

Volume 2, Issue 2, July 2018

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Research Articles*

DOI:

10.14658/pupj-phrg-2018-2-3

How to cite:

Dal Poz, A. (2018), ‘Buying Peace’ in Timor-Leste: Another UN-success Story?, *Peace Human Rights Governance*, 2(2), 185-219.

Article first published online

July 2018

*All research articles published in PHRG undergo a rigorous double-blind review process by at least two independent, anonymous expert reviewers

‘Buying Peace’ in Timor-Leste: Another UN-success Story?

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Abstract

Since independence, Timor-Leste has been described as a rare ‘success story’ of international state- and peacebuilding interventions. However, the policies implemented by subsequent governments of Timor-Leste since the second half of the 2000s privileged investments in capital-intensive extractive industries that did not improve the living standards of local population and revenues from resource exploitation were used to appease politically aligned armed groups. Through a political economy analysis of Timor-Leste’s development policies, the present paper will argue that exploitation of natural resources, notably oil and gas in the Timor Gap, provided significant incomes for the state, which allowed it to support development projects and appeasing initiatives that prevented conflict recurrence (e.g. cash transfers). Nonetheless, while such initiatives prevented a conflict relapse among opposing parties and former resistance fighters, these policies did not address underlying conflict grievances. In consideration of mismanagement of the Petroleum Fund, once its resources are depleted, social tensions might re-emerge and lead to a renewed conflict.

Keywords: *peacebuilding, statebuilding, natural resources, oil, Petroleum Fund, Timor-Leste*

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Introduction

Timor-Leste has been portrayed as a ‘success story’ of international peace- and state-building (Leach and Kingsbury 2013, 3). Among the enthusiastic assessments, in 2012 the World Bank Country Manager defined its achievements as ‘absolutely impressive’ in the short time span since independence (quoted in Strating 2016, 204). Yet, around 50 percent of its population still lives under the World Bank poverty line (La’o Hamutuk 2010, 12; UNDP 2016, 219).

While significant achievements in several sectors, like health and economic development cannot be denied, a detailed analysis of the current political and economic situation in the country suggests a more cautious evaluation.

Through a political economy analysis of the peacebuilding strategy pursued by Timor-Leste’s governments since the mid-2000s, this paper will argue that the current peace in the country might be relying upon unstable foundations and skewed economic policies, notably payments (cash transfers) and investments in capital-intensive industries with little return for Timorese population. Such policies have been financed through exploitation of oil resources in the Timor Gap. This approach might compromise peacebuilding efforts in the longer term. The analysis will be based on a literature review and on the assessments of Timorese NGO La’o Hamutuk (Tetum: ‘Walking Together’)¹ as well as on a comparison with Mozambique’s trajectory since the end of the Civil War.

The case of Timor-Leste has been chosen for two reasons: firstly, because of its representation as a ‘success story’ of international peacebuilding interventions (at least until the 2006 crisis) (Scamary 2009, 266). Secondly, because despite the relatively little time since the conclusion of international support missions, it offers the opportunity to evaluate so-called ‘second generation’ of liberal peacebuilding. Despite significant differences (e.g. conflict history: foreign occupation in Timor-Leste, civil conflict in Mozambique), a partial comparison with Mozambique is justified by several factors, particularly the common colonial past under Portuguese rule, their shared portrait as peacebuilding ‘successes’, lack of previous democratic experience, the semi-presidential political system adopted and developmental focus on natural resources-exploitation. Such comparison will focus on the impact of the capital-intensive development policies pursued, particularly in terms of impact on the local economy.

¹ La’o Hamutuk – Timor-Leste Institute for Development Monitoring and Analysis, <http://www.laohamutuk.org/>

La'ò Hamutuk was founded in 2000 by Timorese and international human rights activists and provides economic and legal analysis on development issues in Timor-Leste (Robie 2016). The choice of relying on research undertaken by NGO La'ò Hamutuk is justified by several reasons: firstly, the NGO has established itself as a reliable and key source of information and analysis (Robie 2016) (particularly concerning oil exploitation), being frequently cited by scholars investigating peacebuilding and development in post-independence Timor-Leste (e.g. Beuman 2016; Strating 2016); moreover, the NGO has a reputation of grassroots work with Timorese people, disseminating critical information on state policies and development projects; finally, the government of Timor-Leste itself invited La'ò Hamutuk to workshops with ministries and public officials (Robie 2016, 8).

The paper is structured as follows: the first section highlights some theoretical connections between economic development and peacebuilding in post-conflict societies as identified in the literature; the second part will sketch crucial events in recent Timorese history, with particular regard to political developments and economic policies (including development projects); the third section explores the relations between politics and economic development and their implications for peacebuilding with particular regard to management of oil resources; in the last part the key findings will be summarised and some conclusions will be presented.

1. Peacebuilding and economy

Conflict research highlighted how economic factors play a fundamental role in contributing or minimising likelihood of violent conflict (Collier and Hoeffler 2000). In particular, Collier and Hoeffler argued that actors' decision to resort to violence is based on a rational choice following a costs / benefits evaluation, based on the economic opportunities and constraints present at time. Two of their findings are particularly relevant in the context of Timor-Leste: firstly, since in Collier and Hoeffler's model the benefits of rebellion are determined by availability of lootable resources measured in terms of primary commodity exports, they argue that resource-dependence is a significant indicator of conflict. Secondly, while in the first version of their paper, Collier and Hoeffler argue that great inequality indicates the existence of an elite which would allow for temporary increased taxation to fund the war effort, thus 'reduc[ing] the risk and duration of war'; in a later version they revise the argument stating that inequality is not significantly correlated with civil war insurgence (Cramer 2003, 399).

The 'rational choice' analysis of violence and conflict has been criticised by later literature for being reductionist both in terms of the goal pursued

by actors, assuming that these benefits are exclusively economical (i.e. a maximisation of wealth), and in terms of its instrumentality, assuming that the choice to resort to violence depends on a pure analysis of constraints and opportunities, comparing them by employing several proxies that should translate such factors in economic measurable units (Cramer 2002a, 1849-1850).

Similarly, the argument concerning resource-availability has been criticised based on the distinction between 'lootable' and 'unlootable' resources, particularly as regards separatists and non-separatists conflicts (Ballentine and Nitzschke 2005) and the analysis concerning inequality was expanded by later research distinguishing between 'vertical' (individual) and 'horizontal' (group) inequality, which emphasises the need to investigate the relations between economic inequality and 'historically established social relations' (Cramer 2003, 404). In particular, Ballentine and Nitzschke (2005, 4) argue that 'the opportunity structure for rebellion does not depend on the availability of resources per se. Rather, critical governance failures are the mediating variable'.

In a post-conflict setting, the economic dimension represents a necessary part of the so-called 'triple transition' from war to peace through disarmament, demobilisation and reintegration programs (DDR); and from an authoritarian political regime to democracy; as well as from command economy to free-market through institutional and economic reforms. As argued by Strating, 'providing meaningful access to socio-economic rights can counteract social violence that can arise from conditions of poverty and deprivation' (Strating 2016, 166).

Among other circumstances contributing to a sustainable peacebuilding, economic development is critical in creating a 'peace dividend' (i.e. shared economic benefits as consequence of peace) and avoid conflict relapse (Addison 2003; Hirschleifer 1993). This is particularly evident for former combatants, who after demobilisation need to find different income opportunities. In particular, Addison argues that since conflict destroys the human and physical capital of a country, compromising livelihoods of the people, at war's end a development state promoting a broad based pro-poor recovery creating necessary employment opportunities, expanding the tax base and raising national income is essential to avoid conflict recurrence (Addison, 2003).

