

Timor Loro Sa'e : It's Hard to Build a New Country !...*

Following the political and social instability that surrounded the proclamation of independence of the Democratic Republic of East Timor by Fretilin-Independent Timor Liberation Front, this former Portuguese colony was invaded by Indonesia on December 7, 1975 and had become Indonesia's 27th province by July 1976.

Blood, sweat and tears, many tears

During the years following the invasion, Timor underwent a period of mass destruction, as Indonesia tried to subdue its population. The result was that both the existing physical structures and the traditional Timorese social and political structures – such as the *liurais* (regional kings) power or the relative importance of the enlarged family – were significantly wiped out. On top of this, economic activity (agriculture, domestic and foreign trade)¹ came to an almost complete halt due to a generalized policy of population displacement aimed at undermining the aforementioned social and political structures.

All in all, it is estimated that the Timorese economy contracted by around 50 % during the period 1975-80. The ultimate result was a major famine that,

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1. *Vd J.M. SALDANHA et al., Economic viability of East Timor revisited : outlook for the 21st century*, paper presented at *East Timor's Strategic Development Planning Conference*, Melbourne 5-9 April 1999.

along with direct repression, claimed the lives of 100,000 Timorese². This process also led to a huge decrease (by some hundreds of thousands) in the cattle population, one of the foundations of Timorese traditional/family economy.

These were some of the main instruments used to undermine the economic independence of the population and to render it dependent upon the political (and economic) power: the weight of the public sector in the domestic product was, in 1989, much larger than in other Indonesian provinces (almost 25 % of GDP, against 6.6 % in Jakarta and 18.2 % in Sulawesi, for instance).

After the devastation that characterized the first five years of Indonesian colonial rule, a policy of *mise en valeur* followed that allowed for a certain economic recovery as part of a strategy of (attempted) integration/dissolution of the Timorese people in the « large Indonesian family ». Between 1980 and 1994, *per capita* GDP increased by an annual average of around 6 %, nearly doubling in that period (from 112,000 rupees in 1980 to 203,000 in 1994³). International trade, down to 8,500 tons by 1980, reached 39,500 tons in 1985 and 283,000 tons in 1990. There was also a significant increase in the cattle population.

In the last few years before the 1997 crisis, the economic growth rate was also very high – the average growth rate of GDP in the 1994-96 period was around 10 %. The sectors that accounted the most for this growth rate were the « construction » and « public administration » sectors, followed by « other services » and « commerce, hotels and restaurants ». On the other hand, the manufacturing and agricultural sectors (employing around 90 % of the population) did not undergo any significant development and accounted for an extremely low portion of the growth rate.

All this clearly shows the Indonesian strategy at that time regarding the development of its Timor Timur province: a place where there was no point in investing in directly productive activities. Rather, the goal was to create a number of jobs in the public administration and infrastructure construction sectors that allowed for apparent growth in order to « shut the Timorese up » – even though many of the higher ranking people in the public service came from Indonesian provinces other than East Timor.

It should be made clear that another feature of Indonesian (colonial) rule was the fact that it was directly controlled by the military dictatorship ruling the country, with one purpose in mind – to plunder most of the territory's wealth in two different, albeit related, ways: exploitation of its resources (coffee, marble, sandalwood, etc.) and corruption. The latter, in Timor as in

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2. The total figures may never be known but many authors believe that, even without counting the deaths that resulted from the post-referendum events, some 200-250 thousand Timorese have died as a direct result of Indonesian rule.
 3. Like most of the statistical data for the period from 1975 to the present day, this data comes from J.M. SALDANHA *et al.* (1999); vd the full reference above.
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Indonesia itself, has always been associated with the construction of infrastructures and other public works. In this last case, the concern was, first and foremost, with the « number » of public works rather than with their « quality », since « more » projects meant more contracts – and each new contract yielded additional illicit gains through rent seeking by all the public servants and others involved in the process of proposing, authorizing and implementing these investments.

Tabl. 1 – ECONOMIC GROWTH IN EAST TIMOR IN THE FINAL YEARS OF INDONESIAN ADMINISTRATION

	Real Annual Growth (%)				Contribution to Real Growth (%)			
	1994	1995	1996	Average (3 years)	1994	1995	1996	Average (3 years)
Total GDP	10.0	9.4	10.8	10.1	10.0	9.4	10.8	10.1
Agriculture	1.3	-4.3	11.6	2.7	0.4	-1.2	2.8	0.8
Mining	4.5	14.8	14.2	11.0	0.0	0.1	0.1	0.1
Manufacturing	16.0	21.4	7.9	15.0	0.5	0.6	0.3	0.5
Water and Electricity	6.0	18.1	35.1	19.1	0.0	0.1	0.2	0.1
Construction	14.5	16.2	5.8	12.1	3.0	3.5	1.3	2.8
Public Administration	9.2	13.9	11.6	11.6	2.0	3.0	2.6	2.7
Commerce, Hotels and Restaurants	29.3	4.1	9.6	13.8	2.7	0.4	1.0	1.5
Other Services	9.1	20.1	16.3	15.1	1.3	2.8	2.5	2.4

Source : EAST TIMOR JOINT ASSESSMENT MISSION, *Macroeconomics background paper*, Washington (DC), World Bank – International Monetary Fund, November 1999 : Annex 3, p. 11.

It is interesting to note that many observers, particularly Timorese, question the validity of these figures, which they claim have only a political purpose : to advertise an improvement in the economic situation that very few people actually seem to have felt.

Meanwhile, the production structure went through a progressive change – between 1983 and 1994, the weight of agriculture fell by almost 1/3 (from 44.5 % to 30.9 %). The two other most important sectors were the Administration and Defence sector, which accounted for 21.2 % of GDP in 1994 (21 % in 1983) and Construction, accounting for 18 % of this year's GDP (12 % in 1983).

The Service and Manufacturing sectors – two of the most important sectors in a modern productive structure – represented, in 1994, less than 3 % and 4 % respectively, which provides us with a clear picture of the level of development of this territory's productive forces. This general picture was not changed until the end of Indonesian colonial rule.

Indonesia's « developmental » effort did not even succeed in putting Timor on a par with the other 26 provinces. For instance, in 1994, *per capita* income in Timor was around 740,000 rupees (the second lowest in Indonesia), whereas the Indonesian average was almost 2,000,000 rupees. Life expectancy at birth was also one of the lowest in the country (55 years in

1998, compared to the Indonesian average of 58 years – 65.6 years in 1998, according to the *UNDP Human Development Report 2000*).

According to data recently released by the Untaet (United Nations Transitional Authority in East Timor⁴), East Timor's *per capita* GDP in 1998 was 424 US\$ and around 30 % of the population (twice as many as the Indonesian average) was below the poverty line ; the infant mortality rate reached 124 per thousand births.

Another indicator of this territory's situation – in both absolute and relative (in the Indonesian context) terms – is *per capita* household consumption of kerosene, the region's main source of energy. This consumption⁵ barely reached a level of 483 rupees in East Timor, compared to 786 in the East Nusa Tenggara province (which includes, along with other islands, the Western part of Timor) and 1838 in the capital, Jakarta. If we take Jakarta as the basis of a 100-based index, East Timor's index will be 26.2 – barely over – of the capital's figure (the highest level of consumption, 1964, was in the East Java province).

When compared to other small island-state countries of the Pacific region, most of which have natural endowments similar to Timor, this territory also finds itself at the bottom of the table.

For instance, in 1993, *per capita* income in Timor was 293 US\$, whereas Vanuatu, one of the smallest countries in the world with just 157,000 inhabitants, had a *per capita* income of 1,230 US\$. The Fiji islands, whose population is similar to Timor's (around 800,000 inhabitants), had a *per capita* income of 2,050 US\$, i.e., seven times as much.

We would like to stress that the situation of the Timorese people that were actually born in the territory was, in fact, generally even worse than these figures may suggest, since the benefits of the economic growth that took place after 1980 were unevenly distributed (benefiting, first and foremost, the immigrants from other parts of Indonesia). A large number of Indonesian immigrants started arriving in the territory in 1989 and gradually took control of the more modern sectors and of the higher places in Public Administration.

