, 2019, p. 2). Similarly, the take-up rate during the same period has recorded -14.9% y-o-y in the CBD, +1.4% in South Jakarta and -2.8% in non-prime areas (Gobi, 2019, p. 2). In general, the residential market is experiencing an over-supply, affecting mostly high-end units (Cooper and McMillan, 2019, p. 44)..

FIGURE 7: CONDOMINIUM SALES, JAKARTA – 2010-2019



Source: Taylor (2019, p. 11)

Despite the current scenario being clouded by challenges, Indonesia will play a major role in the construction sector in the next years, as the economic activity is gradually shifting in the emerging world. By 2025, over 60% of all construction activity is forecast to take place in emerging markets, up from just 35% in 2005. Looked at another way, the following nations will account for 72% of expected construction activity: China, the US, India, Indonesia, Russia, Canada and Mexico. Emerging Asia is expected to be the fastest growing region for construction between now and 2025 (PwC, 2014, p. 14). For the period 2012-2025, PwC (2014, p. 15) estimated that the annual average house completions in Indonesia will be above 1.5 million units, preceded only by India (11.5 million) and China (9.3 million).

In general, for 2020 PwC and the Urban Land Institute recommend 23-57-20 proportions for buy-hold-sell with regard to office assets and 25-58-17 for residential assets (Cooper and McMillan, 2019, pp. 47 and 49).

6.2 REPERCUSSIONS IN JAKARTA

We expect the repercussions of moving the capital city to be more disruptive in the designated area in Kalimantan, rather than in Jakarta. In fact, Jakarta is likely to retain its status as Indonesia's primary economic hub (Taylor, 2019, p. 3), while, as we will see below, the fundamentals of the new city are going to change drastically.

The effects of the project on the Jakarta property market can be of different nature and direction. From the demand side, with 180,000 civil servants (and families) expected to be moved, the vacancy rates may grow (Cooper and McMillan, 2019, p. 44). If this is true for the residential market, the relocation of the capital is not going to help the demand for office spaces either. Current office demands for commercial space from

government-related tenants (such as Pertamina, OJK, Tax office, etc.) will drop further (Arfianto, 2019, p. 3).

However, such challenges may help the current situation of the market, which is indeed affected by over-supply. The run toward Kalimantan may ease this situation, slowing down the emerging of new projects, both commercial and residential ones, in the current capital city. This could help a re-balancing between supply and demand.

At the same time, the slowing down of the market in Jakarta may create some opportunities. What will happen to the vacated government buildings? Their conversion could be an opportunity and a problem at the same time; in fact, while they may be reconverted into green areas for a higher quality of living (Cooper and McMillan, 2019, p. 44), such reversion would require resources that may not be available because of the huge amount of money absorbed by the project of the new capital city.



However, such challenges may help the current situation of the market, which is indeed affected by over-supply

From the residential side, instead, we should observe a further consolidation of new projects around MRT and LRT stations (Cooper and McMillan, 2019, p. 44): connectivity will remain a key issue for future urban developments in the region, not only in Jakarta. The development of good infrastructure, in fact, could be a better and cheaper solution to the congestion and pollution problem. At the moment, the government is planning to spend IDR 571 trillion for the requalification of Jakarta, 315 of which to be destined to mobility infrastructure (Ganie, 2020, p. 21).

The effect of the recently launched stimuli remains a question mark. In fact, while a slowdown from the supply side could be beneficial for the market, if the stimulus package will reach its targets it is expected to incentivize both demand and investments, keeping the prices on the high side and not helping the absorption of the current stock.

In conclusion, with the project of the new capital city, the property market in Jakarta will face a mix of different situations:

- Resources will be dragged out of Jakarta, helping to slow down the supply side and therefore to absorb the current stock.
- Such a beneficial effect from the slowdown may be, at least partially, off-set by the recently implemented stimuli, which may support investment and demand, impeding prices to correct downwardly.
- Vacant government buildings and abandoned areas may be converted into “quality areas”; however, the government may lack the resources for such conversion.
- New projects will be most probably located nearby MRT and LRT stations, stressing the emerging and rising importance of connectivity for future urban developments in Asia.

At the light of these mix signals, the aggregate measurement of the property market performances would most likely remain unchanged, with supply slowing down and prices continuing to rise at a moderate pace. Such a trend may be distorted by government stimuli.

