

## The Impact of the Relocation of the National Capital City (IKN) of the Archipelago on the Increased Income of MSMEs in Balikpapan City

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**Abstract:** The relocation of the National Capital City (IKN) from Jakarta to East Kalimantan is a strategic policy that aims to reduce the burden on Jakarta and accelerate equitable development in Indonesia. Balikpapan City, as the closest city to the location of the IKN Nusantara, is predicted to become a new center of economic growth that opens up great opportunities for Micro, Small and Medium Enterprises (MSMEs). However, on the other hand, this relocation also poses challenges such as business competition, limited capital, and market expansion. Through the approach of economic growth theories-classical, neoclassical, endogenous, Schumpeterian, and sustainable-this study analyzes the direct and indirect impacts of the relocation of IKN on the increase in income of MSME actors in Balikpapan City. The results show that infrastructure development, increased demand for goods and services, and economic digitalization are the main supporting factors for increasing MSME income. On the other hand, limited access to capital, lack of managerial skills, and competition with businesses outside the region are significant barriers. To optimize these opportunities, adaptation strategies by MSME actors, government support in the form of training, easy access to financing, and the use of digital technology in marketing are needed. This study concludes that although there are still major challenges, the transfer of IKN has strong potential to increase the contribution of MSMEs to the local economy, provided that it is accompanied by appropriate policy interventions and sustainable guidance.

### Introduction

The relocation of the National Capital City (IKN) from Jakarta to East Kalimantan is a strategic policy of the Indonesian government that aims to reduce development inequality

between Java and other regions, and encourage inclusive economic growth (Aji et al., 2023). Balikpapan City, as the closest city to the location of IKN Nusantara, is predicted to become a new center of economic growth. This opens up great opportunities for Micro, Small and Medium Enterprises (MSMEs) to grow, but also poses significant challenges such as business competition, limited capital, and adaptation to changes in the business environment (Lestari et al., 2024; Yolanda, 2024). MSMEs have an important role in the regional economy as job providers, contributors to regional income, and drivers of the local economy. According to data from the Ministry of Cooperatives and MSMEs (2022), MSMEs contribute more than 60% to Indonesia's Gross Domestic Product (GDP) (Khairunnisa & Nofrianto, 2023). In Balikpapan City itself, the MSME sector is widespread in various business fields, ranging from trade, services, to manufacturing.

Several studies have been conducted on the impact of the relocation of IKN on various economic and social aspects. For example, Aji et al. (2023) in *Kultura: Journal of Law, Social Sciences, and Humanities* concluded that the migration of ASN and other migrants increases the demand for goods and services in the area around IKN, thus making a positive contribution to local MSMEs. In addition, Lestari et al. (2024) in *JISMA: Journal of Social Sciences, Management, and Accounting* explained that MSMEs play a role in driving the national economy through employment and increasing people's purchasing power. Another study by Harbit (2022) in his dissertation at Politeknik Negeri Jakarta explained the importance of product certification in increasing the competitiveness of MSMEs in a wider market. Meanwhile, Wibisono (2024) in the *Journal of National Resilience* reviews the role of MSMEs in supporting family economic resilience amid the economic dynamics after the relocation of IKN.

Although there have been several studies that discuss the impact of the relocation of IKN on the economy and MSMEs, there are still several research gaps that have not been answered completely. First, there is a focus on macroeconomic or general analysis without specifically reviewing how MSME actors at the local level (especially in Balikpapan City) can actually take advantage of economic opportunities after the relocation of IKN. Second, there is a lack of in-depth discussion on adaptation strategies required by MSME actors to remain competitive in the new situation. Third, there is no research that systematically analyzes changes in the microeconomic structure in Balikpapan City as a buffer zone for the IKN Nusantara in the context of time and space. Fourth, the integration of modern economic theory and MSME practices is still limited, as previous studies tend to use classical or neoclassical economic theory.

This study comes to fill the gap with a spatial-temporal approach in analyzing microeconomic dynamics in Balikpapan City due to the presence of IKN Nusantara. In addition, this study also combines modern economic growth theories-such as endogenous, Schumpeterian, and sustainable theories-with the development of MSMEs based on digitalization and innovation. This approach has not been done in many previous studies. Supporting and inhibiting factors for increasing MSME income will also be comprehensively analyzed, including access to capital, infrastructure, and business competition. Thus, this

research not only provides a phenomenological overview, but also recommendations for concrete adaptation strategies for MSME actors and the government.