Moreover, as highlighted by Di John and Putzel in their analysis of 'political settlements' (Di John and Putzel 2009) and North et al. 'limited access order' (North et al. 2007), political and economic factors are intertwined and power relations in one sphere affect the power relation in the other. The situation appears particularly critical in post-conflict countries, where state

institutions are weakened as consequence of the conflict and can be hijacked and economic reforms diverted by a particular party to its own benefit (Castel-Branco et al. 2001).

Hence, by linking economic developments and peacebuilding, a political economy analysis is particularly useful in order to assess peacebuilding efforts in Timor-Leste and its future perspectives.

Other factors contributing to peacebuilding may include: accountability for past crimes, memorialisation and reconciliation (Sadat 2012) and democratisation (Hegre 2014). They can all be identified in post-conflict states, like Mozambique, Rwanda and Timor-Leste: together with holding elections deemed as 'free and fair', these countries enjoyed significant economic development after the end of conflict.

In order to pursue the political, security and economic transitions, since the early 1990s international liberal peacebuilders took over administration of countries emerging from a recent conflict for a brief period of time, implementing political and economic reforms (e.g. in Mozambique and Cambodia) (Paris 2004). The liberal peacebuilding approach thus led to an overlap of peacebuilding and statebuilding.

Nevertheless, frequently such efforts failed to reach the expected outcome, this considerations led several scholars to label such democratisation experiments as 'stalled transitions' (Azevedo-Harman 2015). In contrast, and given the significative international efforts and the positive results achieved (particularly in terms of economic growth and peaceful electoral processes), the former Portuguese colonies of Mozambique and Timor-Leste have therefore been regarded as 'success stories' of international interventions (Leach and Kingsbury 2013; Weinstein 2002).

However, in the cases of both Mozambique and Timor-Leste this assessment shall be nuanced by other considerations. With regard to Timor-Leste, firstly, following the 2006 - 2007 clashes, peace and security have been maintained with the contribution of a (new) longstanding UN mission (UNMIT) (Lothe and Peake 2010, 433). UNMIT, the sixth UN mission in the country since 1999, only left Timor-Leste in 2012 (Butler 2012). Secondly, it seems that disputes between different factions within the army and police (and their political representations) have been resolved through the disbursement of economic benefits (Beuman 2016; Kent and Wallis 2014), not by addressing underlying grievances.

This strategy has been labelled as 'buying peace' through patronage disbursements (i.e. exchange of political loyalty in return for economic benefits- Wiegink 2015) to local political actors and power-holders (such as traditional suco chiefs). Such disbursements served to 'neutralise potentially troublesome groups or political opponents' (Scheiner 2015, 10) or appease

‘warring political camps and interests of veterans’ (Beuman 2016, 130). According to La’o Hamutuk, veterans pensions amount to 8 percent of state budget in 2017 (over USD 150 mln - MoF 2017b, 8)², compared to 9.3 percent expenditure on education and 5.3 percent on health care (La’o Hamutuk 2017d).

After briefly sketching Timor-Leste’s recent history, the following section will address political and economic developments after independence from Indonesia and their relation with peacebuilding.

2. Recent History of Timor-Leste

2.1 Independence and United Nations mission

The island of Timor is located in the Indonesian archipelago, about 500km north of Australia mainland. The Eastern part of Timor island became a Portuguese colony since the XV Century, while the Western part was colonised by the Netherlands. Following the 1974 Carnation Revolution in Portugal, with a ‘rushed decolonisation’ in 1975 Timor-Leste obtained a short-lived independence (Leach and Kingsbury 2013, 1). However, tensions between the conservative UDT (Timorese Democratic Union) and left-wing Fretilin (Frente Revolucionária do Timor-Leste Independente³) parties soon erupted, leading to an internal conflict and Indonesian military intervention and occupation⁴. Although never recognized by the United Nations, the occupation lasted until 1999 and was tacitly supported in the Cold War-context by foreign actors like the United States and Australia (Dibley 2014, 28). The occupation was internationally condemned and opposed by a Timorese armed resistance led by Fretilin and its armed wing, Falintil, later under the command of ‘Xanana’ Gusmão (CAVR 2005).

As subsequently demonstrated by the Commission for Reception, Truth and Reconciliation in East Timor (CAVR), Indonesian occupation was marked by widespread violence and human rights violations, which lasted even after the 1999 independence referendum (CAVR 2005; Nixon 2012, 110). Despite the creation of a Truth and Reconciliation Commission, transitional justice had little impact, not investigating the majority of crimes and with many of those indicted finding safe harbour in Indonesia (La’o Hamutuk

² While this is a smaller share compared to the 2013 (14%) and 2015 (19.5%) budget, in absolute terms it represents an increase from the previous budgets (Kent and Wallis 2014, 1).

³ Revolutionary Front for an Independent East Timor.

⁴ For a detailed account, see Beuman L. M. (2016) ‘Political institutions in East Timor: semi-presidentialism and democratisation’.

2010; Beuman 2016). This is clearly illustrated by the case of Martenus Bere, released by presidential pardon in 2009 in order to maintain good diplomatic relations with Indonesia, without judicial oversight (Leach and Kinsbury 2013, 11; Nygaard-Christensen and Bexley 2017, 9).

At the end of Suharto's 'New Order' regime, trilateral negotiations took place between United Nations (UN), Portugal and Indonesia, with Timorese people initially not directly participating to the negotiations (Suhrke 2001). The negotiations led to a referendum concerning the status of Timor-Leste organized by the UN where local population was requested to choose between independence or administrative autonomy within Indonesia and the popular vote largely favoured independence (Suhrke 2001). Violence followed the referendum, causing considerable destruction of infrastructure and departure of Indonesian public servants (Lothe 2010; Rasiah et al. 2014, 120). In order to build the necessary institutions leading to independence, a subsequent UN-mission (United Nations Territorial Administration in East Timor - UNTAET) took over administration of the country. Independence was finally achieved in 2002.

Following mixed outcomes of previous international liberal peacebuilding interventions, UNTAET was a much larger mission with 'unprecedented scope' (Butler 2012, 91) than previous ones in the early 1990s. In order to promote the creation of an effective and independent state bureaucracy, international actors -notably United Nations- took over a vast array of administrative functions for protracted periods (Paris 2004), leading some scholars to label such intervention as a form of 'neo-trusteeship' (Butler 2012) or an 'alienation of peace' (Mitchell 2009).

However, UNTAET has later been criticised for several reasons, including: firstly, its adoption of '*ground zero*' approach (Palmer and de Carvalho 2008, 1322) that regarded Timor-Leste as *terra nullius* - a blank space with no existing political actors or institutions (Dibley 2014, 39)⁵. According to Nygaard-Chistensen and Bexley building the country 'from scratch' was a recurring trope of the UN mission (Nygaard-Chistensen and Bexley 2017,11). Additionally, as happened with the UN mission in Mozambique in the early 1990s (ONUMOZ), UNTAET interpreted its statebuilding mandate as a merely 'technical exercise' (Strating 2016, 6) and followed a model based on the Western Weberian paradigm, creating new national political institutions

⁵ It is worth noting that different approach existed was argued at the United Nations, with the UNDP opposing this idea. For a detailed account of the differences existing within the UN, see Suhrke A. (2001) 'Peacekeepers as nation-builders: Dilemmas of the UN in East Timor'.

which ignored existing socio-political practices, such as traditional *adat* law (Hicks 2013).

