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Market-Driven Resource Allocation And Regional Competitiveness In Indonesia's New Capital Region: Evidence From East Kalimantan

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ABSTRACT

Indonesia's relocation of its capital to Nusantara in East Kalimantan represents a transformative development initiative with profound implications for regional competitiveness and resource allocation mechanisms. This study examines market-driven resource allocation patterns and their impact on regional competitiveness in East Kalimantan during the capital relocation period (2023-2025). Employing qualitative methodology through semi-structured interviews with 45 stakeholders, document analysis of 127 policy documents, and field observations across five districts, this research investigates how market forces interact with government interventions in shaping resource distribution. Findings reveal a hybrid allocation model where market mechanisms increasingly dominate land transactions (average price appreciation of 342% in Penajam Paser Utara), labor mobility (78,000 net migration in 2024), and capital flows (USD 4.2 billion private investment commitments). However, significant governance challenges emerge, including regulatory inconsistencies, infrastructure bottlenecks, and inequitable access to economic opportunities. The study demonstrates that while market-driven allocation enhances efficiency in certain sectors, it simultaneously generates spatial disparities, with the Gini coefficient increasing from 0.38 (2023) to 0.43 (2025). Regional competitiveness indicators show mixed outcomes: improved connectivity and investment climate contrast with environmental degradation and social tensions. This research contributes to development economics literature by providing empirical evidence on resource governance in mega-project contexts and offers policy recommendations for balanced development strategies integrating market efficiency with social equity objectives.

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1. INTRODUCTION

The Indonesian government's decision to relocate the national capital from Jakarta to Nusantara in East Kalimantan constitutes one of the most ambitious urban development projects in contemporary Asia, with projected investments exceeding USD 33 billion by 2045 (Ministry of National Development Planning, 2024). This unprecedented initiative fundamentally reshapes resource allocation dynamics in the region, creating a natural experiment for examining how market forces and government interventions interact in driving regional competitiveness (Firman & Fahmi, 2023). The capital relocation program, officially commenced in 2023, has triggered rapid economic transformation, demographic shifts, and institutional restructuring across East Kalimantan's districts, particularly in Penajam Paser Utara, Kutai Kartanegara, and Balikpapan (Nusantara Capital Authority, 2024).

East Kalimantan's economic landscape has undergone a radical transformation since the capital announcement in 2019, with gross regional domestic product (GRDP) growth accelerating from 3.2% (2022) to 6.8% (2024), significantly outpacing the national average of 5.1% (Statistics Indonesia, 2025). This growth trajectory reflects intensified resource mobilization through both market mechanisms and state-led interventions. However, the velocity and magnitude of these changes raise critical questions about sustainability, equity, and governance effectiveness (Riyanto et al., 2024). Existing literature predominantly focuses on infrastructure development and environmental impacts, leaving significant gaps in understanding how resource allocation mechanisms influence regional competitiveness outcomes (Susanti & Winarno, 2023).

Market-driven resource allocation theory posits that competitive markets optimize resource distribution through price signals, efficiency incentives, and entrepreneurial responsiveness (Porter, 2023). In contrast, development economics literature emphasizes the necessity of state intervention in addressing market failures, ensuring public goods provision, and promoting inclusive growth (Rodrik & Stantcheva, 2023). The Nusantara project presents a complex interplay between these paradigms, where massive government investment catalyzes private sector participation, yet market forces increasingly determine allocation outcomes (World Bank, 2024). Understanding this dynamic is crucial for Indonesia and other developing nations undertaking large-scale urban development projects.

Regional competitiveness encompasses multidimensional factors including economic productivity, innovation capacity, infrastructure quality, human capital development, institutional effectiveness, and environmental sustainability (Annoni & Dijkstra, 2023). The relationship between resource allocation mechanisms and these competitiveness dimensions remains underexplored in Indonesian contexts, particularly in rapidly transforming regions experiencing simultaneous urbanization, industrialization, and governance transitions (Firman, 2024). East Kalimantan's experience provides valuable insights into how resource governance structures shape competitive advantages and disadvantages in emerging urban regions.

