



# An Analysis of Indonesian Economic Development: Case Study Mining Business in Papua Province

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## Abstract

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This paper will analyze modernization and dependency theory in Freeport business towards economic development in Papua. This study also aims to understand the historical background of Freeport Indonesia, particularly Indonesia's political government relation with this business and its social impact. This study uses a qualitative method with historical and descriptive research. After field observation, interview, and document review, this study found that the Marxism perspective is relevant to Freeport's business that develops good relations with the Indonesian state elite to secure their business in Papua. Soeharto's government was contradictory to John Locke's theory to protect people's rights. Due to the inability to maintain performance legitimacy proved by human rights violence and economic recession, a mass demonstration led to democratization and over Soeharto regime. Last, Papua's economic development remains in the traditional stage and strong dependency on Freeport Business.

*Keyword: Modernization, Dependency, Freeport, Papua Province*

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## 1. Introduction

Due to globalization, countries are becoming increasingly interdependent economically, socially, and environmentally, such as for necessary goods or services and investments for development (Surugia & Surugiu, 2015) (Paehlke, 2016). The launch of the UN Sustainable Development Goals (SDGs) in 2015 has made clear that the global community of countries relies heavily on the private sector to solve some of the most urgent problems the world is facing (UNPRI, 2017). The current level of investment by governments, development agencies, and other actors is not enough for SDG's target that will take between US\$5 trillion and US\$7 trillion per year, while in developing countries, the gap is US\$2.5 trillion per year, which require private sector support (UNDP). Undeniably, globalization has a downside when developing countries deal with developed states and powerful global corporations (Sodaro, 2008). However, Jagdish Bhagwati, an international economist, argues that it also increases economic growth and reduces poverty. The current wave of globalization, which started around 1980, has promoted economic equality and reduced poverty, as proved by poverty has fallen by 200 million globally and the head-count international poverty line from 2.1% in 2015 to 1.0 % in 2019, driven by decreases

in poverty in China and the Philippines (Wade, 2004) (Aguilar et al., 2021). Represent about 40% of the economy and the population of ASEAN and is the only member of the G20 from ASEAN, expectantly Indonesia will decrease the poverty rate (ASEANUP, n.d.). However, Indonesia and the Philippines contribute to 90 percent of poverty in ASEAN, and Global Hunger Index in 2018 justifies Indonesia ranked 73rd out of the 119 countries surveyed, falling behind other fellow ASEAN member states (ASEAN Post Team, 2020) (Chisholm, 2017). Hence, studying Indonesian economic development is necessary to discover the historical background of this condition.

Government has a crucial position in determining policy and development strategies to encourage economic growth and realize community welfare in international integration. During the Soekarno regime between 1945 and 1967, Indonesia was anti-capitalist and neglected western domination over Indonesia's resources. Soekarno also explains that Indonesian democracy is a guided democracy that free-fights liberalism. Hence, Soekarno conveyed the presidential conception on February 21, 1957, to implement guided democracy led by wisdom in representative deliberation as a tool for democracy in the whole sector, including political, economic, and social state and life (Feith, 1973) (Sukarno, 1965). Soekarno regime has a similar pattern to most Africans that quickly abandoned any pretense of Western liberal democratic concepts and practices, establishing authoritarian regimes based on the military or one-party dominance (Sisk, 2008). Due to unstable political conditions, such as the communist party, which killed many general armies in September 1965, based on Soekarno's order of the eleventh March, Soeharto acted as Indonesian President on March 12, 1966, to recover political stability in Indonesia (Hidayat, 2016). Eventually, Soeharto's ascent to power displaced President Soekarno removed from power in 1967. Soeharto's new order regime reorients Indonesia's internal and external priorities from the central position of politics during the Soekarno regime towards developing the economy and political stability (Anwar, 1990). The economic growth in many sectors such as oil and gas, forestry and plantations, mining, agriculture, and so on was the priority program for the New Order regime. Despite the Soeharto policy partially implementing modernization theory, Indonesia is increasingly dependent on developed countries.

