

FROM FRONTIER TO FLUX: RURAL DIVERSIFICATION IN THE CONTEXT OF INDONESIA'S NEW CAPITAL, NUSANTARA

This book presents key findings on the socio-economic and spatial transformations of the rural side of the new capital, driven by Indonesia's new capital city development, Ibu Kota Nusantara (IKN), in East Kalimantan. The government has positioned itself as a national strategic project to reduce regional disparities and stimulate rural diversification in a region long dependent on extractive industries. Through collaborative work involving Indonesia and international institutions, the exploration identified policy-induced urbanisation as a major force reshaping rural economies. The relocation of the capital actively accelerates the transition of livelihoods from agrarian and resource-based sectors towards services, trade and micro-enterprises. Households are increasingly diversifying their income sources, while local communities are opening businesses to meet new demands created by IKN's development. The book highlights how access to land, infrastructure, financial capital, institutional support, and social networks directly shapes a household's ability to engage in and benefit from diversification processes. The book demonstrates that rural diversification enhances household resilience and expands economic opportunities, yet structural barriers persist. Many rural households struggle to access finance, face unequal infrastructure development, and encounter weak institutional coordination. These challenges limit their participation in emerging markets linked to the capital's development. The book highlights the agricultural sector's crucial role in supporting local livelihoods, ensuring food security, and promoting inclusive rural-urban integration. Strengthening and modernising agriculture remains essential to balancing economic growth with social equity. The book advocates integrated and equity-focused development strategies. It urges policymakers to align the urbanisation goals with local empowerment efforts, ensuring that rural diversification around IKN promotes not only economic development but also social justice and spatial equity.



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PUSTAKA PELAJAR

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Preface

This book aims to provide a thorough and organised examination of rural diversification and policy-driven urbanisation related to the establishment of Indonesia's new capital city, Ibu Kota Nusantara (IKN), in East Kalimantan. It brings together empirical observations, conceptual perspectives, and comparative urbanisation frameworks to serve as a valuable reference for scholars, policymakers, development practitioners, and stakeholders interested in the socio-economic and spatial transformations initiated by national strategic projects in resource frontier regions. The establishment of IKN is not solely an administrative or political initiative but a multifaceted socio-spatial intervention that reflects Indonesia's aspiration to rectify enduring regional disparities, especially between Java-centric growth and its eastern periphery. This book emphasises how a state-led urbanisation process significantly reshapes rural space, economies, livelihoods, demographic trends, land utilisation, and institutional dynamics in surrounding areas. It underscores the importance of rural diversification as both a developmental outcome and a resilience mechanism for affected communities.

The book situates IKN's development within a broader body of knowledge on Asian urbanisation. It draws comparisons with similar global capital relocation experiences, offering a critical appraisal of the opportunities and risks associated with policy-driven urban transformation. It moves beyond a straightforward account of economic change, seeking to capture the lived realities, adaptive strategies, and institutional challenges faced by local communities—particularly Indigenous peoples, small-scale farmers, women, and young people. The introduction em-

phases the book's analytical orientation: it is not merely descriptive but also interpretive. Attention is directed toward the diverse and contested dimensions of rural diversification, recognising that while specific households and social groups gain new economic opportunities, others experience displacement or exclusion. Structural and institutional barriers, including limited financial access, inadequate infrastructure, fragmented governance, and social marginalisation, are addressed alongside pathways for inclusive growth, such as MSME development, agricultural transformation, and digital integration.

The book is a synthesis of an extensive examination conducted by a collaborative consortium including Gadjah Mada University (UGM), Kalimantan Institute of Technology (ITK), Lambung Mangkurat University (ULM), Utrecht University (UU), IHE-Delft (IHE), the Peat and Mangrove Restoration Agency (BRGM), the Regional Innovation and Development Agency (BRIDA) of East Kalimantan Province, and Royal Haskoning DHV. This collaborative relationship across multiple universities enabled a thorough and detailed assessment of the varied issues, showcasing the combined and complementary skills and capabilities of the involved entities. The initiative was supported by the Ministry of Education, Culture, Knowledge, and Technology of the Republic of Indonesia, along with the Indonesia Endowment Fund for Education (LPDP). Supplementary institutional assistance was provided by the Faculty of Geography at Universitas Gadjah Mada and our consortium collaborators. We express our profound gratitude to the local communities in the regions for their generosity, hospitality, and willingness to share their knowledge in the development of this book. We believe that the development of Nusantara Capital City has the potential to generate mutual benefits for all stakeholders involved.

Yogyakarta, 1 September 2025

List of Glossary of Terms and Abbreviations

GLOSSARY (QUOTED DEFINITION MEANS A DIRECT QUOTATION FROM RESOURCES)

- Adat : Adat refers to a system of norms, values, unwritten laws, and traditional practices that constitute the social order of a community.
- Arisan : *Arisan* is a collective financial and social institution in which members contribute regular payments into a pooled fund that is periodically allocated by lottery, ensuring each participant eventually receives a share. It functions simultaneously as a mechanism for savings, a means of strengthening social cohesion, and a tool for fulfilling shared needs within the community.
- Balik : The Balik people are an Indigenous ethnic group originating from East Kalimantan. They are native inhabitants of regions such as Sepaku in Penajam Paser Utara and the city of Balikpapan.
- Banjar : A South Kalimantan-originated community living in the vicinity of IKN.
- Beyond Nusantara Capital City : Area beyond the Nusantara Capital City

- Bugis : A South Sulawesi-originated community living in the vicinity of IKN.
- Dayak : *Dayak* is an umbrella term for the diverse Indigenous ethnic groups of Kalimantan, characterized by their rich cultural heritage, complex social systems, and long-standing historical role in shaping the island's civilization.
- Desa : The smallest government administrative unit of rural regencies in Indonesia.
- Development zone : Nusantara Capital City area with an area of approximately 56,180 hectares
- Frontier : Transitional spaces where political authorities and social and environmental relations of the recent past are currently being challenged by new enclosures, territorializations and property regimes (Peluso and Lund, 2011 in Hein et al., 2016)
- Forest City : "a city whose ecosystem is dominated by forest vegetation and whose ecological constructions have achieved integrated urban and rural development." (Liao, et al., 2021)
- Jawa : A community group originated from Java Island
- Kelurahan : One of the smallest government administrative units in the municipals of Indonesia
- Majelis Taklim : An Islamic religious study group or assembly, typically organized on a regular basis where participants gather to learn about Islamic topics.

- Nusantara : The name of new capital city of Indonesia.
- Ojek : An informal motorcycle taxi service commonly used in Indonesia (and some other Southeast Asian countries), where individual riders transport passengers.
- Paser : One of the local communities of Borneo living in the vicinity of IKN.
- Pengajian : An Islamic religious study session conducted regularly by the community.
- Transmigration : “The transfer of population in Indonesia from the sending main islands of Java, Madura, Bali, and Lombok to the destination of outer islands under government sponsorship” (MacAndrew, 1978)
- Urbanization : “The process wherein urban living patterns supersede rural living patterns” (Murayama & Estoque, 2020); “the transformation of lightly populated open-country or rural areas into
- Yasinan : A communal religious gathering, usually among Muslims, where participants collectively recite *Surah Yasin*—the 36th chapter of the Qur’an.

ABBREVIATIONS

- ALKI : *Alur Laut Kepulauan Indonesia* (Indonesian Archipelago Sea Lane).
- AMAN : *Aliansi Masyarakat Adat Nusantara* (The Indigenous Peoples Alliance of Indonesia)
- BAPELITBANG : *Badan Perencanaan, Penelitian, dan Pengembangan* (Regional Planning, Research and Innovation Agency).
- BAPPEDA : *Badan Perencanaan Pembangunan Daerah* (Regional Development Planning Agency)
- BRIDA : *Badan Riset dan Inovasi Daerah* (Regional Research and Innovation Board).
- BUMN : *Badan Usaha Milik Negara* (State-owned Enterprises)
- FKMS : *Forum Komunikasi Masyarakat Sepaku* (Sepaku Community Communication Forum)
- HGU : *Hak Guna Usaha* (Cultivation Rights of Land)
- HTI : *Hutan Tanaman Industri* (Industrial Forest Plantation)
- IHM : PT. ITCI Hutani Manunggal is a private company engaged in industrial plantation forestry (HTI), focusing on the cultivation of *Acacia mangium* and *Eucalyptus* species as its primary plantation crops. The company holds a concession area of approximately 161,127 hectares located in East Kalimantan Province.

IKN	: <i>Ibu Kota Negara</i> (Indonesia New Capital City)
ITCI	: PT. International Timber Corporation Indonesia
KIPP	: <i>Kawasan Inti Pusat Pemerintahan</i> (The Central Government Core Area)
KKN	: <i>Kuliah Kerja Nyata</i> (Student Community Services)
KP-IKN	: <i>Kawasan Pengembangan - Ibu Kota Nusantara</i> (Extension Zone of the Nusantara New Capital City).
KSN	: <i>Kawasan Strategis Nasional</i> (National Strategic Area)
KUD	: <i>Koperasi Unit Desa</i> (Village Unit Cooperative)
LAPAN	: <i>Lembaga Penerbangan dan Antariksa Nasional</i> (National Institute of Aeronautics and Space)
NGO	: Non-governmental Organization
OIKN	: <i>Otorita Ibu Kota Nusantara</i> (Nusantara Capital City Authority)
PIRT	: <i>Pangan Industri Rumah Tangga</i> (Permit for Home Industries Dealing with Food Production)
PPU	: Penajam Paser Utara
RDTR	: <i>Rencana Detail Tata Ruang</i> (Detailed Spatial Planning)
RT	: <i>Rukun Tetangga</i> (Neighbourhood Unit)
RPJMN	: <i>Rencana Pembangunan Jangka Menengah Nasional</i> (National Medium-term Development Plan in Indonesia)
RTRW	: <i>Rencana Tata Ruang Wilayah</i> (Regional Spatial Planning)
SDGs	: Sustainable Development Goals

UMKM : *Usaha Mikro, Kecil, dan Menengah* (Micro, Small, and Medium Enterprises/MSME)

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Chapter 1. Rural Diversification and Policy-Induced Urbanization

I.I. WHEN THE CAPITAL MOVES: RURAL LIFE IN TRANSITION

The development of Indonesia's new capital city, Nusantara (IKN), represents far more than the relocation of an administrative center. It is conceived as a monumental investment project intended to reshape the nation's spatial and economic trajectory, particularly by addressing the long-standing imbalance between western and eastern Indonesia. Like other capitals around the world, Nusantara is expected to function as both a political hub and a catalyst for broader socio-economic transformation. Its advocates present it as an extraordinary initiative to reorganize national space, redirect investment flows, and reimagine the eastern frontier as a site of growth and opportunity.

The relocation of a capital city, however, is never a straightforward process. Global experiences suggest that such endeavors succeed only when supported by sustained political will, inclusive governance, and careful attention to sustainability. For Indonesia, the transformation associated with IKN will unfold over decades. It requires not only urban planning on an unprecedented scale but also long-term strategies to integrate rural hinterlands into the new urban system.

East Kalimantan, the province hosting Nusantara, exemplifies the challenges of this integration. Long characterized as a resource frontier, the region remains heavily dependent on extractive activities—coal, oil, gas, timber, and palm oil—which

provide critical fiscal revenues but leave local economies vulnerable to fluctuations in global commodity prices and ecological degradation. Outside these sectors, opportunities for economic diversification remain limited, employment absorption is low, both infrastructure and educational systems lag behind in development. This structural context shapes how rural communities experience IKN's arrival.

As the project advances, agricultural and residential lands are being converted into an administrative core equipped with urban infrastructure and services. In theory, this transformation presents East Kalimantan with an opportunity to diversify beyond its extractive dependence by fostering new economic activities in trade, services, tourism, food production, and digital industries. In practice, however, the process has introduced both opportunities and anxieties.

Several dynamics illustrate why rural diversification around IKN matters so profoundly:

New economic opportunities have already emerged. Even before the Core Government Area (KIPP) opens fully, Nusantara has become a magnet for workers, entrepreneurs, and migrants. Their arrival has stimulated nearby rural economies, particularly in hospitality, food, transport, and retail. Local households that once relied almost exclusively on farming are now testing new livelihood pathways.

Reducing dependence on extractives is critical. Without diversification, the province risks deepening its "resource curse" vulnerabilities—exposure to price shocks, inequality, and ecological damage. New sectors, including agro-tourism and digital services, hold potential to offset this dependence.

Food security remains a pressing concern. East Kalimantan imports the bulk of its rice, poultry, and fish from other islands, resulting in some of the highest living costs in Indonesia.

Strengthening local food systems—by investing in modern agriculture, livestock, and aquaculture—could reduce costs, enhance self-sufficiency, and make IKN a more livable place.

Aligning with the vision of a sustainable forest city. The government promotes Nusantara as a Forest City, Sponge City, and Smart City. Whether this vision materializes depends in part on how rural areas supply sustainable products and services, and whether reliance on environmentally destructive extractive practices can be curbed.

Mitigating inequality and conflict. The influx of newcomers risks marginalizing Indigenous and long-established communities, potentially deepening ethnic tensions. Inclusive diversification, supported by reskilling and fair access to opportunities, is crucial in preventing local dispossession.

These dynamics expose contradictions. While diversification promises resilience, rural communities face barriers ranging from ecological constraints (acidic soils, fragile environments) to institutional weaknesses (limited credit, weak extension systems). Past experiences of resource-dependent towns in East Kalimantan, such as Maridan and Sungai Merdeka, reveal how growth without sustainability can lead to stagnation once ecological limits are exceeded.

The relocation of the national capital, IKN, raises a critical issue: whether such a move can facilitate not only urban development but also sustained rural transformation. The outcome will depend on the extent to which rural diversification is implemented as an intentional strategy rather than emerging as an incidental consequence of urbanization.

Recent political shifts illustrate the fragility of this process. Following the Independence Day ceremony of 17 August 2024 and the inauguration of a new presidential administration, budget efficiency measures slowed construction in Nusantara. Local

economies that had quickly adapted to supplying goods and services to the project suddenly faced contraction, exposing how dependent they had become on the rhythms of state investment.

The interplay between diversification and dependency, as well as opportunity and exclusion, constitutes the central focus of this analysis.

IKN thus poses a fundamental question: can the relocation of a national capital foster not just urban construction, but also enduring rural transformation? Much depends on whether rural diversification is pursued as a deliberate strategy rather than left as an unintended by-product of urbanization.

Recent political shifts illustrate the fragility of this process. Following the Independence Day ceremony on 17 August 2024 and the inauguration of a new presidential administration, budget efficiency measures led to a slowdown in construction in Nusantara. Local economies that had quickly adapted to supplying goods and services to the project suddenly faced contraction, exposing how dependent they had become on the rhythms of state investment. This interplay of promise and precarity—between diversification and dependency, opportunity and exclusion—frames the central concerns of this book.

I.2. THE ECONOMIC GEOGRAPHY OF EAST KALIMANTAN

East Kalimantan, one of Indonesia's largest and most resource-rich provinces, is undergoing significant transformation. The development of the new national capital, Nusantara (IKN), is reshaping the province's physical landscape and redefining its economic, demographic, and cultural dynamics. Understanding the implications of this transition requires analysis of the complex interactions among geography, history, and livelihoods that have historically characterized East Kalimantan.

Covering over 127,000 square kilometers, the province is

marked by dense tropical forests, extensive river basins, and mountainous terrain. The Mahakam River and its tributaries have historically functioned as vital arteries for trade, transport, and settlement, linking inland communities to coastal economies. Yet decades of extractive activity—logging, coal mining, and oil palm cultivation—have transformed vast tracts of land. Even before IKN was planned, deforestation and land degradation had already left an enduring ecological footprint. Today, environmental concerns are compounded by abandoned mining pits, fragile soils, and mounting pressure on ecosystems within and around the designated capital site.

The human geography of East Kalimantan is equally complex. With a population of just over four million, it remains relatively sparsely settled compared to other provinces, yet demographic growth has been striking. Much of this expansion has been driven by state-led transmigration policies, which, since the early twentieth century, have relocated millions of families from densely populated Java and Bali to the resource-rich frontiers of Kalimantan. Migration has dramatically altered the province's demographic structure, creating a mosaic of ethnic communities. While Dayak, Kutai, and Paser peoples are Indigenous to the region, Javanese, Bugis, and Banjar migrants now constitute the majority.

The cultural landscape reflects this diversity. Dayak groups, encompassing hundreds of ethnolinguistic communities, maintain longhouse traditions, customary laws, and forest-based livelihoods, even as many adapt to urban and industrial economies. The Paser and Balik peoples of North Penajam Paser, whose ancestral lands overlap with the IKN site, hold distinct ritual and oral traditions, from agricultural chants to purification ceremonies. Yet their cultural continuity is increasingly fragile. Many Indigenous leaders express concern that the massive influx of

migrants, coupled with the dominance of the use of Bahasa Indonesia in schools and administration, accelerates the erosion of local languages and customs. Tensions over land, employment, and representation reveal how unevenly communities are positioned to benefit from the new capital.

Economically, East Kalimantan remains defined by its extractive base. Coal, oil, and gas dominate provincial GDP, with coal alone reaching nearly 300 million tons of production in 2021. Oil palm plantations now sprawl across more than a million hectares. These industries provide revenue but also expose the province to the volatility of global commodity markets—a classic case of the “resource curse.” At the same time, food insecurity remains acute. Despite its fertile image, the province heavily relies on imported rice, poultry, and fish from Java and Sulawesi, which drives up living costs and wages. Tourism and digital enterprises are often cited as promising alternatives; however, diversification remains limited by infrastructure gaps and the overwhelming dominance of the extractive sector.

IKN is already accelerating demographic and economic change. The new capital site—once home to a mere 150,000 people—could, on paper, swell to nearly two million by 2045. The early phases of migration have brought construction workers, entrepreneurs, and civil servants, many of whom are from Java and South Sulawesi. While some are temporary residents, others see long-term opportunity. Yet high living costs and uncertain institutional support may blunt the pace of settlement. For Indigenous and long-established rural communities, the transformations are double-edged: they bring new markets and services but also risks of displacement, marginalization, and cultural loss.

East Kalimantan thus embodies both promise and precarity. It is a province endowed with immense natural wealth and cultural diversity, yet structurally dependent on volatile extractive

industries and external food systems. The construction of Nusantara adds another layer of complexity, amplifying opportunities for diversification while also heightening inequalities and environmental risks. How these tensions are navigated will determine whether East Kalimantan emerges as a model of inclusive transformation—or as another frontier where resource wealth fails to deliver broad-based prosperity.

I.3. IKN AND THE PROSPECTS FOR RURAL ECONOMIC DIVERSIFICATION

The construction of Indonesia's new capital, Nusantara, is not only a national political project but also an economic experiment that directly touches the lives of rural communities in East Kalimantan. Its scale, funding, and ambition make it a catalyst for opportunities far beyond the administrative core. For villages and small towns in Penajam Paser Utara and Kutai Kartanegara, the arrival of the capital has opened new possibilities in agriculture, services, and creative industries, alongside profound challenges of adaptation.

One of the most immediate changes lies in food and agriculture. With a projected population of nearly two million by 2045, Nusantara is expected to generate an insatiable demand for rice, vegetables, livestock, and fish. East Kalimantan, which has long been dependent on imports from Java and Sulawesi, suddenly finds itself compelled to reimagine its food systems. This pressure could become a turning point: encouraging diversification into secondary crops, stimulating aquaculture, and motivating investments in soil improvement for the province's notoriously acidic drylands. Urban farming initiatives promoted by the IKN Authority illustrate a broader shift—where agriculture is no longer imagined as subsistence on the periphery but as a modern, technology-enabled component of a “Forest City.”

The modernization of agriculture has wider social implications. Mechanization, smart farming technologies, and soil amendments promise higher productivity, but they also reshape the role of farmers. Programs targeting youth—the so-called “millennial farmers”—aim to make agriculture more attractive, positioning it as innovative and entrepreneurial rather than outdated and labor-intensive. Whether this transformation succeeds will influence not only food security but also the social fabric of rural areas, where farming has traditionally been both livelihood and identity.

Beyond agriculture, diversification is also unfolding in other directions. Former mining sites are being reimagined as eco-tourism destinations, such as Tapak Raja Cave, where degraded landscapes are transformed into fruit orchards and visitor attractions. Agroforestry projects, like Liberica coffee cultivation, serve dual purposes—restoring ecosystems while generating income. Such experiments hint at alternative rural futures, where tourism, environmental conservation, and cultural preservation intertwine.

Micro, small, and medium enterprises (MSMEs) are also being reshaped by IKN’s gravitational pull. From poultry farms and aquaculture ventures to restaurants and transport services, local entrepreneurs are finding new markets as migrants, civil servants, and construction workers arrive. Training and credit schemes aim to ensure that MSMEs can scale up to meet demand, although structural barriers, such as limited capital and managerial skills, remain. The challenge is to prevent small enterprises from being overshadowed by large corporations, ensuring that the gains of capital relocation spread to local households.

The creative economy offers another avenue for rural diversification. Nusantara aspires to be a “living museum of the archipelago,” showcasing the cultural wealth of Indonesia’s ethnic mosaic. For the Paser, Balik, Dayak, and Kutai peoples, this pro-

vides opportunities to translate traditions, rituals, and crafts into cultural tourism and creative industries. If managed inclusively, such initiatives could strengthen local identity and livelihoods. Yet there is also a risk of cultural commodification, where heritage is reduced to spectacle for visitors, leaving little benefit for Indigenous communities themselves.

Infrastructure investment amplifies these opportunities. The expansion of airports, seaports, and toll roads positions East Kalimantan more centrally within national and regional trade networks. Reduced logistics costs could make it easier for farmers to move products to markets, and for MSMEs to connect with supply chains. In principle, this connectivity should stimulate agro-processing industries and create value-added opportunities in rural areas.

All of this raises a deeper question: who will benefit from the economic dynamism unleashed by the capital's relocation? Much depends on the inclusion of local communities, especially youth and Indigenous groups, in training, reskilling, and business development programs. Without such support, there is a real danger that locals will remain spectators to a transformation unfolding around them, while newcomers capture most of the gains.

In this sense, Nusantara embodies both opportunity and uncertainty. It is a laboratory for rural diversification—modernizing agriculture, fostering eco-tourism, energizing MSMEs, and investing in human capital. At the same time, it is a test of whether state-led urbanization can produce inclusive, resilient rural economies or whether it will simply reinforce old patterns of extraction and inequality.

1.4. FRAMING THE INQUIRY

This book approaches the development of Indonesia's new

capital city (IKN) not merely as a backdrop, but as a powerful driver of investment flows, economic integration, and the reconfiguration of sustainability discourses in its surrounding regions. The landscapes that are now being reshaped by IKN remain, in many respects, rural in form and function. They are characterized by extractive industries, agrarian livelihoods, and socio-economic systems deeply rooted in resource-based economies. The arrival of large-scale state-led infrastructure and government construction projects is therefore not just an overlay on rural life, but a catalyst for structural transformation across this frontier region.

At the heart of this book lies a central question: How is rural transformation unfolding in East Kalimantan under the influence of IKN-led urbanization?

To address this overarching question, the book explores several interrelated themes:

- **Agriculture and Extractive Economies:** What role do agriculture, forestry, plantations, fisheries, livestock, and other extractive industries play in shaping patterns of rural diversification under the shadow of IKN?
- **Rural–Urban Linkages:** In what ways does IKN-driven urbanization alter the economic and social fabric of surrounding rural areas, and how do these transformations contribute to or constrain diversification?
- **Forms of Diversification:** What new forms of rural diversification are emerging in response to the unprecedented scale of state-led urban development?
- **Drivers of Change:** Which forces—policy, markets, institutions, or local agency—are most decisive in shaping the dynamics of rural diversification in this context?
- **Household Resilience:** How do shifting livelihoods and

diversification strategies affect the capacity of rural households to withstand and adapt to the disruptions and opportunities presented by IKN?

- **Barriers and Constraints:** What structural, institutional, or socio-cultural barriers inhibit rural communities from realizing the benefits of diversification under the IKN project?
- **The Agrarian Nexus:** How are agrarian sectors—broadly defined—linked to rural diversification, and to what extent do they contribute to sustaining local economies amidst rapid transformation?

Collectively, these questions serve as guiding lines of inquiry that structure the analysis. Their purpose is to clarify how state-led urbanization in a resource frontier disrupts established rural economies while creating new, and often contested, opportunities for livelihood diversification and resilience.

1.5. RURAL DIVERSIFICATION IN A RESOURCE FRONTIER: THE MAKING OF NUSANTARA'S HINTERLAND

Rural diversification refers to the expansion of economic activities in rural areas beyond traditional agriculture. In practice, it encompasses complex transformations of livelihoods, identities, and territories. In the context of Nusantara, the new capital city, rural communities are required to reconsider their economic foundations in response to large-scale investments, demographic changes, and evolving spatial arrangements.

Scholars have approached rural diversification from multiple vantage points. One influential perspective, advanced by Ellis (2000), views it as the process by which households assemble diverse portfolios of activities and social support to survive and improve their standards of living. In this reading, diversification is as much about coping with risk as it is about seizing

opportunity—through non-farm employment, migration, or entrepreneurship. Closely related is the Sustainable Livelihoods Approach (Scoones, 1998), which emphasizes the assets people possess—natural, human, financial, social, and physical—and the institutional contexts that shape their access to opportunities. Here, diversification becomes a strategy for resilience: a way to reduce vulnerability and expand the range of possible futures.

Other frameworks emphasize structural transformation. The OECD (2006), for example, situates diversification within the broader process of rural economic restructuring, which involves the gradual shift from an agricultural base toward a more diverse mix of industry, services, and knowledge-based activities. This perspective highlights the shifting spatial division of labor and the evolving role of rural areas within national and global economies.

From a policy standpoint, rural diversification has been tied to the idea of multifunctional rural development in Europe. Rural territories, in this vision, are not merely sites of production but also landscapes of culture, heritage, and environmental stewardship. Diversification is thus instrumental in balancing food security with ecological services and social cohesion. Relatedly, some scholars interpret diversification as part of a “post-productivist” transition (Marsden, 1999; Woods, 2005), where the decline of agriculture is accompanied by the rise of amenity-based economies, lifestyle migration, and hybrid rural–urban forms.

In development discourse, particularly across the Global South, diversification is promoted as a pathway out of poverty and exclusion. Institutions such as the World Bank, IFAD, and FAO frame it as an engine of local development—facilitated through non-farm enterprises, improved market access, and capacity building. In this sense, diversification is not only about economic expansion but also about social inclusion and institu-

tional change.

Across these perspectives, four interrelated dimensions of diversification recur. Economic diversification involves the proliferation of productive activities beyond farming into services, trade, and industry. Non-agricultural employment highlights the growing significance of wage work and enterprise in rural households' income portfolios. Livelihood diversification reflects households' strategies to reduce poverty and enhance resilience by combining farming with other activities. And farm enterprise diversification captures farmers' efforts to expand their practices beyond conventional production into on-farm sales, conservation, or agro-tourism. Together, these categories outline the multiple scales—household, community, and sectoral—at which diversification unfolds.

When placed in the context of Nusantara, these theoretical currents intersect in revealing ways. East Kalimantan's villages are not just moving "beyond agriculture" in the abstract; they are negotiating a frontier economy shaped by extractive industries, land commodification, and state-led urbanization. Here, diversification means households reconfiguring their practices: combining construction work with farming, converting land for property speculation, or venturing into services and trade to meet the needs of incoming migrants and workers. It is also about mobility—sending members elsewhere, drawing newcomers in, and renegotiating claims to land and resources.

Experiences from other new capital projects help illuminate these dynamics. Around Brasília, Brazil, farmers reinvented themselves as hosts of educational tourism and homestays, blending agriculture with hospitality. In Naypyidaw, Myanmar, villages adjacent to the new city tapped conservation areas to build community-based tourism. In Abuja, Nigeria, small enterprises in surrounding towns flourished by catering to construc-

tion and administrative workers, offering a range of services from catering to handicrafts. These cases demonstrate that diversification is not merely a side effect but a structural consequence of capital relocation.

At the same time, diversification is fraught with contradictions. The growth of non-agricultural sectors creates new livelihoods but can also exacerbate land competition, resource depletion, and social inequality. Labor-intensive enterprises, home industries, and rural tourism often emerge rapidly, absorbing young people and women into new roles; however, they also risk precariousness without institutional support. Inclusive policies—such as skills training, microfinance, and fair market access—become crucial to ensure that diversification strengthens resilience rather than deepens exclusion.

Rural diversification around Nusantara can be characterized as a complex socio-spatial process. Rather than a linear transition from agricultural to non-agricultural activities, it involves contested reconfigurations of economies, identities, and spaces at the margins of a national development project. Theoretical and practical approaches must address the hybrid nature of rural areas, which are simultaneously agricultural and post-agricultural, traditional and modern, and peripheral and central.

The perspectives presented in this volume are grounded in a wide array of sources and forms of evidence, assembled to capture the complexity of ongoing transformations in and around Nusantara. A combination of direct observations, spatial documentation, secondary materials, and in-depth conversations with local actors provided complementary insights into both structural shifts and everyday realities. Site visits to areas shaped by the construction of the Central Government Core Area (KIPP) and major water infrastructures—such as the Sepaku–Semoi Dam and the Sepaku Intake—offered close views of emerging

dynamics, while drone imagery documented broader patterns of landscape change and spatial reconfiguration. Extensive materials obtained from government bodies, local administrations, and scientific institutions, including demographic data, policy documents, and high-resolution satellite imagery, informed the selection of six communities situated at varying distances from the new capital. Engagement with residents illuminated how people are adapting to change, reshaping their livelihoods, and interpreting the transformation of their surroundings, while dialogues with a broader range of stakeholders revealed evolving social relations, shifting economic activities, changing land-use patterns, and emerging demographic trends. Together, these interconnected layers of information form the foundation of the analyses presented here and shed light on the multifaceted ways in which state-led development is reshaping the physical, social, and cultural landscapes of Kalimantan.

1.6. ORGANIZATION OF THE BOOK

This book unfolds in nine chapters, each of which builds on the others to paint a comprehensive picture of rural diversification in the shadow of Indonesia's new capital city.

The opening chapter introduces the broader context of rural diversification in frontier regions experiencing urbanization. It presents the theoretical and methodological foundations and situates the agricultural and extractive sectors within their historical role in East Kalimantan's economy. These sectors, previously central to local livelihoods, are currently being transformed by large-scale infrastructure projects and state-led urbanization. Chapter 1, provides a clear starting point. combining key themes with on-the-ground realities to guide the journey ahead.

Chapter 2 moves directly into the question of how the development of Nusantara (IKN) is transforming the countryside.

Urbanization, in this context, encompasses not only the construction of new roads, dams, and government buildings, but also the shifts in livelihoods, social practices, and the rhythms of everyday life. This chapter explores how communities are diversifying their economic strategies—moving into services, trade, construction, and even the nascent digital economy—as adaptive responses to both disruption and opportunity.

The third chapter examines the specific characteristics of this diversification. It shows how the shift from agriculture to non-farm activities varies by social group and locality, highlighting the increased role of women and youth, the rise of micro-enterprises, and the creative ways in which households are reconfiguring their livelihoods. Yet it also reveals the unevenness of these processes, as access to assets and networks shapes who benefits from change and who is left behind.

In Chapter 4, attention turns to the underlying factors that drive these dynamics. Land, markets, infrastructure, and institutions all matter, as do less tangible resources such as education, social capital, and household resilience. By tracing how these factors interact, the chapter shows why some communities are better positioned to adapt than others.

The fifth chapter emphasizes why diversification is not just a story of adaptation but also of survival. For households facing the loss of land, restricted access to resources, or rising living costs, the ability to generate new income streams is crucial to maintaining stability. Here, diversification emerges as a cornerstone of resilience, even though not all strategies prove equally sustainable.

Chapter 6 complicates this story by highlighting the barriers that stand in the way. Limited access to credit, inadequate training, and insufficient infrastructure, as well as gaps between national and local policies, all constrain the potential of rural

economies. Urbanization also brings social costs, including land dispossession and the marginalization of vulnerable groups such as women, indigenous peoples, and the rural poor. These constraints remind us that equitable development cannot be taken for granted.

The agricultural sector, in its broadest sense, returns to the center of the analysis in Chapter 7. Food crops, plantations, forestry, livestock, and fisheries remain the material base of local livelihoods and continue to generate new opportunities for diversification, from agro-processing and ecotourism to service industries linked to agriculture. This chapter highlights the enduring significance of agriculture as both a foundation and a catalyst for broader economic development.

Building on this, Chapter 8 explores the role of the IKN hinterland in shaping rural futures. The hinterland is more than a supplier of raw materials and food; it is a dynamic space where rural and urban economies intersect, creating opportunities for new forms of integration and modernization. Ensuring that agriculture thrives in this context is critical to sustaining diversification and promoting inclusive development.

Finally, Chapter 9 draws the threads together. It offers conclusions and policy implications, reflecting on the main findings while pointing toward pathways for more equitable, resilient, and sustainable rural development in East Kalimantan's rapidly changing frontier.

Chapter 2. Policy-Induced Urbanization: Concepts and Theoretical Perspectives

2.1. POLICY-INDUCED URBANIZATION THEORY: CONCEPTS AND THEORIES

The idea of policy-induced urbanization highlights how the growth of cities is not always a spontaneous outcome of economic agglomeration but often the product of deliberate state decisions. Potts (2012, 2017) describes this as a form of bureaucratic or administrative urbanization, in which urban status, infrastructure development, and demographic shifts are orchestrated through political motives. Her studies of Sub-Saharan Africa demonstrate how new capitals and administrative centers have been created not primarily for economic reasons but to consolidate political power and strengthen national integration. In these cases, the production of urban space reflects state ideology and authority as much as economic necessity.

China provides another important lens through which to view state-led urbanization. Zhang (2002) shows that the country's vast urban reconfigurations have been driven by planning policies, reforms of the hukou system, and infrastructure megaprojects. Here, urbanization is deeply embedded in state planning and ideology—the urban future is imagined and engineered rather than left to market forces. This perspective resonates with broader theories of the state as a producer of space, where governance extends beyond facilitation into active spatial design.