This study addresses three research objectives: first, to analyze market-driven resource allocation patterns in land, labor, and capital markets within East Kalimantan during the capital development phase; second, to evaluate the relationship between these allocation mechanisms and regional competitiveness indicators; third, to assess governance challenges and policy implications for sustainable and equitable development. The research employs qualitative methodology, combining in-depth interviews, documentary analysis, and field observations to capture nuanced dynamics that quantitative approaches might overlook.

The significance of this research extends beyond Indonesian borders. As developing nations increasingly pursue mega-urban projects to stimulate regional development, understanding resource governance implications becomes essential for policy design (United Nations Human Settlements Programme, 2024). This study contributes to theoretical debates on market-state relationships in development contexts and provides empirical evidence for policy formulation. The findings have practical implications for Indonesian policymakers navigating tensions between economic efficiency and social equity, while offering lessons for other nations considering similar development strategies.

The paper proceeds as follows: Section 2 reviews relevant literature on market-driven resource allocation, regional competitiveness, and development governance; Section 3 details the research methodology; Section 4 presents empirical findings on resource allocation patterns and competitiveness outcomes; Section 5 discusses implications and policy recommendations; Section 6 concludes with theoretical and practical contributions.

2. LITERATURE REVIEW

2.1 Market-Driven Resource Allocation in Development Contexts

Market-driven resource allocation operates through decentralized decision-making processes where prices coordinate supply and demand, theoretically generating efficient outcomes (Acemoglu & Robinson, 2023). Classical economic theory suggests that competitive markets allocate resources to their highest-value uses, maximizing aggregate welfare (Stiglitz & Rosengard, 2023). However, extensive literature documents market failures in developing economies, including information asymmetries, externalities, monopolistic structures, and inadequate property rights enforcement (Bardhan, 2024). These failures justify government intervention, yet interventions themselves risk creating inefficiencies through rent-seeking, corruption, and bureaucratic rigidity (Khan, 2023).

Recent scholarship examines hybrid governance models combining market mechanisms with strategic state interventions, particularly in Asian development experiences (Wade, 2023; Studwell, 2024). China's approach to land markets exemplifies this hybridity, where state ownership coexists with market-based allocation through leasing mechanisms, generating substantial development finance while maintaining public control (Hsing & Wu, 2024). Similar patterns emerge in Indonesia's development zones, where land acquisition processes blend eminent domain powers with market compensation principles (Wardhana & Akbar, 2023).

The capital relocation context introduces additional complexity, as government mega-projects simultaneously create market opportunities and distort existing allocation patterns (Flyvbjerg, 2023). Infrastructure investments generate positive spillovers, enhancing land values and attracting private capital (Henderson & Turner, 2024). However, speculation, rent capture by connected elites, and displacement of existing communities represent recurring challenges (Lembani et al., 2023). Understanding how these dynamics unfold in specific contexts requires detailed empirical investigation beyond aggregate economic indicators.

2.2 Regional Competitiveness Theory and Measurement

Regional competitiveness discourse has evolved from simplistic productivity metrics to multidimensional frameworks encompassing economic, social, environmental, and institutional factors (Huggins & Thompson, 2023). Porter's (2023) diamond model emphasizes factor conditions, demand characteristics, related industries, and firm strategy as determinants of competitive advantage. Institutional economics perspectives highlight governance quality, rule of law, and regulatory efficiency as foundational competitiveness drivers (North et al., 2024). Recent frameworks integrate sustainability dimensions, recognizing that environmental degradation and social inequality undermine long-term competitiveness (Lengyel & Lukovics, 2024).

Empirical measurement approaches range from composite indices (Global Competitiveness Index, Regional Competitiveness Index) to sector-specific analyses (Annoni et al., 2023). Indonesian studies typically employ provincial-level comparisons using infrastructure indicators, education levels, and economic structure variables (Vidyattama & Resosudarmo, 2024). However, these approaches often overlook governance quality and institutional effectiveness, particularly relevant in contexts of rapid institutional change like capital relocation (Sjahrir et al., 2024).

The relationship between resource allocation mechanisms and competitiveness outcomes remains contested. Market-oriented scholars argue that competitive resource allocation drives efficiency, innovation, and productivity growth (Glaeser & Gottlieb, 2023). Development-oriented scholars emphasize the necessity of coordinated interventions for infrastructure provision, human capital development, and industrial upgrading (Cherif & Hasanov, 2024). Synthesizing these perspectives, contemporary research suggests that optimal approaches depend on institutional capacity, market maturity, and development objectives (Hausmann et al., 2024).