By the time of the September 1999 crisis, these Indonesian transmigrates – which included military personnel, security forces, public officials, farmers who had been granted land, etc. – represented around 20 % of the population, but their economic and political power was far larger, leaving Timor in a situation quite like that of any other colonised country.

An essential instrument of the economic colonisation of Timor Timur has been the role of the economic groups that were controlled by the Indonesian political and military elite – starting with the family of former President Suharto.

4. UNTAET & WORLD BANK, *Background paper for donor's' meeting on East Timor*, Lisbon, Untaet-World Bank, 21-23 June 2000.

5. Figures quoted in E. AHMAD & L. LERUTH, *Indonesia : implementing national policies in a decentralised context : special purpose programs to protect the poor*, Washington, DC, IMF, June 2000 : table 2, p. 5 (« IMF Working paper », 102/2000).

This *status quo*, whose ultimate goal was the integration/dissolution of the Timorese people in Indonesia, eventually fuelled the resentment of the local population towards the Indonesian politicians and military personnel. After all, the Indonesians' colonial behaviour has done almost nothing for the improvement of the well being of the Timorese as part of the population of Indonesia. The Timorese Catholic Church and, generally speaking, the resistance forces acted as the catalyst that turned that resentment into an aspiration for actual independence.

However, it should be noted that the post-1980 developmental effort also led to some positive results, such as the improvement of physical infrastructures (e.g., roads) – even though the reasons behind these improvements were often non-economic (e.g., facilitating the movements of the military forces, as in the *Pax Romana*, or fuelling the corruption system).

Another quantitative improvement took place in education : there was an increase in the population's schooling rate and a significant increase in the number of university students – despite the fact that many of these students had, later on, to move to other parts of Indonesia because they were unable to find jobs in Timor that matched their level of education. A University (whose students eventually played an important role in the fight for independence) was also established in Dili, even though this only occurred very late and despite the fact that there were only a limited number of courses being taught.

On the other hand, as far as the events of 1999 (referendum) are concerned, this entire situation should be analysed against the background of the deep economic crisis into which Indonesia (along with the rest of the Eastern Asian economies) plunged from July 1997, in the wake of the Thai *bah't*'s devaluation of July 2, 1997. In fact, Timor's independence is no stranger to – rather, it is one of the direct results of... – this economic, social and political crisis.

It was Indonesia's complex internal political situation that led former President Habibie to accept a « popular consultation » in Timor on whether its people wished to remain part of Indonesia, under a special autonomous status, or to become fully independent.

The consultation results are well known : an overwhelming victory (nearly 80 %) for the « independence » option and a violent spree that few people would think possible nowadays, resulting in an as yet unknown number of deaths and refugees⁶.

The history of these events and the people who were responsible for them is yet to be written, but it is obvious to most independent observers that the Indonesian army is to blame for most of what happened – even

6. It will be hard to determine precisely how many people died. At the time, it seemed like virtually « everyone was being murdered », a version that was clearly exaggerated, but which played the propagandist (and historical) role of forcing the Interfet to intervene. So far, around 1,500 victims have been identified. The truth must lie somewhere in the middle, since there is a strong suspicion that many victims were « buried » out at sea.

more than the *militias* – and that their actions were jointly decided by their local commanding officers and at the highest level, in Jakarta.

The « tip of the iceberg » of the consequences of the turmoil that followed the announcement of the results of the *referendum* is still clearly visible: hundreds of thousands of Timorese were forced to flee their homes (some of them went to other islands of Indonesia) and there was massive destruction of physical capital (including public buildings and private houses, especially in Dili and in the Western part of East Timor). The Joint Assessment Mission of the World Bank and IMF claims that 95 % of Dili's commercial facilities were destroyed and burnt down – all the assets and registers apparently having been taken to Indonesia – 100 % of the buildings, stocks and vehicles used by wholesale distributors were destroyed, all the equipment of Timor's only textile factory was taken to Indonesia and the telecommunications systems and facilities underwent major damage⁷.

The destruction of these and many other goods brought about a fall in production of around 40-45 % and a fall in the number of available jobs which accounts for the unemployment rate of around 70-80 % by mid 2000 and 50-60 % (?) now – at least in urban areas, particularly Dili, since the specificity of rural areas makes it hard to keep track of unemployment⁸. Since then, the capital has drawn people from rural areas – in search of the only place where, in spite of all difficulties, it is still possible to find some rare opportunities of earning some income – mainly as a street vendor or as an employee of the Administration or one of the 365 (?) restaurants....

The exact number of internal refugees is hard to determine, but we do know that, at its peak, the displacement of people to West Timor involved over 260,000 people. Most of these refugees have already returned to their country, but around 100,000-120,000 are still in West Timor. The last figures published by Indonesian authorities after the recently completed registration of these refugees is that most of them do not intend to come back to East Timor – at least for the moment – and would prefer to stay as Indonesian citizens in Indonesia. We will see...

It is also hard to have an accurate idea of the price level evolution, because not enough elements have been systematically gathered to allow for an appropriate measurement of inflation. However, the data gathered by the Untaet suggests that prices are currently at a much higher level (after an inflation rate of around 140 % in 1999 and 20 % in 2000) than before the post-referendum crisis.

The end of subsidies on prices (which were common under Indonesian administration) has been (partially) responsible for a significant price

7. EAST TIMOR JOINT ASSESSMENT MISSION, *Macroeconomics background paper*, Washington (DC), World Bank - International Monetary Fund, November 1999.

8. *Vd* « East Timor Rebuilds », *Asiaweek*, XXVI(15), May 5th, 2000 (as quoted in <http://cnn.com/ASIANOW/asiaweek/magazine/2000/0505/biz.timor.html>).

increase (when compared to the past or to West Timor). The recent (August) stricter implementation of regulations on taxes and, mainly, on the use of the official currency (the USD) contributed for another « jump » in prices that is difficult to measure as an inflation rate because there is no appropriate measurement for it.

Moreover, this isn't the only issue in which Untaet's policy of non-interference with the free (?) market in Timor has had a significant disruptive effect. Another case is rural trade institutional arrangements : the new political situation brought with it the end of the state commercialisation arrangements of agricultural products produced by rural producers and the near disappearance of other intermediaries (namely private ones) from rural areas. The result has been an enormous difficulty in selling crops and, on the other hand, huge disparities between prices in different regions, due to both lack of information – an essential feature of efficient markets... – and to the difficulty in moving goods across the country.

We would also like to stress the fact that, according to Untaet's estimates, Timor's economic recovery is currently under way at a rate of around 15 % per year⁹. If it proves possible to sustain such a rate, 4-5 years may be enough to fully recover from the fall in production that took place after the referendum. That may actually not be very hard, as long as the infrastructure reconstruction projects – financed by special funds¹⁰ to support the recovery of Timor – are implemented effectively, which has proved to be more difficult in practice than in theory...

In the meantime, following pressure by the CNRT (National Council of the Timorese Resistance) and an analysis of the political situation that concluded in favour of involving the Timorese themselves as soon as possible in the (re-)construction process and helping them to « learn [governance] by doing », the UN has decided to create a non-elected temporary « government » that includes both Untaet staff (4 « ministers ») and Timorese leaders (5 « ministers », including those in charge of economic and physical reconstruction, social matters – including education –, state administration and « foreign relations » issues).

This step was taken in response to the alleged (by the CNRT) lack of effectiveness of the Untaet administration in the first six months and came at a time when the « emergency help phase » was over and the actual reconstruction of the country was about to begin. This government's entrance into office on July 15th, 2000 was an important landmark on Timor Loro Sa'e's road to independence and self-determination – although in December, unsatisfied with Untaet lack of efficiency (including the lack of

9. *Vd UNTAET op. cit.* : 14. Unfortunately, little reference is made in this report to the data on which this estimate is based. We therefore advise some caution in using it.

10. These include the Trust Fund for East Timor (TFET), as well as various bilateral donations and contributions from non-governmental organisations.

definition of their status and resources to manage), four of them threatened to step down from office.

Following the elections for the Constituent Assembly on August 30th, 2001, a second provisional government – with all ten ministers, including the Chief Minister, Mari Alkatiri from Fretilin, being East Timorese – took office. He will govern the country until Independence Day, probably by April-June, 2002.

