A strategic analysis of moving the state capital impact on Indonesia's economic development

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Abstract The relocation of a state's capital has garnered significant attention in expert discussions, with various perspectives being analysed. This study specifically examines the economic implications of moving the State Capital (IKN) from the standpoint of people's economic development. The primary research question explores how this relocation will affect the population's economic development. Utilising a descriptive qualitative research approach, this study gathered data through documentation, drawing from existing literature on capital relocation. Data analysis involved three stages: data reduction, presentation, and conclusion. A key finding of this research indicates that relocating the national capital positively impacts economic development, particularly benefiting micro, medium, and small enterprises. The new capital city is expected to foster the emergence of numerous small and medium enterprises driven by the increasing demand for infrastructure. Properly situating the national capital is anticipated to stimulate economic growth and promote more equitable development, unlike a Java-centric approach that could lead to imbalanced economic growth.

Keywords: economic development; strategic communication; state capital relocation

INTRODUCTION

The discussion surrounding the relocation of the national capital has gained momentum, especially since the Indonesian Parliament and Government passed the Draft Law on the State Capital (IKN) into law on 18 January 2022 (Ayundari, 2022). Experts have long debated the need for such a move due to various issues. Among the challenges associated with relocating the capital in Indonesia, the need for a clear definition of the capital city stands out. It raises questions about whether the capital serves solely as a symbol of the State, the centre of executive power, or the central government hub. Additionally, three legal concerns emerge (Herdiana, 2020).
Firstly, there is a constitutional gap, as neither the Constitution nor Indonesian laws provide regulations governing the mechanism for relocating the capital. Secondly, the determination of a new capital location precedes the establishment of its legal framework. Lastly, there has been minimal involvement from other branches of government, particularly the Legislature, in the capital transfer process (Hadi & Ristawati, 2020).

The relocation of the national capital may have adverse effects, particularly if enforced during the ongoing pandemic. Indonesia's economic situation remains unstable due to the COVID-19 pandemic, with the recovery expected to extend until 2023. The plan to move the national capital to East Kalimantan necessitates a comprehensive evaluation, considering economic, social, environmental, geopolitical, and defence aspects. The defence aspect is of utmost urgency for Indonesia. Therefore, Indonesia must exercise caution in the concept of capital city development, especially regarding defence, to ensure its resilience against potential attacks from other countries (Toun, 2018). When a country's security and defence are well assured, its economic growth can flourish. Concerns also arise about the potential erosion of local culture and the marginalisation of local communities, necessitating thorough planning by the central government to mitigate social impacts if the capital relocation discourse materialises (Saputra et al., 2021).

Multiple studies have explored the relocation of the national capital. Firstly, a study initiated by the Research and Development Agency for the City of Palangka Raya, in collaboration with the University of Palangka Raya, involved a team of researchers from the Department of Sociology and the Department of Architecture at the Faculty of Engineering, University of Palangka Raya. This study examined the discourse on relocating the capital of the Republic of Indonesia to the City of Palangka Raya, focusing on cultural policy to support development planning. The process integrated policy products such as RPJMD, Strategic Plan, Local Acts, and DPA-SKPD with field activities related to the development of socio-cultural policies. Ensuring alignment with strategic activity plans at the regional, provincial, and national levels is crucial, promoting diversity and strengthening national unity.

Additionally, the project to relocate the nation's capital has been a frequent topic of discussion. This discussion promotes transparency, community involvement, and accountability for the activities. Budgeting should not solely rely on APBD, and alternative sources of funds should be considered to support planned activities (Badan Penelitian dan Pengembangan Kota Palangka Raya, 2019).

In a subsequent study by Nugroho (2020), titled "The State's New Capital City Move to East Kalimantan: Analysing Energy Demand Fulfillment and Consumption," it was found that designating East Kalimantan as the new State Capital (IKN) results in a doubling of energy requirements. Another significant discovery is the need for fundamental energy supply and consumption principles proposals. These
include using the development of IKN as an opportunity to enhance Kalimantan's energy supply system broadly, emphasising the fulfilment of energy needs from local sources, prioritising Kalimantan's energy sources for Kalimantan itself, giving preference to clean and renewable energy sources, developing and strengthening energy infrastructure interconnections across Kalimantan, and enhancing energy efficiency (Hanan Nugroho, 2020). Nugroho's research highlights the impact on economic development, particularly the economic growth for capitalists and major entrepreneurs, rather than the economy of ordinary people.