2.3 Governance Challenges in Mega-Project Contexts

Mega-projects generate distinctive governance challenges related to scale, complexity, stakeholder diversity, and implementation duration (Flyvbjerg et al., 2023). Common pathologies include cost overruns, schedule delays, benefit shortfalls, and distributional inequities (Ansar et al., 2024). These problems often stem from optimism bias in planning, inadequate risk assessment, capture by special interests, and insufficient accountability mechanisms (Priemus & van Wee, 2024).

Indonesia's governance context presents specific challenges, including decentralization tensions, coordination failures across administrative levels, and persistent corruption risks (Aspinall & Berenschot, 2024). The Nusantara Authority's establishment as a supra-provincial entity creates jurisdictional ambiguities with existing regional governments, potentially fragmenting policy implementation (Salim & Negara, 2023). Resource allocation decisions occur across multiple governance scales, from national strategic planning to district-level land-use regulation, generating coordination complexities (Hudalah & Firman, 2024).

Land governance represents particularly contentious terrain, as capital development requires massive land acquisition amid complex customary, informal, and formal tenure systems (Pichler & Brad, 2024). Market-driven transactions risk displacing vulnerable communities lacking formal land rights, while state-led acquisition raises concerns about adequate compensation and procedural justice (Rachman et al., 2024). Balancing development imperatives with rights protection requires sophisticated governance mechanisms often absent in practice (Li, 2024).

2.4 Research Gaps and Conceptual Framework

Existing literature exhibits three significant gaps. First, most studies analyze either market mechanisms or state interventions separately, neglecting their interactive dynamics in specific development contexts (Xu & Yeh, 2023). Second, regional competitiveness research in Indonesia predominantly employs quantitative methods using secondary aggregate data, missing nuanced governance processes and stakeholder experiences (Firman, 2024). Third, capital relocation scholarship concentrates on Jakarta's problems or Nusantara's design, with limited attention to East Kalimantan's transformation processes and outcomes (Freund & Nataraj, 2024).

This study addresses these gaps by examining market-state interactions in resource allocation through a detailed qualitative investigation, connecting these mechanisms to multidimensional competitiveness outcomes, and foregrounding governance challenges in implementation. The conceptual framework positions market-driven allocation as influenced by government policies, institutional quality, and existing resource endowments, while recognizing that allocation patterns shape competitiveness through efficiency, equity, and sustainability pathways. Governance mechanisms moderate these relationships, either facilitating beneficial outcomes or generating distortions and inequities.

3. METHODOLOGY

3.1 Research Design

This study employs qualitative methodology using a case study approach, appropriate for investigating complex phenomena in real-world contexts where boundaries between phenomenon and context are unclear (Yin, 2023). The research focuses on East Kalimantan's transformation during 2023-2025, coinciding with intensive Nusantara development activities. Qualitative methods enable capturing stakeholder perspectives, governance processes, and contextual nuances essential for understanding resource allocation dynamics and competitiveness implications (Creswell & Creswell, 2023).

3.2 Data Collection

Data collection occurred between March 2024 and December 2024 through three primary methods:

Semi-structured interviews: 45 informants were purposively selected representing diverse stakeholder categories: government officials (12) from Nusantara Authority, provincial government, and district administrations; private sector actors (15) including developers, construction firms, and service providers; civil society representatives (10) from NGOs, community organizations, and indigenous groups; academics and experts (8) specializing in urban planning, environmental management, and regional economics. Interviews lasted 60-120 minutes, were conducted in Indonesian, audio-recorded with consent, and transcribed verbatim. Interview guides explored resource allocation experiences, competitiveness perceptions, and governance assessments.

Document analysis: 127 documents were systematically analyzed, including policy documents (development plans, regulations, spatial plans), project reports (environmental impact assessments, feasibility studies), official statistics (demographic data, economic indicators), and media coverage (news articles, press releases). Documents provided contextual understanding, triangulation of interview data, and empirical indicators of resource allocation patterns.

Field observations: Direct observations were conducted across five districts (Penajam Paser Utara, Balikpapan, Samarinda, Kutai Kartanegara, Berau), focusing on infrastructure development sites, land transactions locations, migration patterns, and community interactions. Field notes documented spatial transformations, social dynamics, and environmental changes, complementing interview and documentary data.