The objectives of this study are to: (1) analyze the direct and indirect impacts of the relocation of IKN on the increase of income of MSME actors in Balikpapan City; (2) identify the factors supporting and inhibiting the increase of MSME income after the relocation of IKN; and (3) formulate adaptation strategies that can be done by MSME actors and the government to maximize economic opportunities from the relocation of IKN. The results of this study are expected to be a reference for local governments, MSME actors, and related stakeholders in designing more effective and sustainable MSME development policies and programs in the era of economic transformation after the relocation of IKN.

### Research Method

This research uses qualitative approach with literature study method to analyze the impact of the relocation of the National Capital City (IKN) on the increase of MSME actors' income in Balikpapan City. The data used in this study are sourced from secondary data, including government documents, scientific journals, news articles, economic reports, as well as relevant previous research results. The analysis technique used is content analysis, i.e. by identifying the main themes from various literature sources and assembling them into a comprehensive narrative. This approach was chosen due to its ability to explore in-depth information about complex social and economic phenomena, such as the dynamics of MSME development after the relocation of IKN. In addition, literature studies allow researchers to compare various theoretical perspectives, such as classical, neoclassical, endogenous, Schumpeterian, and sustainable development theories of economic growth, to provide a strong conceptual framework in understanding the relationship between IKN relocation policies and microeconomic changes at the local level (Lestari et al., 2024; Aji et al., 2023). Thus, this study not only provides a phenomenological description, but also provides strategic recommendations for MSME actors and local governments in optimizing economic opportunities after the relocation of IKN.

### Result and Discussion

The relocation of the national capital to the archipelago in East Kalimantan has triggered significant economic transformation, especially for Micro, Small, and Medium Enterprises (MSMEs) in Balikpapan City. As the main buffer city of the IKN, Balikpapan experiences an increase in demand for goods and services, a growing migrant population, and rapid infrastructure development, creating both opportunities and challenges for local MSMEs (Aji et al., 2023). The increase in the number of state civil apparatus (ASN), project workers, and population migration increases household consumption, thus creating a potential new market for MSME products and services such as culinary, accommodation, transportation, and handicrafts.

One of the main drivers of increased MSME incomes is better infrastructure accessibility, including digital connectivity, toll roads, airports, and seaports. This

infrastructure facilitates product distribution and opens access to national and international markets (Daryono et al., 2023). In addition, government programs such as the People's Business Credit (KUR), entrepreneurship training, and promotion through digital platforms are important tools in improving the business capacity of MSME players (Lestari et al., 2024; Harbit, 2022).

However, challenges remain. Competition with MSMEs from outside the region that have more capital, experience, and networks is a serious threat to local businesses (Mazda, 2022). In addition, many MSMEs in Balikpapan still face limited capital, lack of managerial and technological skills, and lack of product certification that can guarantee quality and competitiveness (Sudjinan & Juwari, 2018). The uncertainty of business regulations and zoning amidst the changing dynamics of the business environment after the relocation of IKN is also an obstacle to the sustainable growth of MSMEs.

To overcome these challenges, a comprehensive adaptation strategy is needed. Product innovation and digitalization are key for MSMEs to compete in modern markets. The use of e-commerce platforms, social media, and business management applications help MSMEs in marketing, distribution, and operational efficiency (Arazy et al., 2024). Collaboration among MSMEs, private partners, and educational institutions can improve productivity and product standardization. On the policy side, the government has an important role in providing tax incentives, fair business zoning, and protection against unfair competition (Harahap & Tambunan, 2022).

The concept of green city and sustainable development in IKN Nusantara also opens opportunities for MSMEs that focus on environmentally friendly products, such as organic food, renewable energy, and waste recycling. This is in line with the principle of sustainable development, which emphasizes the balance between economic growth and environmental sustainability (Lase et al., 2024). However, the implementation of this principle requires training support, technology facilitation, and wider market access so that local MSMEs can compete nationally and internationally.

Overall, while the relocation of IKN brings many positive opportunities for income generation for MSMEs in Balikpapan, their success depends on adaptability, government policy support, and optimization of information technology. Without proper intervention, the risk of marginalization of local MSMEs by businesses from outside the region is higher. Therefore, synergy between the government, private sector, and MSME players is needed to ensure that the economic transformation due to the relocation of IKN can be enjoyed equally and sustainably.

