



The challenges, development, —————
and promise of

Timor-Leste

東帝汶 —————
挑戰、發展與願景

Edited by ————— *Ip Kuai Peng, Francisco José Leandro, Danilo Afonso-Henriques*

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Cover Photo and Design

Concept: At the dawn of the third millennia and twenty-first century, Timor-Leste emerged as the world's newest and youngest nation-state. Following on from half a millennium of foreign colonial occupation and close to a quarter of a century of neo-colonial occupation, the determined people of the small half island, that straddles the dividing line that separates the Asian and Pacific regions, commenced the arduous task of nation building. The book cover photo contains images of the sea and ships, elements that brought Timor's first contact with traders both from China and European powers and that continue to be defining elements in relation to its defence, economic and trade strategies. The photo also represents the Fatucama Peninsula in Dili, which is home to the statue of Cristo Rei (Christ the King), an element depicting the dominance and importance of the Catholic faith on the island. Likewise, the two young adolescents, are depicting the prevalence of an extremely young demographic population, with a median age of 19, and issues relating to the barriers it is still trying to overcome in terms of active engagement and participation of girls and women in the development of the country. To symbolize the relationship between China and Timor-Leste, the flags of both countries are displayed on the spine of the book (Photo credits: Cedric Arnold, 2018 – Rights purchased).

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***“Ita atu tau belu, uma dook malu,
Kuda uma tan malu, lei tau belu.”¹***

We became friends, even with our houses far apart,
Place our houses closer together, and our friendship will flourish.

Morris, H. C. (Harold Clifford) (1984). *Ai knananuk ho ai knanoik nousi rai Timor,
rai nousi lafaek dukur = Verse and legends from Timor; the land of the sleeping
crocodile*. H.C. Morris, Frankston, Vic.

¹ Tetun-Terik is spoken in the south and southwestern East-Timor coastal regions. Tetun-Belu, or the Belunese dialect, is spoken in a central swathe of the island running from the Ombai Strait to the Timor Sea. Tetun-Dili, or Tetun-Prasa (literally “city Tetum”), is spoken in the capital Dili, and its surroundings, in the north of the country.

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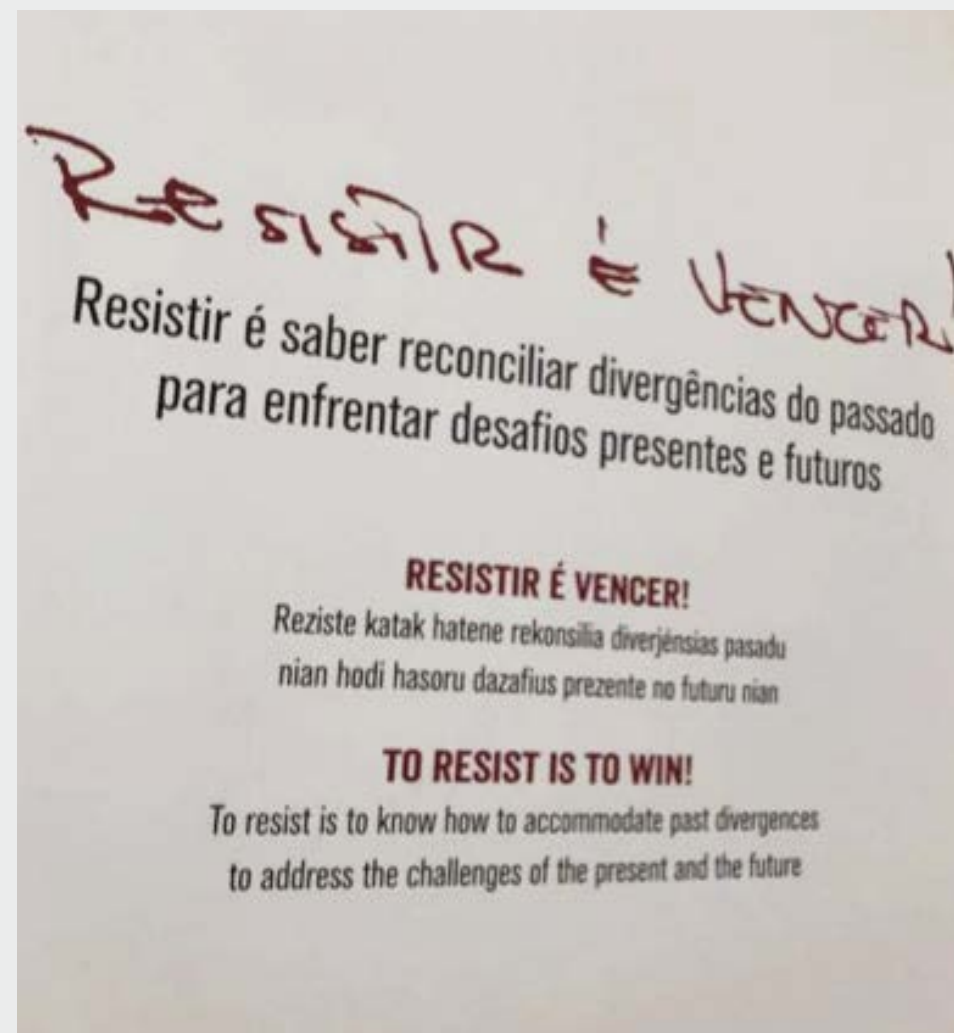
I do thank you for your invitation to the best organized and most stimulating conference on East Timor I have attended for at least 20 years (and the first in Macau) since around 1994.

Wishing you success with the book.

Regards,

Geoffrey C. Gunn.
(Emeritus Professor at University of Nagasaki, Japan)

(Message addressed to the editors and received by email on 27/11/2018)



National Archive and Museum of History (Díli)
Photo Credits: Pengqin Chen 陈朋亲 (December 2018)

Foreword



It was an honor to be present on the occasion of the first event organized by City University of Macau's think tank for strategic studies on Timor-Leste: the Timor-Leste Studies International Series Symposium "Transitions and the Belt & Road Initiative (B&RI)".

Macau and Timor-Leste share a common and long history spanning several centuries, and there is a reasonable amount of literature on the historical aspects of commerce and trade and the influence of Portuguese settlement. In the twenty-first century, both the Macau Special Administrative Region and the Democratic Republic of Timor-Leste face new challenges and opportunities, and it has been a little over a decade and a half ago since the sovereignty of Macau was transferred to the People's Republic of China and independence was restored to Timor-Leste.

From the onset of the second millennium and within the framework of bilateral relations between the Land of the Dragon and the Land of the Crocodile, engagement between the two countries has intensified with Macau functioning as a platform. State institutions engage on a bilateral level through economic and commercial cooperation as well as through professional development and training agreements facilitated by the Forum for Economic and Commercial Cooperation between China and the Portuguese-Speaking Countries (Macau), commonly referred to as the "Forum of Macau." Macau is also host to a variety of cultural events throughout the year.

Within this context of increasing engagement, tertiary institutions have sought to examine different perspectives and actors and to address the challenges and development issues confronting Timor-Leste and Macau. This collection of essays, the result of the first symposium specifically dealing with Timor-Leste at the City University of Macau, is indicative of efforts to uncover the complexities and potential of economic, social and institutional growth and development.

In the first section of this book, Professor Priscilla Roberts looks back at Cold War geopolitics and its effects on East Timor's quest for self-determination. Carlos Branco then examines Timor-Leste's exercise of sovereignty and analyzes its performance as a small state in terms of foreign policy development, its understanding of the various forms of power through its regional engagement with its two larger neighboring powers, Australia and Indonesia, and the rising superpower that is China. Dr. Sara Niner rounds off the first part of the book by looking critically at the role and participation of women in contemporary Timorese society through the lens of gendered political economic, rather than social or cultural, structures.

The middle section focuses on Timor-Leste's engagement with China's One Belt One Road initiative (B&RI). Dr. Enrique Martínez-Galán from the Asian Development Bank looks at available financing options for OBOR initiatives and how Timor-Leste has been financing its infrastructure development needs. Dr. Joao da Cruz Cardoso examines China's aid to Timor-Leste and its increasing economic engagement with Timor-Leste and draws lessons that will benefit the economic and social lives of all Timorese. Professor Fernando Simões elaborates on the legal protection mechanisms to safeguard the investment climate in Timor-Leste and considers different ways forward. And finally, Professor Sufian Jusoh provides us with the contextual background and rationale that are driving the reform agenda of the newly enacted Private Investment Law.

Finally, the closing section of the book and the conclusion section, carefully prepared by Professor Francisco Leandro, looks into the future with a meaningful final recommendation. Professor Vasco Becker-Weinberg discusses the international importance of the half-island nation state and its responsibility with regard to the conservation of marine biodiversity. Dr. Danilo Lemos Henriques makes a comparative study on the development trajectories of both the Macau Special Administrative Region and the Democratic Republic of Timor-Leste, and how their respective geostrategic policies will pay dividends

in the future. Dr. Luis Bernadino examines the historical context of the establishment of the Defense Force of Timor-Leste (F-FDTL) from its days as the resistance guerilla army 'Falintil' to the impact of the new defense force on regional security.

All in all, the papers contained in this book encapsulate the journeys of both Macau and Timor-Leste, and by extension, China. The contributions look at the impact and possible ramifications of the B&RI and offer prospects for future development taking into consideration aspects of sustainability.

This first gathering of academics, scholars and professionals with a keen interest on issues that are of mutual importance to the People's Republic of China, the Democratic Republic of Timor-Leste and the Macau Special Administrative Region has yielded a fruitful dialogue as well as this publication, which I am certain will form the basis for future ideas and debate on our shared future.

Bedito dos Santos Freitas

H.E. Ambassador of the Democratic Republic of Timor-Leste to the People's Republic of China
Macau Special Administrative Region of the People's Republic of China, January 2019

Opening Address

Distinguished Professor Zhang Shu Guang, Rector of the City University of Macau;
Honorable officials of the Special Administrative Region of Macau;
Distinguished Professor Francisco Miguel Martins, Rector of the National University Timor Lorosa'e;
Distinguished guest speakers;
Esteemed academics;
Fellow Timorese;
Ladies and gentlemen;

Good morning. It is an honor to be here today on the occasion of the first event organized by the think tank for strategic studies on Timor-Leste: the Timor-Leste Studies International Series Symposium "Transitions and the Belt & Road Initiative." Macau and Timor-Leste share a common and long history dating back to the sandalwood trade in the thirteenth century through to administration under the Portuguese, as well the difficult times surrounding Timor-Leste's struggle for self-determination and beyond. Today, the Macau Special Administrative Region plays a dynamic and privileged role as the platform for Economic and Commercial Cooperation between China and Portuguese-speaking Countries through the "Forum of Macau."

Allow me to commend the efforts and initiative of this august institution, City University of Macau, and in particular Professor Zhang, in the creation of a platform in the field of tertiary education with institutions in Timor-Leste, for example the signing of an MoU with UNPAZ (Universidade da Paz) in Dili and initiatives such as this think tank and symposium, and active engagement with Portuguese-speaking countries as shown by various activities conducted by CityU's Institute for Research on Portuguese-speaking Countries.

At this juncture, coinciding with the fortieth anniversary of China's reform and opening up, we have seen the huge impact that China has made on international and regional economies. We are witnessing China's extensive influence in many spheres, such as economics, education, science and technology and rapid innovation and changes. Within the economic sector, the Belt and Road Initiative, better known as One Belt One Road (OBOR), is "re-opening" historic pathways to a wider connection and greater connectivity, with the ultimate aim of promoting equitable economic growth through bilateral cooperation between China and the countries involved.

This important initiative and program of President Xi Jinping is of great advantage to Timor-Leste, a country surrounded by maritime borders. It is therefore of primary importance to develop logistical and maritime connectivity, facilities for exchange, and processes for a better infrastructure. There is much to be gained by working together in these endeavors, building strong economic relations with China, and efforts to gain accession into the Association of South East Asian Nations (ASEAN).

Timor-Leste's 2011-2030 Strategic Development Plan primarily covers three key areas: social capital, infrastructure, and economic development. We are highly aware that social capital, especially education and training, is the key to improving the life opportunities of our people and to enabling them to reach their full potential to contribute to the socioeconomic development and growth of the country.

In terms of education, it is imperative to undertake an evaluation of the education curriculum to identify and overcome the most pressing challenges and meet the current demands of development; to consider the higher purpose of education, not one based on the old and traditional methods of teaching, but an educational model that is orientated towards entrepreneurship and employment, based on demand and supply and one that develops competencies required in the labor market. For example, Timor-Leste could look into exploiting its strengths, oil and gas, tourism, and agriculture, and adopt an education model that taps into the country's human resources and grooms the nation's youth to compete in the labor markets, develop their potential, gain practical knowledge and know-how, and take their place in the competitive global market.

In this regard, the panels and speakers today give us all an opportunity to discuss and reflect on the development challenges and opportunities for Timor-

Leste, about nation-building, gender issues, economic challenges, security apparatuses, and environmental considerations as well as bilateral engagement between the Democratic Republic of Timor-Leste and the People's Republic of China. Allow me once again to express my sincere appreciation for the invitation to address this assembly of distinguished guests and to commend this initiative to forge closer links between the Macau Special Administrative Region, Timor-Leste and China through educational institutions, academia, research, and think tanks. I wish you all many fruitful discussions, and I look forward to hearing about the different perspectives arising from this symposium.

Thank you ladies and gentlemen / obrigado / xiè xiè.

H.E. Bendito dos Santos Freitas

Ambassador of Timor-Leste to the People's Republic of China

Macau Special Administrative Region of the People's Republic of China, October 30, 2018

Conference Opening Remarks



Honorable Ambassador Bendito Santos Freitas;
Esteemed officials;
Distinguished guests and scholars;
Dear friends, ladies, and gentlemen;

Good morning! On behalf of the City University of Macau and Rector Professor Zhang Shuguang, I am particularly delighted to welcome you all to our university for the first Timor-Leste Studies International Series Symposium. Timor-Leste is a Southeast Asian country and a member of the forum for economic and Trade Cooperation between the People's Republic of China and Portuguese-speaking countries. Timor-Leste is also an important country along "The Belt and Road" possessing plentiful resources and unique geopolitical advantages. In 2013, bilateral relations between the People's Republic of China and Timor-Leste reached a higher level of cooperation and these relations continue with a sound momentum of growth. Without a doubt, Timor-Leste is full of potential as a partner of China and Macau SAR and indeed the promising possibilities that Timor-Leste holds are worth exploring.

With the support of the People's Republic of China and Macau SAR government, the research focus of our university's Institute for Research on Portuguese-speaking Countries is on political, economic, legal, historical, and social perspectives of Portuguese-speaking countries. Our main goal is to explore avenues for greater cooperation between the People's Republic of China and Portuguese-speaking countries.

We have launched various research initiatives focusing on the development of Timor-Leste. In 2018, our institute successfully applied for the Specialized Subsidy Scheme for Training of Bilingual Talents of Chinese and Portuguese Languages and Cooperation of Education and Research for Macau Higher Education Institutions, offered by the Tertiary Education Services Office of the Macau SAR. Our thematic study is on Timor-Leste in transition and the “Belt and Road Initiative.” This is also the first time that our university has been awarded research grants by the Tertiary Education Services Office, Macau Trade and Investment Promotion Institute (IPIM), and Policy Research Office of MSAR Government, which constitutes a breakthrough in the expansion of external research funding sources.

Through our institute as a think tank for regional economic development issues, we hope to develop new ideas and feasible cooperation between the People’s Republic of China, Timor-Leste and the other potential countries, especially within the Belt and Road Initiative. Furthermore, I hope our academic debates will strengthen Macau’s role as a platform for China and Portuguese-speaking countries and dovetail Macau’s integration with The Belt and Road Initiative. I also hope that this symposium, although on a small scale, will inspire every participant to strive for a deeper and better understanding of Timor-Leste.

Finally, I would like to thank you for your contribution and wish all delegates a fruitful symposium.

Thank you very much indeed.

Professor Ip Kuai Peng

Pro-Rector of City University of Macau

VIP Group and Symposium Gallery of Images

City University of Macau, on the 30th of October 2018
T320 – Cultural Centre

Liu Renli, Photographer - City University of Macau, People's Republic of China



▲ VIP officials attending the opening ceremony



▶ Ambassador of Timor-Leste to PRC H.E. Bendito dos Santos Freitas



▲ Symposium General Overview 1



▲ Verbal presentation (Senior Researcher Carlos Martins Branco | Institute of International Relations, Portugal)



▲ Symposium General Overview 2



▲ Verbal presentation (Assistant Professor Vasco Becker-Weinberg | Nova University, Lisbon, Portugal)

▼ Panel chairperson – Dr. Jean Berlie, moderates the open debate



▼ Symposium open debate
Dr. Sara Niner | School of Social Sciences | Monash University, Australia





▲ Symposium speakers and participants

East Timor Studies International Series Symposium

Transitions, Belt & Road Initiative, Macau and Sustainable Development

Program (MSAR, October 30, 2018)

09h30 Open Ceremony
Ambassador Timor-Leste to China, H.E. Bendito dos Santos Freitas
Opening Remarks
Pro-Rector Professor IP Kuai Peng | City University of Macau, China

Group Photo

10h15 Panel I – Transitional Challenges in East Timor

- Panel Chair:** Associate Professor Chao Peng | City University of Macau, China
- Discussant:** Associate Professor Francisco Leandro | City University of Macau, China
- East Timor: Hostage to the Cold War?**
Associate Professor Priscilla Roberts | City University of Macau, China
- Foreign policies of small states - Exploring different perspectives of power: The case of Timor-Leste**
Senior Researcher Carlos Branco | Institute of International Relations, Portugal
- Women and the economy in contemporary Timor-Leste**
Dr. Sara Niner | School of Social Sciences | Monash University, Australia

12h00-13h00 Lunch Break

13h30 Panel II – Belt and Road Initiative and East Timor

- Panel Chair:** Dr. Jean Berlie | Education University of Hong Kong, China
- Discussant:** Emeritus Professor Geoffrey Gunn | Nagasaki University, Japan
| Adjunct Professor Center of Macau Studies | University of Macau, China
- The Challenges and Opportunities of the Belt and Road Initiative for Participating Countries: The Case of Timor-Leste**
Dr. Enrique Galán | Board of Directors | Asian Development Bank, Philippines

Timor-Leste and China relations in the context of infrastructure development
Dr. João Cardoso | Ministry of Development and Institutional Reform, Timor-Leste

Foreign Investment Promotion and Protection in Timor-Leste: Opportunities and Risks
Associate Professor Fernando Simões | Faculty of Law | University of Macau, China

Reforms of the Timor Leste Private Investment Law
Professor Sufian Jusoh | National University of Malaysia, Malaysia

15h45-16h15 Coffee Break

16h30 Panel III – East Timor, Macau and Sustainable Development

Panel Chair: Professor Francisco Miguel Martins | Universidade Nacional Timor Lorosae, Timor-Leste
Discussant: Assistant Professor Chiahsin Leou Eusebio | City University of Macau, China

Timor-Leste and Recent Developments in Ocean Governance
Assistant Professor Vasco Becker-Weinberg | Nova University, Lisbon, Portugal

When the chips are down and the oil runs dry: The economies of Macau and Timor-Leste
Research Fellow Danilo Lemos Henriques | City University of Macau, China

The creation of the East Timor Defense Force and its impact on the regional security architecture
Visiting Professor Luís Bernardino | Centre for International Studies at the University of Lisbon, Portugal

Seminar conclusions and closing remarks

Associate Professor Assistant-Dean IROPC Francisco Leandro | City University of Macau, China

20h00 Official Dinner

Introduction

The Challenges, Development, and Promise of Timor-Leste is the result of an international symposium on Timor-Leste, organized by the City University of Macau on October 30, 2018 and sponsored by GAES (Gabinete de Apoio ao Ensino Superior) of the Macau Special Administrative Region (MSAR) Government. This international symposium was attended by Timor-Leste's Ambassador to the People's Republic of China, representatives of the Commissioner's Office of the Ministry of Foreign Affairs of the People's Republic of China in the Macau Special Administrative Region, representatives of the Forum for Economic and Commercial Cooperation between China and Portuguese-speaking Countries (Macau) and twenty scholars and practitioners from the People's Republic of China, Macau, Hong Kong, Malaysia, Portugal, Australia and Timor-Leste.

Mindful of Macau's role in China's foreign affairs, as well as the mission of the City University of Macau in the educational field, the key objectives of this symposium were:

1. To review the recent history of Timor-Leste vis-a-vis China and regional partners, putting into perspective its current role as an actor in the regional and inter-regional domains;
2. To serve as an academic platform as part of the CityU think tank's efforts to study and analyze current socio-economic development trends in Timor-Leste;
3. To explore opportunities for deeper cooperation in the socio-economic development fields between China and Timor-Leste, and the contribution of MSAR towards this goal;
4. To function as an open academic platform for debate on different perspectives and challenges in the light of Timor-Leste's National Strategic development Plan (2011-2030).

All in all, this book constitutes a material manifestation of the stated objectives, following from the international symposium proceedings. Available in hard copy and in e-book format retrievable from our website (www.cityu.edu.mo), this publication aims to contribute, encourage and facilitate academic research

and to promote responsible policy decision-making processes. The papers in this volume are the result of the academic debate during the symposium with the participation of all guest academic discussants, followed by discussion and suggestions among peers in the period between October 2018 and January 2019. We would like to express our deepest gratitude to the Macau government, diplomats, politicians, scholars, experts, administrative staff, and students for their commitment, support, encouragement and enthusiastic participation.

Macau Special Administrative Region of the People's Republic of China, April 2019

The Editors

Ip Kuai Peng, Ph.D. (Chairperson)

Francisco José Leandro, Ph.D. (Coordinator)

Danilo Afonso-Henriques, Ph.D. Candidate (Assistant-Coordinator)

Chapter I

Transitional Challenges in Timor-Leste

East Timor: Hostage to the Cold War?

Priscilla Roberts

City University of Macau, People's Republic of China

Priscilla Roberts is Associate Professor in the Faculty of Business of City University of Macau and co-director of the university's Asia-Pacific Business Research Centre. Among her recent publications are two edited volumes: with J. M. Carroll, 2016, *Hong Kong in the Cold War*, Hong Kong: Hong Kong University Press; and with O. A. Westad, 2017, *China, Hong Kong, and the long 1970s: Global perspectives*, Cham, Switzerland: Palgrave Macmillan; and in 2018, *The Cold War: Interpreting conflict through primary documents*, 2 vols., Santa Barbara, CA: ABC-CLIO.

Foreign Policies of Small States: Exploring Different Perspectives of Power: The Case of Timor-Leste

Carlos Martins Branco

Portuguese Institute of International Relations (IPRI), Portugal

Carlos Branco is a Major General (retired) of the Portuguese Army. He is a researcher with the Portuguese Institute of International Relations (IPRI) and the National Defense Institute (IDN). He lectures at various higher education schools and defence institutions on security, defense and international relations (on matters such as United Nations peacekeeping, NATO, CSDP and Conflict Resolution).

Women and the economy in contemporary Timor-Leste

Sara Niner

Monash University, Commonwealth of Australia

Sara Niner is a researcher and lecturer with the School of Social Sciences at Monash University in Australia. She is an expert in the field of gender and development with a long-term interest in those issues in the post-conflict environment of Timor-Leste and is widely published in this field.

East Timor: Hostage to the Cold War?

Priscilla Roberts
City University of Macau

Keywords: East Timor, Cold War, decolonization, Pacific security, Australian–Indonesian relations, human rights movement, United Nations, Portuguese Revolution 1974-1975.

Abstract

This paper explores the shifting fortunes of East Timor during the Cold War and beyond. For most of the Cold War it seemed likely that the fate of East Timor, a small territory under some kind of Portuguese rule since at least the eighteenth century, would be decided by larger powers, most notably neighboring Indonesia and Australia, with the backing of the United States. In the later 1970s, the United States and Australia acquiesced in and even encouraged and facilitated Indonesia's annexation of East Timor. The brutality with which the Indonesian military imposed control and suppressed opposition during these years prompted not just simmering low-level internal insurgency, which continued into the 1980s and 1990s, but also persistent external criticism and concern, expressed in international forums such as the United Nations by East Timorese activists and their allies within the increasingly influential human rights movement. East Timor was one example of a territory that initially found its interests subordinated to broader Cold War considerations, yet ultimately succeeded in winning international backing for its quest for independent status. East Timor, initially too small and inconsequential to count for anything in the international balance sheet, displayed great skill in deploying those assets and allies it possessed to win external sympathy and ultimately full independence. A tiny territory with sophisticated activists who developed a real understanding of the shifting workings and levers of power of the global system punched above its weight and was finally able to achieve its objective of becoming a separate state. Yet victory was bought at a high price, leaving up to 25% to 30% of the population dead, with hundreds of thousands forced to flee their homes, and most of East Timor devastated.

Introduction

For small states and territories, the Cold War conflict between communism and liberal democracy that dominated international politics in the second half of the twentieth century was a mixed blessing. Some proved adept in exploiting the competition between the greater powers to their own advantage, maneuvering between both sides and patrons to win political and financial support and favors (see Smith, 2000).² Others were less fortunate, finding their needs and wishes subordinated to the preoccupations and desires of larger powers whose leaders often cited Cold War considerations to justify what were in reality self-interested policies. In some cases, such as Laos and even more Cambodia, states that initially demonstrated some skill in performing a balancing act in the Cold War ultimately fell victim to ideological extremism and internal terror. External powers backed different factions and groups, encouraging and sometimes exacerbating political and ethnic divisions that on occasion resulted in brutal and devastating civil war. Decolonizing or recently decolonized states where competition was rife over precisely which elements or individuals would replace the power of past imperial overlords were especially vulnerable to such pressures. Yet changing circumstances could also prove advantageous to smaller powers, and if adeptly navigated sometimes enabled them to win surprising victories against larger neighbors. East Timor was one example of a territory that initially found its interests subordinated to broader Cold War considerations, yet ultimately succeeded in winning international backing for its quest for independent status.

East Timor to 1975

East Timor had the misfortune to be located in an unsettled neighborhood, while being too small to defend itself effectively in the absence of a powerful patron. It consisted of the eastern portion of a medium-sized mountainous island in the Indonesian archipelago, plus the coastal enclave of Oecussi, and two much smaller islands. Close to the northern coast of Australia, since the mid-1500s Timor had been the object of Portuguese missionary and trading activities. In 1702 a Portuguese governor of the island was appointed, though

Portuguese control of the highlands remained tenuous. In 1769, Portugal founded the city of Dili, which became the administrative capital of Timor. Under the 1859 Treaty of Lisbon, the western half of the island—with the exception of the small pocket of Oecussi, on the northern coast—was acknowledged as falling under Dutch rule, to become part of the Netherlands East Indies. Among the local population, resistance to outsiders never entirely disappeared. Following the Portuguese Revolution of 1910, a rebellion broke out in East Timor, which was not suppressed until 1912, with the assistance of troops from Mozambique and Portuguese naval forces dispatched from Macau (Gunn, 1999; Gunn, 2006, pp. 6-13).

During World War II, Portugal remained neutral. In 1941, however, as fears rose of a Japanese onslaught across Southeast Asia, Australian and Dutch forces occupied East Timor, in the hope of denying it to Japan. In December 1941, following Pearl Harbor, Japan declared war on the United States, Britain, Australia, and the Netherlands, and mounted an invasion of most Western colonial possessions in Southeast Asia, assault against East Timor in February 1942. For a year, a Dutch–Australian force of 400 and numerous local Timorese volunteers continued to wage a guerrilla campaign against the Japanese, with the allied forces only finally evacuating in February 1943. Even then, the East Timorese continued their war of resistance, which provoked brutal retaliation from Japan. Between 40,000 and 70,000 East Timorese died during the Japanese occupation, with numerous villages burned and food supplies seized. The Japanese claimed, however, that they still recognized Portuguese sovereignty over East Timor, and that their occupation was only a temporary expedient in response to the necessities of war.

During the war, Prime Minister Antonio Salazar of Portugal allowed the Allies to use air bases in the Portuguese-owned Atlantic Azores islands. In exchange, he made it clear that he expected that after Japan was defeated, East Timor would be returned to Portuguese colonial rule. Both Britain and Australia—the latter somewhat reluctantly, since it contemplated making East Timor part of its own post-war security arrangements and sphere of influence in some form or other—provided the requested guarantees. Salazar did not, however, wish to declare war upon Japan, for fear that this would provoke Japan into seizing the Chinese coastal enclave of Macau, which remained under Portuguese administration during World War II, and at that point was home to around 200,000 refugees. In 1944, Portugal offered to dispatch 4,000 troops to be trained by the Australians, who would then take part in the eventual reclaiming of East Timor. The Australians, who preferred to take the

² This chapter has benefited tremendously from the generous advice and insights of Geoffrey Gunn and James Cotton, two outstanding scholars who have not only written extensively on Timor-Leste, but themselves played an honorable part in some of the events described here. I am also grateful for the comments of several scholars and officials who attended the East-Timor Studies International Series Symposium on Transitions, Development and Belt & Road Initiative, held at City University of Macau on October 30, 2018.

surrender of Japanese troops on East Timor themselves as a preliminary to obtaining the defense arrangements they wished from Portugal, prevaricated. When Japan finally sought peace in August 1945, shortly after atomic bombs had been dropped on the cities of Hiroshima and Nagasaki, Japanese troops in East Timor surrendered to the Australian military on board a warship in Portuguese waters. The Japanese forces on the island had already placed themselves under the authority of the Portuguese governor, Manuel de Abreu Ferreira de Carvalho, recently released following four years in captivity (Tarling, 2013; Gunn, 2006, pp. 13-16).

For the following four years, the status of West Timor remained undetermined. The Republic of Indonesia, jointly declared on August 17, 1945 by anti-Dutch nationalists Soekarno and Mohammad Hatta, claimed authority over all of the Netherlands East Indies, but the rump Dutch administration retained control in West Timor until 1949, when the Dutch formally withdrew from the Netherlands East Indies, relinquishing all their territories to Indonesia. For the first time Portuguese Timor now shared a common border with the new Indonesian state. In 1959 a brief revolt against the Portuguese, provoked by resentment of demands for forced labor, broke out in Viqueque district, which the colonial authorities suppressed with considerable brutality, killing between 500 and 1,000 people. As was well known at the time, it seems that military elements from Indonesia, who were strongly and openly backed by the Indonesian Consul in Dili, sponsored and encouraged this uprising. Since these Indonesians presented themselves as anti-communists, they were believed to have received support from the United States Central Intelligence Agency (CIA) (Kingsbury, 2009, pp. 39-40; Gunn, 1999, ch. 14; Gunn, 2006, pp. 15-20).

Portuguese rule continued in East Timor, but by the early 1960s, British and Australian diplomats strongly suspected that at some point, Indonesia would seek to annex East Timor. One major concern on their part was that Indonesia should not seek to take East Timor by force, and that the future status of East Timor should be decided by negotiations rather than unbridled brute power. The British and Australians hoped to encourage Portugal to develop a 10-year framework for the future economic and constitutional development of East Timor, possibly culminating in a self-determination exercise under the auspices of the UN to decide on the territory's ultimate fate. The Salazar government showed little interest in taking the initiative. Following what was allegedly an attempted communist coup in Indonesia in 1965, which sparked a wave of bloody repression of nationalists and communists that extended into West Timor, the leftist government of founding President Soekarno was replaced by

the Western-backed military regime led by General Soeharto, commander of the armed forces. Under his leadership, Indonesia abandoned its *Konfrontasi* or “Confrontation” policies of the previous three years, when it had sought to annex Brunei and the future Malaysian states of Sabah and Sarawak. At least temporarily, the prospect of any Indonesian takeover of East Timor was put on hold, as the new Soeharto government focused on internal development (Tarling, 2013, ch. 5; Gunn, 1999, ch. 14).

Portugal's Carnation Revolution of 1974 was the catalyst that disrupted what had become a situation of relatively peaceful coexistence. The Portuguese Revolution was prompted at least in part by the heavy financial stress imposed upon Portugal by the cost of waging wars to repress anti-imperial nationalist movements in its African colonies, Angola, Guinea-Bissau and Mozambique. East Timor, 5,400 square miles in extent, with a population of slightly over 600,000 people in 1974, was relatively insignificant by comparison with Portugal's African possessions. Although a nascent independence movement existed, Portuguese Timor was not in the grip of brutal armed struggle against colonial overlords. The Portuguese Revolution soon prompted the emergence of political parties in East Timor: the Timorese Democratic Union (UDT), a centrist group backed by elites within Timor, who were in favor of continued Portuguese rule; the Social Democratic Association, soon rechristened the Revolutionary Front for an Independent East Timor (FRETILIN), a more radical group that advocated independence and an end to colonial rule; and the much smaller Popular Democratic Association, that pushed for unification with Indonesia. It was anticipated that a plebiscite on the future of East Timor would be held at some point. Meanwhile, the Indonesian military began to put out feelers as to whether Western powers would accept covert Indonesian actions designed to generate more backing within East Timor for union with Indonesia. Gough Whitlam, the Australian Prime Minister, made it clear to the Indonesians that “Australia would prefer Timor to be incorporated into Indonesia provided this could be done in a way which would satisfy international opinion.” He thought East Timor too small and poor to be economically viable as an independent state. Whitlam also feared—as did the British and U.S. governments that an independent East Timor would become a focus for political instability and a base for potential Chinese or Soviet influence in the region (on the background of these events, see also Kingsbury, 2009, pp. 41-47; Gunn, 1999, ch. 14; Gunn, 2006, pp. 52-53, 61-67; Cotton, 2018).³ The diplomat Alan Renouf, permanent head of Australia's Department of Foreign Affairs from 1974 to 1977, was less enthusiastic, believing that most East Timorese

³ FCO 15/1956 [22] Telegram, August 26, 1974 (quoted in Tarling, 2013, p. 197).

preferred independence to incorporation with Indonesia (Tarling, 2013, p. 198; Gunn, 2006, pp. 27-28).

It was at this point in 1974 that suggestions that the independence movement on East Timor was pro-communist began to materialize. In November 1974, the Indonesian diplomat Sabir, who served as minister in his country's embassy in Canberra, expressed concern to Brian Barder of the British High Commission to Australia that José Ramos Horta of the Social Democratic Association was developing "unduly close links" with communists in Australia and elsewhere. He warned that if East Timor aligned itself with leftist forces, Indonesia would be prepared to intervene militarily and take over the territory.⁴ The Australian government, conscious that the East Timorese might refuse to accept annexation by Indonesia, still considered incorporation the best alternative, but simultaneously sought to prepare the ground for any of the three alternatives. The Timorese Democratic Union and the Social Democratic Association then entered into a temporary alliance, in support of a transitional government that would prepare the way for total independence. Indonesia continued to allege that the Portuguese administration and the independence movement were carrying out forced comunization, with the backing of the new government of Portugal. British diplomats, however, found no evidence of foreign communist infiltration. The Australians tried to hedge their bets, seeking to maintain a good relationship with Indonesia even as they urged the Indonesians to refrain from any forcible incorporation of East Timor. In July 1975, the Portuguese chargé d'affaires in London believed that the majority of the East Timorese population wanted to continue their association with Portugal, something that the Portuguese government was no longer prepared to accept. Maintaining the Portuguese presence in East Timor had, it seems, become too expensive (Tarling, 2013, ch. 7; Cotton, 2018, pp. 121-132).

By this time, the United States had also become involved. Unfortunately for East Timor, the Portuguese revolution and the calls for self-determination that it had prompted in the territory coincided with major American setbacks in Asia and to a lesser degree in Europe. Since the early 1960s, the United States had been embroiled in an ever-widening conflict in former French Indochina, the states of Vietnam, Laos, and Cambodia. In April 1975, just two years after the signing of the Paris Peace Accords, which had brought only a truce in the Vietnam conflict, North Vietnam successfully completed an invasion of the South. In a humiliating exit, U.S. marines, diplomats, and

civilians were evacuated by helicopter from the roof of the American embassy in Saigon. Almost simultaneously, beginning on January 1, 1975, communist Khmer Rouge forces mounted a similar assault in Cambodia, overthrowing the government of military strongman Lon Nol in April just one week before northern forces triumphed in Vietnam. Again, all U.S. embassy staff and civilians were forced to evacuate the country. With Vietnamese assistance, in December 1975, communist Pathet Lao forces took control of Laos. Since 1961, the United States had maintained air bases in Thailand, from which massive bombing raids had been mounted against all Vietnam, Laos, and Cambodia. In May 1975, the Thai government requested the United States to remove its military forces from Thai territory. The Soviet Union, meanwhile, signed a military assistance agreement with Vietnam that allowed Soviet vessels to use what had been the American naval facility in Cam Ranh Bay. Within the U.S. government, apprehensions ran high that communism would spread inexorably across the rest of Southeast Asia and beyond. Non-communist Asian nations were afraid that the United States would retreat from Asia entirely.

Foremost among those American officials who feared that communism was on the offensive was Secretary of State Henry Kissinger, a man who prioritized international stability over almost all other values. To Kissinger, under the military rule of Soeharto, fiercely anti-communist Indonesia seemed a bastion of order in an otherwise fragile and suspect neighborhood. In 1973, shortly after most U.S. forces had left Vietnam, President Richard Nixon wrote to Soeharto praising "the progress which Indonesia has made under your leadership" and its "outstanding efforts to add to the stability of Southeast Asia."⁵ Nixon's successor, Gerald Ford, who became president in August 1974, maintained this approach. Kissinger was also deeply suspicious of the leftist government of Portugal that won power in April 1975 elections, and contemplated providing American assistance to a potential coup attempt. In these circumstances, it was not difficult for the Indonesians to convince the apprehensive Americans that, if further communist gains were to be avoided, their takeover of East Timor was imperative.

In July 1975, President Soeharto visited the United States. He met with Ford, Kissinger, and deputy national security adviser General Brent Scowcroft at Camp David, the presidential retreat in the Maryland mountains. Ford began their meeting by emphasizing that, despite recent "events in Indochina," the United States remained "firmly committed and interested in Southeast Asia."

⁴ FCO 15/1596[54]: Minute for Hewitt, November 29, 1974, in Tarling (2013, p. 211).

⁵ Letter From President Nixon to Indonesian President Suharto, Washington, July 12, 1973, Document 98 in U.S. Department of State (2010).

He also intended to increase military aid to Indonesia. Soeharto, in return, told him that whereas Laos and Vietnam had lacked an appropriate “national ideology to rally the people to fight Communism,” Indonesia had focused on developing its own “unifying” spirit of Pancasila, which in combination with solid economic growth would provide the “national resilience” needed to withstand any potential communist threat. He anticipated that Vietnam would seek to encourage communist movements within its neighbors in Southeast Asia and provide these insurgents with arms and advice. Given that Indonesia was an island nation, he requested more ships from the United States, to facilitate the movement of military personnel “to squelch subversion” as soon as it appeared anywhere in the archipelago. He also requested additional economic assistance to encourage industrial development in Indonesia.

Soeharto then turned to the question of East Timor. While stating that Indonesia would “not use force against the territory of other countries,” and that in East Timor it supported the principle of “carrying out decolonization through the process of self-determination,” he propounded the view that only three possibilities existed: “independence, staying with Portugal, or to join Indonesia.” Soeharto informed the president and Kissinger: “With such a small territory and no resources, an independent country would hardly be viable. With Portugal it would be a big burden with Portugal so far away.” This meant that “the only way is to integrate into Indonesia.” He further warned his sympathetic listeners that “those who want independence are those who are communist-influenced. Those wanting Indonesian integration are being subjected to heavy pressure by those who are almost Communists.” While disavowing any wish on the part of Indonesia “to insert itself into Timor self-determination,” Soeharto stated that “the problem is how to manage the self-determination process with a majority wanting unity with Indonesia.” Effectively, he was telling the president and secretary of state that the outcome of a credible self-determination exercise might not favor Indonesia (Gunn, 2006, pp. 49-50).⁶

What action Indonesia might take in such circumstances was initially left unclear, but the seed had been sown. Top Indonesian military officers subsequently met with UDT leaders, making it clear that they would not tolerate the emergence of an independent East Timor led by the more radical FRETILIN, and the UDT-FRETILIN coalition broke up. On August 11, 1975, apparently with Indonesian encouragement, the UDT mounted a coup in East Timor, intended to pre-empt

⁶ Memorandum of Conversation, July 5, 1975, Gerald R. Ford Presidential Library website, retrieved from <https://www.fordlibrarymuseum.gov/library/document/0314/1553151.pdf>; see also Document 126 in U.S. Department of State (2010).

any action by FRETILIN. The Portuguese governor took refuge on the offshore island of Atauro, and unsuccessfully attempted to negotiate a settlement between UDT and FRETILIN. Following a brief but bloody civil war that caused several hundred casualties and saw the FRETILIN military rout UDT forces and take control of the capital, the pro-independence party continued to call for the return of the governor and the resumption of the Portuguese decolonization process. Some UDT supporters crossed the border into West Timor, where they came under heavy pressure to support integration with Indonesia. Although Western aid missions reported that the situation in East Timor was relatively stable, Indonesia claimed that the territory was convulsed by civil war and had fallen into chaos. On November 28, 1975, a former Macau-trained St. José seminarian, Xavier do Amaral, unilaterally declared on behalf of FRETILIN representatives the creation of the Democratic Republic of Timor-Leste. In response, Indonesia pressured representatives of the other four East Timorese political parties to sign a declaration requesting integration with Indonesia. A few days later, on December 7, 1975, the Indonesian army, navy, and air force invaded the territory, the beginning of almost 25 years of Indonesian rule (Kingsbury, 2009, pp. 49-50; Tarling, 2013, pp. 248-274; Gunn, 1999, ch. 14 and Conclusion; Gunn, 2006, pp. 20-22, 27-28).

Robert L. Barry, a subsequent U.S. ambassador to Indonesia, later stated: “It was widely rumored, but never admitted, that in 1975 the Indonesians had given Ford and Kissinger ... advance notice of their intention to move into East Timor. They had gotten if not a green light at least a yellow light.” Barry added that, when more documents were released, they revealed that either Kissinger or Ford had responded: “Well, if you’re going to do it, do it quickly and get it over with.”⁷ In essence, this was accurate. Initially, the main U.S. concern was that, if the Indonesians should invade, they should not employ U.S.-supplied military equipment for this purpose, as this might lead the U.S. Congress to terminate all military aid to Indonesia.⁸ By early September, American diplomats in Jakarta were suggesting that, since “Indonesia was showing restraint,” it might be able to use U.S.-supplied military equipment, given that “efforts [to] restore order and Portuguese rule under four power (Indonesia, Malaysia, Portugal, and Australia) aegis ... appeared to be responsible policy on Indonesia’s part.”⁹ Meeting with Indonesian Foreign Minister Adam Malik

⁷ Barry, oral history, December 14, 2001.

⁸ Telegram 194779 From the Department of State to the Embassies in Indonesia and Australia, August 16, 1975, 0028Z, Document 128 in U.S. Department of State (2010).

⁹ Telegram 10849 From the Embassy in Indonesia to the Department of State, September 4, 1975, 0416Z, Document 132 in U.S. Department of State (2010).

in early September, Kissinger told him: “I had always assumed that in about 10 years or so Indonesia would take over Portuguese Timor—for symmetry! I will not spend any sleepless nights over it.”¹⁰

On December 6, 1975, Ford and Kissinger, who had just visited China, met with Soeharto in Jakarta (Gunn, 2006, pp. 51-54). The Indonesian president told his guests that, faced with the *fait accompli* of FRETILIN’s declaration of independence, Indonesia needed “to determine what we can do to establish peace and order for the present and the future in the interest of the security of the area and Indonesia.... We want your understanding if we deem it necessary to take rapid or drastic action.” Ford and Kissinger expressed their sympathy with Indonesia’s situation, with Kissinger stating: “It is important that whatever you do succeeds quickly.” The two Americans advised that, if U.S.-supplied military equipment were used, it would be necessary to make the case that this was an action taken in “self-defense.” They also suggested that, if Soeharto waited until they returned to Washington one day later, it would be easier for them both “to influence the reaction in America” in Indonesia’s favor “in person.” Kissinger pledged: “Whatever you do, however, we will try to handle it in the best way possible.” In addition: “If you have made plans, we will do our best to keep everyone quiet until the president returns home.” Asked whether he anticipated “a long guerilla war there,” Soeharto replied that there would “probably be a small guerilla war,” adding “Fretelin [sic] represents former soldiers. They are infected the same as is the Portuguese army with communism.”¹¹ The following day, the Indonesian invasion began (Gunn, 1999, Conclusion).

East Timor under Indonesian rule

The aftermath was far more problematic than the United States had anticipated. By December 9, 1975, as one National Security Council staffer wrote, the Indonesian action was “attracting increasingly bitter attention at the UN and in the media.” This was expected to intensify. Meanwhile, Indonesian Foreign Minister Malik had already leaked to foreign ambassadors the news that “during President Ford’s visit we (the United States) told the GOI that we understood its problem, and did not oppose its actions in Timor.” Portugal promptly broke diplomatic relations with Indonesia over East Timor, and Portuguese

officials were commenting acidly on the manner in which Indonesia went ahead immediately after Ford and Kissinger’s meetings with Soeharto and Malik.¹² Even so, a National Security Council staffer predicted that “Fretilin-led-guerrilla activities, while causing some political and military problems, will not seriously affect Indonesian control. Fretilin will also probably attempt to make maximum international effort to publicize its cause, but over the long range such actions are unlikely to seriously disturb Indonesian control or to arouse much foreign interest.”¹³

This prophesy proved decidedly overoptimistic. Shortly before the full-scale takeover described above, on October 16, 1975, the Indonesian military killed in cold blood a group of five British, Australian, and New Zealand journalists working for an Australian television company, who had witnessed Indonesian commando incursions. Western intelligence agencies engaged in lengthy suppression of the circumstances of their deaths. The slain journalists, dubbed the Balibo Five, were soon regarded as veritable martyrs for the pro-East Timor cause, prompting a still continuing progression of numerous books and court cases. It was almost five years before the Indonesian armed forces won control of most of East Timor, and even then a low-level insurgency continued in the mountains. As well documented at the time by Amnesty International researchers and others, between 1975 and 1980, the population of East Timor fell by approximately 80,000, prompting widespread international condemnation of Indonesia’s policies. A report issued in 2006 estimated that between 1974 and 1999, a minimum of 102,800 deaths occurred in East Timor and possibly as many as 180,000 were related to the conflict, with at least 18,600 killed and a further 84,200 dying from hunger or illness, often caused by forced relocation. In one specific year, 1975, internally divided FRETILIN and UDT forces were apparently responsible for about half the deaths, with several hundred perishing in the internecine struggles preceding and following the August coup (Silva & Ball, 2006). José Ramos Horta of FRETILIN, who later became his country’s prime minister and president, admitted: “It was not only Indonesia which perpetrated violence here. Before the Indonesians came, the East Timorese fought each other. Two political parties instigated civil war in this country” (Bobb, 2001).

¹⁰ Memorandum of Conversation, September 5, 1975, Document 132 in U.S. Department of State (2010).

¹¹ Telegram 14946 From the Embassy in Indonesia to the Department of State, December 6, 1975, 1000Z, Document 141 in U.S. Department of State (2010).

¹² Memorandum from Thomas J. Barnes of the National Security Council Staff to the President’s Assistant for National Security Affairs (Scowcroft), Washington, December 9, 1975, Document 143 in U.S. Department of State (2010).

¹³ Memorandum from Thomas J. Barnes of the National Security Council Staff to the President’s Assistant for National Security Affairs (Scowcroft), Washington, December 12, 1975, Document 144 in U.S. Department of State (2010).

With the exception of these few months of 1975, which preceded the Indonesian takeover, the great majority of fatalities were the consequences of actions by the Indonesian military or pro-Indonesian East Timorese militias during the invasion and the next 24 years. Many members of the U.S. Congress criticized Indonesia heavily on human rights grounds, as did activists in Britain, Ireland, the United States, Australia and Portugal. Tapol, a London-based non-governmental organization working on behalf of Indonesian political prisoners, was a staunch and vocal advocate of East Timor's cause, as were groups associated with the Catholic church, to which many of East Timor's population adhered. A significant support network existed in Macau, especially among repatriados, those within the East Timorese diaspora who arrived in the Portuguese-administered territory anticipating repatriation to Portugal. Although successive Australian prime ministers acquiesced in Indonesia's seizure of East Timor, one outspoken former diplomat, James Dunn, broke ranks and spearheaded a long-running public campaign in defense of East Timor. Even after Indonesian forces had ostensibly "pacified" most of the territory, the issue never totally disappeared from international discourse (Cotton, 2004, ch. 3; Gunn, 1999, Conclusion; Gunn, 2006, 82-96).

The reminiscences of American diplomats involved with policy toward East Timor and Indonesia provide considerable insight into U.S. handling of the situation from the Indonesian takeover until East Timor finally won independence. Like their Australian counterparts, American Foreign Service officers split over East Timor. Edmund McWilliams, who was political counselor in the U.S. embassy in Jakarta from 1996 to 1999, later recalled that after President Soeharto came to power in 1966-1967, the United States not only developed a close military relationship with Indonesia, which was seen as a staunch anti-communist Cold War bastion in Southeast Asia, but also perceived the country "as a great platform for development by U.S. companies, ... extractive industries principally, oil and gas but also of gold and copper and so on." Within the State Department, "there was very much an Indonesia club" and for many years the embassy functioned, he believed, as "essentially a defender, an advocate for the [Soeharto] regime against both journalistic criticism but also congressional criticism that was prompted essentially by the Indonesian military's human rights abuses." Indonesia provided "a very friendly environment for the major corporations" as well as "a very close military-to-military relationship." For most of the 1990s, McWilliams contended, this "comfortable relationship" remained on "autopilot" since "the old Indonesia clique in the State Department and to some extent in the Pentagon genuinely liked working with the

Suharto regime, they knew how to deal with these people. As corrupt as they were it was an old relationship, often personal relationships." Supplementing these ties was "a think [tank] called the U.S. Indonesia Society, still is, in Washington, heavily financed by corporations who are invested in Indonesia. They acted as an ally to the old Indonesia network in the State Department and the Pentagon to ... keep things as they are." In doing so, they ignored massive disparities of wealth in Indonesia and "the abysmal record of the military which was truly a human rights abuser of enormous proportions." In addition, at least some officials in Washington believed that a "rising China might constitute a genuine threat to the region" and considered Indonesia "a potential ally in a possible confrontation with China" and "a logical counterbalance to Chinese influence in Southeast Asia."¹⁴

Erland Heginbotham, who served as Economic Officer and Cultural Counselor in the U.S. Embassy in Jakarta from 1971 to 1975, recalled: "We were put in a very difficult position, because practically no one recognized Indonesia's annexation of Portuguese Timor; the blood bath was horrendous; it was just really brutal. It opened a lot of eyes to the real nature of some of the military leadership in Indonesia." Repression in East Timor and other areas of Indonesia that were culturally distinct from the mainstream meant that it became difficult for the United States to support other programs aimed at Indonesia. The U.S. Agency for International Development (USAID) found "[t]he situation ... so horrific that [it] just didn't want to be associated with anything that Indonesia tried to do in Timor." Internal battles raged within the U.S. embassy over how best to pressure the Indonesian government, with the international military education program and military supplies canceled. The AID program was spared because cutting it "might have undercut and discredited the technocrats ... the very group in Indonesia that you wanted to support and encourage."¹⁵

Edward C. Ingraham, the State Department's country director for East Asia from 1974 to 1977, was by contrast staunchly pro-Indonesian, regarding the rebels of 1975 who declared independence as a small, radical minority. He took pride in the fact that in 1976 the United States was one of a small number of countries in the United Nations that voted "No" on a resolution to censure Indonesia over its actions in East Timor. He denounced the Australian-led movement to condemn Indonesia and support the rebels. Even Ingraham admitted, however, that the "Indonesians ... had been more brutal than they

¹⁴ McWilliams, oral history, December 1, 2005.

¹⁵ Heginbotham, oral history, October 3, 1996.

had to be, although less brutal than they could have been.” On the other side, “because the people in Fretilin were not cynics but actually believed in their cause, they fought like tigers, didn’t give up but retreated back into the hinterland,” which was “decimated as the Indonesian army went in after them. Their fanatic resistance goaded the Indonesians into being rougher than they should have been.”¹⁶ Edward Tatu, who worked on United Nations affairs in the later 1970s and then spent five years in Jakarta, recalled that almost annually, from 1975 to 1982, the United Nations General Assembly routinely passed a vote condemning Indonesia’s behavior in East Timor. The Indonesian government simply ignored this censure.¹⁷ Even the United States government, while treating the annexation of East Timor as largely an Indonesian affair, did not “recognize ... that a legitimate act of self-determination had taken place.”¹⁸

Paul F. Gardner, deputy chief of mission in Jakarta from 1976 to 1981, acknowledged that the Indonesian-backed political “puppet party ... of little significance” was only a “small minority party,” but sympathized with the Indonesian desire to prevent FRETILIN taking control of the territory. Following the Indonesian invasion, he and other American diplomats tried to encourage the Indonesians to allow outside observers into East Timor, including U.S. congressmen and journalists. This would, he hoped, give the Indonesians an opportunity to showcase any positive achievements. Gardner and other American supporters of Indonesia feared that its “reputation ... really could be blacken[ed] by Timor.” He recalled how undeveloped the territory was in 1975, with only six miles of paved road and no high schools. By 1991, he felt that the situation in East Timor had improved, with more Timorese involved in their own government, and the existence of a non-communist but anti-Indonesian party that enjoyed more popular support than the pro-Indonesian group. Presciently, Gardner nonetheless anticipated further problems, “because the Timorese were incorporated in a way that was extralegal” and there “is always going to be a very strong element for independence there.” Even so, he believed an independent East Timor would “need another power to take care of it in some way or another in the modern world.”¹⁹

The human rights movement that had emerged during the 1960s became particularly strong in the later 1970s, after President Jimmy Carter took office and made it a high priority, notwithstanding the fact that East Timor barely

featured on his administration’s radar screen. In early 1980, Charles Morris, a Foreign Service Officer in Jakarta, visited East Timor and prepared a series of widely circulated reports on the human rights situation there²⁰. The U.S. embassy in Jakarta normally gave American consulates elsewhere in Indonesia freedom to report what they pleased, but anything relating to the “volatile” subject of human rights had to be cleared in advance with the ambassador. “You never knew who your reporting was going to or who would seize on what particular issue,” recalled Alphonse La Porta, consul at Medan in Sumatra from 1978 to 1981. Even after the worst of the fighting had subsided, East Timor remained problematic. After La Porta moved to the State Department’s Office for Indonesia, Malaysia, Burma, and Singapore Affairs (IMBS), where he served from 1982 to 1985, he found Indonesia in “a parlous state.” In terms of “human rights and other concerns,” the United States tried to make the Indonesian government “understand that it had to promote basic economic development” in disaffected regions, including not just East Timor but also Irian Jaya and Aceh. The objective was to ensure that the government should “do what it could to promote nation building, education, building infrastructure and so on.”²¹

Another desk officer in IMBS recalled that East Timor remained “a low simmering problem but it hadn’t really surfaced” in the 1980s, even as Indonesia experienced “[h]uman rights problems with mysterious killings.” East Timor saw “isolated occasional violence, but nothing major,” and the movement for East Timor independence was not “a major issue.” Meanwhile, the territory “was almost a colony” that “was clearly run by the army.”²² La Porta agreed that the Indonesian military remained “largely responsible for controlling East Timor affairs” during the 1980s, when they “open[ed] up a lot of new land for coffee plantations.” At that time, the Indonesian government was spending more per capita in development funds in East Timor than in any other place in Indonesia. Even so, “a lot of the outback, particularly in remote mountain areas or villages ... simply wasn’t connected with the central part of the province.” Although there was no “rising tide of security incidents where the pro-freedom rebels or other groups were making a whole lot of trouble,” there were nonetheless “occasional firefights ... usually out in the up-country areas that were hard to document.” These were normally due to “bands of rebels, pro-freedom Timorese that were still marauding in the mountains.” There

¹⁶ Ingraham, oral history, April 8, 1991.

¹⁷ Tatu, oral history, November 10, 2000.

¹⁸ Morris, oral history, September 16, 2008.

¹⁹ Gardner, oral history, November 25, 1991.

²⁰ Morris, oral history, September 16, 2008.

²¹ La Porta, oral history, June 14, 2004.

²² Winder, oral history, October 8, 1999.

were also problems with “internally displaced persons” who had been exiled to offshore islands and became “a significant focus of the refugee bureau at State.”²³ Another U.S. diplomat noted how General Leonardas Benny Murdani, who “professed to be a Catholic” and was in charge of East Timor for part of the 1980s, “made some wonderful investments. There is nothing wrong, of course, for an Indonesian general to become rich. But the Catholics weren’t too pleased with him.”²⁴

The first trip within Indonesia taken by Timothy Carney, who served as political counselor in the U.S. embassy in Jakarta from 1987 to 1990, was to Dili, the capital of East Timor. This was a time when “the East Timor situation once again went on the boil.” Carney wished to “inform myself on the Indonesian effort to suppress the East Timorese independence movement, and to look at what Indonesia was doing to make unity with Indonesia attractive.” He noticed that the Indonesians were making “an increasing effort to build teak forests” and had sent many Indonesian doctors to East Timor. But the philosophy was, “You do what we want and we’ll both be happy.” Carney returned to Jakarta believing “that there wasn’t much likelihood that the Indonesians would do the right thing and convince East Timorese that they wanted to be part of the greater archipelago.”²⁵

Even after the territory had been superficially pacified and brought under Indonesian control, the issue of East Timor refused to die. The United States and Australia, each of which possessed special strategic and economic interests in maintaining Indonesian control of East Timor, soon recognized first de facto and then de jure Indonesian rule over the island, while somewhat casuistically declining to condone the non-consensual measures used to take over the territory. Other states were less accommodating. Following the takeover, Portugal broke diplomatic relations with Indonesia in December 1975, a relationship that was not restored until 1999, after East Timor’s population voted for independence. Beginning in late 1975, every year until 1982, the United Nations Security Council and General Assembly repeatedly, if ineffectively, passed resolutions condemning the annexation of East Timor and calling for the implementation of self-determination under Portuguese auspices, a position that the government of Portugal continued to champion. The majority of the states represented in the General Assembly—communist

powers and non-communist developing nations alike—declined to support the Indonesian position (Gunn, 1999, Conclusion; Gunn, 2006, pp. 28-33; Cotton, 2004, pp. 76-78; Kingsbury, 2009, p. 51).

In late 1982, with Indonesian forces apparently in uncontested control of East Timor, the government of Portugal successfully backed an alternative General Assembly Resolution 37/30, that expressed concern over the “humanitarian situation” and urged that “all efforts should be made by the international community to improve the living conditions of the people of East Timor and to guarantee to those people the effective enjoyment of their fundamental human rights.” The resolution requested the UN Secretary General “to initiate consultations with all parties directly concerned, with a view to exploring avenues for achieving a comprehensive settlement.” In concrete terms, it “[c]all[ed] upon all specialized agencies and other organizations of the United Nations system, in particular the World Food Programme, the United Nations Children’s Fund and the Office of the United Nations High Commissioner for Refugees, immediately to assist, within their respective fields of competence, the people of East Timor, in close consultation with Portugal, as the administering Power.” Seeking her support for this new resolution, Prime Minister Francisco Pinto Balsemão of Portugal told British Prime Minister Margaret Thatcher that, given the failure of the previous seven resolutions to “find an acceptable solution by the International Community which would take into account the legitimate rights and interests of the people of Timor to freely choose their future,” Portugal believed “a new draft resolution” and approach was desirable, one that would “discard any hostile purpose or idea of confrontation with Indonesia.” The objective was “to establish the necessary dialogue between the parties directly involved in order to obtain a global solution” to the “grave and still unresolved humanitarian questions” afflicting the East Timorese population.²⁶

The new resolution had little impact on Indonesian intransigence. Nor did it significantly mollify East Timorese activists, who were in the forefront of the international opposition to Indonesian rule over their territory. One major change within the suite of international actors of the later twentieth century was the emergence of a significant human rights movement, characterized by the presence of large and increasingly transnational bodies such as Amnesty International and Human Rights Watch, non-governmental organizations that

²³ La Porta, oral history, June 14, 2004.

