

Productive economic sectors are essential for sustainable development in Timor-Leste

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Abstract

Timor-Leste is one of the most petroleum dependent countries in the world. In the last four years, oil revenues paid for about 88% of the total State budget. Since petroleum resources are not renewable and the money from the sector will run out soon, it is crucial for Timor-Leste to have a strong productive and diversified economy.

Unfortunately, although the government has spent nearly 10 billion from oil and gas, it has not yet developed a strong non-oil economy. The non-oil sectors, particularly agriculture, remain under-developed, even though they directly impact the lives of most people in the country. State budget allocations continue to neglect sectors which should address current economic and social problems, including high poverty, increasing malnutrition, unemployment and import dependency.

The Timor-Leste Strategic Development Plan 2011-2030 underlined agriculture as a key economic development sector, along with tourism, rural development, private sector development and petroleum. Two-thirds of Timor-Leste's population live in rural areas, largely by subsistence farming. Agriculture development – and the development of other productive sectors such as fishing, small industries, and tourism - is essential to improve the sustainability of Timor-Leste economy, reduce poverty, create jobs, reduce import dependency and reduce Timor-Leste's reliance on revenue from the petroleum sector.

Introduction

Timor-Leste is a country whose economic structure and the majority of the state activities depend heavily on income and investments from the oil and gas sector. Nearly 80% of the annual General State Budget comes from oil and gas revenues.² Until 2016, the Government spent more than 8 billion dollars from the Petroleum Fund to support government programs and activities implementing investment policies in various sectors.³ Unfortunately despite the large quantity of money that has been spent, nearly half of the Timor-Leste population still lives below the

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² La'o Hamutuk. 2018. *Rights and Sustainability in Timor-Leste's Development*. p. 4. Retrieved from: <https://www.laohamutuk.org>

³ La'o Hamutuk, 2016. *Submission to Timor-Leste National Parliament from La'o Hamutuk on the Proposed General State Budget for 2017*. p. 2. Retrieved from: <https://www.laohamutuk.org/econ/OGE17/LHSubPNOJE2017-7Nov16en.pdf>

poverty line; access to clean water is limited; malnutrition is high; health and education facilities remain limited; and the productive economic sector has not yet been well developed. The Current government's policies for economic diversification prioritize the oil and gas industrial sector and focus on development of mega-projects in the infrastructure sector.^{4,5,6} Productive economic sectors have not received adequate investment despite the fact that these link directly to the lives of most of Timor-Leste's people.

The situation that confronts Timor-Leste has occurred in many oil and gas dependent nations. These nations were not able to develop the lives of their people well despite having large income from oil and gas (Polterovich, Popov & Tonis, 2010. p.1). Short-sighted management by those in government has meant that money from natural resources has been spent without planning on projects that do not give sustainable benefits to people. However, some nations rich in oil and gas have managed their natural resources well and developed their country to benefit the lives of the population. Some of them already being developed and have strong diversified economy before exploring their natural resources. Timor-Leste really needs to learn from the experiences of these countries, to better manage our income from oil and gas, invest smartly in productive economic sectors and basic services sectors which the majority of the people need to be able to improve their quality of life.

This paper will discuss challenges that Timor-Leste faces today as a nation highly dependent on income from oil and gas, and explore alternatives to economic development that are more sustainable, in sectors that directly link to the lives of most people.

Oil and gas wealth doesn't guarantee a good life for the population

Many oil and gas rich nations face the problem of the resource curse. The concept of a resource curse refers to a situation where nations dependent on non-renewable resources including oil and gas are unable to develop their economy well in comparison to other countries which don't have such resources.

⁴ La'o Hamutuk. 2016. *Special Economic Zone in Oecusse*. Retrieved from: <https://www.laohamutuk.org/econ/Oecussi/ZEESMIndex.htm>

⁵ La'o Hamutuk. 2016. *South Coast Petroleum Infrastructure Project* <https://www.laohamutuk.org/Oil/TasiMane/11TasiMane.htm>