Dependence can be interpreted as a common thing in developing countries, especially after independence from the influence of colonialism that requires financial and technical assistance from developed countries. Dutch colonialism for more than three and a half-century followed by Japanese colonialism for three and half years influenced Indonesian economic development. The dependency argument had been the reintegration of Indonesian capitalism into a global system means subordination of Indonesian economy structure to the needs of international capital and Indonesian domestic bourgeoisie, either by their incorporation as compradors or their elimination (Robinson, 2009). Thus, Indonesia's economic policies have not yet solved the development disparities between Java and outside Java islands. Regional development with wealthy natural resources relies on foreign company operations in encourage economic growth, such as Freeport in Papua. Even though Papua's regional incomes are among the highest in Indonesia, Papua province has the highest poverty rate in Indonesia. Based on data from the Indonesian Ministry of Finance, Papua's regional income in 2018 was almost USD 933.626.254.64. However, economic growth is not directly proportional to community welfare in Papua. Listed in 2021, the poverty level in Papua Province is 27.38 percent of the total population. This figure is much higher than the Province of West Papua, which is 21.82 percent, East Nusa Tenggara

at 20.44 percent, Maluku at 16.30 percent, and Gorontalo at 15.41 percent (Indonesian Statistical Agency, 2021).

Soeharto has to implement Rostow's modernization theory which requires political commitment to economic development by increasing investment and technological development in industry and agriculture (Rostow, 1960). However, industrialization reorganized dependent economies in the framework of the global interlock system has led to business dependency, such as the mining business in Papua (Sunkel O., 1972). Hence, this paper will analyze modernization and dependency in Indonesia's economic development, specifically Freeport Business in Papua Province. This study will address two specific research questions. Firstly, what is the historical background of Freeport business in Papua? How are dependency and modernization relevant to justify Papua's economic development? This paper intends to determine the relationship between modernization and the Indonesian economy, particularly Freeport business in regional development. This study will be classified into five sections as follows. After the introduction, section 2 will explain the foundation of the literature review concerning special autonomy regulation, dependency, and modernization theory. Then, A research method in this paper to accomplish the purpose of this paper and study area map will point out in section 3. Subsequently, the discussion in section 4 will divide into two sub-section. In the first subsection, a brief explanation of the historical background of Freeport company in Indonesia. Secondly, relevancy dependency and modernization theory towards Papua's regional economic development. These theories also will use to examine challenges in relieving foreign intervention in managing the mineral resource in Papua. Last, section 5 will conclude the finding and explain limitations that require further study.

## **2. Literature Review**

### **2.1 Modernization**

The basic building blocks of the modernization perspective are aligned tradition-modernity ideal types of social organization and value systems, distinctions borrowed from nineteenth-century society (Valenzuela & Valenzuela, 1978). Historians mostly dichotomize history into tradition and modernity, that enlightenment in Western Europe gave rise to subsequent revolutions in Britain, France, and the United States. These Western countries were the first to enter the modern world or become modernized. Modernization in economic development involves industrialization, urbanization, educational standards, and a steady increase in wealth (Lipset, 1959). Rostow is an influential economist who introduced modernization theory based on Western history, which explains how developing countries may transform their economy through five stages of economic growth.

According to Rostow, society economy classifies into five categories, traditional society, the precondition for take-off, the take-off, the drive of maturity, and the age of high mass consumption (Rostow, 1960). First is traditional society's dominance of labor-intensive agriculture and family-oriented collectivism. A precondition for take-off is a transitional phase when saving increases, capital mobilizing, and centralized government may protect private sectors. After that, the take-off phase when urbanization expansion, replacing agriculture and mining sectors to manufacture, technological breakthrough leads to increasing investor end entrepreneurs. Drive of maturity is the fourth stage that investment in

infrastructure, industrial diversification, and technological breakthrough intensify industrialization and accelerate growth. The fifth stage is the age of high mass consumption when manufactured shift from heavy industrial goods to consumer durable goods for sustaining economic growth.

Based on Rostow's modernization theory, external intrusion and political government systems are crucial for increasing investment, industrialization, and saving. An economy will be able to reap all potential gains from investment and long-term transactions only if it has a government that strong enough to last and inhibited from violating individual rights to property and right to contract enforcement (Olson, 1993). The development of the efficient economic organization in Western Europe accounts for the rise of the West (North & Thomas, 1973). Efficient organization entails the establishment of institutional arrangements and property rights that create an incentive to channel individual economic effort into activities that bring the private rate of return close to the social rate of return. Hence, society may absorb modern technology, and the country's sustained growth will improve social welfare and security. Scholars also justify that economic underdevelopment overcomes when society abandons traditional social and institutional structures and transforms attitudes and behavioral patterns (Sodaro, 2008, p. 373). Based on these viewpoints, this study will analyze the modernization pertinence of Freeport business towards Papua regional development.