The aforementioned lack of Untaet effectiveness is notorious at various levels and constitutes yet another obstacle to the country's quick economic recovery. Aside from the quantitative data regarding the « productivity » of the UN administration, a whole series of small « facts » – many of which are essentially « qualitative » and result from the personal experiences of some of the people interviewed – confirm this analysis.

Part of this ineffectiveness is the result of elements such as the structure of the international staff: coming from nearly fifty (culturally) different countries, these personnel are poorly equipped and trained to work with each other in a multilingual and multicultural environment and with the local culture and society (the language barrier is certainly a reality, but it cannot be used as an excuse for everything...).

Although, one has to recognise that almost eighteen months after being installed, Untaet/Etta (East Timor Transitional Administration) has done a lot more than we can sometimes envisage, including the study of various important issues for East Timor's future development. The recent publication by UNDP-United Nations Development Programme of a study about environment and sustainable development is one example of this work. Another is the joint work being done by the World Bank, the Asian Development Bank and UNDP on poverty assessment, namely a 'Suco Survey' and a 'Household Survey', important instruments to gain better knowledge of the economic and social reality of present day East Timor and to plan better for the future.

UNDP and Nation Building in East Timor

It is in this context that the presence of UNDP in East Timor must be seen and understood. It is not our aim to present all the activities of UNDP here, since it began its activity in the country-to-be about two years ago. We would just like to present one project that is now under way and that can (and will) be a very important contribution for East Timor nation building and development: its poverty assessment.

It consists of three main components: a « Suco survey » – « suco » being the minor political *cum* social *cum* territorial organisation in East Timor – whose final results are about to be published and debated, a « household survey » for which the fieldwork was started in mid-August 2001 and will be completed by end November 2001, and the participatory poverty

assessment (PPA). The first two were implemented mainly by the Asian Development Bank, World Bank and ETTA (with partial funding from JICA, the Japanese international cooperation agency) but the last one will be implemented mainly by UNDP.

Let us now outline and summarise some conclusions of the analysis of the « suco » survey, the only one for which there is already some published information.

The interpretation of the results of this « exercise » is not easy because there were/are :

1 - methodological problems with the questionnaire - mainly a (too) « loose » definition of some concepts (eg: what is an « uninhabitable house » as a result of the violence of September, 1999 ? What was the degree of destruction ? Are they actually houses or shops or other buildings ?); and

2 - difficulties of implementation - mainly due to a failure to inform the « suco » chiefs sufficiently of the importance of the survey and its consequences for policy making, which resulted, along with other factors, in the poor quality of the information they provided to the researchers.

If we acknowledge these difficulties from the outset, the main conclusions we can draw from the analysis of the « suco » survey are :

a) The survey confirms the well known general pattern of great deprivation of almost all resources and indicators of well being for all country ;

b) Within this situation, we found some differences between different regions/districts/sucos of East Timor, thus arguing in favour of a development strategy that includes the variable « space » - i.e, a regional development policy - from the very beginning of the « nation building » process. This will be very important if we want to have a more equitable and (socially, economically and politically) homogeneous society, without excluding large sections of its population ;

c) The quality of the information gathered with this survey varies greatly from one issue to another : for the population and related information (non returned families, damaged houses, etc.), the quality is not very good, with an overestimation of the total population of East Timor by about 7-8 % ; there are several reasons for this fact but, whatever they are, the main conclusion is that the « suco » chiefs were not a good and reliable source of information. Probably this is the result of a lack of information (provided by the researchers) about the importance of this exercise and also of a lack of practical inputs to do their job ;

d) Using the information from the « suco » survey and « qualifying » it with information from the household survey and the civil registries (both from June/July 2001), it was possible to establish a range for the East Timorese population : it should have been, by mid-2001, in the range 785-800 thousand, most probably about 790.000 inhabitants ;

e) Dili district has about 120-130.000 inhabitants, about 15 % of the total population ; Baucau is second and Aileu is the smaller district in population, with about 30 thousand inhabitants

f) Bobonaro is the district with the highest percentage of families who are still missing (about 25 %) followed by Liquiçá (17 %) and then Oecussi and Manatuto (around 16 % each). Baucau (3.6 %) and Dili (5 %) are the districts with the fewest missing families. The « qualification » for the quality of the information obtained from the « suco » chiefs applies here, since they used population lists that are not, at least in some (too many...) cases, well kept and updated ;

g) According to the « suco » survey, there are probably 10 % of missing families in East Timor ; in 70 % of the 2,336 « aldeias » (villages) of the country this percentage is less than the national average ;

h) Using this information on the total number of families (about 180 thousand) and the average size of East Timorese families (4.7 members per family), there are about 85,000 missing inhabitants ;

i) This figure means that the total number of refugees that are still living in West Timor and elsewhere in Indonesia is not very far from this - probably in the range of 75-85 thousand - and not, as mentioned by Indonesian sources, more than 120 thousand ;

j) The districts with more « missing families » are also some of those where the « postos » or « sub-districts » have more uninhabitable houses per 1000 inhabitants (Bobonaro, Cova Lima and Oecussi). The national average for this ratio is 80,2 damaged buildings for 1000 inhabitants but considering the quality of the information of the « suco » survey this figure must be qualified too ;

k) In 813 « aldeias » (a bit more than one third of the total) this ratio is greater than the national average, which gives a good picture of the (incredible) degree of destruction that the Indonesian Army and the militias left behind them. This picture is confirmed by the fact that just one fifth of the « sucos » reported no damaged buildings ;

l) Of the uninhabitable houses, 47 % have been partially rehabilitated since September, 1999, but only 6 % have been fully rehabilitated. This reminds us that, two years after that date, there is still a lot to do in this respect, underlining the need, for social, economic and political reasons, to establish an urgent policy to cope with this situation ;

m) Considering the characteristics of East Timor, a microfinance policy - together with a policy of job creation and raising income from different sources - will be an important instrument to solve the rehabilitation problem (and, as we will see, for other purposes, namely for developing small businesses and farming and non-farming rural incomes) ;

n) « Amenities » such as power and water supplies are very rare all over the country : only one fifth of the « aldeias » have some kind of power

supply but for most of them the actual supply just for a few hours ; considering that access to power is nowadays a pre-condition – and, as such, almost a « natural human right » – to access many « public goods » such as health and knowledge/education, efforts must be made to change this situation as soon as possible ;

o) The same applies to water supply, essential namely for health reasons, considering that only 37 % of the « aldeias » have piped drinking water supply to homes (just 7 %) or to a public place (25 %) ;

p) There is also a need to give special attention to the accessibility of most the East Timorese « aldeias » because good and permanently usable roads are essential for access not only to markets – a potentially very important source of income and resources – but also (probably mainly...) to knowledge/education and health ;

q) On the economic characteristics of the « sucos », the survey data confirms that the East Timorese economy – of course mainly in rural areas – is essentially a subsistence economy, with 87 % and 80 % of the « sucos » declaring that their two main crops (mainly rice and maize) are generally for self consumption but (as expected) most (72 %) of those who produce coffee reporting that it is for sale on the market ;

r) This means that market mechanisms in East Timor are very weak ; this has huge consequences on (weak) income generation and it is, in itself, a major challenge for policy makers because it leaves room for important decisions on the balance between State and market : the first being a « proactive » (for how long and to what extent ? !...) « breeder » of the market (and of « merchants »/capitalists) but also being responsible for trying to cope with those market failures (be they a result of lack of market mechanisms or of their malfunctioning) that prevent economic development and social equity ;

s) It seems that there are some (at least) seasonal problems on food availability in most « sucos » and this must be seen in relation to several issues : agricultural practices – that must be improved, including upgrading of seed productivity/quality and crop diversification and, generally speaking, diet diversification and improvement, including more animal proteins –, development of an adequate marketing system, upgrading of the transportation system and improvements in health and education (which interact with production on both sides) ;

t) One important thing if there is to be an improvement in the economic and social situation in rural areas – where three quarters of the population of East Timor lives – is the availability of (micro)credit both for rehabilitation purposes (mentioned earlier) and for income generation on several fronts, including both farming and non-farming rural incomes ;

u) It is important to take the « spatial » dimension of development into consideration from the very beginning of the development process of an

independent East Timor. A composite «suco» development index developed by us and including variables on food availability, education (student to teacher ratio), health (females per midwife) and «accessibilities» and «amenities» (roads and electricity availability) leads to the conclusion that Aileu and Dili are the districts whose «sucos» have a better «development index» and that Manatuto is the district where the worst off «sucos» are located. This does not mean that this is the poorest district in East Timor – the poorest among a general pattern of poverty? – since the worst off «sucos» are from hilly regions. Most probably, more important than a «district» pattern of poverty is an «environmental» pattern, with most of the hilly regions – most of the country... – being worse than other regions.