6.3 REPERCUSSIONS IN THE NEW CAPITAL CITY

We expect much more radical consequences in East Kalimantan. In the current scenario, where profit opportunities in Jakarta are slowing down, it is understandable that the project of a new capital city is already generating a developers' run to secure land in East Kalimantan (Bloomberg, 2019).

PT Agung Podomoro Land is already advertising residential and commercial projects in Balikpapan, PT PP Properti said it was looking to develop about 500 hectares in East Kalimantan, while PT Wijaya Karya Persero, a state-owned builder, said it was ready to take the lead in constructing everything from roads to power, gas and water networks (Bloomberg, 2019).

While the government expects the new capital to be built through a private-public partnership, the legal framework is yet to be defined. However, the simple signal launched with the announcement of the project has ignited profit expectations among developers and speculators. This is understandable since the area currently counts only 160,000 residents, fewer than the number of civil servants that the government plans to move (around 180,000 plus families; Cooper and McMillan, 2019, p. 44). At the same time, the project is envisioning a development able to accommodate 1.5 million residents, according to Planning Ministry estimates (Bloomberg, 2019). The number makes sense. Considering that, on average, each Indonesian household has four members (United Nations, 2017, p. 18). The total number of people that the Indonesian government plans to move from Jakarta is 720,000 (which includes both civil servants and their families). If we add on the 160,000 current citizens, we get close to 900,000 residents. In time, it is not unlikely to reach 1.5 million inhabitants, considering all the new products and services that the new population (moving gradually from 160,000 to 900,000) will need. On paper, the project is very attractive, but the potentially disruptive effect can be understood if we consider that at present Kalimantan's entire population sums up to 3.5 million people (Siregar, 2019). With the new project, thus, it is expected that the regional population will surge by almost 43%.

The profit expectations which are currently awakened by the project are driven by a government plan rather than by the actual situation of the market; the interaction between supply and demand is not taken into account. Given expectations driven by artificially-induced external factors, we may expect the emergence of a severe boom and bust cycle, which will leave Kalimantan heavily affected. It is worth explaining how a boom and bust cycle is generated and evolves.

A boom is generally initiated when entrepreneurs see unexploited profit opportunities; this, no doubt, will happen with the new capital city project: investors will be, and already are, attracted by the opportunities created by the building up of a completely new city. When experiencing positive profit expectations, investors become future-oriented and ready to invest in long-term investment projects. Such a situation encourages the onset of major investments in production assets, or capital goods,

whereby the economy becomes, in general, more capital-intensive and the production period is extended (Hayek, 1931, pp. 35- 36). However, even if entrepreneurs become more future-oriented, such a change does not necessarily bring along a modification of the preferences on the consumer side, and we encounter a difference between entrepreneurial decisions and consumer choices (Hayek, 1933, pp. 143-148), which lies at the very root of business cycles. In our specific case, this means that the new construction on the supply side may drag resources to produce something which is not necessarily in line with the demand side.

In this situation, as consumers are not necessarily saving more to finance the new investment decisions, entrepreneurs need to refer to their own financial resources or, as it is mostly the case, to a general expansion of the capital supply from the credit system, which thus becomes crucial in supporting an emerging boom. Most investments are made in the expectation that the supply of capital will for some time continue at a level consistent with the new demand for loanable funds. Or, in other words, entrepreneurs regard the present supply of capital and the present rate of interest as an indication that approximately the same situation will continue to exist for some time (Hayek, 1933, p. 142).

While entrepreneurs invest in new processes for the production of capital goods, savers are frustrated in their desire to consume, because what they want is not being produced. The forced saving phenomenon (Hayek, 1932) thereby comes about: we observe a gradual reduction in the production of consumer goods and therefore an involuntary limitation of consumption (Hayek, 1933, pp. 145-146).

The entrepreneurial impetus towards new investments, on the other hand, initially involves an increase in raw material prices and consequently of the capital goods produced with them. And the impetus becomes particularly violent when the wave of the first innovative entrepreneurs is joined by the pressure of imitators, who grasp profit opportunities only in a second stage and attempt to benefit by following the 'fashion'. Even with the project yet to begin, in fact, land prices have already started to surge: while a hectare of land was used to be sold at around rupiah 125 million, certain plots near Balikpapan and Samboja have been offered for 1.2 billion (more than USD 85,000; Siregar, 2019). Other witnesses have reported a 4ha piece of land to be evaluated IDR 4 billion versus an older evaluation of 350 million (Siregar, 2019); in the present scenario, thus, land prices have already grown by almost 1000 per cent. This is not surprising – the speculative fever is already on – but these investments will prove to be unsustainable, as not driven by market conditions, but by a government project which does not reflect the actual economic condition of the territory.