In Southeast Asia, Ong (2011) introduces the concept of hyperbuilding to describe exceptional urban zones produced by state–corporate alliances. These megaprojects—ranging from new capitals to high-tech corridors—represent sovereign interventions that bypass conventional governance procedures. Policy-induced urbanization, in this sense, is not simply about physical development but about the assertion of territorial control and the attraction of transnational capital.

Other scholars have challenged the assumption that urbanization follows a linear, universal path. Robinson (2016), for instance, emphasizes “ordinary cities” and off-path trajectories where urban change is guided by experimental state interventions. Swyngedouw and Brenner add to this discussion by framing the state as a “spatial entrepreneur,” reorganizing landscapes to facilitate capital accumulation and socio-technical control. Brenner and Schmid (2015) further suggest that urbanization today is nearly omnipresent, often extending into peripheral or frontier regions through state-led interventions. From this vantage point, policy-induced urbanization is one expression of the state’s ongoing attempt to extend urban logics into non-urban spaces for strategic purposes.

Collectively, these contributions establish policy-induced urbanization as a distinct form of transformation: one that is deliberate, top-down, and strategic. It is most visible in frontier regions, new capital city projects, and other sites where governments use urbanization as a tool for integration, economic restructuring, symbolic projection, or territorial control.

Asia’s experience offers especially rich insights. The landmark volume *The Extended Metropolis: Settlement Transition in Asia* (Ginsburg, Koppel, & McGee, 1991) illustrates how urbanization in this region departs from the classic European and North American sequence of industrialization, rural-to-urban

migration, and urban consolidation. Instead, Asian urbanization often unfolds in hybrid forms, shaped by rural–urban interactions, state interventions, and global economic linkages.

A key concept introduced in this work is the extended metropolis, in which metropolitan regions stretch far beyond their administrative cores into rural zones undergoing rapid demographic and economic change. McGee (1991) famously coined the term “desakota” to capture these transitional landscapes: dense regions where agriculture, industry, and services coexist, and where boundaries between rural and urban blur. These spaces illustrate how urbanization in Asia is highly contextual, mediated by state planning, infrastructure development, and household adaptation strategies.

Although the Extended Metropolis volume predates the language of “policy-induced urbanization,” its case studies clearly highlight the role of policy decisions in shaping settlement transitions. State-led regional planning, industrialization strategies, infrastructure provision, relocation schemes, and even decentralization policies have all contributed to the creation of new urban forms across Asia. Whether through the establishment of industrial estates, the construction of highways and ports, or the deliberate relocation of populations, governments have actively produced the conditions for urban expansion.

Seen in this light, the distinction between “organic” and “policy-induced” urbanization lies not only in the speed of change but also in its underlying logic. Organic urbanization tends to be bottom-up, driven by market dynamics and population movements, while policy-induced urbanization is top-down, guided by political, economic, and symbolic objectives of the state. Yet these forms often overlap, producing hybrid landscapes that embody both local initiative and state planning (**Table 1**)

Table 1 Differences Between Organic and Policy-Induced Urbanization

Comparative Aspect	Organic (Spontaneous) Urbanization	Policy-Induced Urbanization
Primary Drivers	Society, local economic actors, migrants, and informal communities.	The state (central/regional), technocratic planners, large investors, authority bodies, and political actors.
Logic of Spatial Production	Response to local economic dynamics, social mobility, and livelihood needs.	Spatial engineering to achieve political, economic, ideological, or geopolitical objectives.
Main Impetus	Natural population growth, spontaneous migration, economic agglomeration, and social networks.	Policy interventions: capital relocation, new city development, industrial zones, and national strategic projects.
Spatial Growth Pattern	Gradual, incremental, often physically disordered but with social regularity.	Planned, systematic, often zonal and following technocratic patterns or long-term development visions.
Role of Infrastructure	Infrastructure develops gradually in response to population and economic activity.	Infrastructure is built first as a driver of urbanization (e.g., toll roads, airports, ports).
Local Community Involvement	High; the community acts as a primary agent in space production, albeit often informally.	Low to limited; the community is more an object of projects and policies, sometimes facing relocation or exclusion.

Comparative Aspect	Organic (Spontaneous) Urbanization	Policy-Induced Urbanization
Settlement & Economic Patterns	Heterogeneous, informal, growing from basic needs and local logic (e.g., urban kampungs, traditional markets).	Formal, engineered with strict zoning (elite housing, business districts, government zones).
Impact on Social & Cultural Assets	Relatively preserved; local social and cultural interactions continue and form the basis of spatial adaptation.	Often causes cultural and social dislocation; spatial homogenization and alienation of local communities.
Local Historical Continuity	Integrates with local history; space evolves from a pre-existing spatial heritage.	Often disrupts historical traces and local values due to new, non-contextual design schemes.
Economic & Social Sustainability	Tends to be sustainable as it arises from real needs and community adaptation.	Potentially stagnant if projects fail to meet expectations or depend solely on the state budget.
Flexibility to Change	High; easily adapts to economic and social changes.	Low; space is rigid due to long-term planning and is bound by regulations and institutional structures.
Vulnerability to Social Conflict	Conflicts may arise locally but are often resolved through community social mechanisms.	High; prone to agrarian conflicts, marginalization, access inequality, and resistance to top-down development.

Comparative Aspect	Organic (Spontaneous) Urbanization	Policy-Induced Urbanization
Case Examples	Urban kampungs in Jakarta, dense settlements in Manila, fringe zones of Hanoi or Yangon.	Nusantara (IKN), Putrajaya in Malaysia, Songdo in South Korea, industrial zones in Tianjin (China).

This framework is particularly relevant to the development of Indonesia’s new capital city, Nusantara. As in other Asian contexts, the transformation of East Kalimantan is not merely the result of migration or market forces but of deliberate state intervention. Understanding this process through the lens of policy-induced urbanization enables us to situate Nusantara within a wider comparative field, where capital cities, frontier developments, and state-led experiments have long reshaped the geography of urbanization.

This comparison underscores the contrast between two modes of urban transformation. Organic urbanization emerges as a bottom-up process, rooted in local contexts and adaptive responses to everyday social and economic needs. By contrast, policy-induced urbanization is more hegemonic and symbolic in nature, engineered through deliberate state intervention and institutional design. In reality, these two forms are not mutually exclusive; they often overlap and interact in complex ways. Yet, distinguishing between them provides an important analytical lens for understanding the varied social, spatial, and political consequences of urbanization—particularly in the Asian context, and most pertinently in Indonesia’s ongoing experiment with the development of Nusantara.

The Asian experience of urbanization reveals that state policies play a decisive role in shaping settlement transitions. Four

major mechanisms are especially significant:

1. Regional Planning and Industrialization Strategies

Governments across Asia have actively directed economic and spatial growth through regional planning, zoning, and the establishment of industrial estates or special economic zones. When industrial zones are located at the edge of cities or in strategic rural areas, they trigger shifts in land use, labor migration from agriculture to non-agricultural sectors, and the growth of supporting facilities such as housing, markets, and transport services. In this sense, regional planning acts as a powerful tool for producing new urban landscapes.

2. Infrastructure Provision as State Intervention

The construction of highways, ports, electricity grids, water systems, and communication networks has been central to the state's extension of urbanization into rural areas. These projects create the physical preconditions for investment and mobility, integrating villages into metropolitan networks. State-financed infrastructure, whether through national budgets or public-private partnerships, does not simply support urbanization—it actively produces the material foundations of urban space.

3. Relocation and Regional Development Projects

Population relocation, the construction of new towns, and “growth pole” programs represent explicit state-led urbanization strategies. Governments have relocated communities, built administrative capitals, and designated strategic areas as new growth centers to achieve economic, political, or symbolic objectives. These interventions often create urban-like forms even in places previously considered rural, underscoring the top-down nature of policy-induced urbanization.

4. Decentralization and Local Governance Initiatives

Since the 1990s, many Asian countries have pursued decen-

tralization, empowering local governments to design and implement their own development policies. Local authorities, competing for investment, often build infrastructure, establish industrial zones, and promote commercial expansion. While this sometimes leads to fragmented or disorderly growth, it also demonstrates how state power is exercised not only centrally but also through local actors. Decentralization thus represents another dimension of policy-induced urbanization—one shaped by the interplay between local political ambition and market logic.

2.2. THE DEVELOPMENT OF NUSANTARA AS A NATIONAL STRATEGIC PROJECT

The idea of relocating Indonesia's capital is not a sudden or isolated decision. It has a long history, dating back to the early years of independence and even earlier, to the colonial period. What is unfolding today in East Kalimantan—through the creation of Ibu Kota Nusantara (IKN)—is the culmination of decades of debate, hesitation, and shifting political priorities.

During the Dutch colonial era, concerns over Batavia's (now Jakarta) unhealthy climate and congestion led to proposals to move the capital to Bandung or Surabaya. Bandung was seen as more livable due to its cooler climate, while Surabaya was valued as a port and defense hub in an emerging economic region.

After independence, President Soekarno envisioned a bold alternative: Palangkaraya, in Central Kalimantan. Its location at the geographic heart of the archipelago symbolized national unity and balance. The Soekarno Monument in Palangkaraya and early Soviet-assisted infrastructure projects stand as remnants of this vision. Yet, logistical challenges, political instability, and diplomatic preferences for Jakarta eventually buried the plan.

The notion resurfaced under President Soeharto, who identified Jonggol in West Java as a potential site. A presidential decree

in 1997 even laid the groundwork for development. However, the Asian financial crisis and the political turmoil of the late 1990s halted progress. Later, President Susilo Bambang Yudhoyono revisited the issue amid worsening traffic congestion and flooding in Jakarta, offering several alternatives: to modernize Jakarta, to move only its administrative functions, or to build an entirely new city. These ideas, however, remained largely conceptual.

It was under President Joko Widodo that the relocation plan gained decisive momentum. Incorporated into the National Medium-Term Development Plan (RPJMN) 2020–2024, the project was formally launched in 2022. East Kalimantan, specifically areas within North Penajam Paser and Kutai Kartanegara regencies, was chosen as the site for the new capital. The city was given the name Ibu Kota Nusantara—a symbolic reflection of Indonesia's identity as a maritime and archipelagic nation. The vision is ambitious: by 2045, Nusantara is projected to become a “World-Class City for All,” aligning with the Sustainable Development Goals and structured in three stages—initial development (2020–2024), core consolidation (2025–2035), and completion of infrastructure and ecosystems (2035–2045).

2.3. URBANIZATION AND ITS IMPACT ON RURAL PATTERNS

The establishment of IKN represents more than the construction of government buildings; it signifies a profound reordering of space, economy, and society. Until recently, the urban centers of East Kalimantan were concentrated in Samarinda and Balikpapan. Now, a new urban core is being created in Sepaku, reshaping the regional landscape.

For surrounding villages, this shift is transformative. Before the capital's relocation, livelihoods in Sepaku and nearby areas were anchored in agriculture, plantations, forestry, and small-scale fisheries. These rural economies, largely subsistence-based

with limited integration into wider markets, now face dramatic change. The designation of Sepaku as part of the IKN zone triggered a surge in demand for goods and services linked to construction and settlement. Local residents began to diversify their income—establishing food stalls, catering businesses, rental housing (*kos-kosan*), water supply ventures, and transport services. Landowners converted fields into housing estates or subdivided them into commercial plots.

This represents a structural transition: from a resource-dependent rural economy to a service- and trade-oriented one. Household income sources are no longer singular but multiple, with some families entering the ranks of a nascent middle class. At the same time, inequalities have sharpened. Those with assets and entrepreneurial capacity thrive, while others with limited capital or skills struggle to adapt.

Urbanization also reshapes demographics. The IKN project has attracted a large influx of migrants—construction workers, professionals, and entrepreneurs—altering both the scale and composition of the population. Villages accustomed to gradual demographic change now face rapid growth, with a swelling share of working-age residents and a diversification of lifestyles and consumption patterns. The multicultural character of Sepaku, rooted in earlier transmigration programs and forestry settlements, has cushioned potential tensions. Yet, pressures on infrastructure and public services—schools, health facilities, water, electricity, and waste management—have intensified.

Spatially, the transformation is even more visible. Agricultural landscapes and industrial forests are giving way to residential clusters, commercial strips, and transport corridors. Land along main roads has soared in value, prompting widespread conversion. Simultaneously, the government is laying down the skeleton of a new urban system—roads, utilities, and communi-

cation networks—that ties villages into the emerging metropolitan framework of Nusantara.



Figure 1 The connecting road between Maridan and Riko sub-districts, which has been repaired and widened (Photo by Muhammad Yuda Aditya, 2025).

What was once a peripheral rural frontier is now being reimagined and reconstructed as the heart of Indonesia's future capital. The consequences of this transformation—for livelihoods, identities, and landscapes—form the central concern of this book.

The development of supporting infrastructure and the rapid conversion of land have begun to reconfigure the spatial identity of villages surrounding Ibu Kota Nusantara. What were once distinctly rural settlements are now evolving into peri-urban zones—spaces where rural and urban characteristics coexist and interact.

In these transitional landscapes, villagers often maintain agricultural and plantation activities, yet at the same time engage in services, trade, construction, and other tertiary-sector opportunities that have proliferated since the capital's relocation proj-

ect began. The coexistence of traditional livelihoods with emerging urban-oriented occupations illustrates the hybrid character of peri-urban life.

Such spatial change, however, is not without consequences. The reallocation of land from farming to non-agricultural uses raises concerns over food security, as productive areas shrink and local self-sufficiency weakens. Ecological resilience is also under strain, with forested and agricultural ecosystems giving way to built environments. Moreover, the task of managing rural spatial planning has become increasingly complex, as competing demands for housing, infrastructure, commerce, and agriculture collide in a rapidly transforming landscape.

2.4. THE EXPANSION OF ECONOMIC SPACE FROM URBAN TO RURAL

The rapid development of infrastructure and the conversion of land use around Ibu Kota Nusantara (IKN) are reshaping the spatial and economic landscapes of its surrounding villages. What were once rural spaces, marked by agrarian and extractive economies, are now transforming into peri-urban zones—hybrid areas that simultaneously carry the imprint of rural and urban characteristics. Local communities continue to engage in agriculture and plantations, but they increasingly diversify into trade, services, transport, and other tertiary sectors that have emerged in tandem with the construction of IKN. This shift highlights the profound consequences of spatial change, particularly in relation to food security, ecological resilience, and the increasingly complex task of managing rural spatial planning.

Urbanization in this context is not organic; rather, it is driven by state policy through the designation of IKN as a National Strategic Project. Until recently, the urban cores of East Kalimantan were concentrated in Samarinda, the provincial capital, and Balikpapan, the gateway city. The creation of IKN introduces a

new urban core in Sepaku District, spanning parts of North Penajam Paser and Kutai Kartanegara Regencies. These areas were previously dominated by primary sector livelihoods—agriculture, plantations, forestry, and mining—particularly within the designated IKN territory of Sepaku, where industrial forest enterprises and smallholder farming shaped the local economy.

The initial phase of IKN construction has focused on the Central Government Core Area (KIPP) and supporting infrastructure such as mobility corridors, water supply systems, and waste treatment facilities. Around this core, settlement growth and business development are emerging in response to the influx of newcomers. These dynamics are not confined to East Kalimantan alone but are shaped by labor and capital arriving from across Indonesia, including migrants from Sumatra and Java. Workers, organized by project teams, typically live in collective housing and commute to construction sites using shared transport.

The presence of these workers has stimulated the growth of new businesses, ranging from micro-enterprises to large-scale ventures, established by both locals and migrants. Local residents often serve as intermediaries in land acquisition or construction facilitation, while outside investors dominate ownership and management. The supply chains that sustain these new economic activities extend well beyond Kalimantan, with building materials sourced from Samarinda, Banjarmasin, and even Java. Similarly, agricultural produce is still largely imported from Banjarmasin, Sulawesi, and Java, underscoring the dependence of the new capital on external food systems.

The government has attempted to increase local participation by providing training programs, particularly in agriculture. Hydroponic farming, for example, has been introduced and adopted by some villagers, generating additional income through sales to households, restaurants, and catering services catering to

construction workers. Nevertheless, limited skills and low wage levels have constrained broader local engagement in high-value sectors of the construction boom. Many villagers perceive wages in formal projects as insufficient, preferring instead to pursue opportunities in supplying goods and services to migrants, particularly in accommodation, transport, and retail.



Figure 2 Rental housing and transportation used by workers in IKN (Photo by Maulidia Savira Chairani, 2025).



Figure 3 One of the businesses established by an external investor (Photo by Maulidia Savira Chairani, 2025).



Figure 4 A local resident developing a hydroponics system (Photo by Maulidia Savira Chairani, 2025).

While Sepaku has been the epicentre of development, the diffusion of IKN-related infrastructure projects has extended the reach of urbanization. Sub-districts such as Maridan and Riko, located beyond the formal IKN boundary, are now experiencing economic restructuring due to toll road construction, a new airport, and planned water and energy infrastructure. These “beyond IKN” areas, formerly reliant on plantations and forestry,

are undergoing diversification similar to Sepaku, with investments in services and commerce reflecting the ripple effects of the capital's construction.

2.5. COMPARATIVE PERSPECTIVES ON PLANNED URBANIZATION

The relocation of Indonesia's capital illustrates how policy-driven urbanization can transform rural frontiers into emergent urban spaces. The diversification of economic activities in and around IKN underscores how infrastructure development, investment flows, and migration collectively reshape local economies. Similar trajectories can be observed in other nations that have relocated their capitals, offering important lessons for Indonesia.

In Brazil, the construction of Brasília in 1956 was intended to modernize the nation and integrate the interior. The new capital rapidly attracted migrants and stimulated the growth of satellite cities, though uneven planning produced sharp spatial inequalities (Costa & Lee, 2019). Tanzania's relocation of its capital from Dar es Salaam to Dodoma, fully accelerated in 2016, combined bureaucratic migration with physical development. Dodoma's population grew by more than 40% since 2000, prompting urgent investment in housing, infrastructure, and services (World Bank, 2022). Malaysia's development of Putrajaya in 1995 showcased a futuristic "garden city" administrative hub, which successfully moderated environmental pressures but suffered from limited social vibrancy and a lack of inclusive public spaces (Morris et al., 2015).

Table 2 Characteristics of New Capitals in Indonesia, Brazil, Tanzania, and Malaysia

Aspect	IKN (Indonesia)	Brasília (Brazil)	Dodoma (Tanzania)	Putrajaya (Malaysia)
Year of Construction	2022–present	Started 1956, inaugurated 1960	Started 2016, inaugurated as capital 2023	Started 1995, official administrative capital 1999
Purpose of Relocation	Equitable development, smart & green city	Decentralization, symbol of national modernization	Decentralization, economic & political equity	Reduce burden on Kuala Lumpur, green administrative hub
Urbanization Pattern	Phased urbanization via infrastructure	Rapid growth of satellite cities (~27 cities)	Rapid settlement growth >400% (2000–2020)	Centralized, but limited social activity
Main Challenges	Local inequality, socio-cultural integration	Center-periphery spatial inequality	Uneven infrastructure and public services	Limited nightlife & active community
Environmental Strategy	Green & smart city concept	Modernist grid, limited green space	Not dominant in initial planning	Garden city, artificial lake system
Relevance for IKN	Potential for repeated inequality if not inclusive	Importance of planning for satellite regions	Need to anticipate migration surges and settlements	Need to activate social spaces and nightlife

Source: Adapted from Costa & Lee (2019); World Bank (2022); Morris et al. (2015)

Indonesia's experience shares elements with each of these cases but also reflects unique challenges. Unlike Brasília, Putrajaya, or Dodoma, IKN is being developed within a region of low population density and extensive production forests. Its urbanization pattern is still in its formative stages, marked by infrastructure under construction, partial regulation, and the organic emergence of economic activity along corridors. The government's objectives—relieving Jakarta's environmental burden, redistributing development, and anchoring growth in eastern

Indonesia—reflect a broader agenda of national rebalancing.

As with other relocated capitals, however, IKN faces significant challenges: ensuring sufficient population growth to sustain city functions, managing waves of migration, preventing inequality, and balancing rapid urbanization with ecological protection. Concepts such as the “forest city” and “smart city” have been promoted to integrate environmental sustainability with technological innovation. Yet, the effectiveness of these strategies depends on implementation, as the risks of land speculation, food insecurity, and uneven benefits remain pressing.

The comparative experiences of Brasília, Dodoma, and Putrajaya highlight both opportunities and risks. They suggest that inclusive planning, investment in satellite and partner regions, and careful management of migration flows are crucial for mitigating inequality and sustaining balanced urbanization. For IKN, the challenge is not merely to build a new capital but to anchor it within a wider regional system that links Balikpapan, Samarinda, and surrounding rural territories. Only then can the project avoid the pitfalls of exclusionary or unsustainable development and fulfill its promise as a transformative driver for Kalimantan and the Indonesian archipelago as a whole.

Chapter 3. Characteristics of Rural Diversification in Resource-Frontier Region

3.1. AGRICULTURAL DIVERSIFICATION

The agricultural transformation occurring in the vicinity of Ibu Kota Nusantara (IKN) illustrates multifaceted dynamics—ecological, economic, political, and cultural. Livelihood diversification based on agriculture, whether through the shift from food crops to commercial plantations, transitions into agribusiness, or the adoption of coastal aquaculture, constitutes part of a broader agrarian transition (Bryceson, 1996; Rigg, 2006). These changes signify a movement from subsistence-based systems to market-oriented economies, expedited by state intervention and the logic of large-scale infrastructure development.

Patterns of agrarian diversification such as the conversion of rice fields into oil palm plantations, the substitution of rubber with cocoa or bananas, and the transition from dryland farming to shrimp ponds reflect the adoption of livelihood diversification strategies by farming households (Ellis, 2000; Scoones, 1998). These strategies respond not only to the pursuit of greater livelihood stability but also to environmental pressures (flooding, drought, water quality), market instability, and structural pressures induced by the IKN development. Thus, diversification in this context tends to be defensive, aimed at sustaining livelihoods in the face of socio-ecological uncertainties.

The state plays a central role as a spatial entrepreneur (Brenner, 2004), accelerating agrarian transformation through direct policies and interventions such as seed distribution, deforestation control, and spatial reconfiguration. In this sense, agricultural diversification in the IKN region is not solely a product of market forces or local adaptation but part of a broader state-led spatial restructuring project (Scott & Storper, 2015). IKN acts as a catalyst integrating agrarian regions into a national economy governed by capitalist and urban logics.

This process, however, is not free from social conflict and ecological injustice. Political ecology (Blaikie & Brookfield, 1987; Robbins, 2004) provides a lens through which agrarian change is understood not merely as rational choice but as shaped by power structures controlling access to land, water, and natural resources. Indigenous communities such as the Balik and Paser have experienced marginalisation and dispossession of traditional productive territories due to development projects and inequitable compensation schemes. Agricultural diversification in these cases has unfolded through unequal and often coercive processes, with greater adaptive capacity concentrated among better-capitalised in-migrants.

Around IKN, agricultural diversification also signals new rural-urban intermediation forms within a context of extended urbanisation (Brenner & Schmid, 2015). Instead of a rigid village-city dichotomy, the area demonstrates hybrid spaces where agrarian and urban logics intersect. IKN's presence imposes pressures on rural livelihoods while simultaneously offering market and infrastructure opportunities. However, the benefits of such transformation are asymmetrically distributed based on social class, ethnicity, and network proximity.

Thus, diversification near IKN should be viewed not merely as organic economic adaptation or ecological response but

as part of a state-driven reconfiguration of productive space. Through the lens of agrarian political economy, this illustrates the tension between national development objectives and local resilience. Livelihood diversification emerges as both a survival mechanism and a form of subordination to broader structures of power.

The characteristics of agricultural diversification in the IKN periphery are shaped by external pressures, policy interventions, local adaptations, and spatial complexities. These transformations reflect not only shifts in rural economic patterns but also the clash between state development narratives and community-based strategies in a rapidly evolving frontier landscape.

A notable transition is observed from subsistence-oriented food production to market-driven commodity agriculture. This shift not only reflects changing crop choices but also community responses to increasing ecological stress and newly emerging economic opportunities triggered by IKN. Farmers report rice cultivation as increasingly unprofitable due to climate risks: "Growing rice yields nothing anymore due to floods and droughts; that's why we switched to oil palm," one of the farmers explained. Oil palm is viewed as more economically stable, despite requiring long-term investment and carrying ecological trade-offs.

In addition to oil palm, aquaculture—particularly shrimp farming—has become a long-standing component of rural diversification. One of the locals recounted, "Shrimp ponds started around 1978, replacing coconut and maize farming," reflecting a long-standing agrarian adaptation to land and market conditions. However, emerging commodities also face price volatility. For example, seaweed, which once held promise, now suffers from price fluctuations: "Seaweed became a new commodity, but the price is unstable," a local noted, underscoring that mar-

ket-oriented diversification carries significant risks.

Thus, the direction of change in the agricultural sector reflects a complex interplay between economic drive, environmental adaptation, and the quest for livelihood security through market integration. It also embodies new configurations of rural-state relations in a frontier shaped by rapid national development.

Agricultural diversification around IKN is not solely an economic strategy but also an adaptive response to intensifying environmental stress. Ecosystem degradation, particularly concerning water and soil resources, compels farmers and aquaculturists to shift commodities as a survival strategy. One of the aquaculture farmers reported, “There have been many shrimp harvest failures due to poor water quality in the ponds,” highlighting how water degradation undermines previously reliable livelihoods.

Similarly, in plantation sectors, pest outbreaks present new challenges. As noted by one of the locals, “Oil palms are affected by rhinoceros beetle pests,” indicating that even dominant diversification options face ecological vulnerabilities that threaten farming viability. Environmental pressures also stem from the IKN megaproject itself, which disrupts access to and quality of natural resources, particularly rivers. One of the indigenous people in Sepaku stated, “River water has become murky and salty since the IKN project began,” pointing to direct infrastructural impacts on local ecosystems crucial for agriculture and aquaculture.

Diversification in this context does not necessarily represent linear economic progress. Instead, it reflects defensive adaptations to environmental degradation and production uncertainty. Commodity-switching is thus a form of local resistance to imposed transformations—whether environmental or policy-driven—that may not align with long-term local sustainability.

Agrarian transformation around IKN has not occurred solely through spontaneous responses to market or ecological pressures. Rather, the state has actively initiated changes through agricultural development programs. The government has played a clear role in promoting agricultural diversification, notably by distributing superior seedlings and opening access to new commodities. In villages such as Maridan, the introduction of oil palm was not purely a grassroots initiative but part of a top-down program designed to encourage higher-value crop transitions. As a local explained, "Oil palm was introduced to Maridan in 2006 through a free seedling program," reinforcing the centrality of the state in shaping agrarian change.

The scale of these programs suggests a deliberate long-term policy agenda aimed at reengineering local agrarian structures. Another local highlighted, "Ex-Regent of Penajam Paser Utara's oil palm seedling program covered 4,000 hectares," illustrating a systematic and strategic push for oil palm expansion as a state-led diversification strategy. These initiatives restructure not only agricultural production but also local economic relationships, including dependency on external inputs, profit distribution patterns, and agrarian power relations.

As such, agricultural diversification in this region is not entirely organic or driven by autonomous community choices. It is heavily shaped by policy interventions facilitating the transition from food crops to market-oriented commodities. The state emerges as a key actor in producing new spatial-economic configurations in areas increasingly incorporated into the orbit of strategic national development.

The spatial patterns of agrarian transformation and commodity diversification around IKN are uneven and highly contingent on access, land tenure status, and historical land use. Areas closer to transport infrastructure (e.g., roads, rivers) and

national strategic projects are more likely to experience early land-use conversion from subsistence or forest to commodity production. This indicates that space is not neutral but actively produced and restructured by political-economic forces linking rural geographies to national development logics.

One of the locals noted, “Before 1997, land allocation was informal; after the reform era, it became more formalized,” revealing how post-reform land legalization facilitated agribusiness investment and market integration. Communities with more secure land tenure or earlier formalization thus possess greater capacity to diversify and integrate into the commodity economy.

Furthermore, the presence of land with HGU (Right to Cultivate) status significantly influences transformation trajectories. As another local shared, “The land is still HGU; it was formerly forest cleared for plantation,” showing how land conversion is shaped not only by community action but also by legal land structures that enable large-scale and long-term control. The history of formal and informal land use thus provides critical context for understanding the specific pathways and patterns of diversification, including transitions to oil palm and aquaculture.

Spatial diversification patterns, therefore, are not merely the result of individual or collective choice. They emerge from the interaction of local dynamics, land tenure structures, state policy, and proximity to infrastructure and strategic development projects.

Agricultural diversification around IKN has not unfolded under ideal conditions. While many households have shifted from subsistence farming to market-oriented commodities such as seaweed and shrimp, these changes occur amid limited local adaptive capacity—technical skills, farm management expertise, and market access remain constrained. As one of the farmers noted, “Seaweed became a new commodity, but the price is un-

stable,” highlighting that despite diversification efforts, livelihood sustainability remains fragile due to market volatility and limited bargaining power.

These adaptive limitations are also evident in communities' struggles to manage the production cycles of certain commodities, which often require patience and significant capital. One of the locals stated, “The Babulu Laut indigenous group cannot withstand the long wait for shrimp harvests,” pointing to the tension between modern agribusiness cycles and local livelihood rhythms rooted in shorter-term, more flexible production systems.

Therefore, while a shift toward market-based agriculture is evident, the resilience of diversification remains weak. Policy interventions must go beyond promoting new commodities to strengthening local institutional and economic foundations so that smallholders can survive and thrive in an increasingly competitive production system.

Land-use change near IKN poses a sharp dilemma between ecological interests and local economic needs. On the one hand, strategic infrastructure development—roads, parks, and flood-control systems through river normalization—is seen as part of the national development agenda. On the other hand, these projects directly threaten the living spaces and livelihood resources upon which local communities depend. One resident shared, “Some land will be used for road widening and parks,” indicating that productive land previously sustaining local livelihoods is now being repurposed for state-defined functions.

The tension between development and ecological sustainability is particularly evident in river normalization cases. A community member expressed concern: “River normalization will destroy settlements and ruin fishing livelihoods,” highlighting that physical environmental interventions erode not only

ecological structures but also inherited livelihood systems. Communities are thus not merely losing land in a physical sense but also the social and economic functions of spaces integral to their survival. This exacerbates tensions between national modernization narratives and local spatial governance practices.

Overall, this dilemma underscores the character of state-induced development in peri-rural areas, where land-use change occurs rapidly and top-down, with insufficient mediation of ecological or livelihood concerns. These latent conflicts underscore the need for more spatially and ecologically just policy frameworks and participatory development approaches that respect social-ecological sustainability.

Agrarian transformation around IKN is not merely a technical shift in production systems but also a redefinition of agrarian values and identities. Traditional practices such as shifting cultivation and mixed gardens still exist, symbolizing ecological and cultural relationships with land. One of the locals recalled, “The Paser people used to practice shifting cultivation,” reflecting local spatial governance rooted in ecological balance and generational knowledge.

In recent decades, these systems have been partially integrated into agribusiness logics, marked by the introduction of high-value commodities such as oil palm and fruit into traditional garden structures. Another villager noted, “My parents’ garden is now planted with oil palm and fruits,” revealing a gradual, relational adaptation to markets rather than a wholesale replacement of traditional systems. This transformation has unfolded incrementally through existing social networks.

Such agribusiness integration influences production orientation, shifting from household consumption and local exchange to economic value and market access. This transition entails significant socio-cultural implications, particularly in redefining

farmer identities. Tensions emerge between traditional agrarian logics emphasizing sustainability and ecological balance, and commercial logics prioritizing efficiency, productivity, and profitability. Hence, agrarian transformation is not solely an economic matter but an ongoing negotiation of values and identities in the daily lives of rural communities surrounding IKN.

Social differentiation also characterizes how communities experience and respond to agrarian risk. Migrant groups, particularly from Sulawesi, exhibit greater preparedness for long-cycle production requiring sustained capital, labor, and time investments, as seen in shrimp aquaculture. One of the farmers affirmed, "Migrants from Sulawesi are more patient with shrimp farming than locals," illustrating uneven adaptive capacities and divergent livelihood strategies across ethnic and migratory groups.

Conversely, local communities often avoid high-risk, long-harvest agribusiness ventures. This reluctance is rooted in capital constraints, cultural preferences for quick-return production, and a historical reliance on mixed gardens or shifting cultivation. The resulting diversification patterns are shaped not only by ecological or economic factors but also by social structures that influence livelihood strategies.

This differentiation creates new layers of rural economic stratification driven by population mobility and urbanization. Migrants with stronger market orientation and capital tend to dominate lucrative agrarian enterprises, while local groups fall behind in access to productive land and markets. Within the IKN development context, such disparities demand attention as they risk entrenching socio-economic inequalities and permanently altering agrarian resource control structures.

3.2. DIVERSIFICATION OF THE NON-AGRICULTURAL ECONOMIC SECTOR

The ongoing agricultural transformation around the new capital city (Ibu Kota Nusantara, or IKN) reflects complex dynamics that are not only ecological and economic in nature but also political and cultural. Livelihood diversification based on agriculture—ranging from shifts from food crops to commodity plantations, transitions to agribusiness, and coastal aquaculture—forms part of a broader agrarian transition (Bryceson, 1996; Rigg, 2006). These changes mark a movement away from subsistence systems toward a market-oriented economy, accelerated by state interventions and the logic of large-scale infrastructure development.

Various patterns of agrarian diversification have been identified, such as the conversion of rice fields to oil palm, the replacement of rubber with cocoa or bananas, and the shift from terrestrial farming to shrimp ponds. These illustrate that farming households are adopting livelihood diversification strategies (Ellis, 2000; Scoones, 1998). This diversification reflects not only efforts to secure more stable incomes but also responses to environmental stress (floods, drought, declining water quality), market volatility, and structural pressures associated with IKN development projects. In this context, diversification is more defensive than progressive—an effort to sustain livelihoods amid socio-ecological uncertainties.

