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Political Economy of Large-Scale Agricultural Investment: Balancing Local Livelihoods and Economic Growth

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Abstract: This study aims to analyse the dynamics of power relations among the state, corporations, and indigenous communities in large-scale agricultural investments in South Papua, focusing on how these dynamics affect the balance between regional economic growth and the sustainability of local livelihoods. Using a qualitative field research approach through in-depth interviews, direct observation, and policy document analysis, the research reveals that asymmetrical power relations exclude indigenous communities from critical decision-making processes, resulting in the loss of customary land, erosion of subsistence strategies, and increased economic vulnerability. These findings demonstrate that while investments contribute to macroeconomic growth, they often fail to distribute benefits fairly to local communities, leading to social tensions and conflict. The study theoretically contributes by integrating political economy and sustainable livelihood frameworks to comprehensively understand livelihood disruption in frontier regions. Practically, it proposes a conceptual model to guide policymakers and investors in designing participatory, socially inclusive investment policies that prioritise indigenous rights and ensure fair benefit distribution. The results highlight the urgent need for regulatory reforms and participatory mechanisms to achieve sustainable and equitable development in South Papua.

Keywords: Political Economy; Large-Scale Agriculture; Local Livelihoods; Direct Observation; Critical Decision-Making Processes; Economic Vulnerability; Sustainable Development.

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1. Introduction

Large-scale agricultural investment has become a global trend in food security and economic growth, especially in developing countries with vast land availability, such as Indonesia. However, expanding such investments often creates a dilemma between the national interest of increasing food production and the rights of local communities who depend on the land for subsistence [16]. In South Papua, the food estate paper designated as a national strategic program presents both opportunities and threats: on the one hand, it holds the potential to increase the Regional Gross Domestic Product (RGDP), but on the other hand, it amplifies the risks of land conflicts, social inequality, and environmental degradation if not accompanied by adequate protection

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policies [11]. The tension between national development goals and the sustainability of local livelihoods in this frontier region represents a real challenge that requires in-depth examination. Academically, many previous studies have highlighted agrarian conflicts and the environmental impacts of plantation investments in Papua and eastern Indonesia; however, research that integrates analysis of power relations in the investment process with a sustainable livelihood perspective remains very limited [9]. This research gap becomes even more apparent when dominant approaches thus far have focused primarily on measuring macroeconomic impacts without examining how the political-economic processes behind investments shape inequality and the vulnerability of indigenous communities [1].

Therefore, a study capable of exploring the experiences of affected communities within the power relations surrounding large-scale agricultural investments in South Papua is urgently needed to address this gap in the literature. Conceptually, this topic is closely related to the Political Economy of Development theory, which examines power dynamics and political-economic interests in development processes. It is also related to the Sustainable Livelihood Framework, which assesses the impacts of development on the livelihood assets of local communities [14]. The integration of these two approaches enables the research to comprehensively understand how power relations intertwine with shifts in the livelihood strategies of communities within the context of food estate papers in frontier regions [10]. This understanding helps explain the factors that make investment policies prone to creating structural injustice for local communities. Explicitly, this study aims to identify the actors, interests, and structures of power relations in large-scale agricultural investments in South Papua; analyse the socio-economic impacts of the investments on the livelihoods of local communities; and formulate policy recommendations to ensure that investments align with the protection of indigenous people's rights. The research questions addressed in this study include:

- What is the structure of power relations among state actors, private companies, and local communities in large-scale agricultural investment papers?
- What are the main impacts of these investments on local communities' access to land, employment, and income?
- What policies can balance economic development goals with the social sustainability of local communities?

The scientific contribution of this article lies in providing new empirical evidence on the power relations formed within large-scale agricultural investment papers in South Papua, as well as an in-depth explanation of the impacts of these investments on the livelihood strategies of indigenous communities. This article offers an integrated analysis of political economy and sustainable livelihoods, a conceptual approach rarely used in similar studies. This strengthens theoretical understanding and provides a foundation for policymakers to design fairer and more inclusive investment regulations [12].