At the same time, demand for labour increases, to attract workers towards the new investments, making relative wages increase. This in turn encourages demand for consumer goods, and prices in this sector also increase.

In order to be sustained, this process requires further credit expansion which would bring about a cumulative increase in prices that sooner or later would exceed every limit. The conflict seems to be evident when demand for consumer goods exceeds the funds available for investment in terms of absolute value. At this point, the interest rate cannot but rise, frustrating demand for capital goods precisely when their price has also risen. A considerable part of the new plant installed, designed to produce

other capital goods (new properties), remains unused since the further investments required to complete production processes cannot be made (Hayek, 1933, p. 148). As a result, in an advanced stage of the boom, growth in demand for consumer goods brings down demand for capital goods (Hayek, 1939, p. 31).

At the peak of the boom, the economy discovers that it is unable to sustain production oriented beyond its possibilities. Demand for capital goods runs out, taking with it the over-production in the particular sector where the boom started, and it is here where problems arise. Many economic initiatives set up through excessive reliance on profit expectations, on speculation fever, or on credit that cannot be completed, although the debts still have to be paid. Many companies have to be expelled from the system. Capital is scarce and banks raise interest rates. A period of adjustment and return to equilibrium begins, although this process has characteristics of a depression.

To summarize, this is how we identify the first two stages in our model (called natural-cycle): primary expansion, generated by a change in the structure of time preferences and expectations (the system becomes more future-oriented), and secondary expansion characterized by imitative investments (speculation fever). Like the primary wave of investments, the second wave is generated by profit expectations, particularly the expectation that the current situation will not change (Schumpeter, 1939, p. 145).

The secondary wave of investments generates new demand for loanable funds. This means an attempt to extend the expansion process, thereby also increasing the degree of uncertainty. More time taken implies more things can happen – providing the possibility of greater productivity but also greater uncertainty.



First wave of investments can in most cases deliver successful initiatives, the second wave will be frustrated by a change in consumer preferences and a banking policy

Moreover, during the secondary wave, the positive sentiment, the positive profit expectations that becomes 'incandescent' at the end of the primary expansion stage, also plays a role in regards to the action of banks. In fact, precisely because of what happens during expansion, it is highly likely that banks make available 'virtual funds' that are not backed up by real savings, driven by expectations that the adaptation of consumer preferences (further savings) cannot but occur, precisely because of the enthusiasm generated by the boom. As explained by the Minsky's financial instability hypothesis (Minsky 1982, 2008), during the boom following a tranquillity period innovative debt practices and speculative excesses are encouraged, and an unrecognized system fragility evolved (Prychitko 2010, p. 206).

While the first wave of investments can, in most cases, deliver successful initiatives due to its limited quantitative intensity and time frame, the second wave will be frustrated by a change in consumer preferences and a banking policy influenced by profit expectations. What will follow is a crisis (third stage of the natural cycle). The deepening of the crisis and the

emerging of an eventual depression (fourth stage) will depend on the general reaction to the crisis from the public and the policymakers.

Therefore, if the project, as it is expected, will go on, then we will observe a dramatic surge in land prices in Kalimantan, an increase which has already touched peaks of 1000 per cent. Many projects will be embarked upon to build a city that is expected to have ten times the current population; such evolution will bring in new activities both in manufacturing and services.

Because of the speculative dynamic nature typical of every bubble, it is likely that investments will extend beyond the structural point of absorption, putting prices underpressure both at consumer and production level. When such price pressure will force the credit system to halt the support to the bubble, a readjustment process, called crisis, will begin. This process will leave construction skeletons on the ground, forcing everybody to reconsider the expectations placed in this project.

What will remain would be, in the best scenario, a “political city”, living out of civil servants and without a real economic life; the Institute for Development of Economics and Finance (Indef) estimated, in fact, that Indonesia’s new capital city will only contribute an additional 0.02 of a percentage point to the country’s economic growth, and the impact will also be short lived (The Jakarta Post, 2020). Indef economist Rizal Taufikurahman, in line with what we think, added that this is because the new capital city will move only the government (The Jakarta Post, 2020); by force, we add. The economic heartbeat of the country, instead, cannot be moved by force.