## **2.2 Dependency**

Dependency theory rejects the western concept of modernity that neglects other countries may find their economic growth pattern (Sodaro, 2008, p. 373). This theory argues that modernization did not explain why developing countries that advance social and political structures remain underdeveloped. Andre Gunder Frank, a Latin American theorist, explains dependency theory that development and underdevelopment are necessary results and contemporary manifestations of internal contradictions in the world capitalist system. He further argues that underdevelopment is not merely the lack of development but the relation to economic development. Dependency is countries economy conditioned by the development and expansion of another, placing the dependent countries in a backward position exploited by the dominant or developed countries (Valenzuela & Valenzuela, 1978, p. 544). The developing countries are relegated to the periphery of the world capitalist system, treated as mere satellites of the industrialized nations, and remain economically dependent on them (Sodaro, 2008, p. 376). The dual economy in developing countries related to the capitalist in the core countries sometimes succeeds in making alliances with capitalist entrepreneurs and authoritarian political leaders in particular developing countries. As a result, the well-to-do capitalist elite with international connections coexists with poverty-stricken masses who separate from privileged contacts.

Dependency in any given society is a complex situation in which external dimensions are determinative in varying degrees, and an internal variable may reinforce the pattern of external linkages (Valenzuela & Valenzuela, 1978, p. 546). Dominant local interests have tended to favor dependency patterns preservation in their interests, which causes unsuccessful self-sustained development policy. The time dimension is a crucial aspect of the fundamentally historical model of dependency perspective because societies may not replicate other societies' revolutions because the transformation of interrelated world sys-

tems precludes this option. Hence, dependency theory distinguishes between the mercantilistic colonial period, outward growth, liberal model, and transnational capitalism (Valenzuela & Valenzuela, 1978, pp. 546-547). During the international capitalist, rapid economic recovery and growing multinational corporations sought new markets and cheaper production sites for their increasingly technological process. Thus, Multinational corporations in the core, the indigenous industrialists, and bankers in the periphery collaborate closely against the interests of the local working class, perpetuating the dependency. International debt places more burden on developing countries that borrow heavily from international agencies, foreign governments, and private banks to pay their bills at home and purchase imports. Based on the explanation above, this study focuses on Freeport Indonesia as a multinational company's correlation to economic growth in Papua.

### **2.3 Special Autonomy Policy in Papua**

Indonesia has practiced asymmetrical decentralization policy or special autonomy since 1950 by granting special rights to Yogyakarta. Due to developments and political dynamics, the Central Government offers special autonomy status for the Papua, West Papua, and Aceh. Law no. 21 of 2001 regulates the Papua Province authority in implementing special autonomy. Then, the government amended July 2022 with Law No. 02 of 2021 to accelerate development and improve Papua community welfare. There were several crucial changes made in the Special Autonomy Law Volume II, including an increase in the allocation of Special Autonomy funds from 2% to 2.25%, a quarter quota for indigenous Papua in Papua's People Representative Council (DPRP), removal of formation of local political parties, and establishing an agency for Papua's development acceleration. The Regional Government of Papua Province consists of DPRP as the legislative body and the Provincial Government as the executive body. While implementing Special Autonomy, Papua has the Papuan People's Assembly as the indigenous Papua representative. As a region with special autonomy status, Papua does receive much budget support for regional development. Two components of substantial spending for Papua are the 2.5% of Special Autonomy Fund and the Additional Infrastructure Fund, which depend on the agreement between the government and the DPRP every year. From 2002 to 2021, special autonomy funds amounted to IDR 138.65 trillion (Sutrisno, 2021). Then, from 2005 to 2021, transfers to regions and village funds reached IDR 702.30 trillion.