The local communities often receive minimal contributions from these large companies, leading to conflicts with the surrounding communities. Given these observations, previous studies on relocating the new State capital have primarily focused on the readiness aspect of the capital relocation, neglecting an examination of its potential impact on the economic development of the people. Therefore, researchers are motivated to delve deeper into the relocation of the national capital, specifically assessing whether this move affects the economic development of ordinary citizens or solely benefits the capitalist economy. The central research question aims to determine the impact of relocating the country’s capital on the economic development of the people.

The ideal economic system for the Indonesian State prioritises the people's economic well-being. This system focuses on nurturing and advancing the overall community's economy. A populist economic system is vital for development as it offers extensive opportunities for community participation and investment, enabling the growth of the people's economy. This economy relies on the economic power of the people, creating a framework that encourages broad community involvement and correct implementation and development (Hasmawati, 2018).

The concept of the people's economy represents an economic system geared towards social and community-oriented principles. This populist economy, as outlined in Article 33 of the 1945 Constitution, aims to establish an economy that serves the people's interests and upholds their sovereignty. This system's cornerstone lies in collective action, where communities actively participate in economic activities. A prominent advocate of the populist economy is Muhammad Hatta, a renowned Indonesian economic thinker (Rompas, 2018). His economic theories are often associated with the principles of populist economics. According to Hatta, applying a populist economic system, particularly through cooperatives, holds great promise for economic well-being. Cooperatives represent a form of economic democracy that ultimately leads to community welfare, a crucial element in a nation's economic stability and governance (Arifqi, 2020).

The people's economy is an economic framework centred on fairness and growth, facilitated by an equitable market mechanism. In this system, individuals play a central role, actively participating as
decisions-makers with access and control over resource allocation. The overarching goal is the welfare of society, prioritising collective prosperity over individual gain (Sulistyo, 2010).

Engaging people in all economic activities fosters economic prosperity and communal well-being. Communities within the People’s Economy framework manage local resources wisely, leveraging their knowledge and skills. These community-driven economic activities predominantly manifest in the Micro, Small, and Medium Enterprises (MSMEs) sector. MSMEs typically process local resources from their surroundings, empowering local communities and contributing to shared prosperity (Arifqi, 2020).

The research presented here explores the relationship between the relocation of the country’s capital (IKN) and the development of the people’s economy. Currently, the people’s economy, especially in large cities, faces challenges due to disparities in capital and skills compared to modern entrepreneurs who own sizable companies. This divide is attributed to differences in capital and skillsets between small-scale entrepreneurs and larger corporate entities. This research is paramount as it investigates whether relocating the country’s capital can positively impact the economic development of marginalised small-scale entrepreneurs who lack capital and skills. The hope is that this study can serve as a valuable reference for central and regional governments when formulating strategic policies to advance the people’s economy.

The people’s economy represents an economic system where the entire community can engage in economic activities, oversee them, and reap the benefits collectively. It is a populist economy founded on the strength of the people’s economic power, offering extensive opportunities for community involvement, thus enabling the proper execution and development of the economy (Hasmawati, 2018a).

This notion of the people’s economy can be viewed as a socioeconomic system with a strong emphasis on community and social aspects. The populist economy, as defined in Article 33 of the 1945 Constitution, strives to establish an economy that truly serves the people’s interests and upholds their sovereignty. Central to this system is the concept of unity, with communities actively participating in its implementation. One of the prominent proponents of the populist economy is Muhammad Hatta, a renowned Indonesian economic thinker (Rompas, 2018). His economic theories are often associated with the principles of populist economics. According to Hatta, a populist economic system, when applied through cooperatives, holds the promise of a brighter economic future. Cooperatives represent a form of economic democracy that ultimately contributes to the community’s welfare. In any nation, the welfare of its people plays a pivotal role in influencing the pace of economic growth and the functioning of its government (Arifqi, 2020).

