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BEYOND NUSANTARA: ASSESSING THE CROSS-BORDER ECONOMIC SPILLOVER EFFECTS OF INDONESIA'S NEW CAPITAL ON SARAWAK, MALAYSIA

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Abstract: *Indonesia's decision to relocate its national capital from Jakarta to Ibu Kota Nusantara (IKN) in East Kalimantan is reshaping the development landscape of Borneo. While much of the discussion has focused on the implications for Indonesia, the project also raises an important question for neighbouring Sarawak: under what conditions can a major investment and administrative centre in Kalimantan generate meaningful economic benefits across the border? This article examines the potential economic spillovers from IKN to Sarawak, drawing on an interpretivist qualitative case study involving semi-structured interviews with eleven key informants from Malaysia and Indonesia, supported by documentary analysis. The findings point to five interconnected areas of opportunity: energy and resource cooperation; infrastructure, commerce and logistics; industrial and agricultural development; tourism, hospitality and services; and economic governance and regional diplomacy. They also highlight constraints, including uneven infrastructure, institutional coordination, border management, investment readiness and the risk that economic activity may concentrate around IKN and its immediate hinterland rather than extend to Sarawak. The article argues that geographical proximity alone does not guarantee spillover benefits. These benefits are conditional on economic complementarity, accessible transport and border infrastructure, coordinated institutions, private-sector capacity and inclusive development. The article contributes a conditional spillover perspective to research on capital relocation and cross-border regional development and draws policy implications for Sarawak–Kalimantan cooperation.*

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Keywords: *Ibu Kota Nusantara; Sarawak; economic spillover; cross-border regional development; Borneo; Malaysia–Indonesia relations*

Introduction

The relocation of Indonesia's national capital from Jakarta to Ibu Kota Nusantara (IKN), in East Kalimantan, is one of the most consequential development projects in contemporary Southeast Asia. (Bariyah et al., 2012) It is intended to address long-standing pressures associated with Jakarta's concentration of population, economic activity and government functions, while supporting a more balanced pattern of national development. The project is also expected to create a new administrative and economic centre in Kalimantan. (Montague Lord International, 2020) Its implications, however, are unlikely to stop at Indonesia's national or provincial boundaries. (Sparke et al., 2004).

For Sarawak, which shares a land border and longstanding social and economic connections with Indonesian Kalimantan, IKN presents both an opportunity and a strategic challenge. (Bariyah et al., 2012) The project may create demand for energy, construction materials, food, logistics, professional services, tourism and other goods and services. It may also encourage new transport links, investment partnerships and institutional cooperation. (Montague Lord International, 2020) At the same time, these opportunities are not automatic. They depend on whether Sarawak-based firms can compete, whether cross-border infrastructure is sufficiently connected, and whether public agencies can translate political commitments into workable arrangements. (Sparke et al., 2004).

This article examines the potential economic spillover effects of IKN on Sarawak. (Bariyah et al., 2012) It draws on a qualitative study of eleven key informants from Malaysia and Indonesia, together with documentary evidence. The focus is not to claim that IKN has already caused measurable growth in Sarawak. (Montague Lord International, 2020) Rather, it is to understand the channels through which spillovers may occur, the conditions that could enable them, and the constraints that could prevent Sarawak from capturing a fair share of the opportunities. (Sparke et al., 2004).

The article makes three contributions. First, it brings the perspective of a neighbouring Malaysian state into a debate that is often centred on Indonesia's domestic development. Second, it organises the potential spillovers into five connected economic sectors and links them to governance and connectivity conditions. Third, it advances a conditional spillover argument: proximity to a new growth centre creates potential, but the conversion of potential into durable local benefits depends on complementary capabilities and institutions. It also situates the discussion within wider subregional cooperation, particularly BIMP-EAGA, whose 2035 guiding framework places emphasis on connectivity, trade facilitation, energy, tourism and inclusive development (BIMP-EAGA, 2025) (Sparke et al., 2004). This provides a policy context for assessing whether bilateral opportunities can be connected to an established regional cooperation architecture. (Creswell & Poth, 2018).

The remainder of the article is organised as follows. Section 2 reviews relevant literature and develops the analytical framework. Section 3 explains the research design. Section 4 presents the findings. Section 5 discusses the conditions under which spillovers may be realised. Section 6 outlines policy implications, and Section 7 concludes. (Creswell & Poth, 2018).

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Literature Review and Analytical Framework

Capital Relocation and Regional Development

Capital relocation is commonly presented as a national strategy to address spatial imbalance, relieve pressure on an existing metropolitan centre and stimulate development in a less-developed region. (Moser, 2010) Yet the establishment of a new capital does not automatically produce balanced growth. (Syaban & Appiah-Opoku, 2023) New public investment can generate demand, employment and infrastructure, but the scale and distribution of benefits depend on the strength of local supply chains, the availability of skills, the quality of institutions and the relationship between the new capital and surrounding regions. (Yumasdaleni et al., 2025).

Capital relocation should also be understood as a form of state-led spatial restructuring. (Moser, 2010) The decision to move administrative functions can redirect public expenditure, infrastructure investment and the location of political authority, but the resulting regional effects are mediated by existing settlement patterns, labour markets and productive networks. (Syaban & Appiah-Opoku, 2023) The legal establishment of Nusantara under Indonesia's Law No. 3 of 2022, subsequently amended by Law No. 21 of 2023, provides the institutional basis for the project and sets out the special governance arrangements for its development (Republic of Indonesia, 2022, 2023). These laws establish the policy and administrative framework; they should not, by themselves, be treated as evidence that the intended economic transformation has already occurred. (Yumasdaleni et al., 2025).