2. Literature Review

The main theory underlying this study is the Political Economy of Development, developed by scholars such as Robert Cox and Susan Strange, who emphasise the importance of understanding power relations, economic interests, and political dynamics in every development process, including large-scale investments in the agricultural sector [7]. This theory is relevant because investment papers in frontier areas such as South Papua often become arenas of contestation among the interests of the state, corporations, and local communities. Additionally, the Sustainable Livelihood Framework introduced by DFID provides an analytical framework to assess how the physical, social, human, natural, and financial assets of affected communities are impacted by development interventions [5]. An integrative understanding of these two frameworks enables a deeper analysis of the balance between economic growth and the sustainability of local livelihoods. A review of previous studies shows that food estate papers in Papua and eastern Indonesia have been widely examined from environmental and land conflict perspectives. For instance, Tjilen et al. [3] found that oil palm plantation expansion in Papua generates negative externalities, including the loss of traditional livelihoods and income inequality [8]. Another study in Papua New Guinea revealed that the formalisation of customary land is often exploited by local elites and large investors, thereby disadvantaging small farmers [9].

Meanwhile, research in Merauke by David et al. [15] identified how the discourse of a food crisis has been used as a means of political legitimacy to facilitate the dispossession of customary land by large corporations. However, a clear research gap remains regarding the in-depth analysis of how power relations among state actors, private investors, and local communities influence the sustainability of livelihoods in the context of large-scale agricultural investments in South Papua. Previous studies have focused on land conflicts or environmental degradation, but few have examined the political-economic dynamics and strategies for livelihood protection simultaneously [17]. Moreover, quantitative research has dominated the field, while in-depth qualitative studies that reveal the narratives of local community experiences are still very limited. This article positions itself to fill that gap by qualitatively analysing how large-scale agricultural investment in South Papua shapes power relations that determine the sustainability of local communities' livelihoods. The research integrates the political economy theory and the sustainable livelihood framework contextually into the case of South Papua; thus, it is expected to provide new contributions to the literature on economic development in frontier regions and inform the formulation of more inclusive investment policies.

From a theoretical perspective, previous research has largely employed macroeconomic analysis models emphasising the impact of investment on regional GDP growth or per capita income, such as the study by Phoek et al. [13] in Papua. However, this approach tends to overlook the sociocultural aspects that influence the success of investments in regions with indigenous communities. Other methodological trends, such as the study by Emonts-Holley et al. [18], have focused on input-output approaches to measure the investment's multiplier effect, but have failed to examine the socio-political dynamics that determine the distribution of economic benefits. This highlights the importance of developing a new strategic approach. In summary, this literature review underscores the necessity of integrating political economy theory, which focuses on power relations, with the sustainable livelihood framework, which evaluates the impact of investments on various aspects of community livelihoods. This approach is deemed more capable of addressing the complex dynamics of large-scale agricultural investments in South Papua, especially in ensuring a balance between economic development goals and the protection of local community rights [4].

3. Research Methods

The research used in this article is qualitative, employing a case study strategy to deeply explore the political-economic phenomena of large-scale agricultural investment and its impacts on the livelihoods of local communities in South Papua. The case study approach was chosen to enable an in-depth understanding of the dynamics of power relations, perceptions, and experiences of affected communities in the specific context of the research location [1]. The data sources used consist of primary and secondary data. Primary data were obtained through in-depth interviews with key informants, including traditional leaders, village heads, local farmers, regional government officials, and representatives of companies involved in large-scale agricultural investments in the food estate districts of South Papua. Additionally, interviews were conducted with representatives of oil palm plantation companies operating in Merauke Regency. In addition, focus group discussions (FGDs) were conducted with two groups of community members: those who accepted and those who rejected land compensation in three sample villages. This aimed to uncover collective perceptions and social dynamics not revealed through individual interviews conducted in each affected village. Secondary data were obtained from policy documents, investment paper reports, academic publications, regional statistical data, and relevant local media archives [6].

Primary data collection techniques included semi-structured interviews designed based on open-ended question guides, enabling the extraction of contextual and in-depth information related to power relations, land access, and community livelihood strategies. Field observations were also conducted to confirm interview findings by directly observing the community's socio-economic conditions and the infrastructure of investment papers. Documentation techniques were applied to collect secondary data from government policies and company reports, strengthening data triangulation [19]. Inclusion criteria for data encompassed information directly related to the experiences of communities affected by the investments, official documents published within the last five years, and academic publications relevant to the political economy of large-scale agricultural investment in frontier regions. Conversely, data in the form of opinions without empirical evidence, unverifiable reports, or sources older than ten years without clear theoretical significance were excluded from the analysis.