This approach mirrored both the practice of African post-independence nationalist leaders in the second half of the 20th Century, such as Frelimo in Mozambique which after achieving independence implemented modernisation policies, that negated social and cultural differentiations and alienated a significant part of the rural population (Cramer 2006, 260), as well as of early Western theories of so-called *liberal peacebuilding* which promoted the creation of liberal-democratic institutions and rule of law in such countries (Paris 2004; Sumich 2010, 696). The resulting constitution of independent Timor-Leste therefore draw extensively from Western models, particularly the Portuguese tradition (Nixon 2012, 126-127; Hicks 2013, 34).

Secondly, despite Resolution 1272/1999 stipulated ‘the need for UNTAET to consult and cooperate closely with the East Timorese people’, the UN mission was criticised for adopting a centralized state administration that marginalised local population and minimally involved Timorese people in managing the country or in deliberations on key policy issues, including about the future institutional architecture of the country⁶. Indeed, UNTAET’s chief, the Special Representative of the UN-Secretary General in Timor-Leste Sergio Vieira de Mello, self-described the mission’s mandate ‘as authorised to impose directives and policies as well as to use force more or less at will. There is no separation of the legislative or judicial from the executive authority... we could not involve the Timorese at large as much as they were entitled to’ (quoted in Strating 2016, 7, 90).

As consequence, the mission has been perceived by Timorese population as ‘authoritarian’. UNTAET’s approach is clearly exemplified by the 2002 Timor Sea Treaty with Australia, which was signed in 2002 by the new independent government of Timor-Leste, but was entirely negotiated by UNTAET.

Perceiving its ‘crisis of legitimacy’ (Nixon 2012, 119), UNTAET later pursued a ‘Timorisation’ policy to increase local participation in administration and decision-making (Nixon 2012, 115-118). However, UNTAET set up merely consultative mechanisms and Timorese staff was employed only in lower levels. Thus, the process was labelled as ‘mainly cosmetic’ (Gorjão quoted in Nixon 2012, 120). Moreover, such consultative mechanisms (and the subsequent Constitutional Assembly) were dominated by the Dili-based elite, particularly by the older generation of independence leaders (‘Generation of

⁶ Interestingly, the policy contrasted with the approach followed by the World Bank over the same period, which privileged local participation in development projects (Suhrike 2001, 16).

'75'), who had left the country after Indonesian invasion (Nixon 2012, 119). As consequence, youth Timorese who lived under Indonesian occupation and 'aligned themselves with Indonesian pro-democracy movement' felt increasingly excluded from decision-making and frustrated (Bexley 2017, 108).

The implications of this exclusion are clearly illustrated by the designation of Portuguese as national language. Since in the early 2000s Portuguese was spoken by less than 10 percent of the population, the choice ignored the lived experiences of many East-Timorese people and 'created conditions of inequality' (Dibley 2014, 47).

The resulting structural inequality is evident in legal and judicial affairs. Laws are formulated in Portuguese and only later -if ever- they are translated in the local language, *Tetum*, limiting access of the population to parliamentary decisions and to the formal justice system (Marriott 2013). As consequence, many people still regard traditional justice administered by *suco* chiefs to be more accessible and effective, increasing the divide between state institutions and everyday experiences of the local population (Nixon 2012). Similar problems are present with regard to state budgets, published almost exclusively in Portuguese or English⁷.

After achieving independence, Timor-Leste attained considerable improvements in human development, with an 28.8 percent increase in its Human Development Index (HDI)⁸, achieving a score of 0.605 in 2016 (from 0.470 in 2000), compared to the average East Asia and Pacific score of 0.720, but higher than neighbouring Solomon Island at 0.515 (UNDP 2016b). According to the 2016 United Nations *Human Development Report*, Timor-Leste is ranked 133rd among 188 countries measured for its HDI and the government aims to reach a score of 0.88 by 2050, achieving the level enjoyed by the top-20 countries worldwide (UNDP 2018, 4).

According to the government, by 2017 Timor-Leste attained significant results pursuing the Sustainable Development Goals, in particular: 1) the poverty rate decreased by 8.1 percent since 2010; 2) net enrolment in education increased to 82.7 percent from 66 percent in 2007, even though the literacy rate decreased; 3) child mortality decreased by two thirds; 4) the proportion of population using 'improved water drinking sources' increased to 72 percent (MoF 2017b, 30).

⁷ See <https://www.mof.gov.tl/category/documents-and-forms/budget-documents/?lang=en>

⁸ Defined in the Report as 'A composite index measuring average achievement in three basic dimensions of human development a long and healthy life, knowledge and a decent standard of living' (UNDP 2016a, 209).

However, not only the Human Development Index score has been either decreasing or stagnating since 2012 and in 2015 it was lower than conflict-affected countries, such as Iraq (UNDP 2016a, 204), but also when discounted for inequality, the HDI falls to 0.416, with a loss of 31.2 percent (UNDP 2016b, 5).

While the Global Peace Index shows improvements over the 2014 - 2017 period, a disaggregated analysis (as offered by the Fragile State Index) of different factors assessed indicates that, despite overall improvements, elite factionalism remains high, whilst demographic pressure and uneven development are worsening (Fund for Peace 2018). Indeed the same 2017 Global Peace Index Report lists Timor-Leste among the top-10 'at risk' countries (IEP 2017, 75).

Table 1: Global Peace Index ranking of Timor-Leste 2012-2017

Year	Score	Ranking
2012	n/a	n/a
2013	1.854	51
2014	1.947	69
2015	1.860	58
2016	1.879	56
2017	1.866	53

Based on Global Peace Index Reports 2012-2017

2.2 Political Developments

This section outlines some of the critical political developments occurring in Timor-Leste after 1999, with particular regard to their impact on peacebuilding.

During the first years after independence, pre-existing divisions among resistance leaders, notably between Falintil commander 'Xanana' Gusmão and Fretilin-leadership (e.g. Mari Alkatiri) posed a threat to Timor-Leste stability⁹. Such tensions increased with Gusmão's election as president in 2002 while Fretilin-leader Alkatiri was appointed prime minister in a semi-presidential system, based on the Mozambican model (Nixon 2012, 127). In

⁹ As illustrated by the adoption of a semi-presidential political system, such antipathies were ignored by UNTAET (Nixon 2012, 127-130).

contrast with the Mozambican experience, however, the Timorese semi-presidential system resulted in frequent disputes within the government. This different outcome might be explained by several factors, including: a) larger powers of the *prime minister vis-à-vis president* of the Republic in Timor-Leste compared to Mozambique¹⁰; b) Frelimo hegemony and its internal unity in Mozambique, which so far avoided any *cohabitation*; c) history of charismatic leaders in Timor-Leste (e.g. Gusmão, Alkatiri).

The divisions rooted in the resistance movement fuelled feelings of exclusion and frustration leading to violence. As Lothe argues, the new Timorese defence forces, F-FDTL¹¹, were created as means to deal with potential discontented veterans (Lothe 2010, 431). However, the selection was 'exclusionary' and biased (Simangan 2017, 203). The first recruits of the new Timorese army were mainly 'Easterner' *firaku* Timorese, who predominantly resisted Indonesia invasion and were loyal to former Falintil commander Gusmão (Beuman 2016, 51; Wilson 2013, 192). Hence, the perception was that 'Xanana's [Gusmão] friends got in and his enemies were left out' (Shoesmith quoted in Beuman 2016, 51). This was particularly evident in F-FDTL command positions, where former Falintil commander and Gusmão's friend Taur Matan Ruak was appointed as Brigadier General. Matan Ruak was later elected as president of Timor-Leste in 2012, benefitting of Gusmão's crucial support in the running-up to the 2012 presidential elections (Leach and Kingsbury 2013, 13). As result, some of those who had been excluded 'felt disgruntled and spiteful towards Gusmão [...] and leaned towards Fretilin' (Simangan 2017, 206). Partially as response to the perceived politicization of F-FDTL, Fretilin leaders (e.g. Defence Minister Rogerio Lobato) began to create a militarised police, developing a paramilitary force using state funds and recruiting mostly 'Westerners' *kaladi* people (Nixon 2012, 131).