From a regional-development perspective, the relevant question is therefore not simply whether public investment is relocated, but how the new investment is connected to surrounding economies. (Moser, 2010) A capital project can stimulate construction demand and public procurement in its immediate vicinity while generating weaker effects in more distant regions. The extent of the multiplier effect depends on whether local firms can supply the goods and services required, whether workers possess relevant skills, and whether procurement systems allow local and cross-border suppliers to participate. (Yusuf et al., 2023) Where these linkages are weak, a large project may operate as an enclave, with imported inputs and specialised services limiting the circulation of benefits within the wider region. (Bluhm et al., 2026).

In the case of IKN, the intended transformation extends beyond the construction of government buildings. (Moser, 2010) The official development narrative includes a smart and sustainable city, low-carbon energy, clean technology, sustainable agriculture, pharmaceuticals, ecotourism, health tourism and downstream industries. These priorities create possible areas of connection with Sarawak's economic base. (Yusuf et al., 2023) However, the existence of an announced cluster or investment priority should not be interpreted as evidence that cross-border contracts or trade have already materialised. (Bluhm et al., 2026).

Comparative experience also cautions against treating a new administrative capital as an automatic engine of national or regional convergence. (Moser, 2010) The relocation of administrative functions can create construction demand and stimulate public-sector services, but the durability of these effects depends on whether private investment, employment opportunities and productive linkages follow. (Syaban & Appiah-Opoku, 2023) Syaban and Appiah-Opoku (2023) identify economic, political, environmental and institutional challenges in Indonesia's capital relocation, reinforcing the need to assess IKN as a long-term transformation process rather than a single construction project.

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New Economic Geography and Agglomeration

New Economic Geography (NEG) offers a useful starting point for understanding why a new capital may affect nearby regions. (Krugman, 1991) Krugman (1991) explains how economies of scale, transport costs and market size can encourage firms and workers to cluster in particular locations. Such agglomeration can create a core region that attracts investment, labour and services, while peripheral areas may benefit through market access and supplier relationships—or may lose activity if resources are drawn towards the core. (Koster & Thisse, 2024).

NEG is particularly relevant because it explains how market access and production costs interact with increasing returns. Lower transport costs can encourage firms to serve a larger market from neighbouring locations, but they can also strengthen the attraction of the largest centre by making it easier for firms to supply that centre directly. The same improvement in connectivity may therefore produce either a spreading effect, in which surrounding regions gain access to new demand, or a backwash effect, in which capital, labour and business services are drawn towards the core. (Koster & Thisse, 2024) This dual possibility cautions against if infrastructure improvements will benefit all places equally. (Bluhm et al., 2026).

An important implication is that the geographical scale of analysis matters. IKN should not be considered in isolation from its surrounding economic hinterland, including Balikpapan, Samarinda and other parts of East Kalimantan. Sarawak's potential position will depend on whether it can connect to this wider network rather than relying solely on direct links to the administrative centre. (Koster & Thisse, 2024) This reinforces the need to analyse transport corridors, procurement networks and sectoral complementarities at the subregional level. (Bluhm et al., 2026).

Applied to IKN, this perspective suggests two possible outcomes for Sarawak. In a positive scenario, Sarawak firms become suppliers to the new capital and its surrounding economy, while improved connectivity reduces the cost of cross-border trade. In a less favourable scenario, investment and skilled labour concentrate in East Kalimantan, and Sarawak remains a distant supplier with limited local value capture. (Koster & Thisse, 2024) The direction of the effect is therefore an empirical and policy question, not a foregone conclusion. (Bluhm et al., 2026).

The agglomeration process may generate both positive externalities and distributional pressures. (Krugman, 1991) Firms located close to a growing market can benefit from shared infrastructure, specialised labour and knowledge exchange; however, these advantages can also reinforce the dominance of the core location. (Koster & Thisse, 2024) The inter-regional modelling by Yusuf et al. (Bluhm et al., 2026) illustrates that capital relocation may substantially alter the economic structure of the host region, including the relative importance of services and the skill composition of employment.

Cross-Border Regional Integration

Cross-border regional development depends on more than geographical proximity. (Bariyah et al., 2012) It requires transport links, predictable border procedures, compatible regulations, business networks and institutions capable of coordinating activity across jurisdictions. (Montague Lord International, 2020) Research on the Sarawak–West Kalimantan border has identified the importance of trade flows and value-chain opportunities in sectors such as tourism, education and training, agriculture, fisheries, wood products and manufacturing (Bariyah et al., 2012) (Montague Lord International, 2020). This work provides a relevant

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foundation for considering how IKN could change the scale and direction of economic interaction across Borneo. (Sparke et al., 2004).

Existing evidence from the Sarawak–West Kalimantan border demonstrates that cross-border economic relations pre-date IKN. (Bariyah et al., 2012), examining trade flows through the Tebedu customs district, identify a long-run relationship between bilateral trade flows and discuss the sustainability of the trade relationship. More recent value-chain work has identified potential cooperation in medical tourism, higher education and technical and vocational education and training (TVET), tourism, rubber, wood products, palm oil, fisheries, alumina and bauxite, and shipbuilding (Montague Lord International, 2020). These studies are important because they show that the region already possesses cross-border economic connections and sectoral opportunities. (Montague Lord International, 2020) IKN may alter the scale or direction of demand, but it is not the origin of Sarawak–Kalimantan economic integration. (Sparke et al., 2004).

Subregional cooperation frameworks can provide an institutional platform for converting these connections into projects. (Bariyah et al., 2012) The 16th BIMP-EAGA Summit reaffirmed the importance of connectivity, trade facilitation, energy cooperation, tourism, agriculture and inclusive development, and adopted the BIMP-EAGA Vision 2035 guiding framework (BIMP-EAGA, 2025). Although BIMP-EAGA is broader than the IKN–Sarawak relationship, its priorities are directly relevant to the enabling environment for cross-border commerce. (Montague Lord International, 2020) In particular, the emphasis on transport infrastructure, customs, immigration, quarantine and security procedures, and the participation of micro, small and medium-sized enterprises offer a practical regional framework for cooperation. (Sparke et al., 2004).