The unit of analysis in this research was individuals and groups of local communities directly affected by agricultural investments, particularly in the food estate districts of South Papua. Research subjects included traditional leaders, village heads, smallholder farmers, and regional government officials with authority over the licensing and supervision of investments. Informants were selected using purposive sampling, considering their direct involvement in investment issues and local livelihoods [12]. The data analysis technique employed was thematic analysis using an inductive-deductive coding approach. The analysis process began with transcribing the interview results, then conducting open coding to identify initial themes emerging from field data, followed by axial coding to organise the main themes according to the theoretical frameworks of political economy and sustainable livelihoods. Data triangulation was done by comparing interview findings, observation results, FGD outputs, and policy documents. NVivo 12 software was used to facilitate the coding process, organisation, and visualisation of relationships among the identified themes [6].

4. Research Findings

The results of NVivo data coding from this qualitative research revealed four key indicators that reflect the political-economic dynamics of large-scale agricultural investment in South Papua, based on thematic analysis of in-depth interviews, field observations, and policy documents. These indicators are presented in Table 1.

Table 1: Political-economic dynamics of large-scale agricultural investment in South Papua

Main Node	Sub-node/Child Node	Definition/Brief Description
Actors	Dominance of State & Corporations	The state/companies act as dominant parties, determining the direction of policies.

Actors	Information Inequality	There are disparities in access to information between local communities and power holders.
Negative Externalities	Loss of Traditional Livelihoods	Loss of sago gardens, cassava fields, and forest products due to land conversion.
Negative Externalities	Labor Dependency	Shift to daily wage labour with unstable income.
Negative Externalities	Ecosystem Degradation	Soil degradation & loss of biodiversity due to mechanisation.
Regulatory Support	Absence of Implementing Regulations	Lack of technical rules to ensure fair compensation & customary participation.
Regulatory Support	Investor-Centric Legal Certainty	Regulations focus solely on providing legal certainty for investors, not for locals.
Social Change	Horizontal Conflict	Tensions between groups accepting and rejecting land compensation.
Social Change	Income Inequality	Community income drops by up to 40% after paper implementation.
Income Disparity	Household Economic Decline	Decrease in the average monthly income of affected families.
Income Disparity	Lack of Adaptation Programs	Absence of training or skills development to face economic changes.

The data were processed and analysed using NVivo 12 software.

The results of this analysis highlight the key indicators of actors, reflected in the dominance of state and private companies in the decision-making process for agricultural investments. This dominance systematically marginalises local communities regarding access to information, involvement in land negotiations, and participation in policy formulation related to the food estate paper. Many informants emphasised that paper socialisation activities were formalities, lacking substantive dialogue with communities. This severely weakened their bargaining position and left them without significant influence over policy direction or paper implementation (FGD results with community leaders from each village). Furthermore, document analysis revealed a substantial information gap between companies and indigenous communities, particularly concerning compensation values and land ownership boundaries. This inequality creates serious potential for agrarian conflicts, as communities lack adequate data to assert their rights on an equal footing (interviews with environmental NGOs). This information asymmetry reinforces structural injustices that threaten the social sustainability of the food estate paper moving forward.

The second indicator, Negative Externalities, reveals significant impacts on land access and changes in the livelihood patterns of local communities in South Papua. This is marked by losing their ability to maintain traditional livelihoods due to land acquisition for the food estate paper. Farmer informants reported that once their customary lands were taken, they lost key food sources, including sago gardens, cassava fields, and forest areas, previously providing non-timber forest products for family consumption and economic needs (FGD with indigenous communities). Their dependence on subsistence systems was disrupted, forcing most families to become daily wage labourers with unstable incomes far lower than their previous earnings from their gardens. Field observations showed drastic changes in farming patterns and activities among local farmers. Companies introduced heavy machinery and mechanisation without involving local farmers as partners in the work. This mechanisation displaced their lands and disregarded local knowledge in land management, resulting in ecosystem damage to traditional gardens, declining soil fertility, and reduced diversity of local food crops. These conditions limited farmers' ability to develop adaptive strategies to economic changes triggered by large-scale investment papers [13].