The people’s economy is a socioeconomic system emphasising fairness and growth through an equitable market mechanism. In this
system, individuals are key actors, actively participating as decision-makers with access and control over resource allocation. The primary objective is the well-being of society, prioritising collective prosperity over individual gain (Sulistyo, 2010).

Active participation of individuals in all economic endeavours contributes to economic prosperity and overall community well-being. Communities engaging in economic activities under the People's Economy framework demonstrate prudent management of local economic resources, effectively leveraging their knowledge and skills. These community-driven economic activities rely on their ability to manage locally available resources. Implementing the People's Economy system within the community often materialises in the Micro, Small, and Medium Enterprises (MSMEs) sector. Most MSMEs collectively process local resources from their immediate surroundings, thus empowering the local community to attain prosperity (Arifqi, 2020).

In conclusion, a people's economy embodies an economic system that originates from the people, serves the people, and ultimately benefits all community members rather than benefiting only a few. A comprehensive overview of research related to people's economics is presented in the table 1.

<table>
<thead>
<tr>
<th>No</th>
<th>Author</th>
<th>The title</th>
<th>Research result</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Fifi Hasmawati</td>
<td>People's Economy Based on Local Potential</td>
<td>Implementing a people's economic system aims to achieve social justice for all Indonesians by enhancing the community's capacity to govern the economy (Hasmawati, 2018b).</td>
</tr>
<tr>
<td>2</td>
<td>Suhendi</td>
<td>Islamic Economy Based on People’s Economy</td>
<td>In Islamic economics, the goal is to offer broad opportunities to every economic participant. Additionally, Sharia economics underscores four key attributes: unity, balance, freedom of choice, and responsibility (Suhendi, 2012).</td>
</tr>
<tr>
<td>3</td>
<td>Sabil</td>
<td>Community Economic System as the Foundation for Indonesian Economic Development</td>
<td>Indonesia's people's economy system has demonstrated resilience since the country's economic crisis 1997, with small and medium enterprises (SMEs) playing a crucial role in its sustainability. Several fundamental principles support the enduring nature of this economic system, including strong SME participation (Sabil, 2014).</td>
</tr>
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</table>

Source: Author Data Processed (2023)

**METHODODOLOGY**

This study adopts a literature review approach, with data collection done through documentation. The data sources include textbooks, legal dictionaries, scientific journals, and expert opinions about developing the State's capital (Ishaq, 2017). The research employs a descriptive
approach, aiming to elucidate and describe facts associated with the relocation of the national capital from the perspective of people’s economic development. Data analysis is stepwise, involving data reduction, data presentation, and the formulation of conclusions. This study employs source triangulation to ensure data validity (Miles & Huberman, 2014). The site plan of IKN can be seen in Figure 1.

**Figure 1.** Indicative site plan of IKN

![Figure 1. Indicative site plan of IKN](image)

Source: Ministry of Public Works and Public Housing (2020)

**RESULTS AND DISCUSSION**

**Legal Basis for Relocating the State Capital**

The legal framework within the post-amendment 1945 Constitution demonstrates a degree of flexibility in governance, including the possibility of relocating the capital. However, such a monumental decision necessitates compelling justifications and a comprehensive set of strategies and regulations to ensure its effective execution. Statutory instruments represent the most appropriate legal mechanisms for relocating the state capital. As previously noted, the plan for capital relocation must be formally outlined in legislation. The government has articulated that, in establishing a new capital city, at least 43 relevant laws and regulations must undergo harmonisation (Aditya & Fuadi, 2021).

Since 2019, the government has issued several legal instruments on the national capital. Firstly, Presidential Regulation Number 85 of 2021, outlining the 2022 Government Work Plan, features an appendix
that contains approximately 21 clauses referencing the "national capital." These clauses encompass topics such as the development of the State Capital area spanning 5,600 hectares in 2021 and 2022, the establishment of an authoritative agency empowered to formulate regulations for the State Capital Authority (IKN) concerning Detailed Spatial Plans (RDTR) for the Planning Area Section (BWP) of the Central Government of Strategic Areas (KSN) within the National Capital (IKN), and the spatial planning for national defence within the National Capital Region. Secondly, the Minister of Public Works and Public Housing issued Decree Number 1409/KPTS/M/2020, establishing the National Capital Infrastructure Development Planning Task Force. Thirdly, the Minister of Public Works and Public Housing (PUPR) issued Decree Number 1419/KTPS/M/2021, establishing the National Capital Infrastructure Development Task Force (Mahardika & Saputra, 2022).