Hence, according to Wilson 'predominance of Easterners in the first F-FDTL battalion and perception that Westerners were dominant in the PNTL [Timor-Leste National Police] accentuated this perceived division' (Wilson 2013, 192). As consequence 'former divisions of resistance struggle were institutionalised

¹⁰ Section 106 of the Constitution of Timor-Leste states that, while appointed by the President, the Prime Minister is 'designated' by the political party or alliance with parliamentary majority. In contrast, art. 160 of the 2004 Mozambican Constitution states that the President has the power to 'appoint, exonerate and dismiss the Prime Minister' as well as any Ministers. Moreover, in Mozambique the Prime Minister is 'delegated' to chair the Council of Ministers by the President (art. 201) and 'assists' the President in 'drawing up the Government Programme' (art. 205), whereas according to section 108 of the Constitution of Timor-Leste, the Prime Minister shall draw his own government programme, is 'the Head of the Government' (section 117), and according to section 112 he can only be dismissed by the President in specific circumstances.

¹¹ Falintin-Forças de Defesa de Timor Leste: Timor-Leste Defence Forces.

in post-independence', particularly in the security sector (Beuman 2016, 51). This culminated in the 2006 protests of 'Westerners' *kaladi* recruits in the new national army F-FDTL, who felt marginalised in favour of 'Easterners' *firaku*¹², regarded as loyal to president Gusmão (Nixon 2012, 131). Violent clashes led president Gusmão to assume 'full executive authority' in the matters of defence and national security, despite prime minister Alkatiri's opposition (Beuman 2016, 66). Government tensions then resulted in the resignation of Alkatiri as prime minister in 2006 and violent protests of Fretilin-supporters following appointment of Gusmão as new prime minister following the 2007 elections even though his CNRT party (Conselho Nacional de Reconstrução de Timor)¹³ did not obtain a majority of the votes (Nygaard-Chistensen 2017).

Escalating violence led foreign minister Ramos-Horta to request international intervention, resulting in an international policing mission led by Australian forces and a new UN assistance mission (United Nations Integrated Mission in East Timor - UNMIT). The Special Representative of the UN-Secretary General, Sukehiro Hasegawa, argued that at the time Timor-Leste was a 'temporarily broken state' (quoted in Nixon 2012, 140). According to Nixon, the 2006 crisis indicated 'an incomplete nation-building process', including incomplete reconciliation following internal conflicts among the resistance and worrisome tendency of security forces to align politically (Nixon 2012, 134; Devant 2009, 171).

Still, despite international assistance 'interviewees from NGOs claimed that the situation in 2009 was less stable than prior to the 2006 crisis, citing exacerbated tensions within institutions and among communities, outbreaks of gang violence' (Lothe and Peake 2010, 439). Among other factors, the return of internally displaced persons and land issues contributed to ongoing tensions and a 2007 World Bank report identified 'lack of national identity' and 'lack of jobs' among the other causes of such violent clashes (Bexley 2017, 104).

In order to address the rise in political and 'martial arts' gangs violence¹⁴, Gusmão's AMP- government (Parliamentary Majority Alliance, 2007 - 2012) promoted a policy of national reconciliation, emphasising traditional conflict resolution practices (Dibley 2014, 48). Promoting traditional authorities,

¹² According to Babo Soares origins of East-West (*firaku* - *kaladi*) division date back to the 1940s divisions among traders migrating to Dili from different part of the country, which brought in contact people from different regions of the island (Nixon 2012, 135) and persisted under Portuguese colonial regime (Beuman 2016, 35). Given the lack of theatre-specific knowledge (Butler 2012, 12), the Eastern (*firaku*) / western (*kaladi*) rupture took many Westerners by surprise (Nygaard-Chistensen and Bexley 2017, 11).

¹³ The name intentionally mimicked the Conselho Nacional de Resistência Timorense.

¹⁴ According to Simangan, martial arts groups were 'active in the clandestine front in support of the resistance' (2017, 203).

however, had the negative effect of supporting social structures opposing the nation-building project (Hicks 2013).

As will be illustrated, the ‘peacebuilding’ policy pursued by the AMP-led government included patronage-like cash-transfers to selected groups of beneficiaries (especially veterans), similar to patronage systems.

2.3 Economic Policies

The following section focuses on economic and development policies pursued by Timor-Leste’s governments since independence, particularly with regard to resource exploitation and management of petroleum revenues.

Immediately after independence, the Fretilin-led government (2002–2006) focused primarily on human development, prioritising education and health care as well as small-scale agricultural projects as a means to achieve food security (Anderson 2013) and respond to hunger periods (*lapar biasa*) previously commonly reported in parts of the island (Nixon 2012, 152). During this period, the first national development plan was adopted. The plan foresaw specific initiatives protecting biodiversity and recognized the need to involve local communities in development project (Palmer and De Carvalho 2008, 1327). Moreover, Timor-Leste’s constitution partially recognises customary *adat* law (Section 2.4), but limits its enforcement to those norms conforming with the constitution (Nixon 2012, 126), and states that all natural resources belong to the state itself (Section 139.1). However, the situation would radically change in the following years due to exploitation of natural resources.

Existence of oil resources in the Timor Gap (south of Timor island) was already known by Portuguese colonial administration, however its exploitation began only in 1989 with the Timor Gap Treaty between Australia and Indonesia, which defined the maritime border and exploitation zones between the two countries. The first oil fields were opened in the early 1990s by Australian company Woodside Petroleum – main partner for exploitation of the Greater Sunrise field - and US-based ConocoPhillips (La’o Hamutuk 2017a; Beuman 2016, 129)¹⁵.

Exploitation of oil and gas resources in the Timor Gap provided subsequent governments (particularly the AMP-coalition, 2007 - 2012) with increased revenues, allowing them to focus primarily on infrastructural programs aimed to incentivise private-sector economy. In comparison, government spending in education and health provision has been steadily decreasing over the last ten years (Anderson 2013).

¹⁵ It is worth observing that the Petroleum Fund owns shares in both companies (MoF 2017a, 55, 65).

The comparison with Mozambique is particularly telling and helps clarifying the consequences of such development policies. Firstly, focus on capital-intensive projects of resource exploitation provided both Mozambique's and Timor-Leste's governments with resources to fund welfare programs (Pérez Niño and Le Billon 2016). However this had limited impact for the local population in terms of employment and linkages to local economy (Beuman 2016, 130). While between 70 and 80 percent of Timorese population depends on subsistence farming for their livelihoods (Lundahl and Sjöholm 2013, 72), less than 1 percent of local population works in oil-related industries (IMF 2017a, 27)¹⁶. Timor-Leste has thus been labelled as a 'New Subsistence State', characterised by overwhelming subsistence economy, statehood deriving from the bestowal of Western models and where the state provides subsistence resources to its citizens, who do not otherwise benefit of broad-based economic recovery or welfare services (Nixon 2012, 202).