Significantly, the state plays a critical role as a spatial entrepreneur (Brenner, 2004), actively driving agrarian transformation through direct interventions and policy tools such as seed distribution programs, deforestation controls, and new spatial planning. Agricultural diversification in this area is not merely a local market adaptation but part of a broader project of state-led spatial restructuring (Scott & Storper, 2015). IKN's development

acts as a catalyst that accelerates the integration of agrarian regions into the national economy governed by capitalist and urbanization logics.

However, this diversification process is not free from social tensions and ecological injustices. A political ecology perspective (Blaikie & Brookfield, 1987; Robbins, 2004) reveals that changes in agrarian systems are not solely the result of rational farmer choices but are shaped by power structures governing access to land, water, and other resources. Certain Indigenous communities, such as the Balik and Paser peoples, have experienced marginalisation and the loss of traditional production territories due to development projects and inequitable compensation mechanisms. As a result, diversification often occurs in coercive or unequal ways, with some groups—such as migrants with greater capital and networks—better able to adapt than others.

The agricultural diversification occurring around IKN also indicates new forms of intermediation between rural and urban areas within the framework of extended urbanisation (Brenner & Schmid, 2015). Rather than reinforcing a strict rural–urban divide, this area exemplifies hybrid spaces where agrarian and urban logics interact simultaneously. IKN's presence has exerted pressure on village livelihoods while opening new market and infrastructure opportunities. Yet, these benefits are distributed asymmetrically, depending on social status, ethnicity, and proximity to power networks.

Thus, agricultural diversification around IKN cannot be understood merely as a natural economic process or ecological adaptation. Rather, it constitutes a spatial reconfiguration of production triggered by the logic of state-led development. From an agrarian political economy perspective, this process reflects a fundamental tension between national development objectives and local resilience. This demonstrates that livelihood diversifi-

cation is ambivalent: on one hand, a survival strategy, and on the other, a form of subordination to broader power structures.

The characteristics of agricultural diversification around IKN reflect a mixture of external pressures, policy interventions, local adaptations, and complex spatial dynamics. This process not only indicates shifts in rural economic structures but also embodies clashes between state-driven development and local livelihood strategies in a changing frontier landscape.

The shift from subsistence farming to more market-oriented commodity production around IKN is not merely about changing crops—it also signals local responses to ecological stress and emerging economic opportunities linked to IKN’s construction. For example, some farmers reported that rice farming is no longer profitable due to increased risk of crop failure caused by changing environmental and climate conditions. As one of the farmers put it, “There’s no yield from rice because of flooding and drought, so we switched to oil palm.” This demonstrates a move toward crops perceived to be more economically stable, even though they require long-term investment and bring new ecological consequences.

In addition to oil palm, aquaculture—particularly shrimp farming has long been practiced and remains part of ongoing diversification strategies. One of the locals shared, “Shrimp ponds started around 1978, replacing coconut and corn farming,” reflecting a longstanding trajectory of locally driven agrarian transition in response to land and market conditions. Yet, newer commodity types also face market instability. Seaweed, once a flagship product, experienced significant price fluctuations. As stated, “Seaweed became a new commodity, but prices are unstable,” underscoring the inherent risks of market-oriented diversification.

Hence, the direction of change in the agricultural sector

combines economic motives, environmental adaptation, and attempts to improve welfare through integration into market economies. These shifts also reflect new forms of interaction between rural communities and large-scale state development processes in frontier zones like IKN.

Agricultural diversification in the IKN area is not merely a strategy for improving economic welfare, but also a form of adaptive response to intensifying environmental pressures. Ecosystem changes, particularly affecting water and soil resources, compel farmers and aquaculture practitioners to shift commodities as survival strategies. One of the aquaculture farmers noted, "There are many shrimp pond failures due to poor water quality," showing how declining aquatic environments directly affect local livelihoods. Shrimp farming, once a main income source, is no longer reliable due to pollution and degraded water quality.

Similarly, in plantation sectors, challenges such as pest infestations force farmers to seek alternative crops. As a farmer stated, "Oil palms are affected by rhinoceros beetles," showing that even oil palm, a popular diversification choice, is vulnerable to ecological threats. Environmental pressures also originate from IKN megaprojects that degrade natural resources, especially rivers. One of the locals remarked, "The river has become murky and salty since the IKN project began," indicating direct infrastructure-induced impacts on the ecosystems supporting agriculture and fisheries.

In this context, diversification does not necessarily reflect linear economic progress, but rather defensive adaptations to environmental degradation and production uncertainty. Crop-switching becomes a form of resistance to externally imposed changes, both ecological and developmental that do not fully support local sustainability.

Agrarian transformation in the IKN area is not merely a

spontaneous response to market or environmental pressures; it is also actively initiated by state interventions through various agricultural development programs. The government plays a visible role in encouraging diversification, particularly through the provision of high-yield seeds and facilitating access to new commodities. In villages such as Maridan, the introduction of oil palm was not a purely local initiative but part of a formal program to replace traditional crops with higher-value commodities. As one of the community representatives noted, "Oil palm was introduced in Maridan in 2006 through a free seed program," highlighting the state's central role in shaping local agrarian trajectories.

Moreover, the scale of these programs suggests long-term policy intent to engineer local agrarian structures. One of the community representatives said, "The 4,000-hectare oil palm seed program was introduced by Ex-Regent of Penajam Paser Utara," indicating a systematic and planned push for oil palm expansion as a state-led diversification strategy. Such programs not only reshape the agricultural production landscape but also restructure local economic relations, including dependency on external inputs, distribution patterns, and power dynamics in the agrarian sector.

Thus, agricultural diversification in the IKN area is not entirely organic or autonomously community-driven, but largely shaped by policy interventions facilitating the transition from food crops to market-oriented commodities. This underscores the state's role as a key actor in producing new economic and spatial configurations within the orbit of strategic national development.

Agrarian transformation and commodity diversification around the IKN site reveal spatially uneven patterns highly dependent on accessibility, land tenure status, and historical land

use. Areas closer to transport infrastructure (roads, rivers) or strategic projects tend to experience earlier land-use conversion from subsistence or forested uses toward market-oriented production. This indicates that space is not neutral—it is produced and restructured by political-economic forces linking rural spaces to national development logics.

One of the local community representatives stated, “Before 1997, land division was informal; after reform, it became more formalized,” indicating that the post-reform era facilitated legalisation processes that paved the way for agribusiness investment and integration into national markets. This also means that communities in areas with more secure tenure or early formalisation had greater opportunities to diversify and integrate into the commodity economy.

Additionally, lands under HGU (Right to Cultivate) status are critical to shaping the direction of agrarian change. As another local noted, “The land is still HGU; it used to be forest but was cleared for plantations,” highlighting that land-use shifts involve both informal community actions and formal legal structures enabling large-scale, long-term control. The history of spatial use—both formal and informal—is thus central to understanding why and how certain areas experience specific forms of commodity diversification, including shifts to oil palm and aquaculture.

In sum, spatial patterns of diversification result not only from individual or community choices but from the interaction between local dynamics, land tenure structures, state policies, and proximity to infrastructure and strategic development projects.

Agricultural diversification around the IKN development area does not occur under ideal conditions. While communities have shifted from subsistence food production to market commodities such as seaweed and shrimp farming, these transitions often take place amidst limited adaptive capacity—technically,

managerially, and in terms of market access. One of the locals noted, “Seaweed is a new commodity, but prices are unstable,” indicating that while there is an effort to expand commodity types, their long-term sustainability remains vulnerable due to price volatility beyond the control of small-scale producers. This highlights the weak bargaining position of farmers in the value chain and the limited protective mechanisms against market risks.

Additionally, adaptive limitations are evident in the difficulty of managing certain commodity cycles, which require patience and greater capital. As another local stated, “The original Babulu Laut people can’t wait for shrimp pond harvests,” it is clear that preferences for quicker returns and daily consumption needs often conflict with the demands of modern agribusiness, which require long-term resilience. This suggests that diversification does not automatically improve welfare unless accompanied by capacity-building, supportive infrastructure, and protections from market fluctuations.

Hence, despite the shift toward market-based agriculture, the resilience of these diversification efforts remains fragile. Policy interventions are needed not only to promote commodity changes but also to strengthen institutional and economic foundations, enabling farmers to survive and thrive within an increasingly competitive production system.

The conversion of agricultural land around the IKN raises a stark dilemma between ecological interests and the economic needs of local communities. On one hand, strategic infrastructure development—roads, parks, and flood control through river normalization—is seen as part of a national agenda that must proceed for long-term benefit. On the other hand, these projects directly threaten the living spaces and livelihoods of communities that depend on the ecological and productive functions

of such land. One of the locals stated, “Part of the land will be taken for road and park expansion,” reflecting how agricultural lands that once sustained livelihoods are being sacrificed for new state-defined functions.

The tension between development and ecological sustainability is even more pronounced in cases of river normalization. A resident shared, “River normalization will destroy settlements and disrupt fishing livelihoods,” signaling that environmental interventions impact not only ecosystems but also deeply embedded livelihood systems. In this context, communities are not just losing physical land—they are also losing the social and economic functions of the spaces that have supported them for generations. This creates a rift between national narratives of spatial modernization and the lived realities of local populations who face disruption in traditional spatial governance.

Overall, this dilemma exemplifies the characteristics of state-induced development in rural–peri-urban areas, where land-use changes occur rapidly and top-down, with little mediation of ecological or livelihood concerns. This latent conflict opens a critical space for developing more spatially and ecologically just policies, reinforcing the need for participatory and socially sensitive development approaches.

In the areas surrounding IKN, agrarian transformation not only entails technical changes in production systems but also reflects shifts in agrarian values and identities. Some traditional agricultural practices persist, such as shifting cultivation and mixed gardens, which represent ecological and cultural relationships with agrarian space. As one of the locals recalled, “The Paser people used to practice shifting cultivation,” this indicates spatial management rooted in local wisdom and generational knowledge that balances production needs with ecological regeneration.

However, in recent decades, these practices have partially integrated into agribusiness logics, as high-value commodities like oil palm and fruits are introduced into traditional garden structures. One of the locals observed, “There’s an old family garden now planted with oil palm and fruit trees,” suggesting that transformation occurs through spatial adaptation to markets rather than wholesale replacement of older systems. In other words, the change is not revolutionary, but gradual and embedded in existing social networks.

This integration also affects production orientations, shifting from household consumption and local exchange toward economic valuation and market access. Such transformations carry significant socio-cultural implications, particularly in redefining the identity of farmers. This transition introduces tensions between traditional agricultural logics—emphasizing sustainability and ecological balance—and commercial farming logics that prioritize efficiency, productivity, and profitability. In this regard, agrarian transformation is not solely economic, but also a continuous negotiation of values and identities among rural populations around IKN.

Agricultural diversification around IKN also reveals deep social differentiation between local and migrant groups in responding to agrarian risks. Migrants, particularly from Sulawesi, appear more prepared to manage long production cycles requiring financial, labor, and temporal resilience, as seen in shrimp farming and fisheries. As a local explained, “Migrants from Sulawesi are patient in waiting for pond harvests, unlike the locals,” underscoring disparities in adaptive capacity and economic strategies across ethnic and migratory lines.

In contrast, local populations tend to avoid high-risk agrarian ventures with long harvest periods. This reluctance is shaped by limited capital, cultural preferences for quick-yielding pro-

duction, and agrarian histories rooted in mixed or shifting cultivation systems that offer more flexible and short-term returns. Consequently, emerging diversification patterns are shaped not just by ecological or economic factors but also by social structures that differentially influence livelihood strategies.

This inequality introduces new layers of rural economic stratification driven by mobility and urbanization, where migrants with stronger capital and market orientations dominate high-return agrarian enterprises, while locals fall behind in access to productive land and markets. In the context of IKN development, this differentiation is crucial, as it risks deepening socio-economic disparities and altering agrarian resource control structures irreversibly.

3.3. THE ROLE OF MSME

Usaha Mikro, Kecil, dan Menengah (UMKM) or Micro, Small, and Medium Enterprises (MSME) play a vital role in rural diversification in the context of IKN, Indonesia's new capital and a center of emerging economic activity. The construction and development of IKN have stimulated new economic opportunities, especially in surrounding areas such as Sepaku Subdistrict. The presence of the IKN project has triggered an influx of new residents—particularly construction workers—and intensified rural activity. This demographic shift has increased the demand for various goods and services to meet the needs of newcomers.

Such conditions create entrepreneurial openings for local communities, enabling the development of various businesses—particularly MSME—as alternative sources of livelihood. Most MSME emerging around IKN focus on fulfilling basic needs of incoming populations, including food stalls, repair workshops, laundries, and other service-oriented enterprises.

MSME constitute a defining feature of rural diversification.

They act as key drivers of local economic activity, contributing to job creation, local economic growth, and broader economic expansion. Often highly productive and diverse, MSME operate across sectors—from services and small-scale industry to agriculture. Their reliance on local resources also helps strengthen rural economies and supply chains by involving local actors and communities.

In addition to fostering new businesses, MSME also serve as a crucial economic support system for households by providing additional income or “second income.” This highlights that rural diversification contributes not only to economic development but also to social resilience, strengthening household economic security and reducing dependency on agriculture alone. This dynamic is illustrated in the following statement excerpts:

“They run food stalls, guesthouses, laundries. That’s their second income.” — Local villager 1 in Sukaraja

“I’ve been running a catering business for 20 years, and now I have a side business. Since IKN came, the economy has taken off—it’s easier to earn money. Now I run this rental service, all thanks to IKN.” — Local villager 2 in Sukaraja

“The most common businesses are guesthouses. Then there’s laundry services. Then food stalls, catering, vehicle rentals, and land subdivision ventures.” — Local villager 1 in Sukaraja

These testimonies demonstrate how MSME are central to the evolving economic landscape around IKN—supporting both household resilience and broader rural transformation

3.4. SOCIO-SPATIAL DIMENSIONS

The transformation of agricultural land use in the vicinity of Indonesia’s new capital city (IKN) development site demonstrates a significant shift from subsistence farming toward mar-

ket-oriented commodity agriculture. One of the most prominent trends is the conversion of food crop cultivation—such as rice—into oil palm plantations. This shift is often driven by ecological constraints faced by farmers, including floods and droughts that hinder productivity. As one of the farmers noted, “Planting rice yields no results due to floods and droughts, so we switched to oil palm,” reflecting an adaptive logic in response to climate risks and harvest uncertainty.

Rubber, banana, and cocoa plantations—previously integral to local agrarian systems—have gradually been replaced by oil palm, which is perceived as more economically promising in the long term. “We used to grow rubber, and had tried bananas and cocoa,” one resident shared, indicating a history of crop diversification that has since evolved in response to changing commodity dynamics. In many cases, this land conversion is not solely a matter of individual household decision-making but is also influenced by state-led intervention programs. “Oil palm came to Maridan in 2006 through a free seedling distribution program,” points to how government assistance schemes have facilitated the expansion of palm oil cultivation.

The emergence of oil palm as a primary crop did not occur spontaneously. Since the early 2000s, this commodity was introduced as a solution to deforestation and as a substitute for less productive farming systems. “Oil palm came in the 2000s, initially because of concerns about deforestation,” remarked one resident, suggesting that environmental conservation discourse was used to justify palm oil penetration. Consequently, many long-established farms—whether inherited from parents or previously used for fruit cultivation—have been converted into oil palm plots. Statements such as “My parents’ orchard is now planted with oil palm and fruits” and “The oil palm and rubber plantations are new, previously it was all fruits” illustrate the

agrarian shift from subsistence diversification to a single-market orientation.

In addition to palm oil, aquaculture has emerged as a new diversification strategy replacing traditional agricultural patterns. Since around 1978, communities have transitioned from coconut and maize farming to aquaculture, particularly shrimp farming. “Aquaculture started around 1978, shifting away from coconut and maize farming,” marks a significant turning point in the restructuring of rural household economies increasingly integrated with seafood markets.

Nevertheless, the expansion of oil palm is not without challenges. Agricultural pests, such as the rhinoceros beetle, pose threats to productivity. As a resident complained, “Oil palms are infested with rhinoceros beetles,” suggesting that despite its market orientation, this form of diversification remains ecologically vulnerable. Thus, the dynamics of land conversion reflect not only rational economic choices but also ecological limitations, market pressures, and structural interventions by the state.

Government programs and institutional actors have played a critical role in shaping rural diversification dynamics around the IKN area. One of the most direct forms of state intervention is the large-scale provision of oil palm seedlings. As one of the local authorities mentioned, “The 4,000-hectare palm oil seedling program was initiated by Ex-Regent of Penajam Paser Utara,” highlighting that palm expansion was not merely community-driven, but actively facilitated by state apparatus and local elites. Such programs not only distributed seedlings but also improved market access, positioning palm oil as a new flagship commodity within rural household economies.

However, the success of these programs cannot be separated from unresolved land governance issues. As one village official stated, “The land is still under HGU [Right to Cultivate]; it used

to be forest land cleared for farming,” indicating that much of the land used for palm cultivation remains under ambiguous or externally controlled legal status (e.g., corporate concessions). This underscores the precarious position of local farmers, who, despite accessing and cultivating land through customary or forest-clearing practices, do not necessarily hold formal legal rights.

Land governance conditions also reflect historical processes that have evolved over time. Prior to the 1998 reform era, land distribution was informal, often based on community networks and local agreements. “Before 1997, land was divided informally; after the reform, it became more formal,” one community member noted, indicating that national political reforms also reshaped local agrarian relations. The post-reform formalization process altered community relations with land and redefined the legitimacy of land claims.

Moreover, local economic diversification has been closely tied to the presence of large companies operating in the region. In this context, concession-holding companies such as ITCI (International Timber Corporation Indonesia) have had a significant influence. “Most residents of Maridan are linked to ITCI,” revealed one of the locals, suggesting that residents’ livelihoods were previously tied to forestry and the timber industry. This industrial peak coincided with the operation of a plywood factory, which later declined. “ITCI thrived when the plywood factory was running, but it shut down between 2008 and 2010,” marking a resource-sector crisis that pushed communities toward other sectors such as agriculture and palm oil plantations.

In conclusion, state interventions through seedling programs, land legalization dynamics, and the role of forestry corporations have emerged as key structural forces shaping contemporary rural diversification. These processes demonstrate how development agendas and institutional shifts intersect with local agrar-

ian experiences, producing a new configuration of rural space and livelihoods in the periphery of the IKN megaproject.

The dynamics of rural diversification in the vicinity of Indonesia's new capital city (IKN) encompass not only economic transformation and land-use change but also social differentiation between local communities and migrants. Differences in cultural background, agrarian experience, and economic orientation have shaped social relations that are not always harmonious and, in some cases, have exacerbated segmentation between the two groups.

One of the most prominent aspects of social differentiation is the divergence in work ethic and household economic strategies. Migrants from outside Kalimantan, such as from Sulawesi, are often described as having greater patience and economic resilience in aquaculture-related activities, such as shrimp farming. As one of the fishers in Babulu Laut and Muara Jawa stated, "Migrants from Sulawesi are patient in waiting for shrimp harvests, unlike the locals," highlighting varying approaches to risk management and harvest cycles. These differences may stem from prior agrarian experiences or more stable or flexible household economic structures among migrant communities.

Divergences in lifestyle and economic aspirations have further deepened social distance. Local residents—particularly the Paser ethnic group—tend to preserve a simpler way of life, eschewing the lifestyle competition often associated with migrant populations. "The Paser people prefer a peaceful life, unlike migrants who have nice houses," reflects not only disparities in economic conditions but also in social and cultural values. The notion of a "nice house" symbolizes not merely material wealth but also a distinct economic capital and a taste for modernity that diverges from local norms.

In daily interactions, value and norm misalignments be-

tween locals and migrants may result in latent social tensions. “Socially, we don’t get along with the Paser,” one of the migrants in Sepaku remarked, indicating that social integration does not automatically follow economic development. On the contrary, cultural diversity can reinforce social divisions in the absence of inclusive spaces that accommodate and bridge such differences.

The roots of this differentiation can also be traced to the historical livelihood systems of the local population. “The Paser people used to practice shifting cultivation,” illustrates a livelihood model highly dependent on access to vast ecological space, which contrasts with the sedentary farming systems and market-oriented commodities (such as shrimp and oil palm) introduced by migrants. As a result, the arrival of newcomers has not only altered the region’s social composition but has also disrupted the spatial logic of the local population, making economic transformation an arena for contesting identities and value systems.

Thus, diversification in this region should not be viewed solely through economic or agrarian lenses. Rather, it involves the formation of new social configurations that pose challenges of integration and social justice across historically, culturally, and structurally distinct communities.

3.4.1. Ecological Disruptions and Resource Crises in Rural Diversification

Ecological degradation and resource crises are critical dimensions in the rural diversification processes around the IKN development zone. Large-scale infrastructure projects such as IKN have placed increasing ecological pressure on local ecosystems, particularly water resources, which are vital for local livelihoods. Rivers that once served as clean water sources and economic lifelines have experienced significant quality degradation. As one of the indigenous community members in Sepaku

Subdistrict observed, “The river water has become murky and salty since the IKN project began,” indicating both saltwater intrusion and pollution resulting from construction activities and land excavation.

This water quality crisis has had direct consequences for shrimp aquaculture—one of the key strategies in aquatic-based agricultural diversification in the region. Shrimp farming, previously economically promising, now faces serious challenges due to the degraded water quality that no longer meets the ecological standards required for cultivation. As one of the fishers in Babulu Laut lamented, “There have been many shrimp harvest failures because the pond water quality is poor,” illustrating the strong connection between environmental health and the viability of new livelihood strategies adopted by rural communities.

Moreover, pressure on water resources is also evident in the uneven distribution of clean water. Under normal conditions, communities rely on river flows and natural springs. However, changes in spatial planning and disruptions to the hydrological cycle have rendered access to clean water increasingly unreliable. “Water is supplied only every two days to river-affected communities,” is a clear indication of basic service limitations resulting from development that has not fully accounted for local ecological capacity or community needs.

Concerns about river widening further underscore the socio-environmental costs of infrastructure development. River normalization projects, which are technically intended for flood control and IKN spatial planning, have sparked uncertainty and anxiety among residents living along riverbanks. “The river will be widened, and the community is worried about the impact of development,” reflects collective apprehensions regarding potential displacement, livelihood loss, and deep environmental degradation.

3.4.2. Ecological Threats and Livelihood Disruptions

Communities surrounding the IKN project site increasingly view ecological degradation as a threat to traditional livelihoods, such as fishing. One of the indigenous community members in Sepaku Subdistrict explicitly stated, “River normalization will destroy settlements and undermine fishing livelihoods,” underscoring the perception that IKN development—if not accompanied by environmentally just and participatory planning—could generate new forms of vulnerability for local populations who rely on natural ecosystems for their subsistence.

Thus, the narrative of ecological disruption illustrates that rural diversification around IKN operates under dual pressures: on one hand, it is driven by structural transformations that promise new economic opportunities; on the other, it is overshadowed by ecological crises that threaten to undermine the long-term sustainability of local livelihoods.

3.4.3. Displacement and the Transformation of Living Spaces

Displacement and the reconfiguration of living spaces represent some of the most urgent and tangible consequences of the IKN development in East Kalimantan. The construction of core infrastructure—including roads, parks, and river normalization—has physically encroached upon residential and communal spaces. The rapid and large-scale nature of these developments has transformed previously secure and established settlements into project zones, creating uncertainty around housing and livelihood continuity.

A particularly concrete example of this threat lies in the planned expansion of road infrastructure and urban parks, which necessitates the conversion of land long inhabited and used by local residents. One of the locals in Sepaku Subdistrict explained,

“Part of the land will be used for road widening and park development,” indicating that spatial transformation extends beyond the administrative core of IKN to reach surrounding traditional settlements.

In water resource management, river normalization projects constitute a new form of structural displacement. Although technically intended to mitigate flooding and safeguard IKN infrastructure, these interventions have direct implications for riverside communities. Residents reported that the “project is destroying settlements, taking 20 meters from either side of the river,” and in some cases “river normalization will affect up to 60–80 meters of settlement,” placing dozens of homes at risk of demolition in service of state technocratic priorities.

Critically, the land in question is not limited to uninhabited or formally designated public spaces. Rather, “some of the cleared land is not forest, but residential areas,” demonstrating a disconnect between top-down development logics and on-the-ground social realities. The classification of land as ‘available for development’ often disregards the histories, livelihoods, and social relations embedded in these spaces. This dynamic is further exacerbated by unilateral actions from private contractors such as IHM, which may act as developers or land operators. One of the indigenous community members in Sepaku noted, “Land along the river, previously cultivated by the Balik Indigenous community, has been blocked by IHM,” illustrating how external actors assert spatial control without adequate consultation or procedural justice.

Taken together, these processes of displacement and spatial transformation reflect a top-down logic of space production, oriented toward state and investment interests while frequently neglecting the human and community dimensions of development. The impact is not merely physical relocation but also the erasure

of social, cultural, and economic spaces that sustain local life. If not addressed through participatory and equitable mechanisms, such development risks deepening inequality, marginalizing vulnerable groups, and leaving lasting social trauma.

3.4.4. Land Value Dynamics and Spatial Contestation

The development of IKN has also triggered dramatic changes in land access and economic valuation in the surrounding areas. As construction activity intensifies and national attention focuses on the region, land prices have skyrocketed, altering rural economic structures and generating new social dynamics. As one of the locals in Sepaku Subdistrict observed “land prices soared after the IKN announcement—from 300 million to several billion,” highlighting land speculation as a defining feature of the post-announcement spatial transition, even prior to the completion of physical infrastructure.

This shift reflects a change in how land is perceived: from a space of residence and production to a tradable and capitalized economic asset. For some, rising land values have created economic opportunities, but for economically vulnerable groups, it has intensified structural pressures. Those who previously accessed land through informal or customary systems now face exclusion as land becomes commodified.

This phenomenon has also encouraged claims to land based on genealogy or settlement history. Some of the locals reveal that “since the IKN issue, many people have made land claims in the name of their ancestors,” reflecting community efforts to assert legitimacy amid land value contestation. These claims serve as adaptive responses to uncertainty and the risk of displacement while revealing how identity and collective memory are mobilized under increasing spatial pressure.

Overall, the changing dynamics of land access and valuation

around IKN illustrate that spatial transformation produces not only physical alterations but also fundamental shifts in the social and economic logic of local communities. Land has become a site of contestation between local residents, the state, and investors—where narratives of ownership, market price, and customary legitimacy intersect. In this context, it is critical to formulate redistributive policies that ensure spatial justice and protect local agrarian rights within the framework of a large-scale national development project.

3.4.5. Commodity Diversification and Structural Challenges

Commodity diversification has emerged as a primary strategy among rural communities surrounding the IKN area in response to economic shifts and pressures on traditional livelihoods. Notably, the development of market-oriented commodities such as seaweed and shrimp farming has gained traction. These commodities are perceived as more economically viable compared to increasingly unreliable food crops, which have been undermined by uncertain agroclimatic conditions and infrastructure development.

The emergence of seaweed as a new commodity signals farmers' efforts to adapt to market opportunities and changing production environments. However, this strategy does not guarantee stable income. One of the local fishers in Babulu Laut remarked, "Seaweed has become a new commodity, but prices are unstable," indicating that although diversification can expand market access and broaden household economic bases, dependence on volatile market mechanisms remains a key vulnerability. Farmers often face selling prices that do not match production costs or labor investments.

In addition to seaweed, shrimp aquaculture has become a major form of economic diversification. This practice began to

gain momentum in the late 1970s as a response to declining coconut and maize yields. Yet this approach brings its own set of challenges, particularly in relation to harvest cycles and relatively high capital requirements. One of the locals also said that “The original inhabitants of Babulu Laut cannot withstand the wait time for shrimp harvests,” underscoring that not all social groups possess the economic resilience to navigate irregular and delayed income streams.

These accounts highlight that commodity diversification in the IKN region does not automatically translate into economic security for all community segments. Shifts toward market-based commodities are often driven by urgent income needs but are constrained by structural factors such as price volatility, limited market access, and unequal adaptive capacity among social groups. Consequently, diversification strategies must be supported by policy interventions that ensure price stability, promote equitable access to value chains, and strengthen local economic institutions and productive capacities so that the benefits of diversification are distributed more inclusively.

3.5. THE ROLE OF MIGRANTS

In the context of IKN development, the arrival of in-migrants signifies not only a demographic shift but also an ongoing socio-economic restructuring in rural areas. Migrants often arrive with greater economic and social capital, enabling them to rapidly gain access to land, resources, and strategic economic activities. This has created a visible gap between local communities and newcomers. As one local community noted, “The Paser people are increasingly marginalized due to dominance by newcomers,” indicating that the presence of migrants has contributed to the marginalization of Indigenous communities that historically owned and managed the local living spaces.

Differences in lifestyle and economic capacity further reflect this growing dominance. For instance, a local resident remarked, “The Paser people want a peaceful life, unlike the migrants who build nice houses.” This statement conveys not only material disparity but also contrasting life orientations—between local groups valuing simplicity and incoming communities driven by social mobility and consumerism. The economic dominance of migrants indirectly fuels shifts in values and social aspirations at the local level.

While the presence of migrants may offer potential for expanding economic networks and creating new opportunities, local communities increasingly express concern that these transformations are not inclusive. One community member stated, “Maridan has become busy again after the IKN issue emerged—many migrants have come, though not too significantly yet.” This reflects an early phase of demographic and spatial transition that remains moderate but may intensify with continued IKN development. This situation poses a major challenge: how to ensure that the ongoing rural diversification benefits not only migrants but also fairly involves and empowers local communities as key agents of change.

Migrants have played a critical role in introducing and expanding aquaculture and fisheries in areas surrounding IKN. Their presence has not only altered social structures but also reshaped local livelihood patterns, especially by contributing skills and patience in managing market-oriented fishery ventures. As one local resident explained, “Migrants from Sulawesi are patient enough to wait for shrimp harvests, unlike locals,” illustrating a divergence in livelihood strategies between migrants and Indigenous residents. Migrants’ endurance in managing long cultivation cycles and tolerating income uncertainty has often given them an advantage in these sectors.

Moreover, migrants have contributed to expanding the local economic base by introducing new technologies and cultivation practices. The history of aquaculture in the area dates back decades, as reflected in the statement, “Shrimp farming started around 1978, shifting from coconut and corn agriculture.” This indicates a gradual transition from subsistence farming to economically profitable aquaculture. Migrants have adopted more structured approaches to managing shrimp ponds, expanded cultivated areas, and in some cases filled labor and skills gaps in local communities.

However, the success of migrants in aquaculture has also had implications for patterns of resource ownership and access. When local communities lack similar capacities or readiness, they tend to be displaced in competition over economic opportunities. This reflects an asymmetry in the rural diversification process—where one group (migrants) disproportionately benefits another (local communities) faces greater challenges in maintaining their economic and social standing.

Overall, the involvement of migrants in aquaculture has accelerated rural economic diversification in the IKN periphery, but has also generated new inequalities. These tensions must be addressed through while inclusive policies grounded in spatial justice and recognition of local community rights.

Migrants also hold a strategic role in introducing and accelerating the transition of local agricultural systems from subsistence models to market-oriented commodity production, especially through oil palm plantations. Their presence is often accompanied by access to market networks, capital, and technical knowledge, which facilitates the transformation of rural production spaces. This is exemplified in the statement, “Oil palm was introduced to Maridan in 2006 through a free seed program,” which suggests that migrants are not merely laborers but also serve as

intermediaries of agricultural programs and infrastructure that influence local farmers to adopt oil palm.

This pattern indicates that migrants function as agrarian change agents—not only adopting but also disseminating land commodification practices. In many cases, they leverage market opportunities and government aid programs—such as free seed distribution—to initiate long-term, profit-oriented production models. This narrative is reinforced by another account: “Oil palm entered in the 2000s, initially amid concerns about deforestation,” highlighting how palm oil simultaneously occupies the discourse of both development and conservation, with migrants as primary vectors of these ideas and practices at the local level.

Such transformation does not unfold in a neutral social space. Migrants often bring economic models that differ from those of Indigenous residents, prompting significant changes in land ownership structures, farming orientations, and market connectivity. With the entry of market commodities through migrants, rural space around IKN is being reconfigured—from a site of subsistence production to one subordinated to extractive and export-oriented economic logics.

Hence, migrants are not merely demographic actors in the local context but central agents driving commodity-based agrarian transformation. Their influence is helping shape the direction of rural economic diversification in the buffer zones surrounding IKN.

The construction of IKN has triggered significant institutional and land governance transformations at the local level. Communities that previously accessed and managed land through informal and socially embedded mechanisms are now facing pressures from processes of land formalisation and bureaucratisation driven by strategic projects. One of affected communi-

ties stated, “Before 1997, land distribution was informal; after the reform era, it became more formal,” reflecting a transition from agrarian management based on customary norms and community relations to state- or corporate-led legal-administrative regimes.

Institutional shifts are also evident in the changing status and use of land—from socio-ecological functions to economic-political ones aligned with the goals of IKN development. “The land is still HGU (Right to Cultivate); it used to be forest cleared for plantation,” that statement reveals how land once claimed or managed by communities has been absorbed into formal legal regimes under HGU status, limiting local control. This illustrates how spatial policies and land legality are structured to serve state and corporate interests rather than community needs.

Large-scale infrastructure projects in the area often disregard existing settlements. As one community member stated, “The government didn’t check existing settlements before determining the zero point location,” highlighting a weak public consultation process and lack of community participation in strategic planning decisions. Such top-down institutional procedures reflect a centralisation of spatial authority in the hands of the state—at the expense of local agrarian rights.

Thus, the development of IKN does not merely transform the physical and economic landscape of the region—it also triggers identity conflicts rooted in historical, cultural, and power asymmetries between local communities and migrant groups. These tensions highlight the importance of a more inclusive development approach—one that is sensitive to local contexts and creates space for inter-identity dialogue to prevent deeper conflicts in the future.