The regulation governing the national capital has been codified within the framework of the law; therefore, any move of the nation's capital beyond Jakarta would require legal amendments. The President holds the authority to propose bills to the House of Representatives and the people, as stipulated in Article 5, paragraph (1) of the 1945 Constitution. Further provisions governing the creation of such legislation through the President's initiative are delineated in Law Number 12 of 2011 concerning the Formation of Legislation (Haryanti et al., 2022).

Reasons and urgency for relocating the State Capital
The decision to relocate the Indonesian national capital has evolved into a significant government policy aimed at addressing various challenges and mitigating the potentially dire consequences associated with the current condition of the national capital (Hidayat & Mardiana, 2021). Extensive research conducted by Bappenas has yielded noteworthy insights into the plans for relocating the national capital. A key finding from this research indicates a 0.1% increase in Gross Regional Domestic Product (GRDP) due to the capital relocation. Consequently, the move of the State Capital is poised to impact the national economy positively. Bappenas has clarified that this GRDP boost stems from utilising untapped resources, including land clearance for essential infrastructure projects and employment opportunities for skilled labour that had hitherto remained untapped. However, alongside its beneficial aspects, the relocation of the national capital also carries certain adverse effects, particularly in the form of heightened labour costs in the vicinity of the new capital city, estimated to be approximately 1.37% (Hasibuan & Aisa, 2020).

The rationale behind relocating the country's capital is grounded in multifaceted considerations. To facilitate a clearer understanding of the driving factors for this capital city move, a comprehensive breakdown can be found in Table 2, outlining the causes for the relocation of the national capital.
Relocating the national capital has been founded upon three primary rationales. Firstly, the inadequacy of Jakarta as the nation's capital is evident due to many internal issues which have hindered the optimal delivery of public services. Secondly, there exists a stark developmental imbalance. Historically, Indonesia's developmental focus has been concentrated on Java Island, while other regions have received limited attention from the central government. Addressing this developmental inequality is imperative, necessitating a more equitable distribution of developmental initiatives between Java Island and other regions. The relocation of the capital city presents an opportunity to shift the capital outside Java Island and formulate policy instruments that can expedite development and promote equity in regions beyond Java Island. Thirdly, the national capital must mirror Indonesia's character and developmental vision. The national capital must be able to embrace technological advancements and epitomise the concept of a "smart city." This concept is indispensable because global multidimensional development continues to evolve rapidly. Indonesia must keep pace with these developments; failing to do so would result in Indonesia falling behind other nations. Despite these fundamental motivations for relocating the capital city, there has been no empirical implementation of a policy instrument to effectuate the move. Consequently, while the relocation of the capital city has been under consideration for an extended period, it has remained a government proposal that has not yet been realised. Jakarta continues to serve as Indonesia's capital region (Herdiana, 2020).

<table>
<thead>
<tr>
<th>No</th>
<th>Internal factors</th>
<th>External Factors</th>
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<tbody>
<tr>
<td>1</td>
<td>Jakarta's inadequacy as a national capital</td>
<td>Success stories of other countries relocating their capitals</td>
</tr>
<tr>
<td>2</td>
<td>Ongoing development disparities between Java Island and other islands</td>
<td>The willingness of several foreign nations to invest in the new state capital</td>
</tr>
<tr>
<td>3</td>
<td>Aspiration for a capital city that embodies Indonesia's character and developmental vision</td>
<td>Enhancement of Indonesia's international image through the new capital city</td>
</tr>
<tr>
<td>4</td>
<td>Frequent water crises and flooding in Jakarta</td>
<td>The new capital city's safer location with reduced vulnerability to natural disasters</td>
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</table>

Source: Herdiana Research (2022)