Secondly, government expenditure of oil revenues on cash-payments (Wallis 2012) and in further further oil-related development projects -such as Tasi Mane- exceed investments in healthcare or education. Increased government spending has therefore not resulted in improved living standards (Beuman 2016, 130-131). Indeed, in ratifying the 2014 budget law, president Matan Ruak himself voiced his concerns over the excessive dependency of national budget from oil revenues and about the development policies implemented (Scheiner 2015, 12).

Managed by the national petroleum company Timor Gap E.P., the Tasi Mane (Tetum: Timor Sea) project appears a particularly critical example. The project envisages the construction of oil and LNG refineries in the Southern Coast of Timor-Leste, together with a new highway and two airstrips (Timor Gap 2014). Whilst the project absorbs significative resources, equal to around 1 percent of the state budget for the sole year 2016 (MoF 2017b, 43), it provides limited local employment (La'o Hamutuk 2016): according to UNDP 'local workers are said to account for 70 percent of the construction workforce, but local communities hotly deny this' and since Timorese are employed as unskilled labour, it is doubtful whether local people have the skills to develop such project after their construction is completed (UNDP 2018, 61)¹⁷. Moreover, not only economic sustainability of the project depends on new

¹⁶ IMF estimates merely 0.3 percent of Timorese population work in the oil industry (IMF 2017a, 27), while according to Timorese ONG La'o Hamutuk it is barely 0.1 percent (La'o Hamutuk 2017d, 6).

¹⁷ According to the Asian Development Bank 'the State Budget reduced the allocated spending on the project to \$433.1 million over 2015-2019. Despite the reduction, capital spending on the Tasi Mane Project is expected to consume approximately 14% of total capital spending over the 5 years to 2019' (ADB 2015, 13).

oil discoveries and the exploitation of the ‘Greater Sunrise’ field (Beuman 2016, 130), but also the proposed creation of refineries in Timor-Leste’s Southern coast raised disputes with oil companies concerning the pipeline route. Such controversies are compromising the very exploitation of the ‘Greater Sunrise’ field (La’o Hamutuk 2017d; Sykora 2013, 73). Additionally, the project extensively uses agricultural land for industrial developments, compromising the country’s food security (La’o Hamutuk 2011a).

Figure 1 – Location of the Tasi Mane project in Timor-Leste



Source: *Timor-Gap E. P. 2014, p. 29*

As further consequence, prioritising state investments on oil-related projects compromised the development of non-oil related economic activities. According to UNDP, merely 5 percent of Timorese population works in the non-oil private sector (excluding subsistence farming) (UNDP 2018, 5) and most of non-oil related economic growth appears to be state spending, with only 5 percent of GDP coming from the private agricultural and manufacturing sectors (Scheiner 2015, 2). While in its subsequent reports the IMF recognized that ‘strong government spending [...] supported strong non-oil growth since 2007’ (IMF 2012, 5), however this declined sharply from 12% on average between 2007-2012 to 5.5% in 2016 and an estimate of 3% in 2017 (IMF 2017a, 5-6). Indeed, according to the Asian Development Bank output of agriculture and manufacturing sectors has been declining between 2006 and 2012 (ADB 2015, 4).

Moreover, as recognized by the IMF, non-oil GDP is composed mainly by government spending for infrastructure projects and public administration (IMF 2017a, 23), which are estimated to contribute respectively to 7.9 and

9.4 percent of GDP. Since the state budget relies extensively on withdrawals from the Petroleum Fund (IMF 2017a, 24), non-oil GDP in fact depends on oil revenues, raising doubts on actual non-oil economic performance and overall sustainability (UNDP 2018, 28). Hence, according to Lundahl and Sjöholm (2013, 73) ‘there are no signs of an emerging manufacturing industry’. Indeed, in the 2017 budget, the government clearly recognized the minimal impact of manufacturing to the GDP, accounting for less than USD 50 mln (MoF 2017b, 27).

Figure 2 (a) – Non-oil GDP Expenditure

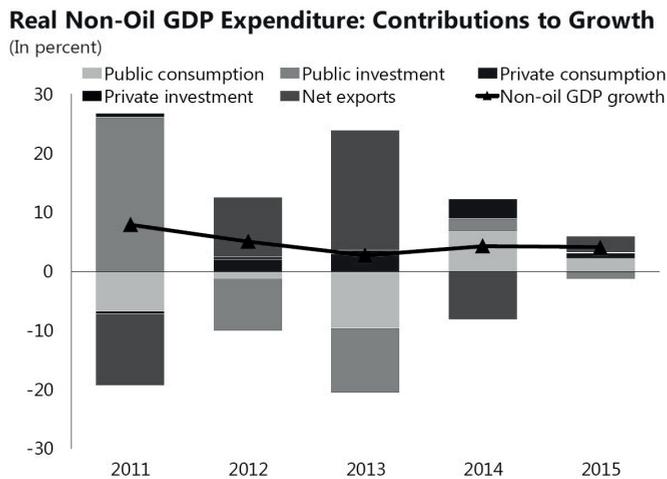


Figure 2 (b) – Non-oil GDP Production

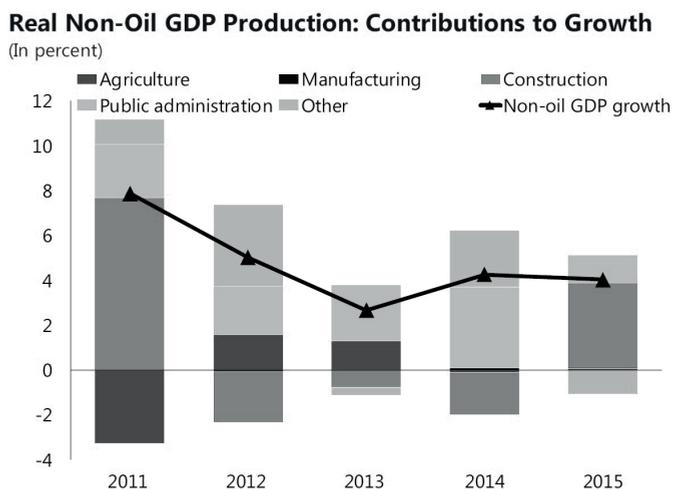
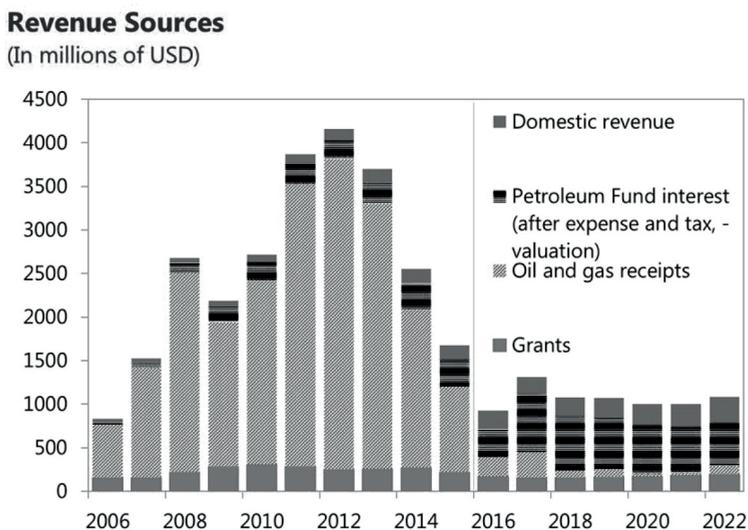


Figure 3 – State budget revenue sources



Source: IMF Timor-Leste Country Report 2017, 23-24

According to the same IMF report, while future economic outlook ‘depends critically on economic diversification’ it is questionable ‘whether large infrastructure projects will generate sufficient social and economic returns to achieve inclusive growth’ (IMF 2017a, 1, 7). Hence, Nixon argues that ‘notwithstanding the trickle-down effect from public sector spending, however, the private sector remains exceptionally weak’ and incapable of absorbing the 12,000 to 15,000 new labour market entrants every year (Nixon 2012, 155). Thus, unemployment is perceived as the most relevant problem in the country by 36 percent of Timorese population (De Jesus Soares 2013, 86).