Regional integration is not necessarily even. (Bariyah et al., 2012) Differences in infrastructure, administrative capacity, market size and regulatory systems can shape who benefits. Border communities may experience new employment and market opportunities, but they may also face rising costs, migration pressures and uneven access to services. A balanced analysis must therefore consider both growth opportunities and the distribution of their benefits. (Sparke et al., 2004). The BIMP-EAGA framework is relevant because it already identifies connectivity, trade facilitation, energy infrastructure and the participation of small and medium-sized enterprises as priorities for subregional integration. (Bariyah et al., 2012) Its connectivity agenda emphasises multimodal transport, improved border facilities and stronger links between trade, investment, tourism and agribusiness (BIMP-EAGA, n.d.-a). Its trade-facilitation agenda also recognises the importance of coordinated customs, immigration, quarantine and security procedures, including digitalisation and risk-based management (BIMP-EAGA, n.d.-b). These priorities provide an institutional platform through which Sarawak–Kalimantan initiatives could be developed. (Montague Lord International, 2020).

Analytical Framework: Conditional Economic Spillovers

Building on NEG and cross-border regional integration, this article treats economic spillovers as potential effects transmitted from IKN to Sarawak through five channels: (1) energy and resource cooperation; (2) infrastructure, commerce and logistics; (3) industry and agriculture; (4) tourism, hospitality and services; and (5) economic governance and regional diplomacy. These channels are shaped by four enabling conditions: physical connectivity, institutional coordination, private-sector readiness and local absorptive capacity. (Koster & Thisse, 2024). The framework also recognises that spillovers can be positive, negative or spatially uneven.

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Positive spillovers may include increased exports, new investment, technology transfer, employment and knowledge exchange. Negative or adverse effects may include competition for skilled labour, environmental pressure, congestion, rising land and housing costs, and the displacement of smaller local businesses. (Koster & Thisse, 2024) These effects may occur simultaneously and may be distributed differently across firms, workers and communities. Accordingly, the analysis does not equate increased cross-border transactions with improved welfare; it considers who participates, where value is added and how benefits and costs are distributed. (Sparke et al., 2004).

The framework distinguishes between opportunity, transmission and local capture. Opportunity refers to new demand and investment generated by IKN. Transmission concerns the mechanisms through which that demand reaches Sarawak, such as contracts, trade, transport routes, labour mobility or joint ventures. (Koster & Thisse, 2024) Local capture refers to the extent to which Sarawak retains value through employment, local procurement, technology transfer, tax revenue and stronger domestic firms. This distinction helps avoid treating announcements or geographic proximity as proof of realised economic benefit. (Sparke et al., 2004).

The framework also draws attention to the difference between gross cross-border activity and net developmental benefit. A rise in trade may increase business turnover, yet the local economic contribution can remain limited if imported inputs dominate, profits are repatriated, local workers occupy only low-wage positions or environmental costs are borne by border communities. (Koster & Thisse, 2024) The distributional dimension is particularly important in light of recent research on the host region. (Sparke et al., 2004).

Research Methodology

The article draws on an interpretivist qualitative exploratory case study examining the potential economic and regional implications of IKN for Sarawak. (Creswell & Poth, 2018) A qualitative design was appropriate because the study sought to understand stakeholder assessments, institutional relationships and possible pathways of cross-border cooperation rather than estimate a causal economic effect. (Yin, 2018). Primary data were collected through semi-structured elite interviews with eleven key informants from Malaysia and Indonesia. (Creswell & Poth, 2018) The informants represented a range of perspectives, including policymakers, government officials, academics, industry experts and community representatives. Purposive sampling was used to identify individuals with relevant knowledge or experience, while snowball sampling helped identify additional participants. The interviews were supported by documentary analysis of government policies, strategic plans, official reports and academic literature. (Yin, 2018).

To strengthen analytical transparency, the interviews should be understood as evidence of stakeholder perceptions and interpretations rather than as a representative survey of businesses or residents. (Creswell & Poth, 2018) The use of purposive and snowball sampling is consistent with an exploratory qualitative design in which participants are selected for their knowledge of the issue and access to relevant institutional or sectoral experience (Creswell & Poth, 2018). Nevertheless, the small number of informants means that the findings should be interpreted as indicative and context-specific. The article therefore avoids generalising the views of eleven participants to all Malaysian or Indonesian stakeholders. (Yin, 2018). The data were analysed thematically, with narrative analysis used to consider how participants explained the relationship between IKN, Sarawak and wider developments in Borneo. (Braun & Clarke,

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2006) NVivo 14 was used as an aid to organising and managing qualitative material. The analysis focused on recurring themes relating to smart and sustainable development, economic sectors, security and institutional arrangements. The findings are presented as stakeholder-informed interpretations of potential spillover pathways. (Creswell & Poth, 2018).

For thematic analysis, the analytical process involved identifying recurring patterns across interview narratives and documentary materials, grouping related observations into broader categories, and interpreting the relationships between the themes and the study's conceptual framework. (Braun & Clarke, 2006) Thematic analysis is suitable for identifying patterned meaning across qualitative material while allowing the researcher to retain sensitivity to context and differences between participants (Braun & Clarke, 2006). NVivo 14 served as a data-management and coding aid; the software itself did not determine the interpretation. To enhance trustworthiness, the final submission should ensure that the coding framework, interview record and documentary evidence can be traced to the themes reported in the article. (Creswell & Poth, 2018).