The motivation behind relocating the capital extends beyond internal considerations within Indonesia; it is also rooted in the successful capital relocations undertaken by several countries. For instance, the United States shifted its capital from New York to Washington, D.C., Brazil transitioned from Salvador to Rio de Janeiro, and Germany moved from Bonn to Berlin. Even within the ASEAN region,
Malaysia’s shift of its national capital from Kuala Lumpur to Putrajaya has been regarded as a successful endeavour (Firmanda et al., 2022). The triumphs achieved in relocating the state capitals in these nations serve as a source of inspiration for the ongoing capital relocation in Indonesia. The rationale underlying the plan for capital relocation carries significant implications. Motives grounded in economic growth and equitable development necessitate policies accompanying the capital relocation that promote economic growth and the fair distribution of development across Indonesia. Consequently, the challenge lies in devising the appropriate policy instruments to achieve these objectives and determining whether capital relocation will inherently yield economic justice and equitable development (Herdiana, 2022).

The decision to relocate the IKN is predicated on recognising that the current capital city bears the dual responsibilities of serving as the governmental hub and a commercial centre. Relocating the IKN can stimulate national economic growth while maintaining a low inflation rate. Moreover, the growth of industrial areas with integrated value chains is anticipated to bolster individual incomes, reducing economic disparities between Java Island and regions outside of it. However, relocating the national capital also carries inherent risks and negative consequences, particularly the substantial cost of the move, which may have enduring repercussions. Additionally, the government must remain vigilant regarding the potential for elevated land prices. Effective land and spatial planning is essential to ensure practical and aesthetically pleasing land use (Hasibuan & Aisa, 2020).

<table>
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<tr>
<th>No</th>
<th>Rationale</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>1</td>
<td>Strategic Geographic Position</td>
<td>East Kalimantan occupies a strategically central geographic position within Indonesia.</td>
</tr>
<tr>
<td>2</td>
<td>Expansive Government-Owned Land</td>
<td>East Kalimantan boasts an extensive land area, predominantly under government and BUMN Plantation ownership, which can substantially reduce investment costs.</td>
</tr>
<tr>
<td>3</td>
<td>Resilience to Natural Disasters</td>
<td>A relative absence of effective protection against seismic activities, volcanic eruptions, tsunamis, floods, erosion, and forest and peatland fires characterises the land in East Kalimantan.</td>
</tr>
<tr>
<td>4</td>
<td>Abundance of Natural Resources</td>
<td>East Kalimantan enjoys ample uncontaminated water resources, fostering environmental sustainability.</td>
</tr>
</tbody>
</table>

Source: Ministry of National Development Planning (2020)
To relocate the national capital (IKN), one must carefully assess this move's associated impacts and benefits. Given the current challenges facing the capital city, Jakarta, which shoulders the dual burdens of sustaining economic activity and hosting the seat of government, it appears prudent for Indonesia to explore the relocation of its national capital to a more strategically situated and development-ready location, specifically Kutai Kartanegara and Penajam Paser Utara. Initiating the relocation process necessitates meticulous planning that prioritises efficiency. Jakarta currently grapples with numerous challenges, including rapid urbanisation, exacerbated by mounting social inequality and segregation. These issues manifest in various ways, from severe traffic congestion, subpar public transportation services, and the proliferation of informal settlements to inadequate drainage and sanitation systems, unreliable energy and electricity supplies, and more. These problems hinder the government's effectiveness, marked by daily issues, and jeopardise Jakarta's future as the national capital and a critical governmental and strategic installation area for the State.

The relocation of the national capital to East Kalimantan is imbued with a sense of urgency. To facilitate comprehension, some of these imperatives are delineated in Table 3, which outlines the urgency of relocating the state capital to East Kalimantan.

The primary factors considered for selecting East Kalimantan as the relocation site for the national capital, as outlined in studies conducted by the Ministry of National Development Planning/Bappenas (Saputra et al., 2021), encompass: 1) Strategic Geographic Placement: East Kalimantan's strategic central positioning within Indonesia. 2) Government-Owned Land Availability: Government-owned land offers ample potential for development. 3) Natural Disaster Resilience: Ensuring the selected land is secure from the impact of natural disasters. 4) Abundant Uncontaminated Water Resources: The availability of sufficient and unpolluted water resources conducive to environmental sustainability.