These points must be taken into consideration when decisions are to be taken on the development strategy of East Timor and our own suggestions in the next part must be seen against this background.

Development Strategy and Policy for Timor Loro Sa'e : Some Proposals

First of all, we would like to highlight some of the proposals advanced by other authors regarding the future development of Timor Loro Sa'e. We shall not, however, debate them exhaustively, since most are quite general.

One of these proposals comes from the meeting of the National Council of the Timorese Resistance (CNRT) that took place in the Algarve in October 1998¹¹. A group of Timorese specialists set out a proposal, which essentially consists of a list of items to be taken into account in the short-term and in the long-term, whenever independence was to be attained. This proposal included the following priorities for the development of the country :

« Short-term :

- Agriculture : Environmental sustainability, diversification of production. Increasing local added value by producing and processing internally (e.g. coffee) ;
- Industry : Developing Small and Medium Enterprises, namely in the raw materials processing sector ;
- Natural Resources : a sector in which caution and a slow pace are advisable, due to the fact that the Asian international markets are rather feeble ;
- Service Sectors : Tourism and Eco-tourism, to be developed locally, instead of being left in the hands of multinational corporations¹² ;

11. *Vd General Guidelines for a Development Plan for East Timor – Summary document from a meeting of a working group of East Timorese professionals, Algarve, Portugal, 25 October, 1998, seen in <<http://www.ozemail.com.au/~cnrt/phaseoneec.htm>>.*

12. Although the authors do mention other service sub-sectors, little more is said regarding any of them (transport, banking, communications, commerce).

Long-term :

- Encouraging industries based in rural areas by supplying credit and subsidies to those regions ;
- Encouraging and supporting access by potential visitors to the natural attractions of East Timor. Promoting Eco-tourism ;
- Stimulating industrial development with a strong emphasis on basic goods and services ;
- Setting the grounds for the creation of large-scale industries ;
- Exploring on-shore and off-shore resources in a sustainable way ;
- Actively promoting international trade in cooperation with foreign institutions ;
- Establishing economic institutions ;
- (...) ».

Generally speaking, we agree with this proposal. In fact, we would like to stress the following aspects: (i) the special emphasis (last item) placed on appropriate institutions in order to allow for good (macro-)economic management ; (ii) the importance given to the diversification of agricultural production and to the increase in the level of added value – two aspects that are crucial to improving the quality of life of the rural population – the majority of Timor population ; (iii) the emphasis on the development of small and medium industrial enterprises ; and (iv) the importance of locating part of the future industrial development of the country in rural areas, namely by using credit schemes as an economic policy instrument.

However, the idea of setting the grounds for the development of large-scale industries seems somewhat over-optimistic, since such a process seems quite difficult for all but a few (very) exceptional cases of the production of large-scale consumer goods. Even these may only be viable if they are aimed at the markets of the entire neighbouring region, not just Timor's market. The difference in wages now existent between Timor and these markets can be one more difficulty to overcome.

Finally, we would like to mention another document, by two Timorese economists, which was presented at the « Melbourne Conference » (April 5th, 1999), organized by CNRT¹³. The authors start out by stating that, rather than presenting a development plan proposal, their goal is to point out some factors that are crucial for the development process to take place, particularly as regards issues such as political stability, economic institutions, public finance and taxation, natural and human resources, agriculture, the environment and internal and international trade¹⁴.

According to these authors (with whom we agree), an essential part of the future development process should be a shift in the balance between the various sectors that own the means of production. More specifically, it is advisable that the weight of the public sector (including state-owned enterprises) – which used to play a central role in the Indonesian

13. Vs. J.M. SALDANHA & H. da COSTA, *Economic viability of East Timor revisited. Outlook for the 21st Century*, multigr., in [http : </ / www.ozemail.com.au/~cnrt/papersecon1.htm>](http://www.ozemail.com.au/~cnrt/papersecon1.htm).

14. *Ibid.*

development model – be reduced, and that the relative importance of the private sector be increased – whenever necessary through a (pro-)active intervention by the State. One appropriate measure might be a public loan policy – an idea that these authors clearly draw from the past examples of fast-growing East Asian economies (e.g. South Korea) :

« The ongoing economic system [of Indonesian times] is characterised by a strong presence of the public sector in the economy with a small role of the private sector. The challenge is to correct this imbalance by reducing the role of the public sector while inducing the growth of the private sector through market incentives and selective allocation of public finance. *This calls for an active promotion of the market economy with state intervention to correct market failures in terms of distortions such as monopoly and inequality in income distribution.* One way to address this issue is the allocation of public funds to support small scale enterprises and foster agriculture productivity that also create jobs ».

This emphasis on the role of agriculture – with which we agree – is explained in further detail in the document :

« Therefore, agriculture should be a priority in the economic development of East Timor. In addition, agricultural development will help the non-agriculture sector to develop through several linkages »¹⁵.

The importance of developing agriculture means that part of the future investments in this country must be oriented towards that sector. In particular, a significant part of the economic surplus this sector generates should be reinvested, so as to enable its (primitive ?) accumulation – in terms of both physical and human capital.

To sum up their views on agricultural development, the authors claim that any strategy should take into consideration :

« The approaches to development strategy in our view are :

- Productivity gains in agriculture, food security, cultivation of export crops, farming systems research, post harvest technology, private sector investment and land titling.
- Agribusiness and small-scale village processing of agricultural commodities, facilitated by tax and credit incentives and relaxed regulations.
- Improving infrastructure and accessibility to regional growth centres and between regions to further encourage inter-regional trade.
- Developing integrated area development programs that involve all potential sectors in the territory ».

Finally, we would like to point out one other aspect that these authors refer to as highly important : the strengthening of Timor's foreign economic relations, namely through its insertion in regional economic arrangements :

« One possible path for [...] East Timor [...] is outward development strategies to take full advantage of regional economic integration possibilities [and trade liberalisation].
[...] this means new opportunities for mutual cooperation. In a regional context, East Timor can develop « trade links » to facilitate and encourage the establishment of industrial development in the eastern Indonesian region,

15. In this particular issue, the authors actually make reference to several well-known authors such as Timmer.

namely Dili, Darwin, Kupang and Ambon. For example, establishing *Trade Cooperation* with Northern Territory of Australia, institutional trade arrangement with former Portuguese colonies, and special arrangement through economic integration with ASEAN countries are the likely options [...].
We believe that trade links are part of the long term development strategy of East Timor [...] ».

Although we agree that Timor should adopt an open position in its international economic relations, we are not as enthusiastic as the authors seems to be about Timor's ability to benefit from that openness. Our lesser optimism - which, should not, however, be (mis)taken for pessimism - has to do with the fact that Timor's internal market is obviously small and that the ability of its export-oriented industries to face external competition is quite uncertain - particularly considering the competition from its next-door neighbour, Indonesia, and the likely choice of the USDollar as Timor's currency for a (transition ?) period of no less than 3-4 years¹⁶.