Ethical approval for the underlying research was obtained through the relevant research ethics process at Universiti Teknologi MARA (UiTM). (Creswell & Poth, 2018) Participation was conducted in accordance with the applicable institutional ethical requirements. The identities of informants are not disclosed in this article, and any quotations reproduced from the thesis should be checked against the original interview transcripts before journal submission. (Yin, 2018). Several limitations should be recognised. (Creswell & Poth, 2018) The study is based on eleven key informants and does not claim statistical representativeness. It captures perceptions and expectations at a particular stage in the development of IKN, a project that remains ongoing. It also focuses on Sarawak rather than undertaking a systematic comparison with Sabah, Brunei Darussalam or other parts of Kalimantan. Accordingly, the findings identify plausible pathways and conditions; they do not establish that IKN has caused specific changes in Sarawak's trade, investment or output. (Yin, 2018).

The case-study strategy is suited to an emerging policy process in which institutional intentions, stakeholder expectations and commercial arrangements are still evolving. (Creswell & Poth, 2018) The use of multiple evidence sources allows interview accounts to be considered alongside policy documents and published economic information. In interpreting the material, the study distinguishes three levels of evidence: (a) statements made by informants about perceived opportunities or constraints; (b) documentary evidence about formal policy priorities and institutional arrangements; and (c) contextual economic indicators describing Sarawak's sectoral structure. (Yin, 2018).

Findings

Energy and Resource Cooperation

Energy emerged as one of the most significant areas of potential cooperation. (Nusantara Capital Authority, n.d.) Sarawak's economic scale and sectoral profile provide a useful starting point for assessing this opportunity. DOSM reported that Sarawak's GDP reached RM153.5 billion in 2025, with real growth of 3.6 per cent (Department of Statistics Malaysia [DOSM], 2026). Mining and quarrying grew by 2.7 per cent, while construction expanded by 10.9 per cent. These figures point to an economy with an established resource base and an active infrastructure cycle—both relevant to the energy and supporting-services demand that may accompany IKN's development. They do not, however, demonstrate that IKN has generated

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additional demand for Sarawak's energy. (Yusuf et al., 2023) That link remains a potential channel to be tested through future trade, contract and investment data. The interviews suggest that cooperation could extend beyond electricity supply to renewable energy, technical services, energy infrastructure, industrial inputs and knowledge exchange. Long-term benefits will depend on commercial terms, transmission and transport infrastructure, regulatory clarity and the extent to which Sarawak-based firms and workers participate. (BIMP-EAGA, n.d.-a).

At the same time, energy cooperation requires careful attention to the distinction between technical potential and commercially deliverable supply. (Nusantara Capital Authority, n.d.) Electricity exports, renewable-energy projects and industrial energy partnerships depend on generation capacity, grid interconnection, transmission losses, pricing arrangements, licensing and long-term offtake commitments. The existence of a strong energy sector in Sarawak does not automatically establish that electricity can be transmitted economically to IKN or that Indonesian demand will be met through Sarawak-based supply. (Yusuf et al., 2023) Feasibility therefore requires bilateral technical studies and transparent commercial arrangements before projected benefits can be counted as realised spillovers. (BIMP-EAGA, n.d.-a).

The interviews also point to the importance of treating energy cooperation as a regional economic relationship rather than a one-way supply arrangement. (Nusantara Capital Authority, n.d.) Long-term benefits for Sarawak would depend on commercial terms, infrastructure investment, regulatory clarity and the extent to which local firms and workers participate. (Yusuf et al., 2023) Energy projects should therefore be assessed not only by the volume of supply but also by their contribution to local capability, employment and industrial development. (BIMP-EAGA, n.d.-a).

A further dimension concerns the transition from resource supply towards higher-value energy services. (Nusantara Capital Authority, n.d.) Sarawak's potential contribution may include engineering support, maintenance, grid-related expertise, renewable-energy development and technical training, rather than electricity or raw materials alone. (Yusuf et al., 2023) This broader approach is consistent with BIMP-EAGA's emphasis on energy infrastructure, renewable-energy cooperation and improved energy access across the subregion (BIMP-EAGA, n.d.-a). However, any proposed cross-border energy arrangement would require detailed assessment of generation capacity, transmission infrastructure, pricing, licensing, reliability and environmental safeguards. (BIMP-EAGA, n.d.-a).

Infrastructure, Commerce and Logistics

The development of IKN creates a potential market for construction, transport, logistics, warehousing and related services. (Department of Statistics Malaysia, 2026) Sarawak's construction sector recorded real growth of 10.9 per cent in 2025, while the state's overall GDP reached RM153.5 billion (DOSM, 2026). This provides evidence of an existing economic base and construction activity that may help position Sarawak firms to compete for regional opportunities. It should not be read as evidence that IKN caused Sarawak's construction growth. (BIMP-EAGA, n.d.-a) The commercial connection will depend on whether firms can meet Indonesian procurement requirements, deliver at competitive cost and move goods efficiently across the border. The findings suggest that connectivity is decisive: a nearby market may remain commercially distant if transport routes are incomplete, border clearance is slow or regulations are difficult to navigate. Reliable infrastructure and coordinated customs procedures can reduce transaction costs and make cross-border supply chains more viable. (Montague Lord International, 2020).

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The commercial geography of IKN also needs to be considered alongside the wider Kalimantan transport network. (Department of Statistics Malaysia, 2026) A firm's ability to supply a project is shaped not only by the distance between its premises and the buyer, but also by road quality, freight availability, warehousing, border opening hours, customs procedures and the reliability of delivery schedules. (BIMP-EAGA, n.d.-a) Research on cross-border value chains in the Sarawak–West Kalimantan area highlights the importance of identifying specific sectoral projects and the logistical arrangements required to make them viable (Montague Lord International, 2020). This supports a project-based approach in which each proposed supply relationship is assessed for cost, volume, standards and delivery reliability. (Montague Lord International, 2020).