### **3. Methods**

This study uses a qualitative method with historical and descriptive research. Qualitative research is a methodology such as participant observation or case studies that result in a narrative, descriptive account of a setting or practice. Sociologists using these methods typically reject positivism and adopt a form of interpretive sociology (Parkinson & Drislane, 2011). The type of research in this research is descriptive and historical. This study aims to analyze economic development in Indonesia, especially the exploration of mineral resources by Freeport company to the economy in Papua, so this research classifies as descriptive and historical research. Descriptive study systematically describes a situation, problem, phenomenon, service, or program to provide information about the living conditions of a community or describe attitudes towards an issue (Kumar, 2018). Historical

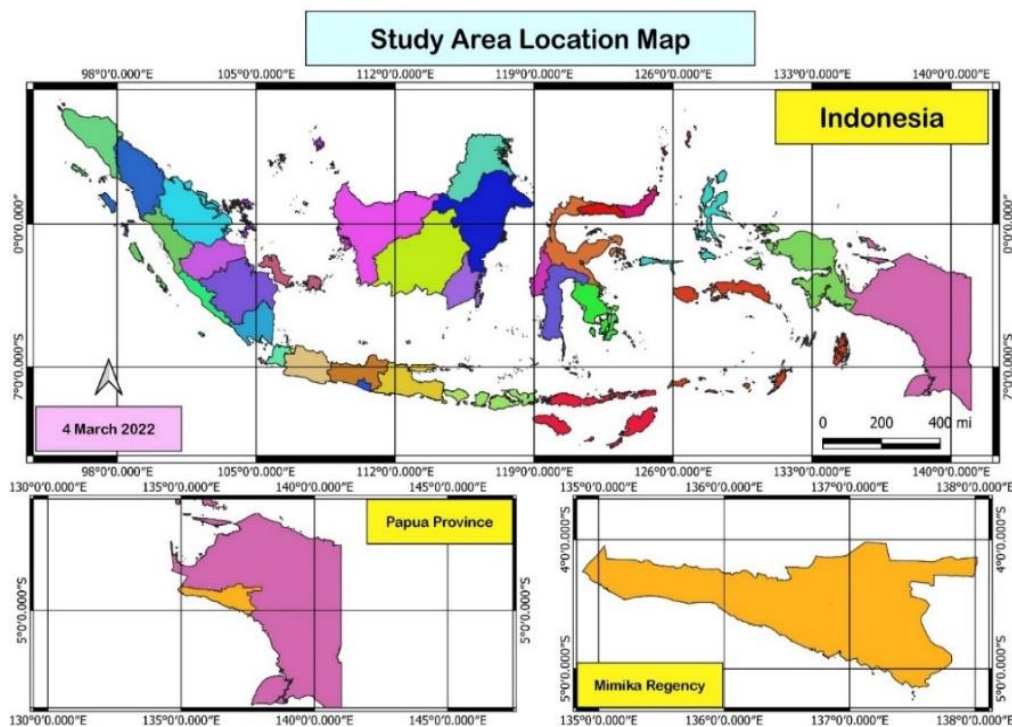
research aims to verify and explain the history of any area of human activities, subjects, or events through scientific processes (Špiláčková, 2012). Historical research also helps identify individuals as a community since the construction of links between past and present allows people to see them as part of a larger drama (Monaghan & Hartman, 2000).

The data collection technique is the most crucial step strategic in research because the purpose of research is to obtain data (Sugiyono, 2014). Data collection techniques allow a researcher to systematically collect information about objects of study and the settings in which they occur through document review, interview, focus group discussion, and observation (Elmusharaf, 2012). Empirical data collected by the researcher may classify into two categories, primary data from field observation and interviewing and secondary data as naturally occurring materials from textual data that already exist (Eriksson & Kovalainen, 2015). Hence, this study will use primary and secondary data through interviews, field observation, and document review in collecting empirical data. After the data is collected, the next step is to process the existing data through selection, classification, and compilation. Then, the data will analyze through stages, data reduction, data display, and report writing (Mezmir, 2020). Last, this study uses the triangulation approach to test the validity of convergence information from different sources. Method triangulation involves multiple methodology data collection about the same phenomenon, such as interviews, observation, and field notes (Polit & Beck, 2010). Data triangulation focuses on three types of data, namely time, space, and the person, that may be revealing atypical data or the potential of identifying similar patterns, thus increasing confidence in the findings (Denzin, 1970) (Fielding & Fielding, 1986).