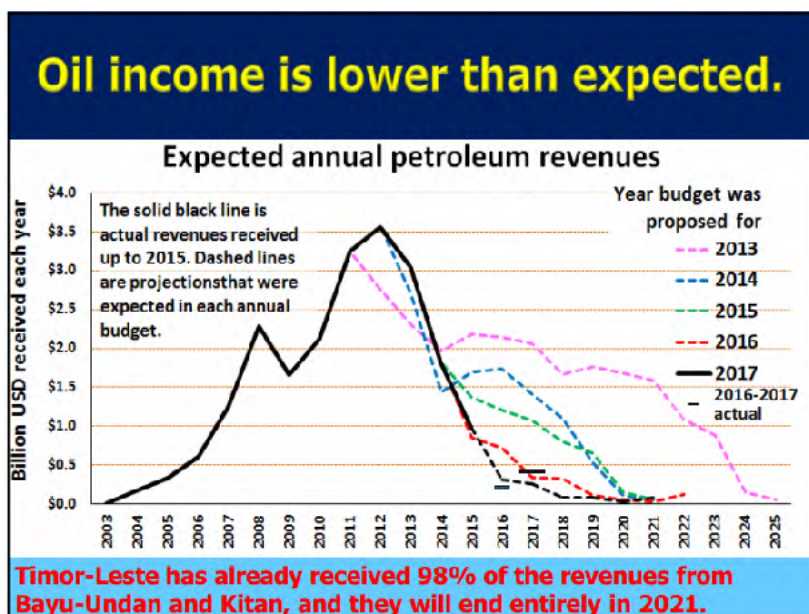
⁶ <http://www.laohamutuk.org/econ/PPP/Tibar/TibarIndexEnTe.htm>

“The concept of the resource curse suggests that countries endowed with natural resources, such as minerals, oil and gas, have been less able to develop their economies than others with fewer natural resources.” (Auty, 1993).

One principle cause of the resource curse is the lack of attention to the productive economic sector. Nations suffering from the resource curse often experience conflict because of internal struggles over the resources and corrupt government. Many African countries, such as Nigeria, Congo and Angola, are examples of countries whose people remain poor despite extensive natural resources. Africa is a continent very rich in natural resources but until this time, most of the population of Africa continues to live in poverty.

Many developed nations which have provided good livelihoods for their people have economies which are not dependent on revenues from non-renewable natural resources. These nations include Singapore, Japan and South Korea, who have invested a lot in human resources, such as education and health. They start their economy through a large investment in their productive economic sectors, including agricultural production, basic industries, economic infrastructure, maximizing resources which have been abandoned, land conservation and utilization, strengthening the science and technology sector (Stefanov & Habil, n.d., p.3; Yuen, 2008, p. 6).

Timor-Leste’s oil and gas resources are extremely limited, and will not be able to sustain Timor-Leste’s economy for the long-term. During the last fourteen years, Timor-Leste’s oil and gas revenues have come from the exploration of the Bayu Undan and Kitan fields. The Kitan field stopped operations in 2015 because there was no more oil left to mine. Oil production



from Bayu Undan has also passed its maximum production level and production has fallen dramatically; the field will be dry by 2021 (MoF, 2016, p. 38). In fact, excluding the Sunrise

field, 98% of under-sea oil and gas resources which have been explored, have been transformed to money which is held today in the Petroleum Fund.⁷

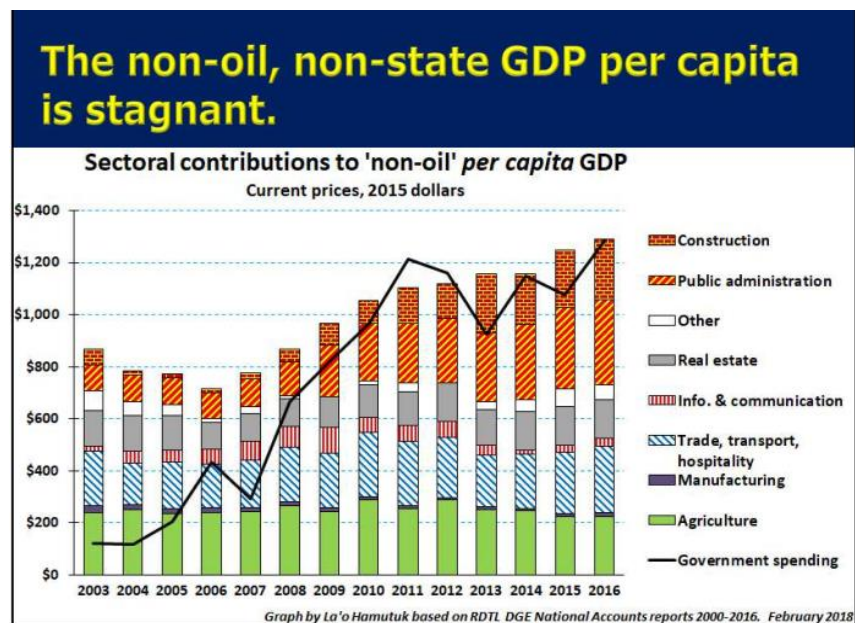
As of April 2018, Timor-Leste has 16.87 billion dollars in the Petroleum Fund (CBTL, 2018, p.1). This money supports Timor-Leste's General State Budget each year. Each year, the Government pulls approximately one billion dollars from the Petroleum Fund. As such, when the government does not have alternative non-petroleum revenue sources, and they continue to implement fantastical plans for mega projects related to oil and gas industries such as the Tasi Mane Project, including also other current large scale projects, Timor-Leste's Petroleum Fund will only last until 2027.⁸

Timor-Leste's productive economic sector is not yet strong

When there are no revenues from oil and gas, Timor-Leste will need to be already strong in other economic sectors to support state activities and functions. Unfortunately, in the 16th years since the restoration of independence, there is not yet another economic sector that is strong enough to sustain Timor-Leste.