²⁴ Tatu, oral history, November 10, 2000.

²⁵ Carney, oral history, November 1, 2002.

²⁶ Prime Minister of Portugal Pinto Balsemão, message to Margaret Thatcher, November 8, 1982, THCR 3/1/26 Part 1 f40 (T212A/82), Margaret Thatcher Manuscripts, Churchill Archive Centre, Cambridge, UK, Margaret Thatcher Foundation Archives online, retrieved from <https://www.margaretthatcher.org/document/123542>.

were willing to challenge governments of all political complexions. Media-savvy and independent, they lobbied legislative bodies such as the U.S. Congress and the Australian parliament, generating criticism of the policies of the executive branch (Iriye, Goedde, & Hitchcock, 2012; Hoffmann, 2010; Jensen, 2016; Moyn, 2010; Keys, 2014). From the late 1970s onward, East Timorese activists and their international allies demonstrated great skill in using these forums to attack Indonesian annexation of and rule over East Timor as illegitimate and put forward their case for self-determination, which would, they hoped, ultimately lead to independence. They also continued to keep their cause visible at the United Nations. José Ramos Horta, for example, made himself a fixture in the corridors of the UN headquarters in New York, an inconvenient figure whom opponents sought to ignore but found it impossible to silence entirely or dismiss. He did so even after Javier Pérez de Cuéllar, UN Secretary General from January 1982 to December 1991, dropped the annual General Assembly vote after 1982, since he believed that support for Indonesia's position was increasing among Islamic and African states, and there was a possibility that if the ritual yearly votes continued, the issue might simply disappear from the UN agenda. Across Australia, Portugal, former Portuguese colonies in Africa, North America, and Europe, an East Timor solidarity movement emerged, which campaigned tirelessly on behalf of the small and beleaguered territory (Gunn, 2006, pp. 28-33, 201-222). Religious backing gave additional reinforcement to East Timor's cause. By the mid-1980s, 95% of the people of East Timor had become Roman Catholics, an increase from 20% in 1975. Ironically, this rise was prompted by legislation passed by Soeharto decreeing that all Indonesians must adhere to one of five official religions, with animism—which was common in East Timor—and atheism both excluded from the acceptable options. Their Catholic faith was embraced in part to demonstrate opposition to Indonesian rule. Bishop Carlos Ximenes Belo, appointed to his position in 1986, became one of the most outspoken and prominent defenders of human rights in East Timor, and frequently criticized Indonesian abuses. He and other priests and nuns had numerous contacts with international diplomats and human rights activists, including those from the United States. In 1989, Pope John Paul II visited East Timor, dedicating Dili Cathedral and preaching a sermon in which he strongly condemned human rights abuses, though he refrained from stating outright that the Indonesian authorities were responsible for these (Kingsbury, 2009, pp. 59-60; Gunn, 1999, Conclusion; Gunn, 2006, pp. 167, 179-199). Given this religious alignment, not to mention the Catholic Church's role during the 1980s as a focus of resistance to Soviet communism in Europe, it became increasingly difficult for the Indonesian government to depict Timorese independence activists as dangerous radicals or communist stooges who planned to establish a leftist insurgent hotbed in Southeast Asia. The rapid and dramatic ending of the Cold War in Europe in the

late 1980s and early 1990s further diluted the credibility of the Indonesian strategy of suggesting that, without Indonesia's restraining influence, East Timor was likely to become a hotbed of instability and extremist subversion.

The continuing brutality of military rule in the province—facilitated by the provision of U.S. weaponry—inflicted further major damage on Indonesian efforts to win either hearts and minds within East Timor or broad international acceptance of the legitimacy of Indonesian rule. In the words of one American ambassador to Indonesia, “in general the military was involved in governments at the provincial level and they were heavy handed, not only in East Timor, but also in Aceh and Sumatra and anyplace where there was sort of rumbling of dissent, the military often went in with excessive force.”²⁷ They did so in 1991, just as the Cold War was winding down. By 1989, the military felt sufficiently confident in their control over East Timor to open the region to tourism, as one means of generating additional income (Kingsbury, 2009, pp. 59-60). This did not equate to the end of violence there. On November 12, 1991, a crowd of 2,500 gathered at a memorial mass at the Santa Cruz Cemetery in Dili honoring a young independence activist killed by the military and displayed FRETILIN flags. Indonesian troops opened fire, killing at least 250 protesters. Widely circulated television footage showed East Timorese Catholics praying in Portuguese. The event sparked a new wave of international demonstrations and galvanized the overseas East Timorese solidarity movement (Kingsbury, 2009, pp. 60-63; Gunn, 1999, Conclusion; Gunn, 2006, pp. 144-146, 168-169). It also marked the end of military-led efforts to encourage tourism in the province, and the beginning of a new wave of repression and protests, with foreign journalists banned. This did little to prevent the transmission of information.

Internationally, the massacre put East Timor firmly on the global radar screen and agenda. It led President Mario Soares of Portugal to raise the situation of East Timor in conversations shortly afterwards with both Boutros Boutros-Ghali, Secretary-General of the United Nations, and President George H. W. Bush. The latter told Soares, who visited the United States in January 1992, that he “share[d] your concerns about the human rights situation there. I just hope we can get to the bottom of this.” Soares expressed Portugal's willingness to negotiate with Indonesia on behalf of East Timor, telling Bush: “We have no claim on East Timor. We only ask that the human rights of the people be respected and that they have the opportunity to decide their future. We

²⁷ Barry, oral history, December 14, 2001.

have not accepted Indonesia's occupation of East Timor, but we are willing to go along with a democratic referendum which has appropriate guarantees and international observers." After stating that he "empathize[d] with your concerns," Bush asked Soares: "Do you see a role for the U.S. in this?" The Portuguese president replied, "The U.S. can always play a role." Noting how, within the United States, "[p]ublic opinion among young people and in Congress has been roused by the events in East Timor, and we have seen expressions of concern for the respect of human rights there," he suggested that the United States should "exert pressure for negotiations between Portugal and Indonesia within the framework of the United Nations." Bush promised to ask the State Department to follow up on this.²⁸

With human rights an increasingly prominent concern, non-governmental organizations such as Amnesty International were vocal critics of Indonesian behavior, as were many American congressmen and congresswomen. In 1991, the U.S. Congress cut off all international military education training (IMET) programs to Indonesia, though American arms sales to the Indonesian National Armed Forces continued. Neither the Indonesian nor the U.S. military was satisfied with this situation, which provoked "a lot of resentment on the Indonesian side." Since 1948 the United States had cultivated a close relationship with the Indonesian military, providing equipment and training for "many of their officers ... in both military and political military issues." Robert Barry, who became U.S. ambassador to Indonesia in 1992, a position he held until 1995, described how the United States commander-in-chief in the Pacific (CINCPAC) often visited Indonesia, and considered maintaining freedom of passage for U.S. naval forces in Indonesian waters to be "very important." U.S. special forces also trained in Indonesia. This meant that "trying to restart the [IMET] relationship was a priority" for Barry. Without congressional approval or knowledge, it was revived in 1996 as "expanded IMET, which concentrated, on training in human rights." Indonesian military officers "would come to a war college or something like that, but they would take a curriculum that had a lot of international military law and stuff like that." Barry believed that this thinking had an impact upon the outlook of the "younger generation" of military officers, but those who had been close to Murdani, the former head of the army, were "very afraid that any kind of loosening up of ties would end up in the disintegration of the country."²⁹ A more critical observer dissented,

arguing that the "military relationship we had did nothing to reduce the abuses that we saw in the Indonesian military and indeed some of the officers within the Indonesian military with whom we had the closest relationships, who took the most training, spoke the best English and so on were among the worst abusers."³⁰ Once alerted to the existence of this new incarnation of IMET, Congress cut back appropriations to the program from 1997 to 2000 (Gunn, 2006, pp. 110-111). In 1999, following the Indonesian rampage in retaliation for East Timor's vote for independence, the United States cut off all military assistance and sales to Indonesia, a ban lifted after September 11, 2001 (Gunn, 2006, pp. 111-112).

During Barry's time as ambassador, the United States was quietly trying to persuade Indonesia to grant East Timor independence, an effort in which Barry was deeply involved. In doing so, American diplomats worked closely with the personnel of the Australian and Japanese embassies. (Edmund McWilliams, Political Counselor at the U.S. Jakarta embassy from 1996 to 1999, later recalled that "the Australians had superb intelligence on what was developing in East Timor which for various reasons was not entirely shared with the U.S." He also thought "the Canadians had a great embassy in Jakarta; small but great."³¹). Although an earlier visit by a U.S. ambassador had prompted an outbreak of violence, causing a two- or three-year hiatus in such excursions, Barry deliberately made several trips to East Timor, where he "got to know the bishop and some of the missionaries ... working there," as well as the military commander. Bishop Belo of East Timor was a prominent leader of the independence movement who—together with activist José Ramos Horta, then living in peripatetic international exile—received the Nobel Peace Prize in 1996. The papal nuncio came and went in Jakarta, consulting frequently with foreign diplomats. Barry also became quite close to the Timorese governor appointed by Indonesia, with whom he had regular conversations, to the point where Barry claimed that "in time he became sort of a confidant and would come to me despite what he had to say publicly about the magnificent Indonesia[n] rule and would talk about what needed to be done to give them more running room."³² Barry recalled how, thanks to the Internet, U.S. diplomats in Jakarta

²⁸ Memorandum of Conversation: Meeting with President Mário Soares of Portugal, January 13, 1992, George H. W. Bush Presidential Library, retrieved from <https://bush41library.tamu.edu/files/memcons-telcons/1992-01-13--Soares.pdf>.

²⁹ Barry, oral history, December 14, 2001.

³⁰ McWilliams, oral history, December 1, 2005.

³¹ McWilliams, oral history, December 1, 2005.

³² It is not clear whether Barry, who was ambassador from July 1992 to July 1995, is referring to the third Indonesian-appointed governor of East Timor, Mário Viegas Carrascalão (1983-1992), who maintained a position of neutrality during the Indonesian occupation but became an important figure in East Timor's transitional government, or the fourth and final governor, the more hardline José Abílio Osório Soares (1992-1999). The views expressed would seem to accord more with those of Carrascalão, though the timing would fit better with Soares's governorship.

and elsewhere were in touch with East Timorese activists in exile in Australia and Portugal, as well as those in East Timor itself. Diplomats from the embassy often visited East Timor, while “[t]he Australians had somebody in residence there who worked on aid issues.”³³

Barry later contended that he himself “tried to persuade the Indonesians that it was much in their interest to let East Timor go, that it was clearly a drain on the economy that was damaging their reputation internationally and the foreign minister certainly agreed with that and periodically would try to intervene with Suharto to try to make that case to him.” Unfortunately, financial considerations militated against this position among leaders of the Indonesian armed forces, who “felt very differently about it partly because they were so much involved in the economy. The military budget of Indonesia is about 30% of the cost of the military and so the military commanders were required to make up the rest of their expenses from the local economy. East Timor was a leading source of income.” In East Timor during the 1990s, U.S. economic assistance was channeled to areas that might render the province more economically viable as an autonomous or independent entity. Barry recalled that he and his staff “were looking around for ... projects that were going to generate income for the Timorese and loosen the grip of the army on the economy.” He recounted with some pride that, since the largely military-run coffee plantations could not afford to buy fertilizer, the U.S. Agency for International Development provided funding to introduce the growing of high-quality organic coffee. Once this enterprise had taken off, they “bypassed the army for marketing,” selling directly to Starbucks and similar major customers. At the beginning of the twenty-first century, these ventures employed several thousand people in independent East Timor.

More broadly, American diplomats “were constantly on the backs of the army about excessive force being used in trying to deal with the Timorese insurgency.” When the Indonesian military captured insurgent leader Xanana Gusmão in 1993 and he was sentenced to 20 years in jail, the Americans sought to ensure that he was treated well. Barry also accompanied a visiting U.S. congressman to meet with Gusmão in prison. Another incident that required considerable diplomatic skills was dealing with a group of East Timorese who climbed the embassy fence in Jakarta in 1994, just before President Bill Clinton—who had advocated independence for East Timor during his presiden-

tial campaign—arrived for an Asia-Pacific Economic Cooperation (APEC) summit and demanded an interview with him, to discuss East Timor (Gunn, 1999, Conclusion; Gunn, 2006, p. 59). Barry recalled that U.S. officials “had to intervene quite vigorously to keep the army from trying to come into the embassy grounds and haul these guys out.”³⁴ Asked about the episode during a press conference, Clinton stated that “the whole issue of East Timor has been a concern to the United States at least since I’ve been President. I talked about it in the campaign of 1992, and we have raised it in our conversations with Indonesian leaders. We will continue to do so. The contacts they’ve had, insofar as I know them, have occurred in an appropriate way through our Embassy there. But this is an issue which is a part of our dialog with the Indonesians, and it should be.”³⁵ Eventually, after Clinton left, Barry had to negotiate safe conduct for the intruders, who had occupied the embassy parking lot, to ensure that they would not be jailed as soon as they left diplomatic sanctuary. Many chose to move to Portugal. One factor that restrained the Indonesian military from taking forcible action during this episode was the fear that, if they did so, IMET would not be reinstated. For most of the 1990s, however, the Indonesian government remained obdurately determined to hold East Timor. “The army argued and Suharto believed that once you let one province of Indonesia go, the rest of them were going to want to break away, too.”³⁶

When Barry left Jakarta in June 1995, IMET had not yet been reactivated. This would, indeed, take another decade. In late 1996 Stapleton Roy, Barry’s successor as ambassador, sent a message to Washington that argued forcefully for the reinstatement of this program. His political counselor, Edmund McWilliams, strongly opposed this position, and wrote a dissent that initially drew Roy’s wrath down upon him, though the two men subsequently worked positively together for the next three years. According to McWilliams, “it was an embassy that sought very much to control what Washington knew and understood about a very, very complicated situation in Indonesia,” and in practice “for many years had acted as a defender, an advocate for the regime, trying to basically defeat these arguments that in fact Indonesia was guilty of human rights abuse on a grand scale in East Timor.” McWilliams claimed that he and his team “began to ... report reality, to report elements about human rights abuse by the Indonesia[n] military which was rampant, the corruption in the system,

³⁴ Barry, oral history, December 14, 2001.

³⁵ “The President’s News Conference in Jakarta, Indonesia,” November 14, 1994, The American Presidency Project, retrieved from <https://www.presidency.ucsb.edu/documents/the-presidents-news-conference-jakarta-indonesia>.

³⁶ Barry, oral history, December 14, 2001.

³³ Barry, oral history, December 14, 2001.

lack of democracy, repression of human rights activists and democratic activists and so on.” They urged very strongly that the United States should adopt “a new human rights perspective” in its dealings with Indonesia. McWilliams believed that these frank reports “established a baseline of much better understanding [of] what was going on in Indonesia for Washington.” They also generated “pretty stiff competition for the picture of Indonesia, what we were trying to portray” between his team and “other elements in the leadership of the embassy who were part of the old Indonesia network.” These included both the deputy chief of mission and “the military attaché’s office which is very active and close to the Indonesian military.”³⁷

McWilliams also noted that within the U.S. Congress, there existed a bipartisan group who possessed “a very deep concern about human rights.... You have some of the very best friends of human rights in Indonesia, very conservative Republicans. At the same time you also have some very liberal democrats, progressive democrats, who are also dependable contacts and supporters for human rights in Indonesia, opponents of assistance to the military and so on” (Gunn, 2006, pp. 110-112). McWilliams praised not only “the degree of expertise on Indonesia” that these members of Congress possessed “but also the compassion, the concern, a willingness even to this day [2005] of significant Republican players in Congress to buck the administration vis-à-vis its policies of supporting the military for example in Indonesia.” He recalled that he was able to put two leading Republicans, Congressman Chris Smith of New Jersey, “a very conservative Republican” with “a long reputation of interest in [the] human rights situation in Indonesia,” and Mitch McConnell, subsequently the Senate Majority Leader, in touch with the opposition leader Megawati Sukarnoputri, to give them “some sense that there is an alternative leadership that’s not necessarily crazy, there’s an alternative political future for Indonesia that’s not necessarily military or Suharto family.” Secretary of State Madeleine Albright also visited in 1999, after Soeharto’s departure, and “had an opportunity to sit down with the East Timor leader, Xanana Gusmão, who was still in prison at that point, and I think had a very good impression of him, and as a consequence I think went back to Washington feeling that if in fact East Timor were to become independent there was a leadership there with which

³⁷ McWilliams, oral history, December 1, 2005. Immediately after retiring from the State Department in December 2000, Roy joined the top-level business consulting firm, Kissinger Associates. In 2001, he also became a Director of Freeport-McMoran Copper & Gold Inc., a mining concern based in West Papua that is the Indonesian government’s single largest source of revenue, and has for many years been run by the Indonesian military. In 2004 Roy joined Freeport’s Board of Advisers, a position he still holds at the time of writing. He also serves as co-chair of The United States-Indonesia Society

we could deal. Which was, I think, a pretty important understanding to have at the senior levels.”³⁸

What really made the difference for East Timor, however, was the downfall of Soeharto in the wake of the 1997 Asian financial crisis and his replacement in January 1998 by his former vice president, B. J. Habibie. The following June, Habibie announced that Indonesia would soon put forward a plan for autonomy for East Timor. McWilliams wrote another dissent suggesting that the United States should “begin thinking about advocating a referendum in East Timor,” a proposal that was poorly received both within the embassy and in Washington. He recalled that in autumn 1998 Stanley Roth, the assistant secretary of state for East Asia, told him, “I agree with what you’ve said, I’ve agreed you know, morally, historically you’re right, but I just don’t believe East Timor is economically viable and therefore I think an argument for a referendum which might lead to independence is just not going to work.” In response, McWilliams wrote a long 20-page report on “the economic question, viability of East Timor, anticipating oil and gas revenues and so on.” Coincidentally, on the day he submitted this paper in January 1999, Habibie announced that he would permit a referendum on the future of East Timor (on Habibie’s policies, see Kingsbury, 2009, pp. 66-69; Cotton, 2004, pp. 90-93; Gunn, 2006, pp. 35-38).³⁹

Before and after the referendum, the U.S. embassy’s political section worked closely with the International Committee of the Red Cross, international journalists based in Jakarta, and “local clergy,” a pattern replicated in Aceh and West Papua (Irian Jaya). Yet no one, it seems, anticipated quite how brutal the Indonesian response to the outcome of the referendum would be (Gunn and Huang, 2006, pp. 11-29). McWilliams recalled that before leaving in July 1999, “just as things were breaking loose...., I made one last trip out there in which I sought to see what was going on across the East Timor border in West Timor and made a trip from Dili, actually commandeering a taxi to do it to get me across the border because no one was moving at that time in East Timor on the roads. But I went into West Timor and then along the border back into East Timor, trying to see if I could see military build up or something that

³⁸ McWilliams, oral history, December 1, 2005.

³⁹ McWilliams, oral history, December 1, 2005. McWilliams’ report has been declassified, and is available online in the U.S. State Department’s Freedom of Information Act Electronic Reading Room. See U.S. State Department Telegram Jakarta 000393, “Economic Viability of an East Timor State,” January 27, 1999, Case No. F-2011-25547 Doc No. C05126658, retrieved from <https://foia.state.gov>.

was going on the other side of the border and I did see some things and I got that reporting out.” Even so, he confessed, neither he nor Washington could “anticipate fully what the military had in mind if the referendum went against them.” Looking back at his notes, he realized that he “did report ... talk of a Plan B, which is to say what the military would do if they lost the referendum and it was pretty ominous.” He noted that Washington and the U.S. embassy “didn’t take it seriously enough,” but added that, “very frankly, to be fair, I don’t think I fully anticipated how bad it would be.” Instead, he had assumed “that so long as the international presence was there, the UN was there, it would be a restraining, there would be constraint. And it simply wasn’t. And that was the amazing thing for me.”⁴⁰

As the September 1999 referendum approached, McWilliams recalled, the embassy in Jakarta was split over how to respond to the consequent “growing military repression in East Timor, ... the intimidation, the killing and so on.” McWilliams made frequent visits to the territory, and one of his staff, Gary Gray, who was fluent in both Portuguese and Bahasa Indonesia, reported on “growing militia attacks against civilians, militias obviously organized by the military against civilians.” (Gray was later nominated for a U.S. Foreign Service political reporter of the year award; he won, but Washington subsequently reversed the decision.) The political section of the embassy, which McWilliams headed, argued that what was required was “to disband these militias and get rid of them whereas the embassy took the line favored by the DAT’s [defense attaché] office that well, we just have to counsel with these people and you know, encourage [the Indonesian National Army] to be more responsible here and get the facts and so on.” In McWilliams’s view, his government should have taken “a strong U.S. position essentially telling the military to knock it off, that we were aware that they were setting up these militias basically as a cat’s paw to intimidate the local population into voting the way Jakarta wanted them to vote and so on, and we had massacres of over 50 people in this period, a very, very rough situation.” Instead, the United States “never actually took a hard line with the Indonesians about stopping these militias,” with the ultimate result that in September 1999, there “was a mass killing of East Timorese as a consequence of their vote for independence.”⁴¹

⁴⁰ McWilliams, oral history, December 1, 2005.

⁴¹ McWilliams, oral history, December 1, 2005.

In McWilliams’s opinion, the United States “made a fundamental mistake in not leaning on the [Indonesian] military to disband those militias. Because I think it would not have been possible for the Indonesian military to assault the UN as the militias did and that was the whole point of the militias.” He noted that U.S. Assistant Secretary of State for East Asia Stanley Roth visited “every four or five weeks” and made the point “that this is not working,” but that unfortunately the United States “never took officially the position to disband those militias.” McWilliams observed that even as Roth made these trips, “very senior military players from the Pacific Command” were “going in there and ... taking a very different line. They were still being very soothing and kind in their discussions with the military, no hard points, no insisting that the militia things stop and so on and ... as a consequence the [Indonesian] military chose to listen to our military” and its “very soothing message, and frankly ignored this civilian.”⁴²

The Indonesian reaction to the result of the August 1999 East Timorese referendum on whether to remain part of Indonesia as a special autonomous region or become independent gave rise to major problems in U.S.–Indonesian relations. Greta N. Morris, Deputy Director for East Asia at U.S. Information Agency headquarters in Washington, DC, from 1998 to 2000, described how most people in the United States and the international community believed that the massive violence that wreaked havoc in East Timor after 78.5% of the population—98.6% of which in all voted—opted for independence, was due to the actions not just of local Timorese pro-Indonesian militia forces but also of the Indonesian military. Around 1,400 Timorese were killed and a further 300,000 forced into exile, with many taking temporary refuge in Indonesian West Timor. Some foreigners also died, and the military destroyed approximately 70% of East Timor’s infrastructure (Kingsbury, 2009, pp. 68–76; Gunn, 2006, pp. 38–43). According to Morris, the “violent confrontation and all of the destruction in East Timor,” with “[p]eople ... killed and their homes destroyed,” were highly detrimental to U.S. relations with Indonesia.⁴³ This is beyond dispute. On September 11, 1999, U.S. President Bill Clinton declared that U.S. “willingness to support future economic assistance from the international community [for Indonesia] will depend upon how Indonesia handles the situation [in East Timor] from today.” The following day, President Habibie announced that he had asked Kofi Annan, Secretary General of

⁴² McWilliams, oral history, December 1, 2005.

⁴³ Morris, oral history, September 29, 2008.

the United Nations, to dispatch a peacekeeping force to East Timor. It was, as one of the diplomats who served in the UN administrative contingent later recalled, “the fastest force ever to deploy at that time,” arriving only one week after the passage of a UN General Assembly resolution demanding that the UN intervene.⁴⁴

By the time the United Nations was asked to take action, U.S. relations with Indonesia had deteriorated dramatically. According to Morris, then at the U.S. Information Agency (USIA), the United States perceived these events “as the Indonesian government going back on its pledge to allow the people of East Timor to make their own decision on autonomy or integration,” which in turn “put a tremendous strain on our relationship with Indonesia and particularly any military to military relationships,” which the United States suspended in 1999, the beginning of several years of non-cooperation. The USIA resisted calls to cut off the Fulbright academic exchange program for scholars and students from Indonesia and the International Visitor program, largely because these were intended to promote greater understanding of democracy, good governance, and the United States within Indonesia, especially among the educated elites.⁴⁵ McWilliams, who left Indonesia in September 1999, took a more disenchanted position, noting that before the end of 1999, “the Pentagon was again petitioning for reestablishing a relationship with the military. This basically has never not been the mindset in the Pentagon.... [T]hose people who had dominated our policy for years and years and years in Washington towards Indonesia essentially retained the same interests. That is to say to maintain as good a relationship as possible with the military and secure the environment for U.S. investment, major U.S. investment.”⁴⁶

From late September 1999 to May 2002, the United Nations administered East Timor (Kingsbury, 2009, pp. 83-103; Cotton, 2004, ch. 4; Martin, 2001; Ballard, 2008; Gunn, 2006, p. 60; Gunn and Huang, 2006, pp. 26-38). In September 1999 a UN peacekeeping force of 9,900 troops, 4,400 from Australia and the remainder largely drawn from Southeast Asian countries, arrived in the country to monitor and enforce the ceasefire. Commanded by Australian Major General Sir Peter Cosgrove, it tackled the militias and began the process of restoring order (Gunn and Huang, 2006, pp. 39-46). Sergio

Vieira de Mello, the Brazilian-born UN Transitional Administrator, instructed the UN peacekeepers “to be firm and ruthless in putting down the remnants of the militias.”⁴⁷ Morris, who returned to the U.S. embassy in Jakarta as Public Affairs Officer from March 2000 to July 2003, visited East Timor three times before it gained full independence. On her first trip, in June 2000, it was “still in very bad condition” and “an area ... in shambles.” Even those buildings that were not completely burned out were still missing their roofs and covered instead with UN-provided “blue plastic sheeting.” The United States organized various exchange programs, including a “training program” for 10 future East Timorese diplomats.⁴⁸

The United Nations also assigned East Timor to one of its star diplomats. De Mello impressed Morris and other observers with his “commitment and energy” in “trying to make East Timor work as an independent country.”⁴⁹ An experienced peacekeeper, he had a long history of working for the UN High Commission for Refugees in Cambodia, central Africa, Kosovo, Bosnia, and Cambodia (Gunn and Huang, 2006, pp. 50-51). An “impeccable” diplomatic practitioner, known for looking elegant and cool in all circumstances, the “very laid back” de Mello had the reputation of “being able to talk to all sides, of mediation, of compassion, of managerial skills, of charisma.” Ahmad Fawzi of the UN, who joined de Mello in 2001 as an adviser on public relations and the media, remembered that his boss “knew everyone in East Timor” and “[e]veryone loved” him. “He was a friend of everyone he shook hands with.” Well before his assignment to East Timor, de Mello was close to the top rebel leaders Xanana Gusmão and José Ramos Horta.

The UN administrator’s abilities were badly needed. Fawzi recalled that when the UN first arrived, East Timor was “completely devastated, no infrastructure to speak about, no police, no border guards, no school system, no government.” In summer 2000, conditions in Dili, the capital, were still “quite appalling,” with many UN staff living in “dilapidated houses without electricity or water,” and the “best accommodation ... a boat floating in the sea at the port in Dili, docked very close to where UNTAET [UN Transitional Administration of East Timor] headquarters were.”⁵⁰ One observer recalled that many UN peacekeepers and staff were disliked by the local population, who felt

⁴⁴ Fawzi, oral history, October 4, 2005.

⁴⁵ Morris, oral history, September 29, 2008.

⁴⁶ McWilliams, oral history, December 1, 2005.

⁴⁷ Fawzi, oral history, October 4, 2005.

⁴⁸ Morris, oral history, September 29, 2008.

⁴⁹ Morris, oral history, September 29, 2008.

⁵⁰ Fawzi, oral history, October 4, 2005.

considerable resentment over being in their view treated as a UN colony, prompting frequent cultural clashes.⁵¹ Bishop Belo prudently urged that, given the existing disorder, the UN stewardship should continue for much longer, but his advice was disregarded. Although or perhaps because he “was virtually running the country,” with East Timorese radicals impatient for independence, de Mello “was very keen to hand over to the East Timorese as quickly as possible.” On August 31, 2001, he and his team organized elections throughout the territory, monitored by representatives from the UN, the European Union, and other international organizations.⁵² Despite fears that the remaining militia elements might try to sabotage these by mounting cross-border raids from West Timor, the elections went ahead. Notwithstanding sporadic actions by armed militias and their Indonesian military sponsors that were intended to disrupt the ballot, voting proceeded relatively peacefully (Gunn and Huang, 2006, pp. 53-106; Kingsbury, 2009, ch. 4).

Conclusion

For around two-thirds of the Cold War, until 1974, East Timor had usually been a quiet Portuguese-run backwater, somewhat remote from international politics. This changed following the Portuguese revolution, which soon brought the emergence of rival political parties with divergent views on East Timor’s future. Even then, it seems, the majority of the population might well have simply preferred the indefinite continuation of Portuguese rule to any other option, at least in the short term. The government of Australia, which had at one time during World War II considered taking over Portugal’s stake in East Timor, ultimately leaned heavily in the direction of allowing Indonesia to incorporate the territory, for reasons of its own considering this preferable to independence, whatever the wishes of the East Timorese themselves. The decisive voice, however, was that of the United States, where President Gerald Ford and Secretary of State Henry Kissinger made it unequivocally clear that they would do nothing to block and—in terms of public relations and permitting the use of U.S.-supplied military equipment—would even help to facilitate an Indonesian takeover. What none had fully anticipated was the brutality with which Indonesian rule would be imposed, nor the persistence of insurgent guerrilla resistance operations even after the army had superficially pacified all but the most remote areas. In addition, disaffected East Timorese proved

exceptionally adept in utilizing international organizations and the increasingly powerful non-governmental human rights movement to publicize their cause and ensure that it featured prominently on the global humanitarian agenda.

With the ending of the Cold War and the consequent downgrading of fears of communism and radicalism in Southeast Asia, East Timorese activists and their far-flung and influential network of well-placed supporters were able to keep up the pressure. Once Indonesia succumbed to the 1997 financial crisis, efforts to reach a half-way solution whereby East Timor would enjoy significant autonomy within Indonesia proved self-defeating, too little and too late. For Indonesia, East Timor became a constant embarrassment, compromising its ability to access a wide range of aid and exchange programs and tarnishing its reputation. East Timor, initially too small and inconsequential to count for anything in the international balance sheet, displayed great skill in deploying those assets and allies it possessed to win external sympathy and ultimately full independence. A tiny territory with sophisticated activists who developed real understanding of the shifting workings and levers of power of the global system punched above its weight and was finally able to achieve its objective of becoming a separate state. Yet victory was bought at a high price, leaving up to 25% to 30% of the population dead, with hundreds of thousands forced to flee their homes, and most of East Timor devastated. When Cold War priorities clashed with demands for self-determination, the most vulnerable and unprotected were the ones who suffered worst and often lost everything.

⁵¹ Geoffrey Gunn to Priscilla Roberts, personal recollections, October 26, 2018.

⁵² Fawzi, oral history, October 4, 2005.

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Foreign policies of small states - Exploring different perspectives of power: The case of Timor-Leste

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Keywords: Small states, Timor-Leste, foreign policy, CPLP, ASEAN

Abstract

This paper has a twofold objective: to understand Timor-Leste's foreign policy decisions (strategic and tactical) and to grasp whether and to what extent they reflect the concept of "diverse understandings of power." Thus, we want to find answers to a number of crucial questions: which strategies has Timor-Leste used (e.g. neutrality or bandwagoning) to maximize its power and gain influence?; can Timor-Leste become a geopolitical pivot?; has Timor-Leste used power through interdependence, institutions, norms, discourses, and ideas?; how has Timor-Leste been able to use normative power and the "power of principles" in its favor?; how has Timor-Leste derived power through its engagement with greater powers to boost its own interests?; and finally, how has it used collective power to build coalitions of supportive states to promote its interests? We conclude that Timor-Leste, a fragile and small state, is considerably limited in the use of the "broader interpretations of power," and that liberal and social constructivist theories of international relations (IR) do not provide convincing explanations for the behavior of small states in their struggle for survival in the international arena.

Introduction

Since the restoration of Timor-Leste's independence on May 20, 2002,² its destiny has been connected to and dependent on the interests of neighboring powers. With the end of international tutelage, a residual UN footprint on the

² East Timorese call the restoration of independence in 2002 the second republic. Unlike the first republic, founded in 1975, this second republic has adopted the principles and values of liberal democracies (multiparty, elections, etc.).

ground, and increased sovereignty responsibilities, Timor-Leste has had to develop on its own effective foreign policies to overcome geostrategic challenges and survive in the international arena.

Located in Southeast Asia, squeezed between Indonesia to the north, and Australia to the south, Timor-Leste's future depends on the wisdom of the country's leaders to deal with its neighbors, major powers—such as the People's Republic of China (hereafter China) and the United States of America as the major powers competing in the region for geostrategic advantage³—and regional organizations. We will only examine China's activism and rising influence in the region, while being aware, however, of the equally important role of the United States in Southeast Asia.⁴

This work has a twofold objective: to understand Timor-Leste's foreign policy decisions (strategic and tactical) and to grasp whether and to what extent they reflect the concept of “diverse understandings of power.” Thus, we want to find crucial answers to the following questions: which strategies has Timor-Leste used (e.g. neutrality or bandwagoning) to maximize its power and gain influence?; can Timor-Leste become a geopolitical pivot?; has Timor-Leste used power through interdependence, institutions, norms, discourses, and ideas?; how has Timor-Leste been able to use normative power and the “power of principles” in its favor?; how far has Timor-Leste derived power through its engagement with more powerful states to take actions that boost its own interests?; and finally, how has it used collective power to build coalitions of supportive states to promote its interests?

To reach the stated objectives and to find answers to these questions, we will start by conducting a review of the relevant literature on strategic foreign policy options pursued by small states, and on “broader interpretations of power” that small states can adopt to maximize their power. Then, we will describe and analyze the relevant events that framed Timor-Leste's bilateral and multilateral relations. In the former, we will examine the evolution and nature of relations between Timor-Leste and Australia, Indonesia, and China, respectively. In the latter, we will assess Timor-Leste's responses to the challenges to its interests posed by those same states. In a concluding exercise based on the information collected, we will ascertain whether Timor-Leste authorities made use of the

³ We will not include in this study other influential players in the region such as Japan and India because they are not in the first line of Timor-Leste's foreign affairs policies.

⁴ The United States conducts a vibrant bilateral dialogue and cooperation with Timor-Leste in various domains, namely in the military field. The Seabees of the U.S. Navy have provided medical assistance and engineering support (building schools, repairing roads and assisting local authorities).

different categories of power (particular-intrinsic, collective, and derivative) proposed in this essay.

Foreign policies of small states: A theoretical review

In this section, we will carry out a selected review of the literature on two facets of the foreign policies of small states: strategic options and views on power. It is not our intention to provide a comprehensive presentation of the different IR theories on both topics, but the theories will always be present, more or less explicitly.⁵ This theoretical exercise aims at supporting the identification of possible foreign policy modalities for Timor-Leste later in the analysis. Despite the absence of scholarly consensus on a definition of a small state and in light of the immense diversity of criteria and taxonomies,⁶ there can be no doubt that Timor-Leste, with 1,167,242 inhabitants (according to the 2015 census) is a small state. Although not exclusively, we follow Archie Simpson's and Tom Long's works on small states;⁷ the first on bandwagoning and neutrality and the second on broader interpretations of power.

Neorealists do not pay much attention to small states due to the latter's position and status in international politics. They are more concerned with great powers (Elman, 1985; Layne, 1993; Mearsheimer, 2001).⁸ However, they have dedicated a great deal of attention to alliances and alliance theory. They see alliances as an unavoidable fatalism, as “a necessary tool of balancing when states' own resources are insufficient to create an appropriate counterweight to the hegemonial endeavors of one state or a group of states” (Muller, 2002, p. 371). “In the quest for security, alliances may have to be made” (Waltz, 1979, p. 166). “They are inevitable tools of convenience if the alternative—succumbing to the risk of an overwhelming power—is clear and immediate” (Muller, 2002, p. 371).

⁵ On the behaviour of small states when they conduct foreign policy, see Waltz (1979, pp. 184-185, 195), Walt (1987, pp. 21-31), Jervis (1978, pp. 172-173), Schweller (1992, pp. 253, 264-268), Keohane (1969), Ingebritsen et al., (2006), and Katzenstein, (1985).

⁶ For debates on the concept of ‘small state’, see, among others, Henrikson (2001, pp. 56-65) and Maass (2009).

⁷ Retrieved July 3, 2018, from <http://timor-leste.gov.tl/?lang=en&p=13777>.

⁸ According to Simpson (2018), “as small states are more vulnerable to external shocks and dangers, and are less threatening to Great Powers, realists are less interested in them” and “small states are of marginal interest to realist unless they have a geostrategic value or are an integral part of an international crisis or problem.”

Often when a rising state or coalition appears on the horizon, it attracts other players who give up building alternative coalitions to dispute power. Rather than balancing, they jump on the bandwagon. Bandwagoning and balancing behavior are sharply contrasting options (Waltz, 1979, p. 126). States tend to bandwagon for profit rather than security. This issue was carefully analyzed by Randall Schweller (1994, p. 74):

[B]andwagoning and balancing are not motivated by the same goal: to achieve greater security ... balancing is driven by the desire to avoid losses; bandwagoning by the opportunity for gain. The presence of a significant external threat, while required for effective balancing, is unnecessary for states to bandwagon.

When losing states throw in their lot with the winner, bandwagoning, not balancing, becomes the most likely behavior. When we apply this logic to small states, bandwagoning seems to be the most likely foreign policy option. It is better to bandwagon with great powers than to balance against them.⁹ It is in this context that we should understand bandwagoning, a particular type of alliance, as a convenient foreign policy option to small states.

Neutrality is yet another foreign policy option for small states. Like bandwagoning, neutrality is also usually associated with small states. It is “an institution of non-partisanship that has been commonly practiced by many small states as a means to opt out of the power politics of other states” (Simpson, 2018, p. 119). It has been an alternative to membership in military alliances and a safety belt in the case of collective security failures (Goetschel, 1999, p. 115). It is also a valid option in peacetime.

We also associate neutrality with a legal framework that states have to embrace and that “involves a level of international co-operation, recognition and acceptance by the wider international community” (Simpson, 2018, p. 123). Neutral states have to respect certain legal and political obligations. The Hague Conventions of 1899 and 1907 (Karsh, 1988, p. 18; Goetschel, 1999, pp. 118-119) “institutionalised the legal dynamics of neutrality setting legal bounds for neutral states to follow. This included the rights and duties of neutral states, the status of individuals from neutral states, how belligerents should act towards

⁹ Gvalia, Siroky, Lebanidze, & Iashvili (2013) challenged the conventional wisdom and argued, looking at Georgian experience in its dealing with the Russian Federation “that state—and individual—level variables can play a greater role in explaining the foreign policy behavior of small states and that small states sometimes choose to balance rather than bandwagon, especially when elite ideology is deeply embedded in formulating foreign policy.”

neutral states, and the regulation of war on the high seas” (Simpson, 2018, p. 123).

“As small states tend to have fewer military capabilities than great powers, they have to adopt policies and strategies designed to enhance their security as much as possible” (Simpson, 2018, p. 123).¹⁰ Neutrality, regardless of the form it may assume, seems to be on certain occasions a reasonable way for states to pursue their national interests, contingent upon their own political objectives, geographic location and security needs. Neutral states expect that their neutrality be respected first and foremost by great powers. Their non intervention in a war is expected to be reciprocated. Belligerent states should not interfere with the sovereignty of neutral states.

In terms of taxonomy, we follow Simpson’s proposal for three types of neutrality, plus the variant of nonalignment: ad hoc or temporary neutrality, de jure neutrality or neutrality by international law, and de facto neutrality. In the first case, ad hoc or temporary neutrality, states adopt neutrality when other states go to war. Exercising neutrality on an ad hoc basis, that is, avoiding intervening in a particular confrontation does not mean that a state will maintain neutrality in other wars or occasions. Portugal was neutral during the Second World War but later joined NATO. In the second case, de jure neutrality or neutrality by international law, two forms of neutrality may be considered: neutralization and permanent neutrality. Neutralization means that a state’s neutrality was reached through the imposition of an international agreement, not necessarily against its will (Austria and Finland during the Cold War); on the other hand, permanent neutrality occurs when a state becomes voluntarily neutral, for example, Switzerland. In the third case, de facto neutrality, a state adopts neutrality without recourse to international law (Ireland, Sweden, and the Vatican City).

The fourth type, nonalignment as a variant of neutrality, is very much connected with the nonaligned movement that emerged during the Cold War, with the participation of states all over the world that wanted to opt out of the two-bloc politics. Simpson also underlined in his essay that states adopting neutrality have to follow four principles (Karsh, 1988; Goetschel, 1999; Walzer, 2000):

¹⁰ Some question the relevance of studying neutrality, arguing that globalization has changed the nature of international security, as well as of neutrality: “More than with interstate wars we have coped with violence on a global scale, or with issues of human security. In this framework, neutrality in its traditional sense does not seem to have a future” (Rolenc, 2008).

non-participation in wars involving others, not starting any wars, defending neutrality, and abstaining from any policies or actions that might lead to war. Neutral states have to respect certain legal and political obligations. “When a war begins involving other states, neutral states should adopt a position of impartiality equally to all belligerent states. In a reciprocal way, belligerents are forbidden to violate the territory of neutral states or attack neutral states” (Karsh, 1988, p. 23).

Neutrality neither means nor implies that neutral states will have to disarm or refrain from having a strong and well-equipped defense and security apparatus. However, their capabilities are supposed to be mainly and primarily defensive in nature. As Vukadinovic (1989, p. 39) underlined, “armed neutrality is one of the classical requirements of neutrality ... neutral countries have always been expected to use all means at their disposal to safeguard their independence.” Neutrality is not synonymous with a toothless defense system.

The concept of neutrality was developed with mainly European cases in mind. This explains why Goetschel argued that neutrality “lost most of its significance” with the end of the Cold War (Goetschel, 1999, p. 122). However, this does not hinder states in other regions of the world from adopting any of the aforementioned types of neutrality, as a means to opt out of regional great or middle power competition.

Turning now to power and to what small states can do to maximize power and gain influence to achieve their international political objectives, Tom Long refutes the conventional wisdom that while not completely powerless, small states are unlikely to achieve much significance when facing great power opposition. Long proposes a different approach to power, exploring the connections between the concept of small states and more diverse concepts of power. This will open broader avenues for states to exercise influence in general, and small states in particular, increasing the latter’s opportunities for autonomy and influence.

Long starts from the premise that the present historical moment favors small states because their survival is protected from the strongest powers by norms and institutions, offering an alternative explanation to “resource-based and compulsory understandings of power,” exploring alternative opportunities for autonomy and influence.

Long goes beyond the realist concept of power and influence in world politics based on the possession of certain material resources, and he offers more pluralistic views of power which widen the possibilities at the disposal of small states.¹¹ While admitting the constraints that power and structures may have on the objectives of small states—the powerful create structures and control agendas—Long underlines the importance for small states to look at power through the lens of interdependence and institutions, where military force is de-emphasized, and he illustrates the complexity involved in the exercise of power.

The liberal view is that power “cannot be considered a homogenous, highly interchangeable commodity” and that it “can vary dramatically across issue areas” (Keohane & Nye, 1973). Robert Keohane and Joseph Nye have made important contributions to the way we study the behavior of small states. “Complex interdependence increases the influence and manoeuvrability of small states ... [which] gain important influence through international organizations, law, bargaining linkages, and even symbolic uses of force” (Keohane & Nye, 1977).

The constructivist notion of power through norms, discourses, and ideas brings other perspectives and widens even more opportunities at the disposal of small states. Increasing attention to normative power and the “power of principles” helps to create norms that delegitimize the use of force, thus, granting small states room for maneuver. They “have [often] acted as norm entrepreneurs in various areas” and were instrumental in advancing “norms without great powers” to support multilateral treaties (Bower, 2015).¹²

Building on the different views of power forwarded by the different IR theories, Long has increased our understanding of the power of small states which he classifies into three different categories: particular-intrinsic, collective, and derivative. Such forms of power compensate small states for their lack of international coercive capabilities. It is worth pointing out that these types of power are available to all states. Due to the limitations of small states, they have to rely to a greater extent on such power by “developing specific bases and means

¹¹ Material resources are frequently associated with “compulsory power,” and their possession with power and the ability to change other’s behavior.

¹² Long (2016, p. 9) quoting Bower (2015).

to be successful. Each category of power has its different bases and means,”¹³ and each “small state possesses its different material, ideational and relational bases” (Long, 2016, p. 10).

Particular-intrinsic power relies on the assets that small states possess. Although small states do not hold many of the material resources to which neorealists attribute particular relevance (namely military), they may possess particular-intrinsic resources which are a potential base of power that “only become salient in world politics through their exercise” (Long, 2016, p. 11).

A proper combination of base with means may provide small states with new power, “making formerly marginal states central to world politics” (Long, 2016, p. 11). Long illustrates particular-intrinsic power by referring to oil and gas, a traditional base of power. But he extends the notion of particular-intrinsic power to other domains, for example: “Panama’s control over its canal lets it play a larger role than its Central American neighbours in issues related to global commerce”; Switzerland and Singapore invest in “outsize forces that can deny larger neighbours access and influence,” building on their unique geographical locations.

Small states that occupy strategic locations also hold a base of particular-intrinsic power (Long, 2016, p. 11). The concept of “geopolitical pivots” developed by Zbigniew Brzezinski, in 1997, fits this concept, that is, those states whose “importance is derived not from their power and motivation but rather from their sensitive location and from the consequences of their potentially vulnerable condition for the behaviour of geostrategic players ... who have very significant political and cultural consequences for a more active neighboring geostrategic player” (Brzezinski, 1997, p. 41). Although Brzezinski was referring to the Eurasian region, this concept may be useful in other regions of the globe where we have great power competition.¹⁴

¹³ We adopted Dahl’s formulation of power: “‘A’ has power over ‘B’ to the extent he can get ‘B’ to do something that ‘B’ would not otherwise do” (Dahl, 1957, pp. 202-203), and the concepts of base, means, amount, and scope of one actor’s power over another. “The base of an actor’s power consists of all the resources—opportunities, acts, objects, etc.—that he can exploit to affect the behavior of another.” The means entail how an actor utilizes its base, such as through threats and promises. The scope involves the range of B’s responses that A can influence. The amount of power is probabilistic—what are the chances that A’s actions will change B’s behavior (within a given scope).

¹⁴ Brzezinski identified five key Eurasian geopolitical pivots, claiming that their protection is a crucial aspect of America’s global geostrategy (Ukraine, Azerbaijan, South Korea, Turkey, and Iran). The list of geostrategic players and geopolitical pivots is neither permanent nor fixed (Brzezinski, 1997, p. 48).

In line with the extended approach to power, particular-intrinsic power can include selective intervention by small states international organizations, and the combination of material with ideational resources. In the latter case, we refer to the construction of identities affecting perceptions, including intersubjective understandings of how domestic societies in different countries view foreign policies.¹⁵

Derivative power relies upon the small state’s relationship with a great power. “Lacking significant material capabilities of their own, small states may derive power by convincing larger states to take actions that boost their interests” (Long, 2016, p. 12). The mobilization of great powers, name-ly the United States, induced by Portugal to support the cause of Timor-Leste’s independence, even risking the hostility of Indonesia, a long-time U.S. ally, illustrates a case of derivative power employed by Portugal. “The diplomatic art of the weak states is to obtain, commit, and manipulate, as far as possible, the power of other more powerful states in their own interests” (Handel, 1981, p. 257).¹⁶

If we assume that power is about social relations, the relationship between small and great powers may be considered a source of power. Therefore, that relationship can be considered the base of derivative power. “The means of derivative power will vary according to the small state’s goals and its relationship with the great power” (Long, 2016, p. 13). Having said that, we must realize however the shortcomings associated with derivative power. Its scope is narrow. It may offer the possibility of amplifying a small state’s influence, but it is highly limited by the interests of a great power.

When it comes to collective power, its fundamental base is also expressed in terms of a relationship, but this time between a small state and associated non-great powers. It involves building coalitions of supportive states, often through institutions. Small states might seek strength in numbers, but it has generally been assumed that for these groups to gain significance, they would have to be “so large that each state has minimal influence” (Keohane, 1969, p. 296).¹⁷

According to Barnett and Duvall (2005), collective power can be either compulsory or institutional. In the former category, a group of small states directly pressures a larger state to change its policies through threats or promises. In the latter, institutions mediate the dispute, giving “some formal protection and

¹⁵ This case is well illustrated by the leading role played by Norway in the promotion of the UNSCR 1325’s objectives in institutions of which the country is a member, such as NATO.

¹⁶ Quoted by Long (2016, p. 12).

¹⁷ Long (2016, p. 14) quoting Keohane.

voice to small states.”

Not surprisingly, small states are strong promoters of institutions. The latter improve the former’s ability to influence their decision-making processes, and are used as a venue for promoting and expanding norms that affect the collective power of international society. Institutions provide small states a seat at the table and a vote, which in most cases has the same value as the vote of a great power. “Small states commit to play by the rules (and subtly shape them) because they believe the institution is likely to advance their national interests” (Long, 2016, p. 14).

Contrary to derivative power, the scope of collective power is potentially great. “If small states can influence institutional rules and procedures, then the effects of these rules can be ‘sticky’ and perhaps unforeseen” (Ikenberry, 1998).

The neighbourhood

Australia and Timor-Leste

To call us [Australia] a big bully is a grotesque simplification of Australia. We had a cosy economic agreement with Indonesia; we bailed East Timor out with no economic benefits. Our relationship is crucially important, particularly for you, East Timor. The two countries you can count on the most are Portugal and Australia ... On principle we are surprisingly inflexible ... We are very tough. We will not care if you give information to the media. Let me give you a tutorial in politics—not a chance (Ishizuka, 2004, p. 280).¹⁸

Australian Foreign Minister Alexander Downer “lecturing” Timor-Leste’s Prime Minister Mari Alkatiri.

Within the time frame of this work, beginning in 1974, three discrete periods can be discerned in the relationship between Australia and Timor-Leste.¹⁹ The first period covers the departure of Portugal, the declaration of independence, and the Indonesian annexation of Timor-Leste—all three events took place in 1975—until the referendum on August 30, 1999, under the auspices of the

¹⁸ Salla (1995) suggests a different classification for Australia’s foreign policy towards Timor-Leste. Where we considered only one period without major variations, Salla identifies five phases (acquiescence, ambiguous opposition, humanitarian agenda, human rights diplomacy, and cooperative security).

¹⁹ Ishizuka (2004, p. 280) quoting La’o Hamutuk, Boundaries and petroleum fields, *The La’o Hamutuk Bulletin*, 4 (3–4), 2003, 5.

United Nations (hereafter UN). The second period was between the referendum and the restoration of independence on May 20, 2002; and the last and third period was after the restoration of independence until the present. The first period had the Cold War in the background, and the third period witnesses the rise of China. In all these three periods, Australian foreign policy was very much conditioned by the elephant in the room: Indonesia. Australia always did its best to nurture good relations with Indonesia; it felt obliged to court the dictatorial regime of Suharto and to keep close ties with it at the expense of Timor-Leste.²⁰

After the 1974 revolution, Portugal hastily retreated from its farthest colonial territory without making any political arrangement, leaving behind a political vacuum that sowed the ground for the fratricidal civil war that followed. On December 7, 1975, when it became obvious that APODETI and UDT,²¹ the parties defending Timor-Leste’s integration into Indonesia, did not enjoy popular support and that pro-independence sentiments were on the rise, the Indonesian armed forces invaded Timor-Leste.²² Turning a blind eye to the UN Security Council Resolutions (hereafter UNSCR) which deplored their intervention and called upon the government of Indonesia to withdraw without delay all its forces from the territory (UNSCR 384, §2), Indonesia annexed Timor-Leste and in 1976 incorporated it into its territory.²³

Despite the invasion and the subsequent annexation of the territory conflicting with international law and the fundamental values of liberal democracies, Canberra did not display any outrage. Initially, it supported the UN’s position on Timor-Leste and deplored the military intervention, voting against Indonesia in the General Assembly. But soon after Australia changed its stand and adopted Indonesia’s narrative: the danger of a communist regime. It is

²⁰ On this issue, see the statements of Edward Gough Whitlam, prime minister of Australia, who kept an amiable relationship with Suharto, in Salla (1995, pp. 208–209). It is interesting to explore Australia’s reasons for not supporting the idea of an independent Timor-Leste: aversion to mini-states; it was better to have one neighbor to deal with than a proliferation of small states. “This is particularly so when dealing with them for off-shore mineral rights”; the potential for destabilizing its neighbors; to rectify a “colonial accident.” For Whitlam, “the only two options seriously countenanced for East Timor were continued association with Portugal, or integration with Indonesia” (Salla, 1995, p. 211). Cotton (2004, p. 5) offers another argument against the independence of Timor-Leste: it might open the way for other regions in Indonesia to seek a separate political identity, and the resulting disorder might generate refugee flows as well as military uncertainty.

²¹ APODETI (Timorese Popular Democratic Association) and UDT (Timorese Democratic Union).

²² Initially, UDT defended the continuation of Portuguese sovereignty, but changed its position after losing the battle with FRETILIN, joining ranks with APODETI defending Timor-Leste’s integration into Indonesia. There was also a tiny group advocating integration into Australia, a claim that Australia never supported.

²³ UNSCRs 384 and 389.

worth mentioning that Australian elites were not united in the choice of policy regarding Timor-Leste, but at the end of the day the regional importance of Indonesia spoke louder and Australia accepted the integration of Timor-Leste into Indonesia. In 1978, Australia recognized de facto Indonesian sovereignty over Timor-Leste, and in 1979 de jure, becoming the only “Western state” to recognize the incorporation and to establish a security agreement with Jakarta (Leaver, 2001, p. 6).

The overriding importance of protecting the relationship with Jakarta became a central objective of Australian foreign policy for decades and turned into a “dogmatic” issue. Canberra was determined to develop close ties with Indonesia and not allow the issue of Timor-Leste to harm their bilateral relations. This had a positive impact on relations between both states. After the massacre at Santa Cruz Cemetery, in November 1991, Australian Prime Minister Bob Hawke called on the Indonesian government in a relatively mild manner to abandon the use of military force and to begin negotiations to reach a settlement with the people of Timor-Leste.

The second period began with the final countdown to the referendum and the shift in Canberra’s policy towards Timor-Leste, triggered by the “first overt sign of a re-evaluation of the Timor issue [which] occurred in late 1997” (Cotton, 2004, p. 89) that precipitated an unexpected outcome. By December 1998, John Howard, prime minister of Australia, in a gesture that provoked agitation in domestic political circles, chose a new path to address the “Timorese question.” He sent a letter to the Indonesian interim President J. B. Habibie, recommending him to negotiate directly with Timor-Leste’s leaders, suggesting “a long-term and incremental solution to Indonesia’s problematic military occupation of East Timor” (Henry, 2014, p. 52).

Unexpectedly, Habibie not only agreed but went a step further and decided to allow popular consultation with the East Timorese and gave them the opportunity to express their will on the future of the territory. “The referendum functioned as the precursor to independence” (Ishizuka, 2004, p. 271). Howard’s letter had an unintended consequence, since Timor-Leste’s “independence was never the objective of Australian foreign policy” (Henry, 2014, p. 52).²⁴

²⁴ For an in-depth view of Australia’s policy towards Timor-Leste during the Howard years, see Kaye (2006) and Maley (2000).

Thus, on August 30, 1999, a referendum was held under the tutelage of the UN and voters overwhelmingly chose independence. Following the declaration of the poll, the territory dove into chaos, and civil order broke down completely. Local sympathizers of integration into Indonesia refused to accept the result of the ballot and resorted to violence. Pro-Indonesia militias, sponsored by the Indonesian military, left much of the territory in flames. Under the referendum agreement, Indonesia was responsible for security, but the Indonesian forces stationed in the territory—more than 15,000 personnel—did not lift a finger to impede or contain the widespread violence and brutality all over the place.

Confronted with Indonesia’s inability to restore order, Australia took the initiative and approached the UN offering its services to lead an intervention force into Timor-Leste to stop violence and restore order. That offer was well received, and on September 19, 1999, three days after UN-SCR authorized a mission with a mandate under chapter seven of the Charter, the International Force East Timor (hereafter INTERFET) was deployed in Timor-Leste with permission to use force against armed militias if necessary.²⁵ This reversal of policy manifested by an active intervention-ism in Timor-Leste’s business—backing independence and the intervention of a multinational military force—represented a stark departure from the previous quarter century of Australia’s consistent strategy of close and “special relationship” with Indonesia. Many in Canberra feared consequences for bilateral relations with Jakarta, as Indonesia continued to be one of the highest priorities for any government in Canberra. “Australian–Indonesian relations got their worst state ever. The bilateral security agreement had been abrogated by Indonesia and angry mobs were burning Australian flags in Jakarta” (Maley, 2000, p. 151). According to Maley, “in terms of Australian policy, INTERFET was not an integral part of a well-designed process. It was an ad hoc response crafted in desperation to address a desperate problem.” But at the end of the day, it reflected the fact that Timor-Leste has always been a concern to Australians for security reasons and economic interest (Cotton, 2004).²⁶

²⁵ INTERFET was deployed pursuant to UNSCR 1264. It is important to underline that American diplomatic support proved necessary to obtain Habibie’s acceptance of INTERFET.

²⁶ These security concerns date back to decades before World War II to recurrent rumors of Portuguese plans to abandon the island, or Japanese intentions to acquire Timor-Leste. In 1941, a small Australian expeditionary force was sent to pre-empt Japanese occupation and a bloody guerrilla campaign ensued. Many East Timorese supporters of the Australians lost their lives in the campaign (Cotton, 2004, p. 5). These security concerns never vanished, as shown by various Australia’s Defence White Papers (among others, in the 2013 and 2016 White Papers) in the chapter dedicated to strategic defense interests: (1) a secure, resilient Australia, with secure northern and proximate sea lines of communications; (2) a secure region in the vicinity, encompassing maritime South East Asia and the South Pacific; and (3) a secure Indo-Pacific region and a rules-based global order.

This turnaround in Canberra's stance cannot be disconnected from the new tide put in motion by the United States, in part induced by Portuguese diplomacy: the independence of Timor-Leste was a *fait accompli*. The leadership of the UN peacekeeping force gave Australia a position of strength in the discussion of any issues related to Timor-Leste. Anticipating events on the horizon, Australian authorities felt that it was the best way to show it was indispensable and uncircumventable. Since then, Australia has always been permanently present, in one way or the other, in Timor-Leste and has played a pivotal role in its foreign relations.

Soon after, Australia and Timor-Leste started negotiating seabed boundaries in the rich Timor Sea full of petroleum and natural gas. It is noteworthy that in March 2002, two months before independence, the Australian government withdrew from the legal process of resolving maritime boundaries within the ICJ and from the dispute settlement under the UN Convention on the Law of the Sea (hereafter UNCLOS) (Cleary, 2007).²⁷

The third phase started with Timor-Leste's restoration of independence on May 20, 2002, although full sovereignty was mitigated for a couple of years by the "Transitional Authority" regime agreed with the UN. This period was characterized by the dispute between Timor-Leste and Australia over the oil and gas reserves under the seabed of the Timor Sea. The importance of the Timor Sea for Australia was well illustrated by Ishizuka (2004, p. 283): "the Timor Sea was an opportunity that [had to] be pursued using all political, economic and technological strength available." The first subject on the table was the demarcation of Timor-Leste maritime boundaries.²⁸ As Timor-Leste never accepted its position as a successor state of Indonesia (Dili rejected the principle of *uti possidetis iuris*), it had no maritime boundaries in place.²⁹ With Timor-Leste's independence, the Timor Gap Treaty became an anachronism.³⁰

²⁷ Australia made an Article 298 declaration on March 22, 2002, stating that it did not accept arbitration or adjudication procedures with respect to maritime delimitation disputes.