## 4. Result and Discussion

### 4.1 Historical Background Freeport in Papua

European colonialism in Asia and the industrial revolution become the reason for the Asia crisis and West-European economic growth (Blaut, 1999). During the nineteenth and first half of the twentieth century, the industrial revolution in Europe invested heavily in food and raw production materials in the rest of the world while specializing at home in manufacturing production (Sunkel O., 1972, p. 520). Their initial exploration in Irian Jaya succeeded in finding sources of kerosene, and in 1935 companies from Dutch, British, and American majors combined some capitals and established a joint oil exploration company in Irian Jaya called NNGPM (Nederlandsch Nieuw-Guinee Petroleum Maatschappij). Then, H. Coljin, son of the Netherland prime minister and owner of NNPGM, and high-ranking oil company officials carried out an expedition to Cartenz in 1936. When he was about to climb the peak of Ngga Pulu or Carstensz, Jean Jacques Dozy saw a hill that he thought had a tremendous mineral deposit. Jean Jacques Dozy, a geologist, immediately named the hill Ertsberg or "Ore Mountain" because he detected the presence of rich copper in it (Mealey, 1996). Jean Jacques Dozy then published a report on his findings in 1939. But because of the outbreak of World War II, his report was not a priority to be followed up by European countries and saved in the Leiden library. The following picture shows Freeport location in Indonesia:



**Figure 1. Freeport location in Mimika Regency, Indonesia**

*Source: author.*

Widespread exigencies transformed into revolutionary movements due to the divergence between the structural position of individuals in society and their interest position (Gurr, 1973). Castro's revolutionaries controlled Cuba in 1959, and Freeport's Moea Bay Mining Company struggled and collapsed after investing \$75,000,000 during Batista's reign (Aremu & Soetan, 2017). Therefore, In August 1959, Freeport Director and top engineer Forbes Wilson met with Jan van Gruisen, managing director of the East Borneo Company, to conduct exploration in Irian Jaya. Then, Freeport Sulfur signed a partnership with the East Borneo Company to explore the ore mountain On February 1, 1960. President Soekarno, who had a determined idea of building Indonesia independently, rejected Freeport's request to explore Papua. Soekarno strengthened relations with Peking, Phom Penh, and Pyongyang and refused IMF and World Bank intervention in 1965 (Fuaddah, 2019). However, after the end of President Soekarno's administration and being replaced by President Soeharto's administration, Freeport Sulfur finally managed to gain authority as a particular company to explore mineral mining in Papua. The First Contract of Work, agreed upon by the Government of Indonesia, represented by the Minister of Mines Slemet Bratanata and the Freeport Representative Shulpur on April 7, 1967, became the basis for the American mining company to carry out mineral mining activities in Papua (Redi, 2016).

America's most national power resides in the economic, political, and military domains. Marxians and liberals have different perspectives on who holds absolute power, between economic man and political man (Mills, 1956). When analyzing Freeport business, the Marxian view is relevant to history in Papua. Marx argues that economics is the foundation of politics that determines politics and human behaviors. The property owner will control the political power of society and the state. The capitalist class in Freeport possesses economic power that subdues the state elite, which manifests in the strength of

technological progress and human resources that outperform the technology and human resources owned by the state in 1967. Due to the takeover of the holy land of Amungme without consent, the indigenous protest led to conflict in 1973, and the military forcibly stopped by killing forty people (Rahab & Soares, 2003). Soeharto regime initiation met through the regional government of Irian Jaya Province between the two conflicting parties and resulted in the 1974 January Agreement. The January Agreement shows the state's position to Freeport because the agreement approved by the government is very detrimental to the Amungme tribe. The January Agreement resulted in thousands of hectares of the Amungme tribe's customary land being taken over by Freeport, causing the Amungme people to lose their right to access the forest hunting and fields for farming. James Moffett, Freeport President, then attempted to establish close ties with the president through Bob Hasan for giving 10% of its corporate shares to Suharto. In addition, according to the Prospect newspaper report on July 13, 1998, Freeport paid Suharto five to seven million dollars annually as a tribute to Suharto from 1980 to 1991 (Rahab & Soares, 2003) (Leith, 2003).