Agriculture is the largest economic sector in Timor-Leste in terms of participation of the population. 64% of households in Timor-Leste are involved in agricultural production activities, and depend on agriculture as a principle source of income.

However, growth of this



⁷ La'o Hamutuk. (2018). *Right and Sustainability in Timor-Leste's Development*. p.6. Retrieve from <http://www.laohamutuk.org/econ/briefing/RightSustainCurrentEn.pdf>

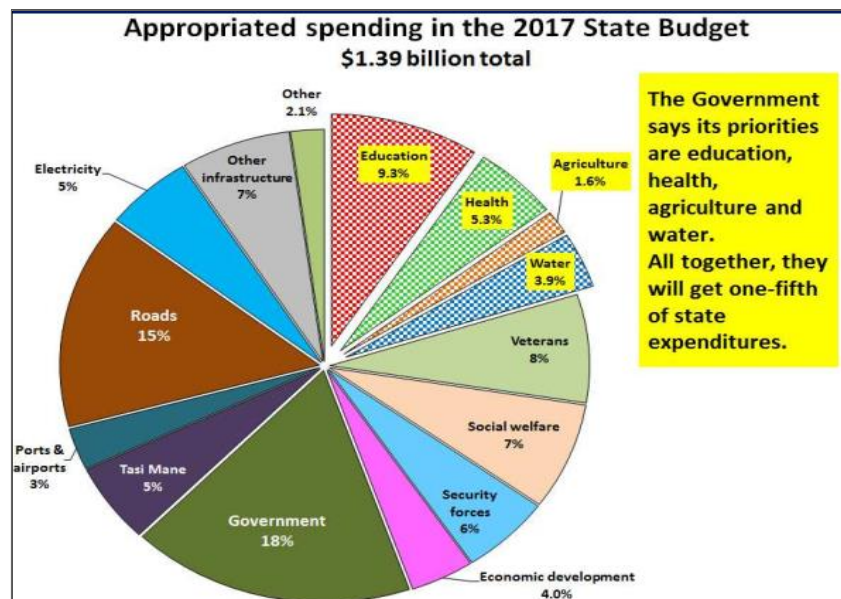
⁸ La'o Hamutuk. (2018). *Sustainability of Timor-Leste State Finance*. p. 4. Retrieved from <http://www.laohamutuk.org/econ/briefing/ScheinerANUJun2018en.pdf>

sector has continued to be stagnant without demonstrating significant change. Using economic growth measurements, GDP from the agricultural sector in 2015 was only 9% from total GDP. In the past 10 years, non-petroleum GDP has remained stagnant.

Another sector is tourism. This sector is identified as a priority for Timor-Leste in the Strategic Development Plan (SDP) 2011-2030, but its growth is no different to the agricultural sector. Sectors like industrial production and manufacturing are almost non-existent. While there are other causes not related to the government, a principle cause is because large productive sectors like agriculture have not received good attention as an economic sector and the strategy developed has two key problems: 1) there is no good plan and 2) the investment has been too small.

There are many agricultural programs but they don't benefit the majority of the population because there is no Master Plan to give a clear roadmap to programs and investments in the agricultural sector (Amaral, 2018, p. 6). The Government has failed to recognize that as a small nation, development of productive sectors like agriculture, tourism and manufacturing industry are important. Programs in these sectors must complement each other, working toward the same goal with a clear plan such as agro-tourism programs receiving more value when they work together with the organic agriculture system and reflect local community knowledge. Large tractors and large fields of mono-culture crops are not good agro-tourist attractions.

The allocation of General State Budget to the agricultural sector each year has never exceeded 3% of the total budget. In 2017, the percentage of the budget that went to agriculture (1.6%) was less than budget to Tasi Mane Project (5%), roads and bridges (15%) and subsidies given to veterans (8%). The plan for agriculture is also



very oriented to the adoption of technology solutions which are not compatible with Timor-Leste's context.

Alternatives: Agriculture, agro-tourism and agricultural industries

The agricultural sector is not the only productive economic sector which Timor-Leste should develop, but it is the largest sector in terms of the majority of the population taking part in and being dependent on this sector. For this reason, the Government must prioritize developing this sector, integrating it with other productive sectors to further strengthen Timor-Leste's non-petroleum economy.