²⁸ During the Portuguese administration, the maritime boundary between Indonesia and Australia was interrupted in the region south of Timor-Leste, in what was called the "Timor Gap." When UNTAET ended, Timor-Leste assumed full control over its own administration, and the Timor Sea Treaty was signed.

²⁹ CLBrief, 2018. Retrieved October 3, 2018, from <https://clbrief.com/greater-sunrise-at-last>.

³⁰ The Timor Gap Treaty divided the Timor Gap region into three sections. The petroleum extracted in the largest area, Area A, was to be equally shared by the two countries. In Area C, closest to Timor-Leste, 90% of the production would go to Indonesia, and 10% to Australia.

Most of the fields lying under the seabed between the two countries are much closer to Timor-Leste than to Australia. Under international law most of the known resources would belong to Timor-Leste.³¹ Conveniently, Australia refused to discuss maritime boundaries with Timor-Leste, preferring only to discuss how production revenues in "Area A" of the Timor Gap Treaty were going to be shared. On May 30, 2002, on the very day of independence, Australia and Timor-Leste signed the Timor Sea Treaty, replacing the Timor Gap Treaty. With this new arrangement, Timor-Leste would receive 90% of all oil and gas royalties from Area A of the Timor Gap Treaty, renamed the Joint Petroleum Development Area (JPDA), rather than the 50% split of the Timor Gap Treaty, representing a clear advance.³²

However, "attached" to the Australian ratification of the Timor Sea Treaty was Timor-Leste's signature of the Sunrise International Unitization Agreement (IUA).³³ According to the UNCLOS, due to its location, all royalties should go to Timor-Leste.³⁴ Instead, and in contravention to international law, Australia will receive about 80% of all petroleum royalties. On March 6, 2003, only after the Timor-Leste government's signing of the IUA, the parliament in Canberra ratified the Timor Sea Treaty (Ishizuka, 2004, p. 281).³⁵ Talks over the Greater Sunrise—and indeed over wider economic policy—have continued over the years, and have been affected by political infighting in Dili, Australian interference in its internal politics, and dispute over the issue of sovereignty in Timor Sea. Maritime borders between Timor-Leste and Australia were finally settled on March 6, 2018, when the governments of Timor-Leste and Australia signed a boundary delimitation agreement that should open the doors to the development of the Greater Sunrise oil and gas project,³⁶ and will boost East Timorese control over oil and gas deposits in the Timor Sea.

³¹ The seabed boundary treaty signed in 1972 between Australia and Indonesia, based on the now outdated continental shelf principle, established a seabed boundary much closer to Indonesia than to Australia. This fact was tremendously advantageous to Australia, but detrimental to Indonesia. According to the new law of maritime boundaries ratified in 1982—UNCLOS—the international boundary of countries with fewer than 400 nautical miles of sea between them will be the mid-points. The adoption of UNCLOS would have been more advantageous to Indonesia than to Australia.

³² The Australian endorsement of Indonesia's sovereign right over Timor-Leste was a fundamental condition for Indonesia to sign the treaty on the Timor Gap.

³³ It is worth mentioning that the Timor Sea is estimated to contain the world's 23rd largest oil field, with reserves of five billion barrels of oil and 50 trillion cubic feet of liquid natural gas (Ishizuka, 2004, p. 277).

³⁴ For a different argument on this matter, see Kaye (2006, p. 85).

³⁵ Ishizuka (2004) quoting La'o Hamutuk.

³⁶ On maritime boundaries, it is important to underline Australia's double standard. It was critical of China's behavior regarding South China Sea vis-à-vis Philippines, but it was behaving in a similar way in matters involving the Timor Sea.

This agreement was the consequence of compulsory nonbinding conciliation proceedings initiated by Timor-Leste against Australia on April 11, 2016, under Annex V of the UNCLOS.³⁷ “On September 26, 2016, the Conciliation Commission published its decision on competence. This was the first time the conciliation procedures in UNCLOS have been invoked” (Phan, 2016). The report of the Conciliation Commission, including its conclusions and recommendations, were not binding for Timor-Leste and Australia. However, the two states were obliged to attempt to negotiate an agreement on the basis of the Commission’s conclusions and recommendations. “If the negotiations failed, they should ‘by mutual consent’ submit their maritime boundary dispute to binding adjudication or arbitration” (Phan, 2016). With its negotiation space narrowing, Australia went ahead and signed the 2018 agreement with Timor-Leste on maritime boundaries.³⁸

The East Timorese and Australian governments still have to strike a deal on the terms of their production-sharing agreement, and agree on the development consortium that will process the gas. Both countries want the LNG plant built in their own territory.³⁹ Although the deal on maritime boundaries has yet to be closed, the circumstances under which it was established represent an important precedent, and it is a case of successful use of collective power by a small state (in its institutional form).

Although concerned with China’s growing influence in the region—Australia will not permit adversarial or hostile powers to build military bases in Timor-Leste⁴⁰—for the time being Australia’s agenda regarding Timor-Leste is still profoundly related to its economic interests. As Ishizuka put it:

On the whole Australia’s policy towards East Timor has been based on the principle of power politics. Australia’s behaviour towards East Timor has been a pragmatic rather than a principled stand ... Australia’s political strength was dominant enough to withdraw from the ICJ and UNCLOS and was used to threaten East Timorese political leaders.

³⁷ It is important to recall the fact that since the restoration of Timor-Leste’s independence in 2002, Australia and Timor-Leste have signed a number of agreements (the 2002 Timor Sea Treaty, the 2003 Agreement relating to the Unitization of the Sunrise and Troubadour Fields, and the 2006 Treaty on Certain Maritime Arrangements in the Timor Sea (hereafter CMATS)), without, however, reaching any agreement on a permanent maritime boundary. For further details on CMATS, see Schofield (2007).

³⁸ Also on the issue of compulsory conciliation under the Law of the Sea Convention, see Bankes (2016).

³⁹ If the LNG plant was built in Timor-Leste, its share of revenues in the proposed production-sharing agreement would be reduced from 80% to 70%, with Australia taking the remainder.

⁴⁰ Australia recently blocked China from establishing a military base in Fiji by not just outbidding Beijing but by offering a more attractive proposal. Australia’s arrogance in dealing with small nations in its neighborhood only serves to drive them into the arms of China, making the latter potentially attractive partner for South Pacific countries.

Timor-Leste will continue to be dependent “on Australia in economic and security terms, and the balance of power politics involved in regional hegemony in the area encourages the status quo” (Ishizuka, 2004, p. 283). This asymmetrical interdependence and the gross imbalance in political and economic power between the two countries is problematic for Timor-Leste. As Ishizuka (2004) remarked, the relationship between Timor-Leste and Australia support Keohane and Nye’s finding that “a less independent actor in a relationship often has significant political resources, because changes in the relationship will be less costly to that actor than to its partner.”

Without questioning the validity of Ishizuka’s analysis, the case of compulsory nonbinding conciliation proceedings initiated by Timor-Leste and the use of collective power by a small state in-troduce in the equation new facts that analysts have to consider, thus adding complexity to the debate.

Indonesia and Timor-Leste

Despite the assurances and friendly behavior consistently shown by Timor-Leste’s leadership since the restoration of independence, putting aside grievances and hard feelings created by past bad experiences (see details in the next section), some Indonesian intellectual and political circles have not yet accepted Timor-Leste’s independence.

Despite positive developments in the past years, there is a security dilemma between Indonesia and Timor-Leste. On the one hand, Indonesia is still perceived as a security threat to Timor-Leste. The past speaks for itself, and it is not forgotten. This was evident when Timor-Leste tried to delay as long as possible the end of the UN mandate and the departure of the peacekeeping force. “The end of the UN mandate will pose a real dilemma for East Timor, namely how to allow Australia to underwrite its security while reassuring Indonesia at the same time” (Smith, 2005, p. 29).

On the other hand, Indonesia holds a similar perception towards Timor-Leste. Indonesian policy makers feared (and still fear) that an independent Timor-Leste might become a “Trojan horse” for external powers (Smith, 2005, p. 17).⁴¹ In 1975, Suharto used the same argument to justify the invasion of Timor-Leste on December 7. It was necessary at all cost to avoid East Timorese

⁴¹ Smith is referring to a phrase used by Dewi Fortuna Anwar, then Senior Advisor to the President, in an interview with the author (Jakarta, February 1999).

territory from becoming a “Cuba” of the South Pacific (Smith, 2005, p. 17), a communist spear.

While the fear that Timor-Leste might be a possible launching pad for extraregional powers has not vanished, it has been reformulated in light of the absence of a communist threat. As we will see, Timor-Leste has considered this fact in the formulation of its foreign policy. This makes “Australia’s military presence and military-assistance problematic from the point of view of assuring Indonesia that East Timor will not become an offshore base for an outside power” (Smith, 2005, p. 29), and that Timor-Leste is not pursuing any formal military alliance with Australia.⁴²

Many prejudices against Timor-Leste still prevail among the Indonesian elites and masses, “[who] often [blame] Australian meddling for East Timor’s departure [from Indonesia] or [portray] the East Timorese as ungrateful recipients of Jakarta’s largesse.” Habibie, while president, once characterized Indonesia’s annexation as an “act of charity” (Smith, 2005, p. 20). These patronizing statements do not match the facts, let alone explain the destruction—by rampaging pro-Indonesia militia groups and militia activity in the border regions—of nearly 70% of Timor-Leste’s infrastructure immediately after the referendum, circumstances which were responsible for prolonging the presence of international forces in the territory.

Those prejudices were also responsible for a series of unsettling actions towards Timor-Leste. This was illustrated by Smith (2005, p. 25) when he recalled the opposition of most senior Indonesian parliamentary leaders to Megawati’s inaugural visit to Timor-Leste when she was president on May 20, 2002. “When Megawati persisted with the one hour visit to Dili, the TNI [Tentara Nasional Indonesia or Indonesia’s national military] placed on standby a force of 2,000 troops, six warships, amphibious tanks and jet fighters at West Timor’s provincial capital, Kupang.”⁴³

While it has been more than 15 years after independence, some circles in Jakarta still view Timor-Leste’s independence as an encouragement to separatist

⁴² On this issue, Hadi Soesastro, a leading Indonesian scholar, stated that the development of a formal defense relationship between Australia and Timor-Leste “is likely to arouse negative reactions in Indonesia.” According to him, the U.S.–Singapore relationship—which is close but without any formal pact—should be a model for Timor-Leste to follow (Smith (2005, pp. 28 and 29, quoting Hadi Soesastro).

⁴³ Many instances can be used to illustrate Jakarta uneasiness when dealing with East Timorese matters. One striking example was the nomination in July 2004 of a former National Intelligence Agency (BIN) officer as ambassador to Dili, when atrocities committed by the BIN in Timor-Leste were still very present in the East Timorese collective memory. Notwithstanding the circumstances, he was well received.

sentiments in other parts of Indonesia, a sensitive issue in Indonesia in view of its vulnerabilities in terms of its archipelagic configuration and hundreds of distinct ethnic groups.

There are, however, some signs of change, as shown by the Indonesian support for Timor-Leste’s candidacy for membership in the Association of Southeast Asian Nations (hereafter ASEAN),⁴⁴ and Indonesia’s promotion of the development and economic diversification of the nascent manufacturing industry in Timor-Leste (Hägerdal & Berlie, 2018, p. 98).

China and Timor-Leste

China’s support for Timor-Leste dates back to the latter’s first attempt at independence, when in November 1975 the “Frente Revolucionária de Timor-Leste Independente” (hereafter FRETILIN) declared Timor-Leste independent from Portugal. After Indonesia’s annexation of Timor-Leste, China continued supporting the East Timorese cause at the UN and providing financial aid to its government in exile in Mozambique. This support diminished in the late 1970s, when Beijing needed the support of ASEAN and most particularly Indonesia’s, to oppose Vietnam’s occupation of Cambodia.

Immediately after the August 1999 elections, when Timor-Leste’s people voted overwhelmingly in favor of independence from Indonesia, China hesitated to support the deployment of an international peacekeeping force to suppress the fratricidal violence that swept the territory. Beijing did not want to spoil its relations with Jakarta, carefully nurtured in the two previous decades, by backing the deployment of a force opposed to Indonesia. It was only after Jakarta changed its mind and asked the UN to intervene in Timor-Leste and the UN Security Council (UNSC) authorized the deployment of a military force⁴⁵ that China overcame its initial hesitations and backed Timor-Leste.

When Timor-Leste restored its independence on May 20, 2002, China continued the friendly relationship it had developed with the East Timorese government in exile. China was the first state to recognize and establish diplomatic relations with the new country. Emulating in Timor-Leste its vast experience in helping small and developing countries in Africa, China supported Timor-Leste in many ways, implementing various soft power cooperative programs. These

⁴⁴ See Hägerdal and Berlie (2018, p. 98) referring to Indonesia’s President Susilo Bambang Yudhoyono who supported Timor-Leste’s bid in 2011 to join the organization.

⁴⁵ China only contributed with personnel (civilian police) to the UN missions that followed INTERFET.

included the construction of schools, provision of scholarships and courses for civil servants in schools in China, and assistance for the training of doctors, medical teams and police officers.

Some Timorese leaders have propagated a soft power policy since their exile in Mozambique, more than four decades ago, when China was already cultivating friendly ties with them. Maoist left-wing preferences of some FRETILIN leaders are well known, as are those of former Prime Minister Alkatiri, an advocate of closer ties to China.⁴⁶

Timor-Leste and China also signed a number of bilateral trade and aid agreements, including one conferring the most favored nation status on one another. Chinese companies are constructing two heavy oil power plants, and East Timorese authorities celebrated with Chinese companies a \$360 million contract to build power plants which included a national power grid. Timor-Leste also paid \$28 million for two petrol vessels from China.

Beijing also cooperates with Timor-Leste in military matters. China has donated non-lethal equipment to the East Timorese armed forces (uniforms, tents, transport vehicles, etc.), built barracks and houses for soldiers, and set up a program of practical military cooperation which included education and training courses in China. Cooperation in the field of military affairs also involved Timor-Leste's acquisitions from China. In 2006, Dili signed a contract with a Chinese vendor to purchase eight light armed jeeps, and in 2008, with Poly Technologies, a Chinese company with close links to the People's Liberation Army (hereafter PLA), a \$25 million contract to buy two Shanghai-class patrol boats mounted with 30-millimeter cannon to combat illegal activities in Timor-Leste's exclusive economic zone.⁴⁷ This is the largest defense acquisition to date and it is seen by some observers as a slap in the face for Australian diplomacy, some sort of retaliation for Australia's lack of attention for Timor-Leste's demands in the negotiations of the Sunrise project. Dili had bought the boats to "demonstrate to Canberra that it has other choices when it comes to defence partners" (Murdoch, 2010).⁴⁸ This purchase evinced Timor-Leste's willingness to take more responsibility for its territorial waters and therefore to increase its particular-intrinsic power.

⁴⁶ According to some analysts, Alkatiri's resignation was not welcomed by Beijing and was the result of internal power struggles and Australia's interference in Timor-Leste's internal affairs. On this issue, see Ian Storey (2006).

⁴⁷ Storey (2012, p. 299) citing the *The Australian*, April 16, 2008, 'Alarm Grows at China's Influence in East Timor'. The contract included the training of thirty to forty F-FDTL personnel in China and the construction of a landing dock on the country's south coast. The patrol boats were delivered on May 20, 2010, the country's independence day.

⁴⁸ Murdoch citing Ian Storey, interview published by the *Herald*, June 7, 2010.

The importance of China–Timor-Leste relations has grown with time. China has raised its profile, in several ways. Timor-Leste has established an embassy in Beijing, and China has the largest diplomatic presence in Dili.⁴⁹ China has financed the construction of Timor-Leste's embassy in Beijing, and the building of the East Timorese foreign ministry, defense ministry, and presidential palace in Dili.⁵⁰ China's efforts to be in closer contact with Timor-Leste was demonstrated through its participation in all UN peacekeeping missions deployed in the East Timorese territory, with China contributing mainly civilian police officers.⁵¹ In 2017, one Chinese PLA Navy hospital ship visited Dili. It was the second time that a PLA Navy vessel visited the country. Earlier in January 2016, a PLA Navy task force comprising a destroyer, a frigate, and a supply ship visited Timor-Leste for five days (Panda, 2017).

Timor-Leste is rich in minerals (copper, zinc, and rare blue marble), marine resources, and hydrocarbons (oil and gas).⁵² The competition for hydrocarbons is high. PetroChina, one of China's largest state-owned energy companies, financed a US\$1.6 million onshore seismic study for oil and gas in the country's interior, and expected to be involved in subsequent offshore oil field development (Storey, 2006). However, the exploitation of offshore deposits was won by Australian and other international companies.

The biggest contention at the moment is around the Greater Sunrise field which contains around 300 million barrels of condensate and 9.5 trillion cubic feet of gas.⁵³ China is very much interested in infrastructure contracts such as the pipeline that Timor-Leste wants to build from its Greater Sunrise oil field to a processing plant on land, the construction of which is yet to be confirmed.

⁴⁹ China and Timor-Leste exchanged military attaches in 2002.

⁵⁰ China's capacity-building support for the F-FDTL was small-scale in comparison with countries such as Australia and Portugal, but since 2007, the PRC has become a major player in Timor-Leste's defense sector. In 2008, Beijing agreed to finance construction of office complexes for the Ministry of Defense and Security and the headquarters of the F-FDTL, estimated to cost \$10 million (Storey, 2012, p. 298).

⁵¹ UNTAET–UN Transitional Authority East Timor, 1999–2002; UNMISSET—Mission of Support in East Timor, 2002–2005; and UNMIT—UN Integrated Mission in Timor-Leste (2006–2012).

⁵² The concept of marine resources covers a wide range (fish and seafood supplies, oil, gas, minerals, renewable energy resources, tourism, unique ecosystems like coral reefs, etc.). In this case, we apply a narrow definition of marine resources such as fish and seafood. In 2017, Timor-Leste authorities caught 15 small Chinese ships engaged in fishing for shark and filling the holds of larger vessels.

⁵³ Figures and estimates on the petroleum potential of Timor-Leste vary according to the source. The Australian government states that the Greater Sunrise contains an estimated 8.4 trillion cubic feet of gas and 295 million barrels of condensate. See the Australian government's National Interests Analysis on CMATS.

China's close relationship with Timor-Leste since the 1970s can be divided into two major periods, paralleling China's emergence from economic backwardness and increasing geostrategic assertiveness.⁵⁴ In the first period, during the 1970s and 1980s, the warm relations between China and East Timorese elites were mainly motivated by ideological affinity rather than geopolitical reasons. Many of the latter had espoused left wing pro-Maoist doctrines.⁵⁵ Relations in the second period, from the 1990s onwards, coinciding with the rise of China as an economic power, have to be understood from a geostrategic perspective.

According to some analysts (Storey, 2006), China's interest in Timor-Leste resides fundamentally in four major objectives: to expand its influence in Southeast Asia;⁵⁶ to gain access to the country's natural resources, especially oil and gas reserves; to restrict Taiwan's economic and political space in the region; and, less importantly, to gain access to the Community of Portuguese Language Countries (hereafter CPLP).

Although we do not disagree with this analysis, it should be complemented with additional elements. China's relationship with Timor-Leste has to be put into the wider geopolitical context of Southeast Asia as well as Beijing's action in the region. Its foreign policy and security strategy have to be seen through the lens of defensive realism,⁵⁷ regardless of the cliché chosen to epitomize it. Beijing has been prioritizing bilateral and multilateral security cooperation, and has contributed to institutionalizing a degree of security cooperation among states in the region, which has alleviated the security dilemma in its neighborhood (Tang, 2008).⁵⁸ As a rising power, the creation of a sphere of influence is another element of China's intention to have more say in reshaping the future system (Tang, 2008); what Beijing is doing is using a "soft power" diplomatic and economic approach throughout the region.

⁵⁴ Before 2000, China's military cooperation with Southeast Asia was limited to a few countries. Nowadays, military cooperation is extended to all ASEAN members and many other countries in the region.

⁵⁵ A vast majority of East Timorese students who left Portugal and went back to Timor-Leste in 1974 were pro-Maoist.

⁵⁶ For an analysis of China's expansion in the South Pacific, see Webb (2015). He argues that "China's actions should be seen primarily in the context of seeking to expand markets and securing access to vital resources, which are necessary to support its economic growth and develop diplomatic legitimacy as a global power, and do not constitute a threat to regional security."

⁵⁷ Unlike Mao's offensive realism, China is no longer supporting insurgencies or revolutions in developing countries. It no longer presents a threat to those countries identified as imperialists or their lackeys and proxies. On this issue, see Tang (2008).

⁵⁸ China was decisive in the foundation and development of the Shanghai Cooperation Organization (SCO), a regional security organization involved in managing security pertaining to Eurasia.

China is advancing its interests and slowly establishing a strong foothold in Timor-Leste which would increase Beijing's political clout, but we must bear in mind its importance compared to other regional challenges. The statement that "Timor-Leste is not a priority for China, but Beijing is definitely keeping an eye on it"⁵⁹ aptly sums up the situation. However, geopolitical dynamics may dictate developments not foreseen at this stage. From just a good friend, Beijing may turn into Dili's closest friend in the future.⁶⁰

Despite numerous contentions in favor of Timor-Leste's importance to China, the former assumes neither a security importance comparable to the Paracel or Spratley islands, nor security challenges to China as those it faces in the South and East China Seas. Timor Sea is not exactly a choke point (it is not identified as such in any geopolitical study), and it is not located in any global sea line of communication with any consequent relevance to the global economy and transport of goods and hydrocarbons; and it is not a part of the maritime Silk Road. The country is located on the periphery of major maritime trade routes.

But in case of crisis or war, the strategic importance of Timor-Leste's location would increase enormously. It is in a privileged position to control the movement of submarines between the Pacific and Indian Ocean. Beyond economic interests, China also has military interests in Timor-Leste. The possibility of setting up some sort of support, namely communications infrastructure, should not be excluded.

Denying an antagonist power any access to Timor-Leste is critical for Australia.⁶¹ If held by a hostile power, Timor-Leste could be used to block Australian ships entering the Indian Ocean. From this perspective Timor-Leste is a geopolitical pivot to Australia. Controlling Timor-Leste seems strategically more important to Australia than to China.⁶²

⁵⁹ Loro Horta interviewed by Sunanda Creagh and Tito Belo. Retrieved from <https://www.reuters.com/article/us-timor-china-idUSTRE58D0GD20090914>.

⁶⁰ For an American perspective of China's aid to Timor-Leste, see Mydans (2007).

⁶¹ "A secure, resilient Australia extends into our northern approaches, our Exclusive Economic Zone, and our offshore territories," 2016 Defence White Papers, §3.5, p. 69.

⁶² Brunei is a strong competitor of Timor-Leste. Recent Chinese investment in Brunei has reduced the strategic importance of Timor-Leste for China.

Timor-Leste's foreign policy responses

Having identified the driving forces behind Australian, Indonesian and Chinese relations with Timor-Leste, we will now examine Timor-Leste's foreign policy responses to advance its interests, both bilaterally and multilaterally. Although not deeply explored in this essay, we cannot exclude in this exercise the latent regional competition between the United States and the rising challenger that is China. This competition has created difficulties for Timor-Leste's policymakers, and produced a unique, complex and challenging geopolitical environment. Despite its limited resources and a small diplomatic corps, Timor-Leste has made a tremendous effort on the diplomatic front. It opened 26 diplomatic representations at the level of embassy, and created four missions to international organizations:⁶³ 15 out of the 26 embassies are located in Asian countries and Oceania, covering all ASEAN members, a requirement for joining the association. An immense effort was made to increase the country's strategic power, both externally and internally: externally, bilaterally and multilaterally, by increasing the room for maneuver, making itself heard and relevant; and internally by using the assets available to mitigate its "smallness" (oil, gas, and maritime resources⁶⁴ and developing strategic infrastructure).

Timor-Leste and Australia

Unlike Indonesia, Timor-Leste does not perceive Australia as a security threat. Dili looks to Canberra as a security provider that will help preserve its sovereignty. Australia was there in 1999 leading the INTERFET, and was there again in 2006 responding to a request from the government of Timor-Leste during another convoluted moment in Timor-Leste's history. Moreover, Australia has been the primary provider of equipment and training for the Timor-Leste Defense Force.

Timor-Leste is aware of how far it can go in terms of setting up a formal defense relationship with Australia without provoking a negative response from Indonesia. For obvious reasons, it cannot alienate Indonesia but at the

same time it cannot reject Australia's defense and security assistance. It has to find with Australia a cooperative security solution but not a formal military pact or alliance.

The rising anti-Australian sentiment in Timor-Leste is caused by "Australia's hardball tactics in the convoluted negotiations over oil and gas reserves in the Timor Gap" (Smith, 2005:26). The lengthy negotiations over the resources in the Timor Gap have poisoned relations between the two countries. Australia has been negotiating from a position of strength, acting as a *primus inter pares*, treating its partner in an overbearing manner, something that East Timorese consider unfair. Australia wants access to resources to which its rights are highly questionable under the UNCLOS, but the Timor-Leste has not given up, despite being pushed into a corner. Australia withdrew soon from the legal process of resolving maritime boundaries within the ICJ and from the dispute settlement under UNCLOS. Timor-Leste was unable to bring them back to the negotiations, revealing how weak Timor-Leste's bargaining position was, and the extent to which powers ignored established rules when these were not in their favor or interests.

"[Xanana] Gusmão has spoken of an 'unequal relationship' and likened the stakes surrounding the negotiations for the Timor Gap as akin to the independence struggle itself" (Smith, 2005:27). Despite the setback in Australia's ambitions caused by Timor-Leste initiation of compulsory non-binding conciliation proceedings against Australia, and the exposure of the unfairness of the Australian position by the report of the Conciliation Commission, the 2018 signing of the boundary delimitation agreement is not the end of the story. Australia will continue imposing bilateral dispute management and Timor-Leste might have no other option than to acquiesce.

Timor-Leste and Indonesia

Timor-Leste political elites have been dealing very cautiously with Indonesia. They were able to put geography (and its security implications) before history, prejudices and hard feelings, even though many important issues on the agenda remained unsolved. Cognizant of their constraints, they understood very well what state survival means and what is at stake. Developing and maintaining good relations with Indonesia is a top priority for Timor-Leste's foreign policy. Thus, the country hopes to create in Jakarta the necessary goodwill to allow Timor-Leste "sea lane transport, cross border trade (especially food and petrol/oil), access to the Oecussi enclave inside West Timor, movement of

⁶³ Timor-Leste has 26 representations at the level of embassy and four missions to international organizations: Africa (Angola, Mozambique, and South Africa); Americas (Brazil, Cuba, and the United States); Asia (Brunei, Cambodia, China, Indonesia, Japan, Laos, Myanmar, Malaysia, Philippines, Singapore, South Korea, Thailand, and Vietnam); Europe (Belgium, Holy See, Portugal, and the United Kingdom); and Australia and New Zealand, multilateral organizations (Association of Southeast Asian Nations, Community of Portuguese Language Countries, European Union, and United Nations).

⁶⁴ Timor-Leste's territorial waters are five times bigger than its land mass.

people, and general territorial security” (Smith, 2005, p. 20). The experience of 25 years of Indonesian rule and the brutal attacks carried out by pro-Jakarta militias after the referendum had a psychological and traumatic effect on the people of Timor-Leste, which have made it difficult for Timorese to forget, at least in the short term. They learned to live in disadvantageous conditions and to promote appeasing and conciliatory policies.

Timor-Leste’s decision makers have often surprised foreign observers who expect to see Timor-Leste in the vanguard of human rights promotion. But this has not always been the case. Moderation has prevailed in Dili when it comes to human rights activism, thus avoiding any misinterpretations in Jakarta, especially when it comes to human rights in Indonesia. Forgetting the past—or conveniently pretending to forget it—has become a fundamental principle of Timor-Leste’s foreign policy. “East Timor’s leaders, who were once seen as left-wing radicals that would upset the regional order, have proved to be cautious and conservative in their foreign policy approaches” (Smith, 2005, p. 35).

This principle determined Timor-Leste’s decision to abandon the trial of those implicated in the 1999 acts of violence. In line with this, it did its best not to cooperate with UN efforts to secure justice.⁶⁵ They understood that, at the end of the day, trials no matter the outcome would backfire. Trying to be nice to Indonesia, Timorese leadership not only voiced opposition to UN trials but went further and maintained “that the two countries involved would jointly decide what course of action would be taken” (Smith, 2005, p. 22), thus avoiding international embarrassment to Indonesia. Timor-Leste’s government never protested the ludicrous outcome of trials held in Indonesia challenged by many, including the U.S. State Department.⁶⁶ Dili became more papist than the Pope.

Dili has avoided making negative comments on any of Indonesia’s domestic issues, let alone secession matters, such as Aceh or Papua.⁶⁷ Dili’s official line is to support Indonesia’s territorial integrity and to distance itself from any possible perception of tacit support for secessionist movements, “an issue that Jakarta is obsessive about” (Smith, 2005, p. 23). Timor-Leste has made it clear that it will not offer support to any secessionist movements within Indonesia.

⁶⁵ This issue is discussed in detail by Smith (2005). The East Timorese leaders wanted to drop the issue; some advocated “forgiveness,” while others had pragmatic reasons.

⁶⁶ This “course of action” was not always well received by the opposition parties in Timor-Leste’s parliament.

⁶⁷ The Timor-Leste Foreign Minister also stated that “we [East Timorese] must also say that we cannot as a small nation in the making go around and endorse every secession claim in the region or anywhere in the world.”

The eagerness to please Jakarta has turned Dili into an advocate of Indonesia in the international arena: pushing for a permanent seat for Indonesia in the UN Security Council; asking for “greater western assistance to Indonesia, including debt write-offs” (Smith, 2005, p. 23); appealing to the United States “to resume military-to-military ties, which were severed because of violence in East Timor in 1999” (Smith, 2005, p. 24). Timor-Leste also joined the international effort to provide aid to Indonesia following the devastating earthquake and subsequent tsunami that hit Indonesia in 2005, by contributing US\$60,000 (Smith, 2005, p. 24; see also Margesson, 2005). This act was full of symbolic meaning and entirely in line with Dili’s strategy to appease Jakarta.

The Timorese top brass also cultivated (or tried to cultivate) a relationship with Indonesian presidents and members of the elite. Dili did its best to reassure all Indonesian presidents of its willingness to develop sincere and close ties with Jakarta,⁶⁸ including those presidents who held office during the repression.⁶⁹ Despite being imprisoned in Indonesia during Suharto’s presidency, in January 2008 Xanana Gusmão attended his funeral (Kingsbury & Leach, 2007).

At the same time, Timor-Leste has avoided at all cost to get involved in territorial disputes with Indonesia in demarcation issues of the border between the eastern and western parts of island, and in any misunderstanding around the exact location of Batek Island, which is part of Indonesia but located near Timor-Leste’s enclave of Oecussi whose waters are used by fishermen from both countries. Progress was also made in the coordination and management of borders, and in the exemption of visa for travel between Timor-Leste and the Indonesian province of West Timor (World Politics Review, 2012).

Reflecting on improvements in relations between both countries, on August 21, 2011, Prime Minister Xanana Gusmão (in his capacity as Minister of Defense) and his Indonesian counterpart, Purnomo Yusgiantoro, signed a Memorandum of Understanding on Defense Cooperation in a clear demonstration of the will to heal old wounds. While Timor-Leste has no intention to sign a formal alliance with Australia, Dili has had to balance badly needed assistance, especially in military matters, provided by other countries, especially Australia, and to reassure Indonesia that it will not host military bases of foreign powers.

⁶⁸ On July 23, 2001, Xanana Gusmão and Ramos Horta issued a joint statement congratulating Megawati as the new president of Indonesia, despite her opposition to the referendum in Timor-Leste. The Timor-Leste leadership took a similar stance in 2004 with the election of President Susilo Bambang Yudhoyono.

⁶⁹ Dili gave indications that it would work with the controversial General Wiranto if he were elected president, despite having led the TNI in Timor-Leste during the 1999 events.

Timor-Leste has anchored its security policy in diplomatic action. However, it developed a domestic defense capability to prepare for a worst-case scenario. The FALINTIL-Timor-Leste Defense Forces (F-FDTL) has made significant strides in its development as a conventional military force from its origins as a guerrilla force⁷⁰ and have already sent members to serve in peacekeeping operations in Lebanon (integrated in the Portuguese Peacekeeping Force operating with UNIFIL) and in South Sudan. This participation represented a reciprocation of what the international community has done for Timor-Leste and it is also an act of foreign policy.

Timor-Leste and China

Timor-Leste has no existential issue with China. China is neither a threat to nor a security provider for Timor-Leste. Timor-Leste has turned to China in critical moments of its sour relationship with Australia as a counterbalance, showing that it has alternatives and is not entirely at Australia's disposal. So far, Timor-Leste has been a recipient of Chinese assistance and aid. It is not clear yet how Timor-Leste can or is going to reciprocate such generosity.⁷¹

For economic, political, and historical reasons, it seems unlikely that China will ever surmount the top position held by Australia and Indonesia in their relations with Timor-Leste. The East Timorese leadership certainly appreciates Beijing's support for its independence, which has been in place since 1975, and this does mean that China will occupy in the short and medium term a comparably privileged position as Australia and Indonesia do in their relations with Timor-Leste, although this might change in the long term. China has already achieved an important foreign affairs objective when it induced Timor-Leste not to recognize Taiwan.⁷²

Timor-Leste and multilateral organizations

Institutions offer benign ground for small states, in terms of good opportunities for small states to operate and defend their interests. In contrast to the scarcity of institutions in Asia promoting regional integration immediately after the Cold War, we find today a dense and complex network of institutions set up

⁷⁰ Australian Government. Department of Defence. Supplementary Submission (76) to the Joint Standing Committee on Foreign Affairs, Defence and Trade. Australia's Relationship with Timor-Leste. On the model adopted by the East Timor's armed forces, see Simões (2012) on the implementation of "Força 2020."

⁷¹ José Ramos Horta has said that China has received multifold its investments in terms of the contracts awarded to Chinese companies since independence.

⁷² Keep in mind that China insists upon recognition of its 'One China Policy' for all countries with grouping recognizes Taiwan.

in less than two decades.⁷³ This is a dimension of foreign policy that small states must explore. Despite its limited assets, Timor-Leste has dedicated considerable resources to intervention in multilateral forums. Timor-Leste's top brass is actively engaged in an "assertive campaign" of multilateral diplomacy with multiple alignments, beyond the lusophone world or the non-aligned movement, which according to them is sliding into irrelevancy.

Timor-Leste has joined various international and regional organizations. It is a full member of the UN, as well as a number of UN organs, and has ratified a wide range of international conventions.⁷⁴ It also joined the CPLP in 2002, a few months after independence, which allowed it to interconnect with the different spaces of regional integration in five continents.

But Timor-Leste has also suffered a few setbacks on this front. ASEAN membership has been the primary foreign policy goal of Timor-Leste, but so far the country has been unable to progress beyond the status of candidate.⁷⁵ While membership has a strong economic rationale, for Timor-Leste it also represents a security insurance: on the one hand, one ASEAN country that attacks another risks expulsion from the organization; and on the other hand, one of ASEAN's objective is to discourage great power competition in the region.

Full membership of ASEAN has been vetoed by some member states.⁷⁶ Timor-Leste's foreign policy has often aligned with Western countries on issues such as humanitarian intervention and human rights and this has not been helpful.⁷⁷ A number of ASEAN members are not fond of the concept of humanitarian

⁷³ In the last decade, China was a leading promoter of the present regional arrangements in place. For a condensed and comprehensive summary of regional institutions in Asia, see Tomé (2016), Bacelette (2014), and Chung (2008).

⁷⁴ Timor-Leste's eagerness to join international organizations was evident in the statement of several leaders who expressed interest in becoming a member of the Organization of Islamic Conference and the Commonwealth. While in exile, East Timorese leaders wanted to join the Pacific Islands Forum (PIF) (Timor-Leste is an observer at the PIF) but were informed by ASEAN that Timor-Leste would have to choose between ASEAN or PIF.

⁷⁵ Timor-Leste has pushed hard for membership. In 2011 and 2015, it submitted membership applications to ASEAN. It also tried to get closer to the ASEAN community by participating in the Southeast Asian Games since 2003, a multisport event commonly associated with ASEAN. For a detailed review of the evolution of Timor-Leste's relationship with ASEAN, see Hägerdal and Berlie (2018, pp. 91-112, chapter 4) and Dupont (2000).

⁷⁶ We can find in the literature various protagonists and multiple arguments: Singapore has doubts of whether East Timor can cope with ASEAN's attempts at integration, and whether Timor-Leste has enough qualified diplomatic and bureaucratic staff to attend more than 300 ASEAN meetings per annum (Smith, 2005, p. 19). But Timor-Leste has had difficult relations with Myanmar due to Timor-Leste's solidarity with Aung San Suu Kyi and criticism of Myanmar's military junta. On this topic, see Hägerdal and Berlie (2018).

⁷⁷ Timor-Leste publicly supported the U.S. invasion of Afghanistan, which clearly diverged from Indonesia's and Malaysia's position.

intervention. Timor-Leste's assertion that it is a Western liberal democracy—in a region where autocratic regimes and illiberal democracies prevail—has produced a negative effect. Another argument against Timor-Leste's ASEAN membership is its CPLP membership, which according to a few countries could make it partial to other regional loyalties.⁷⁸

Timor-Leste has also tried to join the ASEAN Regional Forum (ARF) and obtained only the status of “other nation.”⁷⁹ Timor-Leste became an integral part of the EU–ACP (economic partnership agreements) family of nations in 2006,⁸⁰ and a permanent delegation of the European Union opened its offices in Dili in 2007. Moreover, Timor-Leste is a member of the G7+, a group formalized at the first Dialogue for Peacebuilding and State building (IDPS) meeting held in Dili in April 2010. It plays an important role in this arrangement. The G7+ Secretariat is permanently hosted in Timor-Leste's Ministry of Finance in Dili.⁸¹

Another facet of Timor-Leste's diplomacy is its greater profile on the world stage aided by the international prestige of East Timorese leaders, notably Xanana Gusmão and Ramos Horta. In 2013-2014, the Nobel Laureate and former president José Ramos-Horta⁸² was appointed the Special Representative and Head of the UN Integrated Peacebuilding Office in Guinea-Bissau (UNIOGBIS), and in 2015 he chaired the High-Level Independent Panel on Peace Operations that carried a comprehensive review of the whole question of peacekeeping operations. At a different level, but also of great prestige, Timor-Leste held the presidency of the CPLP in the period 2014-2016.⁸³

⁷⁸ Some ASEAN countries had difficulties with Timor-Leste's foreign policy orientation, namely with the alleged presence of Portuguese functionaries throughout its government apparatus.

⁷⁹ The country was first invited to the ASEAN Regional Forum in 2005; it was the twenty-fifth country to join the forum. It is remarkable that on April 19 and 20, 2017, Timor-Leste organized in Dili a meeting of the ARF, a clear sign of the country's willingness to join the organization.

⁸⁰ The Cotonou Partnership Agreement provides the legal framework for the EU–Timor-Leste cooperation. On the European aid programs to Timor-Leste, see https://ec.europa.eu/europeaid/search/site/timor_en?f%5B0%5D=sm_field_countries_terms%3Anode%3A419.

⁸¹ On the G7+ mission, work and membership, see <http://g7plus.org>.

⁸² He shared the 1996 Nobel Peace Prize with Bishop Ximenes Belo for working “towards a just and peaceful solution to the conflict in Timor-Leste.”

⁸³ Many similar cases abound. In June 2004, Xanana Gusmão visited Mozambique for an ACP (Africa, Caribbean, Pacific) summit meeting during a tour to all of Africa's Portuguese-speaking countries to lobby on behalf of East Timor's cause.

Conclusion

Having elaborated on Australia's, Indonesia's and China's relationship with Timor-Leste and its foreign policy responses to the challenges posed in the bilateral and multilateral domains, we are now in the position to understand: (1) what Timor-Leste did to keep its options open, to balance multiple relationships, and to enhance its geopolitical relevance; and (2) the extent to which foreign policy strategies and tactics adopted by Timor-Leste's political leaders fit the theoretical approaches of small states and their foreign policy options as presented earlier in this essay, notably those proposing broader interpretations of power. We take into consideration that small states differ substantially, and that Timor-Leste is a small but also a fragile state heavily dependent on external aid and assistance.

Neutrality and bandwagoning

Timor-Leste's survival in the international arena has depended on the cooperative and constructive relations it was able to establish with its neighbors and its ability to maintain an equal relationship with great powers and to avoid making enemies. Timor-Leste has pursued a hybrid strategy of neutrality. On the one hand, it sought to strengthen its independence vis-à-vis its neighbors; on the other hand it has not ignored Australia's security shadow and aims to join a regional grouping dominated by Indonesia (Tomé, 2008, p. 72). It is important to understand the nuances of this strategic positioning. Timor-Leste did not adopt ad hoc neutrality in conflicts led by major powers, such as the U.S. invasion of Afghanistan and Iraq. It did not contribute troops in these instances, but did not refrain from supporting the former and condemning the latter. Timor-Leste has not pursued de jure neutrality or neutrality by international law, and has not adopted de facto neutrality. The young state does not host foreign military bases; it however benefits from military cooperation programs with China, the United States, Australia, and Indonesia, and is willing to join the Asian regional arrangements such as ASEAN and ARF.⁸⁴ Security is not ASEAN's primary role, but it certainly is a domain the organization pays attention to.

⁸⁴ There is no standard definition of state fragility. In this work, we adopt the OECD definition. See OECD (2011, Annex A, no. 3, p. 62).

⁸⁵ Even before independence, Xanana Gusmão called China a “reliable friend” and pledged commitment to a “One China policy.”

Any foreign affairs strategies and tactics adopted by Dili has always taken into consideration the need to preserve the special partnership Timor-Leste has developed with its two neighbors. As Ramos Horta once summarized, Timor-Leste foreign policies are based on the need “to consolidate and maintain good relations with Indonesia and Australia”. Timor-Leste authorities are well aware of the importance of retaining Australian support without alienating Indonesia, just to guarantee its security. It has not been easy—especially in the first decade of independence—to obtain the support of Australia to underpin its security without, at the same time, alienating Indonesia. This relational network also includes, among others, the United States and China.⁸⁶ Satisfying these two powers with conflicting interests and doing so simultaneously constitutes an overwhelming task. To be everyone’s friend is not without stress.

To increase its power and to achieve a deterrent capability against external threats, Timor-Leste is building up armed and police forces with the help of its partners. These forces will also be an instrument of Timor-Leste’s foreign policy to be used to counter threats to regional and global stability. As a result of a careful reading of the regional structure, understanding the correlation between forces and distribution of power, and aware of its power limitations, Timor-Leste has avoided bandwagoning, while walking a fine line in a positive sum game. Timor-Leste’s acquisition of military equipment from China in retaliation for Australia’s non-cooperative behavior during negotiations on the demarcation of maritime boundaries—intended to show Australia that it has other alternatives and is not entirely at Australia’s disposal—could be interpreted as one of the few instances in which Timor-Leste used its particular-intrinsic power. This move is no indicator of bandwagoning. Despite Timor-Leste’s fragility and security and economic dependence on Australia, we do not foresee Timor-Leste bandwagoning with Australia. Neutrality theories on the strategies of small states do not explain exactly the behavior of Timor-Leste, which appears akin to *de facto* neutrality. However, we should not exclude in the long run the possibility of Timor-Leste embracing the bandwagon accompanying the rise of China, especially if other states in the region, Indonesia in particular, follow the same path.

Broader interpretations of power

In the case of Timor-Leste, we can identify various relevant facets of particular-intrinsic power. The country’s location away from the major sea lines of communication do not contribute to an increase of its particular-intrinsic power. However, as emphasized by Tom Long, geographic location may become salient in world politics, and this may happen if the sea lines of communication linking the Indian Ocean to the Pacific Ocean increase in importance, either in the framework of the Silk Road projects, or in cases of crisis or war. Another facet of Timor-Leste’s use of particular-intrinsic power is the greater profile on the world stage of Timor-Leste backed by the prestige of East Timorese leaders, notably Xanana Gusmão and Ramos Horta. However, it is not clear how Timor-Leste has benefited from this, and how it has contributed to an increase of its power.

The implementation of a large-scale investment program in infrastructure (communications, harbors, oil and gas terminals, etc.), namely the construction of a port in the Bay of Tibar, 10 kilometers west of Dili, and an LNG plant on the south coast (Tasi Mane project) connected with the Greater Sunrise project are crucial steps to increase Timor-Leste’s particular-intrinsic power. Tibar port will provide “the necessary conditions for Timor-Leste to become in the future a regional interface for the transport of goods and container traffic” (Ruak, 2018).⁸⁷ Beyond boosting economic growth,⁸⁸ these projects will increase the geopolitical importance of the country, help preserve its autonomy, and widen its options. Last but not the least, the projects will decisively contribute to increase the country’s particular-intrinsic power.

The use of derivative power by Timor-Leste leaders was crucial for its independence, particularly in the period that led to the referendum in 1999 and later to the restoration of independence in 2002. Portugal and other activists⁸⁹ played a decisive role, speaking in international forums advocating Timor-Leste’s self-determination and carrying out inducement campaigns in the UN and the United States. The actions of these groups delivered. In late 1998, after longstanding Washington support of Indonesia’s 1975 invasion and occupation of Timor-Leste, the Clinton Administration changed the U.S. position, and was instrumental in persuading President B. J. Habibie of the need for a

⁸⁷ Author’s translation. Original text in Portuguese.

⁸⁸ For domestic and external critics on the economic, environmental, and developmental viability of the project, see Bovensiepen and Nygaard-Christensen (2018).

⁸⁹ On the ONG’s support movement for Timor-Leste’s self-determination, see Simpson (2004).

⁸⁶ The members of ASEAN cannot be excluded from this relational network.

solution for the Timor-Leste conflict, and to acquiesce to the deployment of an Australian-led peacekeeping force in Timor-Leste to end violence and restore order. This was a case of successful employment of derivative power.

We mentioned earlier that Timor-Leste acquired military equipment from China in retaliation to Australia's behavior in the maritime border negotiations. However, it is not clear whether Timor-Leste's rulers have used derivative power on other occasions. Indonesia's support for Timor-Leste's ASEAN membership has not been sufficiently assertive to convince the other ASEAN members to accept it in the group. The use of derivative power in negotiations with Australia on oil and gas matters has not been obvious. Interventions and appeals by organizations and powers in favor of Timor-Leste's interests have not changed Australia's position. That Australia signed the 2018 agreement on maritime boundaries is attributable to other reasons than Timor-Leste's interests.

Aware that collective power is potentially greater than derivative power, membership in international and regional organizations has become a top priority of Dili's foreign policy, confirming Maurice East's classic study on the behavior of small states, that is, small states often engage at a higher level of intensity when they conduct their foreign policy because their decision-making is not based on the same resource base that large states possess (see Maurice, 1973). Timor-Leste has developed a deliberate and consistent long-term strategy along this line.

It was easy for Timor-Leste to join the UN, but frustrating for the country not to be accepted by ASEAN and ARF. The definition of this objective had an institutionalist inspiration. Institutions are a means to mitigate a country's weak power, some sort of buffer used to diminish power disparities. Timor-Leste's membership in the UN is extremely useful and beneficial to the country's interests. There are two major reasons why Timor-Leste failed to join ASEAN, both of which concern a realist approach to institutions. ASEAN, like any other intergovernmental organization, reflects the self-interested calculations of its members, notably Singapore and Myanmar.

Firstly, Singapore doubted Timor-Leste's capability to cope with ASEAN's requirements for integration, and Myanmar was not pleased with Timor-Leste's human rights activism with reference to Aung San Suu Kyi. Perceptions that Timor-Leste could be a "mole" of certain Western interests or a promoter of undesirable ideologies was fatal to its aspirations for ASEAN membership.

These negative responses made Timor-Leste more dependent on bilateral agreements and more exposed to geopolitical considerations.

Secondly, pleasing the United States came at a price. In certain moments, it was thought that "East Timor's leadership [often forged] a foreign policy that [mirrors] that of western countries in respect to intervention and human rights issues ... East Timor officially backed the U.S. invasion of Afghanistan in contrast to the criticisms of Indonesia and Malaysia," and Ramos Horta "supported the Bush Administration's decision to go to war in Iraq without a UN resolution" (Smith, 2005, p. 20). This support was not well received by a few influential countries in the region and to a certain extent explains Timor-Leste's failure to join the ASEAN. Sometimes jugglers fail to catch the clubs.

The prevalence of the realist approach in Timor-Leste's international relations was also obvious when Australia withdrew from the UNCLOS clauses two months before Timor-Leste's independence, thus avoiding a binding decision of the Permanent Court of Arbitration in The Hague on matters of territorial disputes. Australia chose to follow that path because the UN could neither impede nor coerce Australia's compliance. In an anarchic international system there is no central authority above states and no coercive power that can resolve disputes or enforce law. On the other hand, the values and principles of liberal democracies did not impede Canberra from resorting to nasty practices, such as bugging Timor-Leste's cabinet office in 2004 when Australia's economic interests were at stake. Hydrocarbons spoke louder than values and norms. The moral strength required to balance the disparity of advantages between small and big powers vanished. Realist arguments explain Australia's behavior reasonably well.

But the realist approach (and the underlying sources of power) also coexisted with the exercise of collective power. In the negotiations on the maritime boundaries between Timor-Leste and Australia, in 2016 the former invoked for the first time the UNCLOS conciliation procedures. Despite the compulsory non-binding proceedings, Australia was pushed into a corner. The two states were obliged to negotiate an agreement on the basis of the conclusions and recommendations of the Commission's report. If the negotiations failed, they "shall, by mutual consent," submit their boundary dispute to binding adjudication or arbitration (see Bankes, 2016; Phan 2016). This was a case of the successful use of collective institutional power and was instrumental for Australia's retreat.

The failure to use derivative power in Timor-Leste's candidacy for ASEAN membership and the success of using collective power confirm to a certain extent the theoretical postulates presented earlier: the shortcomings of derivative power. The scope of derivative power is narrow, and is deeply limited by the interests of great powers; while the scope of collective power is potentially great for small powers.

On a number of occasions, Timor-Leste has also conveniently shown ambiguous behavior in relation to norms and values. Its human rights activism was selective, according to its self-interests. It criticized Myanmar's human rights violations, but turned a blind eye to blatant violations in Indonesia. Dili's pragmatic and conciliatory policy overlooked justice and undermined UN attempts to administer justice. At the end of the day, self-interest spoke louder than values. A similar situation occurred with the admission of Equatorial Guinea to CPLP. The third-largest oil producer in Sub-Saharan Africa, the country is ruled by a kleptocratic oligarchy, that carries out the death penalty and is engaged in extrajudicial killing of its citizens. Timor-Leste authorities did not voice any opposition to the admission of a country whose practices flagrantly violate CPLP norms and rules.⁹⁰ The importance of oil took precedence over human rights.

The case of Timor-Leste illustrates the limitations of the broader interpretations of power, and the shortcomings of liberal and social-constructivist theories to explain the behavior and survival of small and fragile states in the international arena. Long's conviction that "in a world where the anxiety about survival has decreased and where military coercion no longer clearly dominates the hierarchy of power, the conceptualization of both power and the small state [is] open to reinterpretation" (Long, 2016, p. 9) should be appraised with caution in the case of small and fragile states with limited particular-intrinsic power. He studied small states with significant particular-intrinsic power, which were able to build their derivative and collective expressions of power. But this does not apply to Timor-Leste to the same extent. It is true that the use of collective power by Timor-Leste was instrumental in obtaining Australia's agreement

on maritime boundaries, but it was not sufficient to overshadow the realist arguments that prevailed in their bilateral relationship. As policy advice, we recommend that Timor-Leste continue prioritizing the augmentation of its particular-intrinsic power, without ignoring opportunities that may arise in the other domains. Particular-intrinsic power will function as a springboard and will have a multiplier effect.

⁹⁰ On this issue, see the open letter to Timor-Leste's President Taur Matan Ruak prepared by La'o Hamutuk, a Timor-Leste NGO committed to the promotion of human rights and social and economic justice. Retrieved October 2, 2018, from <https://www.laohamutuk.org/Justice/EquGuinea/14CPLPEqGuinea.htm>. Some Timor-Leste authorities have rejected the critique and defended the merit of admitting Equatorial Guinea to CPLP, arguing that summary executions stopped after membership in the CPLP, a result of a successful exercise of collective diplomacy.

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Women and the economy in contemporary Timor-Leste

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Keywords: Gender, feminist economic analysis, Timor-Leste, postconflict

Abstract

Timor-Leste has experienced a huge growth in economic prosperity and GDP due to income from the exploitation of petroleum deposits in the Timor Sea, but it remains one of the least developed economies in the Asia-Pacific region. Structural gender inequality and men's dominance in the economy is a continuing significant issue in post-conflict Timor-Leste. A system of state wealth distribution through patronage and client networks via various social welfare and investment schemes is extremely gendered due to the lack of recognition afforded to women for their service to the independence struggle and to long-standing economic disparity. In 2016, Timor-Leste received a rating of 125 out of 144 countries – at the bottom of the Asia-Pacific region – in the global gender gap index produced by the World Economic Forum. Gender equality as a general principle has been broadly accepted in Timorese society but the deeper social change required for men and women to have equal opportunities, particularly in the economy, is yet to occur. This paper will reflect on these realities of women's economic, social and political engagement (Niner, 2012).

Introduction

This paper applies a feminist perspective of understanding economies as gendered structures rather than simply seeing gender as a social or cultural structure (Rai & Waylen, 2014; Peterson, 2013; True, 2012; Waters et al., 2004) in relation to the new and postconflict nation of Timor-Leste. While research on connections between the economy and gender inequality in Timor-Leste is just beginning, there is no doubt that contemporary economic structures are extremely gendered, leaving women more vulnerable to exploitation and abuse.

While economic dependency on men and the impact of a gendered division of labor reduces women's choices, this is a systemic issue that must be addressed broadly in the political and economic sphere. This paper explores these important themes and rather than understand economics or national development as a technical process, it takes the view that it is a deeply political one.

Although the economy is central to understanding the position of women in Timor-Leste we must not forget the impact of local social and cultural systems, taking account of their variety and flexibility. An appreciation of how people organize themselves and what their values and perceptions might be is often best provided by anthropologists with a tradition of cultural relativism. Together with cultural advocates they agree that women in Timor-Leste are honored and awarded status and power in local cosmology and custom and also that women can wield significant power in the private realm or "informally" (Niner, 2012). While this illuminates an important dimension of women's lives in contemporary Timor-Leste, to appreciate the differences of status of women and men in society we must also include a political economy analysis which provides an alternative picture and one that will be sketched out here.

Women in Timor-Leste have an average of six children and contribute more unpaid care and household work than men (National Statistics Directorate [NSD], 2010). A deeply gendered division of labor characterizes the Timor-Leste economy. Women are particularly vulnerable to unemployment and underemployment due to higher rates of illiteracy, lower rates of education and higher presence in the subsistence farming sector (Costa & Sharp, 2017).

Recent research by the Harmonia Iha Familia (Harmony in the Family) Project also found strong links between work and women's mental well-being and that income was central to women's empowerment, safety and psychology (Alola Foundation, 2011; Rees et al., 2013). Women's dissatisfaction with their lives, in particular, not being able to access education or employment, and being encumbered by the burden of daily survival leads to distress (Rees et al., 2013). The Harmonia Iha Familia Project concluded that a combination of "traditional values" combined with poverty was also placing women at risk of domestic violence (Alola Foundation, 2011). Poverty was widely reported to be the main factor exacerbating relationship and household stress. It was found that in Timor-Leste's patriarchal societies, women were often blamed if households were not managed to the expectations of their husband and extended family. These expectations included providing meals, sending children to school and meeting other needs of their husbands which were dependent on access to

economic resources. Not meeting these expectations put women at risk of conflict and violence (Alola Foundation, 2011).

Timor-Leste's post-conflict environment

Timor-Leste is a post-conflict country where the population has faced widespread and long-term violence resulting from 24 years of armed conflict and occupation by neighboring Indonesia (1975-1999). After two years of UN administration, Timor-Leste became fully independent in 2002 and the Timorese become citizens of their own nation for the first time in their history. This recent history has resulted in a strong sense of identity and expectations of a better future combined with rapid social change. The negative effects of such ongoing, rapid and disruptive social, political and economic changes have been pronounced.

A hardened and militarized masculinity developed during the conditions of the long war, and it has survived and become embedded in an aggressive competitive national politics dominated by the veterans who fought in the war and the civil resistance. While the military occupation by Indonesia ended 15 years ago, violence has continued; outbreaks of national-level violence among a militarized male elite has plagued development with high social costs, especially for those most vulnerable in society. All state structures were virtually destroyed in 2006 when national-level violence erupted from disputes within the male elite of leading politicians, police and army commanders (Niner, 2009). These disputes can be traced back through the convoluted political history of the national struggle for independence and the effects of its violent nature (Niner, 2009).

Formal government programs of economic and social development mask informal systems based on existing networks and indigenous alliances. Timor is largely ruled by a postcolonial oligarchy and perhaps only now are claims to political domination based on this elite membership or resistance service being superseded by claims based on more modern qualities such as wealth, education, and cosmopolitanism. This is intimately tied to Timor-Leste's fast-growing economy. Although it is one of the least economically developed countries in the Asia-Pacific region, it has a rapidly expanding economy due to the exploitation of natural resources, specifically petroleum from the Timor Sea. How the government is saving and spending this new wealth is a matter of great public debate (Scheiner, 2014; Scambray, 2015). While 23% of the population are undernourished, women have higher rates of malnutrition and

lower levels of literacy and numeracy than men (United Nations, 2010).

The control and distribution of wealth and resources in this emerging system is extremely gendered due to the lack of recognition afforded to women for their service to the independence struggle and to long-standing economic discrimination. While women were marginalized in the power hierarchy of the nationalist struggle, they have succeeded in building gender-focused institutions and in being included in today's national parliament and government in significant numbers. This quantitative victory has not yet translated into a qualitative one, and the struggle for recognition of women's rights to be equal partners in national decision-making is ongoing (Niner, 2011; Costa, Sawer & Sharp, 2013). Women's decision-making power in local communities and the private sphere is even more contested and family or domestic violence, the crudest expression of women's inequality, is a significant issue (Cummins, 2009; Niner, 2011; Niner et al., 2013).

Women and income in Timor-Leste

A marked gendered division of labor characterizes the Timor-Leste economy and gender segmentation characterizes industries and occupations (Costa & Sharp, 2017). The gender wage gap is great with women earning one-eighth of what men earn (Asian Development Bank and United Nations Development Fund for Women, 2005). Women are particularly vulnerable to unemployment and underemployment because of lower rates of education, high rates of illiteracy, and their higher presence in the subsistence farming sector. This situation occurs in a society with a substantial overall gender inequity, illustrated by a gender development index (GDI) of 0.369, indicating women had a 13% lower standard of living than men (HDI index). Disparity between men and women exists across the domains of landownership, political participation, access to education and economic activities, and domestic, including reproductive, decision-making.

The 2010 National Demographic Survey reported that while 44% of married women were employed over the previous 12 months, mostly in agriculture, either for themselves or family, the vast majority (80%) did not receive any payment (NSD, 2010, p. 203). Overall, women were less likely to participate in the salaried workforce, representing around 36% of non-agricultural-sector employees and, usually, occupying lower-level positions. The 2007 Timor-Leste Living Standard Survey reported that women were much less active in the labor force, participating at a rate of 48.5% compared to men's 77.4% (NSD,

2008). Women were engaged in as little as 2.3 hours of waged work in a week compared to men's 7 hours (Secretaria De Estado Para a Promoção da Igualdade [SEPI], or Office of the Secretary of State for the Promotion of Equality, 2007; NSD, 2008; Costa & Sharp, 2017).

In 2005, women represented around 25% of the civil service but held only 2% of the highest positions (Ospina, 2006). Out of 70,000 paid employees earning a total of US\$12 million per month, women received as little as US\$3 million (United Nations Development Programme [UNDP], 2011). In 2010, Timor-Leste received a rating of 55 in the gender equity index (GEI) published by Social Watch. This reflected an improved rating in education for females, but, overall, Timor's rating was pulled down by low indicators for the economy and for women's empowerment due to the small percentage of women in technical, management, and government positions. Overall women earn lower salaries, receive fewer benefits and opportunities to advance in their professional careers, and are less likely to be promoted (Costa, Sharp, & Elson, 2009).