Many early liberals explain that liberalism has political and economic components. Political liberalism emphasized the concept of government by consent of the governed, and economic liberalism stressed the notion that the state should strictly limit its role in the nation's economy (Sodaro, 2008, p. 313). John Locke, a British political philosopher, and liberal democracy father believe protecting people's natural rights is the most important goal of government. Contrary, the Indonesian government did not protect people's rights in Papua. In 1985, Freeport planned to build a housing complex for its workers and a road to connect the project, which destroyed forests, rivers, and hunting fields of the Amungme and Kamoro tribes, causes to sparked public protests. The residents' protest ended after the tribal chief signed a letter of agreement to release 20.000 hectares of land without compensation in a forced state for fear of being accused of being a member of the Free Papua Organization (Rahab, 2010). Freeport signed the second work contract literally in January 1997, but they signed it in January 1991. In 1991, the Indonesian government wanted to increase shareholding in Freeport from 8.9% to 10% Suharto's right hand recommended the sale to Aburidzal Bakrie, whom Soeharto considers family. Bob Hasan bought Bakrie's shares through PT Nusamba Mineral Industri, a subsidiary of Nusantara Ampera Bakti (Nusamba). Nusamba is a foundation established in 1982. Suharto owns 80% of the ownership, while the rest had owned by Suharto's eldest sons, Sigit Harjojudanto and Bob Hasan.

Between 1994 and 1995, acts of violence committed by the military against the Amungme tribe peaked. The Australian Council for Overseas Aid (ACFOA), an Australian non-governmental organization, published a report on human rights violations in Papua. After reading the ACFOA report, Bishop Munninghoff began to conduct an in-depth investigation of the case in August 1995. Bishop Munninghoff wrote that 17 people died, four missed, and 48 others were arrested, detained, and abused in the Freeport mining concession area. Then, the National Human Rights Commission announced the investigation report on September 22, 1995. Freeport proved in violating the human rights of civilians, namely indiscriminate killings, torture and inhuman/degrading treatment, unlawful arrest and arbitrary detention, disappearance, excessive surveillance, and destruction of property. National Human Right commission also stated that the violent incident involved the Indonesian military aim to protect Freeport's mining business. Interestingly, prospect claims from 1996 and 1997, Freeport gave 20.3 million dollars directly to Suharto through his Mandiri Prosperity Fund foundation.



Democratic transition constitutes third-wave democratization in modern world history (Huntington, 1991). According to Huntington, five main factors significantly contribute to democratic transformation include political legitimacy crisis, religious organization, external pressures, snow-balling effects, and economic growth. The deepening legitimacy problems of authoritarian regimes were a world where democratic values accept widely, the consequent dependence of these regimes on successful performance, and their inability to maintain "performance legitimacy" due to economic (and sometimes military) failure (Huntington, 1991, p. 13). Soeharto's policy maintains security with violent arms causing thousands of people to die. Financial crises affected many countries in 1998, especially in Indonesia's economy had plunged into a deep recession with an overall growth of minus 13.7 percent (Tambunan, 2010). Mass demonstrations due to economic and military failure for 32 years caused the Soeharto regime to end in 1998. After the Soeharto regime, Papua receives Special Autonomy from the central government, and Freeport pays thousands of US dollars for local development. Freeport has also provided US\$ 2.000/five years since 2006 for Mimika Regency development. Meanwhile, Freeport's payment of security from 2001 until 2006 was about US\$ 79.1 million (Rahab, 2010). Although the Freeport contract will end in 2021, and 100% of the mining business in Papua will belong to Indonesia, the government decided to buy 51% of Freeport Indonesia in 2018 and may continue its business until 2041. This policy is detrimental to the state because 51% of Freeport Indonesia shares are expensive compared to Freeport Mc Moran, almost US\$ 3.85 billion. MIND ID also issues bonds of US\$4 billion, with 6% interest, on average, to pay US\$250 per year for the Freeport acquisition (Umah, 2020).