Even though we are not in full agreement with these authors as far as the external part of the development process is concerned, we must acknowledge that this is the most sophisticated strategy document so far. In fact, we subscribe to most of its suggestions regarding the development of East Timor, namely the following (to which we have added a few of our own) :

- i) the emphasis on the development of agriculture, i.e., the development effort should be especially oriented towards the livelihood and production conditions of the rural populations ;
- ii) the emphasis on the fight against poverty - which is related to the previous item, since the rural areas are the poorest in the country ;
- iii) the call for a « development-friendly » and « development-inducing » institutional framework - an aspect stressed by other authors ;
- iv) the need to rebalance the country's productive structure by increasing the relative importance of the private sector - including the necessary involvement of foreign investments ;
- v) the preponderant role of the State (at least) in the (first phases of the) development process - a view that is rooted in the « developmental State » tradition ;
- vi) the insertion of the country's economy into the broader framework of its foreign economic relations - essential for its production units (namely industrial) to operate on a viable scale ; and
- vii) the monitoring of the quantity and quality of international aid - given that a country can « suffer » from too much aid and that it is not possible (or legitimate) to accept/contribute to a low rate of return from such aid just

16. We shall come back to the currency issue further on. For the moment, we would just like to suggest that the choice of currency that has been made may not be totally alien to the domination of the Timorese market by Indonesian trading companies. Obviously, using a currency as strong as the USD renders import goods - particularly goods from Indonesia, whose rupee is currently highly devalued compared with the USD - very cheap, thus making it hard for national goods to compete in their own country.

because « it needn't be paid for ». The truth is, in one way or the other, that aid will indeed be paid for...

Hence, considering what we said earlier – including our own interpretation of the results of the « suco » survey we outlined above – we believe that, *at least for the next 5-10 years, the core of Timor's development strategy should lie in agriculture and in the fight against poverty, particularly in rural areas.*

This does not mean that attention will not be paid to the development of other sectors – such as industry and tourism – but that, since priorities have to be set, at least for the next 5-10 years they should focus on the fight against poverty which, in East Timor, is mainly rural.

One of the most powerful instruments of such a strategy would be the creation of opportunities for the increase of poor people's incomes – particularly, though not only, in rural areas – which can be facilitated if attention is paid to the development of agriculture and to the actual participation of the local populations in the outlining of the development process. Although and since we share the « human development » concept, more has to be done on other areas like health and education to benefit the East Timorese, particularly the more than 50 % who live below the absolute poverty line (under USD1,00 a day).

This strategy would allow Timorese people to have greater control over the resources at their disposal¹⁷, thus allowing both economic and social goals to be attained.

We shall have a look further on at some of the specific measures associated with this general strategy. However, we would like to stress that the present situation also calls for short-term « emergency reconstruction » measures that should be articulated with the longer-term strategic options.

Actually, the present situation seems to be especially serious in Dili and in the entire western part of Timor Loro Sa'e: an extremely high level of unemployment – *circa* 80 % of the urban population but decreasing – very bad living conditions and a lack of income making it impossible to improve the well-being of the population.

We shall now discuss some of these short term measures.

Now that the Untaet/Etta is taking steps towards the physical reconstruction of many public buildings and infrastructures, it should be

17. It is precisely because we believe in this type of strategy that we feel obliged to draw attention to the need to pay close attention to its implementation, in order to (try to) prevent some characteristic features of traditional societies from distorting its « community empowering » intentions. It is well known that these features of traditional societies are extremely resistant to change and often seek to turn measures like these to their own advantage. One should not forget that traditional rural societies have a history of turning « top-down » interventions to their own advantage. « For every action, there is a reaction... ». An intermediate project assessment report by the World Bank, regarding the measures that have been aimed at promoting « community empowerment » in East Timor mentions a few cases like these.

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As far as commercial buildings are concerned, the truth is that, although in May 2000 the reconstruction process had barely begun, one year later the situation seemed to be evolving in a quite positive way. However, the present pattern of economic activity is somewhat worrying, since the local (and international) private sector (hardly an actual « entrepreneurial class ») is responding to the presence of a large and wealthy foreign community by setting up countless coffee shops, restaurants and hotels, as well as services such as the transportation of people and goods, all of which make up for little added value. The clients of these services are (almost) always the same : expatriates. Due to the prices they charge, very few Timorese can afford to use these premises.

This is cause for concern for two different reasons : economically speaking, because these activities rely almost exclusively on a demand that is likely to decrease in the short-term, thus making it quite hard for these economic activities (and for those who depend on them) to thrive ; socially (and politically) speaking, because it has the potential to create tensions between locals and foreigners that are harmful and should be avoided.

Two additional remarks regarding the way in which the Timorese economy is presently « recovering its pace » : (i) on the one hand, the characteristics of the new productive structure are still very much rooted in the past – due to the lack of both cultural expertise and, especially, adequate training, the Timorese have always tended to set up very small businesses that matched the scale of the human and financial capital at their disposal ; (ii) on the other hand, these businesses are excessively concentrated in Dili, with just a few established in other areas of the country.

The first remark calls for a careful analysis of the relations between the local private businesses, the State and the foreign corporations, whereas the

second one stresses the need for a development approach that, along with rural development and the fight against poverty, is based on the adequate management of the territory - i.e., taking the «space» variable into consideration.

The situation in the housing sector is far worse. The problems that this sector is facing call for innovative solutions and a fair amount of political courage and creative capacity. In the near future, it will be hard for a large number of Timorese, especially in the aforementioned areas, «to see any light at the end of the tunnel» - particularly considering that most urban productive activities have been destroyed and that the hiring of public workers will most likely be kept to a minimum.

This situation is both socially unfair and politically dangerous and it demands rapid action. Hence, we believe that this issue can only be effectively addressed in the short/medium term by dealing with the (private) housing problem in Timor - and houses are «infrastructures» to give shelter to people - in the same way as if they were infrastructures of any other kind (roads to «move» people and goods; ports for boats which carry people and goods; airports, etc). Desperate problems need «desperate» (and innovative) solutions¹⁸.

More specifically, this way of approaching the housing problem in East Timor results in financing the reconstruction of (private) houses by way of low-interest rate loans, a grace period (2-3 years) and the use of donations as seed-money. That is to say, financial schemes similar to those adopted to fund airports, harbours, roads, dams and other physical infrastructures by international donors, such as the World Bank.

The sources of finance would have to be decided: either loans from institutions such as the World Bank itself (or others) or/and donations¹⁹.

The people who would get the loans (which would usually consist of small amounts of money, since the issue is reconstruction, not building entirely new houses) would be allowed to start paying back after a grace period of 2 to 3 years and for as long as 8 to 12 years, depending on the amount of money borrowed and on the financial situation of the borrower. It seems crucial to us to have a period of 2 to 3 years before loans start being paid back: we believe that this is the minimum time needed for the Timorese economy to reach a level of growth that creates enough jobs and other sources of income for people to pay back the loans²⁰.

18. Naturally, we admit that our suggestion may not be the best, let alone the only one. However, what is important is that a rapid solution be found for a problem that is already over a year old and which has not been given enough attention by the authorities. World Bank sources have stated that this issue will be the subject of a report to be published later.

19. We are assuming that the capital for all these loans would come from other loans, granted to the Timorese authorities (which would have a larger payback period) by donors.

20. People with access to inside information (including from the financial sector) estimate that most loans would range from 2,000 USD to 4,000 USD, should this suggestion be followed.

One can argue that this proposal is not viable, because it can lead to borrowers seeing loans as donations, thus paying back a small portion of the total amount of the loan. We believe that it is possible to design appropriate incentive schemes, some of them in line with the Grameen Bank experience, which ensure that the capital at stake is actually paid back. Some of the East Timorese experiences with this kind of credit confirm the high rate of payment of the debts by the debtors.

The fact that there isn't any plan for the gradual reconstruction of private houses in Dili (and other towns) isn't, of course, a matter of mere chance... Several people involved in the reconstruction process have pointed out that the CNRT itself doesn't consider this a priority, since many of the houses belong to Indonesians who have fled the country. On the other hand, the authorities also seem to consider that slowing down the reconstruction of private houses will prevent the excessive concentration of people in Dili – particularly people looking for jobs in the (re)construction sector. This would be a way of preventing « rural-urban » migration.

On the other hand, the World Bank isn't paying much attention to this problem either, claiming that the houses do not belong to the social group that is now the focus of its concern : the poor²¹.

Although we admit that some of these arguments may be partially valid²², we do insist that it is extremely urgent and important that the reconstruction process begin, both for political reasons and for economic and social justice reasons and the well-being of Timorese²³. Besides, it is clear (to us...) that this country's nationals are being forced to pay, all on their own, for the cost of rebuilding things (houses) that would not have been

After all, as we have already pointed out, the issue here is financing the reconstruction, not the construction of entirely new houses. Besides, in the case of Timor, the reconstruction process probably wouldn't be too financially demanding – and it is very likely that the borrowers and the owners of the houses would supply a considerable portion of the required manpower.