Not surprisingly women's contribution to the unpaid economy, in care and household work (described as social reproduction by feminist political economists) is much higher than for men. Typically men devote 36% of their time to housework compared to 50% for women (UNDP, 2011). The 2007 Timor-Leste Living Standards Survey also reports that women spent considerably more time than men caring for children (NSD, 2008). More unpaid work combined with lower earnings make women and their dependent children more vulnerable to poverty. Although feminist scholars have devoted enormous amounts of research to this unpaid and uncounted (and therefore unrecognized and devalued) contribution of women to national economies, figures are rarely referred to in national documents (Hoskyns & Rai, 2007; Waring, 1989).

Much of the work available to women in Timor-Leste is categorized as "informal." Remuneration is paid cash in hand, without negotiation on fair wages or conditions. In addition, women in informal work are unable to access existing or proposed Timorese social security schemes, and in the absence of occupational health and safety standards, some women are experiencing violence, harassment, and other forms of coercion. The new Working Women's Centre Timor-Leste has been established to support women to access and stay in work and aims to reduce women's vulnerability and violence in the workplace (Australian Domestic and Family Violence Clearing House, 2012, pp. 7-9). Discrimination against women workers and mistreatment and violence in the

workplace have also been recently addressed by Labor Law 4/2013 introduced in 2013 which aims to eliminate discrimination and violence against women workers in the private sector. In March 2013, the Alola Foundation, the women's council, Rede Feto, and the peak Union body, Konfederasaun Sindikatu Timor-Leste (KSTimor-Leste), held a national seminar to raise awareness regarding the new law and they highlighted this as a significant problem (Alola Foundation, 2013).

Women also face other problems in attaining any kind of productive work in that they have an average of six children. With only 19% of those births attended by a skilled health worker, infant and maternal mortality is high, although this situation continues to improve. Children and growing families are very welcome in a country that has been through such a brutal conflict in which many families have been decimated. Traditionally minded parents in the rural areas believe children are their greatest asset. Nevertheless, high maternal mortality figures speak for the negative impacts of this birth rate on mothers and their children and of a low investment in women's "human capital." Equally, considerable child-rearing and domestic duties limit women's educational and economic opportunities and political participation. Anecdotally, many women express a desire for fewer children, yet they commonly are given few opportunities to make decisions about their fertility and sexual health, for those choices are often dictated by husband and family and a lack of reproductive health services (Soares, 2006; Richards, 2017). Female research participants in the Harmonia Iha Familia Project described how poverty was associated with having too many children to properly care for which resulted in women "excessively and harmfully" punishing those children (Alola Foundation, 2011).

The political economy of state budgets

Established in 1999, the UN Administration began the building of an independent Timorese state. The World Bank was a partner managing Timor's donor funds. Tim Anderson describes the influence of World Bank policies in Timor-Leste and the economic policy mix of liberal and human-centered development strategies of the first Timorese government led by FRETILIN:

An outside reader of the [National Development Plan 2002] might say that, in terms of economic development strategy, economic liberal influences are strong to dominant, but moderated by some developmental state influences in the areas of planning and natural resource management and by some human development emphases in terms of participation and a more equitable approach to education, women and rural development (Anderson, 2012, p. 224).

Anderson goes on to describe early tussles over economic policy between the FRETILIN government and advisors from the World Bank and AusAid over the budget austerity of this first government. However, by 2010, with money pouring in from petroleum exploitation, a different Timorese government, the AMP coalition led by Xanana Gusmao, took a more neoliberal market economy approach to development and established a US\$70 million economic stimulus strategy called the "Referendum Package" (Pakote Referendum) while also working on improving conditions for foreign investors. Local companies were subcontracted by government to construct public facilities in the hope of building up local markets. This process circumvented normal government procurement procedures.² Many complaints of patronage, waste, and corruption have been made (Anderson, 2012, p. 230). This "big money" approach is consistent with a policy of economic liberalism, and indeed World Bank official Jeffrey Sachs advised the AMP government to spend even more of the oil fund in this way (Anderson, 2012, p. 234). Local watchdog organization La'o Hamutuk estimates that the oil fund will be depleted by 2028 at current spending rates (Scheiner, 2012). Many contracts were awarded to resistance veterans and others in AMP's patronage networks which itself may have worked against the aims of the strategy, because "few of these veterans had any experience in project management or any relevant vocational skills ... they simply sold on the contract to third parties for a percentage, meaning that this whole exercise in providing employment to veterans largely resulted in a gratuitous cash giveaway" (Scambary, 2015).

This style of resource distribution by the Timorese government has created an increasing disparity between a small elite and the "much larger and structurally vulnerable majority." Barma (2014) labels Timor-Leste a "rentier state" with an increase in these practices reported since the 2012 elections which returned Gusmao's government. He continues on p. 10:

As one might expect in clientelist systems, where political support tends to rely on distribution of patronage—the bulk of expenditures has been on consumption goods (i.e., direct transfers, subsidies and public sector employment), with less investment in public infrastructure and other avenues of longer-term collective welfare. Now, furthermore, public investment execution seems to be enriching elites to a greater degree than before, which is also in line with the expectation of particularist rent distribution associated with clientelist, rentier states.

² According to Barma (2014), "These resources were allocated entirely off budget, by a recently formed business association not subject to any accountability controls, thus heightening the risks of favouritism in rent distribution

Establishment of a gendered social welfare system

With increasing national budgets from oil and gas resources, there was an increase in welfare payments. These payments make up a large share (13%) of the 2012 budget: US\$234 million, compared to US\$153 million spent on health and education (Government of Timor-Leste Ministry of Finance, 2013).

Between 2008–2012, veterans received USD119 million in pension funds and scholarships. The 2013 state budget allocates USD92.5 million for veterans, and projects this to increase by exactly four per cent each year in the future. In addition to this handout, veterans also received USD78 million in contracts, awarded without a tender process, for projects related to the national electrification scheme (Scambray, 2015).

These social welfare resources have been awarded according to the patriarchal values of the East Timorese state. Veteran recognition has been targeted at men based on their actions during the war and a continued privileging of militarized masculinity as the most valorized or valued citizens in society (as has happened in postwar societies all over the world). Pensions and social services for combatants (only men were recognized in this category) and the widows of combatants have been one of the government's largest expenses. This veteran recognition was disputed by female combatants but was unsuccessful due to their small numbers and lack of political influence (Niner, 2013; Kent & Kinsella, 2015). This has ensured the primacy of militarized masculine privilege in Timor-Leste's postwar society. Even the widows of veterans awarded pensions in their name must relinquish pensions once they re-marry and become the "property" or responsibility of another male "protector."

However, World Bank officers conclude that while veterans' pensions are extremely generous they are "unlikely to have a sizeable impact on poverty on a national scale because the beneficiary group is small relative to total population" (Dale, Lepuschuetz, & Umapathi, 2014, p. 6). The one program identified as being capable of tackling intergenerational poverty is the "Bolsa da Mae" (mother's purse) targeted at poor families with young children, which is "significantly less generous" (Dale, Lepuschuetz, & Umapathi, 2014, p. 7). They assess the impact of this approach:

We find that though Timor-Leste's level of social protection expenditure is high by international standards, the overall poverty impact is incommensurate with spending levels. This is explained by the proportion of expenditure devoted to transfers to veterans, the large proportion of the poor population which is not reached by the current targeting mechanisms, and the small coverage and benefit level of the only

program that explicitly targets poor households (Dale, Lepuschuetz, & Umapathi, 2014, p. 1).

The economics of domestic violence in Timor-Leste and current advocacy

Women all over the world suffer not just the pain, but the humiliation of domestic violence. The shame and stigma surrounding this violence prevents women from telling others about it and reporting it along with pressure from husbands and extended families to keep it private. This is no different in Timor-Leste and the repercussions of seeking formal justice solutions to cases of domestic violence risk not only social stigma but the breaking up of families, loss of home, income and security.

A 2012 study of domestic violence survivors in Timor-Leste found that economics played a fundamental role in the decisions women made, including whether or not they felt able to leave their violent partner (The Asia Foundation [TAF], 2012, p. 7). The Asia Foundation determined that the issue of livelihoods was central. Only 50% of women sought help in situations of domestic violence, usually from family and friends (only 4% from police and 1% from social services), and only one in five women believed their family was able to support them if they should leave their husband (NSD, 2010, p. 246). Women were more likely to seek help if employed but the lack of government support hindered such help-seeking (TAF, 2012, p. 24). One of the biggest concerns for women in their decisions about what to do in situations of domestic violence was whether women had the economic capacity to care for themselves and their children without their husbands and his community (TAF, 2012).

The Harmonia Iha Familia Project found a strong relationship between work and mental well-being amongst women in their study in Timor-Leste (Alola Foundation, 2014; Rees et al., 2013). The study indicates that income for women is central to women's empowerment, to their safety and psychological well-being. Women identified the problems or challenges for them in gaining education and employment: lack of training programs; no access to business loans; lack of child care; lack of support from husbands; and finally that all their energy was taken up with overwhelming household responsibilities. However, women's increased labor force participation may also overburden women if their overwhelming and unrewarded responsibilities in the domestic sphere are not recognized (Rai & Waylen, 2014). Without attention to the gendered

structures of the economy and increasing social protection, women may simply be swapping one abusive situation for another.

The implementation of the Law Against Domestic Violence has been a powerful tool for gender activists in and outside of government to influence the government budget. In 2010, SEPI drew on political commitments to make the budget more gender-responsive to urge ministries to allocate resources for the implementation of the said law. In Parliament the women's cross-party caucus (Grupo de Mulheres Parlamentares de Timor-Leste) pressured the government through the budget discussion process to provide adequate funding for the implementation of the law including establishing mechanisms that ensure the safety of survivors throughout the system and raising awareness to the law (see Government of Timor-Leste Committee on Public Finances, 2013). Women's organizations have been active in drawing attention to the quality of services available to survivors and its reporting; in 2013 East Timorese Women's Communication Forum (Fokupers) pressured the government to adopt a range of policy recommendations to improve reporting on domestic violence (Fokupers, 2013). Although the Law Against Domestic Violence states that women are entitled to receive skills training to "contribute to their successful social reintegration," such programs are not yet available. Some training programs run by women's shelters have had significant success in developing women's economic potential and in challenging the gendered division of labor. Programs for changing attitudes to facilitate gender equality are essential to improving the lives of women and children (Bedford & Jakobsen, 2009).

Conclusion: Victory overshadowed

Women as a gender are generally more vulnerable to violence because of their weak socioeconomic position which is due, as explained earlier, to substantial amounts of unpaid reproductive work and lower wages for productive work. This creates and is perpetuated by lower indicators for women's health, education and literacy than for men's. Women's productive work in Timor-Leste is more likely to be in the informal economy which makes them, together with the men who work there alongside them, more vulnerable and exploitable, unprotected and unscrutinized as they are by formal structures or analysis. The more significant these inequities, the less decision-making power women have in formal political structures to change this situation but this is also the case in local communities and in homes and households. Where men dominate in decision-making within families they are able to control what women can and cannot do. Men's controlling behaviors in relation to women are directly

linked to violence against women (Pulerwitz & Barker, 2006). Women's socioeconomic disadvantage in Timor-Leste creates the conditions that make them more vulnerable to domestic violence and means that they have fewer options and opportunities to leave situations of violence especially if there are many children to support.

While cultures of violence are common to postconflict societies, this is perpetuated in Timor-Leste by the control of state and economic institutions by a militarized male elite. The rentier state that has emerged from these politics uses patronage or clientist networks to distribute resource dividends which has become a strategy for maintaining power. This is building the foundations of a society based on structural inequality and institutional violence. The exploitation and discrimination against women are part of this inequality.

The dedication of women to the cause of national independence contributed to the new nation, yet the enjoyment of the dividends of nationalist struggle has not been shared equitably. Victory is overshadowed by the continuation of feminine subordination and discrimination, in the domestic sphere, in the veterans' recognition process and in Timor-Leste's postconflict economy. In the contested world of modern Timorese history, the crucial and unique role of women in the resistance has not yet been fully acknowledged and this affects women's active and equitable participation in the postconflict society.

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Chapter II

Belt and Road Initiative and Timor-Leste

The Challenges and Opportunities of the Belt and Road Initiative for Participating Countries: The Case of Timor-Leste

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East Timor and China Relations in the Context of Infrastructure Development

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Foreign Investment Promotion and Protection in Timor-Leste: Opportunities and Risks

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Reforms of the Timor-Leste Private Investment Law

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The challenges and opportunities of the Belt and Road Initiative for participating countries: The case of Timor-Leste

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Keywords: *Belt and Road Initiative, financing for development, financial statecraft, China, Timor-Leste*

Abstract

One of the main cornerstones of all infrastructure programs is always their financing. This is certainly the case of the Belt and Road Initiative (BRI). The initiative is estimated to be supported by nearly US\$1 trillion in financing from Chinese state-owned banks to serve projects implemented by Chinese state-owned enterprises along the Belt and Road. It is a clear example of China's financial statecraft. In this paper, a case study of the potential impact of the BRI on a small insular developing state like Timor-Leste is assessed. The country is an interesting example of both the attractive features and the potentially negative effects of the BRI for a participating country. We conclude that the risks are sufficiently mitigated and that the potential benefits outweigh the risks, particularly if the country maintains a diversified pool of development partners, and if, as a consequence, sizable private sector financing for infrastructure starts flowing into the country.

Introduction

Nearly five years have passed since the announcement of the Belt and Road Initiative (BRI) in 2013 by Chinese President Xi Jinping, an initiative estimated at around US\$1 trillion that claims to increase connectivity, trade and economic growth across Asia and beyond. As its strategic document mentions (National Development and Reform Commission [NDRC], 2015), the initiative "intends to strengthen hard infrastructure with new roads and railways, soft infrastructure with trade and transportation agreements, and even cultural ties with university scholarships and other people-to-people exchanges." It currently covers more than 90 countries and over two-thirds of the world's population.

These five years have proved the Chinese political and economic commitment to the initiative. The BRI has become the cornerstone of President Xi's foreign economic policy and one of the pillars underpinning his political appeal domestically. The initiative was included in the Chinese Communist Party's constitution in 2017. It is difficult to think of any other recent global venture that has generated such a mixture of optimism and debate. An editorial of the *Financial Times* argued that the BRI "exports the worst aspects of the Chinese economy, while increasing the strains on its already stressed financial system" ("One Belt, one Road," 2017). In addition, most of the questions raised when the BRI was launched remain unanswered, namely: (i) its specific geographical scope; (ii) its financing sources and tools; (iii) the real objectives of the Chinese government; and (iv) the BRI's impact, first, in the countries participating in the initiative; second, in non-participating countries; and, finally, in China itself.

In this paper, we will assess both the opportunities and the challenges of what benefitting from BRI financing would mean for Timor-Leste. Although a very limited number of authors have produced partial studies about the impact of the BRI in certain regions or countries (Blanchard, 2017, for South Asia; Kohli, 2018, for Central Asia), no study has yet assessed the potential of BRI financing for the development of one specific country. We will assess the case study of Timor-Leste, a postconflict small, insular developing state located outside the main BRI corridors, as an example of the potential of the BRI for expansion.

This paper is divided into three sections. The first section presents the origin and discusses the specific geographical, conceptual and financial boundaries of the BRI. The second section discusses the areas where the initiative could potentially have positive (opportunities) or negative (challenges) impact for Timor-Leste. This section also evaluates mitigating measures that could be applied to minimize the associated risks. The final section is a summary.

The boundaries of the Belt and Road Initiative

In 2013, President Xi first announced his vision of and proposal for a BRI in a phased manner. He proposed the launching of the Silk Road Economic Belt (the Belt: by land) on September 7 during an official visit to Kazakhstan. Later, he complemented the Belt with a proposal to create the twenty-first-century Maritime Silk Road (the Road: counterintuitively, by sea) on October 3 during an official visit to Indonesia for a meeting with the Association of Southeast Asian Nations (ASEAN). The third plenary session of the 18th

Central Committee of the Communist Party of China officially adopted President Xi's vision as a national strategy on November 12, 2013 and several Chinese agencies started preparing for it in more detail. Finally, on March 25, 2015, the NDRC, the Chinese planning agency that reports directly to the Chinese State Council issued the "Vision and actions on jointly building the Silk Road Economic Belt and the 21st-century Maritime Silk Road" (NDRC, 2015). According to this document, the BRI is a systematic project aiming at integrating the development strategies of the countries along the routes; connecting Asia, Europe and Africa more closely; and promoting mutually beneficial cooperation. The areas of action of the initiative are "(i) policy coordination, (ii) facilities connectivity, (iii) unimpeded trade, (iv) financial integration, and (v) people-to-people exchange" (Ministry of Finance, 2017).

The geographical boundaries

Although geographically the BRI aims at improving connections between Asia, Europe, and Africa, no geographical delimitation was initially presented other than the historical reference to the trade routes, including the lucrative silk trade that has connected Europe and Asia since the Han dynasty. The first geographical presentation of the BRI was initially made in a map published by China's state-owned *Xinhua News Agency* on May 8, 2014 ("How can the world be win-win?," 2014). According to this map, the Silk Road Economic Belt would begin in Xi'an, continue through Gansu and Xinjiang provinces, cross Kazakhstan, Uzbekistan, Turkmenistan, Iran and Turkey, and from Istanbul head northwest through Bulgaria, Romania, the Czech Republic and Germany to the port of Rotterdam in the Netherlands. From Rotterdam, the planned route would continue southeast back to Venice, where it would meet the Maritime Silk Road. The latter would start in China in the harbor of Quanzhou in Fujin Province, would include the harbors of Guangzhou, Beihai, and Haikou before heading to Singapore and the Malacca Strait, Kolkata in India, and then through the Indian Ocean to Nairobi, Kenya. It would continue north through the Red Sea into the Mediterranean Sea, first to Athens and finally to Venice.

The BRI now comprises six land routes (see "Backgrounder," 2017), namely (i) the China-Mongolia-Russia Economic Corridor (CMREC), proposed by President Xi in September 2014 during the first trilateral meeting of heads of state of those three countries, held in Dushanbe, Tajikistan, and honored in a trilateral development plan signed in June 2016; (ii) the New Eurasian Land Bridge (NELB), linking the Pacific and the Atlantic oceans by rail (plus the associated highways and power transmission lines) and, by definition, linking

China to Europe, from the Chinese coastal cities of Lianyungang and Rizhao to the ports of Rotterdam in the Netherlands and Antwerp in Belgium, crossing Kazakhstan, Russia, Belarus, Poland, and Germany;² (iii) the China-Central Asia-West Asia Economic Corridor (CCWAEC), linking China to the Middle East, from Xinjiang to the Persian Gulf and the Mediterranean Sea, through countries including Kazakhstan, Kyrgyz Republic, Uzbekistan, Iran, Saudi Arabia and Turkey (closely resembling the ancient Silk Road); (iv) the China-Indochina Peninsula Economic Corridor (CIPEC), linking China to Southeast Asia, from the Pearl River Delta in China to both Hanoi and Singapore, crossing Vietnam, the Lao People’s Democratic Republic (PDR), Cambodia, Thailand, Myanmar, and Malaysia; (v) the China-Pakistan Economic Corridor (CPEC), proposed by Premier Li Keqiang in May 2013 during a visit to Pakistan, from Kashgar to the strategic port of Gwadar, where the land and the sea silk routes connect in the Indian Ocean;³ and, finally, (vi) the Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC), linking China to South Asia, from Kunming in the Chinese province of Yunnan to the Indian state of West Bengal, jointly presented by the premiers of China and India during a visit of Premier Li Keqiang to India in May 2013 and formalized in a development plan signed by the governments of the four countries in December 2013. The six economic corridors are shown in Figure 1.

In addition, the twenty-first-century Maritime Silk Road envisioned by President Xi, connecting several Chinese ports, first, to Europe and Africa through the South China Sea and the Indian Ocean, and, second, to Southeast Asia and Oceania through the Southeast Asian seas and the South Pacific Ocean, was delineated in a document released on June 20, 2017, by both the NDRC and the State Oceanic Administration (SOA) (“Vision for Maritime Cooperation,” 2017). According to this document, the BRI comprises three sea routes, or blue economic passages, namely (i) the China-Indian Ocean-Africa Mediterranean Sea Blue Economic Passage, linking the CIPEC, CPEC and the BCIMEC; (ii) the China-Oceania-South Pacific Blue Economic Passage; and (iii) the China-North Europe Blue Economic Passage (also called the Northern Sea Route, or Silk Road on Ice), through the Arctic Ocean. The first two passages

can be seen in Figure 1. The third passage was initially proposed by Russia, and recently President Xi and the Russian Prime Minister Dmitry Medvedev committed to make joint efforts to develop and implement the route (“China, Russia agree,” 2017).



Figure 1. The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe, and Africa
Source: Wang (2017).

All in all, the potential and aim of the BRI is virtually global, covering 91 countries in all continents as of today (see Hong Kong Trade Development Council, 2018, for a list of countries with Memorandums of Understanding for collaboration with China under the BRI, illustrated in Figure 2) and representing 70% of the world’s population and 40% of the global gross domestic product (GDP) (measured in current US dollars) (World Bank, 2018b). It is interesting to note that some of these 90 countries, such as Bolivia, Nigeria, Senegal, and Uruguay actually lie outside the economic corridors mentioned earlier.

² Xinhua also mentions other transcontinental rail routes that have recently been inaugurated between China and Europe, namely between (i) Chongqing and Duisburg, in Germany; (ii) Chengu and Poland; and (iii) Yiwu and Madrid, in Spain. These show the potential of the BRI, according to China’s state-owned News Agency (see “Backgrounder,” 2017).

³ The CPEC, costing a total of US\$60 billion, was described as the “fastest and most effective” of all the BRI projects by the Chinese Ambassador to Islamabad (“China calls Pakistan’s CPEC fastest,” 2017).



Figure 2. The Belt and Road member countries
Source: Author, based on Hong Kong Trade Development Council (2018).

The conceptual boundaries

Conceptually, Chinese government thinking is normally associated with patience, strategy, and long-term objectives. The meaning of the BRI needs then to be placed within a long-term historical perspective.

In October 2017, the two five-year-mandate limit for Chinese presidents was eliminated, giving President Xi the ability to continue ruling the country without time constraints. Xi also became the third Chinese leader to have his political program (thought, theory or philosophy in Beijing's political jargon) inscribed in the Chinese Communist Party's constitution, after Mao Zedong and Deng Xiaoping. In fact, President Xi's thought represents a departure from Deng Xiaoping's. Although President Xi's "socialism with Chinese characteristics for a new era" (2017) seems to affix just an additional characteristic, the new era, to Deng's "socialism with Chinese characteristics" (1978), the change in philosophy is more profound than that. The "new era" component represents a critical step forward in assuming the country's global ambitions as an emerging superpower. While the project of Deng Xiaoping was inward-looking, focused on domestic economic development, President Xi does not want China to take a back seat in the world. The proposal for the BRI was one the main pillars contributing to the formulation of this new thought. In fact, the 19th National Congress of the Communist Party of China not only added President Xi's thought to the Party's Constitution, but it also made an

additional amendment that read: "following the principle of achieving shared growth through discussion and collaboration, and pursuing the Belt and Road Initiative."

The financing boundaries

The financial dimension of the BRI should be assessed from both the demand and supply sides. In terms of demand, infrastructure requirements in Asia are vast. The Asian Development Bank (hereafter ADB) estimates that developing Asia alone will require US\$26 trillion in infrastructure investment between 2016 and 2030 to maintain its growth momentum, eradicate poverty, and respond to climate change (ADB, 2017). This amount is equivalent to nearly US\$1.7 trillion annually. Nearly two-thirds of this amount are needed for energy and transport infrastructure. In addition, one should also bear in mind that this amount is estimated for the ADB's definition of "developing Asia," meaning that countries such as Russia, developed Asian countries, Middle Eastern countries, and Turkey are not included in the figures. All in all, the financing needs are enormous, and the BRI can play a significant role in helping to meet them. In terms of supply, Chinese banks held more than US\$22.6 billion in deposits in 2016 (Statista, 2018), and foreign exchange reserves in China exceeded US\$3.1 trillion in August 2018, nearly 9% of the world's total ("China Foreign Exchange Reserves," 2018). Liquidity is therefore highly available for the financing of BRI projects.

The concept of the BRI is an ambiguous one, as previously mentioned, so the financial boundaries of the initiative are not easily estimated. Estimations of the BRI's size vary between the US\$1 trillion committed by the Chinese in its first stage (Perlez & Huang, 2017; Hillman, 2018a) and the US\$8 trillion estimated in total investment if the full scope of projects in BRI participant countries materializes (Balding, 2017; Moser, 2017; Lam, 2016). Even in the most conservative case, the initiative would be seven times larger than the US Marshall Plan, which amounted to US\$130 billion in current prices ("Our bulldozers, our rules," 2016).

The financing of the BRI is based on two main sources, namely: (i) the main financing, estimated around US\$900 billion; and (ii) the Silk Road Fund (SRF), estimated at around US\$40 billion. By March 2016, the Bank of China had transferred US\$82 billion to three policy banks supporting BRI projects: US\$32 billion to the China Development Bank, US\$30 billion to the Export-Import Bank of China, and US\$20 billion to the Agricultural Bank of China. By the

same time, the SRF had received the first capital installment, which amounted to US\$10 billion. In May 2017, President Xi announced a further US\$124 billion for the BRI, including (i) US\$14.5 billion for the SRF; (ii) special lending schemes for the China Development Bank and the Export-Import Bank of China worth around US\$36 billion and US\$19 billion, respectively; and (iii) a request for state-owned banks to establish a BRI Fund worth US\$43 billion (Deloitte, 2018).

President Xi described the funding bottleneck in the region as “a prominent challenge” to the BRI (cited by Zhang & Miller, 2017) during the Belt and Road Forum for International Cooperation held in Beijing on May 14-15, 2017, which was attended by 30 heads of state and government of BRI countries and representatives of 100 other countries and 70 international organizations.

BRI financing flows mainly from Chinese state-owned banks, which benefit from large economies of scale and from generous state subsidies, to Chinese state-owned enterprises (SOEs). In fact, the BRI financing model fits perfectly into the conceptual framework of “financial statecraft” following the definition of Armijo and Katada (2015) as “the intentional use, by national governments, of domestic or international monetary or financial capabilities for the purpose of achieving foreign policy goals, whether political, economic or financial.” According to this framework, the ultimate step in financial statecraft for an emerging power is to find a systemic and offensive approach. In the systemic approach, the emerging power searches for a “greater voice in global financial and monetary governance” through financial tools—the diversification of foreign capital sources, promotion of public banks, capital controls, and multilateral banks—and monetary tools such as reserve accumulation, regional monetary funds, and promotion of multiple reserve currencies. In the offensive approach, the emerging power also seeks to “construct institutions of global governance, giving oneself ongoing hegemonic or disproportionate influence” by resorting to financial means that “promote home financial markets as a source of global influence” and monetary means that “promote one’s currency as a global reserve or transaction currency.”

Regarding state-owned banks, Deloitte (2018) estimated that the four big state-owned commercial banks (Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China) were responsible for 51% of total BRI financing by December 2016 in terms of outstanding loans and equity investment. In addition, the China Development Bank and the Export-Import Bank of China accounted for 38% and 8%,

respectively. In total, these six institutions provided 97% of the financing of the BRI. Financing by the SRF amounted to an additional 1%. These Chinese banks enjoy low borrowing costs, because their bonds are treated like virtual sovereign debt by the markets⁴ and they have access to direct lending from the People’s Bank of China. However, the attractiveness of the Chinese financing is surprising if we take into account that nearly three-quarters of their lending was offered on commercial, non-concessional, terms, which is more expensive than the financing offered by multilateral development banks (hereafter MDB). Interest rates for sovereign long-term lending offered by Chinese state-owned banks range from 2%-3% (soft loans) to 6%-7%, with standard maturity of 20 years and a standard grace period of between 2 to 5 years.⁵ These financing parameters are less attractive than those offered by MDBs, which ranged between zero and 1.5% in 2015 (see Faure, Prizzon, & Rogerson, 2015). Borrowers commonly state that the attractiveness of the Chinese funding emerges from it having “fewer strings attached” and from the “higher risks taken” comparative to other lenders. In addition, China seeks to offer the borrowing country a full turnkey solution for project finance in infrastructure investment, covering financing, insurance, and implementation.

Finally, regarding SOEs, it is important to note that their scale and capacity to implement projects match both the magnitude of the financing amounts made available by the state-owned banks and the magnitude of the needs of the BRI participating countries. Hillman (2018b) showed that the number of Chinese firms included in Fortune’s Global 500 list of the world’s largest companies by revenue increased from 10 in 2000 (9 SOEs) to 120 firms as of July 2018 (81 SOEs). The trend was especially evident in the construction industry. In 2017, seven of the 10 largest construction firms, by revenue, were Chinese.

⁴ China’s sovereign credit rating is A+ according to Standard & Poor’s and Fitch and A1 according to Moody’s.

⁵ Let us take the examples of the Jakarta-Bandung Railway, Indonesia’s first high-speed railway; the Lao PDR section of the Kunming-Singapore railway; and Sri Lanka’s Hambantota port. First, in Indonesia, the China Development Bank offered a 40-year concessionary loan, without asking for government debt guarantees, to finance 75% of the US\$5.3 billion railway. The loans carried a 10-year grace period. A 60% portion was denominated in US dollars carrying a 2% interest rate, and the remaining 40% calculated in Chinese yuan, carrying a 3.4% rate. Second, in Lao PDR, the Export-Import Bank of China offered a concessionary loan with an interest rate set slightly below 3%. Finally, in Sri Lanka, for phase I of the port the Export-Import Bank of China offered an 11-year commercial loan to finance US\$306 million at 6.3% with a one-year grace period (see Sirimanna (2011) and Zhang and Miller, (2017) for further details and examples).

The Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB, formerly known as BRICS Bank) are often described in the literature as institutions that will “support the efforts of governments of the countries along the Belt and Road and their companies and financial institutions with good credit rating” (NDRC, 2015). We will briefly focus on the case of the AIIB, since Timor-Leste became one of its shareholders in March 2017.⁶ The AIIB differs from the other financing sources mentioned in this text by the fact that it is a multilateral financial institution (with 86 current and prospective shareholders as of May 2018, according to AIIB (2018)). Moreover, the AIIB claims that it has world-class policies for safeguards, transparency, anti-corruption measures, universal procurement, and universal recruitment, among others. It has certainly put a great deal of effort into assessing the best practices of its peer institutions and in hiring experts highly versed in such policies. In any case, it is undeniable that the overarching mission of the AIIB, promoting the connectivity and the economic development of Asia, largely overlaps with the BRI, both strategically and geographically. The most interesting feature of the AIIB is that it leverages the financial credibility and reputations of developed nations (such as Canada, Germany, France, and the United Kingdom) to contribute indirectly, in practical terms, to the BRI.

Challenges and opportunities for Timor-Leste

This section will discuss both the challenges and the opportunities that the BRI brings to Timor-Leste. We will first present the background of the relationship between the initiative and Timor-Leste. We will then present Timor-Leste’s main financing sources for its projects, as well as its corresponding needs. We will finally assess how the pervasive effects of the BRI mentioned in the previous section could potentially affect Timor-Leste if it were to be actively enrolled in the BRI.

Timor-Leste in the BRI

China was one of the few countries to recognize Timor-Leste as an independent state when the latter first declared independence on November 28, 1975, and ties between the two countries have remained positive in tone since Timor-Leste’s de facto independence on May 20, 2002. Ties remain limited in scope because of the latter’s small economy.

Geographically speaking, Timor-Leste would seem an unlikely BRI member, being south of both the initiative’s main sea passages, namely the China-Indian Ocean-Africa Mediterranean Sea Blue Economic Passage and the China-Oceania-South Pacific Blue Economic Passage (see Figure 1). Nonetheless, Timor-Leste is considered a BRI country, based on the criteria that it has a Memorandum of Understanding for collaboration with China under the BRI (Hong Kong Trade Development Council, 2018).

In fact, during the Belt and Road Forum on International Cooperation hosted by President Xi on May 14-15, 2017, both governments signed the standard Memorandum of Understanding on Belt and Road Cooperation, as did the other BRI countries. The document officially qualifies Timor-Leste for the BRI. Moreover, the country is currently the only Portuguese-speaking member country of the BRI. Previously, on April 14, 2014, the Chinese and Timorese governments had signed a joint statement on “establishing a comprehensive partnership of good neighborly friendship, mutual trust and mutual benefit.” The statement mentioned that the “Timor-Leste government appreciated and supported the proposals made by the Chinese government to build a 21st-century Maritime Silk Road and an AIIB, and would actively participate in these processes” (China, Ministry of Foreign Affairs, 2014).

The relationship between Timor-Leste and China is currently strong. Observers claim that there has been a gradual realignment of Timor-Leste, from traditional aid providers such as Japan, the United States, and Australia (the last-named in the context of the disagreement with the exploration of offshore oil), to China (Suzuki, 2017). Two of the most influential figures in the country, namely Xanana Gusmão, former president of the Republic, president of one of the two largest political parties and still actively politically engaged and influential; and José Ramos Horta, a Nobel Peace awardee, welcome Chinese assistance, and refer to China as an old friend and today’s alternative to Japan and the United States (Suzuki, 2017).

The opportunities presented by the BRI for Timor-Leste

Timor-Leste depends on oil and gas for nearly 90% of its national revenue. The Petroleum Fund, the country’s sovereign wealth fund, endowed with nearly US\$16 billion, supports the national state budget on an annual basis with around US\$1.3 billion (see ADB, 2016a). The ADB (2106a) considers that “Timor-Leste is one of the world’s most oil-dependent countries. Production from current oil and gas fields began in 2004 and is forecast to end in 2021....

⁶ Timor Leste’s membership in the AIIB was approved by the Bank’s Governors in March 23, 2017 (Government of Timor-Leste, 2017) and they delivered the Instrument of Ratification on November 22, 2017.

Prospects for new developments are uncertain.” Therefore, Timor-Leste has a limited opportunity to use its petroleum wealth to establish a pattern of sustainable growth. Currently, the petroleum sector operates as an enclave. Its only link to the onshore (real) economy is through public spending of the Petroleum Fund’s taxes and royalties. By law, the government is entitled to withdraw the estimated sustainable income from the fund each year to finance infrastructure investment and public spending. This income is defined as the maximum annual withdrawal that could be sustained indefinitely in real terms and is calculated at 3% of the estimated petroleum wealth.

The oil revenues come from the Bayu-Undan oil and gas field, which is expected to stop producing in the next five to 10 years. The recent signing, in March 2018, of a treaty drawing the maritime boundary between Australia and Timor-Leste (Gloystein & Paul, 2018) could help resolve the long-standing maritime dispute between the two countries, paving the way for the development of the estimated US\$65 billion Greater Sunrise field oil and gas project. In the meantime, facing the exhaustion of the Bayu-Undan field, the country is stepping up efforts to diversify financing and industries, including meaningful tax incentives for foreign investors.⁷

The damaged and underdeveloped infrastructure in Timor-Leste, caused by underinvestment in maintenance and construction of new roads under Indonesian rule of the country and by years of conflict from the country’s declaration of independence until the restoration of independence in 2002, is one of the major challenges facing the country in recent years. The Timor-Leste government created and released a Strategic Development Plan to transform the country into a medium-to-high income economy by 2030, including an entire section on developing national infrastructure (see Table 1 below, retrieved from Government of Timor-Leste, 2011). Other main projects currently in preparation/implementation include the Oecusse Special Economic Zone,⁸ in which a US\$80 million international airport, yet to be open, and a US\$17 million bridge are located.

Table 1

Selected Infrastructure Projects in the Pipeline in Timor-Leste (2011-2030)

Roads and bridges	<ul style="list-style-type: none"> • Dili-Manatuto-Baucau Road (US\$100 million) • Manatuto-Natarbora Road (US\$60 million) • Dili-Liquiça-Bobonaro Road (US\$82 million) • Dili-Aileu-Maubisse-Aituto-Ainaro-Cassa Road (US\$82 million) <p>Ongoing, financed by the World Bank and the Asian Development Bank</p>
Seaports	<ul style="list-style-type: none"> • New deepwater seaport of Tibar (north, located about 10 kilometers west of Dili) (US\$490 million, operating by 2020): construction started on 14 June 2017, after six years of planning and procurement, under a public-private partnership led by the British Bolloré Group (construction, financing, and 30-year concession for operations). The government of Timor-Leste contributed US\$130 million. • New seaport of Suai (south) (US\$720 million; abandoned)
Airports	<ul style="list-style-type: none"> • Dili’s Presidente Nicolau Lobato International Airport upgraded from 80,000 to one million passengers per year (planned) • Baucau National Airport, as an alternative to Dili’s • Network of eight national airports operating (second airport: Suai airport opened on June 20, 2017)

Sources: Government of Timor-Leste (2011) and “Bolloré work starts” (2017). Does not include infrastructure for water and sanitation, energy, or telecommunications.

To implement the Strategic Development Plan, in 2011, the Timorese government established the Infrastructure Fund,⁹ a financial instrument to “carefully target investment in major public projects essential to boost development and create a well-functioning economy” (Government of Timor-Leste, 2018). The Infrastructure Fund finances the implementation of infrastructure that requires major investment in multiyear and large projects worth more than US\$1 million. From its inception in 2011 to December 31, 2017 the Infrastructure Fund had financed projects amounting to a total of US\$3.9 billion (Government of Timor-Leste, 2018).

According to the ADB (2016a), “The process of state building is progressing well: key public sector institutions have been established, service delivery is improving, and the building blocks for an enabling business environment are coming into place. Timor-Leste remains fragile, however... Infrastructure is improving, but additional investments are needed ... Real progress has been made in restoring and upgrading a core network of national, district, and rural roads. Public investment has transformed the electricity sector while deregulation has delivered transformative gains in telecommunications. Improving access to clean water and sanitation has been slower. Many rural

⁷ These include a 10% corporate tax; a “no profit no tax” promise; and five-, eight-, or ten-year tax holidays depending on the location and nature of the investment. Special economic (social market) zones have been created in Oecusse enclave and on Atauro Island. To “improve capabilities” in government and “resolve bottlenecks,” 3% annual spending has been frontloaded to 2022 (Davidson, 2017).

⁸ The development of the special economic zone is managed by the former prime minister, Mari Alkatiri, under the motto of a better governance, corruption-free area.

⁹ By Decree of Law No. 8/2011, which is a subsidiary to Law No. 1/2011.

communities lack access to basic services, and urban water supply, sewerage, and solid waste management are in poor condition.”

Higher public spending has driven growth but threatens long-term fiscal sustainability. Public expenditure, excluding grants, rose from US\$241 million in 2007 to US\$1.37 billion in 2014, according to the ADB (2016a) as the government scaled up investment in infrastructure through the Infrastructure Fund and rolled out large social transfer programs. Withdrawals from the Petroleum Fund financed 85% of budgeted expenditures in 2015 and were almost double the estimated sustainable income. According to the ADB (2016a), “continuation of recent spending growth will threaten the long-term sustainability of the Petroleum Fund. Withdrawals must return to sustainable levels in the medium term to avoid depleting the fund and reaching a fiscal cliff, which would require a large and abrupt reduction in public spending.”

So far, Chinese actors have been very active in project finance in Timor-Leste. Since Timorese independence, China has funded (through grants) and constructed the country’s presidential palace, Ministry of Foreign Affairs buildings and army barracks (Economist Intelligence Unit, 2016). However, Timor-Leste has been very reluctant to take on debt in the past, prioritizing grant financing (such as that from the World Bank and ADB, both under the status of fragile-and-conflict-affected country). A US\$50 million concessional loan agreement¹⁰ to construct and upgrade the Dili drainage system (Government of Timor-Leste, 2015) was negotiated in 2015 between the government of Timor-Leste and the Export-Import Bank of China (the only agreement so far with any of China’s state-owned banks). However, the loan agreement was never signed and the Timorese Court of Auditors vetoed it.

The potential of the BRI, as well as that of multilateral development banks, such as the ADB, the AIIB and the World Bank Group, to facilitate trade, accelerate growth, and increase regional cooperation and integration within Asia through infrastructure investment is sizeable. The World Bank points out three major opportunities of the BRI, namely (i) its tremendous size and scope; (ii) the large unexploited potential existing in the region; and (iii) its impact in improving connectivity (World Bank, 2018a). Answering the charge that the BRI would have a negative impact on lending in some borrowing countries,

¹⁰ An annual fixed interest rate of 2% over 20 years and a grace period of 5 years, representing a grant element of 28%, exceeding the 25% minimum grant element required by the Organization for Economic Cooperation and Development for a loan to be considered as concessional (OECD, 2018).

the Chinese Ministry of Foreign Affairs denied that China had caused any debt crisis in those countries, stating that “The Belt and Road initiative follows the golden rule of shared benefits through consultation and contribution, and has delivered US\$2.2 billion tax revenue and more than 200,000 jobs for cooperation partners” (Li, 2018).

The BRI could be a convenient window of opportunity for Timor-Leste to accelerate project financing and implementation within the country’s vision for 2030. The first BRI project (if one considers it as such) will be financed under the soft part of the initiative, the “cultural ties with university scholarships and other people-to-people exchanges,”¹¹ within the health sector. Macao will be launching a hospital twinning program focused on deploying health professionals in countries included in the BRI and Timor-Leste will receive health support, especially for the development of primary health care (Moura, 2018).

The challenges of the BRI for Timor-Leste

BRI critics often assume that China will reap the largest part of the initiative’s benefits. China’s role in BRI countries is already increasing. The Economist (2016) showed that, in 2015, China’s foreign direct investment (FDI) in BRI countries rose twice as fast as the increase in its total FDI and that 44% of China’s new engineering projects were signed in BRI countries (52% in the first five months of 2016).

In addition, the BRI presents risks and potentially negative impacts for the countries participating in the initiative. We will focus our assessment on four main factors, namely: (i) excessive political interference by China in the selection of projects, that could fail to ensure minimum commercial return and maximum bearable risk; (ii) the increasing indebtedness of borrowing countries; (iii) permissive (or nonexistent) environmental, social, transparent and anti-corruption standards for projects; (iv) the lack of a level playing field for procurement for non-Chinese suppliers of public works, goods, and services; and (iv) the use of BRI projects to exercise undue influence in other areas, such as military.

¹¹ The BRI “intends to strengthen hard infrastructure with new roads and railways, soft infrastructure with trade and transportation agreements, and even cultural ties with university scholarships and other people-to-people exchanges (NDRC, 2015).

First, regarding the inclusion of noneconomically viable but politically or militarily useful projects in the BRI, the Chinese government claims that SOEs make their investment decisions based on commercial and economic returns. However, some observers question this claim. The governor of China's Central Bank warned that "the reliance on cheap loans raises risks and problems, starting with moral hazard and unsustainability" (Zhang & Miller, 2017). The credit rating agency Fitch (cited by Wells & Weinland, 2017) stated that "Chinese banks do not have a track record of allocating resources efficiently at home, especially in relation to infrastructure projects, so they are unlikely to have more success overseas" and that, consequently, "the lack of commercial imperatives behind BRI projects means that it is highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors." Indeed, Fitch Solutions (2018) indicated that "some China-backed infrastructure projects along the BRI were previously written off as financially unfeasible by traditional lenders or private investors."

As mitigating measures, among other initiatives proposed by Deloitte (2018), China should also diversify the number of borrowers and decrease the size of projects. In addition, it is expected that China will increase its efforts to minimize the potential reputational losses associated with the projects that do not deliver properly during implementation. RWR Advisory Group, cited by Kynge (2018), found that 14% of 1,674 BRI projects since 2013 had encountered problems, such as public opposition to projects, objections over labor policies, delays caused by land acquisition, financial irregularities and concerns about national security. The Chinese government claims that this percentage is relatively low and that it is mostly due to the lack of experience of the Chinese promoters in operating in sometimes challenging countries. The same government claims that these problems are expected to be further minimized in time, when a sufficient stock of relevant experience is built. In fact, Chinese government scrutiny of prospective deals has increased and managers of state-owned enterprises and banks are now held responsible for bad investments (including pay cuts, disciplinary action and judicial hearings), following a 2016 ruling by China's State Council, as pointed out by Thomas and Price (2016).

Second, regarding the potentially increasing indebtedness of some borrowing countries, it is a fact that the financing required for BRI projects may expand debt to unsustainable levels. For example, first, the construction of the Lao

¹² In an attempt to control the impact of the project on its public finances, the Laotian government has limited its participation to around US\$700 million and financed the remaining amount through a public-private partnership. Nonetheless, US\$500 million of the Laotian contribution will be financed through a loan of the Export-Import Bank of China.

PDR section of the Kunming-Singapore railway has an estimated cost of US\$6 billion, nearly 40% of the country's GDP in 2016 (World Bank, 2018a), and, second, Vanuatu, with only 270,000 inhabitants, has taken US\$270 million in Chinese loans in the past decade, worth 35% of its GDP (Parker & Cheftiz, 2018). It is not clear that the increase in trade and the economic development brought about by the BRI will generate and secure sufficient revenues to service the participating countries' carrying costs of projects. At a project level, limited financing alternatives for many borrowing countries puts them in an unfavorable position to negotiate good terms. A good example is the 2010 negotiation for the financing of phase I of the US\$8 billion Hambantota port in Sri Lanka, which concluded with a significantly high interest rate of 6.3% for a US\$306 million loan from the Export-Import Bank of China (see Sirimanna, 2011). With nearly all its revenue going toward debt repayment, the Sri Lankan government had to consent to sell (for US\$1.12 billion) an 85% stake and a 99-year lease to the China Merchants Port Group (Panda, 2017).

In the case of Timor-Leste, one should bear in mind that its government debt level was just 13.0% of its GDP in 2016 (internal database of the ADB), largely boosted by the revenues of the Petroleum Fund. In fact, so far, Timorese governments have been extremely reluctant to borrow, historically limiting loan contracting to a very few key infrastructure projects (roads exclusively in practical terms¹³), all of them endowed with high concessionality levels and complemented by technical assistance and capacity development in the form of grants. In addition, the cost of borrowing of any loan taken by the government is limited, according to the Public Debt Law, to a ceiling marked by the average return of the Petroleum Fund. Therefore, we do not expect BRI financing to Timor-Leste to put sovereign public debt into stress in the short and medium run.

Third, regarding the risks associated with permissive or nonexistent minimum environmental, social, transparent and anti-corruption standards for projects, this could result in serious biodiversity loss, environmental degradation, forced displacement of population, and the capture of disproportionate economic benefits by a country's leading economic classes. This is particularly worrying in countries with relatively poor governance, as observed in many BRI participant countries.

¹³ On May 2, 2012, the Timorese Finance Minister and the ADB President signed Timor-Leste's first multilateral loan agreement in Manila, for US\$40 million, to fund the costs of upgrading the 29-km Dili-Liquica and 32-km Tibar-Gleno roads. These projects were completed by the end of 2015.

In the case of Timor-Leste, the use of forced eviction in development projects implemented by the Timorese government has been documented (Davidson, 2017). In addition, where transparent and anti-corruption standards are concerned, both international and Timorese watchdog groups have openly criticized the lack of transparency and accountability in development projects in Timor-Leste, particularly the lack of public cost-benefit and risk analyses at the project level (for detailed references, see Davidson, 2017). In 2012, the Timorese government inaugurated a so-called “Transparency Portal,”¹⁴ but this does nothing more than present macro figures for financing pledged and received. Therefore, we note that neither the Chinese SOEs nor the Timorese executing agencies have good historical records of implementation of environmental and social safeguards and anti-corruption standards, so we are concerned that BRI financing in Timor-Leste could raise problems in these areas.

One mitigating measure would be the increasing participation of developed countries and of MDBs in the BRI. They could bring their long-term development experience to the initiative, with particular gains in environmental and social standards, transparency and anti-corruption measures, but also the diversification of financing sources and terms, the leveraging of additional financial resources, and technology transfer. In the same vein, Deloitte (2018) projects that by 2030 at least half of BRI funding will be met by a combination of private capital, multilateral banks, and foreign governments. However, so far, only 100 out of 941 BRI projects have involved the World Bank, the IMF or the ADB (Fitch Solutions, 2018).

Fourth, regarding the lack of a level playing field for the procurement for non-Chinese suppliers of public works, goods and services, the numbers show that the BRI is mainly benefitting China’s SOEs and contractors. In fact, Hillman (2018b) found that Chinese projects are less open to local and international participation than those financed by MDBs. Within a sample of 2,200 transportation projects in Asia, approved from 2006 to 2017, Hillman found that 89% of all contractors participating in Chinese-funded projects were Chinese firms, 8% were local companies; and 3% were from third countries. In comparison, of the contractors participating in projects funded by the World Bank and the ADB, 29% were Chinese, 41% were local, and 30% were from third countries.

This is of particular importance for Timor-Leste. In fact, the projects financed so far by China in Timor-Leste have made no use of the local labor force, as

pointed out by Davidson (2017). The lack of involvement of the Timorese labor force was one of the main reasons invoked by the Timorese Court of Auditors to veto the US\$50 million concessional loan offered by the Export-Import Bank of China to construct and upgrade the Dili drainage system mentioned earlier. Nevertheless, this limitation appears more on the supply than on the demand side. In fact, the most important constraint for project implementation in Timor-Leste is arguably the lack of capacity in executing agencies, and not the financing per se. The ADB estimates that Timor-Leste ranks among the Asian countries with the lowest capacities in “public sector management and institutions” and in “structural policies.” In 2016, Timor-Leste only presented better indicators than Afghanistan, Myanmar, and Papua New Guinea (ADB, 2016b). Capacity development is of paramount importance, and this should involve all development partners operating in Timor-Leste, including China. Capacity building, on-the-job training and educational and vocational training should be incorporated into BRI projects in weak-performing countries such as Timor-Leste.

Finally, regarding the use of BRI projects to exercise critical Chinese influence in other areas, such as military, one might suggest that Tibar deepwater port could follow the same route as Doraleh port in Djibouti (Thorne & Spevack, 2017) or Gwardar port in Pakistan (Chan, 2018), potentially serving as a military platform supporting the global presence of the Chinese navy worldwide. In fact, in early 2016, a Chinese naval task force comprising three vessels made a five-day official stopover in Dili en route to a naval escort mission in the Gulf of Aden (Economist Intelligence Unit, 2016; Suzuki 2017). The visit occurred in the context of previous military cooperation between the two countries. In 2008, the Timorese Navy purchased two Shanghai-class patrol boats from a Chinese promoter. They were manned by Chinese sailors while the Timorese sailors were trained to guard the Timorese coasts (Murdoch, 2010). In 2010, the Chinese government funded the new headquarters for the Timorese Army costing US\$9 million (Everingham, 2010). However, there has been no further public reference to Chinese military presence in Timor-Leste since 2016. Therefore, we see no concrete intention so far by China to use Timor-Leste for military purposes.

All in all, we conclude that Timor-Leste has to attract investment, which so far has been insignificant. BRI financing could have a significant impact in the quantity and quality of infrastructure in the country, if considered as part of a diversified pool of lenders. The BRI could also attract additional private

¹⁴ See <http://www.transparency.gov.tl/english.html>

investment to Timor-Leste. However, increasing infrastructure financing by multilateral development banks, including the AIIB, is also needed. It is good news, for instance, that ADB-allocated resources to Timor-Leste will increase from US\$137 million between 2015 and 2017 to US\$301 million between 2019 and 2021, according to the ADB (2018). As shown in Table 2, Timor-Leste is not in a particularly vulnerable position for receiving BRI financing. The potentially negative effects associated with the BRI are less severe than many critics suggest, partly because they are underpinned by strong bilateral relationships; partly because both China and Timor-Leste have introduced sufficient measures to mitigate associated risks; and partly because developed countries and MDBs are expected to become more involved. The areas that are most exposed to the potentially negative effects of BRI financing are related to (i) environmental and social safeguards, and transparency and anti-corruption policies, due to the relatively poor experience of both Chinese SOEs and Timorese executing agencies in dealing with these aspects of development projects; and (ii) the lack of a local labor force used in the projects, due mostly to the lack of skills domestically.

Table 2
Main Risks and Associated Mitigating Measures Identified for BRI Financing in Timor-Leste

Main risk	Associated mitigating measures
Excessive political, noncommercial, interference in the selection of the projects	<ul style="list-style-type: none"> - Increasing involvement of other development partners - Ensuring that projects present a minimum commercial return and a maximum bearable risk - Closer scrutiny of prospective deals by the Chinese government, holding state-owned enterprise and bank managers responsible for bad investments
Increasing indebtedness of borrowing countries	<ul style="list-style-type: none"> - Increasing involvement of other development partners - Ensuring that projects present a minimum commercial return and a maximum bearable risk - The Timorese Public Debt Law, as well as the main political parties, strongly limit the readiness of the Timorese government to take on public debt
Permissive (or nonexistent) environmental, social, transparent and anti-corruption standards in projects	<ul style="list-style-type: none"> - Increasing involvement of other development partners
Lack of a level playing field for procurement for non-Chinese suppliers of public works, goods and services	<ul style="list-style-type: none"> - Increasing involvement of other development partners - Strengthening capacity building of the Timorese executing agencies and Ministries, - Strengthening on-the-job training and educational and vocational training of the Timorese population
Use of BRI projects for critically exercising influence in other areas, such as military	<ul style="list-style-type: none"> - Increasing involvement of other development partners

Source: Author.

Conclusion

The BRI will clearly improve connectivity and, consequently, trade and economic growth are expected to follow. Infrastructure financing will be further leveraged, and project funding sources will be diversified. However, some authors and political observers argue that the long-term costs could be greater than the benefits, particularly in certain countries and/or in certain locations associated with specific projects.

These long-term costs are associated with some potentially negative effects of the BRI and could be divided into five main groups: (i) excessive political interference by China in the selection of the projects, as a consequence of which could fail to ensure the minimum commercial return and the maximum bearable risk; (ii) increasing indebtedness of borrowing countries; (iii) permissive (or nonexistent) environmental, social, transparent and anti-corruption standards for projects; (iv) lack of a level playing field for procurement for non-Chinese suppliers of public works, goods and services; and (iv) use of BRI projects for critically exercising influence in other areas, such as military.

We argue that most of the risks identified are less severe than some critics suggest and that these risks are being mitigated, in part because of strong bilateral relationships and sufficient measures that have been introduced to mitigate associated risks. Furthermore, developed countries and MDBs are expected to become more involved and Timor-Leste is not in a particularly vulnerable position as a recipient of BRI financing.

All in all, the case study of a small insular developing economy such as Timor-Leste that, although participating in the BRI, is not located on any of the main corridors of the initiative, presents a stimulating example of how the BRI could expand. With a US\$16 billion wealth fund, Timor-Leste could invest without borrowing. However, the country lacks the capacity to implement BRI infrastructural projects. It should use its past, present and future revenues from natural resources, as well as critical support from other development partners, including China. The country should develop its social and economic infrastructures and work on economic reforms to ensure that it has a strong revenue base before its natural resources are depleted. Timor-Leste could benefit from actively participating in the BRI, both from the soft and hard components of the initiative. Better connectivity could help generate significant revenues in sectors such as tourism. Timor-Leste should carefully assess and prioritize these investments.

Avenues for further research include assessing the potential challenges and opportunities brought by the BRI to other participating countries, apart from Timor-Leste. More globally, a conceptual framework could be built for (i) evaluating BRI risks for the participating and nonparticipating countries, and China, and (ii) proposing potential solutions and measures that mitigate those risks. There are many fruitful avenues for further research ahead.

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Timor-Leste and China relations in the context of infrastructure development

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Keywords: Infrastructure development, Infrastructure Fund (IF), China's aid, infrastructure and growth, the Belt and Road Initiative (BRI)

Abstract

This paper examines the relations between Timor-Leste and China in the development of infrastructure for improving the economic and social condition of Timor-Leste. Since the restoration of independence in 2002, Timor-Leste has spent billions of US dollars on infrastructure development to support and accelerate economic activity. Analysis of the number of contracts awarded to international companies for large infrastructure projects, export and import trends, and numbers of foreigners arriving at Presidente Nicolao Lobato International Airport (Dili Airport) from 2010–2016, shows China's significant involvement in Timor-Leste. With about 80% of the country's major projects awarded to Chinese companies, China is one of Timor-Leste's top 5 trading partners, and Chinese nationals have been among the top 5 most numerous foreigners arriving at Dili Airport since 2010. Through this analysis, this paper attempts to show a correlation between the contracts awarded to Chinese companies and both the trend of trade with China and the number of Chinese nationals arriving in the country. To do so, this paper briefly addresses how infrastructure development is situated under China's aid framework. Examining the experiences of other countries, this paper discusses some challenges and opportunities that infrastructure development presents to Timor-Leste and China in contributing to the overall economic and social development of the country, a vision shared and emphasized by 'the Belt and Road Initiative'.

Introduction

Since the restoration of independence in 2002, Timor-Leste has experienced two phases of development. In the first phase, 2002 to 2010, in the early stages

of nation building and development, the Government of Timor-Leste gave priority to poverty alleviation and creating stability. Having newly emerged from conflict, most of the country's basic infrastructure had been destroyed, and people had lost their homes and had no source of income. At the same time, Timor-Leste faced a daunting test in its first-hand taste of the complexity of self-governance and the difficulty of putting democratic values into practice in a situation where government institutions were hardly able to provide essential public services. Absence of adequate infrastructure, weak socioeconomic conditions and a fragile political situation, consequently, forced the Timor-Leste Government to prioritize the immediate and emergency needs of the people, so efforts were geared towards alleviating poverty as well as improving and strengthening stability.

After 2010, Timor-Leste experienced steady economic growth mainly because of revenue from its petroleum resources. Correspondingly, the focus of development shifted from poverty alleviation and stability creation to prosperity, the priority of the second phase of development. The government realized that to achieve prosperity, it required new strategies and directions to take advantage of and maximize the use of petroleum revenues. This meant investing in key areas to promote and accelerate economic growth and to improve the lives of the people. This shift laid the foundation for the formulation of the Timor-Leste Strategic Development Plan (SDP) 2011-2030, "a twenty-year vision that reflects the aspirations of the Timorese people to create a prosperous and strong nation" (Timor-Leste SDP, p. 10). The SDP is the product of a series of consultations with the community conducted by the government of Timor-Leste throughout the country's 65 sub-districts (now known as *Posto-Administrativo*) across the country.

In its efforts to promote, support, and accelerate activities that will contribute to economic growth and improve the lives of the people, the Timor-Leste government has made major investments in many different areas including human resources development, institutional capacity building and strengthening, and infrastructure development. The government has considered and utilized various financing mechanisms to drive these development initiatives effectively and efficiently. For instance, in 2011, the government established the *Fundo de Desenvolvimento do Capital Humano* (Human Capital Development Fund) to provide opportunities for its citizens to undertake academic study and capacity building programs. At the beginning of 2012, the Timor-Leste government started to take on loans and public-private partnership financing options to encourage development partners and the private sector to invest in the country.

The government has also gone to great lengths to attract businesses to invest in the country through various policies and initiatives (La'o Hamutuk, 2016a), including one-stop shop SERVE and tax leniency.

Moreover, guided by the SDP, which gives the overall parameters for the development of the country, the Government of Timor-Leste established the Infrastructure Fund (IF) in 2011 as a special fund to finance large infrastructure projects. The establishment of this fund is in line with the government's policy to provide strategic infrastructure to support and accelerate economic activities, which in turn, can contribute to overall economic growth and improve the wellbeing of the people. The fund confirms that, not only is infrastructure a priority for the government, but that it is also key to achieving its vision of prosperity. Infrastructure development also opens doors for the government to work with many other countries through the involvement of international companies in the implementation of major infrastructure projects. The People's Republic of China (hereafter China) is well represented in infrastructure development in Timor-Leste as shown by the heavy involvement of Chinese companies in the implementation of infrastructure projects. This paper will address and examine China's involvement in the development of infrastructure through analyses of statistical data and examination of other countries' experiences with China's involvement and its impact on overall development. This will supply the basis for an analysis of relations between Timor-Leste and China.