IKN’s development has also driven a transformation in the agricultural commodity structure in the surrounding areas,

shifting from subsistence crops and traditional gardens toward a stronger market orientation. This transformation is driven by environmental pressures, shifts in farmers' economic preferences, and state intervention through flagship commodity programs. One such transformation is reflected in a local community's account: "Growing rice no longer yields results because of floods and drought, so I switched to oil palm." Increasingly unpredictable agroecological conditions have prompted farmers to abandon subsistence crops like rice and shift toward commodities perceived as more profitable and adaptable, such as oil palm.

Beyond oil palm, there has also been a shift from traditional crops such as rubber, banana, and cacao toward new land- and water-based commodities. This is documented in narratives like: "We used to have rubber plantations, then we planted bananas and cacao," and "Shrimp farming began around 1978, replacing coconut and corn farming." These transitions demonstrate how local communities adjust their production strategies to market conditions and environmental change, while also opening space for diversification based on local resource potential.

New commodities such as seaweed have also been introduced, although their economic stability remains uncertain. One of the locals in Babulu Laut noted, "Seaweed became a new commodity, but the price is unstable." This indicates that despite community efforts to adapt to market and environmental shifts, significant challenges persist in the form of price volatility and market uncertainty—factors that may hinder the sustainability of such diversification.

These dynamics are not only responses to ecological and economic factors but are also closely linked to spatial changes and pressures from development projects. Lands previously used for fruit gardens or food crops are now being repurposed due to the influx of strategic projects and the need for household economic

relocation. In this regard, commodity dynamics reflect a deeper restructuring of livelihoods—driven by shifts in regional political economy and shaped by local communities' efforts to adapt to both the opportunities and risks posed by IKN development.

3.6. RURAL TRANSFORMATION AROUND THE NEW CAPITAL CITY (IKN): SPATIAL AND ECONOMIC DYNAMICS

The rural areas surrounding Indonesia's new capital city (IKN) are undergoing significant transformation. Formerly characterized as quiet, agrarian regions, these areas are now increasingly bustling with new economic activities, project vehicle traffic, and the influx of workers and migrants. These changes have shifted the role of villages from being solely centers of agricultural production to becoming complex spaces encompassing a wide range of functions: service enterprises, rental housing (such as boarding houses), food stalls, and even large-scale investments. This phenomenon can be explained through Central Place Theory, which posits that centers of economic activity emerge in locations that are most accessible and strategically positioned, serving the needs of surrounding populations. Areas situated closer to hubs of economic activity, transportation networks, and public facilities tend to exhibit higher attractiveness (Webber et al., 2020). In the IKN context, village sections located along main roads are beginning to evolve into centers of services and new economic activities, while interior sections largely retain their agrarian functions. Therefore, villages can no longer be understood as uniform units, but rather as comprising distinct zones based on function, accessibility, and the types of activities occurring within them.



Figure 5 Economic Activity Concentration along Main Road Corridors in IKN (Photo by Maulidia Savira Chairani, 2025)

The transformation of rural areas in IKN is particularly significant in terms of spatial utilization and patterns of local economic activity. One emerging pattern is a spatial structure defined by the intensity and nature of diversification, ranging from areas along the main roads to deeper interior zones. Along the main road corridors, new centers of commercial activity are emerging to cater to urban-like demands. This corridor hosts a variety of enterprises, including convenience stores or wholesalers, large-scale food stalls, lodgings, hardware stores, laundromats, repair shops, and photocopy services—indicative of high non-agricultural economic activity. These activities are supported by the area’s strategic position along major transportation routes used by project vehicles and daily commuting workers involved in IKN’s construction, as well as local residents. Consequently, this zone has become a focal point of new, non-agricultural economic concentrations. The availability of roadside land is a valuable asset that locals increasingly exploit to establish businesses or lease to outside parties, including investors.



Figure 6 Household-Based and Informal Economic Activities in Residential Areas Behind Main Roads (Photo by Maulidia Savira Chairani, 2025)

In residential areas located behind the main roads, the economic pattern is characterized by small-scale, household-based, and informal activities. These zones host rental houses, boarding accommodations, small eateries, and neighborhood shops typically run by local residents, including housewives. The spatial function here is mixed, serving both as permanent residences and temporary housing for day laborers, logistics drivers, and construction workers operating around IKN. Although relatively small in scale, these household-based economic activities play a crucial role in meeting the logistical and consumption needs of the incoming labor force. These areas still retain some agricultural function but are now increasingly interwoven with small-scale, non-agricultural economic roles. The transformation in these zones is occurring incrementally as a community response to external changes.



Figure 7 Predominantly Agrarian Zones in the Interior of Rural Villages around IKN (Photo by Maulidia Savira Chairani, 2025)

Further into the rural interior—areas lacking adequate infrastructure or unreachable by project vehicles—agrarian activity remains the primary livelihood. These regions still contain vast areas of farmland and plantations, such as oil palm, rubber, rice fields, and vegetable gardens. Here, spatial functions are still dominated by agricultural activities, and the degree of economic diversification remains low. However, early signs of transformation are beginning to emerge, as evidenced by land leasing for the establishment of foundations, development of housing plots, and various other non-agricultural land uses. While these areas currently retain a distinct rural-agrarian character, it is likely that transformation will continue in the coming years as infrastructure development and connectivity in the IKN region expand further.

Chapter 4. The Key Drivers of Rural Diversification in the Resource-Frontier Region

4.I. INFRASTRUCTURE DEVELOPMENT

In the past, the public hardly ever used the Sepaku District's road system. Travel through the area was discouraged by potholes and poorly maintained roads. Because of this, a lot of people chose to use the ferry services that run between Kariangau Port (in Balikpapan City) and Penajam Port to cross Balikpapan Bay. Road vehicle users made extensive use of this ferry transport system, which was an essential link between the southern (Penajam Paser Utara and Paser) and northern (Balikpapan City, Kutai Kartanegara, East Kutai, West Kutai, Mahakam Ulu, Bontang City, and Berau) parts of East Kalimantan. Furthermore, the ferry route was frequently chosen by passengers heading to South Kalimantan Province over the land route via Sepaku District.

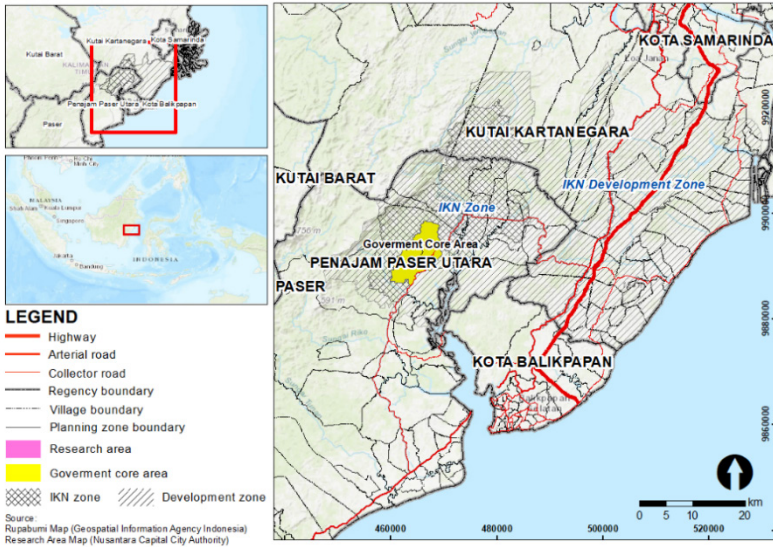


Figure 8 Road Network Map of Sepaku District and Surrounding Areas. (Source: Rijanta et al. [2022])

Following the designation of Sepaku District as the site of the new capital city, development efforts commenced. The initial phase focused on basic infrastructure, including roads and dams. Accessibility became a critical factor in initiating the construction of the Central Government Core Area (KIPP). The movement of heavy vehicles and construction equipment required adequate road infrastructure. Road hardening and widening were prioritized in the early stages along the route connecting Samboja and Penajam (now classified as a national road). Functioning like a circulation system, this road facilitates the movement of people, goods, and services.

The expansion of the electricity grid, with increased capacity, was also undertaken to meet the demands of the ongoing development. Indirectly, these improvements had significant positive effects on the local community. Roads became smoother, and the frequent rolling blackouts that previously affected the area were

eliminated. The development of the new capital (IKN) has thus had a considerable impact on meeting the basic infrastructure needs of the local population.

As the construction of IKN progressed, it began to attract people seeking economic opportunities. The large number of construction workers required various supporting facilities and services, including housing, food, and other amenities such as laundry services. This surge in demand created opportunities for local residents to establish small businesses—such as lodging facilities, food stalls, laundry services, and restaurants—to cater to the needs of the growing workforce.

Rural-urban Connectivity

One of the main forces behind rural diversification in the IKN (new capital city) region is the rural–urban linkage. Road infrastructure upgrades are essential for encouraging this kind of diversification. In addition to making it easier for heavy vehicles and construction equipment to travel to the Central Government Core Area (KIPP) and its environs, the building of roads connecting Samboja and Penajam via Sepaku District also greatly improves the mobility of people and goods, which promotes economic diversification. In a roundabout way, this has made rural and urban areas more connected. In the end, this rural-urban connection will spur economic diversification in rural areas.

Oil palm plantations, a commodity with a worldwide market, currently account for the majority of agricultural activity in IKN's rural areas. However, the potential for producing a variety of intricate downstream economic activities is limited because local communities typically lack the capacity to process this commodity on their own. In contrast, food commodities produced in rural areas can be processed and diversified into a wide range of activities, including post-harvest handling, processing, and

packaging, creating a complex food system made up of numerous interconnected processes.

Rice and other food crops are only produced on a small scale, usually for local or subsistence use, while oil palm continues to be the most common agricultural product in the rural areas surrounding IKN. The IKN region is increasingly becoming the destination in the rural–urban linkage, which is a noteworthy trend that is currently developing. The flow of goods and people is now directed toward IKN, supported by improved accessibility and high demand generated by construction workers. These flows extend beyond physical goods and labor to include capital investment as well.

Market Demand

Demand for a variety of necessities, such as food, lodging, and services, has increased significantly as a result of the IKN's development. The opportunity to diversify economic activities in the food and lodging service industry is presented by the presence of construction workers in the community. Prior to Indonesia's 79th anniversary in 2024, demand is at its highest. This circumstance further broadens the range of rural pursuits in the vicinity of KIPP. Both locals and foreigners attempt to take advantage of this by offering services in the unofficial sector, such as setting up boarding and rental homes, catering, laundry, and water for domestic purposes.

Demand is much higher now than it was previously. Because of the extremely low population density in this area before IKN was established, there was little economic demand. Nusantara is located in a primarily rural area with forested landscapes, in contrast to capital relocations in other nations—where, as Rijanta et al. (2023) point out, new capitals were frequently moved to already urbanized areas. This region was previously underde-

veloped and lacked sufficient infrastructure and amenities.

As is common in Kalimantan rural communities, the majority of the local population worked in agriculture and other primary-sector occupations. Numerous people worked on private farms, in industrial forest areas, or on privately owned oil palm plantations. Employment prospects in the unorganized secondary sector were constrained by these circumstances. Residents were unable to launch service or trade-related businesses with their surplus primary sector income because of the low market demand. Furthermore, a lot of businesses supplied their employees with necessities, so even in areas where activity centers were present, their economic influence on the local population was minimal.

This contrasts sharply with the consequences of IKN development. In order to meet development targets, a significant influx of workers has boosted market demand, stimulated the local economy, and, at least temporarily, become a major factor in diversifying the resource base of the rural areas that are urbanizing in and around IKN.

Commodity Prices

According to the patterns of urbanization that have been observed, Sepaku's rural areas have been urbanized before commodity prices have significantly increased. Food, energy (such as retail LPG), and building supplies are among the commodities in question. This spike is transient and mostly the result of increased demand. Prices have gone up for both goods and services. According to earlier research, commodity prices have frequently served as catalysts for urbanization. Examples include labor market shifts brought on by skill mismatches, urban-biased policies, and rural-to-urban migration that occurs after agricultural commodity prices decline (Wang & Fu, 2019).

Prices have increased significantly as a result of the dramatic increase in demand, especially for food, lodging, and basic necessities. The demands created during the height of IKN development, particularly in the run-up to Indonesia's Independence Day celebrations, have proven difficult for current supply levels to meet. However, demand fell in tandem with a decrease in construction activity following the national holiday and the ensuing change of government. As a result, previously inflated prices have begun to decline as supply now outpaces demand. This change has had a big impact on local businesses, especially those in the food, lodging, and other service industries.

Urbanization may be driven by commodity prices instead of the other way around in the future. Therefore, it is crucial to look at how the growth of a new capital city affects commodity prices, or how changes in commodity prices may affect how cities develop.

4.2. CHANGES IN DEMOGRAPHIC STRUCTURE/COMPOSITION

The first step in comprehending the profound change taking place in Sepaku District is to place it in the larger context of the development of a resource-frontier region. From a conceptual standpoint, resource-frontier regions are generally thought of as outlying areas whose growth is fueled by the extraction of natural resources like coal, minerals, oil, or lumber. However, this idea needs to be redefined in the context of Sepaku District in light of the growth of Nusantara (IKN), the new capital city. The land and space itself—restructured to become Indonesia's new centre of political and administrative power—are the natural resources being mobilised here, not conventional extractive commodities.

The IKN development has led to a unique phenomenon where the state applies massive socio-economic engineering to a

rural area. In addition to changing institutional and spatial structures, the change hastens rural diversification, characterised by a shift away from agriculture and toward non-agricultural economic pursuits, such as construction, services, and informal businesses. The rapidity and severity of this change are what distinguish Sepaku District. In this instance, structural changes that typically take years or decades to manifest have been compressed into a short period. Core infrastructure, including the Presidential Palace and ministry offices, was constructed during the first phase of IKN development, which commenced in 2022. With the influx of capital, materials, and thousands of workers, Sepaku District experienced a significant demographic and economic shock during this time. The local demographic, social and economic structure were all directly impacted by this migration wave, which also raised demand for land and essential services. Establishing a baseline image of Sepaku's circumstances before the mega-project is crucial to understanding the scope of this change.

Sepaku District is depicted as a rural region with low density, a relatively balanced population structure, slow population growth, and a resource-dependent economy, as shown in statistical publications from 2015 to 2019 (covering data from 2014 to 2018). Sepaku was a district with a low population density. According to estimates in the 2015 publication, the population was 31,834 in 2014. By 2018, this number had slightly increased to 36,161, indicating stagnation. Its vast rural character was confirmed by the extremely low population density, which averaged between 31 and 33 people per square kilometre. The region had a relatively stable population dynamic and was not a major destination for migration, as evidenced by the low annual population growth rates before the IKN construction period.

The pre-IKN economic structure of Sepaku was unquestion-

ably agrarian. According to labour force data, there was an overwhelming reliance on the primary sector. The greater majority (75.6%) of the working-age population was employed in agriculture, forestry, hunting, and fishing in 2014—a disproportionately large percentage. A lack of economic diversification was evident in this high dependency, making the local economy vulnerable to external shocks that affect land access and use—issues crucial to the IKN development project.

Unprecedented population growth is amply demonstrated by official data from the National Statistical Board (BPS). The population of Sepaku increased from 36,161 in 2018 to 40,322 in 2023 after years of stagnation. Only a few hundred new arrivals and departures are listed annually in the District’s official migration data, giving an incomplete picture. Official statements and media reports mentioning the thousands of construction workers present contrast sharply with this. For example, as of January 2024, it was reported that the IKN project had absorbed around 6,700 workers, 4,900 of whom came from outside East Kalimantan (CNBC Indonesia, 2024).

The existence of a massive “invisible” wave of migration is suggested by the notable discrepancy between official migration data and reporting from the ground. Since the majority of these newcomers are temporary or non-permanent employees, they are not included in official population statistics because they do not formally register their presence. As previously mentioned, this “invisible” population places a significant burden on local services, including housing, food supply, clean water, and infrastructure, despite being administratively unrecorded. Given that the *de facto* population—those who actually live in the area—far outnumbers the *de jure* population—those who are officially recorded—the planning and resource allocation implications are significant.

Additionally, there has been a significant shift in the demographic composition. Males of working age who work in construction make up the majority of the influx of migrants, which has been highly selective by age and gender. The age distribution and gender ratio have been significantly distorted as a result, and some villages now have a high concentration of young men. As a result, some neighbourhoods—such as Sukaraja and Bukit Raya—have seen significant increases in population density and have developed into major hubs for housing temporary workers.

Deeper social dynamics are hidden beneath the statistics. A boarding house holder in Bukit Raya, for instance, explained how he took advantage of demographic opportunities by creating a boarding house from scratch to accommodate newcomers. His boarding house rent business currently generates approximately IDR 350 million per year. Meanwhile, a food vendor owner in Sukaraja, who had recently relocated from Bontang, also reported experiencing the impacts of demographic change. During the peak period, he was able to earn up to IDR 1.5 million in a single night, as two trucks of IKN workers regularly stopped to purchase his food. However, the number of workers has since declined significantly, with many having returned to their hometowns due to delays in salary payments.

Social relations have also changed as a result of the thousands of newcomers. Nowadays, migrants rent out many of the houses that extended families once occupied. For the benefit of migrants, some landowners have sold or altered their properties. As a result, household roles and dwelling functions have transformed houses from residential spaces to economic assets. Although these changes appear to yield short-term financial benefits, the loss of communal spaces accelerates social fragmentation.

In a separate instance, a small business owner participating

in the IKN Authority's training on digitalisation and business scaling observed that the majority of trainees were working-age women capitalising on the demographic boom. It was noted that another group of participants had received training in digital marketing, packaging design, and public speaking, and that the majority of the thirty individuals involved were women who were already managing home-based enterprises.

These changes in population composition pose a challenge to spatial planning. Official demographic data does not account for the strain that non-permanent migrants place on public services, such as waste management, clean water, and sanitation. Despite the obvious rapid population growth, this disconnect makes it difficult to allocate the budget and leaves some villages under-resourced.

In conclusion, Sepaku District's demographic shift has been a sudden and abrupt change rather than a gradual evolution. In addition to increasing the population, it has also changed household socioeconomic configurations, age and gender ratios, and spatial density. The new demographic landscape will pose significant challenges to long-term social sustainability as the IKN project transitions into a new phase, marked by declining budgets and reduced political commitment. Without planning tools and data systems that are responsive and accurately represent the *de facto* population—and without adequate social protections for residents—Sepaku District risks experiencing a deepening of social and economic inequality in the years ahead.

4.3. PUBLIC AND PRIVATE INVESTMENT

The development of Nusantara Capital City (IKN) has triggered a wave of investment—both public and private—that serves as a primary driver of rural diversification in surrounding areas. Identifying the types and sources of these investments is

crucial for understanding the processes shaping the economic and social transformation of this resource-frontier region. The IKN development is not merely the physical relocation of the administrative center of government; it is a civilizational project aimed at realizing Indonesia's Vision 2045.

4.3.1. Public Investment as an Initial Catalyst

The first catalyst for change has been public investment, especially that made by the central government through the Nusantara Capital Authority (OIKN) in the construction of the Central Government Core Area (KIPP) and its auxiliary infrastructure, including toll roads, dams, and river normalization projects. Large budgetary allotments demonstrate the government's dedication. The government has authorized an IKN development budget of IDR 48.8 trillion for the years 2025–2029 (OIKN, 2025a). This amount is included in the estimated IDR 466 trillion total funding requirement stated in the 2020–2024 National Medium-Term Development Plan (RPJMN), of which IDR 90.4 trillion is expected to come from state budget (APBN) contributions (Ministry of Finance, n.d.).

Thousands of construction workers from different regions have been drawn to this massive development project, which also includes National Strategic Projects (PSN) like the Drinking Water Supply System (SPAM) network, Sepaku Semoi Dam, and Sepaku Intake. In the neighborhoods surrounding IKN, their presence has directly increased consumer demand for goods and services. As a result, previously more homogeneous villages that relied mostly on forestry or agriculture, like Sukaraja, Bumi Harapan, Pemaluan, and Maridan, have seen the rise of new economic endeavors.

Budget allocations, however, have also been impacted by national fiscal dynamics. Infrastructure funding has been dras-

tically reduced as a result of efficiency measures implemented by Presidential Instruction No. 1 of 2025, which may have an impact on labor absorption and project completion schedules (Arief, 2025). These policy changes have also had an impact on a number of programs that are directly tied to community needs, such as regular bridge and road maintenance, as well as community-based water supply and sanitation projects (Arief, 2025).

4.3.2. Private Sector and Community Responses to New Economic Opportunities

Through various forms of private investment, local communities and external business actors have actively responded to the demand created by public investment in the Central Government Core Area (KIPP). From small- to medium-sized projects carried out by locals to larger-scale investments made by newcomers or outside investors, these investments come in a variety of sizes.

- **Local Community Investment**

Local communities have responded astutely to the opportunities arising from the influx of project workers. One of the most common forms of private investment has been in the provision of accommodation. An official from Bumi Harapan Subdistrict explained that he had built a guesthouse which quickly attracted many visitors. Observing this, other members of the community began to follow suit by providing various services needed by the workers. He emphasized that such initiatives had significantly stimulated the local economy and described the impact as remarkable.

These investments are not limited to new construction but also include the modification of existing homes to be rented out or converted into boarding rooms. In Maridan Subdistrict, the

subdistrict head noted that several residents have begun renting out rooms or entire houses to workers. The neighborhood head explained has built boarding houses in other areas as well. A similar trend is seen in Bumi Harapan, where the Head of RT 02 and the Head of RT 07 Bumi Harapan, reported that many residents have started rental or boarding house businesses.

Beyond accommodation, there has also been a surge in investments in the trade and service sectors. The food stall owner noted that residents were encouraged to establish small food stalls, even from the front porch of their homes, and this initiative proved effective as demand was remarkably high and most products were consistently sold out due to workers' constant need for food.

In Sukaraja, food stall owners began their businesses about a year and a half ago in response to the early bustle of IKN development. Other residents in Pemaluan, Bumi Harapan, and Sukaraja have also opened coffee stalls, started selling iced drinks and fried snacks, and provided services such as clean water delivery and laundry.

Some residents have made even larger-scale investments. A traditional leader from the Paser Pemaluan community, who received compensation exceeding IDR 20 billion due to the construction of a wastewater treatment plant (IPAL), invested part of the money in land elsewhere. Other residents used his compensation from land acquired for toll road construction to purchase a new oil palm plantation in the Paser area.

- **Investment from Outside (Investors/Newcomers)**

In addition to investments made by local residents, there has also been significant involvement from outside investors who have purchased land or rented space to establish businesses. The head of RT 01 in Pemaluan, noted that many roadside plots in

his area have been acquired by “wealthy individuals” or private entities for various purposes, including speculative holding in anticipation of future government buyouts at higher prices. He also confirmed that land has been leased to “Chinese investors” (a local term referring broadly to non-local or foreign investors).

In several locations, such as Bumi Harapan, Pemaluan, and Bukit Raya, investors (including construction companies) have purchased or rented land to operate businesses such as batching plants, heavy equipment parking areas, materials storage, and project offices. This surge of private sector interest aligns with official reports that total investment committed for the development of IKN has reached IDR 62 trillion (OIKN, 2025b). The housing sector has emerged as a major draw, attracting capital flows amounting to IDR 63.3 trillion from countries including the United States and Spain (Alexander, 2025). A consortium from the USA and South Korea has committed IDR 12 trillion to construct 41 high-rise apartment towers (Muslimawati, 2025). The presence of foreign investors from China, Malaysia, and the United Arab Emirates (UAE) signals a high level of global confidence. For example, the Ayedh Dejem Group from the UAE has expressed strong interest in developing a 10-hectare site into a modern shopping center, along with an additional 4 hectares allocated for social facilities, including a mosque (Purwaniawan, 2025).

However, alongside this investment optimism, strategic land issues have emerged. One of the most significant impacts has been a drastic surge in land prices, reportedly increasing by as much as 70 times—from approximately IDR 5,000 to IDR 350,000 per square meter (Rahayu & Nugroho, 2024). This trend has been directly confirmed by local communities who have personally experienced the effects. In Maridan Subdistrict, for instance, the subdistrict head confirmed a dramatic increase in land prices fol-

lowing the IKN announcement. He compared pre- and post-IKN prices:

“Land prices here are now unbelievable. For a 10x20 meter plot along the main road, the price is now around IDR 170 million. That’s just for the land. Previously, it was only IDR 20 to 30 million.” – Head of Maridan Subdistrict, 2025.

This fivefold increase—from IDR 20–30 million to IDR 170 million per plot—reflects substantial capital gains. A local of Pemaluan also provided a similar account:

“Recently, land prices have been rising quickly. Along the roadside, it can go for IDR 200,000 to 300,000 per square meter. It used to be just IDR 10,000 or 15,000. The difference is huge.” – Pemaluan local community, 2025.

His testimony highlights an even more dramatic increase over tenfold in some areas. While these rising prices benefit land-owners, they have also sparked new challenges, including intensified land speculation by outside investors and emerging land ownership disputes that were previously of little concern. Concerns about speculative activities have been raised by the phenomenon of skyrocketing land prices. Presidential Regulation No. 65 of 2022 on Land Acquisition and Land Management in the Nusantara Capital City (IKN) was issued by the government in response. Controlling land rights transfers to avoid excessive speculation—a practice commonly known as “land freezing”—is one of the regulation’s main features (Nurahmani & Sihombing, 2021).

4.3.3. Sources of Investment Capital

The sources of capital for community-led investments are diverse. In Bumi Harapan, for example, residents have constructed lodging facilities using compensation funds received from land

acquisition for the Central Government Core Area (KIPP) and flood control infrastructure. In other cases, residents have taken out loans from banks or rented out their land to investors who then developed guesthouses. Catering business owner in Sukaraja, also reported securing a bank loan due to the large capital requirements of her enterprise. Other local people from Sukaraja, was once offered a loan by Bank Mandiri to build boarding houses, but declined due to concerns about his ability to repay the loan during periods of low demand. In Maridan, a hydroponics entrepreneur, received her initial capital and equipment through a training program organized by the Nusantara Capital Authority (OIKN) and a company's corporate social responsibility (CSR) initiative.

4.3.4. Strategic Investment Planning by Local Governments in Anticipation of IKN

The local governments surrounding the Nusantara Capital City (IKN), particularly Kutai Kartanegara Regency (Kukar) and North Penajam Paser Regency (PPU), are not merely passive observers. Through their respective planning agencies, both have proactively formulated public investment plans and strategies aimed at attracting private sector investment.

- **Kutai Kartanegara Regency (Kukar): Economic Diversification and Strategic Partnerships**

The Kutai Kartanegara Regency Government, through its Regional Development Planning Agency (Bappeda), recognizes that parts of its territory fall within the delineation of the Nusantara Capital City (IKN). In preparing the 2025–2045 Regional Long-Term Development Plan (RPJPD), the government is seeking to transition from dependence on extractive industries toward other sectors such as agriculture and tourism. Muara Jawa District, which lies within the IKN

delineation, is even conceptualized as a downstream industrial zone and a center for handicraft development. The Kutai Kartanegara government is consistently promoting the agricultural sector with a vision to become a food supply hub for IKN (Ghofar, 2024). This commitment has been translated into concrete programs, including land verification, the construction of 63 water reservoirs (*embung*) by 2024, the development of farm roads, and the establishment of tertiary irrigation networks to ensure readiness in meeting IKN's food demands (Maulana, 2025).

- **North Penajam Paser Regency (PPU): Focus on Basic Services and Connectivity**

The North Penajam Paser Regency Government, through its Regional Planning, Research and Innovation Agency (BAPELITBANG), faces a distinct set of challenges. As the “main gateway to IKN,” a significant portion of its land has been absorbed into the capital city's development area. Nonetheless, the PPU government remains committed to investing in critical sectors such as road infrastructure improvement, expanded access to clean water, and the enhancement of education and healthcare services. The PPU government has also actively expressed its readiness to collaborate in improving transportation connectivity to IKN (Penajam Paser Utara Regency Government, 2024). Additionally, strategic efforts to develop local human resources have been made through Memoranda of Understanding (MoUs) signed with several universities for capacity-building programs. These include partnerships with Gadjah Mada University (UGM), Parahyangan Catholic University (UNPAR) in Bandung, and the University of Balikpapan (UNIBA) (Media Kaltim, 2025; Putri, 2025).

The investment plans of both regional governments are crucial not only as a response to the dynamics triggered by the development of IKN, but also as proactive efforts to position themselves as strategic partners. Clear delineation of authority, fiscal support from the central government, and planning synergy between the Nusantara Capital Authority (OIKN) and local governments are key factors to ensure the effective implementation of these investments.

4.4. NEW MARKET DEMANDS

Prior to its designation as the site of Indonesia's new capital city, Sepaku District was a relatively remote area with limited access and a small population. The local economy was predominantly based on primary sectors such as small-scale plantations, forestry, and fisheries. The low population density and limited economic activity resulted in minimal demand for goods and services. Before the development of IKN, residents primarily relied on local markets to meet their basic needs, and for more diverse or larger-scale purchases, they had to travel to nearby urban centers such as Penajam or Balikpapan.

However, since Sepaku was designated as the location of the new national capital, the area has undergone rapid transformation. The influx of thousands of migrants including construction workers, contractors, civil servants, and other newcomers has triggered a surge in demand for a wide range of goods and services that were previously either nonexistent or very limited in supply and demand within the local community.

4.4.1. Demand for Consumer Goods and Services

The development of Nusantara, Indonesia's new capital city, is a large-scale construction project requiring a substantial labor force. The influx of construction workers and other migrants has

naturally led to a surge in demand for consumer services. Consumer services refer to services used to satisfy personal needs rather than for productive activities such as business or investment. These services are typically consumable and do not provide long-term added value.

As they work in IKN, newcomers require housing accommodations, which has created an immediate spike in demand for residential units. Local residents and investors have responded to this market opportunity by renting out their existing homes or constructing rental units and boarding houses. Demand for short-term accommodations, such as hotels and guesthouses, has also emerged in Sepaku and its surrounding areas following the onset of IKN development.

The rise of hotels and guesthouses is typically driven by the presence of short-term visitors to IKN, such as government officials, corporate executives, researchers, and others with temporary needs. Local residents and investors have responded to this demand, as evidenced by the significant number of accommodations built after the IKN project began. Previously, such services were unavailable in Sepaku due to the absence of market demand.

Looking ahead, one of the key market opportunities in the housing sector lies in the provision of permanent residences for workers who will continue to be employed in IKN once the city becomes operational. Housing options such as residential clusters or even vertical housing (e.g., apartments) represent promising investment opportunities for both local communities and external investors.



Figure 9 Modern Store at Sepaku (Photo by Maulidia Savira Chairani, 2025)

The demand for various consumer services (including food provision, daily necessities, and transportation) has increased significantly following the commencement of the Nusantara Capital City (IKN) development project. Food-related businesses such as food stalls, catering services, coffee shops, and restaurants have grown rapidly in Sepaku and surrounding areas. Before IKN, the number of eateries in Sepaku was very limited due to low local demand for prepared meals, as most residents traditionally cooked at home. In contrast, newcomers to IKN tend to prefer more practical options due to their work-related time constraints.

The demand for daily household needs has also risen sharply since the initiation of IKN's construction. Previously, the people of Sepaku obtained daily necessities (such as soap, basic groceries, skincare products, and other household items) from traditional markets, small stalls, or local convenience shops, which were few in number. With the emergence of IKN, various forms of retail businesses have begun to develop, ranging from traditional kiosks and warungs to modern outlets such as minimar-

kets. In the future, the development of large scale modern retail stores, such as supermarkets or even hypermarkets, is likely to follow as IKN becomes operational and household consumption increases.

The rise in immigration, demand for goods and services, and overall human mobility has also led to a significant increase in the need for transportation. Transportation, both for the movement of people and goods, plays a critical role in facilitating these changes. Historically, Sepaku residents relied on river transport to reach neighboring areas due to poor road infrastructure, especially during the rainy season. Over time, public transportation in the form of rural minibuses (Angkudes) connecting Sepaku with Penajam (the capital of Penajam Paser Utara Regency) began to emerge. However, with the improvement of road infrastructure and the onset of IKN development, people increasingly prefer using private vehicles or renting cars due to greater efficiency and flexibility.

This surge in transportation demand has been recognized by local residents and surrounding communities, who have responded by establishing car rental and travel services. In addition to local initiatives, private bus companies have also begun to operate new routes, such as Balikpapan–IKN. In the future, more intercity routes connecting IKN with other cities in Kalimantan (such as Samarinda or Banjarmasin) are likely to emerge. Furthermore, new transportation modes may be developed to support access to and mobility within IKN, in line with the city's growing transportation needs.

4.4.2. Request for Goods and Services to Support Construction

As a national megaproject, the development of the Nusantara Capital City (IKN) naturally necessitates the involvement

of third-party actors, commonly referred to as contractors, particularly in the execution of construction works. The contractors engaged in the development of IKN vary widely, ranging from state-owned enterprises (BUMN) to private companies. Several prominent BUMN serving as principal contractors include PT. Hutama Karya, PT. Wijaya Karya, and PT. Pembangunan Perumahan. In addition, private firms such as PT. Intiland Development, Summarecon, and Ciputra Group are also involved in the construction of various buildings within IKN.

These primary contractors do not operate in isolation. Rather, they collaborate with smaller firms (including local companies) to implement the projects under their responsibility. The scale and complexity of IKN construction have led to a significant increase in demand for construction service providers, thereby presenting new business opportunities, particularly for local companies operating in the construction sector.

Given its massive scale, the IKN development project requires a vast quantity of construction materials and equipment. These are essential for the construction of government buildings, supporting infrastructure, and private developments. Basic construction materials such as sand, stone, cement, screws, nuts, and bolts are not produced locally in Sepaku, necessitating their importation from outside the area, even from regions beyond Kalimantan. Similarly, construction equipment, ranging from small tools to heavy machinery like excavators, bulldozers, loaders, asphalt pavers, finishers, and cranes, must also be brought in from outside Sepaku. Heavy equipment is typically sourced from major cities such as Balikpapan, Samarinda, and Banjarmasin, as well as cities on Java Island, such as Surabaya and Jakarta.