The findings suggest that connectivity is a decisive factor. (Department of Statistics Malaysia, 2026) A nearby market may remain commercially distant if transport routes are incomplete, border clearance is slow or regulations are difficult to navigate. Conversely, reliable infrastructure and coordinated customs procedures can reduce transaction costs and make cross-border supply chains more attractive. (BIMP-EAGA, n.d.-a) For Sarawak, the challenge is to connect its internal transport network and border gateways to the emerging economic geography of Kalimantan. (Montague Lord International, 2020). Logistics performance should therefore be understood as a complete journey rather than a simple measure of road distance. (BIMP-EAGA, n.d.-a) The relevant cost includes inland transport, handling, storage, customs documentation, inspection, border waiting time and onward distribution to the final buyer. (Department of Statistics Malaysia, 2026) A weakness at any point can reduce the competitiveness of a supplier located relatively close to the market. (BIMP-EAGA, n.d.-a) BIMP-EAGA's connectivity priorities explicitly link transport infrastructure with trade facilitation and investment promotion, recognising that physical links and administrative processes must develop together. (Montague Lord International, 2020).

Economic Governance and Regional Diplomacy

A recurring theme across the findings is that the scale of economic benefit will depend on governance. (Nusantara Capital Authority, n.d.) Cross-border opportunities involve multiple levels of government and agencies responsible for trade, transport, energy, immigration, security, investment and local development. (Yusuf et al., 2023) Without coordination, businesses may face fragmented procedures and uncertainty. (BIMP-EAGA, n.d.-a). The study identifies the value of stronger federal–state coordination in Malaysia, sustained engagement with Indonesian counterparts and practical mechanisms for public–private dialogue. (Department of Statistics Malaysia, 2026) Economic diplomacy can help identify projects and resolve barriers, but it must be supported by implementation arrangements, clear agency responsibilities and follow-up. (BIMP-EAGA, n.d.-a) The findings also point to the importance of involving border communities and local businesses so that regional cooperation generates benefits beyond major investors and urban centres. (Montague Lord International, 2020).

Governance arrangements should also recognise the multi-level character of the relationship. (Department of Statistics Malaysia, 2026) The federal governments retain responsibility for many matters relating to foreign affairs, immigration, customs and national security, while state and provincial authorities influence local infrastructure, investment facilitation and community development. A practical cooperation mechanism should therefore clarify which agency is responsible for each issue, establish regular technical meetings and provide a route for resolving operational problems raised by firms. (BIMP-EAGA, n.d.-a) This institutional architecture is

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especially important where policy commitments span different jurisdictions and administrative systems. (Montague Lord International, 2020).

The institutional challenge is partly one of coordination across different levels of government and regulatory systems. (BIMP-EAGA, n.d.-b) Businesses need clear information about licensing, taxation, product standards, procurement eligibility, immigration rules and dispute-resolution procedures. (Department of Statistics Malaysia, 2026) A cross-border mechanism should therefore do more than convene meetings; it should provide a channel for resolving operational problems and communicating regulatory changes to firms. (BIMP-EAGA, n.d.-a) BIMP-EAGA's current trade-facilitation approach, which links customs, immigration, quarantine and security cooperation with digital processes, offers a relevant reference point. (Montague Lord International, 2020).

Security, migration and institutional readiness

Although the research focuses on economic spillovers, the underlying research also identifies security and governance issues that can affect economic performance. (Department of Statistics Malaysia, 2026) These include border and territorial security, migration and demographic change, regional geopolitical dynamics, bilateral cooperation and institutional and technological readiness. These issues are not separate from economic development. (BIMP-EAGA, n.d.-a) Unclear procedures, weak border management or poor coordination can increase costs and uncertainty for legitimate trade and investment. The findings therefore support an integrated understanding of economic and non-traditional security. (Department of Statistics Malaysia, 2026) Effective border management should facilitate legitimate movement while addressing trafficking, smuggling and other transnational risks. (BIMP-EAGA, n.d.-a) The objective is not to securities all cross-border activity, but to create a predictable and safe environment in which communities and businesses can participate. (Montague Lord International, 2020).

Security and economic facilitation should be treated as mutually reinforcing objectives. (Department of Statistics Malaysia, 2026) Effective border management protects communities and legitimate commerce from trafficking, smuggling and other transnational threats, while predictable procedures reduce uncertainty for lawful traders and investors. The objective is proportionate and risk-based facilitation rather than the indiscriminate restriction of cross-border movement. (BIMP-EAGA, n.d.-a) In practice, this requires information-sharing, trained personnel, interoperable procedures where feasible, and accessible guidance for small businesses and border communities. (Montague Lord International, 2020).

Border security and economic facilitation should be designed as mutually reinforcing objectives. (BIMP-EAGA, n.d.-b) Predictable procedures can support legitimate trade and mobility, while intelligence sharing, risk-based inspections and coordinated enforcement can help address smuggling, trafficking and other transnational risks. (Department of Statistics Malaysia, 2026) Excessively complex or inconsistent procedures, by contrast, may raise costs for compliant businesses without necessarily improving security outcomes. (BIMP-EAGA, n.d.-a) The BIMP-EAGA approach recognises this balance by seeking faster and more efficient movement while maintaining safety, security and quarantine standards. (Montague Lord International, 2020).