Literature review

Debate and discussion about the development of infrastructure fascinates academics, development practitioners, media commentators and politicians alike. The current discussion mainly revolves around the effects of infrastructure on growth. Some contend zero returns while others highlight the high impact of infrastructure on growth. The debate, then, extends to the question of whether infrastructure causes growth or vice versa. A common finding is that infrastructure can cause growth and growth can cause greater demand for infrastructure (Estache & Fay, 2007). Following on from this, are the critical analyses that have focused on finding the right financing mechanisms to ensure investment that gives value for money. Countries, that have a strong financial capacity, compete to invest in and provide assistance to recipient countries with the intention of helping them develop themselves. One of these countries with financial means is China whose presence and involvement in the development of infrastructure in other countries is growing, especially in Africa and Asia

where about 46% and 30%, respectively, of its foreign aid funds are distributed (The State Council of the People’s Republic of China, 2011). Building on the debate on infrastructure and growth, and linking this to the ongoing discussion on foreign involvement in infrastructure development, this paper examines the impact of China’s involvement in infrastructure projects in Timor-Leste. It is hoped that this paper will shed some light on ongoing debates about infrastructure development and growth in Timor-Leste.

Timor-Leste’s strategic development plan and infrastructure development

The SDP, adopted in 2010, has guided overall development activities in the country with its overall goal: “to transition Timor-Leste from a low income to upper middle income country, with a healthy, well educated, and safe population by 2030” (Timor-Leste SDP, 2011, p. 11). The SDP comprises three pillars that are vital for the development of the country in the short, medium and long term. The three pillars (Timor-Leste SDP, 2011, p. 13) are:

- a) *social capital encompassing education and training, health, social inclusion, environment and culture and heritage;*
- b) *infrastructure development including roads and bridges, water and sanitation, electricity, seaports, airports, and telecommunications; and*
- c) *economic development consisting of rural development, agriculture, petroleum, tourism, and private sector investment.*

Although listed separately, these three pillars are very much interdependent and interconnected.

Since its release in 2010, the SDP has become a reference point for the Government of Timor-Leste in planning, initiating, and developing projects, with a direct link to annual government budget allocation. Infrastructure development is a pillar derived from the SDP itself that provides space for investment in infrastructure. The government has invested in infrastructure in key sectors such as (a) construction and rehabilitation of hospitals, health clinics and a national laboratory to improve the health sector; (b) construction of school buildings to improve the educational sector; (c) construction of irrigation throughout the country to boost agricultural production; (d) construction and installation of power plants and stations, power grid and transmission lines to ensure access to power and delivery of electricity services to every corner of the country; and (e) construction and rehabilitation of roads and bridges, airports, and ports to improve the transportation sector. Meanwhile, massive

investment has also been made in infrastructure to support the South Coast Development Program to develop the petroleum industry.

The infrastructure described above shows that the Timor-Leste government has strategically invested in key areas to kick-start, promote, and generate economic activity. It is hoped that improvement made in these key areas will contribute to sustainable economic growth, which will improve the lives of all Timorese. This investment is directly linked to the IF as the financing instrument of all the large projects carried out in the country. A substantial budget has been allocated to the IF every year to ensure financial readiness for the implementation of these infrastructure projects. Table 1 traces the history of IF budget allocation and execution.

Table 1
Infrastructure Fund Budget Allocation and Execution, 2011-2016

Year	Budget book (million US\$)	Disbursement (million US\$)	Execution (%)
2011	599.31	474.43	79
2012	875.13	372.40	43
2013	604.38	215.90	36
2014	368.55	330.39	90
2015	317.30	240.93	76
2016	783.66	726.93	93
Total	3,548.33	2,360.98	67

Source: Timor-Leste Ministry of Finance (2016)

Table 1 shows that from 2011 to 2016, US\$3.5 billion have been allocated to the IF, and in this 5-year period alone, the government of Timore-Leste has spent US\$2.4 billion on infrastructure. The importance of the IF is evident from the fact that that the amount allocated to the IF annually is about 30-40% of the annual state budget, which averages US\$1.4 billion each year. The IF, therefore, plays an essential role in financing the key infrastructure projects implemented throughout the country.

Overview of large infrastructure projects in Timor-Leste:

Over the last few years, as shown through the budget allocation and execution of the IF, Timor-Leste has spent billions of US dollars on infrastructure development through financing the implementation of large infrastructure projects. Large infrastructure projects, for the purposes of this research, refer

to projects with contract amounts of US\$10 million and higher since they bring great financial risk as well as significant social and environmental impacts. These include both those financed directly through the state budget (including the IF) and indirectly with loans, since these will have to be re-paid by the government in the future. Both financing mechanisms, ultimately, serve the same purpose which is to build more infrastructure and improve its quality.

So far, improvement of transportation and power infrastructure has received the largest share of overall infrastructure investment since transportation is vital for connecting different parts of the country and improving accessibility, especially to markets, both local and regional, while power infrastructure is a major driver for development. The importance of infrastructure in these two areas is made evident by contracts signed in 2008 with a Chinese company for a power plant and power grid project valued at about US\$360 million (Embassy of the PRC in the Democratic Republic of Timor-Leste, 2010b). Similarly, as part of the Tasi Mane program (L'ao Hamutuk, 2016c) to develop the south coast of the country, the government spent about US\$300 million on the construction of a highway. At the same time, they signed a US\$719 million contract for the Suai Supply Base Project (currently on hold), while an investment of US\$68 million has been made to upgrade Suai Airport (L'ao Hamutuk, 2013).

At the beginning of 2012, the government started to explore loans as an alternative financing scheme for large infrastructure projects. As a result, construction of national ring roads financed through loans was undertaken for which the total loan value has reached approximately US\$400 million (L'ao Hamutuk, 2017). The main objectives of financing these projects through loans are to take advantage of the technical capacity of international companies and to ensure the quality of the projects. In the meantime, the government has also opted for a public-private partnership modality to involve the private sector in the development of infrastructure. The first project using this modality is the construction of Tibar Bay Port where the government's share is about US\$129 million; the total project costs around US\$278 million (L'ao Hamutuk, 2016b). These financing options have resulted in many multimillion dollar projects being awarded to international companies. Table 2 provides a list of the large infrastructure projects undertaken as part of the infrastructure development initiative.

Table 2
List of Large Projects Awarded to International Companies

Project	Company	Country	Cost (US\$ million)	Status		Notes
				Completed	Ongoing	
Power Plant and Power Grid	China Nuclear Industry Co. Ltd	China	360	Completed		Power Sector
Tibar-Laiquica Road	San Jose SA	Spain	020			
Tibar-Gleno Road	PT pp (Persero) TBK	Indonesia	029			Projects Funded Through Loans
Tasi Tolu-Tibar (4 lanes) Road	China Wu Yi. Co. Ltd.		012			
Manatuto-Laclubar Junction Road	RDI Interior Construction/Hebei Road & Bridge Group Co. Ltd		028			
Laclubar-Nataboro Road	China Nuclear Industry 22		034			
Dili-Manatuto Road	Sinohydro Corporation Ltd		048			
Manatuto-Baucou Road	Shanghai Construction Group Co. Ltd./PT. Brantas Abipraya (Persero)		059			
Baucou-Lautem Road			029			
Maubara-Karimbala Atabac Motia in Road	CBMI Construction Co. Ltd/Chingqing Road Engineering	China	021	Ongoing		
Aileu-Ainaro Lot 3 Road	Chongqing International Construction Corporation (CICC)		029			
Aileu-Ainaro Lot 4 Road			028			
Aileu-Ainaro Lot 5 Road			027			
Dili Drainage	China Shandong International (CSI)		050			
Highway Road Section 1 (Suai-Zumalai)	China Overseas Engineering Group Co. Ltd (COVEC)		290			
Suai Supply Base (SSB)	Hyundai	South Korea	700	On Hold		Projects Under South Cost Development Program
Suai Airport	PT Waskita Karya (Persero) TBK	Indonesia	067	Completed		
Tibar Port	Bolore	France	130	Ongoing		Project Financed Through PPP Modality
			1,961	Including SSB and Dili Drainage		
Total Costs			1,211	Excluding SSB and Dili Drainage		

Notes: Information is available from various sources including the Lao Hamutuk Website, the Timor-Post, the Asian Development Bank and the World Bank. Sources of the loans: 64% from the ADB, 20.3% from the World Bank & 13.2 % from JICA. A loan from China is currently on hold.

Source: Lao Hamutuk (2017).

Table 2 shows that the government of Timor-Leste has spent over US\$1 billion on infrastructure projects each worth US\$10 million and above. Note that of the 18 projects in this list, 13 project contracts have been awarded to Chinese companies. Excluding Suai Supply Base and Dili Drainage Construction, which are currently on hold, a total of US\$965 million of the US\$1.2 billion goes to Chinese companies. This means that about 80% of the money spent on infrastructure projects on this list will be paid to Chinese companies while other international companies account for the remaining 20%. The following pie charts in Figure 1 illustrate this.

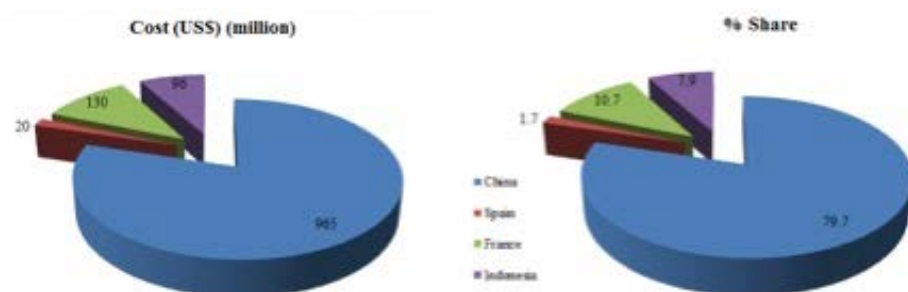


Figure 1. Distribution and Percentage Share of Large Project Contract Awards by Country

Figure 1 shows that Chinese companies have the largest share of contracts for major projects awarded to international companies, which indicates the significant involvement of Chinese companies in infrastructure development and the presence of Chinese nationals in Timor-Leste.

Ties between Timor-Leste and China

Relations between Timor-Leste and China are long-standing and date back to the 15th and 16th centuries when the first Chinese expedition reached Timor-Leste in search of sandalwood which was much sought after for incense and medicine (Macau Hub, 2014; Embassy of the PRC in the Democratic Republic of Timor-Leste, 2010a). Over time, many Chinese have called Timor-Leste home and become an integral part of Timorese society. While

movement of people and trading activities between the two countries started many centuries ago, this research will focus on the period from 2010-2016.

The data on large projects provided in Table 2 shows that of approximately US\$1.2 billion spent on infrastructure in recent years, US\$965 million has gone to Chinese companies, or 80% of total spending. Research from other countries shows that China's involvement in infrastructure development is associated with an increase in the presence of Chinese nationals (Onjala, 2008) and import of goods from China (Adisu, 2010), so statistical analyses of foreigner arrival numbers and trade activity in Timor-Leste will be conducted. This will reveal whether the same trend is found in Timor-Leste, and so help both countries address the challenges and opportunities presented by such a trend.

Data from the General Directorate of Statistics (2014) of the Government of Timor-Leste on foreigner arrival numbers at Dili Airport shows that on average, 58,000 people have visited the country annually from 2010-2016. During this period, the five countries accounting for the most foreigner arrivals were Indonesia, Australia, Portugal, China, and the Philippines. Over the years, Indonesians have consistently been the largest group of arrivals while Chinese arrivals have increased slowly, bypassing Portuguese arrivals in 2016. The following tables and charts show data on foreigner arrivals at Dili Airport from 2010-2016.

Table 3

Top Five Countries Accounting for the Most Foreigner Arrivals at Dili Airport, 2010-2016

Country	Year						
	2010	2011	2012	2013	2014	2015	2016
Indonesia	6,744	11,179	15,303	17,520	15,180	15,240	17,834
Australia	11,262	12,419	12,138	12,817	13,429	11,692	11,564
Portugal	4,618	5,916	6,130	5,894	6,185	6,282	7,287
China	2,659	3,464	4,972	4,346	3,717	5,585	7,437
Philippines	2,177	2,413	3,842	3,936	4,157	4,332	3,024
Total	44,528	50,239	55,042	77,868	59,811	61,590	54,642

Table 4
Top Five Countries Accounting for the Most Foreigner Arrivals at Dili Airport, 2010-2016 (%)

Country	Year						
	2010	2011	2012	2013	2014	2015	2016
Indonesia	15.1%	22.3%	27.8%	22.5%	25.4%	24.7%	27.2%
Australia	25.3%	24.7%	22.1%	16.5%	22.5%	19.0%	17.6%
Portugal	10.4%	11.8%	11.1%	7.6%	10.3%	10.2%	11.1%
China	6.0%	6.9%	9.0%	5.6%	6.2%	9.1%	11.3%
Philippines	4.9%	4.8%	7.0%	5.1%	7.0%	7.0%	4.6%

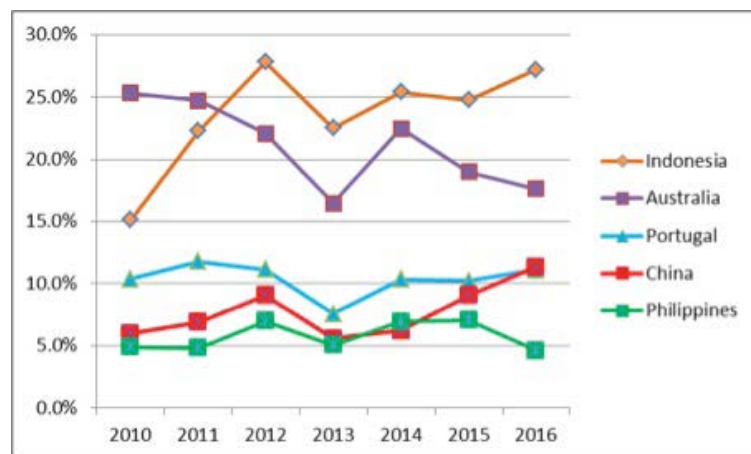


Figure 2. Top Five Countries of Origin for Foreigner Arrivals at Dili Airport, 2010-2016

Figure 2 shows that the share of foreigner arrivals from the top five countries have fluctuated year by year. Interestingly, in 2013, the arrival numbers from all five countries declined. Since then, the number of visitors from Indonesia, China and Portugal have increased while those from Australia and the Philippines have declined despite an initial increase in 2014. It is also note-worthy that in 2016, Chinese arrivals bypassed Portuguese. In short, Chinese arrival numbers have been among the top five from 2010-2016, and appear to be increasing.

Data from the General Directorate of Statistics on imports and exports from 2010 to 2016 shows that on average Timor-Leste spent about US\$472 million

on import of goods each year while it gained a very modest amount from exports, US\$18 million on average. Information on imports and exports by value is displayed in Tables 5 and 6 and Figures 3 and 4.

Table 5
Value of Imports into Timor-Leste, 2010-2016 (US\$ million)

Year	Total	Indonesia	Singapore	Australia	China	Vietnam
2010	246,309	95,976	44,958	25,063	21,531	14,028
2011	318,776	97,810	21,524	15,365	59,913	7,449
2012	663,993	148,656	45,291	23,774	43,603	31,036
2013	528,782	181,393	62,480	15,919	39,787	40,587
2014	550,078	159,162	125,401	18,853	41,335	34,005
2015	487,969	146,445	97,104	15,138	53,151	25,909
2016	508,192	158,594	57,456	13,059	97,775	33,061

Table 6
Value of exports from Timor-Leste, 2010-2016 (US\$ million)

Year	Total	USA	Germany	Singapore	Australia	Japan
2010	16,394	7,196	4,215	1,499	691	617
2011	13,201	2,911	5,629	614	557	670
2012	30,793	8,038	7,819	11,073	81	1,169
2013	16,051	5,830	7,708	273	539	1,025
2014	13,867	1,356	8,446	17	416	855
2015	11,073	5,150	2,295	95	534	529
2016	25,275	10,350	3,883	604	1,458	839

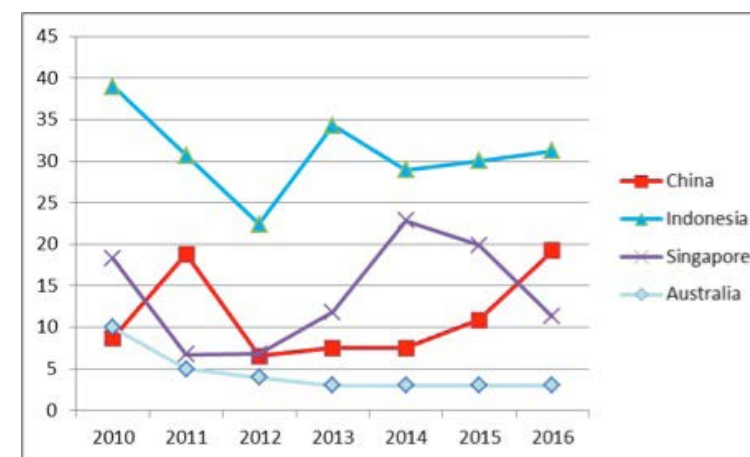


Figure 3. Share of Value of Imports for Top Four Countries of Origin (%)

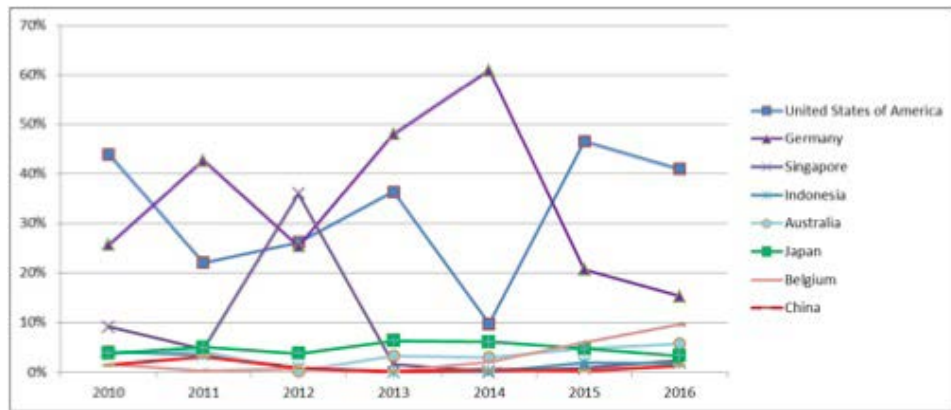


Figure 4. Share of Value of Exports for Top Nine Destination Countries (%)

Tables 5 and 6 and Figures 3 and 4 show that Timor-Leste imported the most goods from Indonesia (30% on average) followed by Singapore (about 15% on average), China (about 12% on average), and Australia (3% on average). Since 2014, imports from Singapore and Australia have declined while imports from Indonesia and China have increased. By 2016, China had become the second most important country of origin for imports overtaking Singapore. Of the top four countries of origin for imports, only Singapore is also in the top five countries for exports. Germany and United States of America are the top two countries for exports, with an average annual share of 32.2% and 31.6%, respectively, while Indonesia and China average only 1.7% and 1.1% annually. China is thus one of the top 5 countries of origin for imports, but is not among the top 5 countries for exports. Comparing import and export figures, Timor-Leste has a trade deficit, that is, more money leaves Timor-Leste for imports than is gained through exports. The balance of trade is displayed in Figure 5.

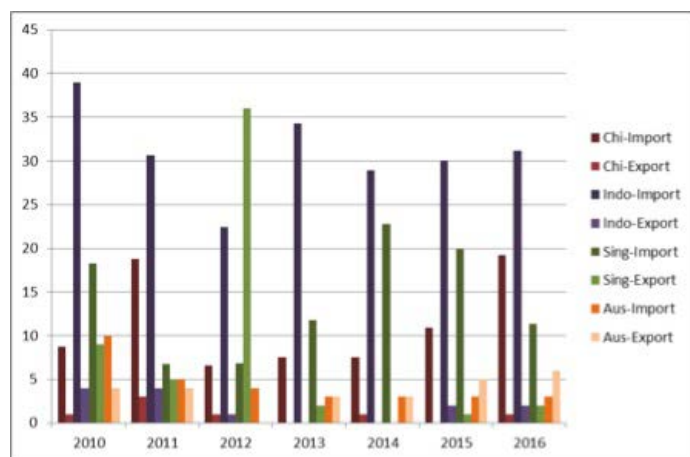


Figure 5. Trade Balance of Top Four Countries of Origin for Imports, 2010-2016

An analysis was conducted to assess the correlation between the relevant variables. The variables and result of the analysis are displayed in Tables 6 and 7.

Table 6

Variables for Correlation Analysis

Year	Project value (US\$ thousand)	Import value (US\$ thousand)	No. of Chinese nationals arriving at Dili Airport
2010		21,531	2,659
2011	0	59,913	3,464
2012	48,000	43,603	4,972
2013	146,000	39,787	4,346
2014	0	41,335	3,717
2015	352,000	53,151	5,585
2016	109,000	97,775	7,437

Table 7

Correlation Coefficient

Variables	Coefficient
Import value and visitor arrivals	0.84
Project value and visitor arrivals	0.53
Project value and import values	0.21

The analysis shows that import and visitor arrivals have the highest positive correlation followed by project value and visitor arrivals while project value and import value show the lowest positive correlation. This means that the arrival of the Chinese nationals is positively correlated with the value of Chinese imports and with projects awarded to Chinese companies. Although the analysis is limited due to absence of detailed information over a longer time span, the available data is sufficient to establish that the trend exists.

Chinese Aid in Timor-Leste

The analysis shows a correlation between large infrastructure projects awarded to Chinese companies and both the arrival of Chinese nationals in the country and the import of goods from China. Due to the substantial amount of money that has been spent on infrastructure and the large share of projects awarded

to Chinese companies, it is important to examine Chinese aid in Timor-Leste, especially in the infrastructure sector. This will enable an assessment of how such aid can complement the development of infrastructure in the country.

China's foreign aid policy consists of the following basic features (Zhang, 2015):

- a) unremittingly helping recipient countries build up their self-development capacity
- b) imposing no political conditions
- c) adhering to equality, mutual benefit and common development
- d) remaining realistic while striving for the best; and
- e) keeping pace with the times and paying attention to reform and innovation

China has provided aid to Timor-Leste in infrastructure construction, material assistance and training and human resource support. This aid is based on the principles of "mutual support and promoting common development" and "enhancing ... [East] Timor's capacities of sustainable development, thus enabling the Timorese people [to] share the opportunities brought by China's development" (Embassy of the PRC in the Democratic Republic of Timor-Leste, 2010a). In the infrastructure sector, the most notable contributions have been the construction of the Presidential Palace covering 3,800m², the Ministry of Foreign Affairs covering 6,700m², the Ministry of Defense, accommodation for the F-FDTL (Forças de Defesa de Timor-Leste) covering 9,200m², and an elementary school of 1,200m² (Embassy of the PRC in the Democratic Republic of Timor-Leste, 2010a). China has been strategic in supporting construction of three key government buildings because the President is the head of the state, the Ministry of Foreign Affairs represents Timor-Leste in its relations with other countries, and the Ministry of Defense deals with the security of the country.

These buildings not only give the relevant government institutions the space to perform their duties, but are also a significant gesture of the Chinese government's support of the government of Timor-Leste and the extent of their relationship. The benefits of these buildings are evident, but whether China's contributions relate to helping recipient countries build-up their capacity for self-development capacity and to promoting mutual benefit and common development will require further assessment. Not much information is publicly available on how much the construction of these buildings cost or how the provision of this aid came about. Nevertheless, observations on the

overall process highlight the following:

- a) Most of the workers involved were Chinese nationals. This includes all phases of the projects from design to construction to supervision;
- b) The majority of the construction materials and heavy equipment were brought over from China; and
- c) The architecture of the buildings reflects very little of the identity of Timor-Leste.

In general, such observations are in line with one particular feature of Chinese foreign aid, which covers projects in their entirety as highlighted in the White Paper: "The Chinese side is responsible for the whole or part of the process, from study, survey, to design and construction, provides all or part of the equipment and building materials, and sends engineers and technical personnel to organize and guide the construction, installation and trial production of these projects. After a project is completed, China hands it over to the recipient country" (The State Council of the PRC, 2011).

The architecture of buildings plays a vital role in the construction and representation of national identity. According to Jashari-Kajtazi and Jakupi (2017), architecture "represents the thoughts of its own people..., [the] geography, traditions, behaviors, visions, and history of a community." Architecture should enable "human beings [to] experience their existence with profound meaning and purpose, thereby helping them remember strongly who they are." In the context of Timor-Leste, building designs could be drawn from and inspired by the various types of *uma lulik* (traditional houses). The issue of architecture and identity is brought up here because the palace of the president, the head of the state and the highest ranking person in the country, does not really reflect Timor-Leste's culture, tradition or history nor does it evoke a sense of pride and belonging in the people. It is understood that, as a recipient country, Timor-Leste is not in a position to make demands, but China, with its vast experience, could have given the government of Timor-Leste more guidance in this matter.

Lessons learnt from China's involvement in infrastructure development and Chinese aid

Since the analysis has shown a correlation between large projects awarded to Chinese companies and both the increasing arrival numbers of Chinese nationals and the import of goods from China, and in light of the above

observations on China's infrastructure assistance in the delivery of complete projects, it is important to examine similar phenomena in other countries. This could provide lessons to help Timor-Leste and China forge a mutually beneficial cooperation.

In many countries, bilateral cooperation has been discussed as an integral part of the recently launched Belt and Road Initiative (BRI). The initiative is an economic vision of cooperation between China and other regions, including Asia, in which all countries work together to improve infrastructure, enhance trade and investment and foster cultural exchange to promote mutual understanding. In this context, China's foreign aid policy remains relevant as it provides a roadmap for bilateral cooperation. Cooperation and aid should improve self-development capacity and promote mutual benefit, common development, and innovation. Put in tangible terms, the following issues are essential.

a) employment creation

Much research has been done on infrastructure projects implemented by Chinese companies and their relation to job creation, but findings are mixed. Some find an increase in employment and others say the opposite. For instance, in Cameroon, Dopgima (2013) reported that the government sector argued that there was a significant increase in employment creation while others claimed that employment creation was insignificant. Dopgima (2013) added further that this "negative perception has been fuelled by the Chinese construction companies bringing in their nationals to effectuate these projects, instead of employing Cameroonians." In another study, Li (2007) found that "Chinese entrepreneurs rarely employ[ed] local workers in Africa. Rather they [were] accustomed to bringing laborers from China and most management positions [were] filled by Chinese nationals." In Angola, Chinese companies were involved in repairing railroads and constructing roads, using many Chinese workers (Tull, 2006). Similarly, in Uganda, according to Dopgima (2013), "local residents only provided labour on a marginal scale while a substantial component of the workforce [were] Chinese." Furthermore, according to Benis (2017), "Chinese firms offered mostly unskilled jobs such as assistants and translators to work in Chinese shops, construction sites and restaurants with little wages and barely any contracts and mostly [for] a short duration and many of [them] ... became redundant workers as soon as the Chinese [were] able to speak the languages (English and French). The local [workers] ... [have lost out in wages] ... and as if this [was] not enough, Chinese firms

import[ed] most of unskilled labor from China."

In the light of the above, it seems that Chinese involvement in the development of infrastructure may create temporary and low-skilled job opportunities in the short term, but in the long run, employment creation for locals is insignificant, and in fact, Chinese workers become competitors.

b) improve and strengthen local businesses

The contribution of infrastructure projects in providing opportunities for local businesses has also been studied. Chinese involvement in businesses and imports of cheap goods from China are found to have negative rather than positive effects. First, there is the competitive effect. Adisu (2010) noted that "African producers cannot compete with Chinese companies even in African markets since Chinese manufacturers have low production cost and market prices." The same author went on to add that in Nigeria, imported textiles have forced local factories to close. According to Alden (2005), there is also the trade effects by which "the balance of trade favors China as local industries and merchants have been hit hard by the flood of cheap Chinese wholesale and retail shops used to establish networks to sell goods."

Regarding the competition and trade effects, there is a confluence of Chinese national and corporate interests (Li, 2007). Regardless of perspective, Benis (2017) found in his study that the local population especially businessmen such as retailers and contractors in the same line of business as Chinese businessmen were closing down many of their shops and that although most of them imported from China, they were unable to compete with their Chinese counterparts. Despite the short-term gains, in the long run, Chinese-operated businesses compete with local businesses rather than strengthen them.

c) skills (technology) transfer

Due to the complexity of the large infrastructure projects, specific skills are required especially in the field of engineering, the operation of heavy machinery and knowledge of the latest technology. These projects could therefore provide opportunities for the transfer of skills and technologies to the local workforce. This would enhance the capacity of locals to carry out such projects in the future, once they have acquired the necessary skills. In this regard, studies report contradictory findings. Taking the

example cited by Benis (2017), Cameroon's economy also benefited from skills and technical knowledge obtained by the local population from working together with the Chinese, and that many Cameroonians were involved in Chinese medicine, purporting to have studied in China. On the other hand, some say that technology transfer is insignificant given that "generally, when it comes to rehabilitation of most of these numerous projects [in the country], it has been carried out by Chinese experts" and that most of the work entailed in project realization and repair were carried out by the Chinese in Cameroon (Dopgima, 2013).

Regardless of these mixed findings, local stakeholders generally suffer from competition arising from the advanced technology and management skills of the Chinese (Benis, 2017). Moreover, most of the skills transfer described in Dopgima (2013, p. 44) and Benis (2017) is not related to infrastructure, but occurs in other sectors such as the health sector. Similarly, since experts from China actually carry out the work and occupy most of the management-positions, locals are only needed for hard labor, which is low-level employment.

d) social issues

When people of different backgrounds live in the same area, disagreements and conflicts can arise. The increase in the presence of Chinese nationals as well as the nature of Chinese competition with local businesses could cause tension, which could result in social conflict if not addressed early and appropriately. Over the years, China has established relations with many nations, which have at times been met with unpleasant and even violent reactions from locals. For instance, Tofimov (2007) cited the case of protesting workers in Chambishi, Zambia's copper belt, who were shot at by Chinese supervisors. Similarly, studies of the 2006 Honiara Civil Unrest highlight various factors contributing to the conflict including institutional collapse, weak infrastructure, non-delivery of services and "Chinese monopolization of business activity in Honiara" (National Parliament, 2009). Despite the opportunities brought by the Chinese to the Solomon islanders, Spiller (2006) pointed out that "complaints of low wages and poor working conditions, as well as allegations of unethical business practices" have colored locals' views of the Chinese. In another study, the "hard bargaining and lack of warmth [of the Chinese in Congo] towards local people [has] won them few friends" (van Dijk, 2009). In Indonesia in 1998, an economic crisis triggered riots against ethnic Chinese businesses when "hundreds of people were laid off by

Chinese-owned businesses" (Refugee Review Terminal, 2006), and a "concentration of capital in the ethnic Chinese commercial community in most major Indonesian cities, generated a sense among pribumi Indonesians of economic favoritism toward the Chinese" (Panggabean & Smith, 2011). This, in a way, led to scapegoating of Chinese nationals due to the perception that their domination of the economy was a cause of the crisis (Indonesia Alert, 1998).

Challenges and opportunities for the future

The above examination of China's involvement in other countries reveals certain challenges for both Timor-Leste and China in their cooperation on the implementation of infrastructure projects. These challenges include, but are not limited to, the following.

- a) It is important to ensure that Chinese companies' involvement in infrastructure projects contribute to significant job creation for locals, not only in the short term but also in the long term;
- b) Since many projects that involve Chinese companies are complex and also the first of their kind in Timor-Leste, it is important to put in place concrete steps for technology and skills transfer to ensure that locals are well equipped to carry out such work themselves in the future, with international assistance where necessary;
- c) Given the visibility of Chinese nationals in the country and of imported goods from China, it is crucial to ensure that Chinese-run businesses do not out-compete local businesses and result in the failure of local businesses, but rather the former should provide opportunities for local businesses to expand and grow; and
- d) Infrastructure development should also provide an opportunity to improve relations between the Timorese and Chinese, and most importantly, to address inequality, not only between the Chinese and Timorese, but also among the Timorese living in both rural and urban areas.

In view of these challenges, the government of Timor-Leste has taken positive steps to ensure that the development of infrastructure involving, not only China but also other countries, will contribute to overall development. Opportunities abound because of the following.

a) right timing

Timor-Leste is still at an early stage of development—year 2018 marks

16 years of independence. The significant involvement of China in infrastructure development could provide an opportunity to review prioritization of infrastructure projects at the technical level. This could take place in different ways, but one way might be to develop criteria for prioritization and to focus on infrastructure that will generate revenue to sustain itself in the short term while continuing to provide services for the long term.

b) **infrastructure vis-à-vis economic scale**

Along with its small land area and population size, Timor-Leste also has a small economy. Given this limitation, investment in infrastructure should take into account the optimal level of infrastructure provision in order to allow time for projects to generate a reasonable return. This would provide an opportunity to assess the value of infrastructure projects, while giving time for the Petroleum Fund to replenish. Most importantly, this strategy could help the East Timorese government to make balanced investments so that infrastructure that meets the basic needs of the people are developed in parallel with investment in large-scale infrastructure projects. It is vital to balance basic and large-scale infrastructure to ensure that investment in infrastructure matches local socio-economic conditions, to avoid major costs that neither generate significant revenues nor answer the local people's needs.

c) **right policy and approach**

Timor-Leste has so far taken the right approach and made prudent policy choices for investment in infrastructure. Currently, besides taking out loans, Timor-Leste has implemented projects using a public-private partnership (PPP) modality in which the government and private sector co-finance an infrastructure project as evidenced through the Tibar Bay Port Project. To date, the government of Timor-Leste has invested heavily in telecommunication and transportation infrastructure to connect those who are poor and those living in underdeveloped areas to core economic activities, which should help address issues related to income inequality. Most importantly, investment has also been made in infrastructure with a significant impact on the people's quality of life and livelihood such as construction of hospitals and schools. These strategies provide a path for the private sector and development partners to provide infrastructure and stimulate economic growth.

d) **communal society**

The very fabric of Timor-Leste society is communal. Community is formed through strong relationships between family members, neighbors, and others in neighborhoods. In this context, the right gestures of goodwill, proactive involvement in the community, and support of cultural activities and events may enable other nationalities to integrate into the community. This refers not only to financial and material contributions to community events, but more importantly, to being present and meaningfully taking part in such events. This is vital because it will ensure integration into society, which could help prevent social exclusion and other negative effects.

Currently, Timor-Leste has the financial means from the petroleum fund to invest in development initiatives without foreign financial assistance. However, the country may opt for other financing mechanisms such as loans to take advantage of expertise, experience, and other positive financial motives. Timor-Leste has borrowed money from the Asian Development Bank, the World Bank, and the Japan International Cooperation Agency (JICA), but it has not yet taken any loans from China, despite a recent agreement, which never came about, to borrow US\$50 million from the China Exim Bank. All the country's large infrastructure projects have been awarded to international companies due to their superior capacity and resources. The challenges for Timor-Leste going forward are therefore: (a) to ensure that investments made in infrastructure projects are worthwhile and generate reasonable revenues; and (b) to retain some of the investments made into infrastructure within the country by creating conditions to absorb the money and by awarding contracts for the implementation of large projects to local companies.

Although Timor-Leste has not yet borrowed any money from China, it can learn from the experiences of other countries, taking this as an opportunity to consider and shape its approach to the BRI to ensure that whatever course is pursued in the future will contribute to the country's overall development. Following on the large number of Chinese companies engaged in large infrastructure projects in Timor-Leste, in recent years, many Chinese nationals have entered Timor-Leste to work and start businesses, and some of them have assimilated with the Timorese through intermarriage. This has started the process towards a real people-to-people bond, leaving the question of how such a bond can yield economic growth and improve the welfare of all Timorese people.

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Foreign Investment Promotion and Protection in Timor-Leste: Opportunities and Risks

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Keywords: *Timor-Leste, foreign investment, investment treaties, investment arbitration, international Law*

Abstract

The attraction of foreign investment, particularly in the field of infrastructure building and maintenance, plays a central role in the development of Timor-Leste. This paper discusses the advantages and potential risks of using international investment agreements as a tool to promote foreign investment. It offers a primer on how developing nations such as Timor-Leste can harness the opportunities emerging from private participation in infrastructure projects without compromising public interests. Because international investment agreements impose certain standards regarding the protection afforded to foreign investors, they may conflict with the regulatory power of the host state. The government of Timor-Leste should be aware of the scope of the state's obligations to foreign investors when designing and implementing its policies. Like other developing countries, Timor-Leste lacks the necessary knowledge and experience to defend its interests vigorously in international arbitral proceedings. Dispute prevention is especially advisable as foreign investment is bound to play an increasingly decisive role in the development of the country.

Introduction

As with other developing nations, building and maintaining adequate infrastructure networks is key for the economic and social development of Timor-Leste. The country's strategic development plan for the next decade includes the creation of opportunities for local and foreign companies to take part in this tremendous effort (Ernst & Young, 2017, p. 44). Private investments in infrastructure projects such as highways, airports, bridges, and so on are highly capital-intensive and require a lengthy payback period. Regulatory

risks loom large—the possibility that the legal rules in force at the moment the investment was made may be altered, threatening the ability of investors to recover and earn a profit on their investments. Governments may decide to change the regulatory framework once investments take place and costs are “sunk.” Therefore, investors seek to ensure the stability of the regulatory framework that underpins their investments and secure protection from unwarranted policy changes. This paper discusses the advantages and potential risks of using international investment agreements as a tool to promote foreign investment. It offers a primer on how developing nations such as Timor-Leste can harness the opportunities emerging from private participation in infrastructure projects without compromising public interests.

In order to attract cross-border investment, states must provide adequate security and protection to foreign investors, namely through the creation of adequate regulatory frameworks. These legal instruments generally take two forms: investment contracts and international investment treaties. Investment contracts such as concession contracts provide some consistency through the development of stabilization clauses (Waelde & Ndi, 1996), but often prove inadequate when dealing with sovereign states. As a result, international investment agreements have become especially important over the past few decades. These legal instruments help to lower regulatory and political risks, thus boosting investor confidence and increasing international investments.

The association between investment law and infrastructure projects has a long history. As in many other fields of the economy, foreign investment in infrastructure megaprojects would be more difficult without the existence of a transnational system of substantive and procedural guarantees (Dolzer & Schreuer, 2008, p. 23). Currently, the international legal framework governing foreign investments consists of a vast network of international investment agreements supplemented by the general rules of international law. These agreements include bilateral investment treaties, regional free trade agreements, and sectorial treaties including investment obligations. Thus far Timor-Leste has signed bilateral investment treaties with Germany (2005) and Qatar (2012) but these have not come into force yet. The only such treaty currently in force (since 2004) is with Portugal.²

Investment agreements are a form of international law that creates a series of obligations owed by the host state towards foreign investors (Dolzer & Stevens, 1995, pp. 58-66, 119-120). While there are differences between the scope and

content of the different legal instruments, there is a shared core content: they normally include the obligation to treat foreign investors fairly and equitably; they provide foreign investors full protection and security; and they do not to expropriate foreign investment except under certain conditions, including the payment of compensation.

Among the different investment disciplines, protection against expropriation is a principal cause of action for investors (Reinisch, 2008, p. 407). While the language of treaties varies, they generally protect investors from measures involving the transfer of title or outright physical seizure of an investor’s property (direct expropriation); and they also protect investors from measures that permanently destroy the economic value of the investment or deprive the owner of its ability to control it in a meaningful way (indirect expropriation) (UNCTAD, 2012). Allegations of indirect expropriation are much more likely, as indirect expropriation is by far the most common form of expropriation in international investment law (Dolzer & Schreuer, 2008, p. 101).

Drawing a line between the right of host states to regulate in the public interest and indirect expropriation is quite challenging. According to the “sole effect” doctrine followed by some tribunals, the “effect” of the governmental action on the investment is the preponderant factor in assessing whether there has been an expropriation (Dolzer & Schreuer, 2008, p. 112). From this perspective, the policy objectives pursued by the challenged regulatory measures do not alter the legal character of the taking, requiring compensation in any case. Conversely, other tribunals have followed the “police powers” theory, which recognizes the host states’ right to regulate in the public interest and takes this power into account when assessing the impact of these measures on the investment (Dolzer & Schreuer, 2008, p. 112). Arbitration panels have taken into account the nature, objectives, and character of the measures challenged in order to distinguish between indirect expropriations and valid regulatory interventions of the host state, which are not subject to compensation (UNCTAD, 2012).

Given the stringent requirements for the qualification of regulatory measures as “indirect expropriation,” investors frequently resort to the fair and equitable treatment standard as a basis for their complaints (Dolzer & Schreuer, 2008, pp. 130ff). Yet, the content of this standard is also contentious and depends on the language used in investment treaties. Notwithstanding its elusive nature, arbitral tribunals and commentators generally agree that transparency, stability, nondiscrimination, due process, and investors’ legitimate expectations are all

² See Investment Policy Hub, <https://investmentpolicyhub.unctad.org>

key ingredients in defining the fair and equitable standard (Dolzer & Schreuer, 2008, pp. 119ff). Several arbitral tribunals have concluded that the host state has an obligation to maintain a stable and predictable legal and business framework in line with the investor's legitimate expectations (Dolzer & Schreuer, 2008, p. 113). Legitimate expectations and the protection of a stable and predictable legal and business environment are closely linked as they both relate to the investment framework which investors legitimately expect.

Two different approaches have been used in arbitral practice to determine when investor expectations are reasonable (Dugan et al., 2008, p. 513). The first approach requires the host state to have made clear assurances to the investor regarding the specific business relationship; under the second, more permissive approach, expectations can be created based on assurances provided in generally applicable laws of a country, and more generally, upon the existing framework at the time of the investment (Dugan et al., 2008, p. 513). Still, investors should not reasonably expect that the circumstances existing at the time the investment was made remain unchanged. Some tribunals have acknowledged that legal and economic frameworks are not immutable and must necessarily evolve. In order to determine whether the frustration of the foreign investor's expectations is justified and reasonable, the host state's legitimate right to regulate domestic matters in the public interest must also be taken into consideration. From this perspective, the legitimate expectations and the requirement of stability of the legal framework do not affect the host state's right to exercise its sovereign regulatory powers, *per se* (Dolzer & Schreuer, 2008, pp. 148-149). The defendant state's right to regulate may establish a limitation to the protective scope of the fair and equitable treatment standard.

Investor–state arbitration as the dispute settlement mechanism of choice

In addition to including a set of standards of promotion and protection of foreign investments, international investment agreements also contain procedural protections. They typically include dispute resolution clauses that enable foreign investors to initiate arbitration proceedings against the host state, known as “investor–state arbitrations” (see, generally, Douglas, 2009; K. Yannaca-Small, 2010; Giorgetti, 2014). Normally investment treaties offer investors one or more of the following options:

- a) Arbitration before the International Centre for Settlement of Investment Disputes (ICSID), established pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of oth-

er States (ICSID Convention), if the contracting party of the investor and the contracting party to the dispute are both parties to the ICSID Convention, or under the rules governing the Additional Facility of the ICSID, if the contracting party of the investor or the contracting party to the dispute, but not both, is a party to the ICSID Convention;

- b) Arbitration under the aegis of the Arbitration Institute of Stockholm Chamber of Commerce or a comparable arbitral institution; or

- c) ad hoc arbitration under the Rules of the United Nations Commission on International Trade Law (UNCITRAL Rules).

In such disputes the foreign investor brings a claim before the arbitral tribunal alleging that certain acts or omissions of organs of the central government or local authorities resulted in damages to his investment or violate the host state's obligations under an international investment agreement. If the host state is a party to the investment treaty and has consented to investor–state arbitration, the arbitral tribunal has jurisdiction to hear the claims of the investor against the state for violation of its obligations under the treaty (Feit, 2010, pp. 142, 168–176; C. Yannaca-Small, 2008, pp. 7-100). The dispute will be taken to international arbitration, not to national courts. A major justification for giving foreign investors the right to pursue international arbitration—a right not enjoyed by domestic investors—is to avoid the bias an investor might face if it were to commence legal proceedings against the host government in domestic courts.

In this regard, Article 11 of the Portugal-Timor-Leste bilateral investment treaty provides that parties shall solve their disputes through negotiations. If the dispute is not settled within six months, any of the parties may submit the dispute to local courts, ICSID arbitration, or an ad hoc tribunal under the UNCITRAL Rules. This choice is irreversible.³ In addition, Timor-Leste is a member of the ICSID Convention, which entered into force for the country on August 22, 2002 (see International Centre for Settlement of Investment Disputes, 2018).

Finally, consent by the host state to investment arbitration may also result from the national law. Article 34 of the Private Investment Law (Law 14/2011)⁴

³ Decree no. 20/2003, of 3 May, retrieved January 20, 2019, from <https://investmentpolicyhub.unctad.org/Download/TreatyFile/2197> (in Portuguese).

⁴ Law 14/2011, unofficial English translation, retrieved January 20, 2019, from <https://investmentpolicyhub.unctad.org/InvestmentLaws/laws/38>.

states:

- 1) Any dispute between the State and an investor resulting from the interpretation or application of this Law and respective regulations shall be settled by conciliation, under the terms to be defined by Government Decree, if no other procedure has been established in international agreements to which the Democratic Republic of Timor-Leste is party, or in an agreement between the State and the Investor;
- 2) Those disputes between the State and the investor which cannot be settled in accordance with the terms set out in paragraph 1 above shall be resolved by arbitration, in accordance with the rules of the International Chamber of Commerce, unless there is a convention to the contrary;
- 3) The terms and provisions set out in paragraphs 1 and 2 above shall not preclude the right to appeal to the competent courts of the Democratic Republic of Timor-Leste, whenever the parties so decide.

So far Timor-Leste has only intervened as respondent state in one case: Lighthouse Corporation Ltd and Lighthouse Corporation Ltd, IBC v. Democratic Republic of Timor-Leste.⁵ It is beyond the scope of this paper to provide a thorough analysis of the case. In a nutshell, the arbitration concerned various fuel supply agreements between Timor-Leste and Lighthouse dating back to late 2010. Timor-Leste maintained that ICSID did not have jurisdiction to hear and decide the dispute. This award was based on the previous Foreign Investment Law (Law No. 05/2005), which provided that (Article 23):

1. Disputes between the State and foreign investors arising from the interpretation and application of this law and its regulations shall be settled by conciliation, in accordance with Timorese legislation, unless otherwise established in international agreements to which the Democratic Republic of Timor-Leste is a party, or in agreements between Timor-Leste and the foreign investor in question.
2. Disputes between the State and foreign investors of foreign nationality that cannot be resolved under the terms of Paragraph 1 above shall be settled by way of arbitration in accordance with the rules of the International Convention on the Settlement of Investment Disputes

between States and Nationals of Other States (ICSID), unless there is an agreement to the contrary.

3. The provisions of Paragraphs 1 and 2 above shall not prejudice the right to appeal to the competent courts of the Democratic Republic of Timor-Leste whenever both parties decide to do so.

Timor-Leste made three jurisdictional objections:

1. That it had not consented to ICSID arbitration;
2. That there had been no “investment” for the purposes of the ICSID Convention or the Timor-Leste Foreign Investment Law (FIL); and
3. That the claimants were not a “foreign investor” and did not hold a Special Investment Agreement (SIA) for the purpose of the FIL.

In the end the arbitral tribunal found that it lacked jurisdiction over the dispute and held that Lighthouse should bear the entirety of the costs of the arbitration and pay US\$1.3 million on account of Timor-Leste’s legal fees. The Timorese government stated in a media release: “Timor-Leste has vigorously defended its national interests in this dispute ... Timor-Leste reaffirmed its respect for the role of ICSID in promoting international investment by balancing protections for investors and States, which was the basis on which Timor-Leste had signed the ICSID Convention” (Government of Timor-Leste, 2017).

Enhancing Timor-Leste’s engagement with investment law and arbitration

International investment agreements impose certain standards regarding the protection afforded by host states to foreign investors. However, in some situations these canons may conflict with the regulatory power of the host state. The disciplines of international investment law may “chill” governments from enacting regulations that might affect foreign investments. Fundamentally, the notion of regulatory chill suggests that the investment law and arbitration system may impact the normal course of policy development and implementation. In some circumstances, governments may fail to modify, enact, or enforce new regulatory measures because they are afraid of a perceived risk of having to face arbitration proceedings (Tienhaara, 2011, p. 606).

The protection afforded to investors under international investment agreements is not absolute. Arbitration tribunals have in the past acknowledged

⁵ ICSID Case No. ARB/15/2, award of 22 December 2017, retrieved January 20, 2019, from <https://icsid.worldbank.org/en/Pages/cases/casedetail.aspx?CaseNo=ARB/15/2>

the host state's sovereign right to regulate. Governments should factor in some flexibility into the regulatory structure so as to eliminate the risk of legitimate policy decisions giving rise to legal disputes, while at the same time providing adequate assurances to investors. Countries have to adopt a holistic approach to investment policymaking so as to avoid possible clashes between different legal frameworks. In designing new policies or adjusting existing ones, governments must take into account that the legal framework that supports foreign investments is not confined to national regulations. The legal obligations borne by states towards investors encompass obligations not only in domestic law (contract and administrative law) but also in international law, namely international investment law.

Legal instruments, and international investment treaties in particular, can help mobilize the huge funding required to build and maintain the infrastructures that Timor-Leste needs. The challenge is to shape national policies in ways that do not breach the rights of foreign investors under international investment agreements. This can only be achieved if host states are truly aware of the scope of their obligations to foreign investors when they design and implement their policies. This requires a clear understanding of the disciplines of international investment law and how they may limit or impact upon national regulation. Governments should be cognizant of the commitments that they undertake under international investment treaties. In particular, the fair and equitable treatment standard narrows down the discretionary space of host states. Its application may inhibit necessary adjustments and changes in the legal framework, which the investor did not expect or which are seen as irrational or unjustifiable by the investment tribunals. The risk that measures taken by a host state may conflict with investment-backed expectations may, however, be substantially reduced by governments if they ensure regulatory transparency and due process.

States can also reduce the risk of overly broad interpretations of investment disciplines by using more precise language in new investment agreements or by including explicit language that allows them to justify changes to regulatory frameworks by reference to broad social or environmental objectives. However, both of these measures only apply to future disputes. As for existing international investment agreements, states can provide authoritative interpretive guidance as to the terms of the treaty. A good example of this approach is the interpretive note issued by the three member states to the North American

Free Trade Agreement (NAFTA) in relation to the fair and equitable treatment standard.⁶

Developed countries normally have adequate resources and legal expertise in-house to mount a capable defense in an investment arbitration (Gottwald, 2007, pp. 237 and 253). Developing countries' governmental departments, on the other hand, may lack the necessary knowledge and experience to defend their interests as vigorously (Franck, 2005, pp. 47 and 92; Gottwald, 2007, pp. 257-258). Unable to afford the often stunning billable hours charged by outside counsel (Gottwald, 2007, p. 254), responding states may have no choice but to turn to government lawyers who are sometimes little more than apprentices in the field of investment law and arbitration. This has in some cases led to appalling inequality in the quality of legal representation between powerful multinational investors and low-income respondent states (Gottwald, 2007, p. 255). The only silver lining in this case is that some developing nations end up acquiring considerable expertise in the process (Gottwald, 2007, p. 255). This empirical capital, however, takes several years to build and may be extremely costly if such lessons are learned through consecutive, expensive defeats (Gottwald, 2007, pp. 255 and 257).

Fearing the potential disastrous results of this "do-it-yourself" attitude, many developing nations decide to retain outside counsel to defend investment treaty claims (Gottwald, 2007, pp. 253-254). However, this option too has its costs. In 2005, then Secretary-General of the ICSID, Roberto Dañino, noted that the growing costs of arbitration were a source of concern, adding that "[t]his is particularly true for the low-income countries, and for a few small companies, which cannot afford [to be] represented by the most experienced and sophisticated law firms in the field, as claimants usually are" ("Opening remarks," 2005). If they turn to local law firms, governments are frequently faced with lawyers who also lack the necessary expertise. Amicus curiae participation, on the other hand, could assist respondent states in their defense by introducing legal arguments not addressed by the host state in its own submissions (on the advantages and drawbacks of amicus curiae participation in investment arbitration, see Simões, 2017, p. 105). However, most nongovernmental organizations and civil society groups with adequate funding and technical expertise are based in developed countries. Local amici will most likely not be familiar with investment law and arbitration.

⁶ North American Free Trade Agreement (NAFTA), Notes of Interpretation of Certain Chapter 11 Provisions, Global Affairs Canada, retrieved January 20, 2019, from <http://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/disp-diff/nafta-interpr.aspx?lang=eng>

One way to enhance Timor-Leste's engagement with investment law and arbitration would be to increase the country's involvement in the activities of the United Nations Commission on International Trade Law (UNCITRAL). Established in 1966, UNCITRAL serves as the core legal body of the United Nations system in the field of international trade law (Faria, 2005, pp. 253 and 255; UNCITRAL, 2013, p. 1; Stewart, 2014; pp. 321, 327-328). It is a "specialized quasi-legislative commission" (Lynch, 2003, p. 209), a "transnational quasi-legislature of the world" (Halliday, Pacewicz, & Block-Lieb (2013), pp. 279 and 280) with a mandate to "further the progressive harmonization and modernization of the law of international trade by preparing and promoting the use and adoption of legislative and non-legislative instruments in a number of key areas of commercial law" (UNCITRAL, 2013, p. 1). Over the past half a decade, UNCITRAL has produced international legal instruments in many areas of procedural and substantive law including dispute resolution, international contract practices, transport, insolvency, electronic commerce, international payments, secured transactions, procurement and sale of goods (UNCITRAL, 2013, p. 1).

The breadth of topics that UNCITRAL addresses has grown enormously since its creation (Halliday, Pacewicz, & Block-Lieb (2013), pp. 279 and 280; Cohen, 2011, pp. 567 and 581). While the incursion of UNCITRAL into the realm of investment law is recent, its first contributions in this area—the UNCITRAL Rules on Transparency in Treaty-based Investor-State Arbitration (2014)⁷ and the United Nations Convention on Transparency in Treaty-based Investor-State Arbitration (2014)⁸—are noteworthy efforts that signal an increasing engagement with the tensions and quandaries surrounding this field of international economic law.

Countries should adopt a holistic approach to investment policymaking so as to avoid possible clashes between different legal frameworks. Legal instruments, international investment law in particular, could help to mobilize the huge investments required to develop Timor-Leste. The challenge is to shape national policies in ways that do not breach the rights of foreign investors under international investment agreements. This can only be achieved if host states are truly aware of the scope of their obligations to foreign investors when they design and implement their investment policies. This requires a clear un-

derstanding of the disciplines of international investment law and how they may limit or impact upon national regulation.

UNCITRAL is in a privileged position to assist states in reforming and improving the legal frameworks applicable to foreign direct investment. The Commission has been characterized as an "epistemic community" or "group of knowledge-based experts" (Lynch, 2003, p. 212). Like other specialized agencies of the United Nations, the Commission exhibits increased "professionalization" and "bureaucratization" with an emphasis on technical concerns and responsibilities (Lynch, 2003, p. 212, fn. 236). UNCITRAL has been labeled by some scholars as an "inclusive body" (Kelly, 2008, pp. 605 and 615) or a "site" for "normative modeling" through which legal norms, principles, and standards for the global political economy are articulated (Cohen, 2011, pp. 567-568). In addition to its 60 member states,⁹ UNCITRAL also invites as observers other member states of the United Nations, as well as international and regional organizations (both intergovernmental and nongovernmental) involved in shaping the legal frameworks of national and global commerce and investment (Faria, 2005, pp. 253 and 262; Cohen, 2011, pp. 567-568; Bazinas, 2003, pp. 53 and 55). Observers may participate in discussions to the same extent as members. By tradition, decisions taken by UNCITRAL and its working groups reconcile the different positions represented by its members and other participants by consensus rather than by vote (Faria, 2005, pp. 253 and 262). Honnold (1999) refers to UNCITRAL as a "mix of academic specialists in commercial and comparative law, practicing lawyers, and members of government ministries with years of experience in international lawmaking" with an acknowledged pragmatic approach. The inclusion of a broad array of actors including states, corporate and industry representatives, legal experts and professionals, and other public and private international organizations allows UNCITRAL, despite its budgetary constraints, to mobilize substantial know how and expertise. The wealth of knowledge acquired by the UNCITRAL over the years might be particularly useful for a young, developing nation such as Timor-Leste.

The government of Timor-Leste should also increase its engagement with the United Nations Conference on Trade and Development (UNCTAD),¹⁰ an

⁷ United Nations Convention on Transparency in Treaty-based Investor-State Arbitration (New York, 2014) (the "Mauritius Convention on transparency"), retrieved March 6, 2019, from http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/2014Transparency_Convention.html.

⁸ Ibid.

⁹ See UNCITRAL, Origin, mandate and composition of UNCITRAL, retrieved March 6, 2019, from <http://www.uncitral.org/uncitral/en/about/origin.html>

¹⁰ See <http://unctad.org/en/Pages/Home.aspx>

important United Nations body that gathers and disseminates information in the field of international investment and international investment law.¹¹ Each year UNCTAD publishes the “World Investment Report” outlining trends in global foreign direct investment and providing in-depth analysis into trends in investment treaty practice.¹²

There is a large unmet need for legal training services and technical assistance to small and developing states in investment arbitration. Timor-Leste, like other developing countries, could benefit tremendously from the creation of a legal assistance center specializing in investor–state arbitration. This idea has been floated for some time as a tool to promote equality of arms in investor–state arbitrations involving low-income nations (International Institute for Sustainable Development, 2005; Gottwald, 2007; Franck, 2007, pp. 435 and 484; Franck, 2011, pp. 825 and 911). UNCTAD (2009) proposed the creation of an institution “that developing countries could draw on for support in investment law and investor-state disputes.” This legal assistance center could be modeled after the Advisory Centre for WTO Law (van der Borgh, 1999, p. 723),¹³ which was created specifically to advise developing nations in trade disputes at the World Trade Organization.

A legal assistance center could help to diminish information asymmetries in the market for legal representation in investment arbitration (Franck, 2009, p. 484). Such a facility would also help to prepare domestic lawyers in developing countries to engage in investment law disputes, thus mitigating the current advantage of disputing parties that are able to retain legal counsel of the “magic circle” (Franck, 2011, p. 911). A final word about dispute prevention. It is important to ensure that bridges between states and investors are not burned. Much of the future of Timor-Leste and other developing countries depends upon their ability to devise long-term relationships with private partners. Investors are essential partners in the push for economic development, and governments have to be able to encourage them to make their contribution.

Conclusion

Building adequate infrastructure is vital for the future of Timor-Leste. The conclusion of international investment agreements may be a useful legal tool to attract foreign investment. However, the government should be aware that investment treaties create a series of obligations towards foreign investors that, if breached, may enable the latter to initiate arbitration proceedings against the host state. So far Timor-Leste has only intervened as a respondent in one case. The country should adopt a holistic approach to investment policymaking so as to avoid possible clashes between different legal frameworks. This entails increasing government officials’ expertise in the fields of investment law and arbitration.

¹¹ See Investment Policy Hub (<http://investmentpolicyhub.unctad.org/>), a comprehensive and free online database of all international investment agreements and many investor-state dispute settlement cases.

¹² See <http://www.worldinvestmentreport.org>.

¹³ See Advisory Centre on WTO Law, <http://www.acwl.ch>

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Reforms of the Timor-Leste Private Investment Law

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Keywords: Timor-Leste, investment, reforms, Portuguese-speaking, ASEAN

Abstract

The Democratic Republic of Timor-Leste is a small developing nation situated between Southeast Asia and the Pacific. The country relies on foreign aid, mainly from international development partners such as the World Bank and Asian Development Bank. Its economy is dependent on oil and gas, which accounts for more than 95% of government revenue. Dwindling oil and gas reserves pose a major challenge for the country's future, so it must start working towards alternative economic development. The country also has to develop its domestic economy to reduce imports and to increase exports. This will require building infrastructure to boost the country's economic development. In view of these factors, Timor-Leste undertook the major step of reforming its investment law. The country decided to repeal the Private Investment Law 2011 with the introduction of the new Private Investment Law 2017. The new law is designed to create a better investment environment in the country with the adoption of international best practice in investment liberalization, investment facilitation, investment protection, and new models for incentives.