The extensive use of heavy machinery for IKN construction also creates downstream demand for related products and services, such as spare parts, lubricants, and other mechanical com-

ponents. Consequently, a new market has emerged in Sepaku and surrounding areas for the sale and rental of heavy equipment and for the distribution of parts and accessories, which are essential for the ongoing maintenance and operation of construction machinery.

In addition to equipment and materials, the IKN development has also generated demand for specialized services that support large-scale construction. These services are often provided by private-sector consulting firms. A wide array of consultants is now required for the development process, including building consultants, civil engineering consultants, environmental consultants, and IT consultants. Thus, the IKN project has created a previously non-existent or very limited market for consulting services in East Kalimantan, particularly in the Sepaku area.

4.4.3. Professional Services Request

In addition to meeting basic consumption needs and supporting the construction activities of the Nusantara Capital City (IKN), the increasing population and economic activity in Sepaku have generated demand for more complex services. The development of IKN, which has significantly stimulated economic circulation in Sepaku and its surrounding areas, has led to a rising need for more adequate banking and financial services within the region.

Previously, the presence of banks in Sepaku was highly limited. However, since the initiation of IKN's development, several banks have begun establishing a presence in the area, although the sector remains dominated by state-owned and government-affiliated financial institutions. These include Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), Bank Mandiri, Bank Tabungan Negara (BTN), and Bank Pembangunan Daerah

Kalimantan Timur dan Kalimantan Utara (Bank Kaltimtura).

In the near future, the entry of private banks into the IKN region is likely, as indicated by the ongoing construction of a branch office by Bank Central Asia (BCA), one of Indonesia's largest private banks. The expansion of banking services has also occurred through collaborations between banks and local residents, whereby individuals act as bank agents to facilitate access to financial services in more remote areas. Since the start of IKN's development, such agents have proliferated throughout Sepaku and surrounding villages.

This trend has emerged largely in response to the mismatch between the limited number of bank branch offices and the growing number of customers, as well as the significant distance between branches. Bank agents are thus necessary to ensure that financial services are accessible to the broader community, especially in rural or geographically isolated areas.



Figure 10 Bank in Sepaku Area (Photo by Maulidia Savira Chairani, 2025)



Figure 11 Bank Agency in Sepaku Area (Photo by Maulidia Savira Chairani, 2025)

In addition to banking services, a range of other professional and technical services has begun to emerge in Sepaku and its surrounding areas following the initiation of the Nusantara Capital City (IKN) development. These include services such as Wi-Fi installation, generator and CCTV setup, as well as logistics and delivery services, including courier and online delivery platforms. Prior to the IKN project, the availability of such services in Sepaku was extremely limited, and several of these services were entirely absent due to a lack of local demand.

However, the rapid influx of migrants, the increasing diversity of activities, and the growing complexity of needs brought about by the IKN development have led to the emergence and expansion of these services in the region. What was once difficult to access has now become readily available. This shift reflects the changing socio-economic landscape of Sepaku, where previously limited service sectors are now responding to evolving market demands.

Looking ahead, it is anticipated that as IKN becomes fully operational, both the number and variety of service offerings

will continue to expand and diversify. This trend aligns with Sepaku's ongoing transformation from a predominantly rural area into an increasingly urbanized region, necessitating more complex and specialized service infrastructures.

4.4.4. Changes in Local Community Consumption Patterns

The transformation of the Nusantara Capital City (IKN) area and its surroundings from rural to urban territory has begun to manifest both visibly and experientially. One of the most tangible indicators of this shift is the evolving consumption patterns of local residents in their daily lives. These changes are influenced by several factors, including the presence of incoming migrants (many of whom exhibit urban lifestyles and consumption habits) the increasing availability of urban services, and the growing financial capacity of locals to access these services.

Since the onset of IKN development, local communities have begun to engage with various urban amenities. These include access to fast food services, the purchase of new electronic goods and vehicles, and the use of online-based services such as ride-hailing apps, online taxis, and delivery platforms. This evolving consumption behavior signals a deeper socio-economic transformation and reflects the urbanization process currently underway in the region.



Figure 12 Fast Food Restaurant in Sepaku Area (Photo by Edwardus Iwantri Goma, 2024)

The emergence of minimarkets has also contributed to a shift in local consumption patterns. Previously, residents primarily relied on small kiosks or traditional convenience stores (warung or toko kelontong) for their daily needs. However, they now increasingly prefer minimarkets, which offer faster service and standardized pricing. Similarly, the appearance of several coffee shops has transformed local social habits. Traditional gatherings that once took place in modest roadside coffee stalls have gradually shifted to modern coffee shops with more contemporary concepts. As IKN continues to develop and a wider variety of services becomes available, it is anticipated that these changes will further accelerate the transformation of local consumption

behavior, from a predominantly rural pattern to one that reflects more urban lifestyles.

4.5. TECHNOLOGY AND INFORMATION

Amid the rapid development of the Nusantara Capital City (IKN) and its ensuing rural diversification, the role of Information and Communication Technology (ICT) has emerged as a key driver that facilitates, accelerates, and shapes the patterns of economic and social transformation. Although ICT functions primarily as a catalyst, the increasing use of digital platforms demonstrates how local communities are adapting to and responding to these new dynamics.

4.5.1. ICT Utilization for Marketing and Market Access

One of the most visible manifestations of ICT's role is its use in the online marketing of products and services. Local MSME actors have begun leveraging social media platforms and messaging applications to reach a wider consumer base. A hydroponic farmer in Maridan, actively uses Facebook and WhatsApp to market her vegetables. She explained that her produce is usually promoted through Facebook or WhatsApp status updates to reach regular customers, and that in certain cases, such as through a canteen managed by an employee at IHM, she could distribute between 20 to 30 packs at a time.

Online marketing enables one of the locals to respond to demand beyond her immediate locality. Networking among hydroponic farmers (particularly those who are alumni of IKN Authority (OIKN) training) has also been supported through WhatsApp groups. Capacity-building efforts like coding and digital marketing training organized by OIKN—attended by a subdistrict official and a local hydroponic farmer—are concrete examples of initiatives aimed at enhancing local digital compe-

tence. In the “Mama Coding” training, participants learned to build simple websites, edit promotional content, and utilize social media platforms. One of the subdistrict officials describes the participants’ enthusiasm:

“We were all really excited to participate—especially because we were also given free laptops. One of the outcomes was a website for MSMEs. At the end of the training, the best websites were presented.”
– Subdistrict official, 2025

Despite challenges related to sustainability, such initiatives underscore growing recognition of ICT’s strategic role. As one of the hydroponic farmers reflects:

“Like editing in Canva or building a website—it’s not easy. But it’s fun and we enjoyed it.” – Hydroponic farmers, 2025.

These efforts have been further supported through collaboration between OIKN, PT Pegadaian, and Shopee, which organized the “IKN Digital Community Workshop.” The workshop aimed to improve digital literacy among MSMEs, enhance their online marketing skills, and improve access to formal financing services (Priyandoko, 2025).

4.5.2. ICT as a Channel for Information and the Challenge of Limitations

Beyond marketing, ICT also functions as an important channel for accessing information about emerging opportunities linked to IKN’s development. For instance, the Sepaku Community Communication Forum (FKMS) utilizes WhatsApp groups to disseminate job vacancy and scholarship information. However, the role of ICT also faces limitations. For low-value or perishable products, online marketing is often hindered by shipping costs. One of the local hydroponic farmers from Bukit Raya Village experiences this firsthand in her effort to consistently supply

hydroponic vegetables to IKN due to constraints in production scale and continuity:

“They scare us a bit—like, we’re expected to supply vegetables every day to IKN. But it’s hard; the plants need time to grow. And my garden is small,” she explains. – Local hydroponic farmers in Bukit Raya, 2025.

Online transportation services like Gojek and Maxim have also started to appear, though their availability is uneven. Resident in Bukit Raya reports having seen drivers using Gojek and Maxim uniforms in the area.

4.5.3. Connectivity, Infrastructure, and Preparing for a “Smart City”

The effectiveness of ICT utilization is heavily dependent on reliable connectivity infrastructure. The government’s vision for IKN as a smart city—specifically a “smart forest city” that emphasizes technological efficiency and sustainability—requires robust telecommunications infrastructure. Various stakeholders are actively involved in building this infrastructure. PT Telkomsel, for example, has deployed 55 Base Transceiver Stations (BTS) equipped with 4G and 5G technology across key IKN locations (Telkomsel, 2024). PT XL Axiata has also strengthened regional connectivity with a fiber optic network operational since June 2022 (XL Axiata, 2023). Meanwhile, the Ministry of Communication and Information (Kominfo) has affirmed its commitment to supporting the development of IKN’s telecommunications infrastructure (OIKN, 2022).

On the other hand, IKN’s smart city concept is likely to influence technological expectations and adoption in surrounding buffer zones. As ICT infrastructure rapidly advances in the IKN core area, similar demands are expected to emerge from communities in adjacent regions. Training programs such as “Cod-

ing Mum,” “Coding for People with Disabilities,” and “Solar Mum” —introduced by OIKN for residents of Sepaku District— represent important early steps in preparing the local workforce (OIKN, 2024). These programs equip participants with digital, design, and renewable energy skills that are expected to support their integration into IKN’s digital ecosystem. However, the full benefits of such initiatives will depend on equitable ICT infrastructure development extending to village levels. Without such equity, there is a significant risk of a digital divide between the technologically advanced IKN core and underdeveloped peripheral areas.

Chapter 5. Impact of Rural Diversification on the Economic Resilience

In the context of regional economic development, economic diversification refers to the transition from reliance on a single type of economic activity toward the engagement in multiple, simultaneous activities—particularly those in non-agricultural sectors (Usman & Landry, 2021). Economic activities that were previously concentrated in the agricultural sector have gradually shifted and expanded into non-agricultural domains, especially in the provision of goods and services. The development of the new capital city, *Ibu Kota Nusantara* (IKN), represents a critical moment in this transformation, accelerating the diversification of local economic activities from agriculture toward non-agricultural sectors, across the core area of the capital (KIKN), its surrounding periphery (KP-IKN), and even areas beyond. The degree of IKN's impact on these zones varies depending on distance, geographical characteristics, and the socio-economic conditions of the respective communities.

Economic diversification plays a pivotal role in enhancing the adaptive capacity and economic resilience of local communities. The concept of resilience has been applied across multiple disciplines. In the context of regional economics, resilience—as defined by Du et al. (2025)—is often associated with economic geography, which examines the factors influencing a region's capacity to withstand external shocks; in this case, the shock pertains to the development of IKN Nusantara.

Economic resilience refers to the ability of a region or com-

munity to withstand and adapt to crises or changing economic conditions. At the household level, economic resilience is closely tied to livelihood resilience. The concept of livelihood resilience has gained prominence as livelihoods become increasingly entangled in major global transitions related to climate systems, economic shifts, and social changes (Quandt, 2018)—in this case, the transition caused by the capital relocation. A household is considered resilient if it is able to absorb shocks, recover from them, and learn from these experiences in ways that strengthen its overall condition. The shock in this context is the relocation of the national capital, including the massive migration associated with it.

Within the IKN development process in East Kalimantan, certain community groups have pursued economic diversification as a strategy to enhance their household-level economic resilience. Economic diversification contributes to economic resilience through several mechanisms: (1) income stabilization and growth, (2) increased livelihood options, (3) reduced dependence on extractive sectors, (4) strengthened local food security, and (5) reinforced social resilience within local communities.

5.1. HOUSEHOLD INCOME

The development of *Ibu Kota Nusantara* (IKN) has not only resulted in physical transformations, such as changes in land use and infrastructure development, but has also brought about significant socio-economic impacts on the surrounding regions. Certain segments of the population—particularly those with greater capabilities in terms of asset ownership, social networks, and skillsets—have been able to capitalize on the momentum of IKN's development and have experienced increases in household income through economic diversification.

The development of IKN has created new employment op-

portunities, allowing individuals who were previously reliant on a single source of income to engage in multiple economic activities. These opportunities are especially influenced by the rising demand from IKN workers and new migrants who arrive to observe or participate in the ongoing development process.

Several types of income-generating activities have emerged among local residents. These include renting out portions of their homes to workers, operating catering services for construction laborers and visitors, opening small-scale retail shops to meet the daily needs of newcomers and residents, investing in vehicles for rental services, and offering laundry services, among others. The substantial economic benefits experienced by the local community since the onset of IKN development are reflected in the statement below:

“The increase is significant. I used to earn IDR 3,000,000 per month, but now I can make that amount in just one night during busy periods.”
— Bukit Raya’s local villager, 2025

Economic diversification has also been adopted by community members who previously relied primarily on agriculture and plantation activities to meet their daily needs. Individuals who were once heavily dependent on the cultivation of oil palm, rubber, and rice now have more diverse income-generating options beyond agricultural yields. The shift from agricultural to non-agricultural livelihoods has also been driven by the reduction in farmland and plantation areas, which have increasingly been converted for infrastructure development to support the new capital.

The phenomenon of households generating income from both agricultural activities and supplementary non-agricultural endeavors is also evident in the case of a farmer from Sepaku. He explained that while farming remains his primary livelihood

due to his skills and knowledge of agricultural practices—such as determining plant needs, pruning, and spraying—he has also diversified his income by renting out rooms. In early 2024, he contracted with PT Adhi Karya to provide accommodation for mosque construction workers, with an agreement lasting until 2025 and valued at IDR 150 million per year.

This statement indicates that renting out housing units to IKN project workers can generate substantial additional income. The influx of migrants during the IKN development phase has significantly boosted the earnings of local residents who have initiated small enterprises or services to meet the growing needs of incoming populations.

Nevertheless, the high dependence on demand generated by incoming migrants renders many of the newly developed occupations vulnerable in terms of sustainability. For instance, in 2025, the reduction of IKN construction workers up to 60% led to a significant decline in local residents' income. Rental units that were previously in high demand and limited in availability became largely unoccupied, prompting many landlords to lower their rental prices. Additionally, some residents who had established culinary businesses were forced to shut down due to a sharp decline in sales following the expiration of most workers' contracts in early 2025. A food stall owner in Sukaraja explained that her food stall, which had once been busy when many workers lived nearby, gradually lost customers after workers left and others began purchasing on credit due to delayed salaries. Facing continuous losses, she eventually had to close her business.

This heavy reliance on IKN workers as a transient population suggests that, despite efforts to diversify household-level economic activities, increased income alone does not necessarily equate to the achievement of household economic resilience. The dynamic and fluctuating nature of population movements

creates job opportunities that are inherently unstable in terms of long-term viability.

5.2. LIVELIHOOD CHOICES

Beyond increases in household income, the economic diversification triggered by the development of *Ibu Kota Nusantara* (IKN) has also led to notable shifts in local livelihood patterns. Overall, many residents have reported improvements in their quality of life, particularly in terms of income, when comparing conditions before and after the onset of IKN development. A local worker from Sukaraja explained that the emergence of new employment opportunities following the development enabled him to significantly increase his income—up to two or three times higher than before. While he previously lived modestly, he noted that his earnings had risen substantially as a result of the project's progress.

Prior to the development of IKN, the majority of residents relied on traditional sectors such as agriculture and plantation work. These livelihoods carried various risks, including income volatility tied to commodity prices and the quality of yields, which were often affected by external environmental factors such as seasons and weather. However, the advent of IKN has gradually transformed the local economic landscape. Increased construction activity, rising demand for logistics, the influx of workers and visitors from outside the region, as well as the entrance of both domestic and international investors, have collectively diversified employment options for local communities.

Residents now face a broader spectrum of livelihood choices: becoming construction workers for IKN projects, providing goods and services for incoming populations, or continuing with plantation activities as before. This increasing diversification in livelihoods can contribute positively to household economic re-

silence. One of the locals described his personal transition from traditional to diversified income sources as follows:

"I've worked in the private sector before, joined a few companies. But I got tired of working. So I went back to farming—I can manage my own time. Sometimes I also take on daily labor. After the new bypass road was built, I started thinking about what kind of business to open, and eventually opened a small shop. This shop in front of my house is still new—less than a month old." — A local in Sukaraja Village, 2025

Nevertheless, despite the apparent expansion of job opportunities and livelihood variations, household resilience remains heavily influenced by one critical factor: ownership of fixed assets. This becomes particularly relevant considering that many of the available jobs around IKN are temporary in nature, largely driven by external demand from migrants and the ongoing construction phase. Once this momentum fades, livelihood sustainability will depend significantly on the type of work residents transition into, as well as the assets they possess.

Ownership of assets such as vacant land, plantations, vehicles, or housing enables households to make more strategic and autonomous decisions regarding their livelihoods. In the event that individuals are forced to relinquish their jobs after the IKN construction phase, or as demand from migrants declines, those who hold productive assets can repurpose them to maintain income—by returning to agricultural work, renting out property, or even selling assets if necessary. In contrast, households with limited asset ownership are more vulnerable to economic fluctuations. A case of business closure due to a decline in migrant-driven demand is described below:

"If your shop isn't on the main road, of course it's quieter. Out there, more people pass by. At first, the business owner took out loans to start the shop. Some workers bought on credit and couldn't pay back. The

seller was too bold—took on too much debt for capital. In the end, she had to stop working and close the shop.” — A local businessman in Sukaraja Village, 2025

From this case, it can be concluded that household resilience is most likely to be achieved when a household not only engages in relatively stable and diversified livelihood activities, but also possesses sufficient assets that can be mobilized in times of economic uncertainty. Many local businesses that emerged in response to short-term migrant demand remain vulnerable and exposed to external fluctuations, thereby highlighting the need for deeper structural support in sustaining local livelihoods.

5.3. REDUCING DEPENDENCE ON THE EXTRACTIVE SECTOR

In addition to transformations in household livelihoods, another key indicator of economic diversification contributing to household resilience is the reduction in dependence on extractive sectors. In East Kalimantan, extractive industries—particularly mining and large-scale agriculture—have long dominated the regional economy. This is evidenced by the extensive presence of industrial forest plantations (*Hutan Tanaman Industri*, or HTI), vast oil palm estates, and widespread mining concessions. Extractive sectors are typically capital-intensive, and the nature of commodities produced—such as minerals and plantation crops—makes on-site processing difficult, thereby limiting opportunities for localized economic diversification. This stands in contrast to food crops, which can more easily be processed into innovative food products, enabling a wider range of diversified economic activities.

Within the core (KIKN) and periphery (KP-IKN) areas of the new capital, extractive economic activity has largely centered around agriculture, particularly through HTI plantations such as eucalyptus and rubber, and the dominance of oil palm plan-

tations. A major constraint to diversification within these agricultural sub-sectors is the limited capacity for labor absorption. Most agricultural output is directly sold to aggregators (*pengepul*) and transported elsewhere for processing, leaving few opportunities for local labor engagement in value-added stages. As a result, the potential for economic diversification from these sectors remains minimal.

Since the initiation of IKN development, however, there has been a gradual shift from agriculture toward trade and service sectors. The influx of migrant workers and visitors has generated new demand, creating opportunities for the local population to engage in the provision of goods and services tailored to these groups. Additionally, a portion of residents received financial compensation for land acquired by the government for infrastructure development related to IKN. These compensation funds have been used in various ways: for investments, entrepreneurial ventures, or for household consumption. Over time, this dynamic has contributed to a decline in dependence on traditional agricultural activities. This shift is reflected in the following statement:

“Most residents have definitely experienced an increase in income. Those who were formerly farmers or plantation workers received compensation when their land was acquired for IKN. Many of them have used that money to start businesses or for consumption.” — Sukaraja Subdistrict Official, 2025

5.4. LOCAL FOOD SECURITY

In assessing local food security, three key dimensions must be considered: availability, accessibility, and security. *Availability* refers to the extent to which sufficient food is physically present to meet the nutritional needs of the population. This availabili-

ty is determined by local food production, external distribution, and food imports. *Accessibility*, on the other hand, pertains to the extent to which individuals or households can economically obtain food—essentially reflecting their purchasing power. This aspect is closely linked to the concept of food miles, which refers to the distance food must travel to reach consumers. The greater the distance, the higher the transportation and distribution costs, which in turn inflates food prices and reduces affordability for the local population. Lastly, *security* refers to the degree of reliance that communities have on external regions for their food needs—an overdependence which may compromise long-term food sustainability.

Both KIKN and KP-IKN areas, food availability remains relatively limited. The local supply of food continues to depend heavily on external regions such as [insert relevant regions]. This reliance on other areas has led to increased distribution costs, which has subsequently driven up food prices. The influx of migrants during the IKN development phase has further intensified demand for food, exacerbating the mismatch between supply and demand. As a result, food prices have surged dramatically in recent years. This phenomenon is reflected in residents' testimonies:

“Vegetables are outrageously expensive... It’s especially bad for leafy greens. Water spinach alone is IDR 8,000 to 9,000 per bunch. Green beans are IDR 15,000. Spinach once reached IDR 18,000 per bunch.”

— Local villager in Sukaraja 1

“It’s expensive—spinach is IDR 14,000 to 15,000 per bunch, when it used to be IDR 5,000. Water spinach is IDR 8,000. Eggplants used to cost IDR 10,000, now it’s IDR 17,000. A sack of rice that used to cost IDR 350,000 is now up by IDR 20,000.”

— Local villager in Sukaraja 2

The effort to strengthen local food security within the IKN area, agricultural innovations such as hydroponics have been introduced. Several hydroponic training sessions have been held to build community capacity and contribute to household economies. While hydroponics is still in its early stages and has not yet been intensively developed, its introduction has been well received and is gradually gaining interest among residents. The emergence of hydroponic initiatives demonstrates a promising step toward reinforcing food resilience at the local level.

"It's starting to grow. More and more people are asking for vegetables, so we added more pipes." — A local hydroponic farmer in Sukaraja, 2025

5.5. SOCIAL RESILIENCE

Economic diversification also contributes to social resilience, which is a defining characteristic of household resilience. Social resilience refers to the ability of communities to adapt to, withstand, and recover from social shocks or stressors—such as shifts in local values or potential social tensions arising from inequality. Economic diversification reflects a broader range of livelihood sources, reducing household dependence on any single sector—particularly agriculture—and thus enhancing resistance to external pressures.

Since the initiation of the IKN development, economic diversification has opened up opportunities for women, youth, and Indigenous communities to engage in income-generating activities and participate more actively in the development process. Women, for instance, have been able to leverage their domestic skills to run catering services, operate food stalls, or sell light snacks. As a result, women's contributions to household livelihoods have grown significantly. Beyond gender roles, economic

diversification has also brought greater stability to household economies, enabling them to better absorb other shocks—such as layoffs or surging commodity prices.

The large-scale transformation occurring in East Kalimantan due to the development of the Ibu Kota Nusantara (IKN) has driven deep structural changes in the social and economic fabric of rural communities. Amid urbanization and rapid infrastructure expansion, local residents have not only witnessed change but have also actively responded to emerging dynamics. One of the most prominent adaptive responses has been household-level economic diversification—a key mechanism supporting social resilience amid the uncertainties of development.

5.5.1. Economic Diversification as a Driver of Social Resilience

In the context of rural development, social resilience refers to the capacity of communities to adapt, endure, and recover from socio-economic stressors—including shifting values, social conflict, and structural changes in livelihoods. Economic diversification is a fundamental component of this resilience, especially for households previously dependent on primary sectors such as agriculture and forestry.

Within the IKN development context, economic diversification carries two critical functions. First, it serves as a response to new economic opportunities driven by increased flows of capital and human mobility. Second, it acts as a mitigation strategy against dependency on a single sector—such as construction—that is inherently temporary and highly sensitive to policy shifts and development cycles.

Importantly, this diversification has taken an inclusive form, expanding economic participation beyond the traditional male breadwinner model to include women, youth, and Indigenous

populations. Women, for example, have tapped into their domestic skillsets to start catering businesses, run food stalls, and sell snacks—boosting their contributions to household income and enhancing their social standing within the community. Meanwhile, local youth have begun exploring opportunities in services, logistics, and modern culinary ventures targeting migrants with higher purchasing power.

This growing diversification not only enhances short-term economic capacity but also strengthens household resilience against systemic risks such as layoffs, food price inflation, or disruptions in local supply chains. In line with the regional resilience literature, regions with a more diversified economic base, a dynamic population, and innovative capacity are generally more resistant to external shocks (Boschma, 2015; Martin & Sunley, 2015; Simmie & Martin, 2010).

5.5.2. IKN and Its Surrounding: Before and After August 17, 2024

The early phase of IKN development—particularly leading up to Indonesia's Independence Day on August 17, 2024—was marked by a surge in economic activity. The influx of construction workers and rising demand for goods and services encouraged local residents to start new businesses, including room rentals for laborers, food stalls, catering services, vehicle rentals, and laundry operations. Government and project partners supported this momentum by offering vocational training in fields such as heavy machinery operation, culinary arts, and carpentry—preparing the local workforce for participation in the national project.

In areas like Sukaraja, economic life began to intensify. One of the local resident observed the transformation:

“Most of the businesses around the bypass road are new. This used

to be a dead road. Now that the project is 90% complete, people are starting to think about what kind of business to open.” – Local resident in Sukaraja, 2025.

The growing purchasing power of migrants also changed local consumption patterns. One of the locals in Sukaraja, a snack vendor, shared his experience:

“I started selling corndogs after the IKN project began and migrants started coming. Before IKN, selling corndogs was hard—people thought they were too expensive. Now, most of my customers are from outside.” – Local resident in Sukaraja, 2025.

However, the landscape began to shift significantly after the national celebration on August 17, 2024. Following the event, construction activity slowed down drastically—driven by policy uncertainty due to the government transition, delays in contract renewals, and reduced labor demand in major projects. Contractors scaled back operations, and many migrant workers were sent back to their home regions.

As a result, the microenterprise ecosystem that had flourished during the construction boom began to show signs of strain. Food stalls, laundromats, boarding houses, and cafés—many of which depended on construction workers as their primary clientele—began losing customers. The once-spontaneous wave of diversification started revealing its fragile foundations. This mirrors what the literature refers to as *fragile diversification*: a short-term adaptive response to external stimuli that lacks long-term institutional and market support.

5.5.3. Policy Implications: Toward Sustainable Resilience

Although economic diversification has successfully bolstered short-term household social resilience, its sustainability depends heavily on the consistent development planning, pro-people pol-

icy orientation, and institutional support for micro and small enterprises.

The conditions surrounding IKN suggest that, in the absence of adaptive and inclusive local economic planning, diversification risks becoming a temporary reaction to volatile markets. To move forward, several strategic actions are essential:

- Long-term, community-based economic empowerment that is not solely reliant on large-scale, capital-intensive projects.
- Integrated support systems, combining skills training, access to microfinance, and market access—especially for vulnerable groups such as women, youth, and Indigenous communities.
- Monitoring of household economic resilience as part of broader social impact assessments in national development planning.

Without such measures, the social resilience nurtured during IKN's construction phase may collapse as the momentum fades. Economic diversification should not only be about multiplying income streams—but also about building systems that make those streams relevant, adaptive, and sustainable over the long term.

Chapter 6. The Challenges Faced by Rural Communities

6.1. ACCESS TO CAPITAL AND CREDIT

Economic diversification in rural areas is highly dependent on the assets owned by the community and the community's ability to access decent, safe and sustainable financing as initial capital in the business diversification process. Capital is a crucial factor in the process of developing new businesses such as stalls, catering, accommodation services, and even local crafts that are currently developing in the Nusantara Capital City (IKN) area and its surroundings after the start of the IKN megaproject development. However, limited access to capital is a major obstacle in the effort to transform the community's economy, especially in the rural areas of IKN and its surroundings.

Formal financial institutions such as banks, savings and loan cooperatives, and other financing institutions often set several requirements that are sometimes difficult for rural communities to fulfill. The absence of collateral and limited financial understanding of credit procedures make local business actors, especially micro and small businesses in rural areas around IKN, choose informal sources of financing such as moneylenders or middlemen who offer easier access to capital loans, but with the consequences of high interest rates and entangling schemes. Sometimes this creates a condition of dependency and can weaken the competitiveness of local businesses.

Although the government has provided financing programs such as Kredit Usaha Rakyat (KUR) in collaboration with banking

institutions, implementation in rural areas still faces challenges related to distribution and affordability, including in rural areas around IKN. The KUR program will be more easily accessed by businesses located in areas where there are banking facilities. Meanwhile, some rural areas are far from banking service centers and require more effort to access them. In addition to KUR, the government also sometimes provides capital assistance programs to micro and small business communities through local governments in the form of tools or money. However, in some cases, the distribution of capital is also filled with political and social bias. Only certain groups with connections to the authorities or elite groups benefit from this assistance



Figure 13 PT Pertamina Patra Niaga Regional Kalimantan inspects the location and provides capital assistance for a hydroponic plant cultivation farmer group in Sukaraja Village (Photo by <https://pusaranmedia.com/read/19276/pertamina-kunjungi-petani-budidaya-hidroponik-ppu-penerima-bantuan-tjsl>, 2025)

Capital assistance does not only come from the government, some private parties such as companies around IKN also provide capital assistance through CSR (Corporate Social Responsibility) programs. The assistance provided is not only limited to

money capital or production equipment, sometimes also providing business management training. However, micro and small businesses in the IKN area and its surroundings, especially in rural areas, are also not that easy to get CSR benefits. This happens because the company is quite selective in choosing business actors who are considered worthy of receiving assistance and some of the conditions proposed by the company are sometimes quite difficult to fulfill by micro and small business actors such as eligibility permits, business establishment permits, and business legality. The company applies these rules not without reason, because the company wants the capital grant program to be truly beneficial for the welfare of the community in a sustainable manner, not just as a place to make money for a moment.

Cooperatives as community-based financial institutions should play an important role in solving capital financing problems for micro and small businesses in villages. However, in practice, not all village cooperatives can function optimally. Many village cooperatives experience managerial problems, lack of revolving funds, lack of innovation in products and services, and even some village cooperatives become “moribund” cooperatives. As a result, the community’s options in accessing capital for its business are increasingly limited.

Overall, limited access to capital and access to credit is an obstacle in the process of diversifying the rural economy in the IKN area and its surroundings. Without access to inclusive financing capital, the potential of local businesses, especially in rural areas, will be difficult to develop and village communities may remain trapped in a traditional subsistence economy. Without adequate capital, local communities will also be unable to compete with migrants from outside the region, especially with those who have financial capabilities and easier access to capital. Therefore, steps and policies are needed that can strengthen the

ease with which people can access financing capital for micro and small businesses, both through expanding access to banking, strengthening village cooperative institutions into modern cooperatives, and last but not least strengthening financial literacy for village communities. Through these steps, it is hoped that a fair and sustainable capital financing ecosystem for small and micro businesses can be realized.

6.2. ENTREPRENEURIAL CAPACITY

The IKN mega project has created major changes in the economic structure of the local community. The large number of newcomers entering the IKN project area has led to the development of the area into a bustling area which has consequences for the increasing needs of the community, such as the need for food, adequate housing, and other basic needs. This condition creates a new opportunity for local residents to open new businesses as a way for them to respond to this opportunity.

Many local residents eventually opened new businesses, such as food stalls, laundry, house and boarding rentals, transportation services, and other businesses. With so many migrants, especially project workers, crowding their area, it is not difficult to develop their new businesses because of the need for workers to fulfill their survival in a new environment.

However, the problem is that the local population is not well equipped to deal with the challenges and dynamics of being an entrepreneur. Many of the natives who previously worked in the primary sectors and depended on the natural sectors do not have the capacity to deal with the complex world of entrepreneurship. Limited understanding of basic business concepts, business management, and financial literacy are major challenges for these newbies to entrepreneurship.

Entrepreneurship requires various abilities that must be

mastered, especially the ability to manage resources, namely financial, human, and material resources including skills to manage people, production, and marketing (Fogel et al., 2009; Haris, 2019). Although everyone is free and able to become an entrepreneur as long as they have sufficient capital, without these skills, their business will be very vulnerable to losses.

The diversification of people's livelihoods from the primary sector to entrepreneurship is a new challenge for them. Many residents are not accustomed to preparing business plans, recording cash flow, managing loans, or marketing strategically. Many of them run their businesses on their own initiative and informally, which in the long run can make it difficult to sustain and grow their businesses. Yet by looking at the potential development of the region since the construction of IKN, the sustainability of the businesses they run will be very prospective in the future.

To address this, the government has sought various training for the community, especially to face the increasingly complex world of digitalization. One of them is the Coding Mum program as an effort to introduce the community, especially mothers, with basic digital knowledge and skills. Through this training, the community is taught digital marketing that supports the sustainability of the businesses they run. It is hoped that through this program, the businesses run by the community are not only limited to seasonal businesses (only exist at this time, when the IKN project is busy) but can also reach more consumers and bring more economic benefits, as another source of livelihood for them.

6.3. MARKET ACCESS AND INFRASTRUCTURE

Local communities in carrying out primary activities such as exploring the economy face several challenges that are quite fun-

damental and certainly require handling in line with the development of the National Capital City (IKN). In several cases of IKN development, there is still inadequate distribution access. Roads in the IKN development area should have had an optimal impact in supporting access to IKN development. However, in reality, access to primary infrastructure such as roads still requires more attention. Local communities use roads as primary access in achieving various things including market distribution. This makes it a challenge for local communities to develop their economy.



Figure 14 Potholed road on the border of Sepaku Village and Bukit Raya Village (Photo by Maulidia Savira Chairani, 2025)

It can be seen in **Figure 11** the road is still not asphalted and has various holes that can be dangerous. Asphalt roads require more maintenance than dirt roads. In line with regional development in IKN, especially in areas with high accessibility. However, this contradicts the need for roads with daily use where vehicles with large loads will require greater maintenance. This

becomes its own dynamic where the need for roads can complicate the mobility of goods and provide a lack of accessibility.

IKN is designed as a smart and green city, but current development is still highly concentrated in the core zone. This imbalance exacerbates the isolation of buffer zones, especially villages in Penajam Paser Utara and Kutai Kartanegara districts. Limitations in inter-regional connectivity planning-including the development of community ports, crop transportation routes, and village market networks-will hinder the vision of equitable and sustainable development.