Moreover, policy document analysis indicated that the government's focus within the food estate paper has focused on achieving national food production targets to support macro-level food security. These policies were not accompanied by adequate mechanisms to protect the sustainability of local livelihoods, such as skills training programs or fair compensation schemes. As a result, indigenous communities have become increasingly marginalised economically and face greater vulnerability due to the loss of their main sources of livelihood [12]. The third indicator, Regulatory Support, as a pro-indigenous policy measure, is reflected in the failure to implement regulations that fully protect indigenous rights, resulting in very low participation of local communities in development processes. Interviews with traditional leaders and village officials revealed the absence of detailed regulations specifying fair compensation and mechanisms for indigenous community involvement at every stage of investment papers, including planning, implementation, and evaluation [9]. This has led to gaps in decision-making processes and weakened the position of indigenous peoples as customary landowners. Further, document data showed that there is still no concrete social protection plan for farmers who have lost their land due to the food estate paper. At the same time, existing regulations prioritise legal certainty and benefits for investors.

This reflects a policy orientation that does not favour the socio-economic security of affected communities, potentially increasing social vulnerability and widening structural inequalities in development [10]. The fourth indicator, Social Change, was clearly revealed through interviews that uncovered emerging tensions among community groups due to the investment paper, particularly between those who accepted compensation and those who rejected land acquisition. The lack of clarity over customary land ownership status and discrepancies in compensation values were the main triggers of horizontal conflicts within communities, as reported by several traditional leaders who observed growing social tensions at the village level since the paper began [7]. Data collection results also identified Income Disparity as a supporting thematic category, where the average monthly income of community members who shifted from farming to wage labour dropped dramatically by up to 40% compared to pre-paper conditions. Household income reports from three sample villages recorded this downward economic trend. More concerningly, the reports showed the absence of skills improvement programs to help communities adapt to economic changes, further exacerbating social vulnerability and widening welfare disparities.

5. Discussion

5.1. Asymmetric Power Relations and Decision-Making Processes

The findings of this study affirm that asymmetric power relations among state actors, corporations, and local communities are the primary factor triggering inequalities in the distribution of benefits from large-scale agricultural investments in South Papua. These findings directly address the research objectives: identifying actors, interests, and power dynamics within the food estate paper, and analysing their influence on balancing regional economic growth with the sustainability of local livelihoods [11]. The dominance of the state and private corporations in decision-making is reflected in socialisation practices that remain mere formalities, lacking substantive dialogue, and limiting indigenous communities' access to crucial information such as compensation values and land boundaries. This weakens their bargaining power and places them at a significant disadvantage in negotiations. Empirical evidence from in-depth interviews, field observations, and document analysis confirms that local communities have lost control over customary lands and traditional livelihood resources, including sago gardens, cassava fields, and forests essential for food security and family income. The transition from subsistence farming has forced many households to work as daily labourers, facing unstable incomes that have declined by an average of up to 40% compared to their previous earnings. This severance from traditional subsistence systems, once the backbone of household food security, increases the economic vulnerability of indigenous communities.

5.2. Capital Accumulation and Neglect of Customary Rights

Analysis of the findings using the Political Economy of Development framework reveals that the food estate paper in South Papua clearly manifests capital accumulation practices that disregard indigenous land rights. Investment policies have been oriented more toward achieving national food production targets than safeguarding local socio-economic rights. This mirrors phenomena in Papua New Guinea, where land legalisation policies have been instrumentalised to consolidate the interests of elites and large corporations at the expense of indigenous empowerment [9].

5.3. Livelihood Asset Erosion in Indigenous Communities

From the Sustainable Livelihood Framework perspective, this research demonstrates a severe erosion of indigenous livelihood assets that directly threatens the sustainability of local communities. The first affected category is natural assets, as indigenous peoples lose critical resources such as land and forests due to widespread land acquisition and the introduction of mechanised agricultural practices. This loss deprives them of essential spaces for traditional farming and gathering activities that have long supported household food security and income. The second category is social assets, which are weakened as horizontal conflicts emerge within communities. Disputes between groups accepting or rejecting compensation fracture social networks, undermining collective solidarity and resilience. Third, human capital is eroded as traditional knowledge and indigenous agricultural practices are marginalised by externally imposed technologies that do not consider local contexts. Together, these losses disrupt subsistence strategies, leading to declining incomes and diminished capacity for communities to adapt effectively to the rapid socio-economic changes driven by the investment paper [8].