6.4 CONCLUDING THOUGHTS

In a nutshell, while we expect a relatively stable situation in the property market in Jakarta, East Kalimantan is going to experience the emergence of a big bubble. The opportunities presented by the development of a new capital city, associated with the challenges experienced by the Jakarta property market, will lead developers to heavily invest in the new city. Resources will be moved out of the current capital to be placed into the new one. However, for the reasons we explained in the previous paragraphs, the artificial placement of people in a new territory is unlikely to develop an organic city, which is, instead, the spontaneous result of human interaction.

The realization that the new capital will not be an organic city, but just a regrouping of people, will happen at the same moment when the contradictions of the artificially created boom will become evident. The result will be a multiple crisis:

- The new capital city as a ghost city.
- Jakarta as an amputee city, forced to rethink the destination of abandoned political buildings.
- Increased transaction costs for businesses, due to the distance between economic and political centres of the country.
- A huge amount money spent – ineffectively – to solve – without success – the sinking problem, the pollution problem and to try to artificially create a more balanced development from an interspatial perspective. Those money will become a burden on current and future taxpayers.

The final result will be worse than the initial scenario: a failed experiment in central planning, like all the experiments of the kind are.

7. POLICY SUGGESTIONS (HINTS)

This is probably not the place to discuss detailed alternative policy suggestions to ease Jakarta's problems or to create development in Kalimantan, but a few hints will be useful to stimulate the debate and to demonstrate that more practical and cheap solutions are available, both from a free market and an interventionist perspective.

7.1 TRAFFIC CONGESTION

In the case of traffic and land consumption by the people, it first has to be noted that the claim that population growth is running faster than land increase is not supported by empirical evidence. The Atlas of Urban Expansion 2016 demonstrated, for example, that in



«the cities of every region, on average the urban built-up area has grown faster than the population, resulting in an increase in the consumption of land per person [...] In the East Asia region, where cities and income developed the fastest, the average increase in urban land has been twice as large as the increase in population, resulting in an average increase in land consumption per person of about 30 percent (Bertaud, 2018, p. 340).

Without alarmism, then, it has to be stressed how mobility remains a key issue for a big city like Jakarta. Competitive advantages in a megacity can be maintained only if mobility of people and goods are preserved at a good speed (Bertaud, 2018, p. 28). It is important that commuting costs and time are contained in order for the advantages of large cities to be exploited (Bertaud, 2018, p. 28). This is the reason why a better strategy for keeping Jakarta as a vibrant capital city would be to invest in infrastructure rather than building a new city in a different area. Productivity can keep on increasing only if «the transportation network is able to connect workers with firms and providers of goods and services with consumers (Bertaud, 2018, p. 29). As explained by Bertaud (2018, p. 29), for cities like Bangkok and Jakarta, it is clear that so far the productivity advantage of a large population offset their chronic congestion.

In this sense, the IDR 571 trillion plan for the requalification of Jakarta is aiming in the right direction; more than half of the budget is going to be spent for new public transportation: MRT route expansion (IDR 214 trillion), 16 km LRT (IDR 60 trillion), bus

route expansion (IDR 10 trillion), commuter rail route expansion (IDR 27 trillion) (Ganie, 2020, p. 21). This is a considerable effort which adds on to the IDR 55 trillion spent for the recently launched MRT project (Simorangkir, 2018 and The Jakarta Post, 2018).

On a different direction, Brueckner (2011, chapter 5) argues that the best-known ways to relieve freeway congestions are tolls and an increased freeway capacity. Those who are used to visiting Jakarta know how much relief the Airport-Tangerang toll way has brought to the north-south direction.

Focusing on these policies would be more effective and directed to the target, saving the government the IDR 466 trillion investment for the new capital city. Improving mobility infrastructure is the necessary step in order to move in the direction of the extension of Jakarta as capital city, rather than her amputation. This will be an extension from within, which would improve commuting time and transaction costs, vital elements for the competitiveness of a city.

7.2 POLLUTION

The traditional way to address pollution is taxation. In particular, building on the legacy of Arthur Cecil Pigou and his welfare economics (in particular, Pigou 1920), contemporary economists have developed sophisticated techniques to calculate what they believe to be the social optimal quantity of any negative externality like pollution; a Pigouvian tax is therefore a tax imposed on any market activity that generates what it is believed to be a negative externality.