Furthermore, as consequence of its almost non-existent manufacturing, Timor-Leste relies extensively on imports, which amount to 96 percent of its external trade balance (excluding petroleum), leading to critical dependency on imports for most goods, including food (Scheiner 2015, 3; MoF 2018). According to the 2012 IMF Article IV Report ‘Timor-Leste exports little, except petroleum and coffee, and depends heavily on imports’ (IMF 2012, 6).

Finally, such development policy prevented the development of a broad tax-base: according to the CIA World Factbook in 2016 Timor-Leste collected merely 12 percent of its GDP in taxes¹⁸. The share is even lower

¹⁸ Central Intelligence Agency (CIA), ‘CIA World Factbook-Timor-Leste’, retrieved from: <https://www.cia.gov/library/publications/the-world-factbook/geos/tt.html> (accessed: 03/10/2017). La’o Hamutuk (2017d) estimates the state budget is financed only by 11 percent

than Mozambique (equal to 22 percent according to the same CIA Factbook). As in Mozambique, in order to attract foreign investments Timor-Leste government adopted a tax regime particularly favourable for business (La'o Hamutuk 2008; EY 2017). Nonetheless, according to La'o Hamutuk, oil companies are evading or eluding their tax obligations (La'o Hamutuk 2017a; Government of Timor-Leste 2016). However, it appears that the government has 'no immediate intention of developing a broader tax base to supplement petroleum income' (Nixon 2012, 151). Thus, less than 11 percent of the 2017 budget was financed through taxes (La'o Hamutuk 2017d; UNDP 2018, 48) while petroleum-related revenues constantly account for over 70 percent of the state budget and 3/4 of the country's GDP, making Timor-Leste one of the most oil-dependent states in the world (Beuman 2016, 129). Indeed, Timor-Leste relies on petroleum exports more than most other oil rich countries, with the sole exception of South Sudan and Libya (La'o Hamutuk 2017d; UNDP 2018). Extreme dependency from oil exports exposes Timor-Leste to its fluctuating prices (Leach and Kingsbury 2013, 10), whilst high price volatility is common for coffee as well, Timor-Leste's second most exported commodity (IMF 2017a, 25; Lundahl and Sjöholm 2008).

In contrast with high revenues and limited local participation in oil-related economy, agriculture still provides the primary means of livelihood for the largest part of Timorese people (Rasiah et al. 2014). However, its overall economic impact remains marginal: according to the IMF, while agriculture absorbs around 40 percent of employed population, it only contributes to 6.4 percent of GDP (IMF 2017a, 27). In comparison, the sector also received limited attention in the state budgets, being allocated around 5 percent of resources (Anderson 2013, 235). The 2017 state budget allocated merely USD 3.2 mln, for agriculture, compared to USD 49.3 mln for the Tasi Mane project alone (MoF 2017b, 43).

Given the lack of infrastructure allowing access to local and foreign markets, most agricultural production is subsistence farming for own consumption (Lundahl and Sjöholm 2013, 74) and production per hectare is substantially lower than Indonesia and other South-East Asia countries (e.g. Cambodia, Myanmar) (Rasiah et al. 2014, 131). The government aims to promote agricultural development based on India's 'green revolution' model, providing high yielding seeds and fertilisers (IMF 2012, 13). According to Anderson, this policy represents a 'shift away from autonomous agricultural and food security policy- based on domestic crops as the core of food security- toward a market oriented economy approach' (2013, 232).

from taxation while IMF estimates are even lower at 8% (IMF 2017a, 31, 39).

Such policy, however, seems not to adequately take into account geographical and infrastructural limitations of the country (e.g. lack of modern irrigation systems and mountainous terrain with high slopes) (Lundahl and Sjöholm 2013, 77). These considerations also shed a further critique on government infrastructural projects, prioritising large projects which would have little benefits for local farmers, while large parts of the country are still almost not accessible (Nixon 2012, 152). Secondly, privileging large cash-crop instead of crop diversity might compromise food security: in consideration of climate (e.g. droughts) and geographical constraints, ecological diversity has been an essential component of Timorese agriculture (Lundahl and Sjöholm 2013; Anderson 2013). According to Durand the development policies were modelled on UN recommendations representing a common ‘tendency to push “Southern” countries into sacrificing social projects and cultural practices in order to promote at all cost an “economic growth”’ (Durand 2009, 188).

Furthermore, Strating argues that such development policies relying on private enterprise resulted in ‘underinvestment in agricultural sectors’ (Strating 2016, 166) and contributed to aggravate the rural / urban divide causing increasing internal migration to the capital Dili (Nixon 2012, 132). This divide in the economic sphere is matched by a divide in the levels of multidimensional poverty among provinces (Inder and Cornwell 2016, 9) and mirrors the centre / periphery cleavage in the political-institutional domain: while the capital Dili is perceived as centre of nation-building, economic development and change, the mountainous rural areas are associated with traditional *adat* culture, economic deprivation, lack of education and immobility (Sousa 2009, 108).

Equally worrying, while the national development plan envisaged inclusiveness and participatory processes, most policies instead resulted in an ‘elitist process’ determined by national political elites with little popular participation (Anderson 2013, 222). Again, this resembles the developments in post-conflict Mozambique, labelled by Sabaratnam as a ‘choiceless democracy’, where political centralism in designating what is developmentally necessary has effectively ‘closed off political contestation and reinforced the power of state actors *vis-à-vis* the population’ (Sabaratnam 2013, 112). Despite the acknowledged importance of wide consultations, in Timor-Leste discussions on key policies (on development issues, but also concerning military and security domains) are often dominated by an exclusive group of bureaucrats and international organisations (IMF, World Bank) to the extent that, according to Siapno the debate on “security” has been hijacked by “international security experts/advisers”, a small group of

predominantly male elite who often make decisions behind closed doors, without conducting a broader process of “consulta” (Siapno 2009, 202).

Together with the negative effects of such policies, a worrisome trend concerning lack of transparency and accountability emerged, especially as regards withdrawals from the Petroleum Fund to finance state budgets. The Petroleum Fund is a sovereign fund created with law no. 9 in 2005 based on the Norwegian model (NRGI 2016). It collects royalties from oil exploitation and reinvests such revenues in order to guarantee economic and financial sustainability after depletion of the oil fields (La’o Hamutuk 2018; NRGI 2013).

The Petroleum Fund had an overall wealth of about 11 USD billions in 2012 (Leach and Kingsbury 2013, 9) and about 16 USD bln in 2015 (UNDP 2018, 27). The Fund is administered by Timor-Leste Central Bank, which in order to pursue its goals can invest oil royalties in foreign bonds and equities (stocks)¹⁹. According to the IMF Article IV 2012 Report there is a lack of diversification in the Petroleum Fund investments (IMF 2012). In 2017, the Fund invested about 6.6 USD billions in stocks (of which about 1 USD billion in just twenty-one big corporations, such as Apple, Microsoft and Exxon or internet companies like Amazon and Facebook) and 9.1 USD billions in foreign bonds of two dozen countries - mostly of the US treasury (La’o Hamutuk 2018; MoF 2017a, 55-67).