21. Faced with all the various arguments regarding this issue, we cannot help but wonder how the international experts would feel if it were their countries and their houses that were at stake. Most likely, they would be in the first row of demonstrations in front of the Ministry of Reconstruction demanding support.
 22. Another valid point is the fact that there are no property records, making it difficult to determine who the actual owners of the houses are. This lack of formal proof of ownership also makes it impossible for owners to provide the collateral usually required when asking for loans.
 23. We would like to recall that it is almost impossible to prevent a migration flux (from rural areas to towns) from happening, considering the historical experience of other countries that have recently undergone similar processes. A deliberate policy aimed at delaying the reconstruction process wouldn't do much to prevent such a flux. Besides, it is clear to us that making the Dili population pay would certainly not be fair. After all, Dili is among the towns that have suffered the most following the 1999 referendum, and its population should not have to endure such hardships – the lack of prospects of having their situation improved is already hard enough...
-

destroyed had it not been for the sheer ineffectiveness of the international community in preventing the havoc and destruction brought about by the Indonesian Army and the militias.

The reconstruction process will also bring about several other advantages – both social and economic.

In fact, it is worth pointing out that this process – which will last for many years – will allow the employment of a considerable portion of the Timorese manpower (both wage-earning and self-employed), thus helping to reduce the high level of unemployment in Timor – and, particularly, in Dili.

On the other hand, many indirect advantages will result from the reconstruction process. For example, it is clear that Dili's economy is at present almost a « dual economy »: there are two (almost) completely separate groups – the whole of the local population and the group of expatriates who are helping the country at this important moment. There are very few interaction mechanisms between these two socioeconomic groups. If this phenomenon continues, it might result in some negative consequences, due to the obvious differences in the patterns and standards of living of the two communities. It is likely that the locals will start to resent the presence of foreigners, unless the foreigners' wealth flows in such a way that the locals can benefit from it.

The reconstruction process can contribute to wealth flowing between the two communities in two different ways²⁴:

(1) Foreigners might rent some of the rebuilt houses when looking for a permanent place to settle with their families. They might even contribute to the reconstruction process by making advance payments. Upon receiving the rents, the house owners will put their money into the market, helping to reanimate the local economy and, in some cases, even rendering possible the setting up of some small businesses. Actually, this mechanism has been in place from mid 2000 onwards; these rents provide owners with a source of income that is quite good by local standards (300-400 USD or even more for a small house; the average monthly wages paid by the Untaet to their Timorese workers is 134 USD²⁵, i.e., about 1/3 of the usual amount paid as rent by foreigners²⁶, the minimum wage being about 80 USD).

24. Many of these mechanisms are familiar to anyone who has closely followed other cases of the emergence of a « tribe of expatriates » – *honni soit qui mal y pense...* – Mozambique, and particularly Maputo, is an example that comes to mind.

25. In order to have an idea of the purchasing power associated with these figures, let us just say that 134 USD is barely enough to pay for 2 litres of milk per day (if bought in a supermarket), or for 1 can of beer per day (if bought in one of Dili's countless restaurants). This is quite shocking, particularly considering that the average Timorese household has about six members.

26. One of the harmful effects of choosing not to support the reconstruction of private houses is the fact that some of them that are rented for larger sums (because they are in better

(2) Upon settling in these houses, foreigners would probably change (just slightly ?) their consumption patterns, increasing their demand for local goods and services. Their demand would have a much larger local component when compared to the pattern of spending (of imported goods) associated with hotels and restaurants... This increase in local demand would benefit the food-crop farmers and the dairy producers, as well as many Timorese families who would provide foreigners with several kinds of personal services (everybody knows that time and again a « Malay » will be charged more than a Timorese for the same product/service...)

As is usually the case in economies that undergo the same problems as Timor, the price level has risen abruptly during the crisis, due to shortages in almost every single type of goods. However, prices normally come back down after the crisis - eventually back to their former level. This has not happened in Timor - the price level, albeit below its peak, is much higher than it used to be prior to September 1999 and it is certainly much higher than the local population can cope with.

Several factors have contributed to this : (a) the speculative behaviour of many economic agents ; (b) the fact that Untaet chose not to enforce any regulations regarding profit margins, even though these regulations are quite common even in so-called « developed » and « liberal » countries ; and (c) the presence of a large group of foreigners (amounting to over 15,000 people), whose total purchasing power (most probably) exceeds that of all 800,000 Timorese...

We believe that the time has come to bring down the price level, since it is obviously inconsistent with the income level of the local population. Furthermore, considering that under Indonesian rule there was a generalised practice of controlling prices and granting subsidies, the truth is that a considerable part of the population now lives in far worse conditions than it used to. Obviously, most people feel that this is the price to pay for freedom, but we should be aware that some sacrifices can be withstood when there is a light at the end of the tunnel, whereas others are certainly more difficult to face on a day to day basis...

The Etta/Untaet Administration can help bring prices down in several ways, either by way of regulations (e.g., enforcing - or, at least, trying to enforce... - maximum profit margins), by intervening in the market (directly or indirectly promoting supply at non-speculative prices), or by taking measures that prevent « inflationary expectations » of economic agents (e.g., extensively advertising « normal price » lists). There are instruments to do this and they can be used whenever needed ; most probably what is lacking

condition) belong precisely to the people who supported the integration in Indonesia and were thus spared from suffering the destruction that followed the 1999 referendum. Some of these people live in West Timor and get their money from the same East Timor they helped to destroy.

is the political will to use them... In this specific case, we believe that the « mainstream » argument for not intervening in the pricing mechanism cannot be seriously invoked.... After all, two of the essential conditions for this to be possible – perfect competition and information – do not apply in Timor. Ensuring that those two conditions are actually fulfilled is precisely one of the issues in which the Administration should take action without fear of being accused of too much intervention.

The currency issue is another crucial aspect that deserves careful consideration before reaching any decision. We have already discussed this issue in greater depth in another paper²⁷. However, we believe that its main conclusion is worth stressing once again: it is highly advisable that the Timorese authorities issue (sooner or later) their own currency, so that they can take advantage of the inherent *seigniorage* and, on the other hand, that they have at their disposal two extremely effective economic policy instruments: the monetary policy and the exchange rate policy.

Obviously, there will not be much room for the latter, since Timor's future currency will necessarily have to be backed by another currency that is more trustworthy and better-established in the market. Otherwise, considering the extremely fragile situation of the Timorese economy and the uncertainty regarding the future of its international economic relations, the Timorese currency may well prove to be little more than a collector's item... Although, we think that the results of the Timor Gap negotiations and its consequences for the economy of East Timor will be important for any solution to be taken because such receipts can be used as a 'pillow' to back the East Timorese currency.

Although there is a general consensus surrounding most of these issues, the main divergences have to do with the choice of the currency that will back the « maubere » or « belak ». There are many uncertainties in this field but we (still) think that the best choice, on pure economic grounds --- but who says that this is an economic and not a political issue?!... --- would be to use the Australian Dollar as the currency to which the Timor currency should be pegged.

This would have at least two advantages: the fact that this currency's exchange rate tends to reflect the evolution of the prices of raw materials – and Timor will be for many years, on the export side, a commodity-exporting country – and (especially) the fact that Timor has a lot to gain if it decides to attract investments and tourism from its neighbour « down under ».

However, we believe that the most important thing to do in the future is to avoid a currency – like the USD – whose instability against all other currencies may well prove to be a source of additional problems, instead of a

27. A.M. Almeida SERRA & L. QUINTANEIRO, *Moeda e cambios em Timor Lorosa'e : contribuição para um debate*, Lisbon, CESA (« Documentos de trabalho », 58). [http://pascal.iseg.utl.pt/~cesa/files/DocTrab_58.pdf]

stabilising factor in the macro-economic management of the country²⁸ – which is precisely what happened in various Asian countries in the period leading up to the 1997 Asian crisis.