#### **4.2 Relevancy Modernization and Dependency in Papua's Economic Development**

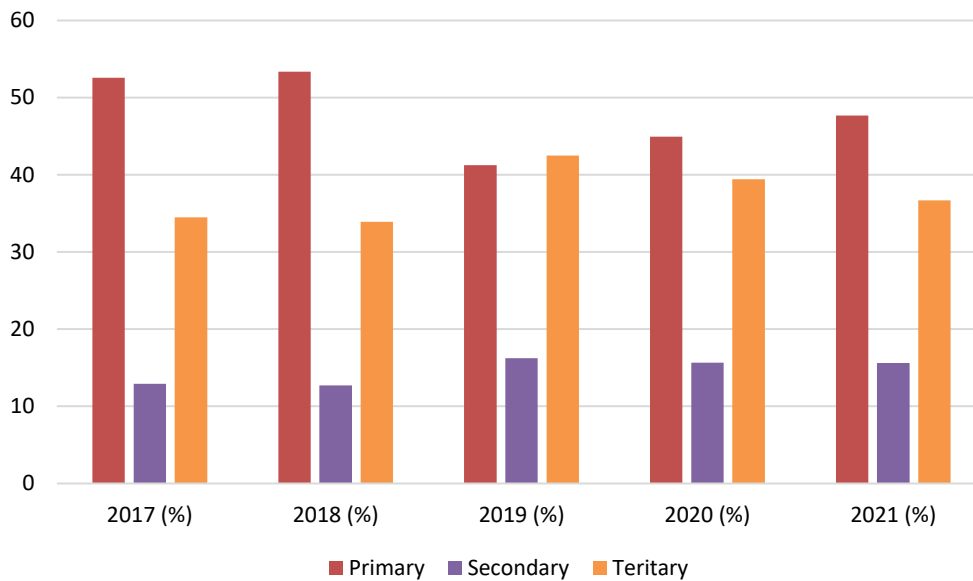
One of the crucial indicators to determine the economic conditions in a certain period is the Gross Domestic Product (GDP) data, based on current and constant prices. This study uses the Gross Regional Domestic Product of Papua Province's stable prices with a 2010 base year to determine real economic growth from 2017 to 2021.

**Table 1. Papua GDRB/Sector**

Sector	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)
Primary	52.58	53.35	41.27	44.95	47.68
Secondary	12.92	12.73	16.23	15.64	15.63
Tertiary	34.5	33.92	42.5	39.41	36.69
Total	100	100	100	100	100

Source: BPS, 2021

## PAPUA GDRB/ Sector



**Figure 2. Papua Gross Domestic Regional Bruto**

*Source: BPS, 2021*

Based on the above data, the Papua Province's economic structure transformation between 2017 and 2021, the primary sector still provides the most contribution to Papua's Gross Regional Domestic Product. Meanwhile, the secondary and tertiary sectors were relatively stagnant, and there was no significant increase. In fact, between 2020 and 2021, when the Covid-19 pandemic hit Indonesia and affected almost all sectors, the primary sector experienced a slight increase, while others decreased. Based on these data, even though Freeport has been operating in Mimika for 55 years, the Papua Province region is still in the traditional economic stage where the primary sector dominates in Papua Province GRDP income. According to Rostow, in the first stage of economic growth, the community economy largely relies on the agriculture sector, and family connection has a central position in the civil organization. Papua Special Autonomy Law also supports that the executive and the legislative should be from indigenous Papua. Due to the high interest of the local elite, the abundance of funds from special autonomy and law is irrelevant to the public interest. Indonesia Financial Audit Agency (BPK) of the Papua Representative Office traced the findings of irregularities in the Papua Special Autonomy Fund. It includes IDR 556 billion in expenditures not supported by valid evidence, procurement of goods and services not according to regulations, IDR 29 billion in fictitious special autonomy funds, and IDR 1.85 trillion on deposit (Roylinus, 2020).

Modernization theory argues that investment and international market expansion will increase the economy. Indonesia is a developing country and wants to try to be able to build its own country. To achieve this desire, Indonesia is opening itself up by connecting with other nations to support the national economic development. Soeharto's regime had implemented modernization theory to invite foreign investors, especially long-term investments. The intersection between foreign investment practices impacted Indonesia's social, economic, and environment. Since its inception in 1996, Freeport has contributed

USD 825.7 million to the Partnership Fund for Papuan community development. Between 2000 and 2019, Freeport invested more than USD 95 million to develop three villages in remote highland areas that benefited about 1,000 Papuans. From 2004 to 2019, the total revolving fund that Freeport disbursed to the assisted entrepreneurs reached IDR 61 billion (FI, 2019). However, this contribution caused acute Indonesia's dependency on Freeport business and Papua underdevelopment.

Developing countries' economic dependence on the industrialized core is the primary cause of economic underdevelopment and backwardness in developing countries. Peripheral countries' dependency allows developed countries to dictate the prices of the bilateral trade with the periphery and maintain an exploitative trade relationship evident in the unequal exchange. Hence, as a multinational company from the United States, Freeport is the core, and Indonesia is the periphery in the world system. Indonesia and Freeport are the core and the periphery relation due to the interest of both parties in the capitalist economic system. Freeport has capital from developed countries that aim to do business, and its production in the mining sector requires resources. While, Indonesia, a periphery, provides natural resources and human resources in mining sites and labor providers for Freeport business to improve foreign direct investment for Indonesian economic growth. Indonesia has been dependent on Freeport in many sectors, such as education. From 1992 and 2020, Freeport has given US\$ 1.79 billion for community development (FI, 2021). Freeport also provides financial assistance through revolving funds for the Papua community as loans, developing Micro-Small and Medium Enterprises, and hiring many Indonesian people. If the Freeport contract discontinues, it may affect the regional economy and Papuan household economy.