### *Discussion*

The relocation of the nation's capital to East Kalimantan has a significant impact on the region's economic growth, especially on the Micro, Small, and Medium Enterprises (MSMEs) sector in Balikpapan City. This impact can be understood from the perspective of economic development, local resilience, and the strategic role of MSMEs in regional socio-economic integration. Economically, massive infrastructure development around the IKN area drives increased demand for local goods and services, creating new market opportunities for

MSMEs (Aji et al., 2023). The development includes transportation, construction, accommodation, and logistics sectors that require active participation of MSMEs, especially in the provision of food, lodging, consumer goods, and transportation services.

Balikpapan MSMEs have great potential to grow, due to the city's strategic geographical position as a gateway to IKN. According to Khairunnisa and Nofrianto (2023), the contribution of MSMEs to the national Gross Domestic Product (GDP) reaches more than 60%, and absorbs 97% of the workforce in Indonesia. This shows that strengthening MSMEs in buffer areas such as Balikpapan will have a major impact on the welfare of the community at large. However, along with increasing investment flows and the influx of business actors from outside the region, local MSMEs face serious challenges. Market competition, limited capital, low digital literacy, and limited access to financing are the main constraints (Yolanda, 2024; Arazy et al., 2024). Many MSMEs in Balikpapan are not ready to compete competitively due to limitations in product innovation, marketing technology, and quality of human resources (Janah & Tampubolon, 2024).

In this context, the application of endogenous economic growth theory becomes important. This theory explains that innovation, human capital improvement, and government policies have a direct influence on economic growth (Juhro & Trisnanto, 2018). Training programs, access to financing, and digitalization of MSMEs are the main adaptive strategies that need to be promoted by local governments to optimize the benefits of IKN relocation. In addition, the digitalization of MSMEs is also key to increasing revenue. The use of e-commerce platforms and social media has been shown to increase the market reach of MSMEs, not only at the local level, but also nationally and internationally (Judijanto et al., 2023). The government and supporting institutions can play a role in providing digital infrastructure and technology skills training. Another supporting factor is the increasing demand for local products, especially environmentally friendly products, which is in line with IKN's green city concept. MSMEs that develop recycled products, organic food, or renewable energy have a good chance of winning in an increasingly sustainability-conscious market (Daryono et al., 2023).

However, the development of IKN can also bring social and ecological risks. Inequality of access between business actors, changes in land ownership, and environmental degradation are threats that must be anticipated. Therefore, it is important for MSMEs to collaborate in the supply chain and participate in policy forums in order not to be left behind in the development process (Harahap & Tambunan, 2022). Thus, it is possible to increase the income of MSMEs in Balikpapan due to the relocation of IKN if there is synergy between business actors, government, and other stakeholders. Innovation, technology adaptation, and inclusive policy support are the main foundations in creating sustainable local economic resilience.

## Conclusions

The relocation of the National Capital City (IKN) to the archipelago in East Kalimantan has a wide impact on various sectors, especially on increasing the income of Micro, Small, and

Medium Enterprises (MSMEs), especially in Balikpapan City. Increased demand for goods and services due to infrastructure development, labor migration, and population growth provide great opportunities for MSMEs to grow. Supporting factors such as access to infrastructure, entrepreneurship training programs, business digitalization, and government incentives become the driving force to increase the capacity and income of MSMEs. However, challenges such as competition with MSMEs from outside the region, limited capital, lack of qualified human resources, and regulatory uncertainty remain significant obstacles that need to be overcome. Thus, the successful adaptation of MSMEs is highly dependent on government support, cross-sector collaboration, and the ability of businesses to utilize information technology and innovation.

The implication of this study is that the relocation of IKN not only has a physical impact on the development of new cities, but also changes the structure of local and regional economies. This change creates an urgent need for pro-SME policies, both in the form of access to capital, business management training, and product promotion through digital platforms. In addition, the concept of green cities and sustainable development in IKN Nusantara opens up opportunities for MSMEs that focus on environmentally friendly products, thus encouraging a more inclusive and sustainable economic transition. Social implications are also seen from the potential for cultural integration between locals and migrants, although it must be managed carefully so as not to cause friction or marginalization of indigenous communities.

As a suggestion for further research, it is recommended to conduct an in-depth study of the effectiveness of government programs in supporting MSMEs after the relocation of IKN, including a comparative analysis between MSMEs that have survived and those that have not been able to adapt. Future research can also further examine changes in community consumption patterns in the IKN area, the impact of the circular economy, and the role of microfinance institutions in improving access to capital for MSMEs. In addition, it is important to conduct spatial analysis to map the distribution of business opportunities and potential land conflicts around the IKN area. These studies will provide a more complete picture and empirical data to formulate more targeted policies to support the sustainable growth of MSMEs in the era of transformation of Indonesia's new capital city.

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