Introduction

The Democratic Republic of Timor-Leste is a small nation, and it was a Portuguese colony for more than 500 years. The country gained its independence from Portugal in 1975 and was then occupied by Indonesia until regaining independence in 2002. It occupies almost half of Timor Island (hence the name Timor-Leste, i.e. eastern part of Timor Island), with one small territory, Oecusse, situated in the Indonesian part of Timor Island. Timor-Leste is one of the least developed countries in the world. The country relies on foreign aid,

mainly from international development partners such as the World Bank and Asian Development Bank (hereafter ADB).

The country's economy relies heavily on oil and gas, which accounts for more than 95% of government revenue. The income from oil and gas is managed through the Petroleum Fund, which had total assets of about US\$16 billion in 2016. The country's main exports are crude oil and gas and coffee, and it imports almost everything to meet the daily needs of its population. Dwindling oil and gas reserves pose a major challenge for the country's future. To address this, Timor-Leste will have to start working towards alternative economic development. The country will have to develop its domestic economy to reduce imports and to increase exports. In addition, it will have to build infrastructure to boost the development of the country's economy.

In view of these factors, Timor-Leste undertook the major step of reforming its investment law. The country decided to repeal the Private Investment Law 2011 (PIL 2011) with the introduction of the new Private Investment Law 2017 (PIL 2017). The new law is designed to create a better investment environment in the country with the adoption of international best practice in investment liberalization, investment facilitation, investment protection, and new models for incentives.

This paper discusses the reform undertaken by the new PIL 2017. It begins by outlining Timor-Leste's position in Southeast Asia and the Pacific Region. It then discusses the reform undertaken by the Private Investment Law 2017, especially for meeting the challenges of the future. The paper then makes a few recommendations for Timor-Leste as it moves forward.

Timor-Leste's investment position

According to the Timor-Leste Strategic Development Plan 2011-2030 (SDP), Timor-Leste aims to become an upper-middle income country by the year 2030. The SDP outlines plans to diversify the economy away from the oil and gas sector. This includes plans to increase the economic contribution of the private sector-driven economy, which will help create jobs, increase income levels and reduce poverty. To enhance economic development, Timor-Leste has applied for membership in both the Association of Southeast Asian Nations (ASEAN) and the World Trade Organisation (WTO). In addition, the

country has identified some key sectors—agriculture, tourism, fisheries, manufacturing and industry, and downstream petroleum sectors—in which to drive economic diversification (Timor-Leste SDP 2011-2030, 2011).

However, the economic contribution of the private sector is limited at the moment, and faces constraints in the investment environment as well as infrastructure bottlenecks. Foreign direct investment (FDI) could help Timor-Leste attract new technology and know-how and could facilitate spill-over effects while increasing productivity (Iwamoto & Nabeshima, 2012). In addition, FDI would assist Timor-Leste to gain a foothold in the global and regional value chain, which is key to fostering a more diversified local economy (Tadessa & Shukralla, 2013). FDI also contributes to GDP growth, foreign exchange earnings, employment creation and income increases, especially for skilled and semi-skilled workers. Analyses on investments should include investments in the the main sectors (such as manufacturing and mining) and in the services sectors (such as financial services, professional services, and accounting).

Compared to its neighbors in ASEAN, Timor-Leste will have to work hard to achieve the level of FDI received by the next lowest economy in the region. FDI inflows increased from US\$1 million in 2004 to US\$45 million in 2009, 2011, and 2013. The inflow of FDI peaked at almost US\$50 million in 2009 declining to US\$28.5 million in 2010 (UNCTAD Statistics, 2018). FDI inflows in 2017 stood at only US\$6.7 million, a sharp fall compared to the levels achieved in previous years.

FDI inflows into Timor-Leste are very small when compared to those of ASEAN member states. For example, Brunei, another oil- and gas-reliant country, received FDI of US\$537 million in 2017, about US\$530 million more than was received by Timor-Leste in the same year.

Table 1 shows the proportion of FDI inflows in the total GDP of the ASEAN countries and Timor-Leste between 2013 and 2017. The percentage for Timor-Leste is lower than that of all the ASEAN member states. In fact, the contribution of FDI towards Timor-Leste's GDP is lower than the average for low-income countries. For example, in 2016, Timor-Leste's FDI inflow contributed only 0.217% of the GDP, compared to an average of 4.03% of the GDP of low-income countries.

Table 1

Proportion of FDI Inflows in the GDP of ASEAN members and of Timor-Leste, 2013-2017 (%)

Country	2013	2014	2015	2016	2017
Brunei Darussalam	4.29	3.32	1.32	-1.32	
Indonesia	2.55	2.82	2.30	0.49	2.17
Cambodia	12.29	10.30	9.42	11.43	
Lao PDR	3.57	6.88	9.88	6.31	
Myanmar	3.74	3.32	6.84	5.18	6.76
Malaysia	3.49	3.14	3.33	4.54	3.02
Philippines	1.37	2.02	1.93	2.72	3.20
Singapore	21.18	22.32	23.21	23.97	19.65
Thailand	3.79	1.22	2.22	0.74	2.00
Vietnam	5.20	4.94	6.11	6.14	6.30
Timor-Leste	0.989	0.838	1.385	0.217	0.227
Low-income countries	4.52	3.64	3.87	4.03	
ASEAN	6.15	6.03	6.66	6.02	4.31

Source: World Bank (2018)

Without FDI, Timor-Leste would otherwise have to sustain sufficient domestic direct investment (DDI) to contribute continuously to economic growth. Economic output would grow with increased FDI and greater links between FDI and DDI. Linking FDI and DDI would assist the country to accelerate productivity gains through access to foreign technology and frontier knowledge which, if successfully absorbed by local firms, could directly improve their productivity (World Bank Group, 2018).

According to various sources, including the Investment Climate Statement (2015) and ADB (2015), oil and gas accounts for the majority of FDI in Timor-Leste, with a total value of US\$5 billion received. The foreign investors are major oil and gas multinationals such as ConocoPhillips, Shell, BHP, and Petronas. Other investments in telecommunications include companies from Portugal, Brazil, Vietnam, and Indonesia. Foreign investors also conduct business in sectors such as the automobile sector, construction, and retail.

There are at least four factors that reduce Timor-Leste's attractiveness as an investment destination. Firstly, its small domestic market does not easily attract market-seeking investments. This is seen in the small share of FDI in Timor-Leste's manufacturing sector and a correspondingly weak leveraging

of regional and global value chains and preferential access to international markets, particularly in South-east Asia, since the country is not yet part of ASEAN. The country's high dependency on imports may reflect the country's infrastructure bottlenecks, an area in which investment is desperately needed to foster private sector growth. Secondly, the country lacks the necessary infrastructure to develop a competitive private sector. A core strategic focus would be the provision and maintenance of the country's infrastructure (road networks, water supply, electricity, seaports, airports, and telecommunications) to access markets. The development of infrastructure will be a vital step towards developing a vibrant private sector and attracting FDI to foster economic diversification.

Thirdly, the country lacks a skilled workforce that could otherwise contribute towards domestic investment and to the human resources needed by foreign investors. Fourthly, Timor-Leste lacks the necessary investment climate to attract major FDI. For example, Timor-Leste's position on the Doing Business ranking dropped from 173th of 189 economies in 2016 to 175th of 190 in 2017. The country performed far below its East Asian and Pacific (EAP) regional peers in 2016, with an average regional rank of 94.

Reform of Timor-Leste's Private Investment Law

Private Investment Law 2011

Prior to 2017, investments in Timor-Leste were governed by the PIL 2011, which did not apply to extractive sectors (oil and gas and mining); retail and distributive trade such as sale of goods and equipment and consumer products; and property development. In 2017, Timor-Leste enacted the PIL 2017. Other laws governing investments are the Constitution of the Democratic Republic of Timor-Leste, the 2017 Commercial Companies Law, the Commercial Registration Code, and the 2008 Taxation and Duties Act.

Timor-Leste decided to repeal the PIL 2011 due to several weaknesses. The first was that the PIL 2011 imposed admission screening on all investments. TradeInvest, the main investment agency, reviewed all foreign investment applications to ensure compliance with the relevant requirements. All investors, both foreign and domestic, were required to obtain an Investor's Certificate if they wanted to receive the benefits and protections provided under the law. The certificate cost US\$500 for domestic investors and US\$2,000 for foreign investors and required approximately 30 days to process.

TradeInvest reviewed foreign investment applications which were then presented to the Private Investment Commission for further study and evaluation. The Private Investment Commission evaluated applications for foreign investment permits. It then submitted its recommendations and the foreign investment application to the State Secretary for the Support and Promotion of the Private Sector for final approval.

In certain cases, investments had to be approved by the Council of Ministers. This applied when an investment project was equal to or greater than US\$20 million, or required the use of state land with an area equal to or greater than 5 hectares for tourist purposes or 100 hectares for agricultural, fishery or forestry purposes, or for projects which the State Secretary for the Support and Promotion of the Private Sector decided should receive a higher level review because of possible political, social, economic, financial or other reasons. Government Decree no. 6/2005 on Procedural Regulation for Foreign Investment describes among other things, the time taken to conduct investment application review process. Upon final approval and authorization by the State Secretary for Support and Promotion of Private Sector or the Council of Ministers, TradeInvest issued an Investment Certificate to the investor. It took an estimated 30 days to process an investment application.

Investment licensing is not good practice because it unnecessarily restricts foreign investment and increases bureaucracy. From an investor's perspective, the screening procedures make an investment more costly and risky. Investment screening entails time-consuming and costly procedures because documentation must be collected and submitted, requirements must be examined and evaluated, decisions must be issued, made known, investment sites monitored and inspected, and changes must be reported. To ensure compliance, the state must monitor every licensed foreign investor according to their licensed activities and ownership limitations. The difficulty of administering investment screening is evidenced by the fact that about 100 of the Investment Licenses issued to investors after more than five years of approval have not been utilized.

Second, the PIL 2011 did not specify prohibited and restricted sectors for investments. The government of Timor-Leste could create a national list of economic sectors reserved for Timor-Leste nationals or restricted to foreign nationals (Negative List). It is good practice to use short negative lists to protect certain activities while opening other activities to foreign investors. Areas closed to foreign investors might include postal services, public communications, protected natural areas, and weapons production and distribution.

Under the PIL 2011, the option of a special investment agreement was available in cases of foreign investments of particular value to the national development strategy; such an agreement had to be authorized by the Council of Ministers and offered the possibility of tax reductions or exemptions, customs incentives, leases of state property, and up to 100% cost-sharing in the training of employees. However, the PIL 2011 did not set out criteria for determining which investments fell under this category. To date, the Council of Ministers has authorized only two projects, both of great political interest: the South Coast Project—aimed at developing refineries and infrastructure for the petroleum industry along Timor-Leste's south coast—and the Oecusse Special Economic Zone (ZEESM) Project. These projects have yet to be fully implemented. Other projects under negotiation include a beer factory and a cement plant.

Third, most decisions under the PIL 2011 were either based on vague criteria or were left at the full discretion of the competent authority. Investors do not like discretionary decision making because it carries uncertainty and risks. Fourth, the PIL 2011 did not align with international best practice which protects investors. For example, the transfer of funds provisions in the PIL 2011 did not clearly allow transfer of capital apart from capital resulting from sale, liquidation, and so on, and capital resulting from reduction of share capital. The law must provide for dealing with the protection of national interests, most favored nation status, and make provisions for fair and equitable treatment. The PIL 2011 provided for the equal treatment of foreign and national investors in expropriation cases and prohibited nationalization policies or land policies that deliberately targeted the property of investors. However, it did not address indirect expropriation.

Fifth, the government of Timor-Leste offered blanket investment incentives, including tax credits and import duty exemptions, to both domestic and international investors. Article 10 of the PIL 2011 limited incentives and benefits to those making a minimum investment of US\$50,000 for domestic investors, US\$1,500,000 for foreign investors, and US\$750,000 for contracts of association between domestic and foreign investors. This meant that any investors investing below the threshold would be unable to claim any of the protections or benefits provided by the law.

For domestic investments worth over the US\$50,000 and foreign investments of over the US\$1.5 million thresholds, investors could benefit from five years of exemption from income, sales, and services taxes, as well as exemptions from customs duties for goods and equipment used in the construction or

management of the investment. The period of exemption was extended to eight years for investments in rural zones (outside of the cities of Dili and Baucau) and to 10 years for investments in peripheral zones (the exclave of Oecusse and the island of Atauro). Even after these periods expired, investors were able to deduct from their tax obligations up to 100% of the costs of constructing or repairing transportation infrastructure.

Sixth, land rights in Timor-Leste can be confusing for investors. Section 54 of Timor-Leste's Constitution grants the right to own land exclusively to Timorese nationals, either individuals or corporate entities; however, foreigners may take long-term (up to 50-year) leases. It is common in Timor-Leste for a plot of land to be owned by multiple parties who were issued titles under the different governments that have ruled Timor-Leste. There is no national legislation governing landownership, and investors who wish to lease property must often sort through competing claims from the Portuguese colonial administration, the Indonesian occupation era, and the postindependence period. Serviced, accessible land for commercial use is limited.

Seventh, the justice system is still evolving and short-staffed. Timor-Leste has established courts of first instance and a court of appeal. Civil disputes are generally handled through the domestic court system, which is ill-equipped to manage the current demands. The country does not have any arbitration law. Timor-Leste is party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention). It is not party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Timor-Leste's Court of Appeals must recognize a foreign judgment or arbitral award in order for it to be enforced in the country.

In addition, Timor-Leste has no laws to protect intellectual property and intellectual property rights. Although Section 60 of Timor-Leste's Constitution provides for the protection of literary, scientific, and artistic work, legislators have yet to codify or systematize domestic protection of intellectual property rights. Timor-Leste is not party to any international agreements on intellectual property rights. Holders of intellectual properties especially trademarks normally advertise their claims to certain marks in the local media in order to claim priority over the marks, but this does not in any way provide a clear protection.

In terms of labour rights, the 2012 Labor Law put in place regulations for labor conditions, including a 44-hour work week, standard benefits such as leave and premium pay for overtime, and minimum standards of worker health and safety. In June 2012, the government set the minimum wage for full-time employment at US\$115 per month. Enforcement of labor laws is uneven, but increasing. The government of Timor-Leste has acceded to many of the major international labor and human rights conventions including: International Labor Organization (ILO) Convention No. 29 on Forced Labor; ILO Convention No. 87 on Freedom of Association and Protection of the Right to Organize; ILO Convention No. 98 on the Right to Organize and Collective Bargaining; ILO Convention No. 182 on the Worst Forms of Child Labor; the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social, and Cultural Rights; and the International Convention on the Protection of All Migrant Workers and Members of Their Families.

Private Investment Law Reform: Private Investment Law 2017

Reform of Timor-Leste's Private Investment Law is an important step towards encouraging FDI and domestic investment in the country. To address domestic issues, the SDP envisages the development of a National Planning Framework to identify opportunities and to encourage private sector investment in specific areas and sectors. The plan recognizes the strategic and transformational role of investments, domestic and foreign, and identifies specific areas for reform, including the need for a new investment law.

On attracting investors to the country, the SDP specifically states: "To build our nation and provide jobs and income for our people, Timor-Leste needs to attract investors to our key industry sectors, partner with international firms in building our infrastructure and support local firms to start-up and grow." It recognizes the importance of investor confidence, market openness, and regulatory certainty to a conducive investment climate (both domestic and foreign). Improvements to the investment climate are key to building a mature, efficient and well-functioning private sector which will allow the country to transition to a non-oil economy.

It was proposed that any improvement or amendments to the PIL 2011 and other laws related to investors and investments should be benchmarked against the ASEAN Comprehensive Investment Agreement (ACIA) (see Chaisse & Jusoh, 2016) and other ASEAN legal frameworks such as the ASEAN Framework Agreement on Trade in Services (AFAS). This was to facilitate Timor-Leste's

accession to ASEAN and ultimately to the WTO. Timor-Leste took the step of reforming the PIL 2011 with the PIL 2017. The latter regulates investment and re-investment made in Timor-Leste by both, domestic and foreign investors, and is applicable to direct investments only. It introduced new measures to address the weaknesses of the PIL 2011.

First, to simplify the admission of investments into Timor-Leste, the PIL 2017 eliminates investment screening, with no Investor Certificates or minimum capital required except for those seeking Special Benefits. The new PIL leaves investors free to invest in Timor-Leste with no prior authorization required. Hence, the new law does not provide for an admission procedure because it allows for automatic admission, which requires no screening apart from that called for by sectoral laws. Instead, an investor must register his/her company with the *Serviços de Registo e Verificação Empresarial (SERVE)*, the company registry, and then obtain the necessary sectoral license. This means that most investors only have to register an enterprise and to seek sectoral licenses or permits as and when necessary. Investors seeking Special Investment Agreements, however, are required to comply with the procedures in Government Decree No. 2/2018.

Second, the PIL 2017 provides for the creation of a list of prohibited and restricted sectors for investment (generally known as the Negative List). Timor-Leste is preparing a national negative list that will outline the areas of the economy that are closed to foreign investors, areas where joint ventures are encouraged, and areas where foreign investors may hold 100% ownership. It is international best practice to use short negative lists to protect certain activities and open all other activities to foreign investors.

The negative list is likely to be short, not because Timor-Leste is fully liberalized, but rather because most sectors are unregulated. For instance, Timor-Leste does not have any regulations relating to professional services that are normally regulated, such as engineering, architecture, and accountancy. Such regulation usually deals with professional conduct of members of the profession and also protects members of the public through health and safety and financial integrity standards. Other services sectors including tourism, retail, and distributive services are also not properly regulated. However, Timor-Leste will have to address the lack of regulation in preparation for membership in the WTO and ASEAN. For this reason, any effort to prepare a national negative list under the PIL 2017 should take into account the country's accession to the WTO and ASEAN.

Third, although the PIL 2017 retains the special investment agreements as in the PIL 2011, the criteria for such agreements are more defined. The state may conclude an investment agreement with an investor by defining special conditions for investment projects which, according to the Strategic Development Plan, justify the adoption of special and other specific non-fiscal benefits to be negotiated with the investor – whether by their size or nature or their economic, social, environmental or technological impact. For an investor to enter into a special investment agreement, the investment must be of value to the national development strategy; the agreement must be authorized by the Council of Ministers and may provide for the possibility of tax reductions or exemptions, customs incentives, leases of state property; and up to 100% cost-sharing in the training of employees. Any special investment agreements will have to be authorized by a Government Resolution, with an explicit indication of the reasons justifying the agreement.

Fourth, Government Decree No. 2/2018 provides more structured criteria and a clearer decision-making process for issuing Declarations of Benefits and Special Investment Agreements, which makes the situation more transparent and predictable to investors. Foreign investors are also no longer required to invest a minimum capital of US\$0.5 million.

Fifth, the PIL 2017 follows international best practice by ensuring equal treatment for all investors. The PIL 2017 adopts the concepts of national treatment and most favored nation treatment. With this provision, foreign investors are treated in the same way as domestic investors. At the same time Timor-Leste undertakes to provide the same treatment to all investors regardless of their nationality while reserving the right to provide certain exceptions, as consistent with treaty practice.

Sixth, PIL 2017 improves the provisions for the transfer of funds. In addition to the Central Bank's requirements, banks may also impose reporting requirements for transactions above a certain amount to comply with a home country's anti-money laundering regulations. The PIL 2017 adopts transfer of funds provisions that align with international best practice. This is a major change from the the transfer of funds provisions in the PIL 2011, which did not clearly allow transfer of capital apart from capital resulting from sale, liquidation, and so on, and capital resulting from reduction of share capital. The PIL 2017 widened the scope of coverage for the transfer of funds. Importantly the new provisions include the right to transfer both capital and profits arising from investments. This provision could be further improved by including the

right to transfer funds in freely usable currency and without delay. Under the PIL 2017, an investor may transfer funds in a freely usable currency subject to meeting certain Central Bank regulations.

Seventh, the PIL 2017 improves on the PIL 2011 and Article 54 of Timor-Leste's Constitution with regard to expropriation. Article 54 states that expropriation or requisition of private property may be made in the public interest and that just compensation is paid to the investor. The PIL 2017 improves these provisions by addressing indirect expropriation and the conditions under which expropriation may take place. The new PIL recognizes four elements of best practice with which expropriation can be carried out: with public purpose; without discrimination; with due process; and with payment of prompt, adequate and effective compensation.

Eighth, the PIL 2017 refines the provisions for incentives, which are further explained in Government Decree No. 2/2018. These include tax holidays, sales tax, and custom duty exemptions. Under the PIL 2017 and Decree No. 2/2018, a minimum investment value applies to those seeking these special benefits but not to everyone seeking to invest in Timor-Leste. The benefits granted to holders of Investor Certificates include a guaranteed minimum of five work visas for workers or collaborators qualified for supervisory, directoral/ managing or technical functions as appropriate to the investment project. The Investor may request additional visas as and when required. In addition, investors leasing state property may enter into a lease agreement to a maximum period of 50 years, renewable for periods of 25 years up to a total of 100 years.

The PIL 2017 also provides for development areas, with special benefits for Zone A: the urban area of the municipality of Dili, corresponding to the administrative posts of Cristo-Rei, Dom Aleixo, Na'i-Feto, and Vera Cruz; Zone B: areas located outside the boundaries of the urban area of the municipality of Dili; and Zone C: peripheral zones, corresponding to the geographical area of Oe-Cusse Ambeno and Atauro.

Investors who present investment projects in the areas listed in the Annex of the PIL 2017 (agriculture, animal breeding, hunting, forestry, fisheries, and aquaculture; processing industries; accommodation; and tour operator activities) may request a declaration of benefits that recognizes tax and customs benefits.

The PIL 2017 also reduces the discretionary powers granted by the PIL 2011 in relation to tax benefits. The PIL 2011's provisions for tax incentives had

to be more definitive on the benefits to be granted to investors. In addition, according to an ADB (2015) assessment, the granting process was far from efficient; it took up the resources of key agencies—resources that could have been devoted to other strategic activities—and the process was mostly discretionary by nature. The incentives offered to investors under the PIL 2017 are currently under review with the aim of aligning the incentives with the urgent diversification needs of the national economy. The new law provides a more transparent mode of implementing special benefits, which are no longer automatic. Chapter III of Government Decree No. 2/2018 provides procedures for granting special benefits to investors. Under Article 8.1, an investor must submit a written request for a declaration of benefits to the Executive Director of TradeInvest Timor Leste in person or through a legal representative. In addition, the PIL 2017 allows an investor to challenge through judicial review any refusal to issue a declaration of benefits.

Ninth, Article 14 of the PIL 2017 guarantees the right to private ownership and use of land for the development of investment or reinvestment projects, subject to the limits outlined in the Constitution and land legislation. This provision improves on Section 54 of Timor-Leste's Constitution which grants the right of landownership exclusively to Timorese nationals, either individuals or corporate entities, while allowing foreigners to take up long-term leases (up to 50 years).

Tenth, the PIL 2017 improves access to international fora in the event of a dispute between an investor and the state. Timor-Leste is party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention). It is not party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Timor-Leste's Court of Appeals must recognize a foreign judgment or arbitral award for it to be enforced in the country. Under the PIL 2017, investors are required to find an amicable solution to any disputes with the state. If such disputes cannot be resolved within 60 days, they can be referred to the competent judicial entities, in accordance with the legislation in force or through arbitration including the ICSID.

Eleventh, the PIL 2017 has improved provision for intellectual property protection. Although Section 60 of Timor-Leste's Constitution provides for the protection of literary, scientific, and artistic work, legislators have yet to codify or systematize domestic protection of intellectual property rights. Timor-Leste is not party to any international agreements on intellectual property rights.

Holders of intellectual properties especially trademarks have normally advertised their claims to certain marks in the local media to claim priority over the marks, but this did not in any way provide clear protection. The PIL 2017 addresses this concern by providing recognition of protection of industrial secrets, copyrights, industrial property rights, distinctive trademark signs, and any other intellectual property rights. However, this is a weak provision and does not eliminate the need for a proper intellectual property rights law.

Future economic challenge

The foregoing discussion shows the improvements to the Private Investment Law in Timor-Leste as a catalyst for improving the investment climate, especially for FDI and the economic development of the country as a whole. However, moving forward, Timor-Leste still has to identify niche economic sectors to further develop the country's economy. The development of Timor-Leste's economy will have to take into account the future development of the regional economy, especially in the ASEAN region.

One of the challenges facing the global and regional economies is the move towards services or the servicification of the economy. This is evident everywhere in the world, but especially in developed countries. The services trade is critical to keeping manufacturing sectors competitive. Moreover, there is an increase in service value chains along which input and output are primarily services. Developed countries are very competitive in services exports. Asian countries in general have a huge services deficit in relation to developed countries. Once the services trade becomes as large as the goods trade, there is a risk that the majority of Asian countries will have an overall trade deficit. It may therefore be necessary for ASEAN to identify the services sectors that can earn a surplus. Tourism and business process outsourcing are typical examples, but other service sectors may also have potential. Services are an area which Timor-Leste could focus on, in view of its small domestic market and the reduction of oil and gas reserves.

The second major trend is the digitalization of the economy. Timor-Leste must consider the potential of this trend. Further digitalization of the economy and the rapid rise of the internet of things are inevitable, and this is true for both developed and developing nations. Examples of well-known companies that take full advantage of digitalization are: UBER, Facebook, Airbnb, and Alibaba. The majority of these companies originated in the United States, and Alibaba is from China.

Information and communications technology is transforming society significantly. With it, the world has seen the rise of the internet and digital economy, smart manufacturing, artificial intelligence, 3D printing, blockchain, and the internet of things. This new wave of technologies is creating opportunities but is also testing the ability of governments to harness their benefits and provide prudent oversight. If managed correctly, these technological developments could be a key driver of economic growth (WTO, 2018) (and with it, development); deeper economic integration; and more inclusive outcomes. E-commerce may also have great potential to change economic integration within and beyond ASEAN. At this point, e-commerce transactions are mostly domestic (OECD, 2016). However, in many developed countries, the share of international transactions in e-commerce is rapidly increasing and this is especially true for EU and NAFTA members (OECD, 2016). This implies two possible scenarios. First, there is a great opportunity to increase intra-ASEAN (or Asian) e-commerce. Second, there is a risk that future e-commerce within ASEAN (or Asia) will be dominated by international e-commerce providers in Europe and North America (and Japan and Korea) (UNCTAD, 2018).

The greatest challenge to e-commerce in ASEAN/Asia is the huge gap in readiness, as illustrated by the UNCTAD E-commerce index (Table 2). It is important to note that the index has four sub-components: internet use, payment, secure server, and delivery, which provide reasonable policy implications related to services and investment reform. Good internet infrastructure (both broadband and mobile) is necessary. The role of foreign investment and foreign service providers may be critical in this regard. A strong financial sector that provides people with e-payment facilities is also important, as are logistics services because products purchased online may be delivered from warehouses abroad.

Table 2

UNCTAD E-commerce Index

Korea	95.5
Japan	93.6
New Zealand	93.0
Australia	92.0
Singapore	90.0
Malaysia	77.0
Thailand	68.0
China	60.0
Vietnam	50.0
India	44.0
Lao PDR	41.0
Philippines	40.0
Indonesia	36.0
Cambodia	29.0
Myanmar	23.0
Timor Leste	No data

Source: UNCTAD (2017).

The appropriate legal and institutional environment must be in place, and it must cover issues such as (i) e-transactions, including rules related to electronic signatures and authentication; (ii) consumer protection; (iii) data protection and privacy; and (iv) cybercrime (ADB, 2018). These issues are included in the e-commerce chapters of some free trade agreements (FTAs) signed by Asian countries including ASEAN members.

The third challenge is the significant effect that higher life expectancy, falling birth rates, and migration are expected to have on demographics. Higher life expectancy and falling birth rates will lead to societies with ageing populations which in turn will impact consumer spending and strain existing social welfare systems as well as pose the challenge of how to integrate young people into saturated labour markets (“The Future of ASEAN,” 2017). Migration (“replacement migration”) may delay the inevitable but it brings its own challenges such as wage differentials; difference in fertility resulting in demographic shifts; possible welfare dependence; and managing heterogeneity.

The International Labour Organisation estimates that ASEAN will record the second-largest growth in labour force worldwide between now and 2030 (only

India is ahead of ASEAN); another 59 million people are projected to enter the ASEAN workforce by 2030. ASEAN is expected to continue to have the third-largest labour force worldwide, behind only China and India, accounting for a total of 10% of the global labour force by 2030. By this estimate, ASEAN’s labour force will be more than twice the size of the next ranked market, the United States, with 175 million in its labour force by 2030. However, ASEAN also risks underutilizing this demographic opportunity, if it fails to generate quality employment at the required scale while training its growing workforce in the skills needed to shift to higher value-added jobs in time to boost productivity levels (Pricewaterhouse Coopers, 2018).

As for the demand-side factors impacting economic growth, the ASEAN region is poised to witness the expansion of its middle-income segment (defined as those spending US\$10 to US\$100 in daily expenditure). This group is projected to make up two-thirds of the overall population by 2030, compared with only 29% in 2010. This emerging middle class, which is associated with a higher willingness to pay for quality, convenience, and choice, will drive the demand for more discretionary and aspirational product categories in the coming years. However, to target these growth opportunities, companies will have to align business strategies with the shifts in consumption patterns observed in the region. Online retail will increasingly challenge the traditional brick-and-mortar model, with consumers demanding more personalized products and services, through an integrated omni-channel experience (Kelleher, 2018).

One of the most serious social problems that developed countries will soon face is ageing. The impact of this problem on developed countries that accept migration may be manageable (e.g. Australia; see Table 3), but for those that do not accept migration, there is a possibility that the whole economy could become unsustainable. An obvious example of this is Japan, but countries such as China may also have a serious ageing problem. Some countries should sustain a large young population even in 2050 (Table 3). In ASEAN, the population aged 60 years and older in the Philippines, Lao PRD, Cambodia, Myanmar, and Indonesia is likely to remain below 20% in 2050. Timor-Leste, on the other hand, will remain a young nation. It is estimated that Timor-Leste will have less than 10% of its population aged 60 years or older in 2050, with a relatively high total fertility rate of 5.5 (United Nations ESCAP, 2016). This could provide an opportunity for Timor-Leste to offer services and goods to ageing nations.

Table 3

Population Aged 60 Years and Older in 2016 and Projected Population in 2050 (%)

	2016	2050
Japan	33.4	42.5
Korea	19.3	41.5
Singapore	18.7	40.4
Thailand	16.4	37.1
China	15.7	36.5
Brunei Darussalam	8.1	30.9
New Zealand	20.8	29.4
Australia	20.7	28.3
Vietnam	10.7	27.9
Malaysia	9.5	23.6
Indonesia	8.5	19.2
India	9.1	19.4
Myanmar	9.2	18.8
Cambodia	6.9	17.6
Lao PDR	6.1	14.7
Philippines	7.4	14.0

Source: United Nations ESCAP (2016)

If some ageing societies (such as Japan) do not open their door to migration, other forms of adjustment become necessary, often in the form of the services trade. This would be natural, because services that would otherwise be “domestically” supplied by migrants could be internationally supplied. Thus, the magnitude of the ageing problem could be mitigated by further integrating services and investment in ASEAN and Asia. There is potential to significantly increase international services in the silver-haired economy.

It is also expected that many aged persons will live in nursing homes (retirement homes) where they receive various services from caregivers. There will likely be increased demand for trained caregivers to staff such nursing homes. To fill this gap, some standardization among Asian countries of caregiving as a profession may be necessary, which may require mutual recognition agreements. It would be wise for both countries importing and those exporting caregivers to agree on the basic competencies that caregivers should acquire mutual recognition arrangements. Further, Timorese companies that run nursing homes may want to establish homes in nearby countries where there is demand, such as Indonesia, Thailand or the Philippines. This would require

the liberalization of commercial presence for the social services and medical tourism sectors.

With the potential demand for professional caregivers, nursing homes in the Philippines, Thailand or Indonesia could provide Timorese workers with the necessary work experience to then supply these services in countries such as Japan.

The fourth challenge facing Timor-Leste is the requirement for infrastructure to spearhead economic growth through increased trade, investment, competitiveness, and connectivity in the region and with the rest of the world. Although there is no real estimate specifically for Timor Leste, the ADB estimates that the total infrastructure investment needs of ASEAN countries from 2016 to 2030 will be between US\$2.8 trillion (baseline estimate) and US\$3.1 trillion (climate-adjusted estimate) (ADB, 2017).

The fifth, and very important, challenge for Timor-Leste is that rising greenhouse gas emissions are causing climate change and driving a complex mix of unpredictable changes. The devastating effects of climate change are seen in an increase in unpredictable weather patterns and natural disasters (Riebeck, 2005). These can impact economies through higher global temperatures, increased intensity of storms, and wetter monsoon seasons (consequently increased instances of flooding). There is a need to address this issue not only because it results in disruptions in food supply and economic activities but also because the destruction that it brings will tax the economy in the form of costs associated with recovery and reconstruction.

The combined pressures of population growth, economic growth, and climate change will increase the stress on essential natural resources, that is water, food, arable land, and energy. It has been estimated that demand for food, water, and energy will grow by approximately 35%, 40% and 50% from 2016 to 2030 resulting in food and water shortages. Governments will have to implement sustainable resource management and identify alternative sources of power.

While abundant across Southeast Asia, natural resources are being rapidly depleted because they are used for industry and to meet the consumption needs of growing populations. Depletion reduces national wealth, and most natural resources, when transformed into energy, unavoidably aggravate pollution. Accordingly, the exploitation, consumption, and sale of natural resources must

be carefully weighed against economic and social costs. Market prices do not always reflect social costs, and corporate balance sheets rarely account for environmental effects.

The sixth challenge is to work with future economic power shifts. As a Portuguese-speaking country, Timor-Leste is able to work with Brazil, one of the economies identified as a future economic powerhouse. It is forecast that emerging economies such as China, India, and Brazil will dominate the world's top 10 economies by 2050. Other potential economies identified are Vietnam, the Philippines, and Nigeria. The United States and Europe stand to lose ground to China and India. This will mean that it will be these emerging economies that will exert more influence on the direction of the global economy. The rise of China and India in the global economy will increasingly challenge ASEAN to enhance its competitiveness. Over the coming decades, competitive pressures will come not only from within Asia, but also from more distant economies such as the Russian Federation, Brazil, South Africa, and Turkey (ADB Institute, 2016). With these shifts in economic power, Timor-Leste will have to adapt to work with whomever become the best trade and investment partners. In the long run, as globalization increases the importance of multipolar development, the Southeast Asian/ASEAN region, including Timor-Leste, should leverage its diversity.

Conclusion

Timor-Leste, despite being a young country, is ambitious in planning its future economic development. The country's Strategic Development Plan 2011-2030 clearly states its aspiration to become an upper-middle income country by 2030. This will not be an easy feat because Timor-Leste faces many challenges, both internally and externally. Internally Timor-Leste faces issues relating to low domestic and foreign direct investment, an increase in both types of investment will boost the economy. In addition, the economy is overly reliant on natural resources, especially oil and gas, which are quickly being depleted and which face decreasing market prices. Also, Timor-Leste lacks the infrastructure and skilled human resources to attract domestic and foreign investments.

Recognizing its shortcomings, Timor-Leste has taken steps to change the way the country conducts its business, especially in relation to investments. The country recognized the need to address the shortcomings of its investment law and policy framework as contained in the Private Investment Law 2011. With assistance from the World Bank, it has successfully reformed its investment

policy framework by enacting the Private Investment Law 2017. The next step will be to effectively implement the Private Investment Law 2017, by using it as a tool for domestic legal and economic reform, and to promote the country as an investment destination.

The Private Investment Law 2017 should put Timor-Leste on the way to becoming an economic powerhouse. It provides the foundation that Timor-Leste needs to face its challenges and to deal with investors and their investments according to the legal provisions and international best practice.

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Chapter III

East-Timor, Macau, and Sustainable Development

Timor-Leste and Recent Developments in Ocean Governance

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When the Chips Are Down and the Oil Runs Dry: The Economies of Macau and Timor-Leste

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The Creation of the East Timor Defense Force and Its Impact on Regional Security Architecture

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Timor-Leste and Recent Developments in Ocean Governance

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Keywords: *Law of the sea, ocean governance, marine spatial planning*

Abstract

Timor-Leste is located within an area of rich marine biodiversity known as the Coral Reef Triangle, and studies have identified the island of Ataúro in particular as one of the most biodiverse sites in the world. In recent years, Timor-Leste has passed significant legislation for the conservation of marine biodiversity. However there are still some gaps and shortcomings in the effective implementation of area-based management tools such as marine spatial planning. While Timor-Leste has recently settled a long dispute with Australia regarding the delimitation of maritime boundaries in the Timor Sea, it has yet to settle issues concerning its maritime boundaries with Indonesia. This paper examines these recent developments and seeks to identify gaps in implementation and to put forward solutions that reinforce ocean governance at the national and regional levels.

Introduction

The Democratic Republic of Timor-Leste (Timor-Leste) is located in the eastern part of the island of Timor in Southeast Asia. Situated at the eastern end of the Indonesian archipelago, the country is located within an area of rich marine biodiversity known as the Coral Reef Triangle. Timor-Leste has a territory of 15,007 km² and includes the enclave of Oecussi-Ambeno in the northwestern part of Timor island, and the islands of Ataúro and Jaco, respectively, in the north and east of the island.

Timor-Leste is central to the conservation of the marine biodiversity in the Coral Reef Triangle region. However, in addition to significant development

challenges, Timor-Leste faces many threats and pressures, such as climate change, illegal fishing, and food security. To tackle these problems, cooperation between states and the adoption of maritime policies at the national and regional levels is required.

Timor-Leste is party to the United Nations Convention on the Law of the Sea (UNCLOS),² which provides the overarching legal regime for ocean governance. The country is also committed to the 2030 Agenda for Sustainable Development that identifies altogether 17 Sustainable Development Goals,³ including Goal 14 which is to “conserve and sustainably use the oceans, seas and marine resources for sustainable development.”⁴

Recently, Timor-Leste and Australia reached an agreement on the delimitation of maritime boundaries, while such an agreement between the former and Indonesia has yet to be concluded.⁵ In recent years, there have been important developments in Timor-Leste regarding ocean governance, in particular the conservation of biodiversity and the protection and preservation of the marine environment. This paper examines some of these recent developments against the background of UNCLOS, taking into consideration current international and regional efforts.

Maritime boundary-making in the Timor Sea

Since the distance between the coasts of Timor-Leste and Australia is approximately 250 nautical miles (nm), there are overlapping continental shelves between the two countries in the Timor Sea. While Australia has always defended the existence of two continental shelves based on the natural prolongation of its submerged landmass until the Timor Trough, at a distance of 150nm from its northern coast, Timor-Leste considers Australia’s stand unacceptable, as did Portugal and Indonesia in the past.

² United Nations Convention on the Law of the Sea, done at Montego Bay, December 10, 1982, and entered into force on November 16, 1994, 1833 U.N.T.S. 3. Ratified by Timor-Leste with Resolution of the National Parliament No. 17/2012, December 27.

³ Resolution (United Nations General Assembly) No. 70/1 (September 25, 2015) [UN Doc A/RES/70/1].

⁴ Retrieved December 15, 2018, from <https://www.un.org/development/desa/disabilities/envision2030-goal14.html>

⁵ According to a press release issued by the government of Timor-Leste, on December 10 and 11, 2018, Timor-Leste held an exploratory meeting with Indonesia regarding maritime boundaries. This meeting was convened after the successful agreement was signed with Australia. The Timorese government considered the meeting with Indonesia an important step towards beginning formal negotiations on the maritime boundaries with Indonesia, in accordance with UNCLOS. Retrieved December 15, 2018, from <http://timor-leste.gov.tl/?p=20960>

According to Timor-Leste, the delimitation in the Timor Sea should be made in accordance with a median line and that the geological characteristics of the Timor Trough should not be considered because when confronted with other seabed depressions, these do not represent a break or fault in the continental shelf. In addition, adopting the criterion of natural prolongation should not exclude other criteria, such as equity and the fairness of delimitation, which Australia has not taken into account. In fact, if the latter had prevailed, the larger portion of the known hydrocarbon deposits in the seabed and subsoil of the Timor Sea, which are closer to the Timorese coast, would be within Australia’s continental shelf, while applying the median line would place Timor-Leste in a more advantageous position.

Australia, Indonesia, and Timor-Leste have on different occasions engaged in bilateral negotiations on the delimitation of maritime boundaries in the Timor Sea, with Australia and Indonesia having signed two delimitation agreements regarding the maritime boundaries between Papua New Guinea and Indonesia,⁶ and maritime boundaries in the Arafura Sea, which essentially envisaged settling the rights of both states to the exploration and exploitation of the natural resources of the seabed and subsoil.⁷

The agreement that established the maritime boundaries between Papua New Guinea and Indonesia did not include the continental shelf of Timor-Leste, since, at that time, the territory of Timor-Leste was under Portuguese rule. It was only with the Indonesian invasion and occupation on December 7, 1975 that Timor-Leste was de facto controlled by Indonesia.⁸ Australia and Indonesia further agreed on a cooperative regime regarding their mutual interests in the rational management, conservation, and optimum utilization of living

⁶ Agreement between Australia and Indonesia Concerning Certain Boundaries between Papua New Guinea and Indonesia, done at Jakarta on February 12, 1973 and entered into force on November 26, 1974, 975 U.N.T.S. 4

⁷ Agreement between the Government of the Commonwealth of Australia and the Government of the Republic of Indonesia Establishing Certain Seabed Boundaries, done at Canberra on May 18, 1971 and entered into force on November 8, 1969, 974 U.N.T.S. 307 Also see Treaty between the Government of Australia and the Government of the Republic of Indonesia Establishing an Exclusive Economic Zone Boundary and Certain Seabed Boundaries, done at Perth on March 14, 1997, reproduced in *International Maritime Boundaries*, vol. 4, pp. 2714-2727; Agreement between the Government of the Commonwealth of Australia and the Government of the Republic of Indonesia Establishing Certain Seabed Boundaries in the Area of the Timor and Arafura Seas, Supplementary to the Agreement of 18 May 1971, done at Jakarta on October 9, 1972 and entered into force on November 8, 1973, 974 U.N.T.S. 319.

⁸ Resolutions (UNSC) No. 384, December 22, 1975; No. 389, April 22, 1976; No. 1236, May 7, 1999; No. 1246, June 11, 1999; No. 1262, August 27, 1999; No. 1264, September 15, 1999; and No. 1272, October 25, 1999. Also see Indonesian Law 7, July 17, 1976, which recognizes the integration of East Timor, revoked on October 20, 1999, by an Act of the Indonesian Parliament.

resources.⁹ Only after almost two decades of unsuccessful negotiations did Australia and Indonesia manage to agree on the deferral of the divisive issue of maritime delimitation and engage in the joint development of the nonliving natural resources of the Timor Sea, under the legal framework of the Timor Gap Treaty.¹⁰

The Timor Gap Treaty was the first wide-ranging joint development regime for offshore hydrocarbon deposits and the treaty stands as an example for other similar arrangements (Becker-Weinberg, 2014). Its implementation sought to satisfy Australia's growing energy needs, as well as to create the necessary normative regime that allows for the continuation of the exploration and exploitation activities and the consolidation of operators' rights.

With the end of the Indonesian occupation, the territory of Timor-Leste was administered by the United Nations Transitional Administration in East Timor (UNTAET).¹¹ Its judicial, political, and legislative powers included the responsibility for entering into international agreements in the interests and for the economic viability of the future state of Timor-Leste.¹² UNTAET and Australia began negotiations in view of adapting the Timor Gap Treaty to the new status quo, that is, an independent Timor-Leste, legitimating the right of the East Timorese people to self-determination and the country's sovereignty over its natural resources. These negotiations led to the Exchange of Notes

⁹ Agreement between the government of Australia and the government of the Republic of Indonesia relating to cooperation in fisheries, done at Jakarta on April 22, 1992, 1170 U.N.T.S. 288; Memorandum of Understanding between the Government of Australia Concerning the Implementation of a Provisional Fisheries Surveillance and Enforcement Arrangement, done at Jakarta on October 29, 1981 and entered into force on February 1, 1982, reproduced in *International Maritime Boundaries*, vol. 2, pp. 1238-1239; Memorandum of Understanding between the Government of Australia and the Government of the Republic of Indonesia Regarding the Operations of Indonesian Traditional Fishermen in Areas of the Australian Exclusive Fishing Zone and Continental Shelf, done at Jakarta on November 7, 1974 and entered into force on February 28, 1975, reproduced in *International Maritime Boundaries*, vol. 2, pp. 1239-1241.

¹⁰ Treaty between Australia and the Republic of Indonesia on the Zone of Cooperation in an Area between the Indonesian Province of East Timor and Northern Australia, signed on December 11, 1989 and entered into force on February 9, 1991 [Timor Gap Treaty].

¹¹ Resolution (UNSC) No. 1272, October 25, 1999. UNTAET was replaced by the United Nations Mission in East Timor, which was responsible for organizing the referendum on the independence of East Timor that took place on October 19, 1999. See Resolution (UNSC) No. 1246, June 11, 1999.

¹² See Secretary-General Report S/1999/1024, para. 35, October 4, 1999.

and signing of the Memorandum of Understanding on the revised Timor Gap Treaty.¹³

The preservation of the joint development model of the Timor Gap Treaty implied keeping in force the relevant Indonesian legislation and the decisions and directives issued by the Ministerial Council and the Joint Authority created under the Timor Gap Treaty. It also made provisions for safeguarding the rights acquired by operators under product-sharing contracts signed with the Joint Authority. UNTAET undertook all rights and obligations of Indonesia under the Timor Gap Treaty, with the exception of those rights and obligations that contravened the interests of the people of Timor-Leste. Australia and Timor-Leste also proceeded to sign two interim arrangements on the development of the Greater Sunrise gas fields (Sunrise and Troubadour) with the purpose of improving the legal and regulatory framework of this unitization regime and achieving the equal sharing of upstream revenues, without prejudice to either state's legal position on or legal rights relating to the delimitation of their respective maritime boundaries, or implying the renunciation, recognition or affirmation of any right or claim relating to the whole or any part of the Timor Sea (Becker-Weinberg, 2014, p. 150).

Treaty on Certain Arrangements in the Timor Sea

In 2007, Australia and Timor-Leste signed the Treaty on Certain Arrangements in the Timor Sea (CMATS Treaty),¹⁴ which was "designed to resolve most of the remaining issues ..., including the boundary of the water column, and the difficulties engendered in progressing the development of Greater Sunrise from Timor Leste's relatively slow progress towards ratification of the unitisation agreement." The CMATS Treaty did not replace the Timor Sea Treaty, or for that matter, the unitization agreement between the two

¹³ On July 5, 2001, UNTAET and Australia signed a second MoU which reaffirmed the joint development model initially adopted, no longer under the auspices of the Timor Gap Treaty, but instead its revised version as agreed in the MoU signed on February 10, 2000 and from then onwards referred to as the Timor Sea Treaty. These documents are reproduced in *International Maritime Boundaries*, vol. 4, pp. 2763-2795. Also see the Exchange of Notes Constituting an Agreement between the Government of Australia and the Government of the Democratic Republic of Timor-Leste Concerning Arrangements for Exploration and Exploitation of Petroleum in an Area of the Timor Sea between Australia and East Timor, done at Dili on May 20, 2002, retrieved December 15, 2018 from <http://www.un.org/depts/los/LEGISLATIONANDTREATIES/PDFFILES/TREATIES/AUS-TLS2002EX.PDF>; Treaty between Australia and the Democratic Republic of Timor-Leste on Certain Maritime Arrangements in the Timor Sea, done at Sydney on January 12, 2006 and entered into force on February 23, 2007, retrieved December 15, 2018, from <http://www.austlii.edu.au/au/other/dfat/treaties/2007/12.html>

¹⁴ Treaty between Australia and the Democratic Republic of Timor-Leste on Certain Maritime Arrangements in the Timor Sea, done at Sydney on January 12, 2006, entered into force on February 23, 2007, 2483 U.N.T.S. 359 [CMATS Treaty].

countries relating to the Sunrise and Troubadour Fields (the Greater Sunrise Unitisation Agreement).¹⁵ The CMATS Treaty stipulated in Article 3 the alteration of Article 22 of the Timor Sea Treaty, whereby the latter would be in force for the duration of the former.

The CMATS Treaty recognized in Article 8 the right of Timor-Leste to exercise jurisdiction over the water column within the Joint Petroleum Development Area. It also stipulated in Article 5(1) that revenues from the exploitation of Greater Sunrise would be shared equally between the two states, instead of the percentage initially included in the Timor Sea Treaty and the Greater Sunrise Unitisation Agreement.

Another important aspect is that the CMATS Treaty provided in Articles 4(4)¹⁶ and 11 that “[a]ny disputes about the interpretation or application of this Treaty shall be settled by consultation or negotiation,” thus excluding compulsory litigation.

However, the CMATS Treaty failed in its mission, regarding both the development of Greater Sunrise and reconciliation of the positions taken by Timor-Leste and Australia, in particular in the context of unresolved maritime boundary delimitation and, consequently, under the umbrella of provisional arrangements.

Indeed, despite these developments, relations between the two countries continued to deteriorate, culminating on April 23, 2013 in Timor-Leste instituting arbitral proceedings against Australia under the Timor Sea Treaty.¹⁷ The main purpose of these proceedings was to terminate the CMATS Treaty based on the circumstances in which it had been concluded. The arbitral proceedings were subject to several suspensions and eventually terminated in 2017, at the request of Timor-Leste and Australia after both countries reached

¹⁵ See Articles 7 and 10 of the CMATS Treaty. Agreement between the Government of Australia and the Government of the Democratic Republic of Timor-Leste relating to the Unitisation of the Sunrise and Troubadour Fields, March 6, 2003, 2483 U.N.T.S. 317 [Greater Sunrise Unitisation Agreement].

¹⁶ “Notwithstanding any other bilateral or multilateral agreement binding on the Parties, or any declaration made by either Party pursuant to any such agreement, neither Party shall commence or pursue any proceedings against the other Party before any court, tribunal or other dispute settlement mechanism that would raise or result in, either directly or indirectly, issues or findings of relevance to maritime boundaries or delimitation in the Timor Sea.”

¹⁷ Arbitration under the Timor Sea Treaty (Timor-Leste v. Australia), PCA Case No. 2013-16, retrieved December 15, 2018, from <https://pcacases.com/web/view/37>

an agreement to pursue conciliation.¹⁸ This was part of “confidence-building measures” proposed by the Conciliation Commission.¹⁹

Subsequent to Timor-Leste instituting the said arbitral proceedings, on December 3, 2013 officers of the Australian Security Intelligence Organisation, seized data and documents belonging to Timor-Leste from the Canberra offices of one of Timor-Leste’s legal advisers. As a result, on December 17, 2013, Timor-Leste instituted proceedings against Australia and submitted a request for provisional measures.²⁰ In May 2015, Australia returned the seized data and documents and, consequently, Timor-Leste discontinued the proceedings in June of the same year.²¹

While Timor-Leste saw this outcome as recognition of its sovereignty, Australia, on the other hand, considered it a peaceful settlement of the disputes and an opportunity for both states to make progress in their bilateral relations.

Timor Sea conciliation

On April 11, 2016, pursuant to Article 298 and Annex V of UNCLOS, Timor-Leste initiated compulsory conciliation proceedings against Australia, for the purpose of reaching agreement on a maritime boundary between the two states in the Timor Sea.²² This was the first compulsory conciliation procedure conducted under Annex V of UNCLOS.

Although Timor-Leste and Australia had contrasting perspectives from the start of the proceedings, in particular regarding keeping CMATS Treaty,²³ on May 9, 2018 the Timor Sea Conciliation Commission issued its Report

¹⁸ Arbitration under the Timor Sea Treaty – Termination Order, 20 March 2017, PCA Case No. 2013-16, retrieved December 15, 2018, from <https://pcacases.com/web/sendAttach/2110>

¹⁹ Report and Recommendations of the Compulsory Conciliation Commission between Timor-Leste and Australia on the Timor Sea, May 9, 2018, para. 96, retrieved December 15, 2018, from <https://pcacases.com/web/sendAttach/2327> (hereafter Report and Recommendations 2018).

²⁰ Questions relating to the Seizure and Detention of Certain Documents and Data (Timor-Leste v. Australia), Provisional Measures, Order of 3 March 2014, I.C.J. Reports 2014, p. 147, retrieved December 15, 2018, from <http://www.icj-cij.org/files/case-related/156/17964.pdf>

²¹ Press release, “Questions relating to the Seizure and Detention of Certain Documents and Data (Timor-Leste v. Australia), Case removed from the Court’s List at the request of Timor-Leste,” retrieved December 15, 2018, from <http://www.icj-cij.org/files/case-related/156/18692.pdf>

²² Conciliation between the Democratic Republic of Timor-Leste and the Commonwealth of Australia, PCA Case No. 2016-10, retrieved December 18, 2018, from <https://pca-cpa.org/en/cases/132/>

²³ Conciliation proceedings between the government of the Democratic Republic of Timor-Leste and the government of the Commonwealth of Australia pursuant to Article 298 and Annex V of the UN Convention of the Law of the Sea, Opening Session, Monday August 29, 2016, PCA Case No. 2016-10 [Transcript], retrieved December 18, 2018, from <https://pcacases.com/web/sendAttach/1889>

and Recommendations. The result was the agreement between Timor-Leste and Australia on August 30, 2017 in Copenhagen, on the final delimitation of maritime boundaries in the Timor Sea (Timor Sea Maritime Boundaries Agreement). The signing ceremony was held on March 6, 2018 at the United Nations headquarters in New York.²⁴

The Commission also recommended that the two states “continue their discussions regarding the development of Greater Sunrise, with a view to reaching agreement on a concept for the development of the resource.”²⁵ Indeed, as noted by the Commission, the Timor Sea Maritime Boundaries Agreement attempts to facilitate an agreement on the development of Greater Sunrise which was to be agreed by both states.²⁶

The successful outcome of the conciliation proceedings is also the result of the Commission’s own approach, namely, by securing an agreement from both states to accept “an integrated package of measures intended to facilitate the conciliation process and create the conditions conducive to the achievement of an agreement on permanent maritime boundaries in the Timor Sea.”²⁷ Most importantly, both states agreed to terminate the CMATS Treaty and to negotiate permanent maritime boundaries under the auspices of the Commission, while recognizing, at the same time, “the importance of providing stability and certainty for petroleum companies with current rights in the Timor Sea. The Parties are committed to providing a stable framework for existing petroleum operations.”²⁸

Maritime boundaries in the Timor Sea

One of the key elements of the Timor Sea Maritime Boundaries Agreement is the establishment of the Greater Sunrise Special Regime.²⁹ According to Article 7(2) of the Timor Sea Maritime Boundaries Agreement, in the Special Regime Area, which corresponds to Greater Sunrise, both states “shall jointly

exercise their rights as coastal States pursuant to Article 77 of the [UNCLOS].” In the event the Greater Sunrise Special Regime ceases to be in force, pursuant to paragraph 5 of the same provision, Timor-Leste and Australia “shall individually exercise their rights as coastal States pursuant to Article 77 of the [UNCLOS] on the basis of the continental shelf boundary as delimited by this [Timor Sea Maritime Boundaries Agreement].”

The Timor Sea Maritime Boundaries Agreement also includes a mineral clause in Article 8, applicable to straddling mineral deposits, according to which, both states, agreed to “work expeditiously and in good faith to reach agreement as to the manner in which that deposit is to be most effectively exploited and equitably shared.” As in most similar mineral resources clauses, this is an obligation of means, rather than of result (see Becker-Weinberg, 2014, pp. 49-69).

Most importantly, Article 9(1) determines that with the Timor Sea Maritime Boundaries Agreement entering into force, the Timor Sea Treaty and the Greater Sunrise Unitisation Agreement shall cease to be in force.

Regarding dispute settlement mechanisms, Article 12(1) stipulates that, for a period of five years after the entry into force of the Timor Sea Maritime Boundaries Agreement, any dispute regarding its interpretation or application not settled by negotiation within six months may be jointly submitted to one or more members of the Conciliation Commission. However, paragraph 3 of the same article states that any dispute concerning the interpretation or application of the Timor Sea Maritime Boundaries Agreement that is not settled by negotiation within six months may be submitted by either state for arbitration as determined in Annex E of the same.

In accordance with Article 12(4), disputes concerning the continental shelf boundary or its adjustment, exclusive economic zone (EEZ) boundary, the depiction of maritime boundaries, the permanence of the Timor Sea Maritime Boundaries Agreement, the transitional provisions, or the Greater Sunrise Special Regime, shall be settled by a Dispute Resolution Committee, as established in Article 8 of Annex B (Greater Sunrise Special Regime) of the Timor Sea Maritime Boundaries Agreement.

²⁴ Treaty between the Democratic Republic of Timor-Leste and Australia establishing their maritime boundaries in the Timor Sea, accessed August 1, 2018 [Timor Sea Maritime Boundaries Agreement]. The maritime delimitation agreement on the continental shelf and EEZ is included in Annex 28 of the Report and Recommendations 2018.

²⁵ Report and Recommendations 2018, para. 306.

²⁶ *Ibid.*, para. 297.

²⁷ Trilateral Joint Statements “Joint statement by the Governments of Timor-Leste and Australia and the Conciliation Commission constituted pursuant to Annex V of the United Nations Convention on the Law of the Sea,” January 9, 2017, retrieved January 24, 2017, from <https://www.pcacases.com/web/sendAttach/2049> and retrieved December 15, 2018, from <https://pcacases.com/web/sendAttach/2053>

²⁸ *Ibid.*

²⁹ Article 7(1) and Annex B.

Greater Sunrise special regime

The Greater Sunrise Special Regime is an integral part of the Timor Sea Maritime Boundaries Agreement and its objective is “the joint development, exploitation and management of Petroleum in the Greater Sunrise Fields³⁰ for the benefit of both Parties.”³¹ Accordingly, Article 2(1) of the Greater Sunrise Special Regime determines that the two states “shall have title to all Petroleum produced in the Greater Sunrise Fields.”

Similar to previous joint development arrangements, the Greater Sunrise Special Regime creates a complex legal framework. It includes provisions applicable to taxation³² and the granting of rights to operators (Greater Sunrise Production Sharing Contract),³³ the creation of two regulatory bodies (Designated Authority and Governance Board),³⁴ a dispute resolution mechanism (Dispute Resolution Committee),³⁵ and the determination of the appropriate legal regime for the pipeline.³⁶

With respect to the revenue-sharing scheme, this depends on the building of a pipeline. Should the Greater Sunrise Fields be developed by means of a pipeline to Timor-Leste, the ratio is 30:70, in favor of the latter; whereas the ratio will be 20:80 in favor of Timor-Leste if the said fields are developed by means of a pipeline to Australia.³⁷

The duration of the Greater Sunrise Special Regime is dependent on the “Commercial Depletion”³⁸ of the Greater Sunrise Fields.³⁹ While the dispute between Timor-Leste and Australia is not fully resolved, at this point, it is perhaps more of a commercial nature, even though the Greater Sunrise Special Regime has yet to prove itself resilient to the test of time. The greater

test, however, will be the building of the pipeline and determining whether production will be piped in the direction of Timor-Leste or Australia for processing, and ultimately whether the Greater Sunrise Fields are successfully developed.