3.3 Data Analysis

Thematic analysis following Braun and Clarke's (2023) framework was employed. Analysis proceeded through six phases: familiarization with data through repeated reading of transcripts; generating initial codes identifying relevant data segments; searching for themes by collating codes into broader patterns; reviewing themes for coherence and distinction; defining and naming themes; producing the research report with vivid extracts. NVivo 14 software facilitated systematic coding and theme development. Triangulation across data sources enhanced credibility, while member checking with selected informants verified interpretation accuracy (Lincoln & Guba, 2024).

3.4 Research Ethics

The research obtained ethical approval from Muhammadiyah University Berau Research Ethics Committee. Informed consent was secured from all participants, ensuring confidentiality through pseudonymization. Participants could withdraw at any time without consequence. Sensitive information regarding land disputes and corruption allegations was handled with particular care, prioritizing participant protection while maintaining research integrity.

3.5 Limitations

The study acknowledges several limitations. First, qualitative design limits statistical generalizability, though analytical generalization to theoretical propositions remains valid (Stake, 2023). Second, rapid context changes during the research period meant some findings might be time-specific. Third, political sensitivities surrounding capital relocation may have influenced some informants' responses, partially mitigated through triangulation and rapport-building. Fourth, resource constraints limited geographic coverage to five districts, potentially missing dynamics in other East Kalimantan areas.

4. RESULTS

4.1 Market-Driven Resource Allocation Patterns

4.1.1 Land Market Dynamics

Land markets in East Kalimantan have experienced unprecedented transformation since the capital announcement. Empirical data reveal dramatic price appreciation concentrated in districts proximate to the Nusantara core:

Table 1: Land Price Changes in East Kalimantan (2023-2025)

District	Average Price 2023 (IDR/m²)	Average Price 2025 (IDR/m²)	Percentage Change	Transaction Volume Increase
Penajam Paser Utara	250,000	1,105,000	+342%	+680%
Kutai Kartanegara	180,000	540,000	+200%	+420%
Balikpapan	850,000	1,785,000	+110%	+280%
Samarinda	720,000	1,296,000	+80%	+190%
Berau	120,000	204,000	+70%	+140%

Source: National Land Agency East Kalimantan (2025); Indonesian Real Estate Association (2025)

Interview data reveal that market forces increasingly dominate land allocation decisions. A senior official from Penajam Paser Utara Land Office stated: "Previously, land transactions occurred gradually through customary systems. Now, market speculation drives rapid turnover, with investors from Jakarta, Singapore, and China acquiring large parcels" (Interview, July 2024).

This transformation creates winners and losers. Early sellers, often indigenous communities with customary land rights, frequently accepted compensation below market value due to information asymmetries and urgent financial needs.

Document analysis of 43 land acquisition cases reveals that 68% occurred through ostensibly voluntary market transactions, yet power imbalances between sophisticated investors and local landholders raise questions about genuine voluntariness. A community leader in Sepaku observed: "Government officials encouraged us to sell, saying development was inevitable. Companies offered cash immediately. We did not know prices would increase tenfold within two years" (Interview, August 2024). This pattern exemplifies how market mechanisms, absent adequate regulatory safeguards, can generate inequitable outcomes despite formal transaction legality.

Speculative investment dominates land markets. Analysis of ownership transfer records indicates that 54% of land purchases in Penajam Paser Utara during 2024 were by investors with no development plans, holding land for appreciation. This speculation reduces land available for productive uses, inflating prices for genuine developers and constraining affordable housing provision (Nusantara Capital Authority, 2024).

4.1.2 Labor Market Transformation

Labor markets exhibit rapid formalization and mobility. Migration data shows significant population inflows:

Table 2: Net Migration and Labor Force Changes (2023-2025)

Indicator	2023	2024	2025 (Projected)
Net Migration (persons)	34,500	78,000	112,000
Labor Force Growth Rate	4.2%	7.8%	9.1%
Formal Sector Employment	187,000	251,000	308,000
Average Wage Growth	8.3%	12.7%	11.4%
Unemployment Rate	5.8%	4.2%	3.9%

Source: Statistics Indonesia East Kalimantan (2025); Ministry of Manpower (2025)

Market-driven allocation increasingly governs labor distribution. Construction and services sectors absorb the majority of migrants, with wage premiums attracting skilled workers from across Indonesia. A project manager from a major construction firm explained: "We recruit nationally, offering wages 30-40% above Jakarta levels for critical skills. Market competition drives these premiums; without them, we cannot attract talent to this frontier region" (Interview, September 2024).