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Discussion

Proximity Creates Opportunity, Not Guaranteed Spillover

The findings reinforce a central insight from New Economic Geography (NEG): geographical proximity can lower potential transport costs, but it does not by itself determine where firms locate, where investment accumulates or which neighboring regions capture value. In Krugman's (1991) core–periphery model, firms are drawn towards locations offering larger markets, stronger demand linkages and economies of scale. Once activity becomes concentrated, the resulting supplier networks, skilled labour pools and specialised services can reinforce the advantage of the core. For IKN, this creates a plausible centripetal force towards Nusantara and its immediate hinterland. Sarawak may be geographically close to Kalimantan, but it is not automatically integrated into the market networks forming around the new capital. The qualitative findings identify possible channels through which some of this activity could reach Sarawak: energy and resource supply, logistics, agricultural and manufactured products, tourism and professional services. In NEG terms, these are potential interregional linkages. Their strength depends on the balance between transport costs and the benefits of locating within the IKN market. (Koster & Thisse, 2024)

If border procedures, road connections, freight costs or regulatory differences remain significant, Sarawak suppliers may be less competitive than firms located closer to the new capital—even when Sarawak has relevant resources or expertise. Proximity is therefore a necessary geographical condition for some forms of exchange, but it is not a sufficient economic condition for successful spillovers. This interpretation also clarifies the article's contribution. Rather than assuming that capital relocation produces a positive outward diffusion of growth, the findings point to a conditional spillover process. IKN can generate demand, but Sarawak captures a share only when firms can access that demand, compete within its supply chains and retain value locally. The distinction is between the existence of a potential market and the ability to participate in it. (Bluhm et al., 2026).

One further implication of the NEG perspective is that the benefits of a new growth centre may be spatially selective. Firms located close to IKN, or those already embedded in Indonesian procurement and regulatory networks, may enjoy advantages that Sarawak-based firms do not possess. Even when Sarawak producers offer competitive products, the costs of obtaining information, meeting standards, securing permits and delivering goods can weaken their position. (Koster & Thisse, 2024) Thus, the relevant policy objective is not merely to improve physical proximity through roads or ports; it is also to reduce institutional and informational distance. (Bluhm et al., 2026). This distinction is important because the presence of a major project can produce a strong narrative of opportunity before the commercial pathways are established. (Krugman, 1991) The article therefore avoids interpreting IKN's investment commitments or construction progress as evidence of realised spillovers to Sarawak. (Yusuf et al., 2023) Instead, it identifies the mechanisms that could connect the two economies and the conditions that need to be in place. (Syaban & Appiah-Opoku, 2023).

The findings also suggest that the relevant concept is effective proximity rather than geographical proximity alone. Effective proximity is shaped by the time, cost and administrative effort required to connect a producer with a buyer. (Koster & Thisse, 2024) A firm in Sarawak may be geographically closer to a particular Kalimantan market than a supplier elsewhere in Indonesia, yet still be disadvantaged by border formalities, limited freight frequency or unfamiliar procurement rules. (Bluhm et al., 2026).

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The Risk of Core–Periphery Effects

IKN could become a new economic core in eastern Borneo, attracting public investment, skilled labour, suppliers, specialised services and infrastructure. NEG suggests that this concentration may become self-reinforcing: a larger market attracts firms; the arrival of firms deepens the labour pool and supplier base; and those advantages further attract investment. The risk for Sarawak is not simply that it is physically distant, but that the two economies may have asymmetric market sizes and different levels of agglomeration. If IKN and its surrounding growth area develop a deeper concentration of procurement, finance, skilled labour and specialised suppliers, Sarawak firms may find it difficult to compete for contracts or influence the direction of regional value chains. This is a genuine core–periphery risk. Sarawak could supply raw materials, energy or lower-value services while higher-value activities—design, finance, technology, processing, headquarters functions and specialised professional services—remain concentrated in the IKN growth pole. Alternatively, Sarawak could experience the attraction of skilled workers and capital towards the faster-growing centre without securing comparable local investment. The result would be cross-border economic activity without balanced development: trade may increase, but the distribution of value added may remain unequal. (Koster & Thisse, 2024)

Sarawak's own economic scale means that it should not be described as a passive or economically insignificant periphery. DOSM recorded state GDP of RM153.5 billion in 2025 and real growth of 3.6 per cent (DOSM, 2026). This provides a substantial domestic market and productive base from which Sarawak can engage with Kalimantan. Nevertheless, aggregate GDP alone does not establish that Sarawak firms possess the scale, productivity, certification, logistics capacity or specialised skills needed to compete for IKN-related opportunities. The relevant issue is not simply the relative size of the two regional economies, but the distribution of market access, firm capabilities and value-chain functions between them. The findings therefore suggest that Sarawak needs to strengthen its absorptive capacity before the agglomeration advantages of IKN become entrenched. This includes improving supplier capabilities, developing skilled labour, expanding logistics connectivity, supporting technology adoption and ensuring that local firms can participate in procurement and investment partnerships. Without these measures, the new capital may deepen the economic pull of East Kalimantan while producing only limited spillovers across the border. (Bluhm et al., 2026).

The core–periphery relationship should not, however, be framed as inevitable or permanent. Regional outcomes are shaped by policy choices, firm strategies and the capacity of neighbouring jurisdictions to coordinate investment. Sarawak can strengthen its position by developing specialised supplier capabilities, supporting joint ventures, improving workforce skills and identifying niches where its existing strengths complement demand in Kalimantan. (Koster & Thisse, 2024) The objective should be to participate in higher-value functions—such as processing, engineering, logistics management, training and professional services—rather than remain confined to the supply of unprocessed commodities. (Bluhm et al., 2026). This risk highlights the importance of local absorptive capacity. (Krugman, 1991) Sarawak needs firms that can supply at scale, workers with relevant skills, institutions that can support cross-border business and infrastructure that connects producers to markets. (Koster & Thisse, 2024) Without these capabilities, the benefits of proximity may remain modest. (Bluhm et al., 2026).

The risk of uneven development should not be framed solely as competition between Sarawak and East Kalimantan. (Syaban & Appiah-Opoku, 2024) Inequality can also emerge within each territory, between large urban centres and smaller towns, between established companies and

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micro-enterprises, and between skilled and less-skilled workers. (Sukmana & Azizah, 2024) Surti et al. (Yumasdaleni et al., 2025) (2026) find that gains in the districts hosting IKN were accompanied by widening income inequality, illustrating that aggregate growth can coexist with uneven distribution.