Conservation and sustainable use of marine biodiversity in the Arafura and Timor seas

Timor-Leste is located in the Coral Triangle Region in Southeast Asia, a region with one of the highest marine biological diversity in the world.⁴⁰ In this region, one in every three people depends upon coral reefs for subsistence and livelihood.⁴¹ This is also a region subject to enormous pressures, such as growing population and urbanization, which also raises issues concerning food security. In addition, there are also many threats such as illegal, unreported, and unregulated fishing (IUUF), land-based pollution and marine litter, climate change, and ocean acidification.⁴² To tackle some of these issues, countries in the region have adopted the Coral Triangle Initiative on Coral Reefs, Fisheries, and Food Security as well as a Regional Plan of Action.⁴³

Like many countries in Southeast Asia, Timor-Leste is vulnerable to IUUF. Fishing is an economic activity of great importance to Timor-Leste because of the revenue it generates, its contribution to food security, and because it is a major source of employment, particularly for local fishing communities. Timor-Leste has a low intake of fish, primarily because of the lack of fishing capacity and means for preservation and transportation.⁴⁴ Almost all its national catch is from small-scale fishery and almost all fish caught is consumed. Consequently, the country is strongly dependent on imports of frozen and canned fish (Funge-Smith, Briggs, & Miao, 2013, p. 62).⁴⁵

At the national level, the main regulations with respect to fisheries are Decree Law No. 6/2004, April 21, which provides the general basis for the legal management and regulation of fisheries and aquaculture, and Law No. 12/2004, December 29, which regulates crimes against fishing and criminalizes illegal fishing. These are very advanced legal regimes, but they are dependent on the availability of the necessary resources to combat existing threats, such

³⁰ Article 1(1) lit. j) of the Timor Sea Maritime Boundaries Agreement: “Greater Sunrise Fields’ means that part of the rock formation known as the Plover Formation (Upper and Lower) that underlies the Special Regime Area and contains the Sunrise and Troubadour deposits of Petroleum, together with any extension of those deposits that is in direct hydrocarbon fluid communication with either deposit.”

³¹ Article 1.

³² Article 3.

³³ Article 4.

³⁴ Articles 5 to 7.

³⁵ Article 8.

³⁶ Article 10.

³⁷ Article 2(2).

³⁸ Article 1(1) lit. e): “Commercial Depletion’ means the date by which the relevant authority confirms that the contractor or titleholder has fulfilled all of its production and decommissioning obligations under the relevant development or decommissioning plan, contract or licence and that the relevant contract or licence has terminated or otherwise expired.”

³⁹ Article 23.

⁴⁰ Retrieved December 18, 2018, from <http://www.coraltriangleinitiative.org>

⁴¹ Ibid.

⁴² Ibid.

⁴³ Retrieved December 18, 2018, from <http://coraltriangleinitiative.org/library/rpoa>

⁴⁴ Retrieved December 18, 2018, from <http://www.fao.org/fishery/facp/TLS/en#CountrySector-Statistics>

⁴⁵ This study concludes that an absence of data makes it difficult to calculate the status of the Timorese fish stocks.

as IUUF, and to ensure sustainable fishing practices.

In 2017, the National Oceanic and Atmospheric Administration (NOAA) issued a report providing baseline information on fisheries and marine resources for ecosystem-based management of Timor-Leste's nearshore waters. The report also provided a baseline assessment of Timor-Leste's nearshore habitats and coral reef ecosystems of certain surveyed areas (Interdisciplinary baseline ecosystem assessment surveys, 2017). The main objective was to inform coastal management decisions and evaluate the effectiveness of the resulting actions for sustainably managing coastal fisheries and for developing long-term benefits for the people of Timor-Leste (food security, sustaining marine-based livelihoods, and ensuring coastal protection).

The report found that the waters surrounding Timor-Leste support high fish diversity and areas of localized high coral cover, but that there are areas of concern that require continued monitoring of the effects of ocean acidification on reef growth and survival in the region.

The report also put forward recommendations and best practices, namely the use of data as a baseline for the long-term monitoring of the status of and changes in the habitats, marine resources, and biodiversity of Timor-Leste, as well as for the implementation of area-based management tools for use in Timor-Leste's nearshore habitats and ecosystem resources.

International cooperation and regional efforts

Timor-Leste is not party to the Fish Stocks Agreement,⁴⁶ the main purpose of which is to implement UNCLOS and elaborate on the general principles of conservation and management of straddling fish stocks and highly migratory fish stocks. The Fish Stocks Agreement also underlines the important role of regional fisheries management organizations. Timor-Leste is also not party to the FAO Compliance Agreement⁴⁷ and the Agreement on Port State Measures to Prevent, Deter and Eliminate IUUF.⁴⁸ The FAO Code of Conduct for Responsible Fisheries,⁴⁹ the FAO International Plan of Action for

the Management of Fishing Capacity (FAO, 1999), and the FAO International Plan of Action to Prevent, Deter and Eliminate IUUF are relevant tools for combating IUUF and for ensuring responsible fisheries (FAO, 2001).

At the regional level, Indonesia, Timor-Leste, and Australia have agreed to form a non-binding forum to foster collaboration between government and nongovernment organizations, in pursuit of sustainable use of the living resources of the Arafura and Timor seas: The Arafura and Timor Seas Ecosystem Action Programme 2010-2014.⁵⁰ This program was designed to identify the root causes of the problems facing the two semi-enclosed seas through a transboundary diagnostic analysis. First and foremost, it took into consideration that the Arafura and Timor seas form an ecosystem that must be seen as a whole. Indeed, both seas share similar transboundary concerns such as living resources and conservation of marine biodiversity, coastal and marine habitat destruction, environmental change, and impacts on ecosystem dynamics.

In this regard, it should be recalled that UNCLOS provides that states bordering semi-enclosed seas should cooperate and specifically endeavor to coordinate the management, conservation, exploration, and exploitation of the living resources of the sea, the implementation of their rights and duties with respect to the protection and preservation of the marine environment, and their scientific research policies, and that states should undertake appropriate joint programs of scientific research in the area.⁵¹

Another regional effort is the Asia-Pacific Fishery Commission (APFIC), of which Timor-Leste is a member. It is a regional consultative forum, providing its member countries, regional organizations, and fisheries professionals in the region with the opportunity to review and discuss the challenges facing the region's fisheries sector and helping them decide on the most appropriate actions to take. Its purpose is to promote the full and sustainable use of living aquatic resources through economically viable and environmentally sustainable policies, practices, and operations and finding solutions to emerging regional fisheries issues that affect the APFIC member countries.⁵²

⁴⁶ Agreement for the Implementation of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks, of 4 August 1995, entered into force on December 11, 2001, 2167 U.N.T.S. 3.

⁴⁷ Agreement to Promote Compliance with International Conservation and Management Measures by Fishing Vessels on the High Seas of 24 November 1993, entered into force on April 24, 2003.

⁴⁸ Agreement on Port State Measures to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing of 22 November 2009, entered into force on June 5, 2016.

⁴⁹ Code of Conduct for Responsible Fisheries of 31 October 1995.

⁵⁰ Retrieved December 18, 2018, from <http://ctknetwork.coraltriangleinitiative.org/programs-projects/the-arafura-and-timor-seas-ecosystem-action-program-atsea/>

⁵¹ Article 123.

⁵² Retrieved December 18, 2018, from <http://www.fao.org/apfic/en/>

The APFIC includes the northern and southern maritime areas of the island of Timor, including the island of Atauro and the enclave of Oecusse. Timor-Leste is wholly included in the designated Sulu-Sulawesi and Timor-Arafura Seas subregions (Funge-Smith, Briggs, & Miao, 2013, p. 53).

Timor-Leste also signed the 2007 Regional Plan of Action (RPOA) to Promote Responsible Fishing Practices including Combating IUUF, which covers, amongst others, the Arafura and Timor seas.⁵³ The objectives of the RPOA are to enhance and strengthen the overall level of fisheries management in the region, to sustain fisheries resources and the marine environment, and also to optimize the benefits of adopting responsible fishing practices. The actions cover conservation of fisheries resources and their environment, managing fishing capacity, and combating IUUF.⁵⁴

At the regional level, the Partnership in Environmental Management for the Seas of East Asia (PEMSEA) envisages fostering and sustaining healthy and resilient coasts and oceans, communities, and economies across the seas of East Asia, and adopting a regional coordinating mechanism for a sustainable development strategy for the seas of East Asia.

Also significant is the Coordinating Body on the Seas of East Asia (COBSEA)⁵⁵ established under the East Asian Regional Seas Programme (United Nations Environment Programme), especially because no regional convention has been established in the East Asia Seas region. Although Timor-Leste is not a member, it works with COBSEA through PEMSEA.⁵⁶

COBSEA is a regional environmental agreement covering a large part of the marine area within APFIC's direct area of interest. It promotes compliance with existing environmental treaties and is based on the goodwill of states. Of particular relevance is the 1981 Action Plan for the Protection and Development of the Marine Environment and Coastal Areas of the East Asian Seas Region, which reflects concerns about the effects and sources of marine pollution. Its main components are the assessment of the effects of human

activities on the marine environment, control of coastal pollution, protection of mangroves, seagrasses and coral reefs, and waste management.⁵⁷ In addition, there is the project Spatial Planning in the Coastal Zone – Disaster Prevention and Sustainable Development, whose overall goal is to reduce and prevent the impacts of natural disasters, climate change, and sea level rise and to promote the sustainable development of the coastal areas in COBSEA member countries through the application of spatial planning for integrated coastal zone management and ecosystem-based management (Spatial Planning, 2011).

Timor-Leste is not part of the Southeast Asian Fisheries Development Center's (SEAFDEC) Regional Code of Conduct for Responsible Fisheries,⁵⁸ which is derived from the FAO Code of Conduct for Responsible Fisheries; nor is Timor-Leste a member of the Association of Southeast Asian Nations (ASEAN).⁵⁹ Since 1998, there has been technical cooperation between these two entities, namely under the regional ASEAN-SEAFDEC Fisheries Consultative Group Mechanism framework.⁶⁰

In addition, Timor-Leste is not a member of the Asia-Pacific Economic Cooperation (APEC) nor of the 2005 APEC Bali Plan of Action. The main objectives of the latter are to ensure the sustainable management of the marine environment and its resources and to strengthen regional fisheries management organizations. The project seeks to balance conservation and management of marine resources with regional economic growth.⁶¹

Protection and preservation of the marine environment in Timor-Leste

As a state party to UNCLOS, Timor-Leste is subject to the rules on the preservation and protection of the marine environment included in Part XII of the Convention. Accordingly, all states must protect and preserve the marine environment,⁶² taking into consideration the interconnectivity of different marine ecosystems and the duty to cooperate as a fundamental principle in the prevention of pollution of the marine environment.

⁵³ Includes Australia, Brunei Darussalam, Cambodia, Indonesia, Malaysia, Papua New Guinea, Philippines, Singapore, Thailand, and Vietnam, and four regional fisheries organizations which provide technical advice and assistance: APFIC, SEAFDEC, InfoFish, and Worldfish Center.

⁵⁴ Retrieved December 18, 2018, from <http://www.rpoaiuu.org>

⁵⁵ Retrieved December 18, 2018, from <http://www.cobsea.org>

⁵⁶ Includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, Cambodia, China, Republic of Korea, and Vietnam.

⁵⁷ Retrieved December 18, 2018 from https://wedocs.unep.org/bitstream/handle/20.500.11822/22385/Action_plan_Marine_EastAsia.pdf?sequence=1&isAllowed=y

⁵⁹ Retrieved December 20, 2018, from <https://asean.org/asean/asean-member-states/#>

⁶⁰ Retrieved December 20, 2018, from <http://asspfisheries.net>

⁶¹ Retrieved December 20, 2018, from <https://apec.org/Publications/2008/09/Implementation-of-the-Bali-Plan-of-Action>

⁶² Article 192.

In its Preamble, UNCLOS refers to a legal order for the world's seas and oceans that will simultaneously promote the efficient utilization of marine natural resources and the protection and preservation of the marine environment, entrusting all states to cooperate to this end on a global and regional basis. Moreover, UNCLOS introduced the adoption of preventive measures and the control of the sources of pollution, rather than only dealing with its consequences and the responsibility for damaging or causing harm to the marine environment.⁶³

At the national level, Article 61 of the Constitution of the Republic of Timor-Leste states that everyone has the right to a humane, healthy and ecologically balanced environment and that the state recognizes the need to preserve and value the natural resources and that the state has the duty to protect the environment and improve it for the benefit of future generations. The state should promote actions aimed at protecting the environment and safeguarding the sustainable development of the economy. Moreover, Article 139(1) of the Constitution provides that all the resources of the “territorial waters,” the continental shelf, and the EEZ are owned by the state and must be used in a just and equal manner in accordance with national interests. Paragraph 3 of the same provision expressly declares that the development of natural resources must maintain the “ecological balance” and avoid the destruction of ecosystems.

The Environmental Basic Law of Timor-Leste approved by Decree-Law No. 26/2012, of June 26, which is applicable to the entire national territory, including territorial seas and EEZs,⁶⁴ puts forward important guiding principles, namely that of intergenerational responsibility, prevention, precaution, polluter pays, international cooperation,⁶⁵ in addition to rules concerning strategic environmental assessment,⁶⁶ a system of environmental evaluation and licensing,⁶⁷ and environmental monitoring,⁶⁸ as well as the protection, conservation, and sustainable use of “environmental components,” for the benefit of all citizens.⁶⁹ The law further elaborates on the need for the environmental policy of Timor-Leste to cross-cut all spheres, including spatial planning.⁷⁰

⁶³ Articles 197-199, 204, 208(1), (2), (4), and (5), 211(1), 214, and 217(1).

⁶⁴ Article 3(1).

⁶⁵ Articles 5 and 65.

⁶⁶ Article 13.

⁶⁷ Article 15.

⁶⁸ Article 16.

⁶⁹ Article 22(1). Also see Articles 27 and 28.

⁷⁰ Article 17.

Referring specifically to coastal areas, this law emphasizes that the planning of “interior areas” should be integrated with the management of water resources by taking into consideration the impacts on coastal areas, as well as the specific needs of the coastline and marine ecosystems.⁷¹ It further requires the state to ensure the integrated management of the coastline, as the basis for the conservation, protection, and sustainable use of marine resources, ecosystems, and marine species.⁷² This law also requires the state to formulate a plan for the integrated management of the coastline.⁷³

Also pursuant to the obligations under the Convention on Biological Diversity (CBD),⁷⁴ Timor-Leste created the National System of Protected Areas (NSPA), approved by Decree-Law No. 5/2016, March 16, which establishes the legal regime for the creation and management of the NSPA. The scope of the NSPA includes the entire national territory of Timor-Leste, including the waters under national jurisdiction.⁷⁵ A national plan for the NSPA must be clearly formulated and integrated with all other national policies and spatial planning instruments.⁷⁶

It should be noted that already before the inception of the NSPA, the Resolution of the Government of Timor-Leste No. 8/2007, August 1, established the National Park Nino Konis Santana, a landmark and a fundamental element in the protection and preservation of the marine environment at the national level, as well as at the regional level, namely the Coral Reef Triangle. This resolution specifically states that one of the goals of the creation of the park is the preservation of the marine environment and the sustainable exploration of living marine resources.⁷⁷

In addition to the NSPA and similarly connected with the CBD, Timor-Leste approved the National Biodiversity Strategy and Action Plan⁷⁸ as the guiding framework for the conservation of its biodiversity and to safeguard the country's development agenda for the next two decades. The National Strategic Development Plan of Timor-Leste “reflects the aspirations of the Timorese people to create a prosperous and strong nation” and “envisions that, by 2030,

⁷¹ Article 18(4) and (5).

⁷² Article 25(1).

⁷³ Article 25(2).

⁷⁴ Convention on Biological Diversity, done at Rio de Janeiro on June 5, 1992 and entered into force on December 29, 1993, 1760 U.N.T.S. 79. Ratified by Timor-Leste with the Resolution of the National Parliament No. 9/2006, April 26.

⁷⁵ Article 3. Also see Article 11(1).

⁷⁶ Article 9(1) and (2).

⁷⁷ §3 lit. b).

⁷⁸ Retrieved December 20, 2018, from <https://www.cbd.int/doc/world/tl/tl-nbsap-v2-en.pdf>

a strong bond between the Timorese people and their environment will be restored and the natural resources and environment managed sustainably for the benefit of all.”⁷⁹

Timor-Leste also ratified the United Nations Framework Convention on Climate Change (UNFCCC),⁸⁰ and the Kyoto Protocol.⁸¹ Pursuant to and in compliance with its obligations under the UNFCCC, Timor-Leste issued the National Adaptation Programme of Action for Climate Change (NAPA) as a planning tool that identifies areas for immediate action with proposed adaptation measures, including the protection of coastal ecosystems from climate change impacts.⁸² The Environmental Basic Law also refers to climate change, expressly determining that the state must implement all necessary measures to adapt to and mitigate climate change.⁸³

Marine spatial planning

There is no international legal regime that expressly deals with marine spatial planning (MSP), and UNCLOS does not refer to this concept. The Preamble to the Convention does nonetheless recognize that “the problems of the ocean space are closely interrelated and need to be considered as a whole.”

The United Nations Educational, Scientific and Cultural Organization (UNESCO) has recognized the notion of interconnectivity of the maritime space, when it acknowledged that the governance of the marine space must be integral and not merely sectoral or restricted to the preservation of the marine environment in certain areas. It underlined the importance of rational organization of the use of the marine space and of the interactions between its uses. In order to achieve a balance in the development of such uses, it is necessary to protect marine ecosystems, and to achieve social and economic objectives in a transparent manner. In this regard, UNESCO considers MSP a public process of analyzing and allocating the spatial and temporal distribution of human activities and to pursue ecological, economic, and social

objectives. UNESCO expressly refers to the need to adopt governance models that include, on the one hand, planning measures that allow for sustainable development in time and space of different uses and activities, and on the other hand, implementation measures, control, monitoring, evaluation, research, stakeholder participation, and identification of financial resources (see also Ehler & Douvère, 2009, pp. 19-24).⁸⁴

Likewise, the Secretariat of the Convention on Biological Diversity emphasized the importance of implementing area-based management that addresses multiple management objectives, as well as the relevance of MSP to improve decision-making based on the principles of the ecosystem approach and ecosystem-based management, built upon the concepts and policies of integrated coastal area and zone management, including the efforts to establish marine protected areas.

Despite the absence of any reference to MSP therein, UNCLOS provides rules that are relevant to this effect. This is primarily a case of balance between, on the one hand, the exercise of rights of sovereignty and jurisdiction by coastal states in their respective maritime areas and over the natural resources found therein, and, on the other hand, the rights and freedoms and obligations of all states in these areas. UNCLOS also underlines the importance of both global and regional cooperation, in particular the protection and preservation of the marine environment.

Current MSP policies recognize that activities at sea are no longer limited to resource development and offshore activities. There are increasingly more competing uses and a growing need for maritime space. Central to current maritime policies at the national, regional and global levels are the principles of integrated ocean use management and the ecosystem approach (Juda, 1996, p. 285; Potts, 2015, p. 57). In this respect, MSP is relevant as an area-based management tool for achieving consistency between the rights of sovereignty and jurisdiction of coastal states and the overall interests of sustainable ocean governance (Soininen & Hassan, 2015, note 4).

The principles applicable to the protection and preservation of the marine environment established in Part XII of UNCLOS are similarly relevant for incorporating MSP in the law of the sea. These include the aforementioned general obligation for all states to protect and preserve the marine environment,⁸⁵

⁷⁹ Retrieved December 20, 2018, from <http://timor-leste.gov.tl/wp-content/uploads/2011/07/Timor-Leste-Strategic-Plan-2011-20301.pdf>

⁸⁰ United Nations Framework Convention on Climate Change, done in New York on May 9, 1992 and entered into force on March 21, 1994, 1771 U.N.T.S. 107. Ratified by Timor-Leste with Resolution of the National Parliament No. 7/2006, April 26.

⁸¹ Kyoto Protocol to the United Nations Framework Convention on Climate Change, done in Kyoto on December 11, 1997 and entered into force on February 16, 2005, 2303 U.N.T.S. 162. Ratified by Timor-Leste with Resolution of the National Parliament No. 6/2008, May 7.

⁸² Retrieved December 20, 2018, from <https://unfccc.int/resource/docs/napa/tls01.pdf>

⁸³ Article 34.

⁸⁴ Retrieved December 20, 2018, from <http://msp.ioc-unesco.org/about/marine-spatial-planning/>

⁸⁵ Article 192.

including in the high seas,⁸⁶ as well as global and regional cooperation,⁸⁷ and prevention of environmental harm.⁸⁸ States are also bound to protect and preserve rare or fragile ecosystems and habitats of depleted, threatened or endangered species and other forms of marine life.⁸⁹ Other principles, such as the precautionary principle, polluter-pays principle, the notion of sustainable development and ecosystem approach were introduced after UNCLOS, but are also fundamental for MSP (Marr, 2003, pp. 5-7). This is the case of the precautionary principle and ecosystem approach referred to in the Fish Stocks Agreement.⁹⁰

Undoubtedly, despite the fact that UNCLOS is the main framework for MSP, the current legal instruments resulting from the fragmentation of the law of the sea complement the existing legal order of the oceans. This is particularly relevant with respect to providing substantive principles for current MSP policies and to ensure their effectiveness (Hassan & Soininen, 2015, p. 69).

MSP and Timor-Leste

Timor-Leste's Law No. 6/2017, April 19, which established the general basis for the public policy on land planning, refers to the integrated management of coastal areas, not extending beyond the territorial sea, and land-sea areas within a 50-meter perimeter on land and 30 meters measured bathymetrically at sea.⁹¹ In these areas, the state must protect and value the coastal areas, safeguarding the maritime public domain and public access to the sea. It must also prevent natural degradation and degradation resulting from human activities, as well as support the recovery of the degraded areas and value the natural, historical, cultural, and landscape heritage. The state must also stimulate socioeconomic activities that are compatible with the sustainable development of the coastal areas, ensure and promote compatibility between different usages and activities of coastal areas, and minimize risks and environmental, economic and social impacts.

⁸⁶ Articles 116-119.

⁸⁷ Article 197.

⁸⁸ Articles 194(2) and 206. See Request for Advisory Opinion submitted to the Seabed Disputes Chamber (n 30) paras. 78, 145-149. Also see *The MOX Plant Case (Ireland v. United Kingdom)*, Request for provisional measures, I.T.L.O.S. No. 10, 2001, paras. 82, 84, 89(1); see *Legality of the Threat or Use of Nuclear Weapons*, Advisory Opinion, I.C.J. Reports 1996, para. 29; *Pulp Mills on the River Uruguay (Argentina v. Uruguay)*, Judgment, I.C.J. Reports 2010, paras. 55, 56, 113, 115, 19, 120, and 158.

⁸⁹ Article 194(5).

⁹⁰ Article 6.

⁹¹ Article 5.

Law No. 6/2017 states that land planning systems must consider the need for integrated management of coastal areas, in particular the maritime limit, to protect coastal areas and ensure their sustainability, and preserve the maritime public domain.⁹² The same law also makes provisions for the application of land spatial planning instruments on the island of Atauro, under the proposal of the Administration Council of the Special Economic and Social Zone of Oe-Cusse Ambeno and Atauro (the Special Administrative Region of Oe-cusse, Ambeno).⁹³

However, similar to Law No. 6/2017, Decree-Law No. 10/2016, May 4, on spatial planning on the island of Atauro, makes no express reference to MSP or, for that matter, land-sea interaction.

Conclusion

Although not fully resolved, the settlement of the dispute between Timor-Leste and Australia is undoubtedly a success, and also an opportunity for the implementation of transboundary cooperation in ocean governance matters. This will also be the case when maritime boundaries with Indonesia are settled in the future.

In recent years, Timor-Leste has made great achievements, in particular the implementation of international obligations regarding climate change and the conservation of marine biodiversity. Yet, there are still several shortcomings, for example, effective implementation of current environmental laws and regulations, which is mostly the result of a lack of resources and capacity. Another limitation is the lack of overarching planning tools, such as MSP, based on good scientific data for proper decision-making. In this regard, the 2017 NOAA report is an important contribution.

The advancement of MSP legislation would contribute towards addressing climate change and loss of biodiversity. MSP is essential for a holistic and integrated approach in ocean governance at the national level, as well as at the regional and multilateral levels between the relevant coastal states and organizations. Indeed, one intricate reality of international organizations is significant overlap in as well as lack of mechanisms for coordination. MSP is also an indispensable tool for the effective implementation of a National Ocean Strategy focused on the "blue economy" which will ultimately contribute

⁹² Ibid.

⁹³ Article 31

towards the diversification of Timor-Leste's economy.

Another relevant area-based management tool is a network of national and regional and transboundary marine-protected areas. These should include management measures, such as fishery conservation and protection objectives, and identify the extent to which fishing is allowed. It should be noted that this notion was already encapsulated in the protection regimes of the NSPA,⁹⁴ as well as in the legal management and regulation of fisheries and aquaculture.⁹⁵

Moreover, the reinforcement of regional cooperation is not only indispensable for conservation and protection, but also for multijurisdictional problems such as IUUF. Regional cooperation would also be beneficial for the implementation of international legal regimes not yet in force in Timor-Leste.

⁹⁴ Articles 33 and 34.

⁹⁵ Article 98 of Decree-Law No. 6/2004, April 21, amended by Article 53 of NSPA. This amendment altered the general principle that no fishing activities would be allowed in marine national parks. The current version merely states that the classification of marine national parks included in the NSPA is subject to special legislation.

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When the chips are down and the oil runs dry: The economies of Macau and Timor-Leste

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Keywords: Sustainable development and planning, MSAR, Timor-Leste, economic diversification

Abstract

At the end of the 20th century and beginning of the 21st century, both Macau and Timor-Leste have found themselves with a new legal status, the former as one of two Special Administrative Regions of the People's Republic of China and the latter, the world's newest sovereign state. While gaming and petroleum resources have provided a windfall for each economy, respectively, emergent circumstances and conditions have forced both to consider alternative streams of revenue and diversification of their economies for the sake of sustainability. This paper analyses the strategies being explored in terms of policy and implementation, and considers the relative challenges and benefits, with a desired outcome of providing inputs for development in terms of practical planning.

Introduction

For over almost half a millennium, Macau and Timor-Leste have undergone several periods of transformation due to commercial, economic and geopolitical factors, as well as the effects of occupation. This paper looks at the evolution of their economies following their changed autonomous statuses at the beginning of the twenty-first century.

As the only territory in China where gambling has been legalized, the Macau Special Administrative Region (MSAR) has adeptly fostered domestic, regional and foreign investment into its gambling industry which in turn has grown its economy through tax revenues. Following the handover to China on 20 December 1999, Macau more than quadrupled its GDP per capita from 2002 (US\$16,312.64) to 2012 (US\$76,496.37), with an average growth rate of 13.%

per annum from 2001-2006. However, it also experienced a sharp decrease (-24.6% year-on-year in Q2 2015) following reduced spending by visitors from mainland China as a consequence of Beijing's anti-corruption campaign.

Gaining full sovereignty for the first time in modern history on May 20, 2002 as the Democratic Republic of Timor-Leste and following a transition period under United Nations missions, Asia's youngest nation state has benefited from tax revenues earned from the exploitation of oil and gas fields in the Timor Sea. Its GDP per capita also increased more than tenfold between 2002 (US\$552.85) and 2012 (US\$5,767.01). However, reduced revenues in 2016 (a consequence of both reduced production and lower market oil prices, among other factors) brought about a decrease of 65.54% of the peak 2012 level.

In both these cases, there has been overreliance on one main source of state revenue: in Macau, gambling revenues from its casinos account for up to 80% of government revenue annually, while in Timor-Leste, the Petroleum Fund, where oil and gas revenues are accrued, accounted for 83% of state expenditure in 2017. Vulnerability to volatile market forces and overreliance on established sources of revenue have shown the need for economic diversification. This paper will analyze strategies for economic diversification for each case and consider effective approaches and methods for implementation.

Literature review

While the rise of Macau, following its official return to China in 2002, has seen it become the world's pre-eminent gaming location and its GDP per capita rise to among the highest in the world, much of the literature has focused solely on its meteoric economic trajectory and the positive ramifications of this for its economy and citizens. Without downplaying Macau's impressive economic achievements, Gu and Sheng (2018) raised some issues that affect citizens' lives including sustainability, environmental resource stress, widening social gaps, real estate bubbles, dilution of cultural authenticity, and problems related to gambling addiction. This paper does not directly deal with the negative effects and ramifications associated with the growth of the Macau gaming industry. Nonetheless it was necessary to examine literature which counter-balanced the dominant, overtly positive views of gaming operations so as not to consider the gaming industry the panacea for all social ills, economic and/or otherwise.

The official state literature on Timor-Leste's economic, and other, development is centrally focused in such documents as the Timor-Leste Strategic De-

velopment Plan 2011-2030 and the National Employment Strategy 2017-2030. These documents, as well as providing a clear snapshot of the real condition of the country and its population, espouse the country's aspirational development trajectory and goals. However, it is also necessary to consider other sources, such as the studies of La'o Hamutuk, for a balanced understanding of the state's implementation plans and its progress.

The search for alternatives

The fortunes of both Macau, a territory of Ming China prior to being leased to the Portuguese in 1557, and Timor, an island divided into east and west by Portuguese and Dutch settlement, were linked by trade in white sandalwood (*Santalum album L*) (Durand, 2006; Gunn 1999; de Sousa, 2018).

Following Portuguese settlement of Macau, the territory prospered as a thriving international trade center for almost a century, a period of prosperity which ended with the decline of Portuguese influence and disruptions caused by Portugal's conflict with Spain. A second era of prosperity followed from 1717 when the Chinese Qing government banned foreign trading from all of their ports, allowing the Portuguese port of Macau to benefit from its unique status. The British Empire's occupation of Hong Kong in 1841 and the subsequent establishment of British administration and construction of a deep-water port a year later, relegated Macau to relative obscurity. Macau's shallow-water port could not compete with Hong Kong's deep-water port, which could accommodate the new steam-powered oceangoing ships. As Macau's status as a trading port declined, the Portuguese administration attempted to diversify the economy by legalizing gaming for the first time. By 1850, there were more than 200 operators and stallholders of fan-tan, a Chinese game akin to roulette. Macau's history of gambling dates back to the 1500s when games of chance were played on wooden tables laid out on narrow streets and cul-de-sacs, mainly for harbor coolies and construction workers from the mainland and for domestic helpers.

Timor's fortunes also changed over time. Three consecutive centuries of cutting and exporting sandalwood had depleted that resource. In 1815, in an effort to diversify the economy of Portuguese Timor (the eastern half of the island), Governor Afonso de Castro ordered the local population to cultivate coffee as a cash crop. The initiative was a considerable success, making up 4% of exports in 1858. Seven years later this figure had risen to 65% of exports. By 1910, sandalwood exports had reached 907 tonnes and so, in 1925, facing depletion of the sandalwood stocks, the Portuguese government implemented

a complete ban on cutting and exporting sandalwood. This ban effectively lasted for 50 years, until the invasion of East Timor by Indonesia. The situation was perhaps best described by McWilliam (2005): “the history of sandalwood in Timor has been an exemplary model of natural resource destruction with little or no regard for long-term management and ecological sustainability.”

In 1928, gambling in Macau officially expanded to include horse racing, and two years later the first monopoly concessionary license was issued for all approved casino games. Prior to World War II, a new concessionaire revitalized Macau’s gambling industry through the integration of both Chinese and Western-style games. Between 1936 and 1940, the population almost quadrupled from 120,000 to 400,000 (Gunn, 2016). This dramatic increase, driven by refugees fleeing to the Portuguese colony, was in large part due to Portugal’s declaration of neutrality during World War II, despite the fact that its sister colony of Timor was invaded and occupied by Japan following the dispatch of Australian and Dutch forces onto the island. This led to a situation in Macau where the “gambling houses were filled with people at almost all times” (Zheng & Wan, 2013 p. 43).

Macau’s casino industry developed from a single monopoly to the multiple local and foreign operators of today. From the street gambling for the working classes and itinerant workers from mainland China in the sixteenth century, it shifted to businessman Fok Chi Ting’s Hou Heng Company’s monopoly concession for operating all kinds of endorsed casino games in 1930. The Tai Heng Company, headed by Fu Tak-iong and Kou Ho-neng, introduced revolutionary changes under their monopoly concession from 1937 to the expiration of their franchise in late December 1961. Gambling operations were subsequently liberalized, and a concessionary license was publicly awarded to the Sociedade de Turismo e Diversões de Macau (STDm), established by businessmen Ip hong, Terry Ip Tak Lei, Stanley Ho, and Henry Fok.

The economic diversification that occurred in Macau from the post-WWII period to the beginning of the 21st century was primarily, if not solely, based on the gambling industry. From 1961, when the 119th Governor of Macau, Jaime Silvério Marques, designated the territory a “permanent gaming region” and classified it as a low-tax region for gaming and tourism, through the monopoly concession of the STDm, which lasted for just over four decades, “casino capitalism was viewed as a sine qua non of Macau’s economic growth and prosperity” (Lo, 2009).

In late 2002, when STDm’s monopoly expired, the government of Macau awarded three franchise licenses to three bidders from a field of 21. The successful franchisees, awarded on February 2, 2002, were Sociedade de Jogos de Macau (SJM, a subsidiary of STDm), Galaxy Casino, and Wynn Resorts. In December of the same year, the government allowed Galaxy a subconcessionaire, the Venetian Macau. SJM and Wynn Resorts later also signed subconcession agreements with MGM Grand Paradise in April 2005 and Melco PBL Jogo in September 2006, respectively. By 2007, Macau’s gross gaming receipts had reached MOP 83.8 billion (approximately US\$10.5 billion), far outstripping the total revenue of Las Vegas.

Following Timor-Leste’s independence and admission to the United Nations in 2002, its state-building efforts have increasingly relied on tax revenue from the oil and gas income of companies operating in the Timor Sea (Nixon, 2012, p. 150; La’o Hamutuk 2015; La’o Hamutuk 2017). Timor-Leste was initially lauded for its astute management of hydrocarbon revenues when it established a sovereign wealth fund in 2005, the Timor-Leste Petroleum Fund, and for its sustainable and transparent revenue management, shown by its initial compliance to and validation by the Extractive Industries Transparency Initiative, an international standard for the management and good governance of revenues from natural resources. However, the country has since encountered a number of challenges to maintaining transparency compliance (La’o Hamutuk, 2017). In addition, the 98% of exports provided by its extractive industries, accounting for 76% of Timor-Leste’s GDP and 97% of government revenue, account for only 2% of total employment.

In contrast, Macau’s gaming industry, responsible for over 80% of its GDP, provides – directly and indirectly – 75.8% of the jobs in the city (Yearbook of Statistics 2017, Macau’s Statistics and Census Service). When the Macau government enacted the new gaming industry framework, Law No. 16/2001, it also required companies granted a casino franchise to pay a 35% casino tax on gross gaming revenues and no less than 2% to a public foundation for the promotion of cultural, social, economic, educational, scientific, academic and charity projects (McCartney, 2006, p. 49).

Table 1 and Figure 1 show Macau’s heavy dependency and increasing reliance on “casino capitalism,” a term coined by Susan Strange (1986) to describe the volatility and unpredictability of the Western financial system. In Macau’s case, any drastic and sudden decline in its casino industry will dramatically affect gaming tax and government revenues. Macau’s acknowledgement

of its dependence on gaming and its strategy to overcome this is evident in the 24 references to economic diversification and/or diversification of the gaming industry in the Five-Year Development Plan of the Macau Special Administrative Region (2016-2020).

Table 1
Annual Gross Gaming Revenue

Year	Tax Revenue	Gaming Taxes	Gaming Contribution
2000	15,339	5,647	36.81%
2001	15,642	6,293	40.23%
2002	15,227	7,766	51.00%
2003	18,731	10,579	57.59%
2004	23,864	15,237	63.85%
2005	28,201	17,319	61.41%
2006	37,189	20,748	55.79%
2007	53,710	31,920	59.43%
2008	62,259	43,308	69.40%
2009	69,871	45,698	65.40%
2010	88,488	68,776	77.72%
2011	122,972	99,656	81.04%
2012	144,995	113,378	78.19%

Source: DSEC, Directorate Services of Statistics and Census, Macao SAR Government (May 2014)

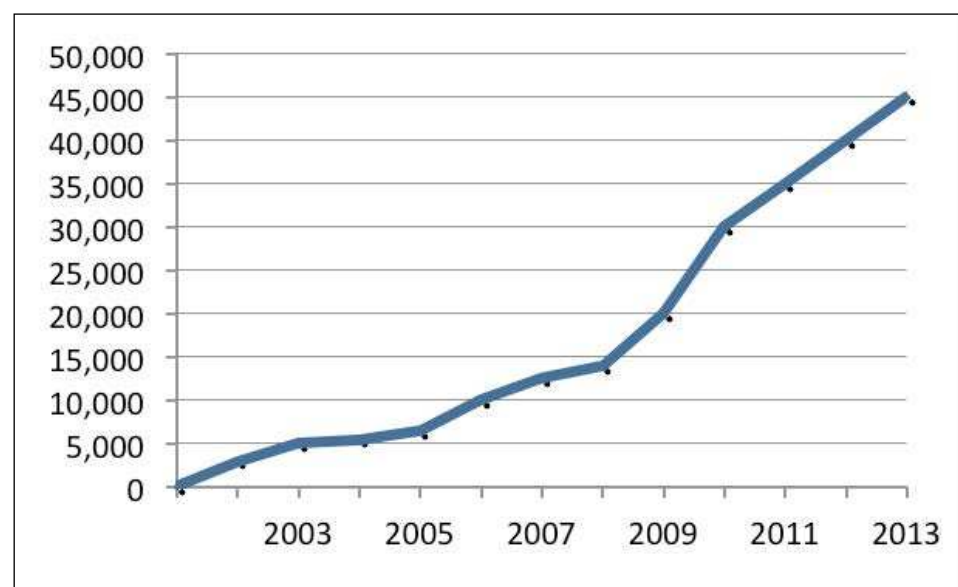


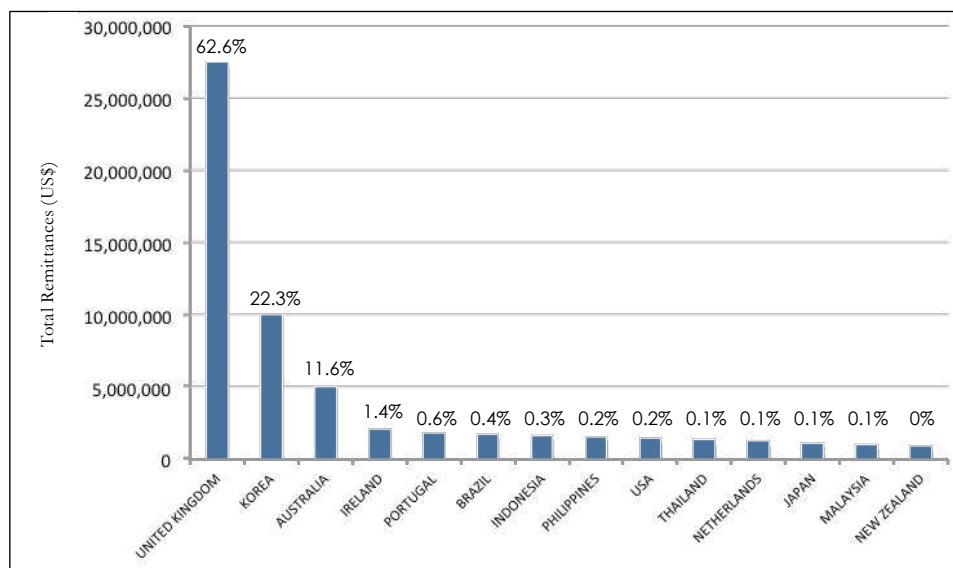
Figure 1. Macau Casino Taxes (MOP millions)

Source: DSEC, Directorate Services of Statistics and Census, Macao SAR Government (May 2014)

Macau’s gaming industry provides almost three times the number of employment positions as the public sector. In Timor-Leste, with 48% of people of working age unemployed and the public sector the largest provider of formal employment at 16.9% (Timor-Leste Census Population and Housing 2015, General Directorate of Statistics), the challenge has become how to use the oil and gas revenues to stimulate growth in other sectors and industries. Even organic coffee, once its highest source of export revenue, has diminished over recent years and has been overtaken by remittances, which are now Timor-Leste’s largest source of foreign revenue after oil and aid. More than US\$40 million was remitted to Timor-Leste in 2017, in over 85,000 individual payments. This means that labor services are Timor-Leste’s major export, more important than coffee exports (between US\$10 and US\$20 million a year) or revenue from tourism (estimated at US\$14 million in 2014) (La’o Hamutuk, 2018; see Figure 2).

Timor-Leste’s Strategic Development Plan 2011-2030 makes seven references to the need for diversification of economic activities. While the plan’s goals and objectives are aligned with international standards such as the Millennium Development Goals (MDGs), and though the country has achieved MDG3 and several other MDG targets, an analysis of budget execution and program implementation since independence indicates neglected sectors and a state in which the “development of the key sectors of agriculture, education, and health remains fragile” (Anderson, 2013, p. 235).

Timor-Leste’s demographics show that 75% of the population live in rural areas and they rely on subsistence farming. Approximately 15,000-20,000 job seekers enter the employment market annually and, based on a population growth rate of 2.9%, the working age population is estimated to increase by 200,000 people over the next decade (Timor-Leste National Employment Strategy 2017-2030). Timor-Leste’s main challenge therefore seems to be how to use the revenue generated from its extractive industries to address the funding shortfall in its neglected sectors and to use this as a catalyst for generating employment opportunities by fostering a dynamic and vibrant private sector. This could be done through attracting foreign direct investment and supporting the domestic private sector, perhaps through entrepreneurial and start-up initiatives.



	TOTAL (USD) REMITTANCES	AVERAGE VALUE (USD) OF PAYMENTS
UNITED KINGDOM	27,107,045	401
KOREA	9,637,267	767
AUSTRALIA	5,037,319	408
IRELAND	614,423	507
PORTUGAL	249,455	307
BRAZIL	178,523	384
INDONESIA	109,859	299
PHILIPPINES	75,424	350
USA	84,351	459
THAILAND	31,936	179
NETHERLANDS	32,235	268
JAPAN	54,261	487
MALAYSIA	36,727	371
NEW ZEALAND	20,989	233

Figure 2. Total Remittances to Timor-Leste by Origin

Source: La'o Hamutuk, 2018 (based on 2017 estimates from Western Union and Banco Nacional Ultramarino Timor-Leste estimates)

Conclusion

At the beginning of the 21st century, the small half-island state of Timor-Leste inherited a mountain of challenges and obstacles. After a brutal occupation that lasted for a quarter of a century, the last wave of violence in 1999, following the withdrawal of Indonesian troops, generated massive displacement and destruction with widespread consequences for the economic and social development of the country. Basic infrastructure, including a national power grid, had to be constructed, and the national road network, the education system, and homes had to be rebuilt. It is important to remember that East Timor had to start from scratch, without a government, official language, currency, legal system or schooling. State institutions had to be created, and human resource capacity had to be built up to make them viable and effective.

Independence meant that, following the adoption of its own Constitution, the country had to establish its state apparatus and institutions, mostly for the first time in its history. These included a judiciary system, a defense force, governance systems and departments at the central and regional levels, a policing system, accountable and transparent elections, and education and health systems. It also had to conduct negotiations with its neighbors on issues of sovereignty such as maritime and terrestrial boundaries. Given the monumental nature of the tasks facing it from the beginning of its time as an independent country, it is no exaggeration to state that Timor-Leste has made significant progress in its development agenda.² The progress achieved is a testament to the determination, fortitude, and resilience of the Timorese people and their fighting spirit. The historical and other links which exist between Macau and Timor-Leste, such as those shown and strengthened when Macau received refugees fleeing East Timor in the 1999 crisis following the vote on self-determination, present an opportunity for new engagement regarding each of their futures and their combined role in any common future.

The growth of Macau's economy and other sectors, such as its tertiary education system, provide new development opportunities, while Timor-Leste's high population growth and unemployment figures pose significant challenges

² Not taking into account other factors resolved within a time frame considered unthinkable by international donors and aid partners, such as the resolution and repatriation of nearly 15% of the population, and the 100,000 displaced from their homes following a crisis in 2006, which threatened to sink the country into protracted instability and violence

to development. Platforms already exist for multilateralism and cooperation between Macau and Timor-Leste, including the Forum for Economic and Commercial Cooperation between China and Portuguese-Speaking Countries (commonly referred to as the “Forum of Macau”). Other possibilities may be offered by the “long-term, cross-continental, grand strategy” of China’s One Belt One Road Initiative (B&RI) “that promises to sow the seed for a new geopolitical order which embraces development, multilateralism, and connectivity (Leandro, 2018). Within this context, creative, increased, and expanded forms of engagement could be sought for the mutual benefit of the Special Administrative Region of Macau and the Democratic Republic of Timor-Leste.

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The creation of the East Timor Defense Force and its impact on the regional security architecture

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Keywords: *East Timor, East Timor Defense Force, security and defense*

Abstract

This paper seeks to analyse one of the most decisive moments in the transformation and development of the Revolutionary Front for an Independent East Timor (FREITILIN) into the East Timor Defense Force (FALINTIL-ETDF) in 2001 and, consequently, its relevance to the promotion of peace, security, and development in East Timor as an independent state and its contribution to the regional security architecture.

Introduction

In mid-2000, following the postconflict (re)construction of the state of East Timor, the Timorese political-military leaders and the United Nations Transitional Administration in East Timor (UNTAET), with the support of international donors (including, prominently, Portugal) agreed to create the East Timor Defense Force (ETDF). The initial recruitment drew on the Armed Forces for the National Liberation of East Timor (FALINTIL), which were created by the Revolutionary Front for an Independent East Timor (FREITILIN) within the postcolonial self-determination process. This recruitment formed the beginning of the actual East Timor Defense Force which had a strong impact on the role of East Timor in security cooperation in the region.

This paper seeks to analyse one of the most decisive moments in the transformation and development of the FALINTIL into the FALINTIL-FDTL and, consequently, its relevance in the promotion of peace, security and development in East Timor as an independent state and its contribution to the regional security architecture.

The initial process was an unprecedented, little known, and little studied process, extraordinary not only in the perseverance and commitment of its direct actors, the guerrilla fighters, but also in the international community's involvement in one of the major challenges in the history of the United Nations. This challenge took the form of the reconstruction of a state and, specifically, the creation of a national armed forces from a group of guerrilla fighters who swore allegiance to their homeland and who were determined to serve their country.

Since its formation, the East Timor Defense Force has become central to the security and development of East Timor and is having an increasing impact on the regional security architecture. The main question we will try to answer is whether the East Timor Defense Force is relevant to the development and security of East Timor and what impact it might have on regional security.

Geographical and historical background

Situated on the southern tip of Southeast Asia in the Sunda archipelago, at the edge of Oceania, the Democratic Republic of Timor-Leste is a relatively small country of about 15,000 km², comprising the eastern half of Timor island, the Oecusse enclave, Atauro island, and Jaco Islet. It is at a crossroads between continents and oceans, and has been subject to diverse cultural influences and the presence of several peoples and cultures over the centuries.

The capital of East Timor (Timor-Leste in Portuguese) is Dili. East Timor has a population of around 1.2 million. Its official languages are Tetum and Portuguese, while English and Indonesian are working languages. Approximately 96% of Timorese are Catholic. Indonesia and Australia are close neighbors, with a shared history and strong links. Australia in particular has been prominent in its support for East Timor since its independence on May 20, 2002 and it remains East Timor's largest and most important partner in promoting internal development and security. Some Australians are actively engaged with East Timor through Australian state, territory and local governments, nongovernment organizations, the private sector, educational institutions and friendship groups.

Portugal reached East Timor in the early sixteenth century, in search of odoriferous sandalwood, as the famous medieval Portuguese writer Camões called it. The island was split into two kingdom confederations, the Belos and the Servião, creating a religious-geographic separation which roughly

corresponds to the present division of the island. Until the nineteenth century, Portuguese domination was more proposed than imposed, with local political hierarchies as agents of an indirect administration. At the dawn of the twentieth century, Governor Celestino da Silva led several military campaigns aimed at colonization outlined in the previous century. This effort resulted in the "pacification" of the territory – in which D. Boaventura, a local leader who did not surrender easily, stood out – and the definition of its internal and external borders. During World War II, despite Portuguese neutrality, the island was invaded by Japan and occupied from 1942 to 1945, causing many deaths among the Timorese population and giving rise to resistance movements against the occupation of the territory.

A change of regime in Portugal, the "Revolução dos Cravos" on April 25, 1974, paved the way for self-determination, party formation, and led to a dispute between the Timorese Democratic Union (UDT) and FRETILIN. The Portuguese authorities' inefficiency at this time resulted in a period of great internal instability.

Timor-Leste achieved formal independence on May 20, 2002 as a result of a UN-sponsored referendum in August 1999. The first democratic legislative elections were held on August 30, 2001, when over 91% of eligible voters elected a Constituent Assembly. In March 2002, the Constituent Assembly approved Timor-Leste's Constitution (based on the Portuguese democratic model). Timor-Leste's head of state is a directly elected president with limited executive power and the head of government is a prime minister, who is formally appointed by the president. Usually, the prime minister is the leader of the political party that forms a majority or coalition in the unicameral national parliament.

Timor-Leste held presidential elections most recently on March 20, 2017, which were won by Francisco Guterres Lu'Olo, and parliamentary elections on May 12, 2018. On May 28, 2018, the Timor-Leste Court of Appeal confirmed that the Alliance for Change and Progress (AMP) had won an absolute majority with 34 seats in the 65-seat legislature, corresponding to roughly 50%. Of the opposition parties, FRETILIN won 23 seats, the Democratic Party (DP) won five seats, and the Democratic Development Front (FDD) won three. Ex-Brigadier Jose Taur Matan Ruak Vasconcelos, one of the most influential military leaders in the country's democratization, was appointed prime minister.

Economic and political overview

East Timor aims to become an upper-middle income country by 2030 and has set out a clear development agenda in its Strategic Development Plan 2011-2030 (Government of Timor-Leste, 2011). Despite making remarkable progress since independence, the country faces considerable economic challenges, and persistent internal political instability has strongly affected economic growth. It remains one of the most oil-dependent countries in the world: oil and gas revenues accounted for about 70% of the GDP and almost 90% of total government revenue between 2015 and 2018, and the economic outlook for the near future shows little change.

The most important challenges currently facing East Timor are the diversification of economic activity from public to private, and from oil and gas to other sectors, while maintaining a sustainable fiscal position and improving services, particularly security and defense. Improving the business environment remains a huge challenge, with East Timor placed 175 out of 189 in the World Bank's 2017 rankings on ease of doing business (World Bank, n.d.). According to OCHA (2017), with two-thirds of its population living on less than US\$2.30 a day in 2015, East Timor remains one of the poorest countries in the region and in the world. Most of the population lives in rural areas and is heavily dependent on subsistence agriculture, with little access to markets and almost no contribution to the regional economy or global trade. Among the main challenges for the government of East Timor will be how to improve local commerce and the national economy, and integrate into the regional and global economies.

The Asian financial crisis, along with the end of the Suharto era in Indonesia in 1998, provided the possibility of some economic changes in East Timor. In January 1999, Indonesia's government announced that it would be prepared to agree to East Timor leaving Indonesia if its people desired it. On May 5, 1999, after some years of informal negotiations, an agreement was reached between Indonesia, Portugal, and the United Nations to provide for a referendum on 30 August to decide on a proposal for "special autonomy status" for East Timor. If the proposal was rejected, authority over the territory would revert to the United Nations, and the way would be open towards independence.

For 23 years after its invasion of East Timor in late 1975, the Indonesian government held decisively to the position that the territory was an integral part of Indonesia, the country's 27th province. During this period, Indonesia's

presence in East Timor gave rise to continuing conflict and disagreement, including allegations of human rights abuses by Indonesian military forces (for example, the Santa Cruz massacre in late 1991), nonviolent and armed resistance from many East Timorese, and extensive international censure of Indonesia's policies. President Habibie radically moved away from the country's traditional position, which provided new possibilities for reducing conflict in the territory and great potential benefits for the people of East Timor and for Indonesia, if a peaceful and mutually satisfactory process of transition could be followed.²

Australia has a long-term interest in the internal security and stability of neighboring Indonesia. During the recent regional economic crisis, Australia's interest in Indonesia was underlined by its commitment of over AUD 1 billion towards the International Monetary Fund's (IMF) assistance packages, aimed at supporting revival and reform of the Indonesian economy. Australia also had a major interest in ensuring a process of peaceful transition and development in East Timor.

Australia expressed its willingness from the beginning to assist and be fully engaged in the transition process, assistance which would include Australian support for and participation in peacekeeping activities. While Australia's relationship with Indonesia has been a central part of its foreign policy, Australia's current regional policies towards both Indonesia and East Timor must be seen as its most important foreign relations priorities overall. It is a question of finding the right balance in the strategic regional cooperation for development and security.

According to the World Bank, East Timor has become a more peaceful, democratic nation today. While poverty levels remain very high, considerable progress in several domains has been made in improving living standards. The proportion of Timorese living in poverty declined from 50% in 2007 to an estimated 42% in 2014. Extreme poverty, by the international measure of

² Predictions of a peaceful and creative change in East Timor depended on several major factors. Firstly there was the issue of whether a stable environment could be established among the political parties on the ground in East Timor (both East Timorese and Indonesian) to enable an orderly process of consultation about the future of the territory to take place, in accordance with the May 5th agreements. Secondly, there was the question of whether the Indonesian government and its armed forces—at a time of economic crisis and profound political change as Indonesia moved towards its first open elections since 1955—could pursue and implement a constructive and consistent policy towards East Timor. Thirdly, there was the issue of whether international assistance, led by the United Nations, could be implemented effectively to facilitate a process of transition in East Timor. All these questions were part of the discussion with the stakeholders and the international community for the implementation of the transition process in East Timor, and had a huge impact on the transition to peace and the development of the East Timor Defense Force.

US\$1.90 per day (in 2011 purchasing power parity dollars), fell from 47% to 30% over the same period. However, there is still much more to be done.

The creation of the East Timor Defense Force

Concerned about internal and regional order, Indonesia decided to occupy East Timor at the end of 1975. Despite the formal disapproval of the United Nations and the illegitimacy of the Indonesian occupation of East Timor, it remained a reality until mid-1999. The East Timorese organized themselves into a resistance movement based on various regional divisions under the guidance of a unique command, which became a generalized resistance throughout the country (and with external connections, mainly with Australia and Portugal). Resistance ranged from armed conflict to the Catholic Church, from the external front to the youth, and for nearly 24 years the East Timorese fought against the Indonesian occupation. Portugal, which still had responsibilities as an “administering power” according to international law, declared the resolution of the East Timor problem an imperative in its foreign policy. Bringing a free East Timor to the international community as a democratic, developed, and secure country become a national priority for Portugal.

The issue started gaining high visibility in the media in the 1990s, when English journalist Max Stahl filmed the Santa Cruz massacre, and the Stockholm Academy awarded the Nobel Peace Prize to two prominent resistance figures, D. Carlos Ximenes Belo and José Ramos Horta. In 1992, the imprisonment of resistance leader Xanana Gusmão brought him worldwide attention. In 1997-98, an economic and political crisis that devastated Indonesia caused the fall of Suharto, its president for more than 30 years. The change in the Indonesian government and the ensuing chaos paved the way for an understanding between Indonesia and Portugal, with UN mediation. This led to the New York Agreements, signed on May 5, 1999. These agreements proposed a referendum, supervised by the United Nations Mission in East Timor (UNAMET), to take place on August 30 that year.

On May 5, 1999, the Timorese political-military leadership, the United Nations, Portugal, and Indonesia agreed to consult the Timorese people on the issue of the special autonomy of East Timor. The referendum rejected special autonomy in favour of self-determination. A period of intense violence followed, and on October 25, 1999, the UN, acting in accordance with Chapter VII of the UN Charter, via Security Council Resolution No. 1272/99, established the United Nations Transitional Administration in East Timor (UNTAET) to temporarily

administer Timor-Leste, to guarantee peace and oversee the construction of an independent state.

It was in this context, based on a study by the King’s College, London, “Independent Study on Security Force Options for East Timor” (2000), and on a proposal from the National Timorese Resistance Council (CNRT), that the Timorese political-military leadership, with the support of Portugal and the UN, decided to create the FALINTIL-FDTL to provide military defense for the territory and people, and assistance to the civil community. Modeled on the “3rd option” given in the study, the FALINTIL-FDTL are composed of a light infantry force of 1,500 men and 1,500 reservists, comprising a joint command, a regular force component consisting of two light infantry battalions, and a naval component, a logistical base, and a reserve force component that would constitute the military device and forces system to be implemented in East Timor within the scope of reform in the defense and security sector.

In a postconflict state-building process, the chances of peace consolidation and societal development are much better if reform of the defense sector is carried out in a timely manner, with cultural, sociopolitical, and economic factors taken into account, and the actions of the various actors well coordinated. These measures were developed and implemented by the leaders of East Timor with substantial foreign aid (notably from Portugal, Australia, New Zealand, South Korea, and the United States) aimed to professionalize, modernize, and consolidate the FALINTIL-FDTL.

The members of the FALINTIL, stationed in precarious conditions at Aileu in the Timorese mountains, were aware that the international community had not fully foreseen the constitution of an armed force, and that its effective necessity was a divisive factor. In keeping with their history, the Timorese sought to create a FALINTIL-FDTL that would symbolize the struggle and unity of their people, assert and defend national sovereignty, and reciprocate the peace efforts of the international community, undertaking peace and humanitarian operations.

East Timor and the international community acknowledged the relevance of Portugal’s energizing and coordinating role during the years of struggle for independence, as well as its willingness to help as demonstrated at the first FALINTIL-FDTL Donor Conference in late 2000. The Timorese showed a preference for Portuguese help and military aid in the construction of FALINTIL-FDTL over other countries such as Australia, South Korea,

Thailand or New Zealand, though these were also directly involved in the initial FDTL creation process. Their historical relationship, their common language and religion, and the geopolitical position of Portugal were determining factors in this preference. At the same time, Portugal had a moral duty to aid its former colony and make reparation for leaving East Timor at the mercy of regional powers in 1974-75. The relationship of strategic cooperation between Portugal and East Timor, and the provision of funds, military equipment, and specialized personnel (mainly military but also Portuguese-language teachers) for the selection, training, and organization of the initial FALINTIL-FDTL were crucial.

As a result of the First International Donor Conference for the creation of the FALINTIL-FDTL in Dili, in late 2000, Portugal provided funds and military equipment as well as personnel to participate in the selection, recruitment, training, and organization of the FALINTIL-FDTL. Donated equipment included uniforms for 600 soldiers, and two Albatroz-class patrol boats. From 1,700 FALINTIL volunteers, 650 were recruited for the 1st FALINTIL-FDTL Battalion, the naval component, whose military staff and training unit were to be based in Metinaro. Those excluded from this recruitment were placed in United Nations civilian reintegration programs monitored by UNTAET, with a reintegration allowance of about US\$200.

The FALINTIL-FDTL was formalized on January 29, 2001 with a ceremony at Aileu, in the mountains of East Timor (an important site for the FALINTIL). The event was attended by the highest Timorese and international dignitaries, and marked the beginning of the unprecedented conversion of an irregular resistance army into conventional armed forces. Military training began in mid-February 2001 under Portuguese supervision and with the participation of 10 Portuguese soldiers, for whom the Infantry School in Mafra (Portugal) was technically responsible. The process also involved military personnel from Australia, New Zealand, South Korea, and the United States, and took place in two different phases.

In the first phase, at the village of Aileu (where the FALINTIL was stationed during the demobilization process), initial cadre training was given to some 250 guerrillas, preselected for the officer and sergeant categories (about 10 of whom failed). For the most part, they were past commanders of the FALINTIL and highly experienced combatants, who had to be taught a set of organizational, doctrinal, and regulation principles and rules in order to operate according to a different logic from that of guerrilla warfare. This group had an average

age of 40, the oldest being 56 years old. Many had on their bodies the marks of the fighting and tortures they had suffered. From this group, a corps of 66 officers and 124 sergeants was created, who then assumed command roles in the FALINTIL-FDTL military structure.

Their graduation and appointment were led by Brigadier Taur Matan Ruak, the first FALINTIL-FDTL Chief of Staff. The existing hierarchy of the FALINTIL was generally respected in this process, while skills and abilities shown during training, age, and state of health were taken into account in forming armed forces whose requirements were different from those of guerrilla warfare.