In the case of pollution, a Pigouvian tax (Brueckner, 2011, chapter 9) aims to create a negative incentive on polluting activities, reducing the quantity of pollution down to the “socially” optimal level. However, such a solution is based on three main assumptions:

- The rights of pollution “victims” are more important than the rights of polluting firms;
- A socially-optimal level of pollution can be calculated;
- The effect of a tax on pollution production can be reasonably estimated.

The first two points are particularly problematic as they imply value judgements: how to decide which category of rights is more important? Who is going to make the decision? What is “socially” optimal?

In order to overcome this issue, Coase (1960) proposed to treat the different rights (including the right to pollute) as factors of production; as such, they are characterized by clear property rights and as such they are tradable. As explained by (Brueckner, 2011, chapter 9), with this approach government intervention may not be required; in fact when «the costs of bargaining are low and the property rights over the pollution externality have been assigned, excess pollution can be eliminated through bargaining between the parties involved» (Brueckner, 2011, p. 205), as explained by the Coase Theorem (Coase, 1960).

The Coase system has been used with success in the United State via the 1990 Clean Air Act, Thanks to a cap-and-trade system, SO₂ emissions were cut by 50 percent between 1980 and 2007.

7.3 SPATIAL DEVELOPMENT

The most important point of moving the Indonesian capital city is the attempt to re- balance the national development share and GDP contribution, rather than solving pollution and congestion issues.

From this perspective, however, the argument we have developed and the evidence from other countries should point to a clear conclusion: a political city is not a key driver for development. We have already mentioned how the new city is expected to contribute to the country's GDP by 0.02%. And we also know how many "political" cities are no more than bureaucratic centres, without an organic inner life. Bringing civil servants to Kalimantan is not going to create economic development. Rather, it is going to incentivize a land and property speculation which will leave ghosts and skeletons behind.

The key question here is: what does create economic development? A whole economics treatise would be necessary to discuss the matter. Here it has to be clear that surely it will not come by the implant of ministries and government offices. In this case, government will have to look at the best way to generate the necessary incentives to free those entrepreneurial resources which are the vital steam for economic growth.



The key question here is: what does create economic development? A whole economics treatise would be necessary to discuss the matter

8. CONCLUSIONS

Indonesia's president, Joko Widodo (Jokowi) announced the plan to move the national capital from Jakarta, on the island of Java, to the province of East Kalimantan, on Borneo. In this paper we have argued that the difficulties implied in moving the Indonesian capital city from Jakarta to a city that needs to be built from scratch are not simply of a technical nature; they are ontological. While many urban planners would like to design cities as if they could be works of art, with a top-down process, without the guidance provided by market prices and the recognition of the complex network of evolutionary human relationships constituting a city, costly utopias rather than beautiful dreams would emerge.

A city cannot be approached just like a big architectural problem; cities and territories are complex networks of relationships, in which the human factor plays the decisive role. We have argued that a city is not only a spontaneous order, as described above; it is also an emerging adaptive system, in which the decisive role is played by a network of human interactions.

The nature of information necessary for a successful plan makes it impossible for the government to design with positive results. «Science can explain what exists in the world, how things work, and what might be in the future. By definition, it has no pretensions to knowing what should be in the future. Only religions and ideologies seek to answer such questions» (Yuval Harari quoted in Bertaud, 2018, p. 347).

If the problems to be solved with the relocation are traffic and pollution, we have demonstrated that cheaper and more effective solutions are available; in particular, public transport infrastructure for the former and tradable property rights for the latter. Improving infrastructure for Jakarta will help her expand organically and efficiently, rather than suffering the amputation of her political core, which is an essential part to her life. The amputation of the political activity, instead, will increase transaction costs and make economic life more inefficient. As argued by Jacobs (1969, pp. 250-251), for the future, it is more likely to observe the growth of bigger cities rather than smaller; the issue is to keep their mobility efficient.

If, instead, the real problem to be addressed is the “unbalanced” interregional development, then the relocation of civil servants is going to miss the target; political offices are not going to create economic development, which instead can be stimulated only with incentives aiming to free entrepreneurial resources.