**The Potential for Economic Development with the Relocation of the National Capital**

According to a Bappenas study, relocating the national capital to East Kalimantan is projected to result in a 0.1% increase in GRDP, positively affecting the national economy (Hafidz & Kurniawan, 2020). Bappenas estimates indicate a corresponding rise in local labour wages, leading to a 1.37% increase in labour costs for the surrounding area. To facilitate the transition to the new IKN, Bappenas intends to offer incentives for business investments. Bambang Brodjonegoro anticipates a national surge in trade flows by 50% owing to the growth of industrial estates in the IKN linked with other regions across Indonesia. Priority policies for industrial down streaming must accompany this momentum, increasing investment and trade. This policy combination is expected to create jobs, boost local GRDP, and contribute to controlled inflation, ultimately
enhancing the welfare of people in the new IKN areas and potentially reducing economic disparities between Java Island and other regions (Hasibuan & Aisa, 2020).

The relocation of the national capital beyond Java is poised to stimulate interregional trade in Indonesia, including trade within the provinces of the new capital city. A move to a well-connected province is estimated to increase trade flows by up to 50% across Indonesia's territory. Therefore, developing infrastructure and supporting facilities is pivotal for successfully relocating the national capital. Additionally, this move is expected to foster investment growth and bolster the local economy within the capital and its environs. Furthermore, relocating the national capital is anticipated to generate broader incentives for investment in other regions and boost the service sector's output (Nurhanisah, 2019).

The relocation of the national capital presents a significant challenge to the development of Micro, Small, and Medium Enterprises (MSMEs) in East Kalimantan Province and the pivotal role played by MSMEs in economic recovery and equity across Indonesia. In 2021, MSMEs contributed 61.1% to national economic growth and employed 97% of the workforce, equivalent to 116.9 million people. This underscores the critical role of MSMEs in fostering a more robust and self-sufficient economic landscape in Indonesia. However, 2020 witnessed global and domestic challenges, including the adverse effects of the COVID-19 pandemic, resulting in decreased turnovers, distribution issues, and capital constraints for these businesses (Marha et al., 2022).

The Commission for the Supervision of Business Competition plays a pivotal role in maintaining a competitive business environment in adherence to the laws prohibiting monopolistic practices and unfair business competition. Economic democracy, which ensures equal opportunities for citizens to participate in production and marketing, fosters a healthy, effective, and efficient business climate. Economic democracy can stimulate economic growth and create a fair market (Kusuma et al., 2020).

The relevance of the Business Supervision Commission to empower individuals primarily engaged in the lower middle business sector lies in its authority to ensure fair and normal business competition. The Commission consistently promotes and prioritises transparent enforcement of business competition laws, aiming to enhance people's welfare. The capital relocation becomes even more critical in light of the ongoing pandemic. To facilitate economic recovery, a strategic move like the creation of the IKN is essential to invigorate the economy and related industries. The development project for the new national capital forms a vital part of economic recovery strategies, potentially employing millions of workers. The groundbreaking in the first year will provide employment opportunities for approximately 1,000,000 workers (Pribadi & Utomo, 2021).
CONCLUSION
This study is rooted in the premise that relocating the national capital positively impacts the advancement of the people's economy, particularly in fostering the growth of micro, medium, and small enterprises. The emergence of numerous new small and medium enterprises is anticipated within the vicinity of the new capital city, in tandem with the growing demand for fresh infrastructure facilities. The linkage of the national capital to an optimal location is poised to yield heightened economic expansion and a more even-handed form of development. Persisting with a Java-centric approach to development would lead to economic disparities.

Furthermore, relocating the national capital outside Java will catalyse interregional trade within Indonesia, encompassing trade within the provinces encompassing the new capital. It is projected that trade volumes could surge by up to 50% across Indonesia if the National Capital is relocated to a well-connected province. Consequently, the development of infrastructure and complementary facilities assumes a pivotal role in the successful execution of the national capital's relocation. This relocation endeavour is also poised to stimulate investment growth and invigorate the capital and surrounding local economy. Another favourable outcome anticipated is that the transfer of the national capital will create a more comprehensive incentive for investment in various regions, consequently driving up the service sector's output.

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