In addition to road infrastructure, market limitations also indicate that there is a lack of markets as an economic tool for the community. The lack of market access means that people are less able to market their needs and get the things they need. Markets are expected to be a major part of the local community's economy. However, limited infrastructure and markets pose a risk in the difficulty of developing the economy in these communities. Limited market and road infrastructure directly impacts the ability of local communities to access markets and benefit economically from the development of IKN. Some of the impacts include local products being difficult to sell to city markets or project areas, resulting in low incomes for farmers and MSMEs. This is exacerbated by the absence of storage facilities, refrigeration, and digital market access making the added value of local products very limited. The lack of integrated distribution facilities leads to high dependence on middlemen or third parties. In the long run, local communities fail to engage in the IKN megaproject supply chain, due to the absence of supporting infrastructure that enables economic integration. Difficulties in the economy are also found to be a big risk, supported by bad signals in the region. The lack of infrastructure to fulfill their needs means that communities may be limited in their access to information. Bad sig-

nal is one of them. Lack of signal in development makes access to information difficult. Limited information is the basis for delays in development. Thus, the fulfillment of needs in the local community makes its own isolation for the local community.

Local communities, which should be the main target of development, are left behind and isolated, requiring more attention. Local communities should be the main focus and reference point for development.

Difficult access to development, including community empowerment, isolates local communities and puts them at risk of non-inclusive development. In the future, this access challenge still requires optimal needs and building with more than double to build so that more optimal needs are needed with synergy of infrastructure access in the community. The isolation of local communities around the IKN area, which is reflected in poor road and market access, is not just a technical infrastructure issue, but concerns spatial justice and development participation.

The limited road and market infrastructure around the IKN area is a serious challenge in creating inclusive and equitable development. If not addressed, the IKN megaproject has the potential to create new inequalities: grandiose development on the one hand, and structural poverty on the other. Limited infrastructure and market access in the IKN region pose serious challenges to the inclusiveness of development and the socioeconomic sustainability of local communities. If not addressed strategically, IKN development risks creating modern enclaves that are disconnected from the realities of the surrounding communities.

This can be pursued by making the construction of connecting roads between villages and to the IKN center a national priority, not just a complement. Revitalization and development of village markets that are integrated with the IKN logistics system. Empowerment of local communities through the support of local

economic infrastructure such as warehouses, cold storage, and micro transportation. A connectivity and village economy road-map that is prepared in a participatory manner, involving local communities in the planning.

6.4. LAND CONFLICT

The development of the Ibu Kota Nusantara (IKN) is based on a problematic narrative, namely that this megaproject is being established on vacant state-owned land (Susetyo, 2024). In reality, the area designated as IKN has long been a living space for diverse communities, including farmers and indigenous peoples. The government's claim that the location is state land or controlled by the government is directly contradicted by the facts on the ground. In fact, the government's own official documents, such as the strategic environmental assessment (KLHS) prepared by Bappenas, have early on identified the status of land tenure by communities as one of the main potential risks that can cause serious problems in the land acquisition process. The document states that "The issue of land conflict is certainly an important agenda that must be resolved by the government and the community to realize a developed IKN and the welfare of its people" (Bappenas, 2020 p. 154) . In line with the results of the IKN SEA team's search, the results show that land seals are proof of land ownership in the community. Although in the acquisition process, land seals are considered, the absence of official land ownership certificates then becomes a problem during the process of measuring and assessing land value:

"If you want to entrust my land to the court, that's fine. But I never want to give up my land ... (measurements) must be open. The valuation of the land must be clear" - Paser traditional leader.

"Yesterday too, we just returned from a family with land issues ... Because when BPN measured, both parties were not taken down, only

one party was taken down" - Balik traditional leader.

Agrarian conflicts in the IKN area are not a new phenomenon arising from the capital city project. On the contrary, IKN is built on a "barn" of pre-existing conflicts. Data compiled by the Alliance of Land Conflict Observers shows that there are 11,992.58 hectares of disputed land (Adzani, 2024). The oil palm plantation sector is the main trigger, with disputes reaching 4,693 hectares, and the East Kalimantan Plantation Office recorded 48 cases of plantation land disputes in 2022 alone (East Kalimantan Plantation Office, 2023). The scale of the problem is further revealed by a report by the Indigenous Peoples Alliance of the Archipelago (AMAN), which noted that 21 indigenous communities around the IKN area reported a total of 30,000 hectares of their customary land overlapping with plantation and mining concession licenses, even before the IKN project began (Hidayat, 2022).

The root of this complex agrarian conflict lies in a fundamental conflict between land rights recognition systems. On the one hand, indigenous communities such as the Paser Balik tribe - the original inhabitants of Sepaku sub-district - hold customary land rights that have been passed down from generation to generation. Their proof of ownership often takes the form of a 'land seal', a letter of physical control recognized by village officials, but not officially certified by the National Land Agency (BPN) (Hidayat, 2022). On the other hand, the state grants licenses to companies in the form of Cultivation Rights Title (HGU), location permits from the Regent, or forestry concessions. The process of issuing these permits often takes place without socialization, without paying attention to conditions on the ground, and even displacing productive lands owned by residents (JATAM, 2017). An example of this is the conflict between local communities and PT Perkebunan Kaltim Utama (PT PKU 1). An article

released by the Mining Advocacy Network (JATAM, 2017) states that the conflict involved the eviction process of 6 farmer groups in 3 sub-districts. The land area of the 6 farmer groups is 1,300.59 ha. In this case, PT PKU 1 obtained HGU issued by BPN, while the farmer groups' cultivated land, which began in 1970, also has the legality of SPPT and land ownership certificates. As a result of the conflict that lasted a dozen years, it also resulted in criminalization experienced by a member of the farmer group named Haji Nurdin in 2016-2017 (WALHI, 2018) .

The situation is exacerbated because many indigenous peoples' lands are unilaterally categorized by the government as Forestry Cultivation Areas (KBK), which places them under the control of the forestry ministry and hinders communities' efforts to obtain legal titles. Legally, in Forestry Law No. 41/1999, it is clearly stated that "All forests within the territory of the Republic of Indonesia including the natural resources contained therein shall be controlled by the State for the greatest prosperity of the people" (article 4 paragraph 1). However, the reality on the ground shows that there are not a few people who have depended on the area for decades. This creates an extreme imbalance of power, where as the formal legal owner, the state has the right to carry out "development" on state-owned land in accordance with applicable regulations, including granting forest management licenses to certain companies (JATAM, 2017) . On this basis, companies with formal legality can easily exclude communities whose proof of ownership is considered informal by the state.

For local communities, the impact of this conflict goes far beyond economic loss. Losing their land means being uprooted from their socio-cultural roots, identity and history that have been passed down through generations (Hidayat, 2022) . Land is not just an asset, but a living space where ancestral graves, sources of livelihood, and traces of family lineage are located. This

threat became very real when the Land Bank Agency, under the ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN), on March 18, 2024 issued a letter of appeal to communities in five villages-Riko, Maridan, Jenebora, Gersik, and Pantai Langgo-not to carry out activities on their own land, without any clear dialogue or offer of compensation. This unilateral action revives past trauma, when their land was taken over by plantation companies, and now they feel they are faced with a new round of conflict with the state as the main actor under the pretext of building the archipelago's capital city.

It is community plantation land, but it is located within the HGU area. According to the company, it belongs to them, but we believe it belongs to us. Before the HGU was established, we were the ones who managed it. We don't know whose land it is, we just know that it is our land. We manage it. " -- Indigenous people in Sepaku, 2023.

Land acquisition conflicts also occurred in projects affiliated with IKN. One example is the land acquisition process for the 4500- meter-long and 2.5-hectare Sepaku Intake and Sepaku River normalization project. This project was built as a source of water for the Water Treatment Plant (IPA) and processed and then flowed to buildings in IKN, including ASN residential flats, to government offices, hospitals, and hotels, and the state palace. However, in the course of its implementation, there are a handful of communities who still refuse to acquire their land because the amount of compensation is not appropriate.

"There is no benefit, no compensation, nothing. Not suitable (compensation value) Next to the bridge 190 (or) 140 (thousand per meter) It was a house and land. Now one plot of land is already (priced) 120 (thousand per meter). Haven't built the house yet. Many do not have land (in other areas), where will they move to?" --Project-affected community

“Rp190,000 (when asked about the compensation to be received). Not according to the first price that was delivered yesterday. The first price was Rp600,000. That does not (include) the house.” -- Project-affected community

Several Sepaku residents stated that the inequality of compensation received was the main reason for the rejection of relocation by some residents. The land acquisition process was uneven, with compensation values varying between areas, creating a sense of injustice among residents. As experienced by nine families who rejected the compensation value because it was considered too low and did not allow them to buy new land or houses. They also questioned why residents in the previous acquisition phase received a better price. Socialization from the government is considered less transparent, only targeting residents whose land is directly affected, while information to the wider community is often only circulated by word of mouth. Some of the following quotes illustrate the situation experienced by residents in this regard:

“Indeed, there are many people here who are compensating for land loss. And so far the prices have varied, because the final compensation was negotiated per person. So sometimes resident A and resident B can be different, depending on the results of the value (during negotiations), but it can't be far. And it's closed (from the public)” -- Sepaku village authority.



Figure 15 Flooding in Kelurahan Sepaku RT 2 due to the unfinished construction of river walls. (Photo by Maulidia Savira Chairani, 2025)

A number of residents' rejection of the unfair compensation value has caused the river widening project to stall. In fact, the 17.8-hectare Sepaku River Intake project and the normalization of the 4500-meter riverbank are intended to provide 3,000 liters of clean water per second while controlling the frequent flooding in Old Sepaku. Due to delays, flooding has worsened, submerging houses and disrupting residents' activities. Although the government has allocated Rp9.8 billion in land acquisition funds and completed the project by June 2024, inequality in compensation remains a problem. Residents hope that the government will be more open in communication and provide certainty, so that the development of IKN does not actually make their lives more difficult. Amidst all the uncertainty, they continue to fight for their rights while hoping for a fair and sustainable solution.

On the other hand, land conflicts do not only occur verti-

cally between communities and companies or the government. We captured some findings about conflicts that actually occur between communities. Conflicts occur between ex-transmigration communities and local tribal communities. Differences in the pattern of land cultivation activities between local indigenous people who cultivate land on a shifting basis and ex-transmigration communities who cultivate land legally given by the government, have caused various problems, especially since the construction of IKN. Land ownership changes owners over time. The ability of the ex-transmigration community to cultivate land for agriculture has expanded lands outside of government grants to be cultivated. Land buying and selling occurs between ex-transmigration communities and local communities without complete and legal records. In the end, this led to conflict during the land acquisition process for IKN development. Land that used to have a very low value suddenly has a very high value due to the development of IKN.

6.5. SOCIAL FRAGMENTATION

In the context of social fragmentation that occurred in the IKN area, it started long before the development of IKN. The social fragmentation that occurred in the IKN area was caused by the presence of migrants who not only marked demographic changes, but also reflected the socio-economic restructuring that took place in rural areas. Migrants generally have greater capital, which supports them to control land, resources and strategic economic activities. This creates a real divide between local communities and newcomers. The local community in question is the Paser Tribe. The Paser tribe, who were previously the main owners and managers of the living space in the area, were increasingly marginalized by the dominance of the newcomers.

The gap that triggers social fragmentation is visible in var-

ious aspects. The migrants generally have nice houses and are oriented towards social mobility and consumption, in contrast to the Paser tribe who tend to maintain the value of simplicity

In the context of livelihood diversification, migrants (from Sulawesi) played an important role in introducing and developing aquaculture and fisheries activities in the area around IKN starting in 1978. Their presence not only resulted in changes in social structure, but also influenced local livelihood patterns, particularly through the migrants' mastery of skills, patience and resilience in dealing with long cultivation cycles and uncertainty of results in managing market-oriented fisheries businesses, which were not previously possessed by the local community. A significant contribution of the newcomers was to expand the economic base of the local community through the introduction of new farming technologies and practices. Previously, local people depended on subsistence agriculture with coconut and corn as their main commodities, and then shifted to the more profitable aquaculture sector. However, the success of migrants in the pond sector also has implications for ownership structures and access to resources. This has marginalized local communities because they lack the skills or readiness. This marks an asymmetric dynamic in the process of rural diversification, where some parties (in this case migrants) gain greater benefits, while others (local communities) face challenges in maintaining their economic and social position which then leads to social fragmentation. It can be concluded that the involvement of migrants in aquaculture and fisheries has accelerated the process of diversification of the rural economy around IKN, but also created new inequalities and social fragmentation.

In addition to pond and fisheries activities, migrants have a strategic role in introducing and accelerating the shift in local agricultural orientation from subsistence systems to market com-

modities, especially in the form of oil palm plantations around the 2000s. Not only access to market networks, capital, but also technical knowledge. The activities of migrants in oil palm plantations encourage local farmers to plant oil palm. Thus, migrants are not only demographic actors in local dynamics, but also the carriers and main drivers of market commodity-based agrarian transformation, which helped shape the direction of rural economic diversification in the IKN buffer zone.

The development of IKN in Sepaku, East Kalimantan, has triggered tensions between local communities, especially indigenous groups such as the Paser and Balik tribes, and the migrants who are increasingly entering the area. These tensions are not only related to the struggle for resources, but also involve several things, namely local identity due to the feeling of being threatened by the dominance of migrants in social and economic life; and recognition and social position in the changing community structure because local people consider the IKN development process to be more favorable to migrants. These tensions arise in everyday social relations. Local people often feel culturally incompatible or uncomfortable with the lifestyles and values brought by migrants. Local people with a culture of simplicity consider that although migrants have nice houses, their lives are not peaceful. The fragmentation of the local and migrant communities stems from a cultural and social divide that is reflected in differences in economic class and lifestyle preferences.

The development of IKN has led to a transformation in the structure of agricultural commodities in the surrounding area, from traditional food crops and gardens to a stronger market orientation. The commencement of IKN development activities has resulted in the regional economy, which was previously centered on the plantation sector, becoming more diversified. This change provides both opportunities and challenges for the

community. On the other hand, the influx of workers from outside the region, including those in the IKN core zone, tourists, and local investors, has created opportunities for local residents to establish businesses that support the needs of IKN workers such as accommodation services, catering, laundry, vehicle rental, grocery stalls, food stalls, and workshops. Communities that previously depended solely on agricultural products are now diversifying their livelihoods by taking advantage of existing opportunities. These opportunities are present within the IKN Core Area, as well as in the IKN Outer Zone, which includes Riko and Maridan sub-districts. At this stage, the demographic conditions of the people in the IKN area have reached a multiethnic and multicultural stage. In relation to social cohesion, in general, the development of IKN does not seem to have significantly affected the current social cohesion of the IKN community, both in the KIPP area, outside the KIPP area and in the KPIKN area. Social cohesion is the closeness, coordination, and stability of relationships between group members, which provides benefits to the group as a whole (Taylor and Davis, 2018). Communities in all three areas have a close-knit pattern of community life and have informal safety nets. RT meetings, *arisan*, *pengajian*, *Yasinan*, *majelis taklim*, church neighborhood associations and others have taken root in community life here. The construction of IKN has not diminished the existing social cohesion. Various existing community activities continue to run as before. These activities continue to survive because they have many benefits.

“Those who do that (tahlilan) belong to the 5 RTs. But if we here need it, because here to do things like tahlilan and all kinds of things, many people don’t understand the methods, because the methods are different. That’s why, for example, from that group, if they want to organize tahlilan, they are ready. They are ready to help. Because of the diversity. So they are ready to help. It’s the same if we are here,

when they have an event like tahlilan, we are invited, so we come.” -- Indigenous people in Sepaku Subdistrict, 2023.

Some of the benefits felt are that these community activities provide a space for people to share information and strengthen social ties. These close relationships are based on shared beliefs/morals among community members, which enable them to trust each other, defined by Larsen (2013) as social cohesion.

Community activities not only strengthen social cohesion but can also serve as an economic safety net, such as through arisan. Arisan not only functions as a social tool but also provides economic benefits or support for its members. Funds obtained from arisan are typically used for household needs, small business capital, or other purposes.

“Coincidentally, he got the arisan. The arisan was originally for buying a motorcycle. He got the last one when he was about to go to college (eventually used to pay for college). Dina also got it when she was about to enroll in college. Since they’re both children, I enrolled them in the arisan.” -- Local resident in Sepaku, 2025.

In areas outside the KIPP zone, specifically in Riko Village and Maridan Village—which are multi-ethnic areas—the development of the IKN had little impact on social cohesion among the community long before the IKN was established. Various traditional groups, particularly in Maridan Village, play a crucial role in shaping the social and cultural character of the local community. The various traditional groups in this village include the Paser Traditional Group, the Banjar Traditional Group, the Bugis Traditional Group, the Toraja Traditional Group, the Dayak Traditional Group, the Flores Traditional Group, and even the Batak Traditional Group. Taylor and Davis (2018) explain that humans possess unique cognitive mechanisms that have evolved to maintain sociality. In these traditional groups, this includes

the capacity for shared cultural representation and the ability to forge and maintain affiliative social bonds, including kinship ties.

Like *arisan*, traditional groups are also considered informal safety nets, but not from an economic perspective, especially for people who come from outside Kalimantan Island. Trust in indigenous groups, based on shared beliefs/morals within the group, fosters confidence (Larsen, 2013) that through indigenous groups, members feel protected in their adopted land. For example, indigenous groups act as mediators when their members encounter problems.

Although the development of the IKN does not generally affect social cohesion, the rise in criminal activity is causing significant concern among the community. This is a result of the increasing number of newcomers and the rapid socio-economic changes experienced by the community. Since the establishment of the IKN, there have been numerous incidents of theft from stores and motor vehicle theft. This situation poses a challenge for the community, as they hope to strengthen social cohesion, particularly in maintaining environmental safety, rather than exacerbating social fragmentation.

The local community has experienced several changes since the arrival of transmigrants until the construction of the IKN. At the beginning of the transmigration program, the local community had to adapt to the arrival of new people who would live alongside them. Differences in lifestyle and background have brought about fundamental changes. One of these is in the management of natural resources. Transmigrants cultivate land with permanent fields, while local communities practice shifting cultivation and collect forest products.

The entry of the forestry industry into this region has also altered local communities' practices in accessing forests. The des-

ignation of industrial forest areas has further restricted communities' movements in collecting forest products. Various forestry regulations have also impacted the loss of local communities' traditions in mountain rice farming. Local communities have the tradition of clearing forests by burning. After regulations were established to prohibit forest burning, communities no longer cultivate mountain rice.

Currently, the development of the IKN has had a significant impact. Especially on the physical changes in the community's environment and how policies shape them to adapt to new habits akin to urban communities. The implementation of various spatial planning policies, employment policies, and other new practices has forced them to develop further at a higher level. Unlike previous changes, this transformation will alter their livelihoods from one previously dependent on an extractive economy to one where they must adapt to compete in the trade and service sectors (secondary and tertiary sectors).

Essentially, the changes that are taking place have the potential to marginalize the local community. This situation will certainly lead to social fragmentation. Communities that are unable to compete will be marginalized and form a class within society. Currently, the development of the IKN has created the potential for social fragmentation due to differences in legal land ownership between the local community and the ex-transmigrants. This situation clearly causes resentment among local communities who may not have land ownership rights. Additionally, fragmentation is also occurring among the Balik ethnic group, who currently claim not to be part of the Paser ethnic group. This situation is strategically significant, as the independent Balik ethnic group will have greater bargaining power compared to when they were part of the Paser ethnic group.

Chapter 7. The Role of Agricultural Sectors in Rural Diversification

7.1. AGRARIAN TRANSFORMATION

The relationship between the development of the agricultural sector and rural diversification in the global south is multifaceted and influenced by various factors. The development of the agricultural sector and rural diversification in the global south are interconnected through various mechanisms, including infrastructure development, service sector expansion, and policy interventions. The relationship is complex and varies by region, highlighting the need for tailored approaches to foster sustainable rural development.

Agricultural diversification is one of the essential components of economic growth. It is the stage where traditional agriculture is transformed into a dynamic and commercial sector by shifting the traditional agricultural product mix to high-standard products, which has a high potential to stimulate the production rate. Here, agricultural diversification is supported by changes in technology or consumer demand, trade or government policy, transportation, irrigation, and other infrastructure developments. Rural people must generate supplementary and gainful employment and realize a higher income level. A farmer may confront a series of adversities and climatic vagaries during agricultural production, such as erratic rainfall, stone hail, drought, flood, post-harvest losses, storage, and unavailability of accessible proper marketing, further aggravating the problem. Promot-

ing crop diversification can be one of the best strategies to mitigate risk, increase agricultural productivity and raise farmers' income. The fundamental purpose of diversification is to ensure the growth and stability of farmers' businesses and to contribute to rural development. Agriculture is the largest employer, but agricultural productivity is relatively low. In such a situation, crop diversification towards high-value crops can play a significant role in improving the livelihood of rural people in the State. The policy, therefore, should emphasize improving productivity on the one hand. On the other hand, it should focus on all income-generating activities like cash crops, floriculture, fruit, etc. culture, fish and pig-rearing, agro-processing etc., to enhance farmers' income. There is a need to introduce new technology, strengthen extension services, cheap credit, new inputs, marketing infrastructure, and support prices. The cold storage facilities, irrigation, and transportation should be improved for the development of the agriculture sector. Increasing agricultural productivity, remunerative prices for farmers, focus on land leasing and land titles, risk adaptation and mitigation, and a geographical focus on the eastern region, which need attention to improve the livelihood of the farmer households.

7.1.1. Linkage Mechanism and Rural Diversification

1. Weakening Linkages:

In some regions, the linkage between agriculture and rural non-farm sectors has weakened. This is evident from the lack of impact of agricultural income per hectare and agricultural output per worker on rural non-farm employment growth (Chand et al., 2017). Additionally, large-scale manufacturing industries show weak linkages with the agricultural economy in the hinterland, although dryland agricultural areas associated with inland fisheries and tourism show stronger linkages.

There are forward and backward linkages between farm and non-farm sectors. Linkages are also divided into production and consumption or supply and demand linkages weak demand linkages. Bhattacharya and Rao (1986) showed weak supply linkages between forward and backward linkages. As we saw in India, that while forward linkages had been declining, backward linkages had become stronger during 1981-82 to 1999-2000. The diversification in agriculture and shift in consumption demand patterns among households triggered a new interest in sectoral linkages. It is known that the service sector's contribution to overall growth has increased significantly in the last three decades. It would be interesting to note the changes in linkages over time with the increasing role of services.

2. *Diversification Drivers*

Rural diversification is driven by various factors, including distress-led factors and infrastructure development (IGWE, 2020). In Indonesia, rural diversification has shifted from supply-pushed to demand-pulled non-farm production and employment, leading to a decrease in the agricultural sector's contribution to production and employment (Asih, 2021).

The majority of stakeholders considered overall dissatisfaction with farm incomes and profitability within the primary agriculture sector as important drivers of diversification; including the volatility of incomes on a year on year basis. Furthermore, stakeholders highlighted that farm businesses who choose to diversify often do so in order to support other family members and increase its attractiveness for the next generation and future successor.

In line with previous experience, uncertainty around future agricultural policies, particularly support for the sector post-Brexit, was identified as something which stimulated farmers'

interest in diversification as a means of augmenting their farming incomes. Some of the reviews from the local community indicated that the success of a diversification business largely comes down to the person that is leading the project, in terms of their own skills and how determined they are to make it work. In summary, stakeholders viewed farm diversification as an important adaptive strategy for farm businesses providing the opportunity to generate other sources of income, not just for the farmer and spouse/partner but also for future generations. Beyond the economic incentives, the findings reflect, at both a regional and cultural level, the aspiration to maintain a farming family lifestyle which will also extend to the next generation.

3. Economic and Social Impacts:

Agricultural development impacts socio-economic development by preserving rural areas, creating jobs, and developing social infrastructure (Thaba & Ramakgasha, 2025). However, the diversification of rural economies is necessary due to the peculiarities of agricultural production, such as seasonality and low profitability (Devereux et al., 2013).

Agricultural development has long been recognized as a pivotal driver of economic growth and social transformation, particularly in developing regions. Its dual role in enhancing food security and promoting income generation makes it a crucial focus for policymakers and researchers alike. In many African countries, agriculture remains the backbone of the economy, contributing significantly to employment, gross domestic product (GDP), and livelihoods (Gautam & Andersen, 2016, Gordon, 2022, Olsson & Jerneck, 2018). However, the impacts of agricultural development extend beyond mere economic metrics; they profoundly influence the socioeconomic well-being of communities, shaping social structures, power dynamics, and individ-

ual opportunities. This multifaceted relationship necessitates a thorough examination of agricultural development through a sociological lens, enabling a deeper understanding of how social factors such as class, ethnicity, and community networks influence development outcomes. The impact of agricultural development on socioeconomic well-being in Africa can be understood through various sociological lenses, with particular emphasis on class, ethnicity, and community networks (Castle, et al., 2021, Kirori, 2015, Shucksmith & Brown, 2016). Case studies from different African regions illuminate how these factors influence development outcomes and shape the benefits accrued from agricultural initiatives. Analyzing these dynamics offers valuable insights that could inform U.S. policies aimed at promoting inclusive growth and reducing rural poverty.

7.1.2. Global Agricultural Value Chains and Services

The expansion of the service sector in developing countries significantly influences the development of agricultural value chains, promoting wealth creation. The coevolution of service sector development and participation in Global Value Chains (GVC) correlates with increases in agricultural sector productivity (Zhang & Sun, 2023). Enhancing the institutional environment, particularly with respect to contracts within such value chains, enables domestic actors to capture more value (Zhang & Sun, 2023).

Global Value Chains (GVCs) have changed the nature of production around the world. Historically, firms produced goods from start to finish in one country, and countries traded finished goods with other countries. Nowadays, however, it is uncommon for international trade transactions to be based on the exchange of finished goods. In modern production, a single finished product often results from a multi national supply chain

wherein each step in the process adds value to the final product - a so-called global value chain. Global value chain refers to the sequence of dispersed activities in several countries involved in transforming raw materials into final consumer products, including production, marketing, distribution, and support to the end users (Gereffi and FernandezStark 2011). In other words, a GVC is a sequence of all functional activities required in the process of value creation by more than one country.

The current symptoms indicate that palm oil expansion has caused food insecurity in rural areas that previously relied on shifting cultivation. Since 1990, the main economic sector in Sepaku Subdistrict (IKN) has shifted from agriculture to palm oil plantations. Many young people no longer engage in agricultural activities to meet their daily needs, leading to a decline in the labor force in the agricultural sector. Agriculture and shifting cultivation in Sepaku District were once the primary activities, rich in cultural value and environmental wisdom. Moreover, agriculture with shifting cultivation patterns not only has economic, social, and environmental dimensions but also religious dimensions. Food insecurity is not only interpreted as a phenomenon of declining household food stocks but can also be broadly interpreted as relating to food self-reliance or food sovereignty. This means that dependence on food supplies from outside the village is a phenomenon of food vulnerability. This shift toward extreme dependence (lack of food sovereignty) is the basis for preferring the term food insecurity over food security in describing the current situation in rural areas surrounding oil palm plantations, even though both terms essentially address the same issue. In this context, it is intended to highlight that this strong dependence is a negative structural dimension, and it is believed to threaten food security, especially when there is a decline in food supply at the national or global level. It is un-

derstood to be structural because the phenomenon is caused by shifts in land use patterns. These aspects underscore the importance of understanding the current food sufficiency of farmers in rural areas, including food sufficiency from their own production amid the rapid expansion of oil palm plantations.

7.2. FOOD SECURITY

The population of the Nusantara Capital City (IKN) is projected to reach 1.9 million people by 2045. This estimate will certainly have an impact on the increasing demand for food. So far, many areas in East Kalimantan have relied on food supplies from other regions such as Sulawesi, South Kalimantan, and Java. As a newly developed urban area, IKN will naturally be highly dependent on its surrounding regions (the hinterland) that focus on agricultural development. Penajam Paser Utara and Kutai Kartanegara, which directly border the IKN area, play an important role in meeting food needs. However, it cannot be denied that these two regions still need to source food from other areas to meet their own needs. Up to now, the agricultural sector in the IKN region has been dominated by oil palm plantations and industrial eucalyptus forests developed by corporations. The oil palm commodity is not only cultivated by corporations but also by local communities.



(a)

(b)



(c)

Figure 16 Commodities Cultivated in the Sepaku District Area; (a) Industrial Eucalyptus Plantation in Terunen, Bumi Harapan Village, (b) Oil Palm in Sepaku Sub-district, (c) Rice Fields in Sukaraja Village. (Photo by Maulidia Savira Chairani)

Figure 16 shows several commodities being cultivated in the Nusantara Capital City area (Sepaku District). Up to the present, former transmigrant communities and some other residents in Sepaku District still cultivate rice. Although not on a large scale, they continue to grow it—at the very least for self-consumption—making the activity one of **subsistence farming**. Rice fields are scattered across various ex-transmigration villages, such as Bukit Raya, Sukaraja, Tengin Baru, and Bumi Harapan. This is different from the indigenous local communities, who practice shifting cultivation in the forest, usually planting fruit crops.

“If we don’t have the capital to cultivate the rice fields, we just sell the rice (usually we consume it ourselves from what we plant).” — Head of Neighborhood Unit (RT) 10 Bukit Raya and his wife, 2025.

The development of IKN has brought various impacts on community activities (Rijanta et al., 2023). These include the emergence of small-scale businesses along main roads, the change in house-use orientation (combining residential and business functions such as homestays or food stalls), and the leasing

of community land for **concrete batching plant** operations in IKN construction—all of which have led many former farmers to stop farming activities. This trend is particularly evident among rice farmers. In addition to shifting professions, rice farming is increasingly seen as unprofitable, leading to many rice fields being left uncultivated.

“So, the shift from farming to trading is very strong. Because with rice farming, sometimes the yield is just not worth the effort.” — Head of Neighborhood Unit (RT) 1 Bumi Harapan, 2025.

Although this is not a primary food-producing region, according to the **2024 Indonesian Food Security and Vulnerability Atlas (FSVA)**, the area overlapping with IKN is categorized as *very food secure* (priority 6) and *food secure* (priority 5). This suggests that based on the composite FSVA index, the region has a relatively high food security score. However, the ratio of agricultural land area remains relatively low. Administrative villages in Kalimantan tend to cover large areas—far larger than those in Java—but much of the land is classified as forest area, which cannot be freely utilized by the community. As a result, it is common to find villages in Kalimantan with very low population densities.

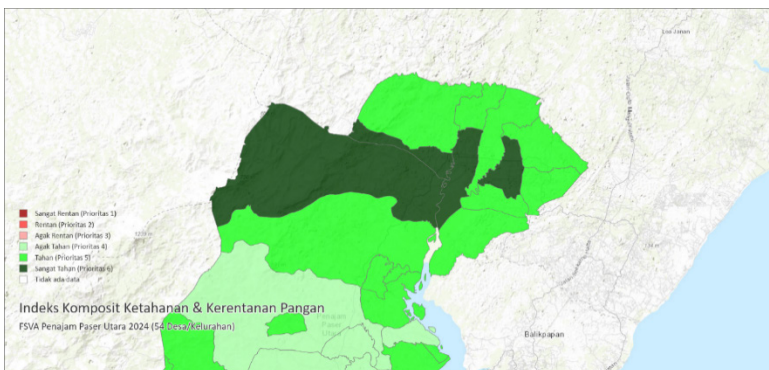


Figure 17 Map of Food Security and Vulnerability in Indonesia, North Penajam Paser Regency, 2024 (Source: <https://fsva.badanpangan.go.id/>)

Table 3 Food Security and Vulnerability Data of Villages/Sub-districts in Sepaku District, North Penajam Paser Regency*FSI: Food Security Index*

Region	Composite	Agricultural Land Area Ratio	Food Facility Ratio	Poor Population Ratio (Decile 1)	Villages Without Connecting Access	Households Without Clean Water Ratio	Health Worker Ratio	FSI	FSI Ranking
Sepaku - Kelurahan Sepaku	5	0.01	0.07	0	1	0.03	26.79	70.28	33
Sepaku - Kelurahan Pemaluan	5	0.03	0.07	0	1	0.05	100	67.51	41
Sepaku - Kelurahan Maridan	5	0.01	0.05	0	1	0.04	1.12	69	39
Sepaku - Kelurahan Mentawir	5	0.01	0.09	0.02	1	0.05	44.08	69.5	36
Sepaku - Tengin Baru	5	0.02	0.06	0	1	0	1.61	72.08	20
Sepaku - Bukit Raya	6	0.02	0.1	0	1	0.04	6.18	74.52	14
Sepaku - Suka Raja	6	0.02	0.12	0	1	0	38.69	77.28	8
Sepaku - Bumi Harapan	6	0.05	0.19	0	1	0.05	5	82.15	1
Sepaku - Argo Mulyo	6	0.01	0.14	0	1	0.03	18.07	78.41	5
Sepaku - Semoi Dua	5	0.02	0.02	0	1	0.04	1.71	66.52	42
Sepaku - Suko Mulyo	5	0.01	0.07	0	1	0.04	13.55	70.62	29
Sepaku - Wono Sari	5	0.02	0.08	0.01	1	0.03	11.14	71.98	21
Sepaku - Karang Jinawi	5	0	0.07	0	1	0.04	6.92	70.97	28
Sepaku - Binuang	5	0.03	0.09	0.03	1	0.03	17.65	70.53	31

Region	Composite	Agricultural Land Area Ratio	Food Facility Ratio	Poor Population Ratio (Decile 1)	Villages Without Connecting Access	Households Without Clean Water Ratio	Health Worker Ratio	FSI	FSI Ranking
Sepaku - Telemow	5	0.01	0.03	0.02	1	0.03	4.82	66.31	43

Table 3 shows the changes in the composite Food Security Index (FSI) values of villages and sub-districts in Sepaku District from 2019 to 2024. Based on the index values, the FSI generally shows an upward trend in 2023 and 2024. Bumi Harapan holds the highest index value in North Penajam Paser Regency. This village was originally a Local Transmigration area formed by transmigrants from surrounding regions, combined with the local population, making it a relatively heterogeneous area.