With regard to the property market, we expect that the building of the new capital city will not impact the Jakarta market much, which will remain stable for a few years, but in the present capital city problems of restructuring the current government areas will emerge. Kalimantan, instead, is expected to suffer of a dangerous property bubble: prices will grow up to the point to make land and houses unaffordable for local citizens; at the same time, the construction rate, driven by artificially induced profit expectations, will grow faster than the market absorption capacity, leaving behind unfinished and empty buildings in a city which will have a very limited capacity to attract new inhabitants..

REFERENCES

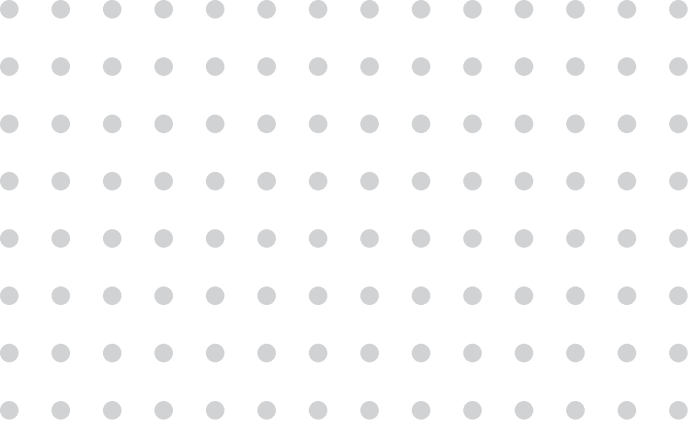
- D.E. Andersson (2014), *Cities and planning: the role of system constraints*, in S. Moroni and D.E. Andersson (eds.), *Cities and Private Planning. Property Rights, Entrepreneurship and Transaction Costs*, Cheltenham (GB) and Northampton (MA), Edward Elgar, pp. 19-37.
- E. Arfianto (2019), *Colliers Quarterly – Office – Jakarta – Q3 2019*, Jakarta (ID), Colliers International.
- Asia News Network (2020), *Property market in Indonesia sluggish despite incentives*, «The Phnom Penh Post»,
- 15 January, <https://www.phnompenhpost.com/post-property/property-market-indonesia-sluggish-despite-incentives>.
- A. Bertaud (2018), *Order without Design. How Markets Shape Cities*, Cambridge (MA) and London (GB), The MIT Press.
- Bloomberg (2019), *Property speculators already rushing in to buy land around Indonesia's new capital*, «South China Morning Post», 30 August, <https://www.scmp.com/news/asia/southeast-asia/article/3025003/property-speculators-already-rushing-buy-land-around>.
- J.K. Brueckner (2011), *Lectures on Urban Economics*, Cambridge (MA) and London (GB), The MIT Press.
- F.R. Campante, Q.-A. Do and B. Guimaraes (2013), *Isolated Capital Cities and Misgovernance: Theory and Evidence*, LIEPP Working Paper Nr 10, Paris (FR), Sciences Po-LIEPP.
- R. Coase (1960), *The Problem of Social Cost*, «Journal of Law and Economics», 3, 1, pp. 1-44, DOI:10.1086/466560.
- M. Cooper and A.F. McMillan (2019), *Emerging Trends in Real Estate. Asia Pacific 2020*, Luxemburg (LU) and Hong Kong (HK), PwC and Urban Land Institute.
- W. Cox and P. Gordon (2017), *Modern Cities as Spontaneous Orders*, «Cosmos+Taxis. Studies in Emergent Order and Organization», 4, 2-3, pp. 60-69.
- S. Cozzolino (2018), *Reconsidering Urban Spontaneity and Flexibility after Jane Jacobs: How do they work under different kinds of planning conditions?*, «Cosmos+Taxis. Studies in Emergent Order and Organization», 5, 3-4, pp. 14-24.
- S. Cozzolino, J. Polívka, R. Fox-Kämper, M. Reimer and O. Kummel (2020), *What is urban design? A proposal for a common understanding*, «Journal of Urban Design», DOI: 10.1080/13574809.2019.1705776.
- C. Ferlito (2019), *Malaysian Property Market: Affordability and the National Housing Policy*, «Policy IDEAS», 61, Kuala Lumpur (MY), Institute for Democracy and Economic Affairs (IDEAS).