Contemporary Context: IKN's Development and Sarawak's Economy

As of 2026, Nusantara remained an active, multi-stage development programme, with construction, investment facilitation and institutional preparation continuing. (BIMP-EAGA, 2025) However, the formal transfer of national-capital functions must be distinguished from physical development: Indonesia's statutory framework was established by Law No. 3 of 2022 and amended by Law No. 21 of 2023, while the Constitutional Court's May 2026 consideration of the legal framework highlighted the role of a presidential decree in the formal transfer process (Constitutional Court of the Republic of Indonesia, 2026) (Republic of Indonesia, 2022, 2023). For this article, the distinction is important because ongoing construction may generate procurement and service demand before the full administrative relocation is completed. (BIMP-EAGA, n.d.-b) The scale and timing of actual demand reaching Sarawak will therefore depend on construction schedules, procurement decisions, operational readiness and supporting infrastructure. (Sparke et al., 2004).

The legal and institutional context also requires careful wording. (Syaban & Appiah-Opoku, 2024) Indonesia's Law No. 3 of 2022 established the legal framework for Nusantara, and Law No. 21 of 2023 amended provisions concerning its governance, land and marine area, investment and financing arrangements (Republic of Indonesia, 2022, 2023). In May 2026, Indonesia's Constitutional Court, in reviewing the statutory framework, addressed the relationship between the legal designation of the capital and the presidential decree required for the transfer of the capital's status (Constitutional Court of the Republic of Indonesia, 2026). This underlines the importance of distinguishing the continuing development of Nusantara as a major project from the formal completion of every legal and administrative step associated with the transfer of national-capital functions. (Sukmana & Azizah, 2024).

Consequently, the economic implications for Sarawak should be assessed against the actual sequencing of construction, public-sector relocation, private investment and operational demand. (Department of Statistics Malaysia, 2026) Announced investment values, tender opportunities and planned facilities are not equivalent to realised expenditure or contracts awarded to Sarawak firms. (Frick & Rodríguez-Pose, 2023) A credible assessment should track the progression from policy announcement to financing, construction, procurement, operation and measurable local economic outcomes. (Montague Lord International, 2020).

Sarawak's economic position provides a substantial base from which to consider these opportunities. (Department of Statistics Malaysia, 2026) The Department of Statistics Malaysia reported that Sarawak's GDP reached RM153.5 billion in 2025, with real growth of 3.6 per cent. Services grew by 5.4 per cent and agriculture by 4.3 per cent, while manufacturing recorded growth of 0.1 per cent (DOSM, 2026). These figures describe Sarawak's economic structure and recent performance; they do not demonstrate that IKN has caused growth in the state. (Frick & Rodríguez-Pose, 2023) They do, however, help identify sectors and capabilities that could be relevant to future cross-border supply relationships. (Montague Lord International, 2020). Indonesia's statutory framework identifies Nusantara as a planned national capital and sets out principles for its development, including sustainability, resilience, connectivity and smart-city development (Republic of Indonesia, 2022, 2023). These broad

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priorities provide a basis for structured market and value-chain analysis with Sarawak, rather than a reason to assume that every sector will generate immediate commercial opportunities. (Department of Statistics Malaysia, 2026).

The empirical literature on IKN is developing and offers useful, though distinct, forms of evidence. (Syaban & Appiah-Opoku, 2024) Yusuf et al. (Sukmana & Azizah, 2024) (2023) use an inter-regional computable general equilibrium model to examine structural and economic effects within Indonesia; Syaban and Appiah-Opoku (2023) review the prospects and challenges of the relocation; and Surti et al. (2026) investigate regional inequality in East Kalimantan. Together, these studies show that IKN may influence regional output, sectoral composition and distributional outcomes, but none directly measures economic spillovers into Sarawak. (Yumasdaleni et al., 2025).

Policy Implications

Establish A Sarawak–Kalimantan Economic Intelligence and Coordination Mechanism

Sarawak should maintain a dedicated mechanism to monitor IKN-related procurement, investment priorities, infrastructure development and regulatory changes. (Frick & Rodríguez-Pose, 2023) The mechanism should bring together relevant federal and state agencies, business associations, local authorities and industry representatives. Its purpose should be practical: identify opportunities, track barriers, coordinate responses and report progress. (Montague Lord International, 2020). Such a mechanism could publish a periodic opportunity bulletin that identifies upcoming tenders, relevant Indonesian regulations, priority infrastructure projects and potential business partners. (BIMP-EAGA, n.d.-a) It should maintain a shared database of Sarawak firms by sector, product, certification and production capacity, while also recording barriers reported by exporters. (BIMP-EAGA, n.d.-b) The mechanism should not duplicate existing agency functions; rather, it should connect information already held by investment, trade, transport and industry agencies and convert it into actionable guidance for businesses. (BIMP-EAGA, n.d.-a).

The mechanism should have a small technical secretariat responsible for maintaining a verified database of procurement notices, relevant regulations, infrastructure updates, business enquiries and potential partners. (Frick & Rodríguez-Pose, 2023) It could issue quarterly briefings and convene sector-specific working groups rather than relying exclusively on high-level meetings. A clear referral process would allow firms to direct questions to the appropriate agency and track responses. The mechanism should also distinguish confirmed tenders and investment projects from expressions of interest or preliminary announcements. (Montague Lord International, 2020).

Prioritise Connectivity and Border Facilitation

Transport links and border procedures should be treated as core economic infrastructure. (BIMP-EAGA, n.d.-a) Planning should connect roads, ports, logistics facilities and border crossings with the locations and sectors where commercial demand is emerging. (BIMP-EAGA, n.d.-b) Agencies should also identify procedural bottlenecks affecting legitimate trade and explore ways to improve customs coordination, information sharing and business guidance. (BIMP-EAGA, n.d.-a).