5.4. Regulatory Gaps and Power Imbalances

The weak regulatory support is a fundamental driver of inequality in implementing large-scale agricultural investments. Interviews with traditional leaders and village officials underscore a critical gap: the lack of regulations stipulating mechanisms for meaningful indigenous community involvement across all paper stages, including planning, implementation, and evaluation [3]. This regulatory void leaves indigenous communities with no formal avenue to voice concerns or influence decisions, effectively excluding them from processes that profoundly impact their livelihoods and territories. Such exclusion not only undermines the principles of social justice but also contravenes the spirit of fair and inclusive development enshrined in national and international frameworks. Analysing policy documents and stakeholder testimonies reveals that existing regulations overwhelmingly prioritise providing legal certainty for investors, often at the expense of socio-economic protections for local communities. This investor-centric orientation of regulatory frameworks exacerbates the power imbalance between corporations and indigenous peoples, as it facilitates rapid land acquisition while neglecting safeguards for traditional land rights and livelihoods. As a result, communities face increased vulnerability to land dispossession, economic marginalisation, and social tensions stemming from unmet expectations of fair treatment. Without comprehensive legal instruments mandating equitable participation and benefit-sharing, investments in Papua Selatan risk perpetuating structural injustices and fueling prolonged agrarian conflicts [2].

5.5. Social Change and Conflict Dynamics

The findings identify escalating horizontal conflicts among community groups, especially between those who accepted compensation and those who resisted land acquisition. These tensions are fueled by unclear customary land ownership status and inconsistent compensation amounts, which create distrust and social divisions within villages. Such ambiguity undermines social cohesion and leads to deep-seated resentment, making it difficult for communities to engage constructively in dialogue or collective decision-making [3]. The conflicts highlight that social discord is driven not only by economic externalities but also by governance failures and inequitable benefit distribution mechanisms. The absence of clear regulations and effective dispute resolution exacerbates tensions, as communities lack trusted channels to voice concerns or seek redress. This situation underscores the urgent need for transparent, participatory governance frameworks that guarantee fair compensation, clarify land rights, and facilitate inclusive dialogue. Such frameworks can reduce social conflict and foster sustainable, equitable development in indigenous areas affected by large-scale agricultural investment.

5.6. Comparing Findings with Existing Studies

Compared to prior studies, these findings align with Tjilen [2], who observed that palm oil investments in Papua primarily benefit corporations. At the same time, indigenous communities bear the brunt of land loss and ecosystem degradation. However, the findings contradict the claims by Tjilen [2], which suggest that industrial investments in Papua have significantly reduced poverty. Field data from this research demonstrate that most investment benefits accrue to companies and local elites, not to indigenous communities whose lands were appropriated. This disparity highlights how macro indicators like regional GDP can obscure the realities of household-level income inequality and fail to capture the true welfare status of local populations.

5.7. Scientific Contribution and Policy Implications

Overall, this study provides robust empirical evidence that large-scale agricultural investments lacking substantive participation mechanisms, protection of customary rights, and livelihood sustainability guarantees only reinforce indigenous communities' socio-economic exclusion and risk fueling prolonged agrarian conflicts. Therefore, future investment policies must position indigenous communities as active subjects of development, rather than passive objects, to ensure that national economic objectives and local livelihood sustainability can be achieved equitably. The scientific contribution of this research lies in its new empirical insights, highlighting the absence of policies protecting customary rights as a key driver of socio-economic exclusion. Additionally, this study underscores the importance of establishing substantive participation mechanisms for indigenous communities at every stage of investment papers as a prerequisite for fair and sustainable agricultural investment [15]. Integrating political economy and sustainable livelihood analyses within fieldwork in frontier regions enriches the existing literature on investment policy in Eastern Indonesia.

5.7.1. Conceptual Model: Balancing Local Livelihoods and Economic Growth in South Papua

South Papua, as a development frontier, faces significant challenges in balancing the goals of national economic growth through large-scale agricultural investment with the sustainability of local livelihoods. This study emphasises that the imbalance of power relations between the state, corporations, and indigenous communities contributes to socio-economic marginalisation, the loss of customary (ulayat) land, and the erosion of traditional livelihood assets. A model called "Balancing Local Livelihoods and Economic Growth in South Papua" has been developed, which maps the interconnections between actors, regulations, livelihood assets, and socio-economic outcomes, as illustrated below (Figure 1). This model is expected to serve as an analytical framework for policymakers to assess whether investment policies have integrated the protection of indigenous rights and substantive participation, rather than being solely oriented toward macro-level production targets. In addition, this model can serve as a practical guide for companies in designing community engagement strategies that support social sustainability, thereby reducing the risk of horizontal conflicts arising from unfair compensation and information asymmetry.