- C. Ferlito (2020), *A fresher approach to housing policy*, «The Malaysian Reserve», 3 February, p. 15.
- H. Ganie (2020), *Masa depan property di Jakarta. Pasca pemindahan ibukota negara*, Jakarta (ID), FIABCI Indonesia (REI).
- H.R. Gobi (2019), *Colliers Quarterly – Apartment – Jakarta – Q3 2019*, Jakarta (ID), Colliers International.
- P. Gordon and W. Cox (2014), *Modern cities: their role and their private planning roots*, in S. Moroni and D.E. Andersson (eds.), *Cities and Private Planning. Property Rights, Entrepreneurship and Transaction Costs*, Cheltenham (GB) and Northampton (MA), Edward Elgar, pp. 155-173.
- F.A. von Hayek (1931), *Prices and Production*, New York (NY), Kelley, 1967.
- F.A. von Hayek (1932), *A Note on the Development of the Doctrine of 'Forced Saving'*, «Quarterly Journal of Economics», XLVII, pp. 123-133.
- F.A. von Hayek (1933), *Price Expectations, Monetary Disturbances and Malinvestments*, in F.A. von Hayek, *Profits, Interest and Investment and Other Essays on the Theory of Industrial Fluctuations*, Clifton (NJ), Augustus M. Kelley, 1975, pp. 135-156.
- F.A. von Hayek (1937), *Economics and Knowledge*, «Economica», 4, 13, pp. 33-54.
- F.A. von Hayek (1945), *The Use of Knowledge in Society*, «American Economic Review», 35, 4, pp. 519-530.
- F.A. von Hayek (1967), *Studies in Philosophy, Politics and Economics*, Chicago (IL), University of Chicago Press.
- S. Ikeda (2004), *Urban Interventionism and Local Knowledge*, «The Review of Austrian Economics», 17, 2-3, pp. 247-264.
- S. Ikeda (2017), *A City Cannot be a Work of Art*, «Cosmos+Taxis. Studies in Emergent Order and Organization», 4, 2-3, pp. 79-86.
- S. Ikeda (2018a), Ch. 1 What is a City?: Up close and personal, «MarketUrbanism.com», 19 April, <https://marketurbanism.com/2018/04/19/up-close-and-personal/>.
- S. Ikeda (2018b), Ch. 1 What is a City?: What a city is not (and is), «MarketUrbanism.com», 27 April, <https://marketurbanism.com/2018/04/27/what-a-city-is-not-and-is/>.
- S. Ikeda (2018c), Ch. 1 What is a City?: Complexity and radical ignorance, «MarketUrbanism.com», 7 May, <https://marketurbanism.com/2018/05/07/ch-1-city-complexity-radical-ignorance/>.
- S. Ikeda (2018d), Ch. 1 What is a City?: What the trade-offs might look like, «MarketUrbanism.com», 17 May, <https://marketurbanism.com/2018/05/17/ch-1-what-is-a-city-what-the-tradeoffs-might-look-like/>.
- S. Ikeda (2018e), Ch. 1 What is a City?: Cities cannot be efficient, «MarketUrbanism.com», 29 May, <https://marketurbanism.com/2018/05/29/ch-1-what-is-a-city-cities-cannot-be-efficient/>.