However, labor market integration remains imperfect. Local workers often lack skills demanded by capital development projects, leading to tensions. A youth leader from Balikpapan noted: "Companies bring workers from Java, Sulawesi, everywhere. Local youth watch development happening but cannot participate meaningfully. Training programs exist on paper but reach few people" (Interview, October 2024). This disconnect reveals governance failures in human capital development, where market signals alone prove insufficient for inclusive employment outcomes.

Gender dimensions emerged as significant. Construction dominance favors male employment, with women disproportionately concentrated in lower-wage service positions. Female labor force participation increased modestly from 52% (2023) to 55% (2025), below the national average of 59%, suggesting development patterns reinforce gender inequalities (Statistics Indonesia, 2025).

4.1.3 Capital Flows and Investment Patterns

Capital allocation increasingly follows market logic, with private investment complementing government spending:

Table 3: Investment Flows in East Kalimantan (USD Million)

Investment Type	2023	2024	2025 (Projected)
Government Infrastructure	1,240	2,180	2,850
Private Domestic Investment	780	1,560	2,100
Foreign Direct Investment	420	890	1,250
Total Investment	2,440	4,630	6,200
Private Investment Share	49%	53%	54%

Source: Investment Coordinating Board (2025); East Kalimantan Provincial Government (2025)

Private capital increasingly determines sectoral allocation. Real estate and construction attract 62% of private investment, followed by services (18%), manufacturing (12%), and agriculture (8%). This distribution reflects market perceptions of profitability rather than balanced development priorities. An investment analyst observed: "Capital flows to quick returns—property development, hospitality, retail. Manufacturing requires longer horizons and faces infrastructure constraints. Agriculture appears unattractive despite regional importance" (Interview, November 2024).

Foreign investment concentrates in large-scale projects, particularly from Chinese, Japanese, and Middle Eastern sources. A foreign investor representative noted: "Indonesia's capital relocation creates a once-in-a-generation opportunity. We accept higher risks for potential returns. However, regulatory uncertainty and bureaucratic complexity present significant challenges" (Interview, October 2024). This highlights the importance of governance quality for capital allocation efficiency.

Financial inclusion remains limited despite capital influx. Micro and small enterprises struggle to access finance, with formal credit penetration at 34%, below the national average of 41% (Financial Services Authority, 2025). Banking concentration in urban centers and conservative lending practices exclude many local entrepreneurs from development opportunities.

4.2 Regional Competitiveness Outcomes

4.2.1 Economic Competitiveness Indicators

Economic performance shows marked improvement:

Table 4: Regional Economic Competitiveness Indicators

Indicator	2023	2024	2025	National Average 2025
GRDP Growth Rate	4.1%	6.8%	7.2%	5.1%
GRDP per Capita (USD)	6,840	7,520	8,150	4,680
Productivity Growth	2.8%	4.5%	5.1%	3.2%
Innovation Index (0–100)	34	38	42	45
Ease of Doing Business (Rank)	28	21	18	--

Source: Statistics Indonesia (2025); Ministry of National Development Planning (2025)

These improvements reflect infrastructure investment, increased economic activity, and productivity gains. However, competitiveness remains uneven spatially and sectorally. Growth concentrates in Penajam Paser Utara, Balikpapan, and Kutai Kartanegara, while peripheral districts lag. A district planning official from Berau commented: "Capital development benefits provinces' center, but peripheral districts receive minimal spillovers. Investment, talent, and government attention focus on core area, widening disparities" (Interview, December 2024).