There is also the issue of the type of relation between the two currencies (the Timorese and the one to which it will be « pegged ») : either quite rigid (e.g., a *currency board* regime) or more flexible. Our own preference is for a system in which the monetary authorities have a certain degree of autonomy. The « cost » is a tight control over the fiscal budget so that there is no chance to finance it by monetising the deficits, which should not happen under any circumstances.

The aforementioned (small, even too small ?) degree of autonomy – which can be backed by a more or less « comfortable » foreign currencies reserve made possible by the Timor Gap receipts – can be ensured through (at least) one of two mechanisms : either by defining a relatively narrow band of fluctuation for the exchange rate and/or by allowing the circulation of the « anchor currency » within the country for a limited number of economic transactions, particularly those having to do with tourism. The independence of the Central Bank will be, in any case, a « must ».

We have presented some of the most urgent short-term issues in the recovery of the Timorese economy. However, many other extremely important issues will have to be addressed in the future, i.e., in the medium/long term. We shall now try to provide some tentative answers to these issues.

Priority to rural and agricultural development

As we have stated, we think that the development of agriculture and the fight against poverty – particularly in rural areas – are of paramount importance.

In developing the agricultural sector, special attention should be paid to crops that benefit the poor, both in terms of their nutritional properties and the income returns they yield.

Crop diversification – especially when it comes to food crops – is also important in the sense that it can benefit the export sector, due to the fact that Timor is in a good position to supply the markets of Northern Australia – if transport is arranged. On the other hand, the development of

28. One should bear in mind the fact that the Timorese economy is a *price-taker* in all the markets and that this country doesn't export any of the goods that are the object of fierce competition in the world market. Hence, the possible losses in competitiveness arising from (excessive ?) increases in the value of the US\$ – as is the case right now – would be (almost) irrelevant, but for the exception of tourism. On the other hand, we would like to point out that if the USD is « too strong », imports become excessively cheap, thus compromising the competitiveness of national goods within the country itself. That is precisely one of the symptoms of *Dutch disease*.

food crops may also prove important as an input for tourism²⁹.

29. Several observers, particularly Timorese ones, have stressed the tourist potential of the country and the importance of exploring it. We agree with this point of view, although it should be left clear that major changes are needed for that to be possible – namely, in terms of infrastructure, communications, health facilities and the pricing mechanism. Nearly everything remains to be done in most of these domains, which is why tourism cannot be expected to yield any significant returns in the short-term.

In order to develop rural areas, it will be necessary to develop non-agricultural sources of income in rural areas. One way of doing so is by setting up small and medium enterprises (SME's) to process agricultural raw materials so as to increase the locally added value. For instance, it is important to improve the quality and quantity of coffee production. This will yield considerably higher returns for coffee producers and exporters.

However, since this process requires advanced technological knowledge and the ability to successfully operate on the world markets, it would only be possible in association with appropriate foreign cooperation. The Timorese people would be represented by the State or by a producers' union.

Obviously, all of this calls for improvements in access to rural areas, in terms of the transportation of both people and goods. After all, it is essential that goods be easily transported to and from the market and that people have effective ways to access health and education facilities.

The Emphasis on the Fight Against Poverty

The emphasis on the development of agriculture is important for more than economic reasons – such as increasing GDP or improving the export figures. The essential thing about this process is that it is crucial for the improvement of the quality of life of the rural population, namely by increasing their income.

The fight against (rural) poverty is a difficult and complex process, requiring more than just the development of the agricultural sector. However important it may be, increased production in this sector is but one side of that struggle. In any case, agriculture development can only help if it is pro-poor oriented. This means that it is important to make sure that the price and cost structures allow rural populations to get enough surplus to pay for their consumption and investment – on physical (more and better tools, more and better *inputs*, etc...) or on human capital (« investments » in their own capital and/or their children's health and education, etc...).

The fight against poverty implies that the State gives priority to those measures that will improve people's access to health and education facilities and to different income sources. Generally speaking, this means that the main strategic concern of the State should be to establish the conditions for poor people to break out of poverty and stop « being poor just because they are poor ».

Breaking out of this « vicious circle » requires the intervention of the State, either directly or by means of those actions that make it easier for people to do it by themselves, or with the help of other agents – such as NGO's.

Hence, we do not think that the State – like some sort of father looking after his children – should *do everything*. Instead, its role should be to do

some things (such as supplying public goods) and to put into action the conditions that will allow people to break out of the « vicious circle of poverty » by themselves.

The Need to Build up a « Development-Friendly » and « Development-Inducing » Institutional Framework

« A bad cook will turn any good recipe into a disaster... » Likewise, no development strategy or policy will work if the skills and conditions to implement them aren't there.

We think that this is one of the major weaknesses of Timor Loro Sa'e 400 years of Portuguese colonisation – *cum* dictatorship for the last 45 years – and 25 years of Indonesian colonisation and dictatorship were of no help in improving the country's human capital and organisational structures. In fact, we believe that one of the most harmful effects of the Indonesian occupation – and one that will be particularly hard to overcome – is precisely the intellectual behaviour of the Timorese staff who underwent Indonesian education and training under the « pancasila » doctrine. It is now crucial for these staff to be « brainwashed » – in the right way ... – in a more democratic and efficient sense, whilst maintaining (or returning to ?) their national (Timorese) characteristics.

This should probably be the main and foremost task for the Untaet Administration and for foreign aid, rather than taking the place of the Timorese in decision-making. Unfortunately, this does not always seem to be the case...

The process of building up a « development-friendly » organisational framework might draw from the past experiences of several Southeast Asian countries, such as Taiwan, Singapore or even Korea (in spite of the now revealed « hidden relationships » between business and political power).

The Need to Establish the Role of Foreign Investments and of the Various Property Sectors

In line with what is, nowadays, the reality of almost all countries in the world, the August CNRT Congress opted for a « market economy » with intervention from the State whenever needed.

Hence, the *market* and the *private sector* should be at the core of the basic framework of the Timorese economy and society. However, in a destroyed economy such as Timor there will be plenty of « market failures » for a very long time. To cope with them we think that it is essential to be very realistic concerning the role of the State and other sectors. These will include organisations like producers' unions (especially in the trading sector) and/or other even more elementary forms of organisation, whether of a traditional nature or of an informal type (the so-called « fourth sector »).

Co-operative forms of organisation, whether formal or informal, have traditionally been the object of special attention by many NGO's and in East Timor there is very important work to be done in this area.

These kinds of « informal » organisations are also a powerful instrument in the « self-empowerment » and « self-organisation » of the people in their fight against poverty. All over the world – and particularly in developing countries – this « fourth sector » of the economy (and of society) has a major role in this domain. Its underlying philosophy can be particularly well articulated with the communitarian lifestyle of a large part of the Timorese people and it should therefore be nurtured and encouraged.

The Role of the State in the Economy

We have already stressed that, just like in most other economies, the economic system of Timor Loro Sa'e should be based on the fundamental role of the private sector³⁰.

However, as with the private sector, we do not have any prejudice against the public sector.

First of all, a line must be drawn between three different issues : the State as provider of « public goods » ; as owner of means of production ; and as a regulator of the economy and a « facilitator » of the development process. We shall concentrate in the these last two issues.

Our own point of view regarding the role of the State as owner of means of production is quite pragmatic : if it is necessary for the development of the economy and to provide public goods, the State should own them. If it is not necessary (which is usually the case, since excessive State ownership tends to lead to corruption), then it is probably not the best solution.

For instance, in the present situation of Timor Loro Sa'e, in which there are no private mechanisms to ensure that the peasants' crops get to the market, there is no alternative but for the State to intervene directly³¹ : taking account of this « market failure » – which we believe to be only temporary and associated with the present conjuncture of the country (namely the fact that most Indonesian merchants have fled East Timor) – there is no alternative to the State taking up the responsibility of ensuring the functioning of the commercial circuits in rural areas (i.e., by buying crops from the peasants and, if necessary, supplying them with other goods). We are perfectly aware that the State is not supposed to act as « *cantineiro* »³², but it must not remain idle either. In the present situation, the state will

30. Recently, in the CNRT/National Congress, the decision was made to create an economic system based on the private sector, in which the State intervenes in a selective manner.