- S. Ikeda (2018f), *Cities, Agriculture, and Economic Development: The Debate over Jane Jacobs's 'Cities-First Thesis'*, «Cosmos+Taxis. Studies in Emergent Order and Organization», 5, 3-4, pp. 25-31.
- J. Jacobs (1961), *The Death and Life of Great American Cities*, New York (NY), Vintage.
- J. Jacobs (1969), *The Economy of Cities*, New York (NY), Vintage.
- J. Jacobs (1984), *Cities and the Wealth of Nations. Principles of Economic Life*, New York (NY), Vintage.
- B. Lomborg (1998), *The Skeptical Environmentalist. Measuring the Real State of the World*, New York (NY), Cambridge University Press, 2012.
- B. Lomborg (2007), *Cool It. The Skeptical Environmentalist's Guide to Global Warming*, New York (NY), Alfred A. Knopf.
- Lyons (2019), *Why is Indonesia moving its capital city? Everything you need to know*, «TheGuardian.com», 27 August, <https://www.theguardian.com/world/2019/aug/27/why-is-indonesia-moving-its-capital-city-everything-you-need-to-know>.
- M.R. Mubaroq and A. Solikin (2019), *Review on the Financing Scheme of Indonesia's Capital City Relocation Plan: Lessons Learned from Brazil, Malaysia, and Tanzania*, in *Proceedings of the 1st International Conference on Finance Economics and Business, ICOFEB 2018, 12-13 November 2018, Lhokseumawe, Aceh, Indonesia*, Gent (BE), EAI.
- H.P. Minsky (1982), *Can "It" Happen Again? Essays on Instability and Finance*, London (GB) and New York (NY), Routledge, 2016.
- H.P. Minsky (2008), *Stabilizing an Unstable Economy*, New York (NY), McGraw-Hill.
- von Mises (1920), *Economic Calculation in the Socialist Commonwealth*, Auburn (AL), Ludwig von Mises Institute, 1990.
- S. Moroni and S. Cozzolino (2019), *Action and the city. Emergence, complexity, planning*, «Cities», 90, pp. 42-51.
- S. Moser (2010), *Putrajaya: Malaysia's new federal administrative capital*, «Cities», 27, 4, pp. 285-297, <https://doi.org/10.1016/j.cities.2009.11.002>.
- Nanda and Y. Mon (2019), *Official residences in Nay Pyi Taw left to ruin*, «Frontier», 20 December, <https://www.frontiermyanmar.net/en/official-residences-in-nay-pyi-taw-left-to-ruin>.
- A.C. Pigou (1920), *The Economics of Welfare*, London (GB), McMillan, 1932.
- E. Porqueddu (2018), *Detecting and Directing Emergent Urban Systems: A Multi-Scale Approach*, «Cosmos+Taxis. Studies in Emergent Order and Organization», 5, 3-4, pp. 32-50.
- A. Potter (2017), *Locating the government: Capital cities and civil conflict*, «Research and Politics», October- December, pp. 1-7, <https://doi.org/10.1177/205316801773407>.
- D.L. Prychitko (2010), *Competing Explanations of the Minsky Moment: The Financial Instability Hypothesis in Light of Austrian Theory*, «The Review of Austrian Economics», 23, pp. 199-221.

- PwC (2014), *Real Estate 2020. Building the future*, Luxemburg (LU), PwC.
- J.A. Schumpeter (1939), *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, Chevy Chase (MD) and Mansfield Centre (CT), Bartleby's Books and Martino Publishing, 2005.
- E. Simorangkir (2018), *Mengintip Skema Pembayaran Utang Pembangunan MRT Jakarta*, «DetikFinance», 27 October, <https://finance.detik.com/infrastruktur/d-4275778/mengintip-skema-pembayaran-utang-pembangunan-mrt-jakarta>.
- K. Siregar (2019), *New Indonesia capital: Land prices set to soar but not all locals thrilled*, «ChannelNewsAsia»,
- 18 September, <https://www.channelnewsasia.com/news/asia/indonesia-new-capital-east-kalimantan-land-prices-soar-11912242>.
- A. Smith (1776), *An Inquiry into the Nature and the Causes of the Wealth of Nations*, London (GB), Methuen and Co., 1904.
- M. Sohlberg (2019), *Indonesia Property Market Outlook 2020: A Complete Overview*, <https://www.asiapropertyhq.com/indonesia-property-market/>.
- South China Morning Post (2015), *The lights are on but no one's home in Myanmar's capital Naypyidaw*, «South China Morning Post», 4 April, <https://www.scmp.com/magazines/post-magazine/article/1755128/lights-are-no-ones-home-myanmars-new-capital-naypyidaw>.
- J. Taylor (2019), *Jakarta Property Market Review Q3 2019*, Jakarta (ID), JLL Indonesia.
- The Jakarta Post (2018), *Indonesia, JICA sign deal on loan for MRT Phase II project*, «The Jakarta Post», 25 October, <https://www.thejakartapost.com/news/2018/10/25/indonesia-jica-sign-deal-on-loan-for-mrt-phase-ii-project.html>.
- The Jakarta Post (2020), *New capital city to contribute little to Indonesia's economic growth: Indef*, «The Jakarta Post», 22 January, <https://www.thejakartapost.com/news/2020/01/22/new-capital-city-to-contribute-little-to-indonesias-economic-growth-indef.html>.
- United Nations (2017), *Household Size and Composition Around the World 2017 – Data Booklet (ST/ESA/ SER.A/405)*, Washington (DC), United Nations, Department of Economic and Social Affairs, Population Division..





PROVALINDO HEAD OFFICE:

Wijaya Grand Center, Blok F Nomor 36B
Jalan Wijaya II, Kebayoran Baru
Jakarta Selatan 12160

www.provalindonusa.com