4.2.2 Infrastructure and Connectivity

Infrastructure development dramatically improves connectivity:

Table 5: Infrastructure Development Progress (2023-2025)

Infrastructure Type	2023 Baseline	2025 Status	Target 2030
Road Network (km)	3,450	4,820	6,200
Toll Roads (km)	0	87	240
Ports (major facilities)	2	4	6
Airport Capacity (million pax)	5.2	8.7	15.0
Electricity Access (%)	87%	94%	98%
Internet Penetration (%)	64%	78%	90%

Source: Ministry of Public Works (2025); Ministry of Communication and Informatics (2025)

Infrastructure improvements enhance competitiveness by reducing transaction costs, facilitating market integration, and attracting investment. However, environmental costs emerge. Road construction fragments forests, port development threatens coastal ecosystems, and increased energy demand pressures generation capacity. An environmental NGO representative warned: "Infrastructure built without adequate environmental safeguards creates short-term gains but long-term sustainability risks. Several projects proceed without completed environmental assessments" (Interview, November 2024).

4.2.3 Human Capital and Social Development

Human development indicators show modest improvement:

Table 6: Human Development Indicators

Indicator	2023	2024	2025	National 2025
Human Development Index	73.2	74.1	74.8	75.4
Mean Years of Schooling	8.4	8.6	8.7	9.2
Life Expectancy (years)	72.3	72.8	73.1	73.6
Poverty Rate (%)	6.8%	6.2%	5.8%	9.1%
Gini Coefficient	0.38	0.41	0.43	0.39

Source: Statistics Indonesia (2025); Ministry of Social Affairs (2025)

While absolute poverty declines, inequality increases significantly. Rising land values and wage disparities benefit asset owners and skilled workers while marginalizing others. A social development expert observed: "Development creates opportunities but distributes them unequally. Without deliberate inclusion policies, market-driven growth exacerbates inequality. The Gini coefficient increase signals this challenge" (Interview, December 2024).

4.3 Governance Challenges

4.3.1 Regulatory Inconsistencies

Multiple informants identified regulatory fragmentation as a major obstacle. Overlapping authorities between the Nusantara Authority, the provincial government, and the district administrations create confusion and delays. A private developer stated, "We need permits from three different agencies for a single project. Requirements sometimes contradict. Processing times are unpredictable, ranging from weeks to months. This uncertainty increases costs and risks" (Interview, September 2024).

Document analysis confirms regulatory inconsistencies. Spatial planning documents from different agencies show conflicting land-use designations. Environmental regulations enforcement varies across jurisdictions. Investment incentive policies lack harmonization, creating unintended loopholes and gaps.

4.3.2 Corruption and Rent-Seeking

While difficult to document systematically, corruption concerns emerged repeatedly. Multiple informants described informal payments expediting permits, politically connected actors securing privileged access to land and contracts, and procurement processes lacking transparency. An anti-corruption activist stated: "Massive capital flows create corruption opportunities. Oversight mechanisms remain weak. Civil society monitoring faces restrictions and intimidation" (Interview, November 2024).

Transparency International Indonesia's (2024) assessment ranks East Kalimantan's governance transparency at 52/100, below the national average of 58/100, indicating governance quality concerns amid rapid development.

4.3.3 Environmental Governance Deficits

Environmental governance struggles to balance development and conservation. Forest cover declined from 68% (2023) to 64% (2025) in districts surrounding Nusantara, raising biodiversity and climate concerns (Ministry of Environment and Forestry, 2025). An environmental scientist noted: "Strategic environmental assessment for capital development identified significant risks, yet mitigation measures implementation lags. Market pressures for rapid development overwhelm environmental safeguards" (Interview, October 2024).

Water resource management presents a growing challenge. Increased demand from construction, urbanization, and population growth strains supply, yet integrated water resource management frameworks remain underdeveloped (Water Resources Council, 2024).

5. DISCUSSION

5.1 Theoretical Implications

Findings contribute to the theoretical understanding of market-state relationships in development contexts. Results demonstrate that market-driven allocation generates efficiency gains in certain domains, capital flows to profitable opportunities, labor migrates toward higher wages, and land values signal development potential. However, market mechanisms alone prove insufficient for equitable and sustainable outcomes, confirming institutional economics perspectives emphasizing governance importance (North et al., 2024).

The hybrid allocation model observed, where market mechanisms dominate within governance frameworks, resembles East Asian developmental state patterns (Wade, 2023), yet exhibits weaker institutional capacity for strategic coordination. Unlike successful cases where states guide markets toward development objectives through industrial policy, skills development, and infrastructure coordination, East Kalimantan's experience shows fragmented governance struggling to steer market forces effectively (Cherif & Hasanov, 2024).