Finally, this model provides a foundation for developing evaluation indicators to measure the balance between economic growth and the well-being of local communities, including indicators such as increased income for indigenous households, protection of livelihood lands, and community participation in decision-making. By adopting this model, investment policies and practices in South Papua are expected to create socially just, sustainable development and strengthen indigenous communities' trust in the development process. This model also offers conceptual and practical contributions for designing investment policies in other frontier regions with similar social contexts in Indonesia.

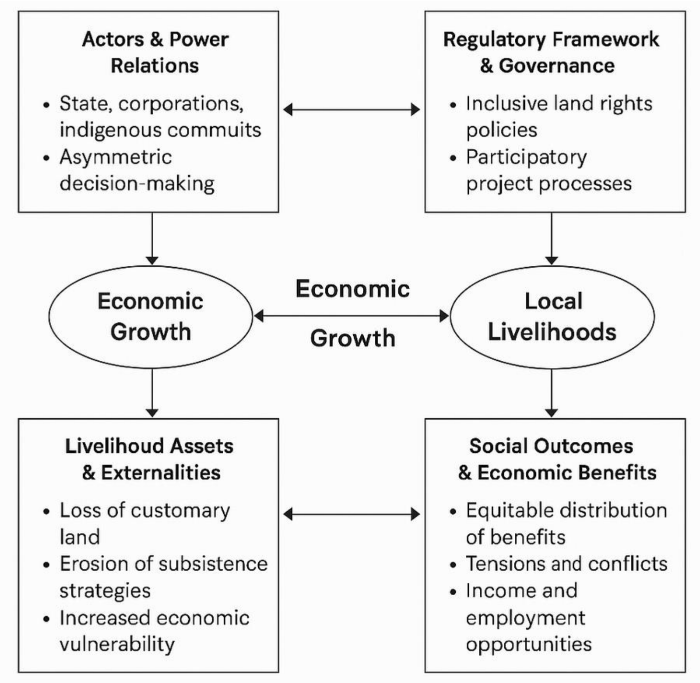

Figure 1: Model balancing local livelihoods and economic growth

6. Conclusion

This study reveals that the imbalance of power relations among the state, corporations, and indigenous communities is a key factor in the unfair and unsustainable distribution of benefits from large-scale agricultural investments in South Papua. Limited access to information, merely formal participation, and weak protection of customary rights have pushed local communities to lose their lands and traditional sources of livelihood, resulting in increased economic vulnerability and social tensions at the community level. In-depth analysis of the empirical findings shows that the loss of livelihood assets, such as sago gardens and customary fields, reduces household income and disrupts subsistence strategies that have long supported the economic resilience of indigenous communities. The absence of clear regulations to guarantee meaningful participation and fair compensation further exacerbates injustice. At the same time, macro indicators like regional GDP growth have been proven inadequate in reflecting the actual welfare of local communities. The main contribution of this research lies in integrating the analytical framework of the political economy of development with the sustainable livelihood approach, which provides a comprehensive perspective on how investment policies in frontier regions impact socio-economic balance or inequality.

Conceptually, this study offers the Balancing Local Livelihoods and Economic Growth in South Papua model, which maps the interconnections among actors, regulations, livelihood assets, and socio-economic outcomes. This model can be used as an analytical framework for policymaking and as a practical tool for designing inclusive investment programs. Theoretically, this study enriches understanding of agrarian conflict dynamics and social exclusion in the context of development in border regions prone to power asymmetries. The implications of these findings emphasise the urgent need for legally binding implementing regulations to ensure the substantive involvement of indigenous communities at every stage of investment papers—from planning through evaluation —and to guarantee fair compensation mechanisms and the protection of livelihood assets. Further research is recommended to examine power relations in similar investments across other frontier regions and to develop quantitative indicators to precisely measure the direct impact of investments on local community welfare. Strengthening evidence-based research and policy is a strategic step to prevent agrarian conflicts and to create socially just and sustainable economic development.

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