Bumi Harapan overlaps with the **IKN Central Government Core Area (KIPP)** delineation, making it the area experiencing the most extensive land use change. Although its agricultural land is likely to be converted for other uses, other index variables may improve due to the development of IKN. Therefore, the Food Security Index in the IKN area can increase, even if the ratio of agricultural land declines. This phenomenon also occurs in urban areas that show high food security index values despite having little or no agricultural land. In such cases, surrounding areas play a significant role in meeting the food needs of urban populations.

Table 4 Dynamics of Food Security Index Changes in Villages and Sub-districts of Sepaku District, 2018-2024

Wilayah	Indeks Ketahanan Pangan (IKP)				
	2021	2022	2023	2024	Grafik
sepaku - kelurahan sepaku	58.93	46.23	67.64	70.28	
sepaku - kelurahan pemaluan	53.2	49.16	66.57	67.51	
sepaku - kelurahan maridan	63.82	64.92	68.77	69	
sepaku - kelurahan mentawir	36.23	39.19	71.46	69.5	
sepaku - tengin baru	62.75	59.12	66.08	72.08	
sepaku - bukit raya	76.85	74.24	74.16	74.52	
sepaku - suka raja	63.69	60.74	71.73	77.28	
sepaku - bumi harapan	75.38	72.34	82.49	82.15	
sepaku - argo mulyo	67.43	62.97	77.02	78.41	
sepaku - semoi dua	62.52	59.91	64.42	66.52	
sepaku - suko mulyo	61.79	56.51	71.03	70.62	
sepaku - wono sari	60.41	57.53	73.11	71.98	
sepaku - karang jinawi	71.72	65.8	70.65	70.97	
sepaku - binuang	47.14	52.48	75.66	70.53	
sepaku - telemow	65.52	63.23	62.31	66.31	

7.3. SMALL-SCALE FARMING

The role of farming households in engaging in multiple economic activities is highly significant, especially in rural and agrarian areas. **Dual economy** here refers to the condition in which farming households do not rely solely on one type of livelihood (e.g., agriculture or plantation work), but also participate in other economic activities to supplement their income. They may work as construction laborers, artisans, street vendors, motorcycle taxi drivers (*ojek*), or in other informal sectors. This is known as **income diversification** and is considered a **survival strategy**. Engaging in multiple economic activities helps support the economic resilience of villages and reduces poverty and hidden unemployment. This dual role is crucial in maintaining the economic stability of both households and rural economies as a whole.

This was also the case in the early communities of Nusantara

Capital City (IKN), particularly in Sepaku District. Formerly, many residents worked as upland rice farmers but later shifted to become employees of PT. ITCI, a company operating in the forestry sector. Even as employees, they continued small-scale agricultural practices such as growing chilies, cucumbers, and fruits. Today, agricultural activities have significantly declined, although a small number of residents still work as farmers. Many farmers have also taken up roles as small retailers, food stall owners, or other informal jobs. These activities are primarily carried out as a means of survival.

However, the service sector has now started to dominate as a result of the presence of IKN. This has particularly impacted farmers, as agricultural land is increasingly being sold or converted for other land uses, reducing the space available for farming.

7.4. THE INTEGRATION BETWEEN THE AGRICULTURAL AND SERVICE SECTORS

The integration of agriculture and services is also driving rural economic diversification in IKN. The development of IKN has created opportunities for people in the agricultural sector to branch into services. As a result, farmers are no longer only engaged in planting and harvesting crops but also participate in distribution, marketing, and public education related to agricultural products, contributing to the agricultural value chain. This broader involvement helps make their agricultural products more well-known and widely developed, which in turn can increase farmers' incomes and strengthen food security.

Hydroponic farming has become one of the new and promising agricultural activities to continue developing in IKN. Hydroponics has grown and now holds a promising market in IKN. In recent years, it has gained greater recognition through vari-

ous training programs. As hydroponics becomes more familiar, demand for hydroponically grown produce—such as mustard greens and lettuce—has increased. Some community members who attended hydroponic farming trainings have managed to sustain their practices by integrating their crops into trade and service activities. Hydroponic farmers are actively involved in marketing their own produce, no longer relying solely on middlemen. They have begun selling through food stalls, traditional markets, and even digital platforms.

“Back then, people in Sepaku didn’t know about hydroponic vegetables. When I first tried placing them in market stalls, they refused—they weren’t used to vegetables like these, especially considering its expensive price. I went around, offering (the hydroponic vegetables) to vegetable sellers. It took a long time... Hence I put it gradually - at first I put five (vegetables), then another five... and now thankfully the orders keep growing.” – Hydroponic farmer in Sepaku, 2025.

Hydroponic crops have created new commodities and networks in IKN. The continued growth of this sector is supported by CSR assistance and business capital to expand hydroponic infrastructure and installations. Beyond Sepaku, hydroponic farming is also growing in Maridan. One hydroponic farmer in Maridan even sells her produce directly to consumers using digital platforms and her personal network.

“We mostly upload (the vegetables) on Facebook or BA (WhatsApp Business). We have regulars. Sometimes we offer it to people at the office canteen—while her husband works at IHM, there’s a canteen there—so we offer 20, 30 packs at a time.” – Hydroponic farmer in Maridan, 2025.

The increasing public interest in hydroponic farming also presents an opportunity for integration with educational services. Community enthusiasm is high, and many are interested

in starting their own hydroponic systems at home. This points to the need for accessible and practical knowledge or basic training that residents can apply independently. This can be facilitated by pioneers or hydroponic farming actors in IKN who share their experiences and provide learning opportunities, as highlighted in the following statement excerpt:

“More and more people are getting interested. They want to try the planting. So they come here to learn. Some of them are starting to grow (the vegetables) at home. I prepare small supplies, nutrients, and packing paper here. I also provide the seeds, because I want to support some of my friends who want to learn. They can buy a little at a time.”
– Hydroponic farmer in Sepaku, 2025.

Kalimantan is also known for its abundant palm oil plantations, a massively developed commodity in the region. Palm oil management in IKN reflects integration between agricultural production and services, especially in distribution, collection, and logistics. This serves as a solution for smallholder farmers who often lack access to distribution channels.

One resident of Maridan is both a farmer and a palm oil entrepreneur. He manages his own plantation as well as collects produce from neighboring farmers. His palm oil collection service, locally known as *loadingan*, helps small farmers with limited access sell their crops by aggregating and transporting them to mills.

“I run a palm oil collection point too. Not all farmers can sell their palm oil. I collect it at the collection point, weigh it there, and once there’s enough for a truckload, I take it to the factory. We have three factories here: GRO, APML, and MHL.” – Local people in Maridan, 2025.

7.5. AGRIBUSINESS INNOVATION

The development of the Nusantara Capital City (IKN) in ru-

ral areas necessitates a transformation of local economic activities, particularly in the agricultural sector, which has long been characterized by subsistence practices. Innovation is essential to ensure that this transformation proceeds quickly and effectively. Innovations such as processing agricultural products, digital marketing of farm outputs, and the establishment of modern agricultural cooperatives are several approaches that can support the transformation of local agriculture. Although there have been some local-scale agribusiness innovations—such as the emergence of hydroponic farming and the formation of farmer groups driven by the development of IKN—further innovation is still needed. Innovation not only helps increase farmers' income but also contributes to food security and the resilience of local economies amidst the ongoing urbanization process. Furthermore, it represents a form of integration of rural areas surrounding IKN into a more complex regional economic system.

One of the main opportunities for agribusiness transformation lies in the processing of agricultural products at the village level. So far, only a few community members have processed the crops they cultivate. Several factors discourage them from doing so, including a lack of knowledge and skills in agricultural processing, limited access to capital and technology, poor infrastructure affecting market access, and a mindset among farmers to quickly earn money by selling raw products instead of processing them first. In this context, the role of the government is central. Government intervention is needed to address these challenges and can include the formation of joint business groups, provision of communal processing facilities, technical training and assistance in food processing, support in obtaining necessary permits and certifications (such as PIRT, Halal, and branding), marketing training, and even micro-capital assistance.

The establishment of IKN will eventually bring about a high-

er and more diverse demand for food, creating an opportunity and potential benefit for local farmers—provided they can adapt and innovate to offer value-added products that differentiate them from products of other regions. Agricultural processing is a promising solution, as it can contribute to food diversification in IKN and increase the added value of local agricultural products. Currently, agriculture around IKN is dominated by plantation crops, especially oil palm. Other commodities such as rubber, bananas, rice, and various horticultural plants exist but in smaller proportions. In addition to plantations and food crops, local agricultural activities also include livestock and aquaculture, with commodities like cattle, chickens, catfish, shrimp, and crabs being cultivated. However, these commodities are often sold in raw or unprocessed forms.

With the construction of IKN, local agriculture can seize the moment by becoming a supplier of food for catering services or eateries emerging around the project area. In addition, efforts to promote downstream agricultural development at the village level through processing into value-added products also offer an alternative innovation for local farmers to maintain—or even increase—their presence. Examples of such village-level downstream efforts include processing bananas into chips, dried banana (*sale*), or other derivative products. Even with simple methods, such processing can enhance the value of harvests, allowing farmers to gain higher profits.



Figure 18 Illustration of Agricultural Downstreaming (Photo by <https://www.kompas.id/artikel/hilirisasi-butuh-huluisasi>, 2024)

Efforts toward village-level downstreaming, although seemingly simple, still require the presence of the government and collaboration with other parties to function effectively. The involvement of private actors, academics, or even NGOs can serve as valuable partners for local communities in learning how to process their agricultural products into semi-finished or even finished goods with added value. In addition, the will and enthusiasm of the community are the core of successful downstreaming at the village level. This is because, ultimately, it is the community members themselves who act as the main actors in processing and marketing their own agricultural products.

Opportunities in Digital Marketing

The development of information technology has driven a digital transformation across nearly all aspects of human life. This transformation facilitates various activities and opens up

many new strategic opportunities, including in the fields of agriculture and commerce. Digital transformation presents a highly strategic opportunity for local entrepreneurs and farmers to connect directly with broader markets, including newly emerging markets driven by the development of the Nusantara Capital City (IKN). The establishment of supporting infrastructure in and around IKN—especially in terms of road access and internet connectivity—has become a key element in enabling the digital marketing of agricultural products, local processed food items, and other goods.

Digital marketing plays an accelerating role in overcoming the limitations of conventional distribution methods previously used by communities, while also promoting more efficient trade transactions. Currently, some entrepreneurs in and around the IKN area have started to utilize social media platforms for product promotion and marketing. They leverage their social networks on platforms like Facebook, WhatsApp, Instagram, and TikTok to offer their goods and services, including local farmers who are beginning to market their harvests through social media.

One concrete example of the successful use of social media by IKN farmers is the ability to sell hydroponic products beyond IKN, including to areas like Balikpapan. A hydroponic farmer shared how she markets her products via social media:

“We mostly upload on Facebook, or WA (WhatsApp), to those who regularly order. Sometimes I get a lot of messages in Messenger that I haven’t even read yet. I’ll see them later and be surprised by how many there are.” — Hydroponic farmer in Maridan, 2025.



Figure 19 A farmer offers her hydroponic produce via Facebook (Photo by Facebook.com, 2025)

The example above illustrates how effective digital media can be in overcoming marketing limitations and creating efficient transactions. With technological advancements and the operation of IKN underway, it is not impossible for farmers and local entrepreneurs to reach broader markets in the future. Selling through larger platforms such as e-commerce is within reach for local communities. However, the limited capacity of local human resources presents its own challenge in tapping into the potential of digital marketing. The government must address this issue through various training programs aimed at enhancing the quality of human resources in realizing digital marketing potential. Trainings in digital literacy, the use of social media and

e-commerce platforms, logistics management, and local product branding must be carried out so that local communities can fully seize digital marketing opportunities.

Modern Cooperatives

Cooperatives are not unfamiliar to the people of Indonesia. Their presence has long been intertwined with various sectors of Indonesian life, especially in rural areas like Sepaku and its surroundings. Cooperatives grew rapidly during the New Order era (when President Suharto was in power from 1966–1998). In the early 1970s, the government implemented a program to establish Village Unit Cooperatives (KUD) in every village across the country. These cooperatives aimed to strengthen the people's economy and support rural agricultural development as part of national development efforts. However, KUDs have since experienced significant decline, and many have shut down due to various factors such as the 1998 economic crisis, weak institutional structures, unprofessional management, and perceptions of being outdated in the face of changing market dynamics.

Nonetheless, cooperatives continue to play a crucial role in driving Indonesia's grassroots economy. In recent years, modern cooperatives have emerged in response to the community's ongoing need for cooperative services. Modern cooperatives are cooperatives that have adopted technology, possess large production capacities, and have access to financing and markets, allowing them to generate high added value and benefits for their members—while upholding cooperative values and principles (Ikhsan et al., 2023).

In the transformation of rural areas due to the construction of IKN, the presence of local economic institutions that can bridge farmers with access to capital, technology, and distribution is essential to improving the quality and sustainability of local ag-

riculture. Modern cooperatives offer a timely and appropriate solution. Unlike traditional KUDs, modern cooperatives feature professional management, leverage digital technology, and are market-oriented.

Modern cooperatives hold great potential to drive agribusiness innovation and agricultural diversification in the rural areas surrounding IKN. They can function not only as providers of capital or agricultural inputs like fertilizer and seeds but also as institutions that strengthen the entire agribusiness value chain—from production and post-harvest handling to marketing. For example, instead of selling bananas as raw fruit, they can be processed into banana chips, banana milk, or banana flour. Even more significantly, downstreaming that was once dominated by large industries can now be initiated by local groups—for instance, processing palm oil into cooking oil independently through cooperatives.



Figure 20 Illustration of a Modern Cooperative (Photo by <https://flip.id/blog/koperasi-pengertian-makna-logo-tujuan-peran-dan-jenis>, 2025)

Alongside the advancement of information technology in rural areas, cooperatives can also act as initiators of agribusiness digitalization—for instance, through the use of financial and inventory management applications, as well as leveraging e-commerce platforms for marketing agribusiness products, thereby promoting digital marketing in the agricultural sector. With this

role, modern cooperatives not only serve as intermediaries between farmers and local markets, but also facilitate the expansion of agricultural market reach to regional and even global levels.

Furthermore, modern cooperatives can function as key actors or spaces for fostering strategic partnerships between agricultural stakeholders and other sectors such as private companies, state-owned enterprises (SOEs), and large corporations. In addition, modern cooperatives can serve as centers of innovation and capacity development for human resources in rural areas. Training in sustainable agriculture, technology adoption, farm business management, and entrepreneurship can all be facilitated through cooperatives. Thus, modern cooperatives are not only means of production but also serve as tools for education and local economic empowerment.

Chapter 8. The Role of Government Policies

8.1. REGIONAL DEVELOPMENT PLANNING SPATIAL PLANNING (RTRW)

The enactment of the Spatial Plan (RTRW) for the National Strategic Area of the Nusantara Capital City (IKN) has had a significant impact on the Provincial Spatial Plan (RTRW) of East Kalimantan. The establishment of the IKN boundaries, which encompass parts of Penajam Paser Utara and Kutai Kartanegara Regencies, has not only resulted in territorial adjustments but also altered the spatial structure. Areas such as Sepaku District, which were previously not designated as strategic zones, are now planned to function as centers of national-scale activities. In addition to the National Strategic Area Spatial Plan (RTRW KSN), the government has also prepared Detailed Spatial Plans (RDTR) for nine Planning Areas (Wilayah Perencanaan/WP) to facilitate the approval of incoming investment permits in Nusantara.

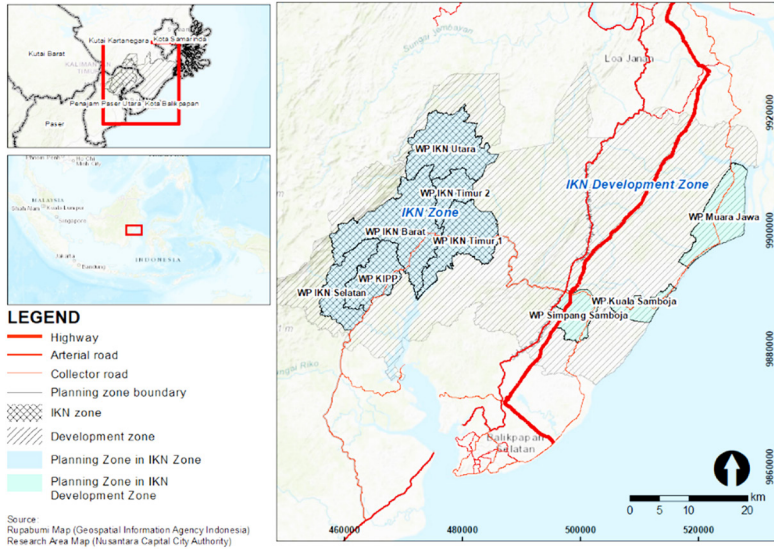


Figure 21 Objectives of Spatial Planning in the Detailed Spatial Plan (RDTR) of the Central Government Core Area (KIKN), Nusantara Capital City

Table 5 Primary Functions of Planning Areas in the Nusantara Capital City (IKN)

Planning Area	Primary Function	Regulation
Northern IKN	Center for research and innovation based on agriculture and health, supported by sustainable tourism.	Head Regulation of the Nusantara Capital City Authority No. 6 of 2023
Eastern IKN 1	International-scale entertainment hub, tourism center, and globally integrated regional transportation node.	Head Regulation of the Nusantara Capital City Authority No. 3 of 2023
Eastern IKN 2	World-class higher education center supported by the development of an integrated sub-city Transit-Oriented Development (TOD) area with mass transportation nodes.	Head Regulation of the Nusantara Capital City Authority No. 4 of 2023

Planning Area	Primary Function	Regulation
Western IKN	Regional economic and transportation hub integrated globally, urban tourism destination, and an international-standard health and wellness center.	Head Regulation of the Nusantara Capital City Authority No. 2 of 2023
KIPP (Core Area)	National administrative and governmental center.	Head Regulation of the Nusantara Capital City Authority No. 1 of 2023
Southern IKN	Center for national defense and security, as well as a hub for renewable energy development.	Head Regulation of the Nusantara Capital City Authority No. 5 of 2023
Muara Jawa	Center for public services and activities based on agriculture and fisheries.	Head Regulation of the Nusantara Capital City Authority No. 9 of 2023
Kuala Samboja	Integrated agricultural development center, tourism development hub, and maritime transport node.	Head Regulation of the Nusantara Capital City Authority No. 8 of 2023
Simpang Samboja	Distribution and trade center for regional commodities and residential development.	Head Regulation of the Nusantara Capital City Authority No. 7 of 2023

Although the first phase of IKN development (2022–2025) has been focused on the Core Governmental Area (KIPP) with the construction of primary infrastructure and transportation corridors, economic diversification has already begun to emerge. Growth in informal trade and service sectors has been observed, driven by the high demand from construction workers involved in IKN development. Notably, this economic diversification has largely taken place along the National Road corridor and has occurred organically, often misaligned with the predetermined spatial plans.

Outside the IKN area, Penajam Paser Utara and Kutai Kartanegara Regencies have been actively preparing to seize various emerging opportunities. The potential development of IKN's peri-urban zones, the construction of a VVIP airport, and the establishment of a toll road exit in Penajam Paser Utara have prompted these regions to revise their spatial plans (RTRW). Similarly, several other regional development schemes have been proposed, including the Tri-City concept (which has evolved into the Panca-City concept), partnership regions (Daerah Mitra), and designated buffer zones.

Fundamentally, spatial planning within the IKN area is intended to support the development of a comprehensive urban ecosystem. Regional development has been directed in accordance with these spatial plans (see Figure 21). In practice, the local government initially imposed a moratorium on land transactions and land certificate issuance following the official designation of the IKN area. This policy aimed to prevent land-use conversions and rapid increases in land prices. However, in reality, the observed economic diversification has been driven by informal practices, including unregulated land-use changes and informal land transactions. These activities have fostered the growth of informal economic practices among rural communities, where former farmers have shifted toward non-agricultural livelihoods such as managing guesthouses, food stalls, and catering services.

Regional Long-Term Development Plan (RPJPD)

National development planning serves as the principal reference for regional governments in formulating both long-term and medium-term development plans. The IKN project incorporates various sustainability concepts, aiming to become the world's most sustainable city and to maintain a mining-free status,

whether for legal or illegal activities (Nusantara Net Zero Strategy). As a city that upholds sustainable development, this transition is not limited to IKN alone but also extends to surrounding areas. Therefore, economic restructuring is necessary not only for Penajam Paser Utara and Kutai Kartanegara Regencies but also for the broader East Kalimantan Province. East Kalimantan Province has long been characterized by an extractive-based economy. According to data from the East Kalimantan Provincial Development Planning Agency (Bappeda) (see **Figure 22**), the province’s economy has been dominated by oil and gas commodities since 1975. Until 2009, oil, gas, and forestry commodities accounted for the majority of the province’s economic output. From 2009 onward, the mining sector, particularly oil, gas, and coal, has continued to dominate the provincial economy, indicating a persistent reliance on extractive industries.

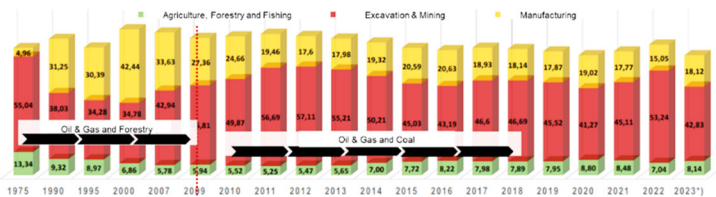


Figure 22 Bar Chart of Economic Sector Proportions in East Kalimantan Province, 1975–2023 (Source: Regional Development Planning Agency (Bappeda) of East Kalimantan Province)

In accordance with the 2025–2045 Regional Long-Term Development Plans (RPJPD) of East Kalimantan Province, as well as Penajam Paser Utara and Kutai Kartanegara Regencies, economic restructuring toward the agricultural sector has been identified as a key future policy direction. This shift marks the beginning of a planned transition away from extractive industries and is expected to align with the low-carbon development transition being implemented in the IKN.

Through these development plans, communities are anticipated to gain greater opportunities to diversify their economic activities. The government aims to promote a structural shift from extractive industries to the agricultural sector, with downstream plans focusing on encouraging agricultural development.

8.2. COMMUNITY EMPOWERMENT PROGRAMS

The major transformation triggered by the development of the Nusantara Capital City (IKN) has induced significant social and economic changes among the local communities in East Kalimantan. Amid the dynamics of development—primarily driven by national agendas and corporate interests—community empowerment programs, whether village-based or implemented through partnerships with third parties, have become essential to ensure that local populations are not merely passive observers but are actively engaged as participants and beneficiaries of the development process.

This paper critically examines the effectiveness of government-led empowerment programs, particularly those involving Village Funds (Dana Desa), skills training, and business assistance, in fostering social and economic resilience among communities surrounding the IKN area. It is crucial to understand the administrative context of these regions. Although programs such as Village Funds are designed for rural areas (*desa*), most of the areas directly affected by IKN development are designated as urban administrative units (*kelurahan*), not villages. Areas such as Bukit Raya, Maridan, and several other locations in Sepaku District are predominantly classified as *kelurahan*, which fall under sub-district (*kecamatan*) authorities, lack village-level fiscal autonomy, and do not receive Village Fund allocations.



Figure 23 Riko Sub-District Office, Penajam Paser Utara (Source: Moh. Syahrul Irfan Fahmi, 2025)

This situation results in the exclusion of these areas from national empowerment programs designed for villages, despite their position at the heart of the development activities. Consequently, institutional and fiscal disparities have emerged, constraining community empowerment initiatives.

For areas with village status, the Village Fund theoretically serves as a strategic instrument to strengthen community capacities in responding to the changes brought about by the IKN project. However, in practice, the use of Village Funds in areas surrounding IKN remains largely normative, focusing predominantly on physical infrastructure projects such as neighborhood roads, drainage systems, and public facilities.

Amid rapid economic shifts and the growing need for grassroots economic empowerment, refocusing the Village Fund toward productive economic activities has become increasingly urgent. Unfortunately, not all village governments possess the institutional capacity or administrative confidence to allocate budgets toward programs such as entrepreneurship training, micro-enterprise mentoring, or local cooperatives.

During the initial phase of IKN development (2022–2023), both government bodies and private partners launched various vocational training programs, including heavy machinery operation, culinary skills, and carpentry. These programs were intended to serve as pathways for local communities to participate in the construction labor market.

However, these training initiatives tended to be one-off in nature and were not integrated within broader systems of employment access, apprenticeships, or post-training support. Many participants remained unable to secure employment in the projects due to limited connections with vendors or the preference of project operators for external labor. This disconnect highlights a lack of continuity between capacity-building efforts and the realities of the labor market on the ground.

In an effort to maintain household economic stability amid rapid development, some villages attempted to provide business assistance, such as capital for food stalls, laundry services, or snack businesses. However, due to the absence of proper market needs assessments and adequate mentoring, many of these enterprises were short-lived.

Following August 17, 2024, when construction activities began to decline sharply and many workers were dismissed, these small businesses lost their customer base and were eventually forced to close. This phenomenon reflects what may be termed *fragile diversification*—an economic diversification process that emerges reactively under external pressures, without being rooted in long-term sustainability.



Figure 24 A food stall in Riko experiencing a decline in catering demand from IKN construction workers (Source: Moh. Syahrul Irfan Fahmi, 2025)

One of the most striking ironies is the contrast between the rapid adaptability of local communities and the sluggish institutional response of government bodies. Communities surrounding IKN have demonstrated high adaptive capacities by opening snack businesses, renting out homes, providing basic lodging services, and operating vehicle rentals. These initiatives have largely emerged without direct state intervention. Nevertheless, formal support for such initiatives remains minimal, whether in the form of advanced training, access to capital, or enabling regulations.

This institutional gap poses long-term risks: while communities move swiftly, the state lags behind, leaving local initiatives—despite their potential to serve as pillars of the local economy—vulnerable and unsustainable once the construction phase ends.

In conclusion, community empowerment programs in the IKN vicinity continue to face structural and institutional constraints, including administrative limitations (kelurahan status), rigidities in Village Fund utilization, a lack of sustainable voca-

tional programs, and weak systemic support for micro-enterprises.

8.3. ECONOMIC INFRASTRUCTURE

The development of the Nusantara Capital City (IKN) has begun to exert direct influence on the surrounding villages. Although the IKN core area remains under construction, the development of economic infrastructure is increasingly evident at the local level, particularly through the construction of village markets, production roads, irrigation channels, and strengthened inter-regional connectivity. This phenomenon serves as an early indicator of the region's transformation towards an integrated urban-rural system that supports mutual growth.

One of the most significant achievements is the construction of a bypass road directly linking Sukaraja and Bukit Raya villages. This infrastructure project marks a turning point in enhancing residents' mobility and facilitating the inter-regional distribution of agricultural products, which had previously been constrained. This improvement in connectivity aligns with the principle of *spatial integration* within urban development theory, which emphasizes the importance of functional linkages among regional nodes to accelerate local economic growth.

In addition, plans are underway to reorganize the market area in Sepaku. According to the Secretary of Bukit Raya Village, a new corridor road will be constructed to support a more orderly and structured arrangement of the village market. The primary goal is to alleviate traffic congestion in the Sukaraja market area and open opportunities for the development or rehabilitation of more suitable market facilities that can better support local economic activities. This planning initiative reflects an *urban-rural linkage* approach, positioning village markets as critical nodes within the broader urban consumption and logistics ecosystem.

Although irrigation infrastructure development has also commenced, it is not yet a top priority within the IKN's development agenda, which remains focused on physical connectivity and logistics infrastructure. Nonetheless, irrigation remains essential for supporting local agriculture, which plays a vital role in maintaining the food supply for surrounding areas.

Furthermore, road expansions connecting Riko to Pemaluan and towards Balikpapan have improved the flow of goods and food supplies, enhancing the logistical capacity between rural areas and urban centers. This connectivity fosters the development of a *networked urban region*—an urbanized area supported by surrounding regions through an integrated distribution and logistics system.

However, on-the-ground realities also reveal challenges. Despite improved road access to the IKN, residents in areas such as Riko and Maridan remain reluctant to travel to Sepaku due to ongoing construction, which has led to traffic congestion and significant dust pollution along main roads. This discomfort limits daily mobility. In the framework of *livable urban transition*, this highlights the importance of effective transition-phase management to ensure that surrounding communities remain engaged and benefit from the ongoing transformations.

Although current utilization is not yet optimal, the potential for future connectivity between village areas and the IKN core is considerable. Once construction subsides and infrastructure improvements are completed, improved accessibility is expected to significantly enhance the efficiency of goods and food distribution. Villages are likely to play an increasingly strategic role in supporting logistics resilience, economic activities, and integration into the new urban ecosystem.

Thus, the development of economic infrastructure around the IKN is not merely about physical construction, but also part

of a broader structural transformation towards an inclusive, integrated, and spatially equitable metropolitan region. As village markets, production roads, and distribution routes develop simultaneously, villages such as Sukaraja, Bukit Raya, Riko, and Maridan are poised to become not merely peripheral zones, but key nodes within the emerging economic network of Nusantara.

8.4. EDUCATION AND TRAINING

The transformation of rural areas into urban zones due to IKN development has led to substantial changes in the social and economic structures of local communities. With the progression of construction and increased urbanization, the demand for competent human resources has intensified. Local communities, previously reliant on primary sectors such as small-scale agriculture, plantations, forestry, and fisheries, now face both new opportunities and challenges with the emergence of construction, services, and other informal sectors—each requiring different qualifications and competencies than those traditionally possessed by the local population.

To ensure that local communities can actively participate in and benefit from the socio-economic transformations—while upholding the principle of *leaving no one behind*—education and training have emerged as strategic tools to prepare a capable local workforce. These initiatives aim to equip the population not only with technical skills but also with the ability to innovate, compete, and achieve economic self-sufficiency. To date, various training programs have been implemented by the government in collaboration with multiple stakeholders, ranging from entrepreneurship training and vocational training to programs focused on broader human resource development.

Entrepreneurship Training

The increasing demand for goods and services since the start of IKN development—such as food, lodging, housing, and laundry—has stimulated the emergence of local businesses. Many of these enterprises have been initiated by local residents, most of whom were formerly dependent on farming. In this context, entrepreneurship training has become essential to strengthen the economic presence of such locally rooted businesses. These training programs provide not only production skills but also basic entrepreneurial competencies, such as financial management, market analysis, and simple digital marketing using internet technologies. Various entrepreneurship trainings have been conducted for residents of IKN and surrounding areas, including batik-making, pastry and cake production, catering services, laundry services, screen-printing, tailoring, and hydroponic agriculture.





Figure 25 Entrepreneurship Training on Bread and Cake Making for IKN Residents (Photo by https://www.instagram.com/lpk_mjs/, 2023)

Vocational Training

In addition to entrepreneurship, vocational training has also been employed by the government to accelerate skill enhancement among IKN residents, particularly for sectors supporting IKN development. Competency-based training programs—such as carpentry, welding, heavy machinery operation, electrical installation, barista training, airport operations, baggage handling, and tour guiding—have been provided in the IKN area and its surroundings. These programs are designed to ensure that graduates receive work certifications, enabling them to be directly absorbed into industries as competent and independent workers. This approach ensures that local communities do not merely remain spectators but actively participate as skilled laborers within their own region.

Local Human Resource Development

Government-led education and training efforts in the IKN area extend beyond technical and business skills, encompassing the development of social capacities, digital competencies, and adaptive skills. Through the *INOVASI Program* (Innovation for Indonesia's School Children), the government aims to enhance local human resources, particularly among school-aged children. INOVASI is a partnership program between the Governments of Indonesia and Australia focused on improving education policies and practices to ensure foundational skills acquisition for all primary school students in Indonesia.

Implemented jointly by the Ministry of Education, Culture, Research, and Technology (*Kemendikbudristek*), the Ministry of Religious Affairs (*Kemenag*), and the Ministry of National Development Planning (*Bappenas*), and supported by various NGOs, private sectors, and development partners, the program is managed by Palladium on behalf of Australia's Department of Foreign Affairs and Trade (DFAT). INOVASI has been implemented in three phases: Phase 1 (2016–2020), Phase 2 (2020–2023), and the current Phase 3 (2024–2027).

In Sepaku—within the IKN area—implementation of INOVASI has been facilitated by the IKN Authority, which advocated for the region's inclusion in the program. The program is run in schools within *Cluster 1 of the Teachers Working Group (KKG) of Sepaku District*. Ten teachers from eight primary schools were trained as facilitators through a *Training of Trainers* program organized by the Social, Cultural, and Community Empowerment Division of the IKN Authority in collaboration with the INOVASI team. These teachers are expected not only to improve their students' literacy skills but also to serve as change agents within their schools. The initial implementation of INOVASI in the IKN

area targets sixth-grade students through local culture-based literacy activities, utilizing storybooks written by local authors focusing on local cultural themes.



Figure 26 One of the Storybooks Used in the Literacy Program, Authored by the INOVASI Team (Photo by Muhammad Yuda Aditya, 2025)

In addition to programs targeting schoolchildren, local human resource development also focuses on women and vulnerable groups, particularly in improving digital skills and renewable energy utilization through initiatives such as *Coding Mum*, *Coding Difabel*, and *Solar Mum*. These programs aim to enhance technological literacy, digital skills, and energy management to promote local economic independence and community development.

Coding Mum and *Coding Difabel* offer training in digital literacy, design development, website development, and digital marketing. These programs also aim to empower persons with disabilities, encouraging confidence and creativity within the community.



Figure 27 Coding Mum & Coding Difabel Training for IKN Residents (Photo by <https://www.antaranews.com/berita/4122282/oikn-tingkatkan-kemampuan-digital-warga-ikn-lewat-pelatihan-coding>, 2024)

The *Solar Mum* program, specifically designed for women—particularly homemakers—promotes active participation in renewable energy utilization, supporting IKN’s vision as a Smart City, Sponge City, and Forest City, as well as the broader green transformation agenda. Through this program, participants learn about solar-powered lamps, including component identification, assembly, and maintenance procedures. The program aims to equip women with the knowledge necessary for small-scale renewable energy applications, such as *Solar Home Systems (SHS)*, which are expected to become a key alternative energy source in the IKN area.