Table 2 - Petroleum Fund of Timor-Leste: extract of main assets investments (worth over 50 mln USD each)

Company	Unit Holding	Value (USD)	Country
Amazon.Com Inc	78,674	59,007,073	USA
Apple Inc	1,098,095	127,203,325	USA
Exxon Mobil Corp	845,569	76,321,058	USA
Facebook Inc-A	457,986	52,727,928	USA
General Electric Co	1,664,998	52,663,887	USA
JPMorgan Chase & Co	719,876	62,146,895	USA
Microsoft Corp	1,487,602	92,439,588	USA
Wells Fargo & Co.	923,811	50,920,462	USA

Based on Ministry of Finance Petroleum Fund 2016 Annual Report

¹⁹ Originally, the fund should invest 90 percent of its wealth in foreign bond. The rule was later amended with law no. 12/2011 to allow up to 50 percent of the Fund wealth to be invested in equities while at least 50 percent shall still be invested in bonds. The amended law also allows 10 percent of the Fund to be used as collateral for government borrowings (Sykora 2013, 78; NRGI 2013).

By law Timor-Leste's government is allowed to withdrawal every year an 'Estimated sustainable income' (ESI), corresponding to the interests accrued by the Fund on its investments and estimated as about 3 percent of the total petroleum wealth (art. 24.1 of Petroleum Fund Law as amended by law no. 12/2011). However, in recent years 'the government has consistently withdrawn more than the [estimated sustainable income] from the petroleum fund' (Wilde 2016, 21), to support large development and infrastructural projects and 'ramp up public spending' (Anderson 2013, 230; WB 2017, 120). According to the 2017 Petroleum Fund Annual Report, in 2016 the government withdraw USD 1,245 million from the Petroleum Fund, exceeding the legal limit by USD 700 million (MoF 2017a, 82) and according to the 2017 state budget, the government anticipates to continue excessive withdrawals at least until 2021 (MoF 2017b, 17). International institutions criticised excessive withdrawals from the Fund, arguing that Timor-Leste current absorptive capacity is not sufficient to efficiently use the resources (IMF 2017a). Indeed, according to Sykora, in 2012 only 49 percent of the state budget was executed (Sykora 2013, 82).

According to the 2017 state budget, infrastructures are allocated almost ten times more resources than human development (USD 222 mln vs USD 27 mln) and half of these funds are allocated to the Tasi Mane project and roads building (MoF 2017b; La'o Hamutuk 2017d). Another significative expenditure in the state budget concerns the security sector, which since 2012 was allocated more resources than healthcare (La'o Hamutuk 2017d; MoF 2017b, 46) and where the majority of spending is devoted to the army F-FDTL (Strating 2016, 120), suggesting an enduring distribution of resources based on political loyalty.

These policies have been frequently criticised by the Constitutional Court of Timor-Leste, which highlighted the lack of transparency and accountability (Beuman 2016, 96-97). Indeed, infrastructural projects are often allocated outside normal procurement procedures (Anderson 2013, 230) or overseen exclusively by the government (De Jesus Soares 2013), frequently 'lack rigour' (Nixon, 2012: 162) and have questionable economic sustainability (La'o Hamutuk 2011b; IMF 2017a). These trends led to a generalised 'use of government resources for private benefit' (Nixon 2012, 159).

Since 'prudent use of the fund depends on the judgement exercised by parliamentarians' (Nixon 2012, 151), such procedures and minimal parliamentary oversight open avenues for a 'resource course' of mismanagement and corruption (Scheiner 2015). Hence, Timor-Leste is at risk of becoming a country where resource-wealth becomes a 'course', undermining public investments and government accountability and fueling

conflicts, instead of favouring human and economic development (Ross 2004).

Perception of mismanagement and corruption has increased (De Jesus Soares 2013, 85). In 2010 president Ramos-Horta described corruption as 'rampant' in the country (Nixon 2012, 159) and in its 2016 Transparency Index, Transparency International ranked Timor-Leste 101st among 176 countries surveyed, with a score of 35/100²⁰. Analysis undertaken by other international institutions, such as the US Millennium Challenge Corporation²¹ and the International Monetary Fund support such findings (La'o Hamutuk 2017b; IMF 2017a). Several government ministers and even former prime minister Gusmão himself have been implicated in alleged corruption scandals (Strating 2016, 141).

Therefore, considering government mismanagement of the Petroleum Fund and given that an estimate 80 percent of the population earns its livelihood from subsistence agriculture (Beuman 2016, 130), the pursued economic policies relying on capital-intensive projects appear particularly problematic.

Together with decreasing oil revenues, such policies determined a net reduction of the Petroleum Fund wealth (IMF 2017a, 6). Thus, based on recent data, it has been estimated that the Petroleum Fund might be empty by 2025 (Beuman 2016, 129). While exploitation of the 'Greater Sunrise' field is still uncertain due to disputes with Australia concerning the maritime border²² and disagreements with oil companies regarding the pipeline route, according to the International Monetary Fund 'oil reserves with production agreement will end by 2024' (Beuman 2016, 129)²³. Moreover, due to the small size of their oil reserves, several exploitation contracts awarded in the last decade were commercially unviable for oil companies (Scheiner 2015, 12) and in consideration of explorations already undertaken since independence, discovery of new oil fields appears unlikely (La'o Hamutuk 2017d, 7). Finally, the same investments undertaken by the Petroleum Fund in foreign equities

²⁰ 100 indicating the least corrupt country, 0 the most corrupt. Nonetheless, the Index shows an improvement from 2015, when Timor-Leste obtained a score of 28/100. Other international institutions, such as the US Millennium Challenge Corporation, reach similar findings (La'o Hamutuk 2017b).

²¹ US development agency created in 2004.

²² Although still unclear, Timor-Leste government claimed that following negotiations with Australian government the border dispute has been resolved- see La'o Hamutuk, 2017c, '*Copenhagen Agreement: Permanent Boundary or CMATS redux?*', retrieved from: <http://laohamutuk.blogspot.co.uk/2017/09/copenhagen-agreement-permanent-boundary.html> (accessed: 11/10/2017).

²³ Recent analysis predict oil production to cease even earlier (IMF 2017b, 38; UNDP 2018, 28). None of these reports expects new oil fields to be discovered soon.

returned less than expected: according to the MoF's 2014 Petroleum Fund report, the returns were equal to 3.3 percent (2.5 percent after inflation) (MoF 2015, 11), with investments in equities having a return equal to 4.9 percent, less than the Ministry expectations of around 8 percent (La'o Hamutuk 2018; MoF 2015, 12).

3. Political Economy and Peacebuilding

Oil revenues allowed the government to invest in large infrastructural programs, but they also provided the means to finance social programs that contributed to temporarily reduce social tensions, such as veterans pensions (Kent and Wallis 2014). Indeed, fundings employed by Timor-Leste's government to support its social programs derive to a large extent from the state-managed Petroleum Fund, financed through revenues produced by the exploitation oil and gas reserves in the Timor-Sea (Kammen 2017, 140).

State budgets are financed to a large extent by withdrawals from the Fund, equal to 76 percent of the entire budget in 2010 (Nixon 2012, 150) and over 84 percent in 2017 (La'o Hamutuk 2017d; MoF 2017b, 48). Hence, social programs are 'heavily reliant upon state revenues from oil and gas reserves' (Strating 2016, 165). However, progress in socio-economic development is 'mixed' and outside the capital Dili investments did not yet result in considerable poverty reduction. According to the UN Special Rapporteur on extreme poverty, in 2012 75 percent of Timorese population were 'entrenched in inter-generational cycles of poverty' especially in rural areas (quoted in Leach and Kingsbury 2013, 9).