31. Obviously, in this case, the « State » would be the Untaet.

32. « *Cantineiro* » is the name given in Mozambique to a certain type of merchant in rural areas who sells inputs and consumption goods to peasants and who also buys their surplus from them and supplies them with (micro-)credit in some situations.

probably have to intervene in a more direct way than would normally be advisable.

The same can be said regarding the regulation and/or development inducing role of the State: again, we believe that there is no room for oversimplified « interventionism » versus « liberalism » discussions – it all depends on the actual circumstances.

For example, although under normal circumstances the State should not have to intervene directly in the housing reconstruction market, the present situation in Timor obviously calls for the State to do so.

The fact that there should be flexibility and pragmatism in addressing these issues leads to the conclusion that, considering the present structural conditions of Timor Loro Sa'e, there is more room than usual for the State to act as an accelerator/facilitator/leader of the development process. These structural conditions include, as we mentioned earlier, a significant degree of underdevelopment and a huge lack of entrepreneurs (those who might ensure that the development process would be led by the private sector)³³.

Therefore, the State will necessarily have to play a leading role in the development process – at least in the next few years – in the tradition of the « developmental States ». After the period of national reconstruction (10-15 years?), the preponderance of the state can gradually be reduced and the remaining sectors of the economy, which will hopefully by then have become stronger and more vibrant, can then take up the role of being the main engine for growth (and development) in the economy.

We would like to stress the idea that, save for some exceptions, it is not necessary for the State to *own* the means of production for it to be able to *intervene*. One of these exceptions is, for instance, the setting up of factories that prove essential but which, for one reason or another, the private sector cannot – or is not willing to – take over. The increase in the amount of value added in the production of coffee, for instance, may require a partnership between the Timorese State and some foreign corporation – and, possibly, an association of Timorese producers.

The State should therefore not only ensure the pursuit of the predetermined strategic development goals (such as increasing the amount of value added or developing manufacturing industries), but also participate in partnerships aimed at reducing the risks associated with that pursuit, inducing a process of « learning by doing » and, consequently, building up a Timorese private entrepreneurial sector.

33. The consequences of this lack of entrepreneurial skills can already be felt: their economic role is gradually being played by Indonesian and Australian entrepreneurs instead. These foreign entrepreneurs are the ones who are benefiting the most from the ongoing process – and the locals are starting to resent just that (as has been clearly illustrated by the statements of some of the delegates in the CNRT Congress of late August 2000).

After all, a capitalist system will not work without capitalists, which is why, in the event of a « lack of capitalists », the State should help to nurture them because their role is very important in a market economy. The alternative is to become excessively dependent upon foreign corporations and entrepreneurs³⁴.

However, we obviously acknowledge the importance of promoting foreign investment, particularly in view of the absence of a strong entrepreneurial fabric and of enough savings for investment. Therefore, there is no reason for not trying to attract direct foreign investments, especially those that are not simply aimed at maximising short-term profits in a speculative manner (which is, after all, quite a common « looting » practice ; so common that we think that a lot of the present foreign investments in East Timor look too much like these looting practices).

Foreign (Economic) Relations

A small island-state developing economy like Timor must not keep apart from the ever-expanding globalisation/internationalisation process. There are at least two strictly economic reasons for this : the need to diversify the supply sources, in order to be able to get the best quality/price available on the market ; and the need to ensure a larger demand for its own goods (internal demand being limited by the size and purchasing power of its population).

Set between two economic giants, in an area - Southeast Asia - characterised by significant economic dynamism (despite the 1997 « stumble »), Timor has no choice but to pay special attention to its economic relations with Indonesia, Australia and all other ASEAN countries. In fact, this « natural tendency » can already be noticed, since the Timor internal market is now clearly dominated by Australian and Indonesian corporations³⁵. All of these aspects have to be taken into account when the time comes to choose the currency regime.

Unfortunately, the lack of data (which should by now have been gathered by the Untaet Administration) makes it impossible to draw a precise picture of the situation of Timor's external trade. Still, *ad-hoc* information gathered from the banking and harbour communities confirms the domination of Australia and Indonesia.

Aware of the fact that the country lies in between a « developing » world to the North and a « developed » world to the south, the Timorese

34. *Vd* the previous note on the present role of the Australian and Indonesian entrepreneurs in the Timorese economy.

35. It is interesting to notice that the « duality » that currently characterises the Timorese economy (the foreigners' sphere being completely apart from that of the locals) has a correspondence in the case of consumer goods : Indonesian goods prevail in local markets, whereas the hotels and restaurants are dominated by goods « made in Australia ».

authorities have already made the decision to try to reach a balance between those two worlds while formally asking to adhere to ASEAN, where Indonesia is of paramount importance.

Easier access to ASEAN will mean easier access to cheap raw materials and finished products, and access to the Australian market would ensure a supply of top-quality goods and the demand for a significant part of the increase in the Timorese agricultural production, as well as for the manufactured goods to be produced in the future – by Australian and ASEAN companies in East Timor.

One sector to be developed should be tourism but everyone must be aware that it would not yield any significant returns in the near future, for two main reasons: (a) because there are no structures that allow for a significant number of tourists to visit the country; and (b) because the current price level (which threatens to become permanent) is quite high. Along with the expensive flight fares to and from Dili and with the high exchange rate of the USD³⁶, these two problems will probably make it impossible for the tourism sector to flourish – which will leave Timor without this possible additional source of revenue.

* * *

Throughout this text, we have sought to present a set of guidelines that may prove useful – at least, so we hope – for the outlining of a development strategy for Timor Sa'e, when the time comes for this country to decide by itself on its own future and to make the necessary economic policy decisions.

Needless to say, it is not a fully comprehensive analysis³⁷ but that has never been our intention. Still, after having drawn a limited (owing to the lack of available data) picture of the present situation, we have sought to present a set of generic guidelines. We hope that they can be useful to East Timor and its people.

In the short term, we emphasise the need to try to cope with the « market failures » of agriculture (need to develop proper commercialisation and credit systems) and rehabilitation (micro-credit) but also to begin the study of the consequences of using the USD and the alternatives to it, including issuing a national currency subject to the condition of a realistic (whatever that means...) monetary and (mainly ?) fiscal policy.

36. Which, we recall, is the official currency of this country during this transition phase and, predictably, for the next 3-4 years – at least...

37. Besides, none of the other suggestions that we have mentioned in this text was – or tried to be – comprehensive either. The Untaet itself is more concerned with correctly diagnosing the situation and with suggesting a few essentials than with producing a definitive and comprehensive development strategy.

For the long term - which begins now... - we emphasise :

i) the development of agriculture, i.e. the development effort should be especially oriented towards the betterment of the living and production conditions of the rural populations;

ii) the fight against poverty – which is related to the previous item, since the rural areas are the poorest in the country – and its determinants, which implies developing the education and health systems³⁸ ;

iii) the call for a « development-friendly » and « development-inducing » institutional framework – an aspect stressed by other authors. For us, this includes an important role of the State (at least) in the (first phases of the) development process – a view that is rooted in the « developmental State » tradition – but also the awareness that it must opt for a « hands off » approach whenever or as soon as possible ;

iv) the need to balance this role for the State with bottom-up mechanisms of its political control and an increase in the importance of the private sector – including the involvement of foreign investments and an emphasis on the development of a national entrepreneurial class ;

v) the insertion of the country's economy into the broader framework of its foreign economic relations – essential for its production units (industrial) to operate on a viable scale ; and

vi) the monitoring of the quantity and quality of international aid – given that a country can « suffer » from too much aid and that it is not possible (or legitimate) to accept/contribute to a low rate of return from such aid just because « it needn't be paid for ». The truth is that, in one way or another, aid will indeed be paid for...

vii) the need to implement, from the very beginning of the development process, a « spatial/regional » perspective of development ;

viii) last but not least, to have a « quality policy » in every single policy in East Timor ; this will be essential to move forward in the development trend and to establish a difference with the « Indonesian pattern » of lack of quality and way of reasoning and living. There has been too much blood in the last twenty-five years to change only the colour of the passport...

Dili and Lisbon, August 2000 – June 2001

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38. Of course there is a need to expand the « quantity » of the education system so that more people can get this essential tool to the betterment of its living standards but since most children are now at (elementary) school, greater emphasis must be given to the « quality » of the education , both elementary and secondary --- and tertiary too...