In summary, most education and training programs in the IKN area are initiated by government institutions, with the government playing a crucial role in their implementation. Effective collaboration among central government agencies (through the IKN Authority), provincial and local governments, and village

or subdistrict administrations is key to the successful delivery of education and training programs. Partnerships with non-governmental organizations, private institutions, and community-based organizations also play an important role. Additionally, the high level of community enthusiasm for these programs is a critical factor in their success. The evident willingness of local communities to participate reflects their optimism and proactive attitude toward the rapid development of the IKN.

8.5. THE ROLE OF REGIONAL GOVERNMENT

The East Kalimantan Provincial Government, through the Manpower Office, is responding to the Nusantara Capital phenomenon by focusing on improving the skills of local residents. Local residents have limited access to formal and informal education and training, so starting in 2021, the East Kalimantan Provincial Government and the Penajam Paser Utara Regency Government have been conducting training programs for residents, most of whom are farmers, oil palm workers, and others, to participate in informal training programs such as sewing, carpentry, electrical work, culinary arts, hospitality, and others. This initiative aims to prepare local residents, particularly farmers and oil palm workers, to develop economic capabilities in other sectors to mitigate the impacts of the IKN's presence. This initiative responds to the economic shifts faced by local communities due to the IKN, with the hope that residents remain adaptive and productive despite the economic and social transformations in their environment.

Chapter 9. Key Government Policies Facilitating Diversification

9.1. VILLAGE PROGRAM

Since the enactment of Law Number 6 of 2014 concerning Villages, the position of villages within Indonesia's development landscape has undergone a significant transformation. Previously, villages were merely objects of the national development agenda; however, they have now become both subjects and objects, positioning them at the forefront of development, particularly at the grassroots level. The implementation of this law has reinforced the status of villages as autonomous entities by granting recognition and respect for their diversity, as well as by strengthening their authority and jurisdiction based on the principles of recognition and subsidiarity. This enhanced autonomy is coupled with the mandate for villages to manage their own finances, a capacity supported by the provision of "Village Funds" (Dana Desa) from the national budget (APBN), enabling a more optimal exercise of village autonomy. Through this law and the allocation of Village Funds, it is anticipated that villages will achieve greater self-sufficiency and prosperity through various programs tailored to their local potential and conditions. This policy framework is also applicable to the villages surrounding the new national capital (IKN) and can significantly support the IKN development process, including its economic diversification.

Within the national development policy framework, several

programs such as the Independent Village (Desa Mandiri), Tourism Village (Desa Wisata), and Smart Village have proven to be effective instruments for fostering economic diversification and enhancing the resilience of rural areas in Indonesia. In the context of the IKN development in East Kalimantan Province, these programs hold immense potential to ensure that villages, especially those in the vicinity of the IKN, are not relegated to being mere objects or passive spectators in the development process. Instead, through these initiatives, the villages around the IKN can become active agents in the region's transformation.

The "Independent Village" program is an integral part of the Village Development Index (Indeks Desa Membangun), a tool used to measure the development level of villages. The Village Development Index, regulated by the Minister of Village, Development of Disadvantaged Regions, and Transmigration Regulation Number 2 of 2016, classifies villages based on dimensions of social, economic, and ecological resilience. The index categorizes villages into five tiers: Independent (Desa Mandiri), Advanced (Desa Maju), Developing (Desa Berkembang), Disadvantaged (Desa Tertinggal), and Severely Disadvantaged (Desa Sangat Tertinggal). The ultimate goal of this framework is to increase the number of independent villages that are not reliant on external aid but possess the capability to manage their own potential and assets to resolve local issues. The 2024 Village Development Index for Penajam Paser Utara Regency indicates that the majority of villages at the IKN location, specifically in Sepaku District, have achieved Independent Village status, with 10 villages classified as independent and one as advanced.



Figure 28 Nipah-Nipah Tourism Village as one of the Tourism Villages around the IKN (Source: https://kaltim.jadesta.com/desa/kelurahan_nipahnipah, 2025)

A “Tourism Village” is a development strategy widely adopted by local governments, especially in areas with significant natural and cultural resources that can be offered as tourism commodities. This program is a synergistic effort involving the Ministry of Villages, the Ministry of Tourism and Creative Economy, and the Ministry of Village, Development of Disadvantaged Regions, and Transmigration. Currently, at least six tourism villages are emerging around the IKN, including Bangun Mulya, Nipah-Nipah, Muara Enggelam, Pela, Mentawir, and Waru Tua. These villages offer a variety of appealing attractions, from cultural tourism to nature-based experiences unique to Kalimantan, such as tropical and mangrove forests. The presence of these tourism villages diversifies the local tourism portfolio and has the potential to attract national and even international tourists, particularly after the IKN becomes operational, given

their accessible locations. The rise of Tourism Villages has also spurred business diversification among communities, initiated both independently by residents and by the village administration through Village-Owned Enterprises (Bumdes).

In addition to tourism, the “Smart Village” concept is another strategy employed by the government to advance rural progress in Indonesia. A smart village is defined as a village capable of improving the quality of life and welfare of its community through the utilization of technology in various aspects of village development. This concept was also introduced to address challenges related to village connectivity and the efficiency of public services at the local level. It is hoped that through the Smart Village initiative, Indonesian villages will be able to deliver efficient public services, establish connectivity with the outside world, and achieve self-sufficiency. In the broader national context, the Smart Village program is expected to support the nationwide digital transformation. Within the IKN development context, villages in the capital region can leverage the smart village concept as a strategy to achieve village independence, drive digital transformation in the IKN area, and support the vision of IKN as a Smart City. However, villages in the IKN region currently face various obstacles in implementing this concept, including unstable internet connections, the persistence of connectivity blind spots, and limited human resource capacity in technology utilization.

Taking a broader view, if local and village governments can successfully integrate these three programs—Independent Village, Tourism Village, and Smart Village—they can form the backbone of rural transformation in the IKN region. A village that possesses institutional independence will be better prepared to manage its local tourism and economic potential and will naturally be more receptive to the use and adoption of digital tech-

nology in its development processes. In the IKN buffer zone, the synergy of these three programs is crucial to prevent surrounding villages from becoming passive hinterlands. Instead, they can evolve into adaptive and innovative economic hubs capable of seizing the opportunities presented by the IKN's presence.

Nevertheless, development challenges such as low institutional capacity in villages, access gaps, and weak sustained technical assistance still loom over the rural development process around the IKN. Therefore, village development programs in this context must not be treated as mere thematic projects but as long-term, inclusive instruments. This approach will ensure that the transformation of IKN's rural areas is not elitist or project-oriented but serves as a mechanism for sustainably improving the welfare of the village communities.

9.2. FISCAL INCENTIVES AND INVESTMENT

In the grand framework of the National Capital (IKN) development, the government is not solely relying on state expenditures and infrastructure but is also creating various fiscal incentive schemes and investment policies to encourage private sector participation. These incentives include the establishment of Special Economic Zones (SEZs), the provision of tax holidays, and the allocation of the Regional Incentive Fund (DID). All three are aimed at accelerating economic growth, attracting investment capital, and stimulating regional transformation. However, the effectiveness of these incentives has not yet fully permeated to the local community level, particularly in the context of empowerment and household social resilience.

The IKN is strategically designed as a hub within a regional economic growth corridor based on the Special Economic Zone (KEK/SEZ) model. As a policy instrument, the SEZ offers facilities such as simplified licensing, customs exemptions, and reg-

ulatory relaxation to expedite investment activities. In practice, however, SEZs are predominantly oriented towards macro-level growth and large-scale corporations, while their linkage to strengthening the local economy remains limited. Although a number of investments in hotels, hospitals, and the construction sector have entered through the SEZ scheme, few have established supply chains that involve local Micro, Small, and Medium-sized Enterprises (MSMEs). Consequently, while SEZs accelerate capital flows and project implementation, their coexistence with community empowerment programs is still weak. Without a robust mechanism for local participation, SEZs risk creating exclusion rather than integration.



Figure 29 Inauguration of Swisshotel Nusantara and Mall Duty Free Nusantara at IKN (Source: Public Relations of IKN Authority, 2024)

The tax holiday policy is granted to large investors as an incentive providing temporary tax exemptions. This is intended to attract investment in strategic sectors such as infrastructure, energy, and manufacturing. In the IKN region, the tax holiday

serves as a tool to encourage early-stage investment. Nevertheless, this incentive has yet to deliver direct added value to the local economy. While the tax holiday does alleviate the fiscal burden on large corporations, without supporting policies that mandate local content, technology transfer, or the involvement of a local workforce, the incentive does not automatically generate an inclusive multiplier effect. This is critical, as local communities have demonstrated high potential to participate in the new economy through business diversification. However, without a systemic entry point, the tax holiday risks reinforcing the disparity between economic growth and public empowerment.

As a form of reward for regional fiscal performance and governance, the Regional Incentive Fund (DID) is a fiscal instrument that can be utilized to strengthen institutional capacity and development innovation. Several regencies and cities surrounding the IKN have the potential to access DID by achieving key performance indicators such as poverty reduction, improvement of basic services, and public spending efficiency. However, to date, the utilization of DID has not been explicitly directed towards strengthening the community empowerment ecosystem around the IKN. Yet, if applied with an affirmative approach, DID could fill the policy gap left by the Village Fund (Dana Desa), especially in urban sub-districts (*kelurahan*) which are structurally ineligible for Village Funds. Through a reformulation of incentive policies, DID could serve as an alternative fiscal channel to finance advanced training, MSME incubation, or the integration of local markets into the supply chains of SEZs and other national strategic projects.

Fiscal policies such as SEZs, tax holidays, and DID are designed to attract investment and enhance regional growth. However, if they are not directly linked to the community empowerment ecosystem, these incentives risk deepening economic

dualism: one segment of the economy grows rapidly, while the other is left behind.

9.3. PROTECTION OF LOCAL COMMUNITIES

The development of the National Capital (IKN) necessitates an inclusive approach supported by the protection of local communities. In practice, the protection of local communities is being carried out through various programs for indigenous peoples to achieve inclusivity. These programs include ensuring the freedom to preserve customs and traditions through existing community structures. The society is organized into various communities, often reflected in settlement agglomerations, to facilitate collective decision-making. As the development of IKN progresses, requiring significant physical space, local communities are collaborating in the development process through these community networks. Each local community across the different development areas of IKN is interconnected to mutually support the creation of better and more sustainable settlements. This is further bolstered by various government programs aimed at community development, which are not limited by the administrative boundaries of settlement areas.

The involvement of the populace as local communities in the IKN development is supported by various government programs institutionalized through regulations. The government has taken actions such as imposing a moratorium and issuing legal mandates to curb illegal land sales. The increase in land sales within the IKN development area has been driven by investment and substantial compensation offers from the government. Through various regulations on land sales and compensation, the government aims to support and protect local communities by facilitating more specific and legally sound land mapping.

Compensation can be delivered through various options de-

signed to respect the choice, justice, and consent of local communities. By adhering to principles of equitable compensation, a sustainable relationship between local communities and the government can be fostered, promoting greater inclusivity. The government, through the IKN Authority and the Ministry of Agrarian Affairs and Spatial Planning (ATR/BPN), has stated that there will be no unilateral evictions, a commitment supported by various outreach methods, including a door-to-door approach to inform residents of their rights and choices. Mediation is also employed to postpone land execution and clearing until compensation for indigenous communities is settled, particularly in areas holding specific historical and spiritual value, such as lands marked by traditional boundary posts (*patok*).

Local and indigenous communities are further supported by normative commitments and technical implementation that integrate sustainability values, consistent with public statements. However, significant challenges persist. Customary land rights (*hak ulayat*) have not yet been fully recognized in their entirety by law, and the mechanisms for involving traditional leaders in the planning process have not been completely institutionalized.

Therefore, in the governance of land and community affairs where there is a potential for participatory conflict, greater support for a dialogue-based approach involving the government, the community, and the private sector is required. Mapping that guarantees the legal status of territories is also needed to identify the claims of indigenous communities, alongside the management of social impacts by local and independent actors. The protection of indigenous communities through such actors is already being reflected in several practices: engaging them as partners in the implementation of development projects, involving customary institutions and civil society organizations, developing independent grievance mechanisms, ensuring com-

munity involvement in planning and decision-making processes through local forums, and accelerating the mapping and legal recognition of customary lands.

9.4. MULTI-STAKEHOLDER COLLABORATION

For a region previously dependent on a single dominant sector, such as the area surrounding the National Capital (IKN), a multi-stakeholder collaboration among the government, the private sector, academia, and local communities is a critical strategy for promoting economic inclusivity through local economic diversification. The community, which previously relied on the agricultural and plantation sectors, now has access to a wider variety of occupations in different sectors, particularly trade and services. To stimulate this economic diversification by the local community, the involved parties each play distinct roles according to their scope of work. These stakeholders include the government, the private sector, higher education institutions, and the community itself. The roles of each party can be detailed as follows:

The Government

In the process of economic diversification for communities around the IKN development area, the government plays a crucial role as the primary policymaker. The government is the key actor in implementing programs and policies that foster an ecosystem conducive to new economic growth, such as collaborations between the Department of Industry and District Governments to conduct various training programs. Training that has been implemented thus far in Sepaku District includes heavy equipment operation, culinary arts, and sewing. Furthermore, the government acts as a facilitator, bridging external parties with the local community to ensure the successful implementation

of externally initiated programs. This includes connecting universities for thematic research and Student Community Service programs (Kuliah Kerja Nyata - KKN) and linking the private sector for sponsored MSME facilitation programs. The government also contributes to expanding market access by organizing MSME exhibitions at the IKN to promote local products.

Higher Education and Research Institutions

In addition to the government, higher education and research institutions also play a role in the local economic diversification process. As part of the Tri Dharma Perguruan Tinggi (the Three Pillars of Higher Education: Education, Research, and Community Service), community service is a prioritized agenda for universities to benefit society. Through the application of social and natural sciences, initiatives led by these institutions are expected to bring sustainable positive impacts to the local community. Common agendas include thematic research, KKN programs, and assisting the government in planning through the development of policy briefs. One example of diversification resulting from academic involvement is seen in KKN programs, where students create MSME empowerment initiatives with assistance from the local village/sub-district government to gather and guide participants. The skills acquired, such as batik making, hydroponics, and ecoprinting, provide a foundation for local residents to generate additional income.

The Private Sector

Private companies have a significant role in sustaining economic diversification, as they are the primary drivers of investment and job creation in the local environment. For instance, following government-led training in Sepaku District, individuals with newly acquired high-level skills are absorbed into the

IKN workforce as construction workers or hospital staff. Private companies often have their own community empowerment programs designed to accommodate local needs while simultaneously promoting their own products or services. In these promotional efforts, the local village/sub-district government assists in disseminating information to the community. For example, along the Sukaraja-Bukit Raya Wednesday Market, vendors received assistance in setting up QRIS (Quick Response Code Indonesian Standard) payment methods from surrounding banks, such as Bank Mandiri and Bank BRI. In return, the vendors display store banners that include the sponsoring bank's logo. Another example is the assistance from Dompot Dhuafa (a philanthropic organization) in providing facilities to support local MSMEs, such as shop renovations or furniture. In exchange, similar to the banks, the MSME stalls display a nameplate with the Dompot Dhuafa logo as a sponsor.

The Local Community

In the pursuit of economic diversification, the local community serves as the primary and most essential actor. It is the local residents who ultimately decide whether or to what extent they will diversify their economic activities to sustain their livelihoods. This decision is influenced by their ability to identify market potential, recognize the demand for goods and services, and assess their available capital. The involvement of the local community in multi-stakeholder collaboration is demonstrated by their active participation in every activity initiated by external parties to enhance their capital and skills. Additionally, many residents join programs initiated by the government, private sector, or academia to expand their market reach.

The collaborative methods that trigger economic diversification among the local community include the following:

Participatory Development of New Products/Services with the Local Community

One of the most common methods employed by stakeholders to enhance the community's capacity for diversification is the creation and/or development of new products in a participatory manner. For example, in Sepaku District, training conducted by PT. Pupuk Kaltim as part of its corporate social responsibility (CSR) program led to the initiation of a new enterprise, Batik Sepaku Nusantara, aimed at highlighting local identity and branding. This venture gained significant momentum following a university-led community empowerment program through KKN, which assisted with product branding and promotion. The women artisans involved now have more than one source of income: from their batik work and their original occupations (such as running a small shop or catering business).

“While I’m looking after my stall, I also do nyanting (the process of applying wax in batik making), for extra income, especially when there are orders. Thankfully, it’s still ongoing. So, my activities are either selling at the stall or making batik.” — Local businesswoman in Sukaraja, 2025.

Another example is hydroponics, where training resulted in the formation of a hydroponic farmers' collective that subsequently secured sponsorship from the private sector. The produce from these hydroponic farms is now sold in the market and has established its own niche, making hydroponics a key part of the economic diversification for the community members involved.

Expanding Market Access for Local MSMEs

Beyond product innovation, expanding market access for local MSMEs is another form of multi-stakeholder collaboration

that drives economic diversification. In business operations, market access and a well-defined target market are crucial factors for sustainability. Observing the dynamics of household-scale diversification around the IKN development area, it is evident that new ventures are concentrated in the trade and services sectors and are heavily dependent on IKN construction workers. This dependency is not only due to the large number of workers but also because their market access is relatively narrow. Consequently, when these sellers lose their primary customer base, maintaining a stable and sustainable business becomes difficult. Therefore, expanding market access is vital, especially for MSMEs selling products with unique characteristics, such as handicrafts or locally processed snacks.

To this end, various stakeholders are involved in broadening the market reach of local MSMEs. Two events that provided significant exposure were the IKN Festival 2024 (October 16, 2024) and the IKN Expo (August 15-18, 2024). The IKN Festival 2024, organized by the East Kalimantan Provincial Tourism Office, was an event designed to introduce the arts, culture, tourism potential, and creative economy of the IKN region. Meanwhile, the IKN Expo 2024 was organized by the IKN Authority in conjunction with the Ministry of Public Works and Housing (PUPR) to host a regional development forum accompanied by an exhibition of MSME products.



Figure 30 Expo IKN 2024 (Photo by <https://infopublik.id/kategori/nasional-ekonomi-bisnis/861299/expo-ikn-2024-dorong-potensi-umkm-penajam-paser-utara-sebagai-serambi-nusantara>, 2024)

Human Resource Capacity Building through Skills Development and Training

In addition to the development of tangible products with market value, another type of collaborative program that stimulates economic diversification is human resource capacity building through skills development and training. To be able to work and generate income, possessing adequate skills is essential for community members. Skill limitations hinder the community's ability to engage in alternative activities to supplement their income. Consequently, since the early stages of the IKN's development, the central government, through the Department of Industry, has implemented a variety of skills training programs—such as heavy equipment operation, sewing, and culinary arts—to provide the community with additional knowledge and skills. The objective is that these skills will grant residents greater flexibility and more opportunities for employment.

Besides the government, the private sector has also conducted various training sessions to develop community skills, such

as the batik training initiated by PT. Pupuk Kaltim. During these training activities, the village/sub-district government plays a crucial role in acting as a bridge between the local community and the program initiators. This multi-sector involvement broadens the program's reach and ensures it is well-targeted, ultimately fostering the economic diversification exemplified by the women artisans of Batik Sepaku Nusantara.

9.5. POLICY EVALUATION

Several policy programs have been implemented to support the creation of the National Capital (IKN) as a smart and sustainable city of the future. Various programs are also underway to foster economic development while giving due consideration to social and environmental aspects. Significant efforts are being made to realize the vision for IKN, from developing adequate infrastructure to establishing a meticulously planned system of governance. Nevertheless, the development of IKN also presents a range of challenges and potential impacts, which are being addressed through numerous programs designed to mitigate adverse environmental and social consequences. The hope remains that IKN will serve as a catalyst for equitable development in Indonesia and a model for smart cities of the future. Despite these efforts, several aspects of the existing policy implementation warrant closer attention:

I. Targeted Empowerment Programs

Inclusive policies and programs are necessary to provide upskilling, especially for local communities within the IKN region. Policy programs that are carefully targeted are essential to keep pace with the rapid development of each area, ensuring that all communities can grow together. Upskilling programs must consider the specific needs and characteristics of the community. For

instance, a development program for Sepaku, with its indigenous communities, will necessarily differ from one for Muara Jawa, which is characterized by a more heterogeneous, migrant-based population with an urban culture. A policy promoting urban farming for a community accustomed to traditional, land-based agriculture would require a different approach than for urban dwellers or migrants familiar with container gardening. By integrating psychological, cultural, and environmental considerations, policy programs can be more accurately targeted, ensuring their benefits are long-term and sustainable. This will also indirectly impact the absorption of local labor and the creation of new economic opportunities that align with the community's unique characteristics.

2. Equitable Opportunity and Open Access

Currently, opportunities and access to employment and training tend to be limited, scarce, or inadequately publicized. Access to promising and sustainable jobs for the local community must be improved to ensure that income equity can be maintained as IKN continues to grow. This can also indirectly reduce dependency on natural resources and extractive economies. In addition to open access in the socio-economic sphere, greater physical access to IKN is also necessary to foster a public understanding that the new capital is genuinely present for the people and serves as a catalyst for national development.

3. Greater Attention to Sustainability

Every region possesses inherent natural characteristics that must be protected; some areas are even designated as special zones that must be preserved in accordance with local wisdom (*kearifan lokal*). Development should not only be tailored to human needs but must also respect the natural environment. This

principle must be upheld to prevent natural disasters resulting from excessive human manipulation of nature. Furthermore, governance and administration that are environmentally conscious need to be collectively pursued to foster a sense of shared ownership and collective responsibility for the environment.

4. Equitable and Child-Friendly Education Curriculum

Although IKN itself is meticulously designed, the environmental quality of its surrounding areas, such as the buffer zones, will significantly influence its overall success. As IKN becomes operational, a standardized, high-quality curriculum must be implemented and consistently monitored—from the central government area to the buffer zones—to produce a human resource base that is prepared for future development. In addition to a supportive curriculum, ensuring a safe and comfortable learning environment for children, the next generation, is crucial. The resilience of human resources will heavily influence the nation's readiness for future development challenges.

5. Digitalization: Managing Euphoria to Sustain the Economy

The public euphoria surrounding IKN has generated a mix of impacts—both positive and negative, optimistic and pessimistic. The rise of digitalization, social media, and artificial intelligence is not only changing lifestyles but also life trajectories, which in turn affects economic development and the long-term viability of IKN itself. Alongside supportive systems, public attention is vital for the successful realization of IKN and equitable development. Public interest, attention, and even trends have a real, whether direct or indirect, impact on economic sustainability. Therefore, it is necessary to cultivate and maintain continuous public attention on IKN for the foreseeable future to ensure its economic momentum is sustained.

Chapter 10. Epilog

10.1. FROM PERIPHERY TO CENTER: RETHINKING EAST KALIMANTAN

The development of Indonesia's new capital city, Ibu Kota Nusantara (IKN), in East Kalimantan represents a state-led urbanization initiative that profoundly reshapes the region's socio-economic and spatial dynamics. More than a simple administrative relocation, IKN constitutes a strategic national endeavor designed to address long-standing spatial disparities between Western and Eastern Indonesia while simultaneously catalyzing processes of rural diversification. East Kalimantan's historical dependence on extractive sectors—such as coal, oil, gas, and palm oil—underscores both the urgency and complexity of this transformation. Its status as a resource frontier, rich in natural wealth yet burdened by structural vulnerabilities such as environmental degradation, demographic imbalances stemming from transmigration policies, and food dependency, highlights the multidimensional challenges at play.

The emergence of IKN has accelerated diversification within rural economies, generating new demands for goods, services, construction, trade, tourism, and micro, small, and medium enterprises (MSMEs). Approaches such as agropolitan development and agrotourism have been proposed to align local economies with IKN's vision as a sustainable "Forest City." Central to this transformation is the empowerment of local communities, ensuring that less-resourced and Indigenous groups are not further marginalized.

IKN's development is best interpreted through the framework of policy-induced urbanization—a form of urban expansion

sion shaped deliberately by state intervention and strategic investment rather than spontaneous market forces. Drawing on conceptual perspectives from the literature on Asian urbanization, this discussion situates IKN alongside other planned capitals such as Naypyidaw, Putrajaya, and Brasília, illustrating how state-engineered urban centers serve political, economic, and symbolic purposes. The state thus acts as a spatial entrepreneur, reorganizing landscapes to advance national priorities. This top-down transformation produces hybrid peri-urban zones where rural and urban characteristics converge.

In localities such as Sepaku, IKN's urbanization has already shifted economic activities away from agriculture and forestry toward services, trade, and construction. Households have diversified into small businesses such as warungs, boarding houses, and transportation services, with land ownership emerging as a key determinant of economic security. However, these shifts also generate uneven outcomes, deepening inequalities between those with resources and those excluded from new economic opportunities.

Demographic change around IKN is equally significant, driven by migration from Java, Sumatra, and other regions. This influx increases population density and introduces complex cultural dynamics, challenging public service delivery, social cohesion, and Indigenous rights. Spatially, the expansion of IKN has converted agricultural and forest lands into residential, commercial, and infrastructural zones, fundamentally altering land-use patterns. These changes carry profound implications for food security, ecological balance, and local governance, raising concerns over land commodification and the capacity of institutions to manage rapid growth.

A comparative framework contrasting organic and policy-driven urbanization highlights the distinct dynamics of the

IKN case: whereas organic urban growth evolves incrementally in response to local needs, state-led urbanization disrupts existing socio-spatial configurations. The IKN experience illustrates both opportunities and vulnerabilities, underscoring the need for careful governance to ensure that rural diversification proceeds in an inclusive, equitable, and sustainable manner.

Rural diversification surrounding IKN emerges as a complex and socially differentiated process shaped by community-specific economic, social, and geographic conditions. A defining characteristic is the shift from agrarian livelihoods toward service-oriented and trade-based activities. Households traditionally reliant on farming or forestry are increasingly involved in construction, retail, and transport sectors. Women and youth play growing roles in these emerging sectors: women engage in micro-enterprises and home-based ventures, while younger generations leverage digital technologies and entrepreneurial opportunities.

However, diversification patterns are uneven. Access to land, capital, social networks, and education critically determines the capacity of households to adapt. While migrants and economically advantaged groups often reposition themselves successfully within the evolving economy, Indigenous populations and resource-poor households face persistent structural barriers. These disparities reveal the contested nature of rural diversification as a pathway for socio-economic transformation.

Several key factors shape and influence diversification in the IKN context: land tenure security, infrastructural connectivity, institutional support, household capabilities, and social capital. Communities with secure land rights and robust infrastructure—such as roads, electricity, and telecommunications—are better positioned to participate in diversified economic activities. Institutional backing, including supportive policy frameworks and

SME promotion programs, further enables inclusive economic participation. Conversely, disparities in education, financial capital, and social networks lead to divergent outcomes. Strong community cohesion enhances collective organization through cooperatives and community-based enterprises, whereas marginalized groups remain excluded. A nuanced understanding of these interrelated factors is essential for crafting development policies that are contextually grounded and socially inclusive.

The relationship between rural diversification and household economic resilience is central to these dynamics. Diversification enhances resilience by providing alternative income sources amid disruptions such as land conversion and rising living costs. Households diversify into catering, transportation, room rental, and retail activities, thereby stabilizing income streams and reducing dependence on extractive industries. Asset ownership—such as land, vehicles, and financial capital—plays a pivotal role: households with such resources adapt more effectively, while those without remain vulnerable, often relying on precarious informal employment or credit. Diversification also reduces reliance on capital-intensive extractive sectors, fostering more locally embedded economies. Moreover, diversification strengthens social resilience by broadening the participation of women, youth, and Indigenous groups. However, over-reliance on construction-driven demand exposes local enterprises to volatility, highlighting the need for long-term planning, asset-building strategies, institutional support, and social inclusion to foster resilient communities.

Despite these opportunities, structural and institutional obstacles hinder inclusive diversification. Limited access to business capital remains a key barrier, with formal financial institutions often imposing collateral requirements beyond the reach of rural entrepreneurs. Informal credit sources, in turn, expose

households to high interest rates and debt dependency. Entrepreneurship training and technical support remain insufficiently available, leading to gaps in financial literacy, business management, and technology adoption. Infrastructure deficiencies—especially outside the IKN core—constrain market access, raising production and distribution costs. Weak institutional coordination between national policies and local governance further impedes program implementation. As a result, vulnerable groups—particularly women, Indigenous peoples, and the poor—often face exclusion, exacerbating socio-economic inequalities. Rapid urbanization has thus generated not only diversification opportunities but also social displacement, land dispossession, and the erosion of traditional livelihoods. Addressing these challenges demands integrated development strategies that ensure equitable access to opportunities, improved financing, expanded infrastructure, inclusive capacity-building, and alignment between national priorities and local empowerment.

Agriculture remains a cornerstone of rural diversification in the IKN hinterland. Agricultural activities—including crop cultivation, plantations, forestry, livestock, and fisheries—constitute the foundation of local livelihoods, offering entry points for both horizontal diversification (expanding types of agricultural production) and vertical diversification (processing, marketing, and services). Agrarian transitions demonstrate a shift from subsistence-based production to market-oriented commodity agriculture, such as oil palm, aquaculture, and hydroponics. These transformations reflect adaptive responses to ecological pressures and new economic opportunities associated with IKN's development. State-led programs promote agricultural modernization through seed distribution, technological adoption, training initiatives, and the introduction of smart farming systems. Integration with agro-tourism further expands livelihood options

and strengthens household resilience.

However, agricultural diversification is marked by social and spatial differentiation. Migrant communities with greater financial resources often engage in capital-intensive agricultural ventures, while Indigenous populations tend to maintain traditional practices due to limited resources. This divergence reinforces economic stratification and underscores the need for inclusive policy interventions. Agriculture's strategic significance extends beyond food provision: it underpins local resilience and drives broader socio-economic transformation. The sustainability and inclusiveness of diversification depend on how stakeholders modernize and integrate agriculture into a wider economic system. Regional spatial planning instruments—such as RTRW KSN and RDTR—define zones for agriculture, settlement, and industry, balancing investment promotion with agricultural protection. Policies supporting sustainable farming, digital integration, and cooperative-based marketing link producers to wider markets and strengthen local economies. These measures aim to position agriculture as a cornerstone of balanced rural–urban development within East Kalimantan's evolving metropolitan landscape. Ultimately, effective multi-level coordination among government institutions and active community participation will be essential to ensuring both economic viability and social equity amid rapid state-led urban transformation.

10.2. BEYOND THE HORIZON: SOCIO-SPATIAL FUTURES

This discussion presents several key implications for continued exploration of rural diversification in the IKN region. First, future assessments should focus on evaluating the long-term viability of diversification trajectories shaped by state-led urbanization. While short-term economic gains—such as expanded trade and service activities—are readily observable, analysts still lack

comprehensive empirical evidence on whether such processes will persist once IKN's major construction phases are completed. Experts should therefore examine how household economies and local enterprises adapt as the initial momentum from infrastructure development diminishes, particularly regarding market stability, labour absorption, and income security.

Second, observers must address the social inclusivity of diversification. This book underscores significant disparities in access to assets, capital, and institutional support among various social groups, including women, Indigenous peoples, and smallholder farmers. Future evaluations should explore how diversification affects these groups differently, identifying barriers to participation as well as mechanisms for inclusion. Analysts should pay particular attention to the roles of land tenure security, credit access, and skill development in shaping participation within new economic sectors, especially against East Kalimantan's complex ethnic and migratory backdrop.

Third, future investigations should examine the ecological consequences of diversification around IKN. The conversion of agricultural and forest land into residential, commercial, and infrastructural areas raises critical concerns regarding land-use competition, food security, and environmental sustainability. Specialists should analyze the interplay between rural economic activities and ecological systems, focusing on biodiversity loss, water resource management, and carbon emissions. This ecological lens is vital for aligning diversification strategies with broader objectives of sustainable and climate-resilient development as envisioned in official planning frameworks.

Fourth, analysts should assess the transformative role of digital technologies and the emerging digital economy in shaping diversification processes. While this discussion addresses ICT adoption and smart farming, additional empirical evaluations

should examine the extent, challenges, and socio-economic impacts of these technologies at household and community levels. Specialists should investigate how digital platforms for marketing, finance, and cooperative organization contribute to economic transformation—and whether they exacerbate or reduce socio-economic inequalities.

Finally, future inquiries should scrutinize the governance and institutional frameworks that underpin diversification. The complex interplay between national, provincial, and local authorities—as well as formal and informal institutions—requires deeper analytical attention. Specialists should investigate how policy frameworks function in practice, how local governments adapt national strategies to village-level realities, and how communities participate in economic planning. Comparative evaluations across villages and districts could help identify best practices and governance models that promote inclusive, equitable, and sustainable diversification in resource frontier regions such as East Kalimantan.

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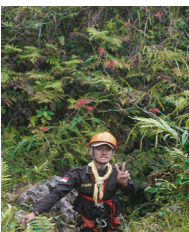
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His passionate interest in issues of human geography, development, and planning means that working only on campus is not enough for him, so in 2005, he co-founded a development NGO: the Institute for Regional Development Studies (IREDS). This organization has allowed him to combine theoretical perspectives mostly developed in the academic environment, with empirical work in the field. His interest continues to grow in line with several issues he came across during his research on tourism geography. Thus, in 2012 he co-founded a tourism-based NGO, namely Indonesia Tourism Watch (ITW). The combination of his position as a lecturer, his growing interests, and his activities in NGOs has led to many opportunities to work in projects and on research with, for instance, the central and local governments of Indonesia, private sectors in development and resources exploration fields, international, national, and local NGOs, and local communities. His research has been published in several peer-reviewed journals, books, and conference proceedings. Erlis can be contacted via erlissaputra@ugm.ac.id or erlissaputra@gmail.com.

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