In many newly developing nations with agricultural potential like Timor-Leste, agriculture plays an important role in improving the lives of the population and accelerating development.

This importance is acknowledged in many studies by international agencies including the Food and Agriculture Organization (FAO), World Bank and Organization for Economic Cooperation and Development. Timor-Leste's Strategic Development Plan (SDP) also acknowledges the agriculture sector as an important pillar in developing the national economy, confirming that Timor-Leste truly needs the agriculture sector to decrease poverty and dependence on importation, guaranteeing food security and sovereignty, and promoting economic development in the rural areas (Gov. RDTL, 2011. p. 105).

Increasing the agricultural sector will positively impact the economic security of the majority of Timor-Leste's people. According to the 2015 Census, 64% of households in Timor-Leste take part in agricultural production activities (GDS, 2017), and a large percentage of these farming households live in rural areas, where the prevalence of poverty is very high (World Bank, 2016). A principle characteristic of poverty in rural areas is that their household income is small from agricultural production. The vulnerability of farming households to poverty depends on different factors related to household income and spending, including failed harvests due to climate change, and inconsistency of the Government's program of buying farmers' products (MDF, 2015). There are also factors in the context of community life, particularly in rural areas, which are difficult for the government to control, such as cultural ceremonies leading to large spending from a household's income.

Growth of the agricultural sector not only gives a positive impact to farmers but they also strengthen Timor-Leste's national economy. A strong agricultural sector will also contribute to economic growth in general because of its effect on non-agricultural economic sectors (Nicos, 1995). When the agricultural sector is strong, more jobs are created; there is more competition related to the quantity and quality of products; there is a decrease in importation of products; and there is a stimulation of the establishment of agricultural based processing plants. A strong agricultural sector also impacts other sectors such as service sectors, konsultóriu agrikultura, transport systems in rural areas and infrastructure that leans on the agricultural sector including research centers and laboratories.

Two challenges which Timor-Leste faces are that the land good for agricultural production is limited and the domestic market is small. According to current data, Timor-Leste has only more or less 380,000 hectares which serve for agricultural and fishing activities.⁹ The market for local products is very small with only a population of only 1.2 million people. For this reason, although production corresponds to the national internal needs and substitutes product importation, Timor-Leste must also develop strategies to ensure its agricultural products can find a place in the international market. With consideration to competition from other countries, especially those in Southeast Asia, Timor-Leste must develop specific characteristics that are different to its neighbors. One characteristic which could be developed is as a national which produced only organic agricultural projects.

Organic agriculture has a high potential today for farmers around the world because the market continues to grow. Changes in consumers' attention to the impact of the foods they consume to their health and to the environment have caused an increase in organic agriculture over the last few decades (Lockeretz, 2007). Consumers and markets for organic products continue to increase, and are now two times larger than ten years ago, with a value of approximately 82 billion dollar in 2015 (FIBL & IFOAM, 2017. p. 23). If Timor-Leste figures in market increases for organic agricultural products when it developed it's plan, there is good potential for Timor-Leste's products to find some place in the market.

When Timor-Leste focuses on agricultural production using organic systems, it opens the door to developing a more attractive tourism sector. A special characteristic such as a nation whose

⁹ Food and Agriculture Organization (FAO). *Country profile: Timor-Leste*. Retrieved from: <http://www.fao.org>

agricultural system is dominated by organic becomes a brand and a unique pull factor attracting tourists to Timor-Leste. The branding is very important because Timor-Leste is situated between two gigantic nations which far more advanced tourism sectors. Having the characteristic of an organic nation will attract tourists who are interested in protecting the environment and wish to support the local community, as opposed to those who are interested in luxury hotels and resorts, which are far cheaper in Bali. With this model, the community will also receive direct benefits from the participation in agro-tourism or other community tourism models such as ecotourism and cultural tourism.

Conclusion

Timor-Leste is heavily dependent on income and investments from oil and gas; thus we must utilize these resources with care to ensure they benefit all Timorese people including today's generation as well as future generations.

Until today, Timor-Leste's economic structures depend heavily on investment of the Petroleum Fund based on past oil and gas revenues, despite these funds decreasing at the present time. At the same time, a budget which is based on oil and gas has yet to be managed well or to resolve the problems of poverty, malnutrition, unemployment, and dependency on importation. This situation reflects the resource curse problem where oil and gas rich nations around the world face today.

To avoid falling further into the resource curse, Timor-Leste must change the direction of their economic development policies, to prioritize and invest well in productive sectors, especially the agricultural sector which the majority of the people of Timor-Leste depend on. The agricultural sector must come with a model of development that is integrated to be able to stimulate the development of one sector or another, such as tourism and small industry.

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