An inclusive transformational process allowed a blending of operational experience and knowledge acquired and shown during the training process, rewarding self-sacrifice in the defense of the homeland, and legitimizing the hierarchy of the FALINTIL-FDTL by structurally basing it on that of the FALINTIL. The process honored and protected those who had fought for years against the occupation and it recognized their efforts by giving them a role in the development of a professional armed forces which would continue to work for the security and defense of the Timorese people and territory. The Timorese military leadership lived up to its organizational responsibilities, as well as its responsibility to contribute to institutional-building, peace and security efforts, and the peaceful integration of East Timor into the international system.

In the second phase, the Portuguese team assisted in the training of the remaining 400 soldier recruits in Metinaro, and supported the creation of the basic structure of the FALINTIL-FDTL, its headquarters and general staff in Dili, the training centre in Metinaro, and the embryonic naval component at the naval base in Hera (with five Portuguese Navy personnel who later joined the training team and managed the naval component). The naval component received 60 of the 600 military personnel (10%).

As part of the military training, Portuguese-language classes were taught by teachers appointed by the Portuguese Ministry of Education, in liaison with the Portuguese Embassy in Dili, in order to consolidate the knowledge of one of East Timor's official languages. This was also an affirmation of the identity of the FALINTIL-FDTL, using the language of the resistance as the working language of the armed forces. Training was progressively adapted to local features and needs to ensure institutional empowerment, progress, and improvement of the armed forces' technical and military condition, ensuring respect for the democratic principles, traditions, and hierarchies that had

prevailed in the FALINTIL. This was crucially important to raising awareness of the elements central to being the armed forces of an emerging state in the international system: awareness of their responsibilities, their role in a democratic society, and their commitment to the rule of law and respect for human rights.

The first Portuguese training team departed on December 6, 2001 (almost a year after its arrival), symbolizing the end of military instruction. The 1st FALINTIL-FDTL Battalion banner was presented for the first time on December 1, 2001 by troops parading at the Metinaro barracks in the presence of the highest Timorese authorities and members of the UN administration. In this ceremony, which also represented the end of the Portuguese team's mission, the FALINTIL-FDTL Command honored the Portuguese team with the title of "Honorary Members of the FALINTIL – East Timor Defense Force." For the Portuguese military, the Timor-Leste's armed forces, and the relationship between Portugal and East Timor, the significance of this honor is immense.

In February 2002, Portugal sent a training team on a mission to East Timor, to carry out recruitment and provide training for the 2nd FALINTIL-FDTL Battalion. On May 11, 2002, East Timor was internationally recognized as an independent country and nine days later, Portugal and East Timor signed the first technical and military cooperation agreement. Thus, the efforts of the Timorese and FALINTIL, who had led an armed struggle against the Indonesian occupation for about 24 years, and Portugal's diplomatic efforts were recognized by the international community. The FALINTIL-FDTL is now an organized state institution and a provider of internal and external security, guaranteeing national sovereignty by securing control posts and running patrols on the Indonesian border.

The FALINTIL-FDTL has contributed to East Timor's international image by taking part in a Portuguese mission in Lebanon within the framework of the United Nations. Under Timorese legislation, they also participate in internal security matters, coordinating their actions with the Timor-Leste National Police (PNTL). These have included the 2012 electoral process and various other internal incidents. They carry out training sessions and operational training, and also take part in operational training exercises in a multinational environment. The creation of the FALANTIL-FDTL is a success that deserves to be highlighted, a guerrilla army that has become the regular armed forces of a fledgling state, under the democratic institutions of that state, within the principles of the law.

The credibility gained by the FALINTIL within Timorese civil society during the period of armed struggle, and their preference for Portuguese military aid are perhaps two of the most prominent factors that contributed to the success of the transformation from a guerrilla force to a conventional, professional, national armed force, along with the willingness of Portugal to assist Timor-Leste in this pioneering process.

There is obviously still a long way to go before the FALINTIL-FDTL reaches full autonomy and gains the necessary capability to take on a normal role in the democratic system. However, the progress made in human and institutional capacity-building so far is a testament to the Timorese effort to professionalize its armed forces within its own program to reform the defense and security sector, and to Portugal's unconditional support of this process. Subordinated to democratic and legitimate sovereign bodies, the FALINTIL-FDTL will contribute to the nation's development, and to regional, national, and international peace and security efforts, as well as to the full integration of East Timor into the regional and international security system.

Regional security dilemmas and international cooperation

The European Union

The European Union considers the security of the Pacific region and the union's security environment crucial for sustainable growth and development and global security (European Union, 2018). There can be no sustainable and inclusive development without peace and security. In a Statement by the European Union delegation on September 4, 2018, Pacific regional leadership on security was articulated in the "Biketawa Plus" security declaration established at the 2018 Forum Security Meeting. The European Union supports the region's aims for sustainable solutions which require multiple stakeholder approaches, interventions at different levels centered on a medium and long-term vision. The European Union believes that Pacific island countries and territories contribute the least to climate change, but suffer the most from its effects. In addition to climate change, related environmental pressures and degradation have direct implications for regional security and stability, primarily affecting communities in the most fragile and weakest situations. These factors contribute to the loss of livelihoods, increase disaster risks, force the displacement of people, increase the threat of social and political unrest, and exacerbate security tensions. Special attention and sustained international engagement are required to achieve sustainable development and a more stable security environment.

It is consequently a key priority for the European Union to support its Pacific partner countries and territories and regional organizations (such as ASEAN) in preventing and adapting to the effects of climate change and environmental degradation as a major contribution to regional security. The European Union does this through bilateral and regional programs with Pacific³ nations, one of which is with East Timor (European Commission, 2019). More than 60% of a total of around €800 million budgeted for the period 2014-2020 is, directly or indirectly, linked to climate change-related actions. The objective of this spending is to help people and communities better respond to the effects of climate change, be better organized, reduce their exposure and vulnerability, and reinforce their resilience and capacity to tolerate and recover from shocks and disasters, all of which make their demand on the capacity of the armed forces to support the nation when needed.

The “Country Strategy Paper for Timor-Leste (2008-2013)” and an annual initial program over a period of several years set out the priorities for the €81 million budgeted to Timor-Leste under the 10th European Development Fund: sustainable development, health, and institutional capacity-building. An additional sum in excess of €1 million covers unforeseen needs. East Timor also benefits from European Union support for African, Caribbean, and Pacific Portuguese-speaking countries, the European Union’s instruments for nonstate actors, the “Instrument for Stability” and other budget lines, including food security. All European Union projects in East Timor also address cross-cutting issues, notably gender equality, promotion of human and children’s rights, environmental sustainability, and HIV/AIDS (although this is not yet a major problem for the country). There is also a special emphasis on conflict resolution and peacebuilding, but there is no military assistance program or any defense support program for the direct development of the East Timor Defense Force.

Additionally, according to the European Union, maritime security cooperation should be a long-term process and must involve many and diverse partners at all levels. Although the European Union’s direct security presence in the Pacific is limited, there is ongoing cooperation, in particular in the context of

the Pacific–EU Marine Partnership program, which focuses on supporting sustainable use of fishery resources, the creation of protected marine areas, biodiversity conservation, and promoting shared, transparent, and rule-based ocean governance, in line with the UN Convention on the Law of the Sea.

The new post-Cotonou Agreement, seen by some academics as a new stage in cooperation efforts between the European Union and the Pacific region and countries, will focus on security and should include: supporting conflict prevention initiatives; fostering cooperation on and developing initiatives for mitigation of and adaptation to climate change (including climate and disaster risk assessments for peace and security efforts, including conflict prevention); collaborative programs on combating illicit traffic in small arms and drugs; developing cooperation on and protection of maritime and airspace surveillance and identifying needs for and means of countering cybercrime; and strengthening governance systems to stop irregular migration, smuggling, and human trafficking. In conclusion, the European Union intends to increase its efforts to build resilience, security and capacity to respond to climate change, consistent with the multilateral system focus of the “Agenda 2030” on sustainable development. This also entails a strong contribution to peace and security in the region, from which East Timor and the East Timor Defense Force could benefit.

ASEAN⁴ : The near future

The consolidation of the regional political-security community is essential for the development of East Timor. With the architecture of global governance being challenged and all the implications this has for the Pacific area, the Association of Southeast Asian Nations (ASEAN) has become one of the most important regional organizations for the Pacific region, to the point that the international community may be expecting too much from the organization. Southeast Asia’s countries carry little weight in the global economy and the global security architecture. Collectively, however, they represent almost a tenth of the world’s population and nearly 5% of its GDP.

³ Timor Leste signed up to the Cotonou Agreement in 2005. The Partnership Agreement comprises members of the African, Caribbean, and Pacific (ACP) group of states and the European Union and its member states. It focuses on three main areas: political cooperation, development cooperation, and economic and trade cooperation. Its ultimate goal is to reduce and eventually eradicate poverty and to integrate the ACP countries into the world economy. There is also a special emphasis on conflict resolution and peace-building. Several joint institutions have been set up to ensure that the agreement is run properly, including the ACP-EU Council of Ministers, the ACP-EU Committee of Ambassadors, and the joint Parliamentary Assembly. The agreement took effect in 2000 and will last until 2020.

⁴ Retrieved January 15, 2019, from <https://asean.org/asean/asean-member-states/>

Since 1967,⁵ ASEAN has facilitated regional relationships and cooperation, particularly in economic and diplomatic relations and in security and defense, giving rise to the notion of “ASEAN centrality” in Asia. In 1993, the bloc established the ASEAN Regional Forum to foster dialog on major political and security concerns. It also established the East Asia Summit. Today, however, the geopolitical context is evolving and as other powers rise, ASEAN risks losing its collective commitment to a shared vision for the region and a common stance on geopolitical issues in the absence of East Timor’s participation as a full member. Many observers believe that other countries are trying to join ASEAN to develop dependencies on individual countries, built on investment, trade, and all types of assistance.

The ASEAN Security Community Plan of Action, adopted at the 10th ASEAN Summit, stipulates that ASEAN shall work towards the convening of an annual ASEAN Defense Ministers’ Meeting. The inaugural defense meeting was held in Kuala Lumpur on May 9, 2006. These meetings constitute the highest consultative and cooperative defense mechanism in the ASEAN region and aim to promote mutual trust and confidence through greater understanding of defense and security challenges and enhanced transparency and openness.

The objectives⁶ of the ASEAN Defense Ministers’ Meeting, as outlined in the “Concept Paper” endorsed at the inaugural meeting, are to: promote regional peace and stability through dialogue and cooperation on defense and security; provide guidance to existing senior defense and military officials for dialogue and cooperation in the field of defense and security within ASEAN and between ASEAN and dialogue partners; promote mutual trust and confidence through greater understanding of defense and security challenges as well as enhancement of transparency and openness; and to contribute to the establishment of an ASEAN Security Community as stipulated in the Bali Concord II and promote the implementation of the “Vientiane Action Programme” on security in the ASEAN community. The ASEAN Defense Ministers’ Meeting Plus was established in 2010 to increase and strengthen cooperation on regional security.

⁵ On August 8, 1967, the foreign ministers of Indonesia, Malaysia, the Philippines, Singapore, and Thailand met in Bangkok, Thailand, and signed the Association of Southeast Asian Nations (ASEAN) Declaration. The Declaration set out the idea of a regional organization to foster cooperation and regional integration. The five foreign ministers who signed it—Adam Malik of Indonesia, Narciso Ramos of the Philippines, Tun Abdul Razak of Malaysia, Sinnathamby Rajaratnam of Singapore, and Thanat Khoman of Thailand—are known as the founding fathers of one of the most successful intergovernmental organizations in the developing world.

⁶ Retrieved January 15, 2019, from <https://asean.org/asean-political-security-community/asean-defence-ministers-meeting-admm/>

East Timor could play a role in this regional cooperation, particularly in security and defense. It is important that other nations from the region, including East Timor, join ASEAN for each nation’s internal development and to create a stronger regional cooperation. ASEAN could benefit from this, and it would allow East Timor to be more engaged in regional development and security.

From a strategic point of view, ASEAN should include countries that obviously form part of Southeast Asia’s geography, history, and culture. Excluding nations in the Asia Pacific does not seem to serve long-term regional security objectives. We acknowledge that East Timor will struggle to meet the increasing demands required of ASEAN members and of its more serious integration efforts, and that investment towards this should start now in earnest. Arrangements with ASEAN will help East Timor access capacity-building assistance and develop norms and standards that are consistent with its neighbors. This will help the country develop, and prevent countries seeking to secure long-term energy resources from isolating East Timor for their own purposes.

While East Timor may be one of the least developed countries in the region, it has great potential in terms of governance and potential to grow. For this reason, now may be the right time to bring East Timor into the ASEAN community. This would be both a challenge and an opportunity for East Timor but would also be a natural consequence of its internal development and the growing focus on regional security and defense cooperation.

The Community of the Portuguese-Speaking Countries

The Community of Portuguese-Speaking Countries (Comunidade dos Países de Língua Portuguesa, hereafter CPLP) has maintained an emphasis on cultural, linguistic, and diplomatic dialogue since its creation on July 17, 1996, and since mid-2000, defense cooperation between CPLP countries has become relevant. East Timor joined the community just after gaining independence in 2002, and since then has benefitted from a CPLP defense cooperation program.

The CPLP Cooperation Protocol in the field of defense, signed in Praia in Cape Verde in 2006, aims to promote and facilitate cooperation between members through the systematization of activities, among them the creation of a platform of common knowledge in military defense, the promotion of a joint partnership policy for the defense sector, and the development of internal capacities to strengthen the armed forces of the CPLP. In the revision of the

Protocol, which took place in Dili in May 2016, specialized forums were established, namely the technical incorporation of the “Conference of the CPLP.” This forum involves navies, coastguards, and the naval components of the armed forces of the member states, and has as its main objectives cooperation in naval and maritime areas and the development of capacities of the CPLP. More recently, the “Declaration on the Oceans and Seas of the CPLP” was signed at the 12th Conference of Heads of State and Government of the CPLP in Cape Verde, in July 2018. This document highlights the “development of maritime security and protection strategies with a focus on the actions of search and rescue, combating national and transnational crime by sea, especially terrorism, piracy, robbery, drug trafficking and the illicit trafficking of various kinds, marine pollution, and the trafficking in human beings” (CPLP, 2018).

The document highlights issues of security in the maritime area, in particular in the triangle between Europe and the two sides of the South Atlantic, in which seven of the nine CPLP countries are located. Without security the conditions needed for development cannot exist, and without development there can be no security. Thus, from the perspective of maritime cooperation in political, economic, and scientific-technical matters, the CPLP will benefit from synergies resulting from military-technical cooperation among its member states, strengthening the maritime component to face challenges and make use of the opportunities presented.

In this context, we can identify a new paradigm that points to a redefinition of traditional cooperation strategies (bilateral and multilateral), one that induces a greater commitment in organizations and a better connection between such strategies and member states in organizations. This will require a better understanding of the economic realities and a clear realization of the priorities of states and organizations, as well as adjustments in the traditional cooperation models which meet the requirements of the new bi-multilateral paradigm that has become necessary in today’s world.

Conclusion

After Indonesia’s decision to occupy East Timor in 1975, the Timorese organized a resistance movement which became a generalized, countrywide resistance with the goal of bringing freedom to East Timor. After the 1999 referendum, the East Timor military leadership, with the support of the United Nations and the international community, decided to build a new national army.

The year 2001 saw the first step in the complex process of transforming guerrilla fighters into professional soldiers. Under the umbrella of the UNTAET and with the involvement of the international community, Portugal took the lead to provide the military education and support to develop the East Timor Defense Force.

Returning to our initial question, “Is the East Timor Defense Force relevant to the development and security of East Timor, and what impact might it have on regional security?,” the answer has two components, internal and external. Internally, after almost 15 years, the East Timor Defense Force has become a core part of the reconstruction and formation of the state of East Timor, providing security to and defense of the people of East Timor and starting to become a vector of foreign policy, mainly within the region.

Externally, East Timor could assume a position in ASEAN with the help of some of its neighbors, such as Indonesia and Australia, along with the European Union and the United Nations, to contribute to the greater security of the region. The question then remains: how and when? The geopolitical and geostrategic position as well as East Timor’s history and its relationship with other countries in the region make East Timor Defense Force relevant not only to the development and security of East Timor but also to regional security.

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Conclusions

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Francisco José Leandro received a PhD in political science and international relations from the Catholic University of Portugal in 2010. From 2016 to 2017, he took part in a postdoctoral research program on state monopolies in China—One belt one road studies. In 2014 and 2017, he was awarded the Institute of European Studies in Macau (IEEM) Academic Research Grant, which is a major component of the Asia-Europe Comparative Studies Research Project. From 2014 to 2018, he was the Programme Coordinator at the Institute of Social and Legal Studies, Faculty of Humanities at the University of Saint Joseph in Macau, China. He is currently associate professor and Assistant-Dean of the Institute for Research on Portuguese-Speaking Countries at the City University of Macau, China. His most recent book, published in 2018, is titled *Steps of Greatness: The Geopolitics of OBOR*.

Symposium Conclusions

(Based on transcripts of the debates at the symposium and the author's perspective)

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Distinguished diplomatic and government representatives, respectable rectors, esteemed professors and colleagues, honored guests, all administrative personnel involved in the preparation of this event, and students, please accept our warmest appreciation and gratitude for the participation and organization of such a remarkable event, which brings to the fore the unique vocation of the Macau Special Administrative Region (MSAR) as a commercial and development platform between China and Portuguese-speaking countries.² All human actions begin with a dream, followed by people-to-people exchange of ideas—and MSAR is once again a place where visionaries gather.

To draw conclusions from this symposium was no small task. But conclusions are the natural result flowing from the presentations, papers, and open debate that took place. The City University of Macau gathered 20 scholars and practitioners from the People's Republic of China, Macau SAR, Hong Kong SAR, the Commonwealth of Australia, the Democratic Republic of Timor-Leste, the Federation of Malaysia, and the Portuguese Republic. We must acknowledge the importance of this forum as a singularly valuable event for a university located in the Pearl River Delta Area that has recently established the Institute for Research on Portuguese-Speaking Countries; Research Center on China's "Belt & Road Initiative" (B&RI); Asia-Pacific Research Center; and Social-Economic Development Research Center. Our university wishes to position itself as a prominent and positive contributor to Macau society as well as to the Greater Bay Area, and the B&RI initiative with its universal reach, which President Xi Jinping has referred to as the "project of the century." Indeed, China currently seems to possess the ability to shape, consider, and influence almost everything concerning trade and development in the Australasian region.

² The author wishes to express his gratitude to Danilo Lemos Henriques, a research fellow at City University of Macau, for his suggestions and contributions.

Macau has always been a nexus for the convergence of ideas. Despite having always been a bordered land, it has the ability to soften borders by facilitating movement and exchange across political units and through opportunities for political and economic participation in many dimensions of mercantile shipping. As Julie Mostov (2008, pp. 2-3) argues, “Softening borders encourages sustainable resolutions to ethno-national conflicts and economic and social development.” Within the Greater Bay Area, Macau is an element of functional regional integration, an important part of geopolitical engineering, an open door to all, and a functional contributor to the B&RI, by supporting infra-structural border softening.

The Chinese philosopher Laozi once famously remarked, “a journey of a thousand miles begins with a single step” (千里之行，始於足下). Today, we have debated issues relating to Timor-Leste (also known as East Timor or Timor Lorosae whose etymology means “East x2”) to gain a more comprehensive understanding of this young state strategically located between the Indian Ocean and Pacific Ocean. The country has shown gritty determination, is fiercely proud of its fascinating history, is an old friend of the People’s Republic of China, and forms a biologically significant part of the Coral Triangle Initiative in Southeast Asia, an area with the highest marine biodiversity on the planet. Situated in Southeast Asia, Timor-Leste lies approximately 400nm north of Australia, across the Timor Sea, and is part of the Lesser Sunda Islands at the eastern end of the Indonesian archipelago. Timor-Leste comprises the eastern half of Timor Island (approximately 5,406 square miles), the separate enclave of Oecusse in West Timor, and the small off-shore islands of Atauro and Jaco. It shares a land border with Indonesia’s Nusa Tenggara Timor (NTT) province. It is centrally placed in one of the most challenging and promising regions in the world.

Timor-Leste’s population in 2008 was 1.08 million; in 2017 was around 1.27 million³ and by 2020 its population is estimated to reach 1.35 million.⁴ The population growth is a good indicator of an overall improvement in living conditions. The major population centers are the cities of Dili and Baucau (see “Timor-Leste Population and Housing Census 2015,” pp. 54-55). The country’s population is characterized by the existence of a large urban population, and by several ethnolinguistic groups, each with its own language and traditional cultural practices. Groups belonging to the Tetun group of languages (Tetun-

³ Retrieved December 29, 2018, from <https://www.statista.com/statistics/728791/total-population-of-timor-leste/>

⁴ Retrieved December 4, 2018, from <https://tradingeconomics.com/east-timor/population>

Los, Tetun-Terik, Tetun-Belu, Tetun-Dili) account for approximately 25% of the population. The Mambae ethnolinguistic group makes up a further 10% of the population and is found in the central mountain highlands. Other groups include the Kemak, Bunak, and Fataluku, each accounting for approximately 5% of the population. Reflecting its history, Tetun and Portuguese are designated the official languages in the Constitution, with Indonesian and English given working-language status. Other indigenous languages, from the Austronesian and Papuan groups, are also spoken, bringing the total number of languages to about a dozen.

According to statistics from the United States State Department,⁵ “the population of East Timor is overwhelmingly Catholic.” According to statistics issued by the former Indonesian administration in 1992, approximately 90% of East Timorese were officially registered as Catholics, approximately 4.0% as Muslim, 3.0% as Protestant, and approximately 0.5% as Hindu. The Indonesian invasion in 1975, and the relative isolation of the island for a long period of time, contributed to the current social importance of the Catholic religion, which asserts a strong influence on daily life. The Catholic Church is the dominant religious institution in East Timor and its priests and bishops are accorded the highest respect in local society. In spite of this, animism continues to be a persuasive force in most people’s everyday lives. There are no figures available on the number of Buddhists in the country.

Two important facts related to China and Macau are worth recalling. First, the Chinese Admiral and navigator Zheng He were the first in the early fifteenth century to trade with the indigenous peoples of the Timor-Leste region (Dreyer, 2006; Levanthes, 1994). Second, in 1975, during the Portuguese administration of Macau and before the Indonesian invasion of East Timor, the governor of Macau organized a conference on the future of Timor-Leste (June 25-29, 1975) to which all three main political parties were invited: the Associação Social-Democrata de Timor (ASDT), later renamed the Revolutionary Front for an Independent East Timor (FRETILIN)⁶ (which supported



⁵ Retrieved December 4, 2018, from <https://www.state.gov/j/drl/rls/irf/2001/5749.htm>

⁶ A few days before the conference, FRETILIN withdrew with no reason given.

Timorese independence); the União Democrática de Timor (UDT) (which favored maintaining the long-standing relationship with Portugal); and the Associação dos Povos de Timor (APODETI) (which supported the integration of the territory into Indonesia). These three political groups represented all the options on the table at that time for the political future of the territory. Also, soon after the invasion, Macau sponsored the maritime evacuation of nationals from Dili to Darwin, Australia. Third, when Portuguese Timor unilaterally declared independence on November 28, 1975, the People's Republic of China was one of the few countries which gave it immediate official recognition. In reciprocation, the Hakka Chinese community in Dili were guaranteed full citizenship in the new country by the FRETILIN government. Regrettably, as we know, the Indonesian military occupied East Timor only nine days later, beginning a dark period in the history of this young and promising nation. As Priscila Roberts asserted here today, "East Timor had the misfortune to be located in an unsettled neighborhood, while being too small to defend itself effectively in the absence of a powerful patron ... For Indonesia, East Timor became a constant embarrassment, compromising its ability to access a wide range of aid and exchange programs and tarnishing its reputation."

East Timor moved from being quiet in the background under Portuguese colonial rule to gaining prominence as a small and vulnerable half-island state. Despite its recent troubles, East Timor has one of the highest fertility rates in the world, is fully committed to its 2011-2030 National Strategic Development Plan, practices a "nice diplomacy"⁷ (Webster, 2017), has recently settled its differences with Australia in relation to the Timor Sea, has a very religious population, has recognized its difficulties in terms of gender imbalance, is a natural candidate for ASEAN membership, and is striving to protect its natural habitat. As Carlos Branco stated, in the new agreement between East Timor and Australia regarding the Timor Sea, "East Timor will receive 90% of all oil

⁷ In 1997, for instance, Ramos-Horta headlined a "People's Summit" in Vancouver as the Asia-Pacific Economic Cooperation (APEC) summit met, offering a vision of human rights counterpoised against the economics-first philosophy of APEC leaders, including Indonesia's Suharto. The G7+—an effort to shift the language of development from state "failure" toward hope in the face of high odds—very much echoes the themes of the earlier campaign for Timorese independence. It aims to group states in positions of weakness or even helplessness in the global system, shifting their weakness into collective moral strength. Timorese diplomats do not try to intervene in every global issue, but they are far from shy in asserting leadership in targeted areas such as the economic development of "fragile states." Timor-Leste's representative to the first term on the UN Women's board, Milena Pires, is now the country's ambassador to the UN. The country has a long way to go in addressing violence against women, but has taken a leadership role in the region on this issue. Retrieved November 3, 2018, <https://www.asiapacific.ca/canada-asia-agenda/15-years-after-independence-whatever-happened-East-Timor>

and gas royalties from 'Area A' of the Timor Gap Treaty, renamed the Joint Petroleum Development Area (JPDA), rather than the 50% split of the Timor Gap Treaty."

From China's point of view, the future of its relationship with East Timor will involve two very important development initiatives, alongside efforts made through bilateral relations: the Regional Comprehensive Economic Partnership (RCEP) that will become the world's largest trading bloc, comprising countries with a total population of 3.4 billion people, and a total gross domestic product of US\$49.5 trillion, a hugely significant initiative for both countries and corporations; and the Belt and Road Initiative, which has grown to an unprecedented and inclusive scale from a neighborhood, regional and interregional level to become a global initiative. Besides the six traditional land corridors and the 21st Century Maritime Silk Road, the B&RI has advanced development proposals based on free trade and multilevel multilateralism from South Korea to Lisbon and from Mount Kinabalu to the foothills of Mount Ramelau—practically everywhere. The six economic land corridors and the Maritime Silk Road were initially developed to access Central and Eastern Europe, where the B&RI was then extended to include the Western Balkans and the Arctic Silk Road. Later, this was further extended to Africa, where the Maghreb-Sahel Silk Road and the Great Lakes Silk Road are situated; to Asia, where there is an integrated Master Plan for ASEAN connectivity, and, in Southeast Asia, the Belt and Road for island countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Timor-Leste) and peninsular countries (Cambodia, Laos, Myanmar, Thailand, and Vietnam); to the Pacific, with the Belt and Road Initiative for Pacific islands; and to the Americas, with the Latin America Silk Road. All of these are complemented by other domains, including the Digital Silk Road, the Green Silk Road, the Cultural Silk Road, the Education Silk Road for the future (EU/China), and the Space Silk Road.

The Timor-Leste Studies International Series Symposium comprised three panels: (1) Transitions; (2) the Belt & Road Initiative; and (3) Sustainable Development. In the interest of the academic community, this book includes a further section "Online Sources on Timor-Leste," graciously prepared by Priscila Roberts, which identifies and describes important research sources on East Timor, with the intention of facilitating further research. Having known my esteemed colleague Priscila Roberts for some time, I am convinced that this list of online sources, the result of her long-term research and academic experience of East Timor, will be a valuable reference.

Allow me to draw a few detailed conclusions, organized around the panel topics. First, considering the transitional challenges and processes encountered by East Timor, from a colonial territory to an Indonesian province and finally to a self-governing sovereign state. It is an example of a territory that initially found its interests subordinated to broader Cold War considerations yet ultimately succeeded in winning international backing in its quest for independence when it became the first sovereign state of the 21st century. Despite the Japanese occupation of East Timor during the Second World War, the Portuguese government did not declare war upon Japan, to protect the coastal enclave of Macau. Soon after the war, the Australians and the British tried but failed to convince Portugal to open the way for self-determination. By 1975, Australia and Indonesia feared that an independent Timor would neither be economically viable nor politically stable. During that period, left-wing events taking place in Portugal reinforced that perception, and at the end of the Vietnam war the United States of America feared that East Timor might become another communist state. Consequently, active US support given to the Indonesian invasion (and the implicit consent of the United Kingdom and Australia) seemed a “natural” option, in that the other two possibilities—remaining under Portuguese control or becoming an independent state—appeared impracticable. Under Indonesian rule, the people of East Timor were subjected to human rights abuses of enormous proportions. Priscila Roberts describes the tragedy of Indonesia occupation: “With the exception of these few months of 1975, which preceded the Indonesian takeover, the great majority of fatalities were the consequences of actions by the Indonesian military or pro-Indonesian East Timorese militias during the invasion and the next 24 years.” The same author quotes Erland Heginbotham, Economic Officer and Cultural Counselor in the US Embassy in Jakarta from 1971 to 1975, who recalled: “We were put in a very difficult position, because practically no one recognized Indonesia’s annexation of Portuguese Timor; the blood bath was horrendous; it was just really brutal. It opened a lot of eyes to the real nature of some of the military leadership in Indonesia.” Although East Timor is a small state, it is strategically located and holds particular-intrinsic power.

As Carlos Branco asserted, “Timor-Leste’s survival in the international arena depended on the cooperative and constructive relations it was able to establish with its neighbors and great powers balancing an equal relationship with them, avoiding creating enemies. Timor-Leste has pursued a hybrid strategy of neutrality ... Any foreign affairs strategies and tactics adopted by Dili always took into consideration the need to preserve the special partnership Timor-Leste developed with its two neighbors.” Timor-Leste will continue to develop

its relationship with Australia, especially with regard to the economy and security. As mentioned before, Timor-Leste and Australia are separated by the Timor Sea. Since Timor-Leste’s independence in 2002, Australia and Timor-Leste have signed a number of agreements on the joint development of natural resources, including the 2002 Timor Sea Treaty, the 2003 Agreement relating to the Unitization of the Sunrise and Troubadour Fields, and the 2006 Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS). After years of opposition, Australia agreed in 2017 to accept Dili’s formal notice to terminate an agreement to split petroleum revenue from the Greater Sunrise field equally, and to end the 50-year moratorium on negotiating a permanent sea boundary. In 2018, East Timor and Australia reached an agreement and signed a treaty on their disputed maritime border. The treaty established maritime boundaries between the two countries in the Timor Sea for the first time. Indonesia supports East Timorese candidacy to ASEAN, and the former’s promotion of development and economic diversification in the manufacturing industry in East Timor is encouraging. Lately, China has joined the group of countries that have a special relationship with Timor-Leste. The importance of China–East-Timor relations has grown over time. Timor-Leste has established an embassy in Beijing, entered into a “Comprehensive Partnership of Good-Neighbourly Friendship, Mutual Trust and Mutual Benefit” with China in 2014 by signing various agreements and memoranda of understanding, and both countries have established a Joint Committee for Bilateral Trade and Economic Cooperation in 2016.

However, the struggle to construct East Timor’s society is not over, not to mention the sovereign challenges it faces. It appears that the politics of gender holds a central position in the process of strengthening societal identities because of a variety of influences—Portugal, traditional social norms, and various influences from a significant international presence (particularly during five resident United Nations missions). In a male-dominated society, women’s labor is not monetized. Sara Niner observed that “Poverty was widely reported as exacerbating relationship and household stress. It was found that in Timor-Leste’s patriarchal societies women were often blamed if households were not managed to the expectations of their husband and extended family.” As Niner explained, perhaps even more disturbing is the fact that “a hardened and militarized masculinity developed during the conditions of the long war and it has survived and become embedded in an aggressive competitive national politics dominated by the veterans who fought in the war and the civil resistance.” Niner also drew our attention to the traditional female role in East Timorese society and to the importance of the politics of gender: “Women also face other problems in attaining any kind of productive work in that they have

an average of six children. With only 19% of those births attended by a skilled health worker, infant and maternal mortality is high, although this situation continues to improve.”

Second, considering the Belt and Road Initiative and Timor-Leste, Enrique Martínez-Galán clearly drew a link between the B&RI and the possible positioning of the country as follows: “Geographically speaking, Timor-Leste would seem to be an unlikely B&RI member, being south both of the main Initiative’s sea passages, namely the China–Indian Ocean–Africa Mediterranean Sea Blue Economic Passage and the China–Oceania–South Pacific Blue Economic Passage. Nonetheless, Timor-Leste is considered to be a B&RI country, based on the criteria that it has a MoU for collaboration with China under the B&RI (Hong Kong Trade Development Council, 2018). In fact, during the Belt and Road Forum on International Cooperation hosted by President Xi on May 14-15, 2017, both governments signed the standard Memorandum of Understanding on Belt and Road Cooperation, as was the case for other B&RI countries. The document officially qualifies Timor-Leste for the Initiative. However, infrastructure would seem to be the biggest challenge facing the B&RI. Years of underinvestment and occupation have left the Timor-Leste’s infrastructure in a ruinous condition by the time of the country gained independence. International partners have provided financial assets to reconstruct the country. However, as Enrique Martínez-Galán asserted, “Timor-Leste has been very reluctant to take on debt in the past, prioritizing grant financing (such as that from the World Bank and ADB, both under the fragile-and-conflict-affected-country status). A US\$50 million concessional loan agreement to construct and upgrade the Dili drainage system (Government of Timor-Leste, 2015) was negotiated in 2015 between the government of Timor-Leste and the Export-Import Bank of China. However, the loan agreement was never signed and the Timorese Court of Auditors vetoed it.” Several participants in this symposium suggested that despite perils such as excessive debt, the B&RI could benefit East Timor by improving connectivity, stimulating private investment, increasing tourism, and contributing to economic diversification. Interestingly, Papua New Guinea and Tonga are prospective members of the Asian Infrastructure and Investment Bank; Timor-Leste became a prospective member in 2017.⁸

Fernando Simões and Jusoh Sufian both emphasized the fact that Timor-Leste’s Strategic Development Plan (2011-2030) calls for private investors

⁸ Retrieved January 22, 2019, from <http://www.futuredirections.org.au/publication/timor-leste-joins-asian-infrastructure-investment-bank/>

and bilateral investment treaties. This points to the need for the country to develop legal solutions to enforce standards of investment protection and dispute resolution clauses. Simões, considering East Timor’s national interests as a small developing country, pointed out three major problems arising with regard to private investment: (1) the information asymmetry caused by the fact that a new country is still establishing institutional mechanisms to collect and organize information, and by a lack of both experience and legal instruments since neither the judicial nor the legislative branches of government have dealt with these issues before; (2) the costs involved in the different enforcement and regulatory processes; and (3) the regulatory challenges of amending legislation to regulate private investments. Private investment is a decisive issue for East Timor, and it is also very demanding in the areas of negotiation, arbitration, and judicial execution. The recent award in 2017—Lighthouse Corporation Pty. Ltd. and Lighthouse Corporation Ltd., IBC v. Democratic Republic of Timor-Leste, ICSID Case No. ARB/15/2—is a good example of this complexity. This case was a dispute submitted to arbitration under the auspices of the International Centre for Settlement of Investment Disputes on the basis of a contractual arrangement for the supply of fuel and generators, the Timor-Leste Foreign Investment Law (Law No. 05/2005), and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The dispute involved a corporation under the laws of the Commonwealth of Australia, a company incorporated under the laws of the Seychelles, and the Democratic Republic of Timor-Leste. To mitigate the challenges of private investment, Simões proposed the establishment of a legal assistance center staffed by both local and international qualified personnel. Sufian further added that the new Private Investment Law—Law No. 15/2017, 23 August—has been designed to attract private investors (domestic and overseas) by granting sectoral incentives, facilitating registration procedures, establishing dispute settlement mechanisms, and promoting market liberalization. This law addresses the following sectors particularly air transportation, sea transportation and infrastructure, and communication information technology. The government’s plan is to promote private investment, and also to encourage and facilitate procurement projects by diversifying and spreading risks.

Interestingly, Cruz Cardoso, discussing the participation of East Timor in the B&RI, called our attention to two facts: (1) in 2016, the number of Chinese nationals arriving at Dili Airport had bypassed that of the Portuguese, that Chinese nationals were among the top 5 most numerous foreigners by country arriving in East Timor from 2010 to 2016, and the trend appears to be increasing; and (2) Chinese companies have had the biggest share of contracts

for the large projects awarded to international companies, thus indicating the significant involvement of Chinese companies in infrastructure development. Simply put, the increase in Chinese nationals and corporations entering the country, along with the reluctance of East Timor to accept loans from China will probably influence people-to-people relations, contributing to rebalancing the asymmetric relationship between the two countries. Cardoso also mentioned the need to control public expenditure, attract private investors, and ensure value-for-money infrastructure. Likewise, there is a necessity for greater incorporation of local labor in large projects, a demand for transfer of technology, and a need to rebalance the trade deficit. In these areas, China is a legitimate player alongside others.

Third, considering East Timor, Macau, and sustainable development, Vasco Becker-Weinberg drew our attention to the fact that East Timor is located in one of the richest areas in the world in terms of marine biodiversity—particularly in the Timor and Arafura seas. It is imperative to maintain and protect the marine environment and ecological health of the coral reefs around East Timor. In this respect, there are three main threats which the country must consistently address: illegal and unreported fishing; pollution; and urban development and large-scale infrastructure projects. To give just two examples, the United States National Oceanic and Atmospheric Administration (USA NOAA) Inouye Regional Center Report,^{9,10} sponsored by USAID and published in 2017, stated that in East Timor the average fish species richness for all sectors was extremely high (p. 10), and that the fish biomass was greatest in West Atauro, where it was comparable to other remote areas in the Pacific, suggesting that West Atauro fish assemblages are relatively unaffected by human activities and/or that it is a highly productive area (p. 10). It further recommended that East Timor implement tools for best practice and area management “with the objective of informing coastal management decisions and evaluating the effectiveness of the resulting actions for sustainably managing coastal fisheries and development for the long-term benefits of the people of Timor-Leste.” Becker-

⁸ Agreement between the Government of the People’s Republic of China and the Government of the Democratic Republic of Timor-Leste on Mutual Visa Exemption for Holders of Diplomatic and Service Passports, Memorandum of Understanding between the Ministry of Foreign Affairs of the People’s Republic of China and the Ministry of Foreign Affairs and Cooperation of the Democratic Republic of Timor-Leste on Strengthening Cooperation, Agreement on Economic and Technical Cooperation between the Government of the People’s Republic of China and the Government of the Democratic Republic of Timor-Leste, Letter of Intent on Tourism Exchange and Cooperation between the National Tourism Administration of the People’s Republic of China and the Ministry of Tourism of the Democratic Republic of Timor-Leste and Letter of Intent on the Establishment of Friendly Relationship between Fujian Province of the People’s Republic of China and Dili District of Democratic Republic of Timor-Leste.

⁹ Retrieved January 22, 2019, from ftp://ftp.library.noaa.gov/noaa_documents.lib/NMFS/PIFSC/PIFSC_special_publication/SP-17-002.pdf

Weinberg acknowledges the role of East Timor’s flora, fauna, and location in the country’s development strategy, and the need to safeguard the well-being of the present and ensure a promising future. For this to happen, three goals must be at the center of all political concerns: preservation of habitats; tourism regulation; and sustainability of economic activities.

On this third panel, I was particularly interested in the paper presented by Danilo Lemos-Henriques, and his perspectives on cooperation (and economic diversification) between Macau Special Administrative Region and Timor-Leste, in the areas of tertiary education, gaming, and tourism. Lemos-Henriques put the situation clearly into perspective: “when you talk about development cooperation, it is important to remember that Timor-Leste was left without a government, official language, currency, legal system, or schooling. State institutions had to be created and established and the relevant human resource capacity-building had to be undertaken to make them a viable and effective proposition.” This is one of the reasons, when considering potential cooperation between China and Timor-Leste, that a baby-steps approach is imperative, first allowing for the empowerment of East Timorese institutions as a means to strengthen cooperation legitimacy. The full potential of intergovernmental, intragovernmental, and extra-governmental cooperation has not yet been properly addressed.

Luis Bernardino stated that the newly formed East Timor Defense Force acts as a stabilizer at the national and regional levels, alongside language and religion and that internally, after almost 15 years, the East Timor Defense Force became an internal pillar in the reconstruction and building of the East Timorese state, providing security and defense to the people of East Timor. This defense force is starting to become a vector of the country’s external foreign policy, mainly in the region. East Timor is a developing country with huge potential, especially within the context of the Community of Portuguese-Speaking Countries (CPLP), ASEAN, and with the support of the European Union.

East Timor has been very active in terms of international law. The United Nations Convention on the Law of the Sea entered into force as a multilateral treaty on November 16, 1994. Australia ratified UNCLOS on October 5, 1994, and Timor-Leste on January 8, 2013. The Convention entered into force between Australia and Timor-Leste on February 2, 2013. Timor-Leste acceded to the United Nations Convention on Biological Diversity in 2007, ratified the United Nations Framework Convention on Climate Change (UNFCCC) in October 2006, and the Kyoto Protocol to the UNFCCC in October 2008.

However, East Timor has not yet managed to enforce a legal regime to protect domestic maritime areas, despite its blue economy strategy.

In the final presentation, Francisco Lemos stressed that East Timor is geographically and culturally part of ASEAN and that there are constructive steps to promote accession to this organization. ASEAN is expanding its areas of cooperation and East Timor enjoys a positive image among the ASEAN member states. Indonesia has been supportive of East Timor's application to ASEAN. Laos and Singapore are expected to re-consider their initial negative position, based on ongoing development efforts. The People's Republic of China can also facilitate this process, in the context of ASEAN plus, by supporting sustainable development. On the same lines, East Timor sees the Government of MSAR and the Forum for Commercial and Economic and Cooperation between China and Portuguese-Speaking Countries (Macau) as important partner institutions, which facilitate bilateral relations and promote long-term dialogue among Portuguese-speaking countries. Development, trade, transfer of knowledge, religion, education, financial services, banking, culture, aviation, hospitality, events, judicial and judiciary cooperation, entertainment, tourism, and arts are the most promising sectors in this context. Regrettably, Francisco Lemos's paper could not be included in this publication, for reasons out of the publisher's control.

All in all, it is the natural vocation of MSAR to serve as a gateway for intercontinental dialogue towards an open world economy, within its limitations as a nonsovereign entity. An open dialogue on multilevel multilateralism at the service of infrastructural development, the promotion of human capital, and improved sustainability in all areas of trade will benefit all. As the Chinese saying goes, "we can only have a big fire if all contribute wood." In East Timor, literacy levels are low and its economy is one of the least competitive in the world. Nevertheless, East Timor has made plans for a better future by identifying key national strategic sectors and areas of high priority for economic development, including education, the health sector, tourism, and infrastructure. International partners that are willing to contribute to the development process are all welcome, and China (through MSAR or otherwise) is among those who can contribute to a brighter future for all Timorese. The control of public debt and the attraction of private investment are two dominant strategies of the national development plan. East Timor is fully committed to boosting domestic development, but does not wish to compromise the future of its generations by entering into excessive debt. East Timor also has a comprehensive vision for future development including all sectors of public

engagement, but considers education, health, sustainability, and infrastructure the core investment areas.

East Timor is part of the G7+ Group of Fragile Nations, a member of the Non-Aligned Movement, a participating state in the Coral Triangle Initiative, a member of the Asian Infrastructure Investment Bank (AIIB), an active member of the CPLP, and in 2011 the country announced its intention to obtain membership status in ASEAN. East Timor is part of a free trade zone, the Timor-Leste–Indonesia–Australia Growth Triangle (TIA-GT), and has gained observer status in the WTO. East Timor practices nice diplomacy and approaches foreign affairs at four levels: neighborhood (Indonesia, Papua, and Australia); regional partners (People's Republic of China–MSAR, Philippines, Singapore, Malaysia, and ASEAN); special partners (Portugal, Brazil, and the CPLP); and global partners (the United Nations and the European Union). The growing importance of remittances, tourism, and commercial activities have set Timor-Leste on the course towards further economic development, domestically and internationally.

With a unique colonial history intertwined with the presence of Portuguese, Dutch, Japanese, Australians and Indonesians, a superb location, remarkable resilience, and a strong national character, Timor-Leste is transforming itself into an example of determination, stability, and progress after a long and painful transition to peace. Within this historical context, China was among the first to recognize the national struggle for independence while Portugal has been a strong supporter in the international arena. Likewise, Timor-Leste sees its relationship with its neighbors Indonesia and Australia as very important. Timor-Leste's national identity, religious society, and its relative openness to external influences are forming a new generation of leaders who are promoting responsible activism to serve both current and future generations. The Democratic Republic of Timor-Leste is indeed a promising young state distinguished by gritty determination and remarkable potential.

To conclude, I would like to quote the National Archive and Museum of Timorese Resistance in Díli: "To resist is to win. To resist is to know how to accommodate past differences to address the challenges of the present and the future." The ultimate challenge that East Timor must overcome is the long and steady battle for development that will require ongoing perseverance, balance, cooperation, initiative, stability, and a clear vision of its vital interests.

The color black in Timor-Leste's national flag symbolizes the dark days of its

past, while yellow signifies the importance of national unity and the white star the hope in the construction of the future. As the legend goes, Timor-Leste was born from a crocodile, and crocodiles only attack people with a bad soul. We all hope that no one will disrupt national unity and that national unity flourishes for the benefit of all. Thank you for your participation and kind attention. I am truly looking forward to seeing you in MSAR again next year.

Macau Special Administrative Region of People's Republic of China,
December 2018

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Online Sources on Timor-Leste

Online Sources on Timor-Leste

Priscilla Roberts

I wrote my chapter for this volume in Macau, a territory which shares with Timor-Leste a long history of Portuguese rule, but at first sight possesses only limited resources for research and scholarship in this field. Even ten years ago, producing this chapter while ensconced in Macau might well have proved very difficult. One of the most fruitful aspects of the rise of digital technology, however, is the increasing accessibility online of major caches of archival materials and other data, often freely available to anyone willing to explore what exists. Five or ten years from now, these riches will undoubtedly be far greater, and this short introduction to these sources will by then require updating. Already, what can be found online through the internet is impressive.

Government of Timor-Leste Official Website

<http://timor-leste.gov.tl/?lang=en>

The Web Portal of the Government of Timor-Leste offers access to press releases, documents, publications, and other information produced by a wide range of Timor-Leste ministries and government bodies and organizations.

The Timorese Resistance Archive and Museum

<http://amrtimor.org>

This site has a very extensive collection range of documentary source materials, some published, others in manuscript form, relating to the East Timorese resistance from 1961 onward and international policies toward East Timor, gathered from a wide variety of governmental and non-governmental sources in Timor and elsewhere.

Timor Archives: Clearing House for Archival Records on Timor Inc. (CHART)

<https://timorarchives.wordpress.com/collections-top/>

This site lists and in many cases offers direct online access to a wide range of archival collections in Australia, Timor-Leste, Portugal, and Canada, that are related to East Timor.

The Timor-Leste Web Archive of the Library of Congress.

<https://www.loc.gov/collections/timor-leste-2010-2011-web-archive/?st=list&c=150>

This is a selection of 105 archived websites, collected from early 2010 to early 2011, focusing on the emergence of Timor-Leste as an independent country following independence, declared in 2002. Many of the websites contain information about the move to independence, the struggle for self-determination, and post-independence developments.

La'õ Hamutuk: Timor-Leste Institute for Development Monitoring and Analysis

<http://www.laohamutuk.org/>

La'õ Hamutuk (*Walking Together* in English) is a Timor-Leste non-governmental organization that monitors, analyzes, and reports on the principal international institutions and systems engaged in Timor-Leste as they relate to the physical, economic, and social reconstruction and development of the country. *La'õ Hamutuk* believes that the people of Timor-Leste must be the ultimate decision-makers in this process and that this process should be democratic and transparent. *La'õ Hamutuk* is an independent organization and works to facilitate effective Timorese participation, to improve communication between the international community and Timorese society, to provide resources on alternative development models, and to facilitate links between Timorese groups and groups abroad.

Tapol: Promoting Human Rights, Peace and Democracy in Indonesia

<http://www.tapol.org/>

The website of the non-governmental human rights organization Tapol includes extensive material on the situation in East Timor from the 1990s onward.

East Timor and Indonesia Action Network (ETAN)

<http://etan.org/>

ETAN is a U.S.-based grassroots organization working in solidarity with the peoples of Timor-Leste (East Timor), West Papua, and Indonesia. It has close links to Tapol. Its website includes extensive material on the human rights situation in those territories, some dating back to the 1960s.

United Nations

<http://www.un.org/en/databases/index.html>

The United Nations maintains a range of databases giving access to official reports, resolutions, speeches, and archives. Many thousands of these files are in some way related to East Timor or to the broader issue of Portuguese colonialism.

CPLP – Community of Portuguese Language Speaking Countries

<https://www.cplp.org/>

CPLP is a multilateral forum intended to deepen mutual friendship and cooperation among its members, the Portuguese-speaking countries. It was created on July 17, 1996. CPLP has the following general objectives: the conservation of political diplomacy among its Member-States, reinforcing its international presence; cooperation in all areas, including education, health, science and technology, defense, agriculture, public administration, communication, justice, public security, culture, sports, and social communication; and the implementation of projects that promote and disseminate the Portuguese language. Its website includes reports and press releases related to these efforts in the various Portuguese-speaking countries, including Timor-Leste.

Asian Development Bank

<https://www.adb.org>

The Asian Development Bank has produced hundreds of reports and other documents related to the development of Timor-Leste.

International Monetary Fund

<https://www.imf.org/en/Countries/TLS>

The International Monetary Fund has published numerous reports and other documents dealing in whole or in part with Timor-Leste.

Organization for Economic Cooperation and Development

<http://www.oecd.org/countries/timor-leste>

The Organization for Economic Cooperation and Development has published a range of materials concerning Timor-Leste.

World Bank

<https://www.worldbank.org/en/research>

Since the late 1990s, the World Bank has produced over three hundred publications and reports focusing on the economic development of Timor-Leste.

World Trade Organization

https://www.wto.org/english/res_e/res_e.htm

The World Trade Organization provides detailed information on Timor-Leste's application for membership and subsequent policies.

Australian Government: Department of Foreign Affairs and Trade: History of Australian Diplomacy

<http://dfat.gov.au/about-us/history-of-australian-diplomacy/pages/documents-on-australian-foreign-policy.aspx>

The website of the Australian Department of Foreign Affairs and Trade provides access to the documentary series Documents on Australian Foreign Policy and related monographs. Included here is the full text of the substantial documentary volume, *Australia and the Indonesian Incorporation of Portuguese Timor, 1974-1976* (2000).

National Archives of Australia

<http://www.naa.gov.au/>

Numerous archival files relating to many aspects of Australian international affairs during the twentieth century have been digitized and are available online. Around two hundred of these deal with issues related to East Timor.

National Library of Australia

<https://www.nla.gov.au/asian/east-timor>

The National Library of Australia maintains a portal that offers access to numerous websites offering access to documents, reporting, photographs, and other materials on East Timor.

Victoria University, Melbourne, Timor-Leste Collection

<https://www.vu.edu.au/library/about-the-library/special-collections-archives/timor-leste-collection>

This collection, which contains hard-to-find books and journals relating to East Timor, offers digital access to the complete files of the Timorese resistance journals *Tapol* and *Timor Link*.

Historical Archives of the European Union

<https://www.eui.eu>

The Historical Archives preserves and makes accessible in a central location the archival holdings of the European Union Institutions. In addition, the HAEU collects private papers of key European politicians, high-ranking EU officials and individuals involved in the process of European integration as well as the archives of pro-European movements and other organizations with a European scope. These materials include well over 100 files relating to East Timor from the 1970s to around 2000.

Archives Portal Europe

<https://www.archivesportaleurope.net/>

The Archives Portal Europe provides access to information on archival material from different European countries as well as information on archival institutions throughout the continent. Accessible materials include documents, publications, maps, photographs, audio-visual materials, and oral histories. This portal offers access to the complete text of the *Boletim Oficial de Timor* and to a range of digitized documents from the Netherlands National Archives.

National Library of Portugal: National Digital Library

<http://www.theeuropeanlibrary.org/tel4/collection/a0493>

The National Digital Library of Portugal provides access to digitised documents relevant to Portuguese Culture, History and Science in Portugal and its former colonies, including Timor-Leste. Over 10,000 documents are currently available at the National Digital Library web site. The NLP Collection of Digital Items is mainly composed of iconographic documents for preservation purposes. For the same reasons, cartographic material was also intensively digitised. The most relevant content available online is from textual documents encompassing old Portuguese books from the 16th and 17th Centuries, important for their uniqueness and heritage value, and Portuguese newspapers of the 19th Century, because of their richness of information and fragile nature.

National Archives of Portugal (Arquivo Nacional: Torre do Tombo)

<https://digitarq.arquivos.pt/>

The National Archives of Portugal offers digital access to selected documents from its collections, including a significant number dealing with East Timor.

Ministry of Foreign Affairs of Japan: Documents on Japanese Foreign Policy (Nihongaikobunsho)

http://www.mofa.go.jp/ms/da/page25e_000017.html

Provides online access to published volumes of compilations of original Japanese documents on foreign affairs during the 1930s and 1940s. Some of these cover the Japanese occupation of Timor.

National Archives of Singapore

<http://www.nas.gov.sg/archivesonline/>

The National Archives of Singapore offer a wide range of sources, including documents, audiovisual materials, photographs, posters, and oral histories. Troops based in Singapore fought in Timor during World War II. Singapore contributed personnel to the United Nations peacekeeping force in Timor. Economic links also existed between Timor and Singapore. The National Archives of Singapore therefore contain a significant range of archival documentary materials, photographs, and including oral histories, related to East Timor. Some have been collected from other repositories, notably the United Kingdom National Archives and the National Archives of Australia.

U.S. State Department: Office of the Historian

<https://history.state.gov/historicaldocuments>

The Office of the Historian section of the State Department website offers access to a range of historical materials, including all volumes of the documentary series Foreign Relations of the United States that have been published to date. The volumes covering East Timor during the administrations of President Richard Nixon (1969-1974), President Gerald Ford (1974-1977), and President Jimmy Carter (1977-1981) are currently available, while those dealing with the administration of President Ronald Reagan (1981-1989) are currently in preparation or undergoing declassification review.

U.S. National Archives

<https://aad.archives.gov/aad/series-list.jsp?cat=WR42>

The U.S. National Archives has digitized the records of the U.S. State Department's Central Policy Files from mid-1973 to 1979. Over 2,000 of these telegrams relate to policy toward East Timor during this period. This site also provides extensive digital files on U.S. military assistance programs and defense spending in overseas countries throughout and beyond the Cold War.

U.S. State Department: Freedom of Information Act Website

<https://foia.state.gov/#3>

The U.S. State Department maintains an online archive of documents it has released under the Freedom of Information Act. Several hundred of these relate to East Timor from 1970 until at least 2009.

U.S. Central Intelligence Agency

<https://www.cia.gov/library/readingroom/collection/crest-25-year-program-archive>

The U.S. Central Intelligence Agency maintains a large online archive of historical documents it has released for public use under the Freedom of Information Act and other initiatives. Several hundred of these relate to East Timor, covering the period from the late 1940s to the early twenty-first century.

Gerald R. Ford Presidential Library and Museum

<https://www.fordlibrarymuseum.gov/collections.aspx>

The Gerald R. Ford Presidential Library contains extensive documentary information on U.S. relations with Portugal and Indonesia, including material relevant to East Timor.

George H. W. Bush Presidential Library and Museum

<https://www.bush41.org/>

The Bush 41 Presidential Library website offers access to some significant materials relating to U.S. policy toward East Timor and Indonesia.

William J. Clinton Presidential Library and Museum

<https://clinton.presidentiallibraries.us/>

The Digital Library of the William J. Clinton Presidential Library offers access to a growing number of documents, photographs, and audio-visual sources generated by President Clinton and members of his administration, which include significant material relating to East Timor.

The American Presidency Project

<https://www.presidency.ucsb.edu>

The American Presidency Project includes the text of all the public statements of U.S. presidents from George Washington onward, and also material from all the presidential campaigns. Its coverage of the public stance of Presidents William J. Clinton, George W. Bush, and Barack Obama on East Timor is particularly useful, as is its information on how the issue featured in presidential campaigns from 1980 onward.

The U.S. Department of State: Country Page on Timor-Leste

<https://www.state.gov/p/eap/ci/tt/>

The U.S. State Department maintains a country page on Timor-Leste, which gives a brief description of bilateral relations, and also includes links to other sites covering a wide range of economic matters, the human rights situation, developmental assistance, and humanitarian issues.

The Library of Congress Law Library Research and Reports: Guide to Law Online: Timor-Leste

<https://www.loc.gov/law/help/guide/nations/timorleste.php>

The Law Library's Guide to Law Online: Timor-Leste provides links to numerous online resources related in whole or in part to East Timor's constitution, government, and legal system, history, and practices.

The Library of Congress: Frontline Diplomacy: The Foreign Affairs Oral History Collection of the Association for Diplomatic Studies and Training

<https://www.loc.gov/collections/foreign-affairs-oral-history/>

The Library of Congress website hosts online, searchable transcripts of oral history interviews conducted with over 1,700 U.S. diplomats of the later twen-

tieth and twenty-first centuries. A significant number of these cover U.S. policies toward East Timor and Indonesia.

National Security Archive

<https://nsarchive.gwu.edu/>

The National Security Archive is a non-profit, non-governmental research and archival organization, located at George Washington University, Washington, DC, that focuses upon declassifying and disseminating archival materials relating to U.S. involvement in international affairs during and after the Cold War. Its website includes a virtual reading room of documents from a wide range of sources, selected publications, information on its numerous projects, and a blog. The website includes extensive information on U.S. policies toward East Timor from the 1970s onward.

Amnesty International

<https://www.amnesty.org/en/>

The website of the leading human rights non-governmental organization Amnesty International includes over 300 reports and press releases related to East Timor, from the 1990s to the present.

Freedom House

<https://freedomhouse.org/country/timor-leste>

The non-governmental organization Freedom House provides reports assessing the state of freedom and democracy in Timor-Leste since 1998.

Human Rights Watch

<https://www.hrw.org/asia/timor-leste>

The Timor-Leste Country page of the non-governmental organization Human Rights Watch includes more than 80 reports and news releases relating to East Timor since the early 1990s.

Reporters Without Borders

<https://rsf.org/en/east-timor>

The website of the non-governmental organization Reporters Without Borders includes reports on the situation of the press in Timor-Leste since the early twenty-first century.

Timor-Leste is a Southeast Asian country and a member of the Forum for Commercial and Economic Cooperation between China and Portuguese-speaking countries. Timor-Leste is also an important country along the maritime component of the “The Belt and Road” initiative, possessing plentiful resources and unique geopolitical advantages. In 2013, bilateral relations between the People’s Republic of China and the Democratic Republic of Timor-Leste reached a higher level of cooperation and these relations continue with a sound momentum of growth. Without a doubt, Timor-Leste is full of potential as a partner of China and Macau Special Administrative Region (MSAR), and the promising possibilities that Timor-Leste holds are worth exploring.

With the support of the People’s Republic of China and MSAR Government, the research focus of our university’s Institute for Research on Portuguese-speaking Countries is on political, economic, legal, historical, and social perspectives of Portuguese-speaking countries. Our main goal is to explore avenues for greater cooperation between China and Portuguese-speaking Countries. We hope that this symposium proceedings book, will deliver a relevant contribution to unlock the cooperation potential between Timor-Leste and China.

Ip Kuai Peng

Pro-Rector of City University of Macau, China

This first gathering of academics, scholars and professionals with a keen interest on issues that are of mutual importance to the People’s Republic of China, the Democratic Republic of Timor-Leste and the Macau Special Administrative Region has yielded a fruitful dialogue as well as this publication that I am certain will form the basis for future ideas and debate on our shared future.

Bendito dos Santos Freitas

H.E. Ambassador of Timor-Leste to People’s Republic of China

I do thank you for your invitation to the best organized and most stimulating conference on East-Timor I have attended for at least 20 years (and first in Macau) since around 1994.

Geoffrey C. Gunn

Nagasaki University, Japan. Adjunct Professor | Center of Macau Studies.
University of Macau, China



澳門城市大學
Universidade da Cidade de Macau
City University of Macau



澳門特別行政區政府
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