While the strategy of disbursing economic benefits allowed to overcome political disputes dating back to the liberation struggle against Portugal's colonial regime and Indonesia's occupation²⁴ (Nixon 2012, 131), the newly found unity (resulting in a 'national unity' government in 2015) caused a decrease in transparency and government accountability before the parliament. For example, albeit formally at the opposition, from 2013 to 2015 Fretilin constantly supported the government's proposed budget (Beuman 2016, 133) and even the 2017 budget was approved unanimously (Government of Timor-Leste 2017). According to Kingsbury 'with both major parties [Fretilin and Gusmão's CNRT] now sharing the spoils of government, there is even less accountability' and 'at current rate of public spending, Timor-Leste is expected to be broke within a decade' (Kingsbury 2017).

²⁴ I.e. between Fretilin's leader Alkatiri and former President and Prime Minister 'Xanana' Gusmão and between 'Western' *Kaladi* and 'Eastern' *Firaku* - see Section 2.

Yet, this strategy appears to be based merely on disbursing economic benefits and patronage, such as the ‘widely popular cash-transfer schemes’, which offered the AMP-coalition an ‘unfair advantage’ in subsequent elections (Strating 2016, 144; Kent and Wallis 2014). In particular, the AMP government targeted districts which previously supported Fretilin and former resistance combatants, who still hold a ‘privileged status’ (Strating 2016, 166, 171).

Since, as argued by Nixon, ‘stability of the country as New-Subsistence State depends on sustained economic development’ (Nixon 2012, 148), it appears that the peacebuilding policy pursued in Timor-Leste is entirely dependent on the availability of economic resources, notably oil revenues, and does not resolve underlying potential causes of conflict or an effective nation-building project based on the creation of a shared collective identity (Borgerhoff, quoted in Strating 2016, 79). Thus, latent tensions persist and new ones are emerging without being adequately addressed as consequence of development policies, such as the urban / rural divide, population growth and inequitable resource distribution (Strating 2016, 166).

This is particularly evident as regards veterans of the resistance against Indonesia. Since the 2006 crisis the government of Timor-Leste ‘increasingly relied upon cash payment schemes to mitigate further conflict and provide a form of social security’ (law no. 3/2006), which privileges former Falintil soldiers, marginalising those who support the resistance in the ‘Clandestine Front’ and women (Kent and Wallis 2014, 1). According to Kent and Wallis the number of beneficiaries of veterans’ pensions ‘have risen steadily’ and while such scheme ‘only benefits one percent of Timor-Leste’s population, more money is now spent on veterans than on health, education or any sector except infrastructure’ (Kent and Wallis 2014, 2).

As happened in Mozambique with the benefits attributed by the government to so-called ‘*antigos combatentes*’ (i.e. veterans of the liberation struggle against Portugal and of the [Frelimo-led] armed forces during the civil war against Renamo), who enjoy privileged status and prestige (Wiegink 2015, 15; Levitsky and Way 2012, 877), this policy resulted in developing a clientelist loyalty between veterans and the ruling party (notably the AMP-coalition) that impedes the government from addressing other social issues and undermines the creation of an inclusive national identity (Kent and Wallis 2014).

As illustrated, economic policies privileged questionable short-term goals rather than sustainable broad-based human development. Alongside patronage policies assuaging former warring parties (Kammen 2017, 140), ‘buy off disenfranchised groups, including disaffected former soldiers’ (Leach and Kingsbury 2013, 10) and appeasing rebels, who received pardons or shorter

sentencing terms and were 'fast-tracked' in the economy (Nixon 2012, 160), there are reports of lack of transparency, corruption and mismanagement of state resources. Some scholars have therefore argued that Timor-Leste is at risk of becoming a 'resource-coursed' country (Nixon 2012, 162).

Equally problematic, economic policies follow a 'top-down' approach to development imposing on local population decisions and projects approved without their consultation. Since such approach does not take into consideration local communities and their livelihood, it contrasts with international development policy emphasising local *ownership* (Cramer 2002b). Furthermore, it reminds of policies followed by colonial authorities and 'hints to colonialism' (Richmond 2011, 119). Again, a similar pattern has been identified in Mozambique by Sabaratnam (2013).

Moreover, continuous presence of martial art gangs might provide forms of training and 'acclimatisation' to violence that could facilitate mobilisation (Scambray 2009; Devant 2009).

Based on previous experiences of post-conflict countries which experienced violent clashes among different groups after international state- and peacebuilding efforts, it is plausible that without the revenues from oil resources and the subsequent ability to 'buy-off' and placate warring parties, Timor-Leste might have faced a longer and deeper crisis after the 2006 clashes, perhaps even becoming a 'failed state' with an ineffective central government and divided among different warring parties (like Somalia) or dependent on foreign aid and military assistance (like Afghanistan). As Kingsbury recognised 'Timor-Leste's huge oil income allowed [Gusmão] to buy the country out of trouble' (Kingsbury 2017). However, a case for better public spending and more inclusive development can be made.

Conclusions

Economic and development policies have a critical impact in peacebuilding. Pursuing a broad based economic recovery that favours the poorest part of the population plays a crucial role in avoiding a conflict relapse after the end of civil conflicts.

Based on the analysis undertaken in this paper, it appears that, rather than being a potential cause of conflict, oil in the Timor Gap has been used to mitigate internal tensions in Timor-Leste. Moreover, based on available data, it seems that at the present time there are no signs of violent cleavages concerning the distribution of oil revenues among different groups. However, it is possible that when oil revenues will cease new and old social cleavages (e.g. rural / urban divide) might constitute a potential source for internal conflict.

Several factors highlighted in the present paper suggest that the ‘success story’ narrative about Timor-Leste post-conflict recovery needs to be revised. Firstly, the development policies pursued by Timor-Leste’s governments since the mid-2000s prioritise capital-intensive industrial projects that created little benefits both for the local population and in terms of state revenues. As consequence, the non-oil economy is largely dependent from government spending, based on oil revenues. Secondly, albeit the Petroleum Fund should ensure long-term economic stability and funding for welfare projects, through excessive withdrawals aimed at financing questionable short-term infrastructural and oil-related projects its current management compromises its long-term sustainability.

As expected by a political economy analysis, such economic policies have critical impacts for peacebuilding perspectives. While the country still enjoys peace after the 2006-2007 upheavals, the mechanisms that allowed reaching a political compromise rest upon short-term choices that might not be sustainable in the longer perspective, notably exploitation of oil resources and withdrawals from the Petroleum Fund exceeding the legal and sustainability limits.

As demonstrated, revenues from oil exploitation allowed subsequent governments to pursue development policies focused primarily on infrastructural and capital-intensive industries which did not create broad-based employment opportunities, disregarding small-scale rural livelihood, agricultural projects and human development. Similarly, reconciliation policies were aimed at appeasing violent actors.

Although a relapse into violent conflict appears unlikely at the present time, the development policies currently pursued suggest that the underlying potential causes of violence have not been resolved and new grievances are emerging. Hence, conflict might erupt again once oil revenues of the Petroleum Fund terminate.

Timor-Leste appears to be a ‘ticking bomb’: if current estimates on oil resources are correct and if the economic policies pursued are not reversed towards a more inclusive, broad-based economic policy focusing on human development and prioritising food security, education and health, violent conflict among different groups might erupt once again.

There is still time to address and resolve such issues, but the clock is ticking.

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