International trade relations are polarising – one side is privileged and continues to dominate, and the other is dominated and abused (Halperin-Donghi, 1982). Indonesia benefited from PT Freeport between 1992 and 2021 by around US\$ 70,2 billion, consisting of indirect benefits of US\$ 49.1 billion and direct benefits of US\$21.1 billion. Meantime, Freeport contributed 0.79% to Indonesia's GDP, 34% to Papua Province, and 67.7% to Mimika Regency in 2018. PT Freeport Indonesia also provided 210.000 job opportunities for 30.5% of Papua residents and 69.5% resident non-Papua in 2019 (FI, 2021). Thus, it is clear how Indonesia has an economic dependence on Freeport. The capitalist economy world system weakens Indonesia's bargaining power when dealing directly in negotiations with Multi-National companies, such as Freeport. Therefore, in every extension of the contract of work between Indonesia and Freeport, Indonesia tends not to have greater bargaining power than Freeport. Freeport as the owner of capital from the core tends to use its strength in the economic field, namely excessive investments, to suppress production factors owned by Indonesia as a peripheral country. Freeport's economic power has developed into political power to the point where Freeport can pressure the Indonesian government to expand the contract in 2018, 3 years before the end of 2021.

In the beginning, the foreign firm may make a substantial contribution to the capital, skilled personnel, technology, management, etc. Eventually, The corporation's net contribution to the country's development capabilities becomes negligible because they tend to manipulate the host country and retain skills and technology monopoly (Sunkel, 1972). In 1995, an American agency, namely the Overseas Private Investment Corporation (OPIC), revoked Freeport's insurance due to environmental crimes committed by PT. Freeport Indonesia, the Pension Foundation in Norway, also withdraw its shares from Freeport (Rais, 2008). In 2006, Freeport acquired Philip Dodge Corp by paying cash 70%

of the 25.6 billion dollars (Bawden, 2006). Indonesia produces around 4% of global gold production and a half from the Grasberg mining, the world's largest gold reserves, 67.4 million ounces (Indonesia Investments, 2015). Thus, this company's wealth may be higher than what had reported in Indonesia. Despite economic contribution, Freeport Indonesia has done damage to the ecosystem, proved by the habitat destruction in the Aijkwa, Aghawagon, and Otomona rivers, piles of mining waste, and tailings aid which reached 840,000 tons (WALHI, 2006). Based on Indonesian Supreme Audit Agency data in 2017, Indonesian environmental loss due to Freeport operation was also almost IDR 185 trillion or US\$ 13 billion (BPK, 2017). Between 2019 and 2020, Freeport gained profits respectively US\$ 166 million and US\$366 million, but it did not pay any dividend to Indonesia (DMC, 2020).

## 5. Conclusion

Among 34 provinces in Indonesia, Papua has been granted special autonomy since 2001 with a high budget for development. Even though multinational companies from the United States of America, namely Freeport, also have been operating in Papua since 1967 and contribute to economic growth, Papua has the highest poverty rate in Indonesia. Hence, this study explains modernization and dependency theory in Papuan economic development. This study learns that European colonialization relates to Papua underdevelopment. Marxism theory is also relevant to Freeport business that controls the state elite in Indonesia by giving many tributes during the Soeharto regime to secure its business. The Soeharto regime supports Freeport business through a human rights violation by the military and an agreement that disadvantages indigenous people in Papua. When analyzing economic development, Papua remains in the traditional stage that relies on the primary sector. Kinship also continues practice in executive and legislative in Papua, supported by Special Autonomy Law. Despite Soeharto's policy to encourage investment for Indonesian economic growth, his policy caused acute dependency and environmental damage. Hence, Indonesia loses its bargaining power with Freeport and allows extending the contract until 2041. Due to the time limit, this study did not analyze the effectiveness of the Freeport program in economic growth and how the current political elite relates to Papua complex issues, so more studies may consider these issues to realize sustainable development goals target.

## Acknowledgment

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