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Border facilitation should be approached as a service-quality issue as well as a security responsibility. (BIMP-EAGA, n.d.-a) Agencies could identify bottlenecks through time-release studies, business surveys and regular consultations with freight operators. Where legally and operationally feasible, measures may include harmonised documentation, advance electronic submission, clearer product guidance, coordinated inspection schedules and improved information on border operating conditions. (BIMP-EAGA, n.d.-b) The 2025 BIMP-EAGA summit statement identifies trade facilitation and connectivity as continuing regional priorities, providing a wider platform for such improvements. (Montague Lord International, 2020).

Priority interventions should be selected using evidence on freight volumes, journey times, clearance delays and the location of actual producers and buyers. (BIMP-EAGA, n.d.-a) Time-release studies and periodic consultations with logistics operators could identify where administrative or infrastructure improvements would have the greatest effect. (BIMP-EAGA, n.d.-b) Digital pre-arrival documentation, transparent operating hours and coordinated inspection procedures may reduce avoidable delays, provided that data protection and enforcement requirements are maintained. (BIMP-EAGA, n.d.-a).

Prepare Sarawak Firms to Compete

A programme to prepare local firms should include market intelligence, product and service certification, procurement briefings, export readiness, financing and business-to-business matching. (BIMP-EAGA, n.d.-a) Support should be tailored to small and medium-sized enterprises, cooperatives and producers in border communities. (BIMP-EAGA, n.d.-b) The aim should be to increase local participation and value capture, not simply to increase the volume of cross-border transactions. (BIMP-EAGA, n.d.-a).

Firm-readiness programmes should be differentiated according to the needs of micro and small enterprises, medium-sized manufacturers and larger service providers. (Frick & Rodríguez-Pose, 2023) Smaller firms may need assistance with product standards, packaging, digital invoicing and export documentation, while larger firms may require support with joint-venture structuring, tender compliance and financing for capacity expansion. Business matching should be preceded by demand verification so that firms are not encouraged to invest in production for markets that have not yet generated confirmed orders. (Montague Lord International, 2020).

Business-readiness support should be linked to identifiable market opportunities rather than delivered as generic export training. (Frick & Rodríguez-Pose, 2023) Firms could receive assistance to interpret tender specifications, calculate landed costs, prepare documentation, obtain relevant certifications and develop joint bids where individual capacity is insufficient. Public agencies and business associations could also facilitate buyer–seller meetings with Indonesian companies and project contractors. (Montague Lord International, 2020).

Measure Outcomes, Not Announcements

A monitoring framework should distinguish commitments from implementation and implementation from outcomes. (BIMP-EAGA, n.d.-a) Useful indicators include the value and composition of bilateral trade, Sarawak firms winning IKN-related contracts, local employment generated, investment realised, border clearance times, SME participation, skills development and community-level benefits. (BIMP-EAGA, n.d.-b) A baseline should be established so that future research can assess whether IKN-related activity is associated with measurable changes in Sarawak. (BIMP-EAGA, n.d.-a).

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Indicators should be disaggregated by sector, firm size, location and ownership where data permit. (BIMP-EAGA, n.d.-a) This would help distinguish whether benefits accrue mainly to large firms or are reaching small and medium-sized enterprises and border communities. (BIMP-EAGA, n.d.-b) A baseline should be established before attributing changes to IKN-related activity. (BIMP-EAGA, n.d.-a) Future evaluation could compare trade and investment trends with the timing of procurement and infrastructure milestones, while recognising that wider macroeconomic conditions may also influence the observed outcomes. (BIMP-EAGA, n.d.-b).

A practical monitoring framework should establish a baseline before attributing subsequent changes to IKN-related activity. (BIMP-EAGA, n.d.-a) Indicators could include the number and value of contracts awarded to Sarawak firms, the share of local procurement, trade by product category, border clearance times, new investment disbursed, jobs created by skill level and participation by small and medium-sized enterprises. (BIMP-EAGA, n.d.-b) Where possible, the data should distinguish activity directly linked to IKN from broader trade with Kalimantan. (BIMP-EAGA, n.d.-a).

Conclusion

Indonesia's decision to develop Ibu Kota Nusantara creates a new economic and strategic context for Borneo. For Sarawak, the project may open opportunities in energy, infrastructure, logistics, industry, agriculture, tourism and services. (Yusuf et al., 2023) The eleven key informants in this study identified these sectors as potential areas for cooperation and emphasised the importance of stronger governance, connectivity and regional engagement. (Bluhm et al., 2026). The central argument of this article is that economic spillovers from IKN to Sarawak are conditional. (Krugman, 1991) Geographical proximity is an advantage, but it is not enough. Benefits will depend on whether Sarawak can connect its infrastructure to emerging markets, prepare firms to meet demand, coordinate public institutions and ensure that local communities participate in the resulting activity. (Yusuf et al., 2023) Without these conditions, IKN's growth may remain concentrated in its immediate economic hinterland. (Bluhm et al., 2026).

The article contributes a framework for understanding how a major capital relocation can affect a neighbouring region through identifiable channels and enabling conditions. Future research should test these pathways using longitudinal trade, investment, firm-level and labour-market data, while expanding the evidence base to include local businesses and border communities. (Yusuf et al., 2023) The key policy question is not simply whether IKN will create opportunities for Sarawak, but whether Sarawak can organise itself to convert those opportunities into sustainable and broadly shared economic gains. (Bluhm et al., 2026).

The additional literature also indicates that the effects of capital relocation are multidimensional. Economic restructuring and growth in a host region may occur alongside skill inequalities, uneven spatial development and social or environmental pressures (Syaban & Appiah-Opoku, 2023) (Surti et al., 2026) (Yusuf et al., 2023). These findings strengthen the case for a measured approach to Sarawak–IKN engagement. (Yusuf et al., 2023) Sarawak should seek to participate in emerging value chains while protecting domestic productive capacity, environmental assets and the interests of border communities. (Bluhm et al., 2026).

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