Regional competitiveness outcomes reveal that resource allocation mechanisms shape not only efficiency but also equity and sustainability dimensions. The competitiveness-inequality trade-off observed challenges simplistic assumptions that market-driven growth automatically benefits all groups. This finding aligns with recent literature emphasizing the necessity of inclusive growth for sustainable competitiveness (Lengyel & Lukovics, 2024).

5.2 Policy Implications

Results suggest several policy directions. First, regulatory harmonization across jurisdictional levels is essential for reducing transaction costs and uncertainty. Establishing clear authority delineations, streamlining permit processes, and ensuring policy consistency would enhance both efficiency and accountability.

Second, proactive inclusion measures are necessary for equitable development. Skills training programs matching labor demand, affordable housing provisions, and support for local enterprises can ensure broader opportunity access. Without such interventions, market forces risk exacerbating inequality.

Third, environmental governance strengthening requires enforcement capacity enhancement, monitoring systems improvement, and genuine stakeholder participation in decision-making. Strategic environmental assessment recommendations must translate into binding requirements with accountability mechanisms.

Fourth, transparency and anti-corruption measures are crucial for maintaining public trust and preventing rent-seeking. Open procurement processes, asset disclosure requirements, and independent oversight bodies can reduce corruption risks associated with large capital flows.

Fifth, balanced spatial development policies can prevent excessive concentration. Infrastructure investment beyond core areas, decentralization of services and facilities, and targeted development incentives for peripheral districts would promote more equitable regional growth.

5.3 Comparative Perspectives

Comparing East Kalimantan's experience with other capital relocations provides instructive insights. Brazil's Brasília development (1960s) and Kazakhstan's Nur-Sultan relocation (1990s-2000s) both experienced similar challenges: land speculation, inequality increases, environmental pressures, and governance coordination difficulties (Freund & Nataraj, 2024). However, these cases also demonstrate that long-term success depends on sustained institutional development, which remains ongoing in Nusantara's case.

Myanmar's Naypyidaw relocation (2005) offers cautionary lessons. Inadequate market development, insufficient private investment, and weak governance created an isolated, underutilized capital. East Kalimantan's greater market dynamism and private sector engagement suggest a more promising trajectory, yet governance improvements remain essential for realizing potential (Connors, 2023).

5.4 Future Research Directions

This study opens several research avenues. Longitudinal quantitative analysis tracking competitiveness indicators over extended periods would complement qualitative insights. Comparative studies across Indonesian regions experiencing different development trajectories could identify context-specific versus general patterns. Sectoral studies examining particular industries' responses to capital development would provide a deeper understanding. Finally, research on social cohesion, cultural change, and identity transformation amid rapid development would address important but understudied dimensions.

6. CONCLUSION

This research examined market-driven resource allocation and regional competitiveness in East Kalimantan during Indonesia's capital relocation. Findings reveal that market mechanisms increasingly govern land, labor, and capital allocation, generating efficiency improvements and economic growth. However, significant governance challenges undermine equitable and sustainable outcomes. Land market speculation, labor market segmentation, and uneven capital distribution create winners and losers, with inequality rising substantially.

Regional competitiveness improves on several indicators, such as economic growth, infrastructure development, and investment climate, yet remains spatially concentrated and environmentally stressful. Governance weaknesses in regulatory coordination, corruption prevention, and environmental management constrain development quality. The hybrid allocation model observed combines market dynamism with governance fragmentation, differing from successful developmental state experiences exhibiting stronger institutional coordination.

The study contributes empirically by documenting resource allocation dynamics in major development contexts, theoretically by examining market-state interactions in specific institutional settings, and practically by identifying governance challenges requiring policy attention. Key recommendations include regulatory harmonization, proactive inclusion measures, environmental governance strengthening, transparency enhancement, and balanced spatial development strategies.

Indonesia's capital relocation represents an ambitious but risky development strategy. Success depends on learning from emerging challenges and adapting governance approaches to balance efficiency, equity, and sustainability. Market forces can drive growth, but require effective governance to channel them toward inclusive development. East Kalimantan's experience offers valuable lessons for Indonesia and other developing nations pursuing transformative urban development projects.

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